2020 ANNUAL FINANCIAL REPORT

CONTENTS

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. 04805520287

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

***Thank you** to everyone who, despite the difficulties of the past year, put their faith in SIT, and in particular for everything that we have achieved and for the **future** that we will build together".*

Federico de' Stefani
Chairman & Chief Executive Officer
SIT Group

Dear Stakeholders,

2020 was the year of the pandemic, a medical emergency that has affected us all, as citizens, as people, as businesses.

For SIT, despite the effects of the pandemic, the year was defined by our exceptional response to the emergency, a response that further strengthened our team. The operating and financial results approved by the Board of Directors on March 29 are testament to this. The two key numbers that summarise our 2020 are:

Consolidated revenues of Euro 320.7 million (-8.9% on 2019);

Consolidated net profit of Euro 13.2 million (4.1% of consolidated revenues).

SIT's share price performed well in the second half of the year, confirming the **value of SIT's work** and the ability of its team to execute its strategy. This is an ability which is not yet reflected in the share performance.

During times of great difficulty and uncertainty we have stood strong, resolving problems quickly, rapidly identifying solutions, and at all times protecting the health of our staff and the jobs of everybody involved with the Company. We took immediate action to manage the situation and, through a willingness to adapt, make sacrifices and be humble, while simultaneously ensuring that strategic initiatives were implemented without delay, we have managed to **deliver to all our stakeholders what I consider to be a successful 2020**, both in terms of the results achieved and the projects undertaken. Among these, I would like to highlight the launch of business sites dedicated to reducing our carbon footprint, our ongoing support for local communities, and the renewal of our Code of Ethics in the pursuit of ever greater sustainability.

For a number of years we have been engaged in **a process to raise awareness of ESG issues and to monitor the environmental, social and economic impacts generated by our operations, all with a view to continuous improvement.** Sustainability is part of our mission and vision, but was already in the DNA of SIT Precisa when it was founded in 1953. It's a principle that we have extended to the entire company and integrated into business decisions and growth strategies.

I am convinced that the ability to generate value should be assessed over the long term. In this regard I am in full agreement with Larry Fink, Blackrock CEO, who says: "***There is no company whose business model won't be profoundly affected by the transition to a net zero economy.*** *The objective is to achieve an economy that emits no more carbon dioxide than it removes from the atmosphere by 2050, the scientifically-established threshold necessary to keep global warming well below 2°C. As the transition accelerates,* ***companies with a well-articulated long-term strategy, and a clear plan to address the transition to net zero, will distinguish themselves with their stakeholders*** *– with customers, policymakers, employees and shareholders – by inspiring confidence that they can navigate this global transformation. But companies that are not quickly preparing themselves will see their businesses and valuations suffer, as these same stakeholders lose confidence that those companies can adapt their business models to the dramatic changes that are coming.*

As people, as citizens and as businesses **we have a duty to play an active part in the biggest challenge of our times: the energy and ecological transition.** SIT wants to play a leading role in this challenge, strengthened by a mission aligned with a sustainable vision for the company, and with a business model that will continue to place increasing emphasis on green issues. Against this backdrop we have initiated numerous collaborations with leading institutions, universities and trade associations. Together we are defining the near future for the use of alternative gases in domestic use. **Hydrogen**, in particular, is a leading driver of development. In this area, SIT is working alongside the most significant multinational firms, those for whom we have always been strategic suppliers.

Water, by definition a scarce resource, has become a fundamental part of our sustainable development strategy in the “metering” segment. Through **Janz**, the Portuguese company that became part of the Group in late 2020, and exploiting **MeteRSit’s** expertise in the smart meter sector, we are preparing to enter the water market, with a view to creating value and protecting natural resources through our ability to provide accurate measurements and data transmission.

SIT is part of the world, and pays close attention to what happens in it. We have put this in black and white in our mission and our vision. These set out **our commitment, which I would like to reiterate, to making the world a more sustainable place through our work.**

Federico de’ Stefani

THE SIT GROUP'S MISSION, VISION AND VALUES

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

CUSTOMER ORIENTATION

Everyone at SIT aims to fulfil and exceed customer expectations. Whether external or internal, the customer is our compass

SUSTAINABILITY

A sustainable company for the stakeholders. Sustainable products for the environment. A sustainable work-life balance for the employees

LEAD BY EXAMPLE

SIT is a leader in the markets where it operates. Our people are courageous and confident and lead by example in every aspect of their day-to-day work

TECHNOLOGY

We master technology and look ahead, supporting our customers with state-of-the-art solutions and stimulating innovation through collaboration

LEAN

No frills. We act quickly and do not miss deadlines. We deliver "on time and in full"

PASSION

Passionate commitment is part of daily life at every organisational level. Accountability and engagement are rewarded, well aware that mistakes provide opportunities for growth

DIRECTORS' REPORT

COMPOSITION OF THE CORPORATE BOARDS

Board of Directors*

Federico de Stefani	*Chairman and Chief Executive Officer*
Chiara de Stefani	*Director*
Attilio Francesco Arietti	*Director*
Fabio Buttignon **	*Independent Director*
Bettina Campedelli **	*Independent Director and Lead Independent Director*
Carlo Malacarne **	*Independent Director*
Lorenza Morandini **	*Independent Director*

Board of Statutory Auditors*

Matteo Tiezzi	*Chairman*
Saverio Bozzolan	*Statutory Auditor*
Loredana Anna Conidi	*Statutory Auditor*
Barbara Russo	*Alternate Auditor*
Alessandra Pederzoli	*Alternate Auditor*

Independent Audit Firm

Deloitte & Touche S.p.A.

Internal Control, Risks and Sustainability Committee

Bettina Campedelli **	Chairperson
Lorenza Morandini **	Member
Carlo Malacarne **	Member

Related Parties Committee

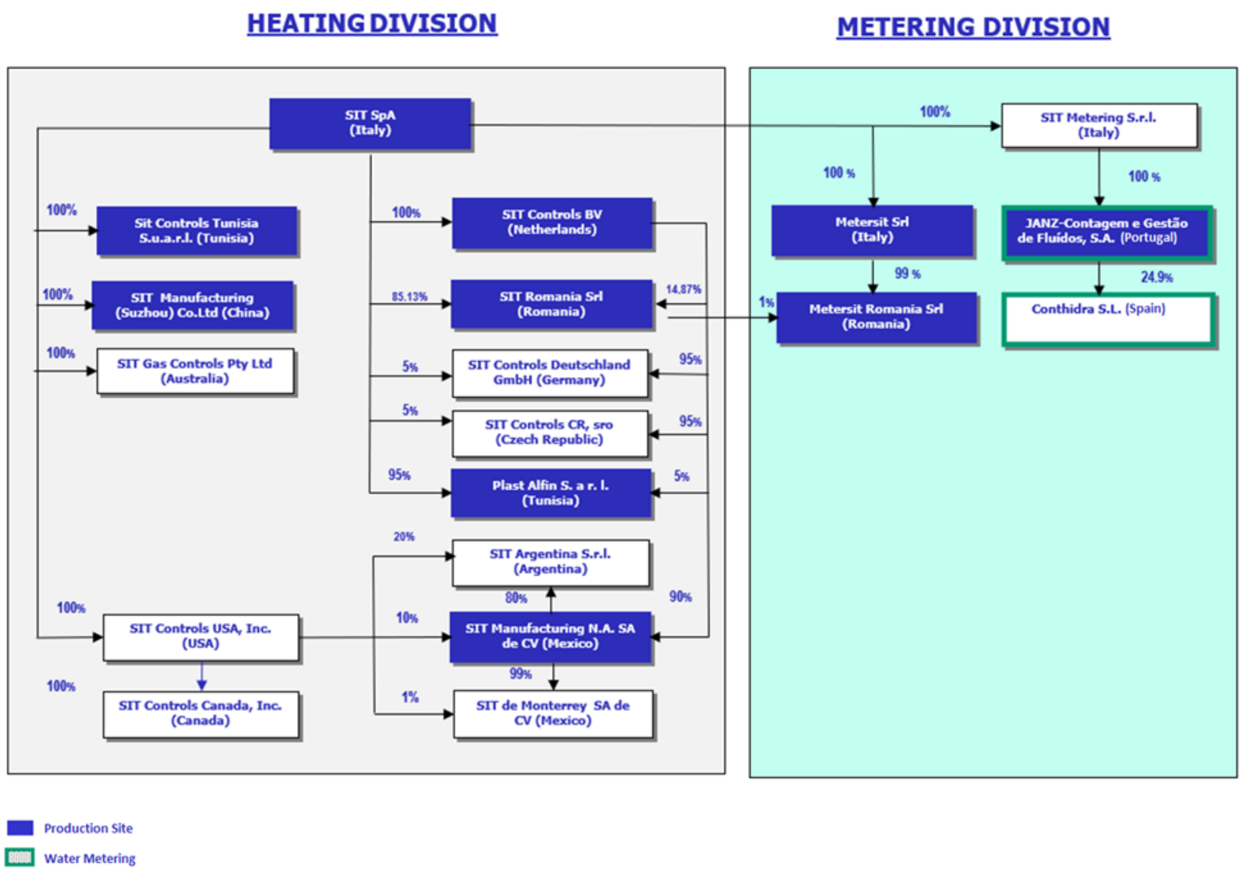
Bettina Campedelli **	Chairperson
Fabio Buttignon **	Member
Carlo Malacarne**	Member

Remuneration Committee

Carlo Malacarne **	Chairman
Fabio Buttignon **	Member
Bettina Campedelli**	Member

* The Board of Directors and the Board of Statutory Auditors were appointed by the Shareholders' Meeting of May 6, 2020 and remain in office until the approval of the 2022 Annual Accounts.
** Independent directors.
.

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.
- Metering: manufactures and distributes smart gas meters which more accurately measure gas and water 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.
- Plast Alfin S.a.r.l. (Tunisia), acquired during 2020, operates in the manufacturing of plastics for components used in the production of exhaust kits;
- Sit Controls Tunisia S.u.a.r.l (Tunisia), set up in late 2020 and currently in the start-up phase, will become a new production site for components and finished products.

The Group operates in the Metering division through the following companies:

- Sit Metering S.r.l., set up in Padua in late 2020 as an investment holding for the Metering division;
- Metersit S.r.l., located in Padua, is involved in the design, manufacturing and sale of new generation remote gas meters;
- Metersit Romania S.r.l., based in Brasov in Romania, is a manufacturing facility for the direct parent company Metersit S.r.l.
- JANZ – Contagem e Gestão de Fluídos, SA (Lisbon) was acquired in late 2020 and functions as a production facility and distribution company for residential water meters, mainly for the European market.
- Conthidra S.L. (Gines), Spain, distributes water meters produced by JANZ – Contagem e Gestão de Fluídos, SA.

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)

Operating results	**2020**	**%**	**2019**	**%**	**change**	**change %**
Revenues from contracts with customers	320,731	100.0%	352,207	100.0%	(31,476)	-8.9%
EBITDA	43,621	13.6%	48,739	12.2%	(5,118)	-10.5%
EBIT	19,616	6.1%	24,734	6.7%	(5,118)	-20.7%
Net profit of the year	13,225	4.1%	19,928	6.7%	(6,703)	-33.6%
Cash flows from operating activities after investment activities	(13,783)		9,992		(23,775)	

(Euro.000)

Balance Sheet	**31/12/2020**	**31/12/2019**	**Change**	**change %**
Net Financial Position	(115,751)	(78,379)	(37,372)	47.7%
Net trade working capital	49,817	34,971	14,846	42.5%
Net trade working capital/Revenues	15.5%	9.9%		

ALTERNATIVE PERFORMANCE MEASURES

(Euro.000)

Operating results	2020	%	2019	%	Change	Change %
Revenues from contracts with customers	320,731	100.0%	352,207	100.0%	(31,476)	-8.9%
EBITDA	43,621	13.6%	48,739	13.8%	(5,118)	-10.5%
EBITDA adjusted	44,600	13.9%	48,295	13.7%	(3,695)	-7.7%
EBIT	19,616	6.1%	24,734	7.0%	(5,118)	-20.7%
EBIT adjusted	20,595	6.4%	24,920	7.1%	(4,325)	-17.4%
Financial charges	3,939	1.2%	4,163	1.2%	(224)	-5.4%
Financial income	835	0.3%	2,033	0.6%	(1,198)	-58.9%
Net financial (charges)/income adjusted	(3,626)	-1.1%	(3,591)	-1.0%	(36)	1.0%
Result before taxes (EBT)	15,991	5.0%	21,320	6.1%	(5,330)	-25.0%
Result before taxes adjusted (EBT)	16,448	5.1%	20,046	5.7%	(3,598)	-17.9%
Net profit of the year	13,225	4.1%	19,928	5.7%	(6,703)	-33.6%
Adjusted net profit of the year	13,409	4.2%	14,900	4.2%	(1,491)	-10.0%
Cash flows from operating activities after investment activities	(13,783)		9,992		(23,775)	

(Euro.000)

Balance Sheet	31/12/2020	31/12/2019	Change	change %
Net capital employed	270,016	227,531	42,485	18.7%
Shareholders' equity	153,221	147,566	5,655	3.8%
Net Financial Position	(115,751)	(78,379)	(37,372)	47.7%
Adjusted Net Financial Position	(100,423)	(72,672)	(27,751)	38.2%
Financial liabilities for Warrants	(1,045)	(1,567)	522	(33.3%)
Net trade working capital	49,817	34,971	14,846	42.5%

Key performance indicators	31/12/2020	31/12/2019
ROIC (1)	16.5%	21.2%
Net financial position/Shareholders' equity	0.76	0.53
Net financial position/Adjusted EBITDA	2.60	1.62

(1) ROIC is the ratio between Adjusted EBITDA 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:

- EBITDA adjusted 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	2020 EBITDA	2019 EBITDA
EBIT	**19,616**	**24,734**
Depreciation, amortisation and write-downs	24,052	24,085
Write-downs	(47)	(80)
EBITDA	**43,621**	**48,739**
Transfer production line to Rovigo [1]	-	803
Insurance reimbursement [2]	-	(776)
Acquisition costs [3]	979	-
Adjustment to sureties [4]	-	250
Chairperson's variable remuneration [5]	-	(754)
Reclamation provision [6]	-	445
Other [7]	-	(412)
Total non-recurring operating charges (income)	**979**	**(444)**
EBITDA adjusted	**44,600**	**48,295**

(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 reimbursement* concern the indemnity issued following the fire at the Rovigo manufacturing facility.

(3) The item *Acquisition costs* includes costs incurred for the acquisition of the company JANZ – Contagem e Gestão de Fluídos, SA which took place on December 29, 2020.

(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) *Chairperson's variable remuneration* 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.

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

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

- EBIT adjusted 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	2020 EBIT	2019 EBIT
EBIT	**19,616**	**24,734**
Transfer production line to Rovigo	-	803
Insurance reimbursement	-	(776)
Acquisition costs	979	-
Adjustment to sureties	-	250
Chairperson's variable remuneration	-	(754)
Reclamation provision	-	445
Other	-	(412)
Write-downs of assets [1]	-	630
Total non-recurring operating charges (income)	**979**	**186**
EBIT adjusted	**20,595**	**24,920**

(1) The item 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 issued during the Company's AIM listing in 2017. The reconciliation is presented below:

(Euro.000)

Reconciliation of net financial (charges)/income adjusted	2020 Financial (charges)/income	2019 Financial (charges)/income
Financial charges	**(3,939)**	**(4,163)**
Change in fair value on Warrants	-	-
Financial charges adjusted	**(3,939)**	**(4,163)**
Financial income	**835**	**2,033**
Changes on Warrants fair value	(522)	(1,460)
Adjusted financial income	**313**	**572**
Adjusted net financial (charges)/income	**(3,626)**	**(3,591)**

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

(Euro.000)

Reconciliation of EBT adjusted	2020 EBT	2019 EBT
Profit before taxes	**15,991**	**21,320**
Transfer production line to Rovigo	-	803
Insurance reimbursement	-	(776)
Acquisition cost	979	-
Adjustment to sureties	-	250
Chairperson's variable remuneration	-	(754)
Reclamation provision	-	445
Other	-	(412)
Write-downs of assets	-	630
Total non-recurring operating charges (income)	**979**	**186**
Change in fair value on Warrants	(522)	(1,460)
Non-recurring financial charges (income)	**(522)**	**(1,460)**
Adjusted result before taxes (EBT)	**16,448**	**20,046**

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

(Euro.000)		
Reconciliation of adjusted net profit	2020 Net profit	2019 Net profit
Net Profit of the year	**13,225**	**19,928**
Transfer production line to Rovigo	-	579
Insurance reimbursement	-	(559)
Acquisition costs	706	-
Adjustment to sureties	-	180
Chairperson's variable remuneration	-	(544)
Reclamation provision	-	321
Other	-	(297)
Write-downs of assets	-	454
Total non-recurring operating charges (income)	**706**	**134**
Change in fair value on Warrants	(522)	(1,460)
Non-recurring net financial charges (income)	**(522)**	**(1,460)**
Tax income from requests[1]	**-**	**(3,702)**
Adjusted net profit of the year	**13,409**	**14,900**

[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	**31/12/2020**	**31/12/2019**
Goodwill	98,070	78,138
Other intangible assets	52,569	59,125
Property, plant & equipment	90,228	79,317
Investments in other companies	326	54
Non-current financial assets	2,282	1,531
Fixed assets (A)	**243,475**	**218,165**
Inventories	56,502	51,126
Trade receivables	65,518	57,176
Trade payables	(72,203)	(73,331)
Trade net working capital (B)	**49,817**	**34,971**
Other current assets	14,234	10,133
Tax receivables	3,983	4,770
Other current liabilities	(18,638)	(15,957)
Tax payables	(2,094)	(3,001)
Other current assets, liabilities and taxes (C)	**(2,515)**	**(4,055)**
Net working capital (B + C)	**47,302**	**30,916**
Deferred tax assets	4,762	5,167
Provisions for risks and charges	(4,740)	(4,142)
Net liabilities for employee benefits	(6,095)	(6,201)
Other non-current liabilities	(35)	(4)
Deferred tax liabilities	(14,653)	(16,370)
Other non-current liabilities, assets and provisions (D)	(20,761)	**(21,550)**
Net capital employed (A + B + C + D)	**270,016**	**227,531**

- The adjusted net financial position 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, as this item will not result in a financial outlay.

(Euro.000)	31/12/2020	31/12/2019
A. Cash	26	22
B. Other liquid assets	42,302	34,042
C. Held-for-trading securities	-	-
D. Liquidity (A) + (B) + (C)	**42,328**	**34,064**
E. Current financial receivables	**1,032**	**23**
F. Current bank debt	23,478	85
G. Current portion of non-current debt	23,136	19,627
H. Other current financial liabilities	4,929	3,588
I. Current financial liabilities (F)+(G)+(H)	**51,542**	**23,300**
J. Net current financial liabilities (I) – (E) – (D)	**8,182**	**(10,769)**
K. Medium/long-term loans and borrowings	91,934	85,029
L. Bonds issued	-	-
M Other non-current liabilities	15,634	4,138
N. Non-current financial liabilities (K) + (L) + (M)	**107,568**	**89,166**
O. Net financial position (J) + (N)	**115,751**	**78,379**
IFRS 16 – Leases	(15,327)	(5,707)
Net financial position adjusted	**100,423**	**72,690**

GENERAL OVERVIEW

Climate change and the role of SIT

Climate change is transforming the world we live in. The past two decades have included 18 of the hottest years on record. These have also led to a rise in natural catastrophes, including drought, vast forest fires, increasingly frequent heatwaves, and flooding in urban and agricultural areas across the planet. These events are growing both in frequency and in intensity, and as they do they emphasise the urgency of the problem we face.

The scientific world, starting with the United Nation's Intergovernmental Panel on Climate Change (IPCC), is all-but unanimous in its message that rapid, immediate action is needed. The next ten years will be crucial in the efforts to reverse these trends. These efforts begin with reducing emissions of anthropic and greenhouse gases (GHG), which, as they build up in the atmosphere, are the main cause of climate change. Limiting global warming to 1.5 degrees will be vital in avoiding dramatic consequences for both life in general and the economic world.

The SIT Group operates in a sector in which sustainability, especially environmental sustainability, plays a fundamental role. As a strategic supplier for the leading operators in the energy, utilities and alternative energy resource sectors - areas that are central in combatting climate change and developing good practices in pursuit of a circular economy - SIT is active in improving the efficiency of natural resources, lowering carbon dioxide levels (decarbonisation), and investing in carbon-neutral solutions.

In order to make the world of heating environmentally smart, for example, SIT's products are already bio-ready or compatible with alternative and green gases like biomethane, in line with the European Union's New Green Deal objective to decarbonise the economy and cut polluting emissions by at least 50-55% by 2030.

SIT's vision is to be recognised as a leader in the creation of intelligent solutions for the control of environmental conditions and consumption measurement for a more sustainable world. As such, we have begun significant partnerships and collaborations (above all our participation in the European Clean Hydrogen Alliance) which have placed SIT among the foremost companies in hydrogen experimentation, which aims to use the gas both in residential heating (hydrogen boilers) and smart metering. This is a commitment that affects the entire supply chain, from our suppliers and customers to final consumers.

Investors and consumers across the board are demanding that companies increase their sustainability focus to create long-term value for the whole supply chain and society and the economy at large. Sustainability takes on even greater importance for listed companies like SIT, which has opted to place particular emphasis on the issue in anticipation of global sustainability trends.

This was the logic behind our entry into the water market. Forecasts suggest that water will become increasingly scarce in the next few decades, and SIT's move into the market will see it play an active role in the energy transition process. SIT has identified the sector as one in which its expertise in accurate consumption measurement can be applied to increase water use efficiency and create awareness of the topic, thanks in part to its participation in the Value of Water Community promoted by The European House - Ambrosetti.

Responding to the need to increase focus on the climate, and as required by the Paris Agreement, in December 2020 the European Council issued new objectives for 2030, setting a goal of a 55% reduction in emissions. The European Union, through measures including the Green New Deal and the Next Generation EU, aims to encourage increased attention to the climate through the following drivers:

- Stimulation of sustainable economic growth;
- Creation of jobs;
- Creation of real benefits, both in health and environmental terms, for European citizens;
- Contribution to Europe's long-term competitiveness by promoting innovation in green technologies.

In late 2020, the leading European countries agreed that 30% of the total European Union 2021-2027 and Next Generation EU budget would be dedicated to achieving climate goals.

SIT directs, and will continue to direct, resources, expertise and passion to an innovation and development roadmap that is clearly defined, built on solid values, and based a long-term strategy in which sustainability forms an integral part of organisational culture and business decisions.

Macroeconomic Overview

2020 was marked by an extremely uncertain macroeconomic environment caused by the COVID-19 virus, which spread across the world after emerging in China at the beginning of the year. The global economy suffered an unprecedented contraction, from which it only partly recovered thanks to governmental support schemes and economic stimulus packages, and following the gradual containment of the virus. The following table summarises GDP performance in the main areas of interest to the Group.

GDP movements	2019	2020
Italy	0.3%	-8.9%
Euro	1.2%	-6.8%
USA	2.3%	-3.5%
China	6.1%	2.3%

Unknowns as to the speed and efficacy of vaccination campaigns, in addition to the circulation of COVID-19 variants, have impacted and created uncertainties on the outlook with regards to a gradual recovery and normalisation of economic activity.

The Italian mechanical engineering sector reports a 9.4% decline for 2020 [1].

[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

COVID-19 impact

2020 was defined by the COVID-19 emergency, to which the Group reacted by implementing a series of measures to ensure that business continued as normal, and simultaneously to guarantee the occupational health and safety of all its staff and collaborators.

Since the Prime Ministerial Decree of March 22, 2020 came into force, the parent company has complied with its provisions. These include the cessation of all non-essential production in Italy. Such restrictions were also adopted by other countries, leading to slowdowns and/or temporary suspensions to production.

From April 14, 2020, all operations at the Italian facilities gradually restarted, while ensuring compliance with the applicable safety and hygiene rules. Remote working was in addition extended to the support functions to ensure the continuity of work, while protecting the health of personnel. The other Group production facilities simultaneously ensured a gradual restart to operations, which eventually recovered to normal levels.

The Group succeeded in partially containing the impacts of the pandemic on company performance by adopting these measures. Despite the significant drop in sales in the first half of 2020, research and development activities continued - particularly in the Metering division, which, as outlined in the paragraph "Other significant events in the year", achieved product certification for the UK market.

In this uncertain environment, the Group adopted a series of measures to offset the impact on operating results, adjusting results targets and rescheduling the launch of new projects and non-strategic investment initiatives. Tax support and benefit measures - which have particularly been introduced by the Italian State - were also utilised. They include the Temporary Lay-off Scheme, the IRAP write-off and the tax reductions applicable as per the relevant regulation issued in 2020. In addition, new bank loans were prudently taken out to cover liquidity risk, which was then substantially eliminated.

Other significant events in the period

In February 2020, Metersit, the Group's Smart Gas Metering sector company, 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. It also allows MeteRSit to provide legally-approved certification services to third parties and competitors, undertaking also outside laboratory analysis.

In May, the new Board of Directors, appointed until the approval of the 2022 accounts, established a new corporate organism. The Advisory Board is a committee that will meet at least quarterly to assess future strategic opportunities and which comprises highly qualified professionals from Italy and overseas, from leading firms in the consultancy and enterprise sector.

In June, Metersit obtained Britain's National Cyber Security Centre's Commercial Product Assurance (CPA) certification for the Domus*next*® 2.0 MMU6 residential gas meter.

CPA-certified products guarantee data integrity and communication safety against fraud and cyber-attacks. The certification covers not only the product but also the integrity of the company's processes over the entire life cycle - from design and production, to operability in the field to end-of-life disposal. The CPA certification completes Metersit's UK market certification process, having previously obtained in recent weeks MID (Measuring Instruments Directive) approval from the Nederland Meetinstituut (NMi) notified body, which guarantees gas measurement accuracy, in addition to the ZigBee certification, issued by the ZigBee Alliance, which guarantees compliance of the communication protocol with the Smart Energy Profile 1.4 standard.

In July 2020, SIT announced the expansion of its European production by opening a production plant in Tunisia. Divided into two sites (Mghira and El Agba, both near the capital Tunis) the operational hub covers a total of 19 thousand square metres. At the new hub the initial production lines dedicated to electronic boards shall be installed - components produced also at the Group's other European locations and plastic components. In the future, the new site shall be dedicated also to the assembly of other SIT product components.

SIT's arrival in Tunisia comes after the acquisition of a supplier specialised in the plastics sector that has operated in the country for ten years and allows SIT to significantly cut plastic component costs, in addition to further in-housing of supply. With the localisation of the production of electronic boards, which will take place within a newly established company, the Group shall achieve additional in-housing and a focus of R&D investments on product innovation.

In October 2020, SIT signed a binding agreement for the acquisition of 100% of Janz-Contagem e Gestão de Fluídos S.A., a consolidated Portuguese player owned by the Janz family and specialised in manufacturing residential water meters. This transaction supports entry into a new sector (the water sector) of great environmental value and in line with the Group's sustainability objectives and which is expected to see major digitalisation investment (smart water meters). The transaction was completed on December 29, 2020 through SIT Metering s.r.l., a company wholly-owned by SIT, incorporated in 2020.

In November, SIT joined the European Clean Hydrogen Alliance, an organisation at European level that brings together companies, associations, regulators, public and private entities with the aim of actively supporting the EU's commitment to achieve carbon neutrality by 2050 driven by hydrogen.

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)	2020	%	2019	%	diff	diff %
Heating	249,003	77.6%	260,026	73.8%	(11,023)	(4.2%)
Smart Gas Metering	68,634	21.4%	88,625	25.2%	(19,991)	(22.6%)
Total business revenues	317,637	99.0%	348,651	99.0%	(31,014)	(8.9%)
Other revenues	3,094	1.0%	3,556	1.0%	(462)	(13.0%)
Total revenues	**320,731**	**100%**	**352,207**	**100%**	**(31,476)**	**(8.9%)**

Revenue by region

(Euro.000)	2020	%	2019	%	diff	diff %
Italy	107,654	33.6%	135,470	38.5%	(27,816)	(20.5%)
Europe (excluding Italy)	128,827	40.2%	129,119	36.7%	(292)	(0.2%)
The Americas	58,537	18.3%	61,786	17.5%	(3,249)	(5.3%)
Asia/Pacific	25,712	8.0%	25,832	7.3%	(120)	(0.5%)
Total revenues	**320,731**	**100%**	**352,207**	**100%**	**(31,476)**	**(8.9%)**

2020 consolidated revenues were Euro 320.7 million, decreasing 8.9% on 2019 (Euro 352.2 million). Revenues were impacted in the year by COVID-19, with a 20% contraction in H1 on the previous year, although the performance normalised from Q3 (-2%) and particularly in Q4 (+4.9%).

Heating Division sales amounted to Euro 249.0 million, -4.2% year-on-year (-3.5% at like-for-like exchange rates), though growth of 7.8% (9.9% at like-for-like exchange rates) was recorded in Q4, reflecting the impact of customer restocking and the positive effects of incentives provided in a number of countries throughout the year.

The 2020 results were notably affected by the Italian market, (which accounts for 17.6% of divisional sales) which contracted 13.6% following the particularly severe lockdown in the early part of the year and the associated drop in Catering sector sales (-35.4%) and for Direct Heating applications such as pellet stoves (-50.7%).

Europe (excluding Italy) represents 48.3% of divisional sales and saw substantial stability in 2020. The poor performance in a number of areas particularly hit by the pandemic, such as the UK (-10.1%, -Euro 2.4 million) was offset by the recovery in Turkey (+11.2%, +Euro 3.0 million), with multinationals driving Central Heating demand. A number of central European markets performed well thanks to the introduction of new products and end-market performance.

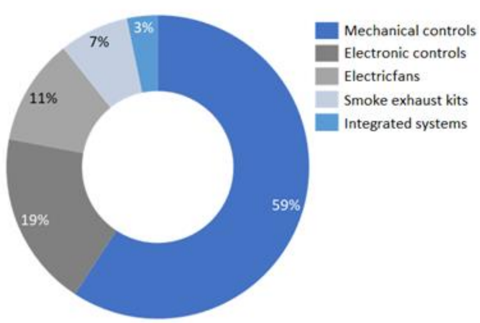
Sales in the Americas (which account for 23.3% of the divisional total) contracted 5.5% (-3.5% at like-for-like exchange rates), with growth for Storage Water Heating applications (+12.4%) offset by District Heating applications (-24.1%) and in particular fireplaces, whose consumption is more discretionary and was therefore impacted by the lockdown.

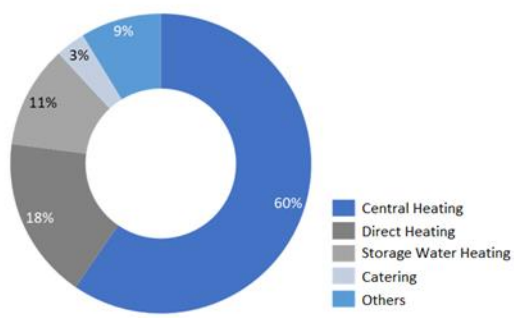
The year-on-year performance in Asia/Pacific (10.8% of divisional sales) was substantially stable, with China (5.9% of the division) reporting a 2.5% contraction (down approx. Euro 0.4 million on the previous year).

Among the main product families, the largest declines were seen in Electronic Controls (-8.0%, Euro 4.1 million), mainly for Direct Heating applications linked to US fireplaces and Mechanical Controls (-1.8%, Euro 2.7 million) and Smoke Exhaust Kits (-10.2%, Euro 2.1 million). At the application segment level, Central Heating accounted for 59.6% of division sales, a decline of 2.5% on the previous year, while Storage Water Heating (11.0% of the division) was up by 12.4%, driven by growth on the American market.

In relation to the main clients of the Heating Division, 41.6% of 2020 sales were on the top five clients, essentially in line with the level of the previous year.

The following charts break down 2020 sales by product family and application (data from management sources):





In 2020, the Smart Gas Metering Division generated revenues of Euro 68.6 million, down 22.6% on Euro 88.6 million in 2019. Sales contracted -5.5% in Q4.

The performance, substantially in line with expectations as the rollout on the Italian market is gradually completed (estimated at 75-80%), closely reflected the COVID-19 impact on the overseas commercial development target markets, the UK and India, which were severely held back by the pandemic.

In terms of products, sales for Residential Meters totalled Euro 64.6 million (94.1% of total sales), while sales for Commercial & Industrial Meters amounted to Euro 3.8 million. In 2019, sales were Euro 84.5 million and Euro 3.8 million respectively. 2020 revenues were all substantially generated on the domestic market.

In relation to the principal clients of the Metering Division, 64.3% of annual sales are currently attributable to the leading three clients, reducing on 2019 (71.4%).

Economic performance

2020 consolidated revenues were Euro 320.7 million, decreasing 8.9% on 2019 (Euro 352.2 million).

Raw material and consumable costs, including changes in inventories, amounted to Euro 170.9 million, accounting for 53.3% of revenues, compared to 55.3% in 2019, demonstrating the Group's considerable capacity to absorb the inefficiencies related to the temporary shutdown of production during the lockdown.

Service costs of Euro 38.2 million accounted for 11.9% of revenues, compared to 11.0% in the previous year (Euro 38.9 million). The decrease in costs reflects the general drop off in activity during the lockdown, with transport costs (Euro 0.2 million), utilities (Euro 0.4 million), travel (Euro 0.8 million) and accessory personnel costs (Euro 0.5 million) particularly reducing. Bank commissions decreased on the previous year by Euro 0.4 million; during 2019 this account included Euro 0.3 million of non-recurring charges, concerning the recognition of the costs of bank guarantees granted for contracts with several clients of the Smart Gas Metering Division.

Personnel expense totalled Euro 66.6 million, accounting for 20.8% of revenues (19.7% in 2019), contracting Euro 2.8 million. The decrease is mainly due to the benefits and supports provided by governments against the COVID-19 pandemic during the lockdown, in the initial part of the year. There was also a reduction in contract work (Euro 1.4 million); 2019 included non-recurring costs of Euro 0.5 million for the transfer of blue-collar staff from the Padua facilities to the new production and logistics hub at Rovigo.

Amortisation, depreciation and write-downs of Euro 24.1 million were substantially in line with the previous year due to the timing effect of investments scheduled in view of the economic environment and the uncertainty generated by the pandemic. In 2019, non-recurring write-downs of assets were recognised for Euro 0.7 million due to changes in their use.

The provisions for risks amount to Euro 0.8 million, compared to Euro 0.1 million in 2019. This account was impacted for Euro 0.6 million by the accrual in the year for the disposal of meter batteries and for the Metering division delivery delays. 2019 included a benefit of Euro 0.9 million in view of the release of the product warranty provision and the lapse of obligations to clients for potential contractual compensation.

Other charges and income totalled Euro 0.6 million, of which Euro 0.4 million for fundamental research, industrial research and experimental development in scientific or technological fields. In the previous year they amounted to Euro 53 thousand - decreasing Euro 0.5 million. In 2019, the account included non-recurring income of Euro 0.8 million from an insurance repayment.

EBITDA was Euro 43.6 million, decreasing 10.5% on 2019 (Euro 48.7 million). Non-recurring costs of Euro 1 million were incurred in 2020 for the acquisition of the company JANZ, while non-recurring transactions in 2019 generated net income of Euro 0.4 million. For further details, see the paragraph Composition of main alternative performance measures.

Group EBIT therefore decreased from Euro 24.7 million in 2019 to Euro 19.6 million in 2020 (-20.7%), with a 6.1% margin, down from 7.0%.

Financial charges in 2020 amounted to Euro 3.9 million, down from Euro 4.2 million in 2019. Financial income of Euro 0.8 million decreased compared to the previous year (Euro 2.0 million). This financial income included the increase in the fair value concerning the market movements of the Warrants issued by the Company (for Euro 0.5 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 2020, in line with the previous year.

Income taxes amounted to Euro 2.8 million, compared to Euro 1.4 million in 2019. In 2019 Sit S.p.A. received the favourable outcome of the appeal presented to the Tax Agency regarding the tax treatment of the fair value change concerning warrants and performance shares in financial years 2017 and 2018. Consequently, the relative non-recurring tax income of Euro 3.7 million was recorded in 2019.

The net profit was Euro 13.2 million (Euro 19.9 million in 2019).
The adjusted net profit, net of the above-stated non-recurring effects, was Euro 13.4 million (Euro 14.9 million in 2019) - 4.2% revenue margin.

Cash Flow performance

At December 31, 2020, the net financial debt was Euro 115.8 million, compared to Euro 78.4 million at December 31, 2019, therefore increasing Euro 37.4 million.

The movements in the net financial position are reported below:

(Euro.000)	2020	2019
Cash flow from current activities (A)	44,210	47,161
Cash flow generated (absorbed) from Working Capital (B)	(16,928)	(14,294)
CASH FLOW FROM OPERATING ACTIVITIES (A + B)	**27,282**	**32,867**
Cash flow from investing activities (C)	(41,065)	(22,950)
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)	**(13,783)**	**9,917**
Interest paid	(3,024)	(2,741)
Change in accrued interest	(14)	-
Amortised cost	(453)	(605)
FV change of derivatives	264	76
Change in translation reserve	(1,909)	1,838
Change in shareholders’ equity and acquisition treasury	(775)	(685)
Payables for acquisition	(2,581)	-
Dividends	(3,476)	(6,969)
IFRS 16	(11,621)	(731)
Change in net financial position	**(37,373)**	**100**
Opening net cash position pro-forma	**78,379**	**78,479**
Closing net financial position	**115,751**	**78,379**

(1) The Group’s net financial position does not consider the financial liabilities for warrants, as these items will not involve any financial outlay.

Operating cash flows in 2020 amounted to Euro 44.2 million, compared to Euro 47.2 million in the previous year.

Cash flows absorbed by working capital movements totalled Euro 16.9 million, of which approx. Euro 10.5 million due to commercial working capital. This increase concerned for approx. Euro 3.0 million higher inventories than normal to deal with particularly sustained demand in the initial months of 2021; the increase in trade receivables (Euro 6.1 million) reflects the higher sales in Q4 on the preceding year, particularly in the Heating division. The absorption for other working capital items was substantially in line with 2019, particularly due to personnel and tax management.

In terms of investments, we highlight in 2020 the acquisition of JANZ, the Portuguese water metering enterprise and Plast Alfin, a Tunisian plastics manufacturing company, for a total outlay of Euro 28.4 million.

Ordinary cash investments in 2020 therefore totalled Euro 12.7 million, compared to Euro 23.0 million in 2019, reducing due to COVID-related delays.

Operating cash flows after investments therefore absorbed Euro 13.7 million, compared to a generation of Euro 9.9 million in the previous year.

Among financing activity cash flows, in 2020 we indicate the payment of interest for Euro 3.0 million (Euro 2.8 million in 2019) and of dividends for Euro 3.5 million in 2020 (Euro 7.0 million in 2019), a significant reduction due to the COVID-related uncertainties in the early part of the year.

The movement in the net debt reflects the renewal of the right of use as per IFRS 16 associated with existing contracts, in addition to the inclusion of similar contracts concerning JANZ and the Tunisian facility; application of this standard therefore resulted in a Euro 11.6 million increase in 2020.

Investments

On December 29, 2020, through the newly incorporated SIT Metering s.r.l., the Group acquired JANZ – Contagem e Gestão de Fluídos, SA, located in Lisbon and specialised in the production and distribution of water meters. The acquisition price was Euro 27.3 million. The transaction is a fundamental step towards the creation of a multiutility smart gas metering hub.

In 2020 the Group made ordinary investments for Euro 14.4 million, of which Euro 13.6 million (94.4% of the total) in the Heating Division and Euro 0.8 million (5.6% of the total) in the Smart Gas Metering Division. In 2019 these amounts were Euro 23.4 million, Euro 22.0 million and Euro 1.3 million, respectively.

In terms of operating investments, one of the main investments in 2020 was the completion in Rovigo of a new workshop, with the operational start-up of the Trans-bar Buffoli machines for approx. Euro 2.6 million.

The remaining Heating segment investments essentially related to plant maintenance (Euro 4.8 million), the renewal of die-casting moulds (Euro 2.2 million) and new product development (Euro 1.6 million).

Investment in Smart Gas Metering was essentially for new product development (Euro 0.2 million or 29.5% of the divisional total). The remainder relates to industrial and laboratory equipment, the purchase of hardware and software and production streamlining.

As a result of the COVID-19 health crisis, many investments planned for 2020 were postponed until the following year.

RESEARCH, DEVELOPMENT AND QUALITY CONTROL

In 2020 the Group incurred research and development costs for a total of Euro 11.25 million, equivalent to 3.5% of revenues, compared to Euro 11.2 million in the previous year (3.2% of revenues).

In 2020, the research and development area had an average workforce of 104, including 74 located at the Parent Company. In 2019, these numbered 99 and 69 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 evolved instruments as mechanical and fluid dynamics simulation platforms 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 cutting-edge 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, external companies specialising in technological development, 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 2020, of particular note was the launch and initial sales of the new 877 mechanical control electrical modulation platform 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. 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. It also constitutes one of the four elements of the new SIT E-CMS (Electronic Combustion Management System). With E-CMS, SIT's customers can manage the entire adaptive combustion process with electronic controls: the 877 valve, a fan (NG40, NG40E, Integra), control electronics and, finally, safety and regulation algorithms. It is a high-value package for both SIT and its customers.

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. As regards motors, the year saw the creation of a new three-phase permanent magnet electronically controlled platform delivering high performance and low vibrations. The platform offers three power levels and two speeds, and is designed for use in fans for condensing boilers, hoods, and mechanically controlled ventilation.

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 CO_2 emissions through the use of decarbonised gas.

To tackle these challenges, SIT is adapting its entire range of pneumatic valves (848 platform) and electric valves (877 platform) and fans for condensing boilers (NG40, NG40E, NG20 and Integra) to make them compatible with 100% hydrogen usage.

Smart Gas Metering Division

Division research and development in 2020 chiefly involved the residential product range for the UK market and the development of the communications technologies required to access other international markets.

All UK market product certification was achieved in 2020, including the CPA cyber security certification issued by the National Cyber Security Centre (NCSC). This allowed customer testing and fine-tuning to begin on products destined for the UK market.

For international markets other than the UK there was the design and launch of an applicational release for GPRS meters designed for the Greek market, and development concluded on a residential meter with Walk-by technology for the Indian market, where field testing began with a number of customers.

The Italian residential range was upgraded to comply with new standards regarding all communication technologies, including NB-IoT, MBus and GPRS. This allowed the Company to participate in Italian tenders and maintain its market share.

Finally, there was the launch of a project using NB-IoT technology for the commercial and industrial sectors. This will conclude in H2 2021 and allow the Company to retain its market share as and when GPRS is phased out.

Hydrogen

In 2020, Metersit continued its work on initiatives involving the use of hydrogen as a low-emission energy source.

After 2019 saw the validation of a new sensor that will allow hydrogen use of up to 5%, in 2020 feasibility tests were completed for a measurement sensor that extends the range of gases that can be measured from group H to groups H, L and E, with blends of up to 23% hydrogen. The related standardisation certificates will be finalised by H2 2021.

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. In 2020, the meters in the U6 and U40 range capable of measuring up to 100% hydrogen were finalised, and standardisation and development activities concluded. The AtEx certification process came to an end and the certificate will be issued in early 2021.

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 2020 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.

During the year, the subsidiary Metersit successfully completed the audit for ISO 27001 certification (Information Security Management) and in June it obtained the CPA certification for the UK market. 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:

	2020 aver.	%	31/12/2020	%	2019 aver.	%	31/12/2019	%
Executives	36	2%	37	1%	36	2%	36	2%
White-collar	455	20%	521	19%	436	19%	440	20%
Blue-collar	1,642	71%	1,926	71%	1,538	68%	1,536	70%
Temporary	193	8%	247	9%	236	11%	188	8%
Total	**2,326**	**100%**	**2,731**	**100%**	**2,246**	**100%**	**2,200**	**100%**

At the reporting date:

- the Smart Gas Metering Division had 162 employees, of whom 74 in Italy and 88 abroad; there were 153 in total in 2019, of which 75 in Italy;
- on December 31, 2020, JANZ-Contagem e Gestão de Fluídos, S.A. joined the Group. The company is based in Portugal and operates in the Water Metering sector; at the date of this report it employs 263 staff (of whom 25 are temporary).
- the Group’s two Tunisian companies employ a total of 121 staff
- at Group level, employees in Italy numbered 949, 35% of the total, while those based in other countries numbered 1,782, 65% of the total. In the previous year, these figures were 898 (41% of the total) and 1,302 (50% of the total), respectively.

2020 was marked by the COVID-19 virus, which imposed a number of limitations on the management of organisational development projects. New priorities were defined, designed above all to guarantee safe working conditions for staff and comply with the protocols recommended by the governments of the various countries in which the Group operates.

Against this backdrop, the Company set up a Covid Committee, which regularly monitored the impact of the pandemic on the organisation, provided support, and co-ordinated the regulations and policies that were issued as the situation evolved. Particular importance was placed on frequent, timely communication, which provided a reference point for all Group employees at the height of the pandemic.

As the year progressed and working methods changed rapidly (up to 100% remote working, social distancing, virtual team working, widespread use of virtual technologies, lack of direct relationships both internally and externally), the Group paid close attention to the definition of new behavioural norms designed to safeguard the work-life balance, imposing limits on working hours and creating behavioural rules based around protecting employees.

As for initiatives carried out in 2020, to attract the best talent SIT collaborates with a number of Italian universities, with which it has long, solid and fruitful relationships. In 2020 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 participated in six events sponsored by the careers services at various Italian universities, meeting students at the University of Padua, the University of Trento, and both the Polytechnic and University of Milan. During the Digital Recruiting Week organised by StartHub Consulting, there was a particular focus on candidates in the STEM (Science, Technology, Engineering, Mathematics) area.

Digital and Lean transformation

In 2020 SIT continued on its 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.

As part of the lean transformation project, short- and medium-term objectives were established, and a number of work streams were launched both at production facilities and at the Company's headquarters. These came in addition to the support and training activities being carried out in collaboration with external consultants.

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.

Considering the share performance and the results achieved in the three-year period, it is possible that no shares will be assigned on conclusion of the plan.

Training

The annual training plan ensures that all company employees are equipped with technical, specialist and safety skills. In 2020 the plan focused on strengthening digital skills, health and safety, and sustainability.

To support the digital transformation project, a workshop was organised that involved 50 senior figures in the definition of a shared roadmap for projects across the Group. It was also an opportunity to exchange information on the results achieved.

With the support of visual management, courses were also provided on project management and project design in both the R&D and operations areas, while team-building courses were run in a number of corporate areas. 2020 also saw support for ethics and business topics through training on Group L.231 policies.

Approximately 7,800 training hours were delivered to SIT and Metersit employees. At Group level, around 51,400 thousand hours of training were provided, up approximately 9% on the previous year.

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 2020 Non-Financial Statement, published in the sustainability section of the website www.sitgroup.it.

RISK MANAGEMENT POLICY

In 2020 SIT continued to develop its Enterprise Risk Management process, which forms an integral part of its Internal Control and Risk Management System. Specifically, in H1 2020 a follow-up risk assessment that began the previous year was carried out within the Metering Division. In the second half of 2020, a new risk assessment was conducted in the Heating Division. The adoption of this operating instrument makes it possible to spread improved risk awareness, which in turn supports decision-making processes that are consistent with the overall risk acceptance levels, implementing where possible mitigation action in line with the objectives set by the Board of Directors.

During 2020, the Enterprise Risk Management activities carried out by all primary company departments were overseen and coordinated by the Group's Governance & Legal Department and were complementary to those performed by the Group's Corporate and Control boards operating in the area of the Internal Control and Risk Management System, described in the Corporate Governance and Ownership Structure Report available on the Company website at www.sitcorporate.it.

In 2020, 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 measures implemented by the public authorities of the countries affected, of which Italy is one. 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 CO_2 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 (TFCD) 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 CO_2 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. Particularly of note in the heating division are those products that are already compatible with biogas. As regards hydrogen, we highlight the applied research initiatives for a hydrogen boiler with a major customer and a full hydrogen smart meter with the UK Department of Energy.

SIT does not currently see the other risk categories defined by the TFCD (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 and continuing in 2020.

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 2020, 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.

As regards the impacts that COVID-19 restrictions have had on production facilities, the mitigation measures adopted by the Group proved efficient at every stage of the supply chain, and no significant interruptions occurred during the year.

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 safety

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 2020 the ISO 14001/2004 environmental certificate was renewed for the facilities in Rovigo (SIT and Metersit), Brasov (Romania) and Monterrey (Mexico). The Rovigo facility 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 2020 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 2020 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 overseas companies. In relation to these risks and the related economic effects, appropriate assessments are carried out together with the Finance Department.

Following updates to its Mission and Vision, the Company has seen fit to update its Code of Ethics, which constitutes a social responsibility tool for the Group. This update process began in the second half of 2020. At today's date the document is being finalised and, following approval by the Board of Directors, will be shared throughout the Company.

The Supervisory Board met periodically, while the Board of Directors was informed upon their activities through the Half-Year Supervisory Body Report for 2020.

Insurance Coverage

During 2020 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.

Financial Risks

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

- Market risk: (i) currency risk deriving from operations in currencies other than the functional currency of the companies and of the Group; (ii) risk deriving from fluctuations in market interest rates; (iii) price risk deriving from changes in market prices of certain raw materials used 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 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 2020, 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)	2020	% Revenue	2019	% Revenue
EUR	240,388	74.9%	267,700	76.0%
USD	56,265	17.5%	60,563	17.2%
CNY	13,966	4.4%	13,943	4.0%
AUD	5,472	1.7%	5,501	1.6%
MXN	3,241	1.0%	3,371	1.0%
GBP	1,143	0.4%	1,088	0.3%
Other	255	0.1%	41	0.0%
Total	**320,731**	**100%**	**352,207**	**100%**

Total raw materials, ancillaries, consumables and goods by currency

(Euro.000)	2020	% Purchases	2019	% Purchases
EUR	117,297	67.5%	133,905	69.3%
USD	43,707	25.2%	46,104	23.8%
CHF	6,878	4.0%	8,310	4.3%
CNY	3,125	1.8%	2,602	1.3%
RON	1,623	0.9%	1,461	0.8%
MXN	596	0.3%	910	0.5%
AUD	21	0.0%	24	0.0%
Other	448	0.3%	12	0.0%
Total	**173,696**	**100%**	**193,328**	**100%**

During 2020, in line with its policies, the Company undertook financial hedges principally against net exposures in USD, ADU, GBP, CHF, and, to a lesser extent, CNY in closing hedging transactions in place since the previous year.

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)	31.12.2020
Currency	
Euro	22,648
US Dollar	15,412
Chinese Yuan	2,115
Australian Dollar	1,049
Other currencies	859
Total	**42,084**

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 1,944 thousand, without considering in this sensitivity analysis 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 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 variable rate loan for a nominal capital amount of Euro 115,725 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 78,740 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 would result in an increase in financial charge for SIT for the year 2020 of Euro 101 thousand, taking into account the hedging in the period. The same simulation for the previous year, also taking into account the hedging in place, would have resulted in an increase in financial charges of Euro 98 thousand.

Risk of raw material price fluctuations

The SIT Group's production costs are influenced by the prices of various raw materials, such as copper and aluminium, through both the direct purchase of the materials in question and the effect of fluctuations of the cost of purchasing such materials on 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.

During 2020 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.

In the second half of the year, as production activities resumed following the lockdown period, there was a significant increase in the market prices of certain raw materials and components used by the Group. This applied in particular to copper, aluminium, plastics and certain electronic components. In order to reduce purchase cost volatility, the Group therefore implemented procurement policies designed to meet requirements at the best conditions possible. It should also be noted that contracts with certain suppliers contain price adjustment clauses every six months. Should the aforementioned market trend continue, therefore, purchase costs for the following year will be affected.

There remains a possibility that the market prices for purchasing the raw materials concerned could in future have an adverse effect on the Group's operations, financial and economic results, and outlook.

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. During the year, management also closely monitored the effects of the uncertainty caused by the spread of COVID-19 on the ability of its customers to discharge their obligations. No significant criticalities emerged in this regard during the year.

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 designed to optimise the management of financial resources by reducing 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 co-ordination to ensure effective, efficient management of financial resources, particularly in the environment of general uncertainty created by the spread of COVID-19. Due to the uncertainty of this backdrop, the Group prudently obtained additional credit lines totalling Euro 35.5 million, entirely disbursed in the year.

To finalise the acquisition of JANZ-Contagem e Gestão de Fluídos, S.A., based in Portugal and operating in the Water Metering sector, SIT concluded a funding transaction for Euro 30.0 million as an additional line of the existing syndicated loan. This additional tranche matures in a single instalment on June 30, 2022, the maturity date of the syndicated loan.

In light of these new transactions and the contractual repayment plan for the syndicated loan, the Group's financial commitments for the next 12 months amount to Euro 47.0 million . It intends to meet these commitments from its current liquidity, the cash flows generated by operations in 2021 and possible recourse to new sources of funding.

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, 2020 were respectively 2.50x and 5.0x, amended - as per the contract due to the acquisition - to 3.25x and 5.0x.

As at December 31, 2020, 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 for the year amounted to Euro 217.0 million, compared to Euro 219.6 million in the previous year, a reduction of 1.2%. 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 122.7 million accounting for approx. 56.6% of revenues, substantially in line with the previous year.

Personnel costs totalled Euro 41.9 million, (Euro 43.3 million in the previous year), representing 19.3% of revenues (19.7% in 2019).

Service costs amounted to Euro 30.9 million and accounted for 14.2% of revenues, compared to Euro 30.5 million and 13.9% in 2019.

2020 EBIT totalled Euro 5.8 million, (Euro 6.8 million in 2019), a 2.7% revenue margin (3.1% in 2019).

Income from investments amounted to Euro 6.8 million (Euro 6.1 million in the previous year), while financial income amounted to Euro 1.1 million (Euro 2.7 million in 2019) due to the fair value performance of outstanding SIT warrants. Finally, financial charges amounted to Euro 4.0 million, compared to Euro 4.5 million in 2019.

2020 EBITDA was therefore Euro 9.6 million (4.4% revenue margin) compared to Euro 11.0 million (5.0% margin) in 2019.

Taxes for the year are negligible due to permanent changes in dividends received from subsidiaries and the benefit of hyper/super depreciation as well as the ACE benefit. In 2019, net tax income of Euro 2.9 million was recorded following the favourable outcome of an appeal.

2020 net profit was therefore Euro 9.6 million (4.4% revenue margin) compared to Euro 13.9 million (6.3% margin) in 2019.

In 2020, the Parent Company distributed dividends to shareholders totalling Euro 3.5 million.

In 2020 the Parent Company acquired 149,615 treasury shares amounting to Euro 775 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, 2020 was Euro -124,412 thousand (Euro -101,806 thousand at December 31, 2019). The breakdown of the net financial position is shown below:

(Euro.000)

Summary of net financial position items(1)	**31/12/2020**	**31/12/2019**
Other current financial assets	(14,396)	(7,866)
Cash and cash equivalents	(27,531)	(26,460)
Medium/long-term loans and borrowings	91,904	85,030
Other non-current financial liabilities and derivative financial instruments	6,064	3,734
Short-term loans and borrowings	46,474	19,627
Other current financial liabilities and derivative financial instruments	21,896	27,740
Net Financial Position	**124,412**	**101,806**

(1) The calculation of the Company's net financial position does not include the financial liabilities for warrants, 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.

The increase in the net financial position of Euro 30 million compared to the previous year refers to the new funding obtained to acquire JANZ (subsequently completed by the subsidiary SIT Metering S.r.l.). As part of these services, at December 31, 2020 the Company recognised under Non-current financial assets the receivable (for Euro 25.3 million) for the loan granted for the acquisition.

The item Other current financial assets includes current financial receivables amounting to Euro 13.4 million, relating to short-term loans granted to subsidiaries for Euro 6.5 million and receivables for dividends from subsidiaries for Euro 6.8 million. The account Other current financial liabilities and derivative financial instruments includes Euro 19.1 million relating to deposits made by subsidiaries with the Company.

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 31/12/2020	Profit FY 2020	Net Equity at 31/12/2019	Profit FY 2019
Statutory financial statements of the parent company	**154,017**	**9,591**	**148,305**	**13,936**
Difference between the carrying amount of the investments and net equity and net profit/(loss) of the consolidated subsidiaries(1)	2,118	11,362	2,026	12,356
Elimination of intercompany gains and losses	(2,669)	(45)	(2,740)	109
Adjustments in the financial statements of the consolidated companies in line with group accounting policies	(242)	(171)	(20)	365
Elimination dividends from investees	-	(7,485)	-	(6,764)
Other adjustments	(4)	(28)	(5)	(74)
Minority interest capital and reserves	-	-	-	-
Group & Minority int. consol. financial statements	**153,220**	**13,225**	**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 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.

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.

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, adhered to the Group VAT settlement procedure governed by Article 73, final paragraph, of Presidential Decree 633/1972, as approved by their respective governing bodies in 2019.

The Group has signed two agreements, on the basis of which two Senior Executives have been recognised (i) a one-off payment respectively of Euro 135,000 and of Euro 90,000 (made in January 2021) and (ii) the allocation of a retention indemnity of a similar amount to accrue and payable on meeting certain conditions, applicable to similar agreements.

It should also be noted that in 2020, the Group availed of consultancy totalling Euro 392 thousand with a company, Oaklins Italy S.r.l., in which a shareholder is a member of the Board of Directors of SIT.

Treasure Shares

At December 31, 2020, the Company held 316,724 treasury shares without nominal value, equal to 1.27% of the share capital, of which 149,615 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

(Euro.000)

Company	Revenue			Net Profit			Employees		
	2020	2019	Change	2020	2019	Cge.	2020	2019	Cge.
SIT Argentina S.r.l.	28	30	(2)	1	1		-	-	-
SIT Gas Controls Pty Ltd	5,472	5,501	(29)	318	229	89	6	8	(2)
SIT Controls Canada Inc.	292	295	(3)	82	98	(16)	1	1	-
SIT Manufacturing (Suzhou) Co. Ltd	17,152	16,796	356	504	(800)	1,304	79	95	(16)
SIT Controls CR, S.r.o.	1,434	1,398	36	667	523	144	8	8	-
SIT Controls Deutschland GmbH	1,109	1,200	(91)	263	339	(76)	3	3	-
SIT manufacturing Na Sa deCV	56,471	58,605	(2,134)	2,428	2,475	(47)	431	331	100
SIT de monterrey SA de CV	4,066	4,484	(418)	43	32	11	-	-	-
SIT Controls BV	29,699	33,065	(3,366)	2,023	2,136	(113)	149	159	(10)
SIT Romania Srl	54,229	52,509	1,720	1,359	1,666	(307)	622	608	14
SIT Controls USA Inc.	2,738	2,878	(140)	1,090	1,230	(140)	6	6	-
Sit Controls Tunisia S.u.a.r.l	-	-	-	(38)	-	(38)	6	-	6
Plast Alfin S.a.r.l.	1,663	-	1,663	351	-	351	113	-	113

Business sector: Smart Metering

(Euro.000)

Company	Revenue			Net Profit			Employees		
	2020	2019	Change	2020	2019	Change	2020	2019	Change
MeteRSit S.r.l.	98,516	122,765	(24,249)	5,524	6,521	(997)	74	76	(2)
Metersit Romania S.r.l.	37,610	35,804	1,806	692	849	(157)	88	78	10
Sit Metering S.r.l.	-	-	-	(21)	-	(21)	-	-	-

SUBSEQUENT EVENTS TO YEAR-END AND MANAGEMENT PERFORMANCE

As part of the project to establish a multi-utility centre for the Company's metering business, as of January 1, 2021 the conferment by the Parent Company SIT S.p.A. of its equity investment in Metersit S.r.l. to SIT Metering S.r.l., a company established in 2020 and 100% controlled by SIT S.p.A., became effective. In 2020, SIT Metering S.r.l. had acquired the equity investment in JANZ – Contagem e Gestão de Fluídos, SA, a company registered in Lisbon specialising in the production and distribution of water meters.

As regards COVID-19, in 2021 the Company has retained its Covid Committee, which regularly monitors the impact of the pandemic, providing support and co-ordinating the regulations and policies to be issued as the situation evolves. The focus during this phase of the pandemic is on monitoring the vaccination plan in place in the countries where the Group operates, adapting behaviour and providing support to enable the various Group companies to achieve locally defined vaccination targets. The Committee's current priority objective is to ensure safe health conditions for personnel in accordance with the protocols recommended by the authorities in each country, providing timely communication and co-ordinating the efforts of each unit with central activities.

As regards the impact of COVID-19 on operating performance, in the Heating Division, operating conditions and prospects gradually normalised overall, beginning in Q3 2020; this trend was confirmed by the Q4 results and by the performance in early 2021. There were exceptions in some specific business segments - those related to certain sectors such as catering, or associated with more discretionary consumption. In these segments the recovery was less pronounced.

As regards the impact of COVID-19 on the Smart Gas Metering Division, this too experienced a substantial return to normal activities on the Italian market from H2 2020. On the international front, however, considering that commercial development activities were planned in the UK and India, the significant impact of the pandemic in those countries has resulted in a delay that will continue for at least the first half of 2021.

Activities in the Water Metering segment appear to have recovered in Europe and in most non-European markets, though the health situations in some South American countries necessitate caution and careful monitoring of COVID-19 conditions.

It is impossible to exclude the possibility that the health emergency may continue due to the emergence of variants of the virus, as a result of delays in vaccination plans, or for reasons not foreseeable today at the global level. This would lead to further restrictions and repercussions for future economic growth prospects and the Italian and international scenarios. In such a scenario, the Company believes it will be able to implement measures to mitigate the impact of this risk by appropriately rescheduling the start of new projects and implementing tight cost and investment controls, as it did during 2020. It is, however, currently safe to approach the management of the coming months with cautious optimism regarding the reduction of the effects of COVID-19.

As regards the foreseeable changes in management for 2021, at a consolidated level the Group forecasts mid/high single-digit sales growth, consolidating - for the first time - the water meter business. The Group's financial results are expected to improve on 2020. Particular attention must be paid, however, to increases in raw material prices, an external factor which the Group is monitoring and closely managing as a top priority.

Further results from the development of new products and smart applications adapted also to the use of alternative gases such as hydrogen may also emerge in the year.

With regards to the individual divisions, the Group forecasts the following business trends:

- Heating division revenue growth, confirming this sector's resilience and the importance for consumers of installing highly efficient boilers and heating equipment;
- in the Smart Gas Metering division, after a decade featuring the extensive replacement of traditional meters with smart meters on the domestic market, a phase of preparing for a new cycle of the gradual replacement of existing meters has begun; overseas revenues are expected to account for approx. 10% of the total;

- for the Water Metering division, 2021 is the year for the integration of the acquired entity JANZ and the building of future synergies with the Group. Revenues are expected to grow in line with the objectives of the Plan announced on acquisition.

***

For information on the proposals to the Shareholders' Meeting concerning the allocation of the 2020 profit, reference should be made to the specific explanatory report on the matters on the Agenda of the Shareholders' Meeting scheduled for April 29, 2021.

Padua, March 29, 2021

The Chairman of the Board of Directors

(Mr. Federico de' Stefani)

CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 2020

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(Euro.000)	Notes	31/12/2020	31/12/2019
Goodwill	1	98,070	78,138
Other intangible assets	1	52,569	59,125
Property, plant & equipment	2	90,228	79,317
Investments	3	326	54
Non-current financial assets	4	2,282	1,531
Deferred tax assets	5	4,762	5,167
Non-current assets		**248,237**	**223,332**
Inventories	6	56,502	51,126
Trade receivables	7	65,518	57,176
Other current assets	8	14,234	10,133
Tax receivables	9	3,983	4,770
Other current financial assets	4	1,032	23
Cash and cash equivalents	10	42,328	34,064
Current assets		**183,597**	**157,292**
Total assets		**431,834**	**380,624**
Share capital	11	96,152	96,152
Total Reserves	12	43,844	31,486
Net profit		13,225	19,928
Minority interest net equity		-	-
Shareholders’ Equity		**153,221**	**147,566**
Medium/long-term loans and borrowings	13	91,934	85,029
Other non-current financial liabilities and derivative financial instruments	14	15,634	4,138
Provisions for risks and charges	15	4,740	4,142
Post-employment benefit provision	16	6,095	6,201
Other non-current liabilities		35	4
Deferred tax liabilities	17	14,653	16,370
Non-current liabilities		**133,091**	**115,884**
Short-term loans and borrowings	18	46,614	19,730
Other current financial liabilities and derivative financial instruments	19	4,928	3,588
Trade payables	20	72,203	73,331
Other current liabilities	21	18,638	15,957
Financial instruments for Warrants	22	1,045	1,567
Tax payables	23	2,094	3,001
Current liabilities		**145,522**	**117,174**
Total Liabilities		**278,613**	**233,058**
Total Shareholders’ Equity and Liabilities		**431,834**	**380,624**

CONSOLIDATED INCOME STATEMENT

(Euro.000)	Notes	2020	2019
Revenues from sales and services	**24**	**320,731**	**352,207**
Raw materials, ancillaries, consumables and goods	25	173,696	193,328
Change in inventories	25	(2,777)	1,557
Service costs	26	38,198	38,883
Personnel expense	27	66,581	69,429
Depreciation, amortisation and write-downs	28	24,052	24,085
Provisions	29	815	139
Other charges (income)	30	550	53
EBIT		**19,616**	**24,734**
Investment income/(charges)		-	(20)
Financial income	31	835	2,033
Financial charges	32	(3,939)	(4,163)
Net exchange gains (losses)	33	(521)	(1,263)
Impairments on financial assets		-	-
Profit before taxes		**15,991**	**21,320**
Income taxes	34	(2,766)	(1,392)
Net profit of the year		**13,225**	**19,928**
Minority interest result		**-**	**-**
Group net profit		**13,225**	**19,928**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(Euro.000)	2020	2019
Net profit	**13,225**	**19,928**
Other comprehensive income statement items which may be subsequently reclassified to the income statement for the year, net of taxes:		
Net change in cash flow hedge reserve	399	(5)
Income taxes	(96)	1
Total unrealised financial asset gains/(losses)	**303**	**(4)**
Translation of financial statements in currencies other than the Euro	(3,685)	1,897
Total of other comprehensive income statement items which may be subsequently reclassified to the profit for the year, net of taxes	**(3,381)**	**1,893**
Other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes:		
Unrealised actuarial gains/(losses)	96	(352)
Income taxes	(23)	85
Total unrealised actuarial gains/(losses)	**73**	**(268)**
Total of other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes	**73**	**(268)**
Total other comprehensive income/(expense) for the year, net of taxes	**(3,309)**	**1,626**
Total comprehensive income	**9,916**	**21,554**
Total comprehensive income for the year attributable to:		
Parent company shareholders	9,916	21,554
Minority shareholders	-	-

CONSOLIDATED CASH FLOW STATEMENT

(Euro.000)	Notes	2020	2019 RESTATED
Net profit		13,225	19,928
Amortisation & depreciation	1 - 2 - 28	24,006	24,007
Non-cash adjustments		1,109	(306)
Income taxes	34	2,766	1,392
Net financial charges/(income)	31 - 32	3,104	2,140
CASH FLOW FROM CURRENT ACTIVITIES (A)		**44,210**	**47,161**
Changes in assets and liabilities:			
Inventories		(2,876)	1,103
Trade receivables		(6,051)	(5,138)
Trade payables		(1,554)	(1,464)
Other assets and liabilities		(132)	(3,901)
Income taxes paid		(6,315)	(4,894)
CASH FLOW GENERATED (ABSORBED) FROM CHANGES IN WORKING CAPITAL (B)		**(16,928)**	**(14,294)**
CASH FLOW FROM OPERATING ACTIVITIES (A + B)		**27,282**	**32,867**
Investing activities:			
Investments in property, plant & equipment		(14,026)	(23,044)
Other changes in property, plant & equipment		710	824
Investments in intangible assets		(685)	(743)
Other changes in intangible assets		25	-
Other changes in financial assets		1,280	13
Acquisition or sale of subsidiaries or business units net of cash and cash equivalents	38	(28,369)	-
CASH FLOW FROM INVESTING ACTIVITIES (C)		**(41,065)**	**(22,950)**
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)		**(13,783)**	**9,917**
Financing activities:			
Interest paid		(3,024)	(2,741)
Repayment of non-current financial payables	19	(22,416)	(16,875)
Increase (decrease) current financial payables		146	(3,745)
Increase (decrease) other financial payables	19 - 35	(2,000)	(2,169)
New loans	19	55,500	-
Payment of dividends	12	(3,476)	(6,969)
Treasury shares	12	(775)	(685)
Change in translation reserve		(1,909)	1,838
CASH FLOW FROM FINANCING ACTIVITIES (D)		**22,046**	**(31,346)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)		**8,263**	**(21,429)**
Cash & cash equivalents at beginning of the year		**34,065**	**55,494**
Increase (decrease) of cash and cash equivalents		8,263	(21,429)
Cash & cash equivalents at end of the year		**42,328**	**34,065**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

	Share Capital	Share premium reserve	Treasury share reserve	Legal reserve	Other reserves								Retained earnings/ (accum. losses)	Net profit/ (loss)	Group Share. Equity	Minority interest capital and reserves	Total Group and Minority interest Share. Equity
					Currency conversion difference	Allocation and employee L.T.I. reserve	Cash flow hedge reserve	Capital payments	Actuarial reserve	Extraord. reserve	Warrants reserve	Performance shares reserve	Other retained earnings/ (accum. losses)				
December 31, 2018	**96,152**	**10,360**	**(752)**	**19,230**	**(6,454)**	**175**	**(1,017)**	**18,817**	**(379)**	**1,491**	**(12,541)**	**(11,500)**	**(12,444)**	**24,265**	**125,403**	**-**	**125,403**
Allocation of 2018 result	-	-	-	-	-	-	-	-	-	-	9,513	3,240	11,512	(24,265)	-	-	-
Comprehensive profit 2019	**-**	**-**	**-**	**-**	**1,897**	**-**	**(4)**	**-**	**(268)**	**-**	**-**	**-**	**-**	**19,928**	**21,554**	**-**	**21,554**
Performance Shares Conversion	-	-	-	-	-	-	-	-	-	-	-	8,260	-	-	8,260	-	**8,260**
Dividends	-	-	-	-	-	-	-	(2,202)	-	-	-	-	(4,767)	-	(6,969)	-	**(6,969)**
Other movements	-	-	-	-	-	-	-	-	-	-	-	-	4	-	4	-	**4**
Acquisition of treasury shares	-	-	(685)	-	-	-	-	-	-	-	-	-	-	-	(685)	-	**(685)**
December 31, 2019	**96,152**	**10,360**	**(1,437)**	**19,230**	**(4,557)**	**175**	**(1,021)**	**16,615**	**(647)**	**1,491**	**(3,028)**	**-**	**(5,695)**	**19,928**	**147,566**	**-**	**147,566**

	Share Capital	Share premium reserve	Treasury share reserve	Legal reserve	Other reserves								Retained earnings/ (accum. losses)	Net profit/ (loss)	Group Share. Equity	Minority interest capital and reserves	Total Group and Minority interest Share. Equity
					Currency conversion difference	Allocation and employee L.T.I. reserve	Cash flow hedge reserve	Capital payments	Actuarial reserve	Extraord. reserve	Warrants reserve	Performance shares reserve	Other retained earnings/ (accum. losses)				
December 31, 2019	**96,152**	**10,360**	**(1,437)**	**19,230**	**(4,557)**	**175**	**(1,021)**	**16,615**	**(647)**	**1,491**	**(3,028)**	**-**	**(5,695)**	**19,928**	**147,566**	**-**	**147,566**
Allocation of 2019 result	-	-	-	-	-	-	-	-	-	-	1,460	-	18,468	(19,928)	-	-	-
Comprehensive profit 2020	**-**	**-**	**-**	**-**	**(3,685)**	**-**	**303**	**-**	**73**	**-**	**-**	**-**	**-**	**13,225**	**9,916**	**-**	**9,916**
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	(3,476)	-	(3,476)	-	**(3,476)**
Other movements	-	-	-	-	-	-	-	-	-	-	-	-	(11)	-	(11)	-	**(11)**
Acquisition of treasury shares	-	-	(775)	-	-	-	-	-	-	-	-	-	-	-	(775)	-	**(775)**
December 31, 2020	**96,152**	**10,360**	**(2,212)**	**19,230**	**(8,242)**	**175**	**(718)**	**16,615**	**(574)**	**1,491**	**(1,567)**	**-**	**9,286**	**13,225**	**153,221**	**-**	**153,221**

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 29, 2021 and authorised for publication on the website www.sitgroup.it by April 7, 2021. 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.

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, 2020 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 have been prepared based on the historical cost principle, except for derivative financial instruments and financial liabilities for warrants, which have been 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, 2020 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, 2020 are the same as those adopted for the consolidated financial statements at December 31, 2019.

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

IFRS accounting standards, amendments and interpretations applicable from January 1, 2020

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group from January 1, 2020

References to the Conceptual Framework in IFRS Standards

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 policies when no IFRS standard is applicable to a particular transaction and, more generally, helps stakeholders to understand and interpret the Standards.

The adoption of this amendment does not have effects on the consolidated financial statements of the Group.

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 adoption of this amendment does not have effects on the consolidated financial statements of the Group.

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

On October 31, 2018, the IASB published the document “Definition of Material (Amendments to IAS 1 and IAS 8)”. The document 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 if it is described in a way that results in an effect for the primary users of the financial statements similar to that which would have resulted if the information in question had been omitted or misstated.

The adoption of this amendment does not have effects on the consolidated financial statements of the Group.

Definition of a Business (Amendments to IFRS 3)

On October 22, 2018, the IASB published the document “Definition of a Business (Amendments to IFRS 3)”. The document provides certain clarification on the definition of a 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 satisfy the definition of a business, an integrated set of activities/processes and assets shall include, at the very least, an input and a substantive process which, together, make a significant contribution towards the ability to create outputs. Accordingly, the IASB has replaced the term “ability to create outputs” with “ability to contribute towards the creation of outputs” in order to clarify that a business may exist even without the presence of all of the inputs and processes necessary to create an output.

The amendment also introduced an optional test ("concentration test"), which allows for the exclusion of the presence of a business if the price paid is substantially attributable to a single asset or group of assets. The amendments apply to all business combinations and acquisitions of activities after January 1, 2020, although advance application is permitted.

The adoption of this amendment does not have effects on the consolidated financial statements of the Group.

COVID-19 Related Rent Concessions (Amendment to IFRS 16)

On May 28, 2020, the IASB published an amendment called "Covid-19 Related Rent Concessions (Amendment to IFRS 16)". The document establishes for lessees the option to account for the reductions in rents connected with COVID-19 without having to assess, through the analysis of contracts, whether the definition of lease modification of IFRS 16 has been complied with. Therefore, lessees applying this option will be able to account for the effects of rent reductions directly in the income statement on the effective date of the reduction.

The adoption of this amendment does not have effects on the consolidated financial statements of the Group.

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, 2020

Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)

On May 28, 2020, the IASB published an amendment called "Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)". The amendments allow the temporary exemption from the application of IFRS 9 to be extended until January 1, 2023 for insurance companies. The amendments will enter into force from January 1, 2021. The directors do not expect this amendment to have a significant impact on the Group consolidated financial statements.

Interest Rate Benchmark Reform—Phase 2

On August 27, 2020, the IASB published, in light of the reform on interbank interest rates such as IBOR, the document "Interest Rate Benchmark Reform-Phase 2" which contains amendments to the following standards:

- IFRS 9 Financial Instruments;
- IAS 39 Financial Instruments: Recognition and Measurement;
- IFRS 7 Financial Instruments: Disclosures;
- IFRS 4 Insurance Contracts; and
- IFRS 16 Leases.

All the amendments will enter into force from January 1, 2021. The directors do not expect this amendment to have a significant impact on the Group consolidated financial statements.

IFRS Standards, Amendments and Interpretations not yet approved 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.

IFRS 17 – Insurance Contracts

On May 18, 2017, the IASB published IFRS 17 - Insurance Contracts which replaces IFRS 4 - Insurance Contracts.

The new standard ensures that an entity provides pertinent information which accurately presents the rights and obligations under insurance contracts. The IASB developed the standard in order to eliminate inconsistencies and weaknesses in the existing accounting policies, providing a single principle-based framework to take account of all types of insurance contracts, including reinsurance contracts held by an insurer.

The new standard sets out in addition presentation and disclosure requirements to improve comparability between entities belonging to the same sector.

It measures insurance contracts on the basis of a General Model or a simplified version of such, called the Premium Allocation Approach (“PAA”). The main features of the General Model are:

- the estimates and assumptions of future cash flows always refer to the current portion;

- the measurement reflects the time value of money;
- the estimates include an extensive use of observable market information;
- a current and clear risk measurement exists;
- the expected profit is deferred and aggregated into groups of insurance contracts on initial recognition; and,
- the expected profit is recognised in the period of contractual coverage, taking account of adjustments from changes in the assumptions on cash flows for each group of contracts.

The PPA approach involves the measuring of the liability for the residual coverage of a group of insurance contracts on the condition that, on initial recognition, the entity expects that this liability reasonably reflects an approximation of the General Model. Contracts with a coverage period of one year or less are automatically considered appropriate for the PAA approach. The simplifications from application of the PPA method do not apply to the valuation of liabilities for existing claims, which are measured with the General Model. However, it is not necessary to discount these cash flows where it is expected that the balance will be paid or received within one year from the date on which the claim occurred.

The entity should apply the new standard to insurance contracts issued, including reinsurance contracts issued, reinsurance contracts held and also investment contracts with a discretionary participation feature (DPF).

The standard is effective from January 1, 2023, although advance application is permitted, only for entities applying IFRS 9 – Financial Instruments and IFRS 15 - Revenue from Contracts with Customers. The Directors do not expect this standard to have a significant impact on the Group consolidated financial statements.

Amendments to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or "Non-current"

On January 23, 2020, the IASB published an amendment entitled "Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current". The purpose of the document is to clarify how to classify payables and other short or long-term liabilities. These amendments shall enter into force on January 1, 2023 and early application is permitted. The Directors are currently assessing the possible effects of introduction of this amendment on the Group's consolidated financial statements.

On May 14, 2020, the IASB published the following amendments:

Amendments to IFRS 3 Business Combinations

the purpose of the amendments is to update the reference in IFRS 3 to the revised version of the Conceptual Framework, without changing the provisions of IFRS 3.

Amendments to IAS 16 Property, Plant and Equipment

the purpose of the amendments is not to allow the amount received from the sale of goods produced during the testing phase of the asset to be deducted from the cost of the asset. These sales revenues and related costs will therefore be recognised to the income statement.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

the amendment clarifies that in estimating the possible onerousness of a contract, all costs directly attributable to the contract must be considered. Accordingly, the assessment of whether a contract is onerous includes not only incremental costs (such as the cost of direct material used in processing), but also all costs that the enterprise cannot avoid because it has entered into the contract (such as, for example, the share of personnel expenses and depreciation of machinery used to perform the contract).

Annual Improvements 2018-2020

the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples of IFRS 16 Leases.

All the amendments will enter into force from January 1, 2022. The Directors are currently assessing the possible effects of introduction of these amendments on the Group's consolidated financial statements.

IFRS 14 - Regulatory Deferral Accounts

On January 30, 2014 the IASB published IFRS 14 Regulatory Deferral Accounts which permits only those adopting IFRS for the first time to continue to recognise amounts concerning Rate Regulation Activities according to the previous accounting standards adopted. As the Group is not a first-time adopter, this standard is not applicable.

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.

In this regard, the estimates made at December 31, 2020 reflect the considerations made by the Directors on possible developments linked to the current national and international environment dominated by the COVID-19 outbreak and the resulting restrictive containment measures implemented by the public authorities of the countries affected. These developments, which emerged in the initial months of 2020, are extraordinary in nature and extent and will have direct and indirect repercussions on economic activity, giving rise to an environment of general uncertainty and whose evolution and effects are currently not entirely foreseeable.

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.

Inventory obsolescence provision

The inventory of raw materials, semi-finished and finished products are valued at the lower of cost and market value, applying the average weighted cost criteria in establishing the cost. The valuation of inventories includes direct materials and labour costs and indirect costs (variable and fixed). Provisions are made for materials, finished products and obsolete or slow moving items, while also taking into account their expected future use and realisable value.

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 in strictly related to the project's technical and economic feasibility opinion. The Directors are therefore required to draw up the assumptions relating to the expected future cash flows from the assets, the discount rate to be applied and the periods of the expected benefits. Further details are reported at Note 1.

Deferred tax assets

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

Provisions for risks and charges

The Directors make estimates regarding other risks and charges. 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. Further details are reported at Note 15.

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.

Employee benefits

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

Share-based payments

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

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

For the share-based payments with employees, the Group utilises the Montercarlo simulation model for the plans with employees. The assumptions used for the estimate of the fair value of the share-based payments are shown in Note 37.

IFRS 16 - Estimation of the marginal lending rate

In order to determine the implied contract interest rate, the Group uses the marginal interest rate, i.e. the interest rate which the lessee should pay for a loan with similar duration and guarantees, in order to acquire the leased asset. Where there are no observable data (such as in the case of investees that are not direct counterparties to financial transactions) or when rates must be adjusted to reflect the terms and conditions of the lease (for example, when the lease is not in the investee's functional currency), the Group estimates the rate to be applied using observable data (such as market interest rates) if available, and making specific considerations about the terms and conditions of the investee.

ACCOUNTING PRINCIPLES AND VALUATION CRITERIA

The main accounting policies adopted in the preparation of the consolidated financial statements at December 31, 2020 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

In 2020, the consolidation scope changed for the following companies:

Company name	Acquired / Established	Country	Registered Office	Currency	Share capital (currency)	% held
JANZ – Contagem e Gestão de Fluídos, SA(*)	12/2020	Portugal	Lisbon	EUR	1,000,000	100
Plast Alfin S.a.r.l.	07/2020	Tunisia	Ben Arous	TND	20,000	100
Sit Controls Tunisia S.u.a.r.l.(**)	11/2020	Tunisia	Tunisia	TND	200,000	100
Sit Metering S.r.l.(**)	11/2020	Italy	Padova	EUR	200,000	100

(*) Company acquired
(**) Newly established company

Consolidation method

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

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

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

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

Translation of accounts in foreign currencies: Group Companies

The financial statements of the Group companies included in the consolidated financial statements are presented in the functional currency of the main markets in which they respectively operate. At the reporting date, the assets and liabilities of the companies whose functional currency is not the Euro are converted into the preparation currency of the Group consolidated financial statements at the exchange rate at that date. The income statement accounts are converted at the average exchange rate, as such is considered representative of the average of the exchange rates at the dates of the individual transactions. The differences deriving from the adjustment of opening shareholders' equity to the exchange rates at the end of the period and the differences deriving from the different methods used for the translation of the result are recorded to the comprehensive income statement. On the sale of a net investment in a foreign operation, the items in the comprehensive income statement relating to this foreign operation are recorded in the income statement.

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

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

Euro/Currency	2020		2019	
	December 31, 2020	2020 average	December 31, 2019	2019 average
Mexican Peso	24.4160	24.5194	21.2202	21.5565
Argentinean Peso	103.2494	80.9218	67.2749	53.8229
Romanian Leu	4.8683	4.8383	4.7830	4.7453
US Dollar	1.2271	1.1422	1.1234	1.1195
Canadian Dollar	1.5633	1.5300	1.4598	1.4855
Czech Crown	26.2420	26.4551	25.4080	25.6705
Australian Dollar	1.5896	1.6549	1.5995	1.6109
Chinese Yuan	8.0225	7.8747	7.8205	7.7355
Tunisian Dinar	3.2943	3.1997	n.a.	n.a.

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". For accounting purposes, therefore, market warrants 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 - listed prices (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, at the end of the period in which the combination takes place, the initial accounting for a business combination is incomplete, the provisional amounts of the items whose accounting is incomplete are recognised in the financial statements. During the valuation period, the provisional amounts recognised at the acquisition date are retroactively adjusted to reflect new information obtained regarding facts and circumstances that existed at the acquisition date which, if known, would have affected the valuation of the amounts recognised at that date. The valuation period shall not extend for more than one year from the date of acquisition.

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

Research and development costs

Research costs are recognised profit or loss in the year in which they are incurred. Development costs incurred in relation to a specific project are only capitalised when the technical feasibility of completing the intangible asset exists to make it available for use or sale, in addition to the ability and intention to use or sell the asset to generate future benefits demonstrating the existence of a market for the output of the intangible asset or the intangible asset itself or a utility to be used internally and the availability of technical, financial and other types of resources suitable to complete the intangible asset's development and use or sale and the ability to reliably measure the cost attributable to its development. Capitalised development costs include only those costs that are directly attributable to development.

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

Other intangible assets

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

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

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

Intangible assets with definite useful life	Average rate
Product development costs	Straight-line over 3 years
Licenses	Straight-line over 3 years
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 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

An associate is a Company in which the Group exercises significant influence. Significant influence

refers to the power to participate in the financial and operating policy decisions of an investee, while not exercising control or joint control.

With the equity method, the investment in an associated company or a joint venture

is initially recorded at cost. The carrying amount of the investment is increased or decreased to recognise the group's share of the profit or loss after the date of acquisition. The goodwill relating to the associate or joint venture is included in the book value of the investment and is not subject to a separate impairment test.

The profit/(loss) statement for the year reflects the Group's portion of the operating result of the associated company or joint venture. Any change in the other components of the comprehensive income statement relating to these investee companies is presented as part of the Group's comprehensive income statement.

In addition, if an associate records a change directly to equity, the Group records its share (where applicable) in the statement of changes in equity.

Unrealised gains and losses deriving from transactions between the Group and associated companies are derecognised in proportion to the shareholding in that associate.

The aggregate share attributable to the Group of the result for the year of associated companies is shown in the profit/(loss) statement for the year after the operating result and represents the result net of taxes and of the share of the other shareholders of the associate.

The financial statements of associates and joint ventures are prepared at the same reporting date as the Group financial statements. Where necessary, the financial statements are adjusted in line with those utilised by the Group.

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 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 has 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 due beyond one year, non-interest bearing or which mature interest below lower 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, cancelled or fulfilled. 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 reproportioned on the basis of the years of services matured compared to the total years of service.

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

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

Share-based payments

Equity-settled share-based payment transactions

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

The cost of the equity-based transactions is determined by the fair value at the assignment date utilising an appropriate valuation method, as illustrated in greater detail at Note 37.

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 36).

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 they 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 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 loses carried forward, with the following exceptions:

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

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

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

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

The 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, 19	Acquisitions	Increases	Disposals	Amortisation	Other movements	Write-downs	Translation differences	Balance at Dec. 31, 20
Goodwill	**78,138**	19,933	-	-	-	-	-	-	**98,070**
Development costs	0	-	-	-	(0)	-	-	-	-
Patent rights	13,849	30	288	(20)	(2,760)	194	-	(6)	11,575
Concessions, licences and trademarks	17,226	-	-	-	(1,203)	-	-	(0)	16,022
Other intangible assets	27,487	-	311	-	(3,254)	179	-	(0)	24,723
Intang. assets in progress and advances	563	-	86	-	-	(372)	(25)	(3)	250
Total other intangible assets	**59,125**	30	**685**	**(20)**	**(7,217)**	**1**	**(25)**	**(10)**	**52,569**
Total Goodwill and Other intangible assets	**137,263**	**19,963**	**685**	**(20)**	**(7,217)**	**1**	**(25)**	**(10)**	**150,640**

GOODWILL

At December 31, 2020, the item totalled Euro 98,070 thousand, up by Euro 19,933 thousand on the previous year. The total includes:

- Euro 78,138 thousand 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.
- Euro 18,741 thousand recognised following the acquisition of the company JANZ – Contagem e Gestão de Fluídos, SA completed on December 29, 2020. The business combination was accounted for in accordance with IFRS 3. Management assessed the fair value of assets, liabilities and contingent liabilities based on the information and on facts and circumstances available at the acquisition date. The valuation period is still open at December 31, 2020. Based on the additional information that will be acquired by management over the next 12 months, the above valuation may be modified, as per the relevant accounting standards. For further information, reference should be made to Note 38.

- Euro 1,191 thousand recognised following the acquisition of the company Plast Alfin S.a.r.l. on July 17, 2020. The transaction will enable the Group to achieve cost savings by producing certain plastic components internally.

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.

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 AND TRADEMARKS

The amount of Euro 16,022 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, 2020 amounted to Euro 23,717 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.

The verification of any impairments to goodwill or other intangible assets was made on the basis of three Group Cash Generating Units (CGUs) - Heating, Smart Gas Metering, Water Metering - associated with the newly acquired JANZ – Contagem e Gestão de Fluídos, SA, comparing their recoverable value with the respective carrying values of capital invested, including allocated goodwill. It should be remembered that the difference between the price paid and the carrying values of the company JANZ – Contagem e Gestão de Fluídos, SA, as per IFRS 3.45, is initially recognised in its entirety pending further information that allows a more complete valuation of the assets and liabilities acquired. As noted above, the valuation period will be completed within 12 months of the acquisition. These assessments will then be reflected retroactively.

Goodwill totalling Euro 98,070 at December 31, 2020 is allocated to the Heating CGU for Euro 62,122 thousand, the Smart Gas Metering CGU for Euro 17,207 thousand, and the Water Metering CGU for Euro 18,741 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 29, 2021 after approval of the 2021-2025 company plan at the same Board meeting. The methodology to be used in carrying out the test was approved by the Board of Directors on December 18, 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 CO_2 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, considering a maintenance level of investments.

The growth rate (g) is assumed to be 2%, based on the most up-to-date revenue forecasts. This is an increase on the first year covered by the plan and the result of a possible medium-term change in the market, which sees further acceleration of the appliance replacement market by means of economic incentives for end users.
The Heating CGU’s WACC was estimated by assuming:

- a risk free rate of 3.10% calculated as average of the long-term government bond rates in the CGU's target countries, weighted by the portion of each country's sales on total sales;
- a beta unlevered coefficient for a value of 0.87 estimated on the basis of a panel of comparable listed companies;
- an equity risk premium of 6%, equivalent to the average of the market’s risk premium in the main countries where the Heating CGU is active (source: Pablo Fernandez);
- 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 December 31, 2020, 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 9.04% 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 calculated through the value of use and the carrying amount of the CGU) of zero, is 10%, whereas a 17% percent reduction of the terminal value is required to achieve this same result.

Given the particular economic climate created by the pandemic, it was deemed consistent with the previous budget to maintain an additional level of sensitivity to test the effect of potential flow volatility. The zero headroom level was therefore verified on the basis of reduced revenues expected in the first three years covered. This break-even point is achieved by reducing revenues by 18.4% for each of the first three years covered, without considering the effects of actions aimed at reducing overheads and the benefits associated with the reduction in working capital.

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 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 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 of 1.92% calculated as average of the long-term government bond rates in the CGU's target countries, weighted by the portion of each country's sales on total sales;
- a beta unlevered coefficient for a value of 0.78 estimated on the basis of a panel of comparable listed companies;
- an equity risk premium of 6%, equivalent to the average of the market’s risk premium in the main countries where the Metering CGU is active (source: Pablo Fernandez);
- 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 December 31, 2020, 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 9.00% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk. 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 calculated through the value of use and the carrying amount of the CGU) of zero, is 9.71%, whereas a 11% percent reduction of the terminal value is required to achieve this same result.

Given the particular economic climate created by the pandemic, it was deemed consistent with the previous budget to maintain an additional level of sensitivity to test the effect of potential flow volatility. The zero headroom level was therefore verified on the basis of reduced revenues expected in the first three years covered. This break-even point is achieved by reducing revenues by 10.6% for each of the first three years covered, without considering the effects of actions aimed at reducing overheads and the benefits associated with the reduction in working capital.

Water 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.

In establishing operating and financial projections, the flows deriving from the explicit horizon of the plan were used without taking into account any particular synergies deriving from the integration of the CGU into the SIT Group. When constructing the perpetual income flow to calculate the terminal value, the final value in the year covered was projected.

The growth rate (g) was assumed to be 1.5%, whereas the value of current income taxes was calculated on a notional basis utilising the nominal tax rate.

The Water Metering CGU's WACC was estimated by assuming:

- a risk free rate of 1.29% calculated as average of the long-term government bond rates in the CGU's target countries, weighted by the portion of each country's sales on total sales;
- a beta unlevered coefficient for a value of 0.99 estimated on the basis of a panel of comparable listed companies;
- an equity risk premium of 6%, equivalent to the average of the market’s risk premium in the main countries where the Metering CGU is active (source: Pablo Fernandez);
- 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 December 31, 2020, 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 8.59% 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 Water Metering CGU is higher than the net carrying amount, therefore confirming the acquisition value.

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 calculated through the value of use and the carrying amount of the CGU) of zero, is 9.16%, whereas a 10.8% percent reduction of the terminal value is required to achieve this same result.

Given the particular economic climate created by the pandemic, it was deemed appropriate to use an additional level of sensitivity to test the effect of potential flow volatility. The zero headroom level was therefore verified on the basis of reduced revenues expected in the first three years covered. This break-even point is achieved by reducing revenues by 15.7% for each of the first three years covered, without considering the effects of actions aimed at reducing overheads and the benefits associated with the reduction in working capital.

The estimate of the recoverable value of the capital employed net of the Heating, Smart Gas Metering and Water Metering CGUs 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 2020 are summarised below:

(Euro.000)

	Historical cost at Dec. 31, 19	Acc. Deprec. at Dec. 31, 19	Balance at Dec. 31, 19	"Right-of-use" IFRS 16	Historical cost at Dec. 31, 20	Acc. Deprec. at Dec. 31, 20	Balance at Dec. 31, 20	"Right-of-use" IFRS 16
Land & buildings	42,968	(21,194)	21,774	2,068	53,526	(22,750)	30,776	12,207
Plant and machinery	137,711	(106,604)	31,107	-	141,571	(110,092)	31,480	-
Industrial and commercial equipment	79,030	(70,538)	8,492	1,166	97,526	(87,526)	10,000	826
Other assets	11,237	(7,168)	4,069	2,395	11,202	(7,363)	3,839	2,197
Assets in progress and advances	13,875	-	13,875	-	14,134	-	14,134	-
Total property, plant and equipment	**284,822**	**(205,504)**	**79,317**	**5,628**	**317,960**	**(227,731)**	**90,229**	**15,230**

The following tables outline the changes in the historic cost and accumulated depreciation in 2020 by category.

HISTORIC COST

(Euro.000)

	Historical cost at Dec. 31, 19	"Right-of-use" IFRS 16	Acquisitions	Increases	Disposals	Other movements	Write-downs	Translation differences	Balance at Dec. 31, 20	"Right-of-use" IFRS 16
Land & buildings	42,968	2,996	144	11,227	(84)	198	(268)	(659)	53,526	14,023
Plant and machinery	137,711	-	-	6,265	(2,905)	1,981	-	(1,481)	141,571	-
Industrial and commercial equipment	79,030	1,555	15,347	3,206	(1,574)	1,746	-	(228)	97,526	1,412
Other assets	11,237	3,148	418	871	(1,223)	41	-	(141)	11,202	3,864
Assets in progress and advances	13,875	-	451	4,089	-	(3,965)	(242)	(74)	14,134	-
Total intangible assets	**284,822**	**7,699**	**16,359**	**25,658**	**(5,786)**	**-**	**(509)**	**(2,583)**	**317,960**	**19,299**

The item Acquisitions represents the value of the tangible fixed assets of the companies that became part of the consolidation scope in 2020. Specifically, it includes equipment and other tangible fixed assets of the Portuguese company JANZ.

The increases in the year include the purchases of property, plant and equipment in the year. In particular, acquisitions 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 increases also include the commitments for IFRS 16 relating to both contracts expiring in 2020 and renewed during the year, and the effects related to the redefinition of the lease term of the contracts still in place which the Group deems it reasonable to renew in light of the economic interest deriving from the exercise of the option (including the contract relating to the Milan office and the production plants located in Montecassiano, Holland and Tunisia). For further information, reference should be made to Note 35.

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

Other movements include investments which at December 31, 2019 were in progress and which in 2020 became fixed assets to be depreciated.

The account Write-downs of Euro 509 thousand includes the Euro 242 thousand write-down of costs capitalised in previous years and recognised as assets in progress.

ACCUMULATED DEPRECIATION

(Euro.000)

	Balance at Dec. 31, 19	"Right-of-use" IFRS 16	Acquis,	Deprec.	Disposals	Other movements	Write-downs	Translation diffs.	Balance at Dec. 31, 20	"Right-of-use" IFRS 16
Acc. Depr. Land & buildings	(21,194)	(928)	(101)	(1,938)	84	-	-	398	(22,750)	(1,816)
Acc. Depr. Plant and machinery	(106,604)	-	-	(7,112)	2,541	-	-	1,083	(110,092)	-
Acc. Depr. Industrial and commercial equipment	(70,538)	(389)	(12,614)	(5,911)	1,362	-	-	175	(87,526)	(586)
Acc. Depr. Other assets	(7,168)	(753)	(282)	(1,293)	1,249	-	-	131	(7,363)	(1,666)
Assets in progress and advances	-	-	-	-	-	-	-	-	-	-
Total acc. depreciation Property, plant and equipment	**(205,504)**	**(2,070)**	**(12,998)**	**(16,253)**	**5,237**	**-**	**-**	**1,788**	**(227,731)**	**(4,068)**

Property, plant and equipment were depreciated at December 31, 2020 at the following rates:

	Rate
Land & buildings	42.50%
Plant and machinery	77.76%
Industrial and commercial equipment	89.75%
Other assets	65.73%
Leasing	21.08%

Note 3: Investments

The following table reports the movements in 2020 in investments.

(Euro.000)

Investments	Balance at Dec. 31, 19	Increases in the year	Decreases in the year	Other changes	Balance 31/12/2020
Investee					
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
Conthidra S. L.	-	252	-	-	252
Other minor	1	24	-	-	25
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**	**276**	**(4)**	**-**	**326**

The increase in the period, amounting to Euro 276 thousand, relates to the investments held by the subsidiary JANZ Contagem e Gestão de Fluídos, acquired in 2020, of which Euro 252 thousand relates to the company Conthidra S.L., valued using the equity method.

Note 4: Current and non-current financial assets

The breakdown of financial assets at December 31, 2020 is as follows:

(Euro.000)

Current and non-current financial assets	Dec 31, 20	Dec 31, 19
Guarantee deposits	282	206
Escrow deposit account - long term	2,000	1,325
Non-current financial assets	**2,282**	**1,531**
Escrow deposit account - short term	1,000	-
Derivative financial instruments	32	23
Other current financial assets	**1,032**	**23**

The main accounts are commented upon below.

ESCROW DEPOSIT ACCOUNT (SHORT AND MEDIUM TERM)

In 2019 the amount of Euro 1,325 thousand related to the 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. In 2020, the deposit of Euro 1,200 thousand was released as part of the wider renegotiation of the credit lines in place.

In Q4 2020, the Parent Company Sit S.p.A. paid Euro 3,000 thousand on behalf of the subsidiary Sit Metering S.r.l. as a guarantee, as part of the acquisition of the company JANZ Contagem e Gestão de Fluídos SA. As per the contractual agreements, Euro 2,000 thousand of the amount was recorded under non-current financial assets, as an escrow deposit for a maximum of five years, whilst the remaining Euro 1,000 thousand was recorded as a short-term financial receivable from third parties.

DERIVATIVE FINANCIAL INSTRUMENTS

In 2020 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. The account is broken down by currency in the table below:

Transaction type	Currency	Currency amount	Currency value	average spot exchange rate	average forward exchange rate	Maturity date / Fair value at the date		
						<3m	>3m; <6m	>6m; <9m
forward sales	CNY	15,000,000	EUR	7.8194	7.9112	18.6	-	-
forward sales	CNY	5,000,000	EUR	7.8194	7.9557		6.1	-
forward purchases	USD	2,500,000	EUR	1.2252	1.2276	7.1	-	-
Total						**25.8**	**6.1**	**-**

Note 5: Deferred tax assets

A breakdown of temporary differences and the consequent deferred tax assets at December 31, 2020 and at December 31, 2019 is reported below, on the basis of the breakdown by type of the temporary differences:

Balance at December 31, 2020

(Euro.000)	Temporary Diff. IRES	Temporary Diff. IRAP	Tax effect IRES	Tax effect IRAP
Employee provisions	3,305	3,304	793	129
Other risk and charges provisions	1,748	1,719	424	67
Employee benefits	811	-	213	-
Write-down of inventories	1,968	1,764	485	69
Maintenance difference	-	-	-	-
Deprec. suspended on revaluations	171	171	41	7
Amortisation of intangible assets	-	-	-	-
Tax losses	583	-	140	-
Non-deductible interest	1,152	-	276	-
Other & overseas	2,493	89	759	3
Inter-company transactions	3,787	3,787	909	148
Cash Flow Hedge Reserve	958	-	230	-
Unrealised foreign exchange losses	292	-	70	-
Reversal of formation and start-up costs	-	-	-	-
Total	**17,267**	**10,834**	**4,340**	**423**

Balance at December 31, 2019

(Euro thousands)	Temporary Diff. IRES	Temporary Diff. IRAP	Tax effect IRES	Tax effect 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	0	-	0	-
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	0
Unrealised foreign exchange losses	348	-	84	-
Reversal of formation and start-up costs	0	16	0	1
Total	**19,485**	**9,607**	**4,793**	**375**

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.000)	Dec 31, 20	Dec 31, 19
Raw materials, ancillary and consumables	31,264	25,368
Work-in-progress and semi-finished goods	9,904	9,065
Finished products and goods	15,293	16,659
Advances to suppliers	41	34
Inventories	**56,502**	**51,126**

The movements in the inventory obsolescence provision were as follows:

(Euro.000)	Dec 31, 20
Obsolescence provision 31/12/2019	**2,309**
Utilisation in the year	(60)
Allocation in the year	492
Increase for acquisitions in the year	210
Obsolescence provision 31/12/2020	**2,952**

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. The increase of Euro 210 thousand concerns the acquisition of the company JANZ.

Note 7: Trade receivables

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

(Euro.000)	Dec 31, 20	Dec 31, 19
Trade receivables	67,605	57,761
Trade receivables from holding company	69	29
Trade receivables from companies subject to the control of the holding company	24	18
Current trade receivables	**67,698**	**57,808**
Doubtful debt provision	(2,180)	(632)
Trade receivables	**65,518**	**57,176**

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 9,617 thousand, by the Parent Company.

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 2,180 thousand, with the movements in 2020 reported in the following table:

(Euro.000)	Dec 31, 20
Doubtful debt provision 31/12/2019	(632)
Utilisation in the year	36
Allocation in the year	(73)
Increase for acquisitions in the year	(1,511)
Doubtful debt provision 31/12/2020	**(2,180)**

The increase in the doubtful debt provision is mainly attributable to JANZ, acquired in 2020. The Group did not receive guarantees on receivables.

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

(Euro.000)

Trade receivables	Current	< 30 days	30-60 days	> 61 days	Total
Dec. 31, 2020					
Trade receivables	58,363	3,222	1,648	4,373	67,605
Dec. 31, 2019					
Trade receivables	47,590	3,954	3,545	2,671	57,761

Note 8: Other current assets

The account is broken down as follows:

(Euro.000)	Dec 31, 20	Dec 31, 19
Tax receivables	11,322	7,654
Advances	843	986
Prepayments and accrued income	1,120	953
Other receivables	259	248
Other tax receivables	326	-
Employee receivables	84	10
Social security institution receivables	280	281
Total other current assets	**14,234**	**10,132**

TAX RECEIVABLES

The breakdown is as follows:

(Euro.000)	Dec 31, 20	Dec 31, 19
VAT receivables	4,432	4,349
Receivables from parent company for Group VAT	1,549	-
Withholding taxes	5,340	3,305
Total tax receivables	**11,322**	**7,654**

VAT RECEIVABLES

The VAT balance includes Euro 751 thousand concerning the subsidiary SIT Manufacturing N.A.S.A. de C.V. against regulatory changes introduced by the local government which, from January 1, 2020, removed the possibility of offsetting VAT credits with current tax payables. The subsidiary submitted to the State an application for reimbursement of all the 2020 monthly payments, with the settlement of the balance currently pending.

RECEIVABLES FROM PARENT COMPANY FOR GROUP VAT

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, adhered to the Group VAT settlement procedure governed by Article 73, final paragraph, of Presidential Decree 633/1972, as approved by their respective governing bodies in 2019. The amount of Euro 1,549 thousand concerns the net receivable of the companies Sit S.p.A. and Metersit S.r.l. from the parent company, respectively of Euro 2,316 thousand and Euro -766 thousand.

WITHHOLDING TAX RECEIVABLES

Receivables for withholding taxes of Euro 5,340 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.

PREPAYMENTS AND ACCRUED INCOME

At December 31, 2020, 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.000)	Dec 31, 20	Dec 31, 19
IRES receivables	616	2,092
IRAP receivables	257	475
Receivable from holding company for tax consolidation	3,008	2,134
Other current taxes	101	69
Tax receivables	**3,983**	**4,770**

The receivable for Euro 3,008 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.000)	Dec 31, 20	Dec 31, 19
Cash in hand and similar	26	23
Bank and postal deposits	42,302	34,042
Cash and cash equivalents	**42,328**	**34,065**

Cash and cash equivalents relate to current accounts and cash in hand at the reporting date. The changes are reported in the Consolidated Cash Flow Statement, to which reference should be made.

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, 2020 to Euro 96,152 thousand, comprising 25,007,465 shares without express nominal value. The classes of shares issued by the company are reported below.

Shares	No. shares	% of share capital	Listing
Ordinary shares	25,007,465	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.000)	Dec 31, 20	Dec 31, 19
Share Premium Reserve	10,360	10,360
Capital payments reserve	16,615	16,615
Total capital reserves	**26,975**	**26,975**
Legal reserve	19,230	19,230
Treasury shares reserve	(2,212)	(1,437)
Cash flow hedge reserve	(718)	(1,021)
Actuarial reserve	(574)	(647)
Extraordinary reserve	1,491	1,491
Translation reserve	(8,242)	(4,557)
LTI reserve	175	175
Warrant Reserve	(1,567)	(3,028)
Retained earnings (accum. losses)	9,286	(5,695)
Total profit reserves	**16,870**	**4,511**
Total reserves	**43,845**	**31,486**

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 parent company acquired 90,981 treasury shares amounting to Euro 685 thousand, for the purposes of the stock option plan, which were allocated to a number of executives and employees to subscribe to shares of the company; in 2020, for the same purposes, 149,615 treasury shares were acquired for a total amount of Euro 775 thousand.

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 718 thousand, net of the Euro 227 thousand tax effect. This reserve derives from the fair value measurement of hedging derivatives in application of IFRS 9.

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 1,567 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.

RETAINED EARNINGS (ACCUM. LOSSES)

At December 31, 2020, the account is positive for Euro 9,286 thousand, against a negative value of Euro 5,695 thousand at December 31, 2019. The net increase of Euro 14,981 relates to the positive amount of Euro 18,468 thousand in allocation of a portion of the 2019 result, while the negative amount of Euro 3,476 thousand concerns the dividends paid during the year following the motion taken by the Shareholders' Meeting of May 6, 2020.

Non-current liabilities

Note 13: Non-current bank payables

As at December 31, 2020, 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.

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.

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, 2020 were respectively 2.50x and 5.0x, amended - as per the contract due to the acquisition - to 3.25x and 5.0x.

As at December 31, 2020, the Company was in compliance with all covenants.

The residual nominal amount at December 31, 2020 totals Euro 115,725 thousand, of which the non-current portion Euro 92,100 thousand and the current portion Euro 23,625 thousand.

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

The breakdown of the account at December 31, 2020 is illustrated below:

(Euro.000)	Dec 31, 20	Dec 31, 19
Other non-current financial payables	2,150	-
Derivative financial instruments - Non-current	266	661
Non-current financial lease payables - IFRS 16	13,218	3,476
Other non-current financial liabilities and derivative financial instruments	**15,634**	**4,137**

OTHER NON-CURRENT FINANCIAL PAYABLES

The amount of Euro 2,150 thousand includes Euro 2,000 thousand as the guarantee held following the acquisition of the investment in JANZ – Contagem e Gestão de Fluídos, SA, concluded on December 29, 2020, which shall be paid to the counterparty according to the following maturities:

- Euro 500 thousand from the second year after the closing;
- Euro 500 thousand from the fourth year;
- Euro 1,000 thousand from the fifth year;

The account in addition includes Euro 150 thousand concerning the acquisition of the investment in Plast Alfin S.a.r.l., completed on July 17, 2020, which shall be recognised on conclusion of the second year from the closing date.

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, 2020 are summarised below:

(Euro.000)

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional Dec 31, 20	Fair value Dec 31, 20
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	45,339	(154)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	33,401	(112)
Total					**78,740**	**(266)**

A breakdown of the non-current portion of interest rate swap hedges that made up the account at December 31, 2019 is presented below:

(Euro.000)

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional Dec 31, 19	Fair value Dec 31, 20
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	56,049	(383)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	41,291	(278)
Total					**97,340**	**(661)**

NON-CURRENT FINANCIAL 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. The increase on the previous year of Euro 9,742 thousand concerns the recognition of the financial liabilities concerning the redefinition of the lease terms of maturing contracts and the recognition of the financial liability concerning the lease of the building of the company Plast Alfin. For further information, reference should be made to Note 35.

Note 15: Provisions for risks and charges

The changes to the account were as follows:

(Euro.000)

	Dec 31, 19	Provisions	Utilisations	Reclassifications	Dec 31, 20
Agents indemnity provision	145	-	-	-	145
Other risk provision	3,452	857	(237)	-	4,073
Product warranty provision	531	77	(85)	-	522
Other taxes provision	15	-	(15)	-	-
Total prov. for risks & charges	**4,142**	**935**	**(337)**	**-**	**4,740**

AGENTS 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 1,163 thousand to hedge the risks over ongoing disputes with the Parent Company's customers, whose risk of loss is highly probable; The utilisation in the year concerns specific claims recognised to customers.
- Euro 462 thousand relating to the costs of the reclamation of a plot of land owned by the Company; the use in the year of Euro 61 thousand concerned the costs incurred for the initiation of reclamation activity; during the year, Euro 111 thousand was in addition allocated.
- Euro 1,682 thousand relating the subsidiary Metersit S.r.l. and represents 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 753 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.

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. The value of the provision is in line with the previous year.

Note 16: Post-employment benefit provision

The movements in the account in the year to December 31, 2020 and to December 31, 2019 were as follows:

(Euro.000)	Dec 31, 20	Dec 31, 19
Net liabilities for employee benefits	5,659	5,984
Liabilities for retention or other	436	216
Post-employment benefit provision	**6,095**	**6,201**

The movements in post-employment benefits were as follows:

(Euro.000)	Dec 31, 20	Dec 31, 19
Post-em. bens. at beginning of year	5,984	5,769
Payments in the year	(371)	(355)
Current service cost	99	87
Interest cost	43	85
Actuarial gains	(96)	398
Post-em. bens. at end of year	**5,659**	**5,984**

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

Defined benefit plans	Dec 31, 20	Dec 31, 19
Annual discount rate	0.34%	0.77%
Annual inflation rate	0.80%	1.20%
Annual increase in post-employment benefit	2.10%	2.40%
Annual increase in salaries	N/A	N/A
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: Deferred tax liabilities

A breakdown of temporary differences and the consequent deferred tax liabilities at December 31, 2020 and at December 31, 2019 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, 2020

(Euro.000)	Temporary Diff. IRES	Temporary Diff. IRAP	Tax effect IRES	Tax effect IRAP
Tax on business combinations	50,331	50,331	12,079	1,963
Accelerated depreciation	376	-	90	-
Finance Leases	968	968	232	38
Dividends	342	-	82	-
Capitalisation research & development expenses	-	-	-	-
Unrealised for. exchange gains/losses	365	-	88	-
Amortised cost	-	-	-	-
Other	347	-	80	-
Total	**52,730**	**51,299**	**12,652**	**2,001**

Balance at December 31, 2019

(Euro.000)	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	(0)	-	(0)	-
Unrealised for. exchange gains/losses	437	-	105	-
Amortised cost	-	-	0	-
Other	91	-	22	-
Derivative financial instruments	-	-	-	-
Total	**58,801**	**57,896**	**14,113**	**2,258**

Current liabilities

Note 18: Short-term loans and borrowings

The breakdown is as follows:

(Euro.000)	Dec 31, 20	Dec 31, 19
Utilisation short-term lines	139	103
Current portion of loans	46,464	19,627
Current financial charges	11	-
Short-term loans and borrowings	**46,614**	**19,730**

CURRENT PORTION OF LOANS

At December 31, 2020, the account included Euro 23,125 thousand concerning the current share of the bank loan (Senior Financial Agreement 2017), net of the amortised cost effect, referred to in Note 13.

Within the broader scope of the COVID-19 emergency, the parent company obtained new credit lines of a nominal value of Euro 35.5 million, in view of the uncertainties posed by the economic and financial environment. The loans, all without guarantees, are due by 2021 and with repayment beginning at the end of 2020.

The residual nominal amount at December 31, 2020 totals Euro 23,334 thousand, with maturity by the year 2021. The loans obtained were not presented according to the amortised cost method.

Note 19: Other current financial liabilities and derivative financial instruments

A breakdown follows:

(Euro.000)	Dec 31, 20	Dec 31, 19
Other current financial payables	1,150	-
Factoring payables	647	605
Derivative financial instruments (current portion)	894	754
Current financial lease payables - IFRS 16	2,238	2,230
Other current financial liabilities and derivative financial instruments	**4,928**	**3,589**

OTHER CURRENT FINANCIAL PAYABLES

The amount of Euro 1,150 thousand includes Euro 1,000 thousand for the acquisition of the investment in JANZ – Contagem e Gestão de Fluídos, SA, and Euro 150 thousand concerning the acquisition of the investment in Plast Alfin S.a.r.l., both to be recognised within one year. For further information, reference should be made to Note 38.

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, 2020

(Euro.000)

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional Dec 31, 20	Fair value Dec 31, 20
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	45,339	(400)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	33,401	(292)
Total					**78,740**	**(692)**

Balance at December 31, 2019

(Euro.000)

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional Dec 31, 19	Fair value Dec 31, 20
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	56,049	(398)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	41,291	(289)
Total					**97,340**	**(687)**

In 2020, the Group undertook hedging contracts against currency risk. These contracts do not meet the hedging requirements established by IFRS 9 for the application of hedge accounting. The features and the fair value of the current portion of the derivative financial instruments at December 31, 2020 are summarised below:

Transaction type	Currency	Currency amount	Currency value	average spot exchange rate	average forward exchang e rate	Maturity date / Fair value at the date		
						<3m	>3m; <6m	>6m; <9m
forward sales	AUD	1,625,000	EUR	1.6539	1.6580	(44.6)		
forward sales	AUD	2,500,000	EUR	1.6397	1.6467		(55.5)	
forward purchases	CHF	1,500,000	EUR	1.0742	1.0729	(10.7)		
forward purchases	CHF	1,000,000	EUR	1.0742	1.0721		(7.3)	
forward sales	CNY	15,000,000	EUR	8.2321	8.4730			(83.5)
forward sales	GBP	70,000	EUR	0.8986	0.8986	(0.5)		
Total						**(55.7)**	**(62.8)**	**(83.5)**

The currency contracts at December 31, 2019 were as follows

(Euro.000)

Transaction type	Currency	Currency amount	Currency value	Value date	Maturity date	Spot rate	Forward rate	Fair Value Dec 31, 19
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)**

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 liabilities, where such relates to cash flows or non-monetary changes. These include:

(Euro.000)	Dec 31, 19	Drawdown	Acquisitions	Reimbursements / settlements	Reclassification	Fair Value Changes	Change in amortised cost	Dec 31, 20
Bank payables - non-current portion of loans	85,725	43,760	200		(37,385)			92,299
Bank payables - non-current portion amortised cost	(695)						330	(365)
Total bank payables - non-current portion loans	**85,029**	**43,760**	**200**	**-**	**(37,385)**	**-**	**330**	**91,934**
Shareholder loans - non-current portion of loans	-							-
Shareholder loan - amortised cost	-							-
Derivative financial instruments - non-current portion	661					(396)		266
IFRS16	3,476	9,742						13,218
Payables to other lenders			2,150					2,150
Total other non-current financial liabilities and derivative financial instruments	**4,138**	**9,742**	**2,150**	**-**	**-**	**(396)**	**-**	**15,634**
Total non-current financial liabilities	**89,167**	**53,502**	**2,350**	**-**	**(37,385)**	**(396)**	**330**	**107,568**
Bank payables - current portion of loans	20,250	11,740		(22,416)	37,385			46,959
Bank payables - current portion amortised cost	(623)						124	(500)
Current account and accrued interest expense	103		81	(30)				154
Total bank payables - current portion of loans	**19,730**	**11,740**	**81**	**(22,446)**	**37,385**	**-**	**124**	**46,614**
Shareholder loan - current portion of loans	(0)							-
Derivative financial instruments - current portion	754					140		894
Factoring payables	605	42						647
Other financial payables		129						129
IFRS16	2,230	1,879		(2,000)				2,109
Payables to other lenders			1,150					1,150
Total other current financial liabilities and derivative financial instruments	**3,588**	**2,050**	**1,150**	**(2,000)**	**-**	**140**	**-**	**4,928**
Total current financial liabilities	**23,319**	**13,790**	**1,231**	**(24,446)**	**37,385**	**140**	**124**	**51,541**

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 35.

Note 20: Trade payables

At December 31, 2020, trade payables were broken down as follows:

(Euro.000)	Dec 31, 20	Dec 31, 19
Trade payables	72,095	73,329
Trade payables to holding company	108	-
Trade payables	**72,203**	**73,329**

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

(Euro.000)

Trade payables	Current	< 30 days	30-60 days	> 61 days	Total
Dec. 31, 2020					
Trade payables	63,608	6,334	989	1,165	72,095
Dec. 31, 2019					
Trade payables	58,714	11,662	1,896	1,057	73,329

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 345 thousand.

Note 21: Other current liabilities

A breakdown follows:

(Euro.000)	Dec 31, 20	Dec 31, 19
Other payables	1,760	1,285
Customer advances	831	957
Current remuneration payables	2,319	2,288
Deferred remuneration payables	3,589	2,919
Payables to social security institutions	3,054	2,930
Retention fund, MBO and PDR	2,263	2,537
Accrued expenses	990	15
Substitute tax payables	3,018	2,391
VAT payables	816	635
Other current liabilities	**18,638**	**15,957**

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 2020 salaries, paid in January 2021.

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 2020 bonuses, to be paid in 2021.

SUBSTITUTE TAX PAYABLES

The account concerns payables for tax withholdings on salaries and wages and payables for withholdings overseas 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.

Note 22: 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, 2020 amounted to Euro 1,045 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, 2020 were adjusted to Fair Value, recognising the differential between the date of December 31, 2019 (Euro 0.3) and the price at the reporting date (Euro 0.2) to the income statement under financial income for Euro 522 thousand.

Note 23: Tax payables

The sum of Euro 2,094 thousand primarily relates to the direct taxes payable on income for the year, Euro 1,651 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 24: Revenue from sales and services

Revenues from sales and services are comprised as follows:

(Euro.000)	2020	2019
Revenues from product sales	319,820	351,612
Revenues from services	911	594
Revenues from sales and services	**320,731**	**352,207**

REVENUES FROM PRODUCT SALES

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

(Euro.000)	2020	2019
Heating	251,153	262,472
Smart Gas Metering	68,667	89,140
Total revenues from sales and services	**319,820**	**351,612**

Group revenues by region were as follows:

(Euro.000)	2020	2019
Italy	107,571	134,851
Foreign EU	87,633	92,127
Foreign Non-EU	124,615	124,634
Total revenues from sales and services	**319,820**	**351,612**

Note 25: Raw materials, ancillaries, consumables and goods

The breakdown of the account in 2020 and 2019 was as follows:

(Euro.000)	2020	2019
Purchases of ancillary materials	3,696	3,810
Purchases of raw materials, semi-finished & packaging	144,681	162,142
Finished products purchases	19,716	22,291
Purchases of consumable materials	93	45
Purchases of goods	212	35
Maintenance and repair materials	2,316	2,177
Other purchases	2,201	1,996
Duties on purchases	781	832
Raw materials, ancillaries, consumables and goods	**173,696**	**193,328**
Changes in inventories of raw materials, ancillaries, consumables and goods	(4,761)	503
Change in inventories of finished & semi-finished products and goods	1,985	1,054
Change in inventories	**(2,777)**	**1,557**
Total cost of raw materials, ancillaries, consumables and goods	**170,919**	**194,885**

Note 26: Service costs

The composition of the account is as follows:

(Euro.000)	2020	2019
Rent, hire and leases	598	396
Outsourcing	8,137	7,580
Transport	6,336	6,581
Commissions	413	319
Legal, administrative and other	5,027	4,624
Insurance	868	1,009
Management services	924	895
Maintenance & repair expenses	3,514	3,434
Utilities	5,179	5,583
Personnel expense	1,262	1,809
Cleaning and security	1,205	931
Advertising, marketing, and sponsorship	577	865
Directors, statutory & independent auditor fees	2,005	971
Travel and accommodation	351	1,177
Bank charges & commissions	664	1,031
Other services	926	1,443
Listing charges	232	235
Service costs	**38,198**	**38,883**

OUTSOURCING

The cost of works increased by Euro 557 thousand on the previous year; the increase is mainly due to a differing mix of products sold, which required greater use of this type of service compared to the previous year.

TRANSPORT

Transport costs reduced by Euro 245 thousand compared to the previous period due to the lower volumes during the COVID-19 lockdown period.

LEGAL, ADMINISTRATIVE AND OTHER

Consultancy costs of Euro 5,027 thousand increased by Euro 403 thousand on the previous year. The account includes Euro 979 thousand of non-recurring charges concerning costs for the acquisition of the Janz investment.

UTILITIES

Utilities decreased by Euro 404 thousand compared to the preceding period. This decrease was mainly due to the drop in electricity consumption following the temporary suspension of production during the lockdown.

PERSONNEL EXPENSE

The reduction in personnel expense of Euro 547 thousand compared to the preceding period reflects the economic benefit from the flexibility of temporary labour during the lockdown period (Euro 143 thousand), in addition to the temporary suspension of training costs (Euro 137 thousand), hire costs (Euro 122 thousand) and the limited use of the canteen service following the broad uptake by employees of remote working for the entire year (Euro 145 thousand).

DIRECTORS, STATUTORY & INDEPENDENT AUDITOR FEES

The account increased on the previous year by Euro 1,034 thousand. In 2019, the provision was released of the extraordinary variable bonus granted to the Executive Chairman in implementation of the Framework Agreement for Euro 1,056 thousand.

TRAVEL AND ACCOMMODATION

These expenses decreased by Euro 826 thousand as a result of the travel restrictions imposed by the government in view of the COVID-19 pandemic and still in force at the reporting date.

BANK CHARGES & COMMISSIONS

The account decreased on the previous year by Euro 387 thousand. During the previous year this account included Euro 250 thousand of non-recurring charges, concerning the recognition of the costs of bank guarantees granted for contracts with several clients of the Smart Gas Metering Division.

OTHER SERVICES

The account decreased on the previous year by Euro 517 thousand, due to the reduction in customs duties on sales for Euro 345 thousand. In 2019, non-recurring charges of Euro 239 thousand were recognised for the transfer of the machinery from the Padua plant to the new logistics hub at Rovigo.

Note 27: Personnel expense

Personnel expenses are shown below:

(Euro.000)

Personnel expense	**2020**	**2019**
Wages and salaries	46,095	47,166
Social security charges	11,152	11,808
Temporary personnel	5,505	6,902
Post-employment benefits	2,737	2,612
Other costs	1,092	941
Personnel expense	**66,581**	**69,429**

The average number of personnel in 2020 and 2019 was as follows:

Employees	**2020**	**2019**
Executives	37	36
White-collar	521	436
Blue-collar	1,926	1,538
Temporary	247	236
Total employees	**2,731**	**2,246**

WAGES AND SALARIES

The decrease in salaries and wages of Euro 1,071 thousand on the previous year was mainly due to:

- The application for government benefits and support for the workforce in view of the COVID-19 pandemic during the lockdown, in addition to the increased utilisation of the provisions in place for deferred remuneration;
- H1 2019 included non-recurring costs of Euro 342 thousand for the transfer of blue-collar workers from the Padua plant to the new production and logistics hub at Rovigo.

TEMPORARY PERSONNEL

Temporary personnel costs decreased Euro 1,397 thousand on the previous year. In order to comply with the local government COVID-19 workplace health and safety restrictions, the Group ensured the necessary flexibility by reducing the number of personnel on temporary contracts.

Note 28: Depreciation, amortisation and write-downs

The breakdown is as follows:

(Euro.000)	2020	2019
Amortisation of intangible assets	7,217	7,532
Depreciation of property, plant and equipment	14,265	13,310
Depreciation of operating lease - IFRS 16	1,989	2,070
Total depreciation and amortisation	**23,471**	**22,912**
Write-down of current receivables	47	80
Write-downs of tangible fixed assets	509	903
Write-down of intangible assets	25	190
Total write-downs	**581**	**1,173**
Depreciation, amortisation and write-downs	**24,052**	**24,085**

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

Note 29: Provisions

In 2020, provisions totalled Euro 815 thousand and were stated net of utilisations of Euro 136 thousand. The main changes in the year refer to:

- Euro 380 thousand of provisions for future charges which the subsidiary MeterSit S.r.l. may incur for the dismantling of the batteries inserted in meters;
- Euro 148 thousand of provisions 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.
- Euro 111 thousand of provisions by the Parent Company for the costs of the reclamation of a plot of land owned by the Company;

- Euro 178 thousand as possible delay penalties on meter shipments, recognised to Metersit S.r.l..

Note 30: Other charges (income)

The account is broken down as follows:

(Euro.000)

Other charges (income)	2020	2019
Misc. recoveries	323	1,112
Prior year income	124	199
Gains on fixed assets	177	539
Utilisation of provisions	-	-
Grants	492	83
Other revenues		2
Other income	**1,120**	**1,935**
Misc. taxes & non-deductible costs	363	358
Losses on fixed assets		91
Associations	190	192
Prior year charges	206	256
Losses on receivables		61
IMU Property tax	217	148
Misc. reimbursements		185
Other charges	604	697
Other charges	**1,670**	**1,988**
Other charges (income)	**550**	**53**

MISC. RECOVERIES

The other recoveries account decreased Euro 789 thousand on the previous year; in 2019, the account included non-recurring charges for Euro 776 thousand with regards to the insurance reimbursement recognised in the first half of the year.

Note 31: Financial income

In 2020, this amounted to Euro 835 thousand and was broken down as follows:

(Euro.000)	2020	2019
Interest income on bank accounts	37	210
Other interest income	185	205
Profits on derivative financial instruments	90	157
Adjustment to fair value of financial liabilities	522	1,460
Financial income	**835**	**2,032**

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, 2020; the fair value of the warrants was established utilising level 1 of the hierarchy since they are listed on an active market.

Note 32: Financial charges

Financial charges consist of:

(Euro.000)

Financial charges	**2020**	**2019**
Financial charges on hedging contract differences	670	750
Interest charges to holding company	-	7
Interest and other bank charges	2,642	2,589
Interest charges to third parties	214	568
Losses on derivative financial instruments	225	72
Financial charges for operating leases - IFRS 16	188	177
Financial charges	**3,939**	**4,163**

FINANCIAL CHARGES ON HEDGING CONTRACTS

The account refers to the differential matured in 2020 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 2,642 thousand includes Euro 2,521 thousand relating 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 information, reference should be made to Note 35.

Note 33: Net exchange gains (losses)

Net exchange gains of Euro 521 thousand are comprised as follows:

(Euro.000)	2020	2019
Realised exchange gains	11,534	6,429
Realised exchange losses	(11,958)	(7,500)
Unrealised exchange gains	1,104	645
Unrealised exchange losses	(1,201)	(836)
Net exchange gains and losses	**(521)**	**(1,263)**

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 34: Income taxes

The breakdown of Income taxes in 2020 and 2019 was as follows:

(Euro.000)	2020	2019
Current income taxes	5,171	5,087
Deferred tax charges	(1,757)	(1,845)
Deferred tax income	228	1,567
Income from tax consolidation	(738)	(169)
Taxes from previous year	(170)	(3,509)
Other	31	261
Income taxes	**2,766**	**1,392**

The account Income taxes reflects the tax break under Article 24 of Legislative Decree 34/2020 - Relaunch Decree - which permits the cancellation of the 2019 IRAP balance and the initial 2020 IRAP payment on account as economic support in view of the Coronavirus, benefitting the Italian companies.

Prior year income taxes, in 2019, 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, as 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 movement in deferred tax assets of Euro 1,339 thousand reflects both the increased accrual of deferred tax assets of the company SIT manufacturing Na Sa de CV, calculated on future year items, in addition to the release in the previous year of deferred tax assets concerning the prior year losses of the subsidiary Metersit S.r.l..

The movement in the income from tax consolidation item mainly refers to the transfer of the ACE pertaining to fiscal years 2019 and 2020 by the subsidiary SIT S.p.A. to the tax consolidation.

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	2020	Effective tax rate	2019	Effective tax rate
Pre-tax profit	**15,990**	**24.00%**	**21,320**	**24.00%**
Theoretical IRES in Italy 24.0%	**(3,838)**		**(5,117)**	
Tax effect non-deductible costs	(366)		(630)	
Tax effect on higher deductible costs	1,347		1,203	
Tax effect on non-assessable income	0		7	
Adjustments for prior period taxes	(6)		3,500	
Tax credits	0		230	
Other	509		76	
Difference the tax rate on foreign entities	(141)		(7)	
IRAP	**(653)**		**(776)**	
Prior year IRAP	**234**		**0**	
IRAP deferred tax charge	100		100	
IRAP deferred tax income	46		22	
Tax at effective rate	**(2,766)**	**17.30%**	**(1,392)**	**6.53%**

Note 35: Leasing contracts

The tables below summarise the effects on the Group financial statements at December 31, 2020 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)	
Economic effect from ROU assets	**2020**
Operating lease contract charges	2,142
Contracts classified as short-term leases	54
Contracts classified as low-value assets	12
Total service costs	**2,208**
Land & buildings	(895)
Other tangible assets	(1,094)
Total depreciation	**(1,989)**
Income from sub-leasing contracts	-
Sales and leaseback transaction	-
Total other charges/(income)	**-**
Interest charges on financial liabilities	(188)
Total financial charges	**(188)**

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

(Euro.000)	31/12/2020
Net investments accounted as ROU as at 1.1.2020	5,629
Increases of the period	11,621
Depreciation and amortisation of the period	(1,989)
Net investments from ROU assets at 31.12.2020	**15,261**
Payable for financial liabilities from ROU assets at 1.1.2020	5,706
Commitments in the period	11,621
Cash outflows	(2,000)
Gross value of liabilities from ROU assets at 31.12.2020	**15,327**
Obligations for short-term lease contracts	3
Obligations for low-value asset contracts	100
Total obligations for lease contracts with recognition to costs of payments due	**103**

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

(Euro.000)	31/12/2020
Within the year	2,111
From 1 to 5 years	7,172
Over 5 years	6,045
Total liabilities deriving from operating lease contracts	**15,327**

The increases in the year of Euro 11,621 thousand include:

- the effects from the redefinition of the lease terms for contracts which have not yet concluded, for which i) renewal for the non-cancellable contractual period is stipulated or ii) in the case in which the Group considers the renewal option reasonable, in view of the economic interest from exercise of the option.

- The effects deriving from obligations under operating lease contracts of the acquired companies: the Group applies the provisions of IFRS 16 for the initial measurement of the liabilities (and the assets), utilising the present value for remaining payments due for leases at the acquisition date.

Note 36: 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:

Profit attributed to the ordinary shareholders of the Parent Company	**31/12/2020**	**31/12/2019**
Profit attributed to the ordinary shareholders of the Parent Company	13,225	19,928
Dilution effect deriving from potential ordinary shares	(522)	(1,460)
Total profit/(loss) attributed to the ordinary shareholders of the Parent Company	**12,703**	**18,468**

(Euro.000)

Earnings per share	**31/12/2020**	**31/12/2019**
Weighted average number of ordinary shares, excluding treasury shares, to calculate basic earnings per share	24,804,061	24,597,074
Dilution effects for Warrants	-	-
Dilution effects for Performance Shares	-	-
Weighted average number of ordinary shares due to dilution effect	24,804,061	24,597,074
Basic earnings per share	**0.5332**	**0.8102**
Diluted earnings per share	**0.5121**	**0.7508**

Note 37: Share-based payments

At December 31, 2020, the company holds 316,724 treasury shares, of which 149,615 were acquired in 2020 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.

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.000)

	2020		2019	
	No. options	Weighted average price	No. options	Weighted average price
Outstanding at January 1	210,588	0.8244	212,359	0.8244
Assigned during the year	-	-	-	-
Cancelled during the year	(4,598)	-	(1,771)	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at December 31	**205,990**	**0.8244**	**210,588**	**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.

Note 38: Acquisitions

In 2020, the Group completed the following acquisitions: i) Plast Alfin, located in Tunisia, for an acquisition value of Euro 1.3 million (as described in Note 1) against payments already made of Euro 1 million and of Euro 0.3 million due by 2022; ii) Janz - Contagem, located in Portugal, as described in greater detail below.

JANZ – CONTAGEM E GESTÃO DE FLUÍDOS, SA

On December 29, 2020, the Group, through the company Sit metering S.r.l., fully acquired the shares with voting rights of the company JANZ – Contagem e Gestão de Fluídos, SA, with registered office in Lisbon, specialised in the production and distribution of primarily residential water meters and with an extensive presence on the European and South American markets. With this acquisition, the Group enters the water meters business, adding a fundamental piece to the development of an international smart metering hub. As part of this transaction, the Group acquires also 24.9% of Conthidra, a distribution company located in Spain, conferred to Janz on December 29, 2020 at book value. The value of consolidated assets and liabilities at the acquisition date are presented below:

(Euro.000)	**2020**
Other intangible assets	27
Property, plant & equipment	3,091
Investments	276
Non-current financial assets	27
Non-current assets	**3,420**
Inventories	3,982
Trade receivables	3,639
Other current assets	753
Tax receivables	271
Cash and cash equivalents	942
Current assets	**9,587**
Total assets	**13,007**
Non-current bank payables	200
Other non-current financial liabilities and derivative financial instruments	-
Non-current liabilities	**200**
Short-term loans and borrowings	81
Other current financial liabilities and derivative financial instruments	967
Trade payables	1,786
Other current liabilities	1,370
Current liabilities	**4,203**
Total Liabilities	**4,403**
Shareholders' Equity	**8,604**
Goodwill deriving from the acquisition	**18,741**
Consideration of the acquisition	**27,346**

The Group measures the liabilities for leases acquired considering the present value of the remaining lease payments at the acquisition date. The right-of-use assets were recognised for an amount equal to the lease liabilities.

The settlement costs of Euro 979 thousand were expensed and included in service costs, such as consultancy.

The consideration for the acquisition, provisionally calculated as Euro 27,346 thousand, is subject to adjustments on the basis of the net financial position, the amount of working capital at the closing date, the value of investments made in 2020 and, finally, the total net assets at year-end, all against the values agreed during negotiations. We also indicate that a possible supplement to the consideration is stipulated (earn-out, in the maximum amount of Euro 1.5 million), to be calculated on the basis of the result of a specific project to be concluded by 2020.

As indicated in the acquisition contract, a portion of the consideration, totalling Euro 3 million, was deposited in an escrow account as guarantee, for a maximum period of 5 years. For further information, reference should be made to Note 4. The difference between the transactions consideration (Euro 27,346 thousand) and the carrying amount of the assets and liabilities was fully allocated to goodwill.

The business combination was accounted for in accordance with IFRS 3. Management assessed the fair value of assets, liabilities and contingent liabilities based on the information and on facts and circumstances available at the acquisition date. The valuation period is still open at December 31, 2020. Based on the additional information that will be acquired by management over the next 12 months, the above valuation may be modified, as per the relevant accounting standards.

OTHER INFORMATION

Disclosure by operating segment

Income Statement

2020

(Euro.000)	Heating	Metering	Eliminations	Consolidated
Revenue from sales and services	254,729	69,028	(3,027)	320,731
Operating costs	(240,903)	(63,164)	2,952	(301,115)
EBIT	13,826	5,864	(75)	19,615

2019

(Euro.000)	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

Balance Sheet

2020

(Euro.000)	Heating	Metering	Eliminations	Consolidated
Assets	363,839	97,869	(29,876)	431,833
Liabilities	246,491	61,998	(29,876)	278,613
Shareholders’ equity	117,348	35,872	0	153,220

2019

(Euro.000)	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	0	147,566

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.

(Euro.000)

Dec 31, 20	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
SIT Immobiliare S.p.A.	14	-	-	-	-	-	23	-
Companies subject to the control of the holding company	14	-	-	-	-	-	23	-
SIT Technologies S.p.A.	24	-	24	-	-	184	5,352	-
Holding company	**24**	**-**	**24**	**-**	**-**	**184**	**5,352**	**-**

Transactions in 2019 are shown in the following table:

(Euro.000)

Dec 31, 19	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
SIT Immobiliare S.p.A.	14	-	-	-	-	-	17	-
Companies subject to the control of the parent company	**14**	**-**	**-**	**-**	**-**	**-**	**17**	**-**
SIT Technologies S.p.A.	24	-	84	-	-	90	2,163	1,196
Holding company	**24**	**-**	**84**	**-**	**-**	**90**	**2,163**	**1,196**

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, 2020, within the framework of this procedure, under the account other receivables, the Group’s balance due from SIT Technologies S.p.A. was Euro 3,008 thousand, of which Euro 3,001 thousand concerning SIT S.p.A. and Euro 7 thousand concerning Sit Metering S.r.l.; under the account other payables, the

Group's balance was Euro 1,651 thousand, relating to Metersit S.r.l.

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, have joined 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. At June 30, 2020, within the framework of this procedure, under the account other receivables, the Group's balance due from SIT Technologies S.p.A. was Euro 1,549 thousand, of which Euro 2,316 thousand relating to SIT S.p.A. and Euro -766 thousand relating to Metersit.

At December 31, 2020 the financial payables of Euro 66 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

The Group has signed two agreements, on the basis of which two Senior Executives have been recognised (i) a one-off payment respectively of Euro 135,000 and of Euro 90,000 (made in January 2021) and (ii) the allocation of a retention indemnity of a similar amount to accrue and payable on meeting certain conditions, applicable to similar agreements.

It should also be noted that in 2020the Group availed of consultancy totalling Euro 392 thousand with a company, Oaklins Italy S.r.l., in which a shareholder is a member of the Board of Directors of SIT.

(Euro.000)	Revs.	Costs	Financial income	Financial charges	Financial receiv.	Financial payables	Other receivables	Other payables
Oaklins Italy S.r.l	-	392	-	-	-	-	-	392
Transactions with other related parties	**-**	**392**	**-**	**-**	**-**	**-**	**-**	**392**

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.000)	2020	2020
Director fees	962	914
Statutory auditor remuneration	149	141
Total	**1,111**	**1,055**

The Group paid to the audit firm and its relative network total fees of Euro 405 thousand as follows:

(Euro.000)	2020	2019
Fees received by Deloitte & Touche S.p.A. for audit services	268	222
Fees received by other Deloitte network companies for audit services for the overseas investees	184	199
Fees received by the Deloitte network for audit services	**453**	**421**

(Euro.000)	2020	2019
Fees received by Deloitte & Touche S.p.A. for verification services for the issue of a statement	4	15
Fees received by other Deloitte network companies for verification services for the issue of a statement	-	3
Fees received by Deloitte network companies for verification services for the issue of a statement	**4**	**18**

The off-balance sheet commitments of the Parent Company at December 31, 2020 were as follows.

(Euro.000)	2020	2019
Other unsecured guarantees	61,275	52,112
Secured guarantees	-	-
Total guarantees	**61,275**	**52,112**

Other unsecured guarantees

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

(Euro.000)	2020	2019
In the interest of subsidiaries	61,167	51,958
In own interest	108	154
Total other guarantees	**61,275**	**52,112**

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 8,333 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 2020, 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 19.

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 variable rate loan for a nominal capital amount of Euro 115,725 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 78,740 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 19 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 2020 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, 2020 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, 2020, the following table outlines the type of instrument, its value at the reporting date and the fair value hierarchy utilised:

(Euro.000)

Transaction type	Value at 31.12.2020	Valuation criterion	Level 1	Level 2	Level 3
SIT Warrants	1,045	*Fair value*	1,045		
Interest Rate Swap	(958)	*Fair value*		(958)	
Forex Forward	(170)	*Fair value*		(170)	

In 2020, 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, 2019:

(Euro.000)

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)	

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, replaced by Article 35 of Leg. Decree 34/2019, the grants and subventions received from the public sector are presented below

(Euro.000)

Entity	Grants received in accordance with Law 124/2017, paragraph 125	as
Fondimpresa - Rome	63.4	Reimbursement relative quota of fondimpresa training plan code 240086
Fondimpresa - Rome	45.9	Reimbursement relative quota of fondimpresa training plan code 251683
Fondirigenti - Rome	17.8	Reimbursement relative quota of fondirigenti training plan code FDIR22500
Total	**127.2**	

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 29, 2021

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 considering the company`s characteristics and
- The application of the administrative and accounting procedures for the compilation of the consolidated financial statements for the period January - December 2020.

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 29, 2021

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

INDEPENDENT AUDITORS’ REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Deloitte & Touche S.p.A.
Via N. Tommaseo, 78/C int. 3
35131 Padova
Italia

Tel: +39 049 7927911
Fax: +39 049 7927979
www.deloitte.it

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 statement of financial position as at December 31, 2020, the statement of profit and loss, the statement of comprehensive income, the statement of changes in equity and the 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, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of SIT S.p.A. in accordance with the ethical requirements applicable under Italian law to the audit of the financia statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Deloitte.

Impairment test of goodwill relating to Heating, Smart Gas Metering and Smart Water Metering CGUs	
Description of the key audit matter	The consolidated financial statements as at December 31, 2020 include a goodwill amounted to Euro 98 million allocated to the Heating Cash Generating Unit for Euro 62 million, to the Smart Gas Metering Cash Generating Unit for Euro 17 million and to the Smart Water Metering Cash Generating Unit for Euro 19 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 29, 2021. 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) and long-term growth rate (g-rate). 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 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 goodwill allocated to the aforementioned CGUs a key audit matter of the Group's financial statements. The note 1 of the exaplanatory notes shows the disclosure 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 with the support of experts of the Deloitte network: • understanding of the main controls put in place by the Directors on the process of carrying out the impairment tests; • examination of the methods used by the Directors to determine the value in use of the Heating, Smart Gas Metering and Smart Water Metering CGUs, analyzing the methods and assumptions used for the development of the impairment tests;

- analysis of the reasonableness of the main assumptions adopted for the formulation of the expected cash flows 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, , taking into account Covid 19 effects, 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 in 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 disclosure 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, 2018 to December 31, 2026.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The Directors of SIT S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of SIT Group as at December 31, 2020, 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, 2020 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, 2020 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.

Deloitte.

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 7, 2021

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

SEPARATE FINANCIAL STATEMENTS
AT DECEMBER 31, 2020

FINANCIAL STATEMENTS

BALANCE SHEET

(Euro)	Notes	December 31, 20	December 31, 19
Goodwill	1	85,087,912	85,087,912
Other intangible assets	1	23,447,278	25,934,501
Property, plant & equipment	2	61,527,379	60,156,501
Investments	3	77,900,824	76,407,653
Non-current financial assets	4	27,485,270	1,370,611
Deferred tax assets	17	1,968,194	3,032,627
Non-current assets		**277,416,857**	**251,989,805**
Inventories	5	20,684,888	19,769,439
Trade receivables	6	48,737,331	51,820,980
Other current assets	7	8,821,731	4,878,311
Tax receivables	8	3,314,723	2,666,929
Other current financial assets	9	14,395,527	7,865,699
Cash and cash equivalents	10	27,531,299	26,459,895
Current assets		**123,485,499**	**113,461,253**
Total assets		**400,902,356**	**365,451,058**
Share capital	11	96,151,921	96,151,921
Total Reserves	12	48,273,461	38,216,878
Net profit		9,591,496	13,936,130
Shareholders' Equity		**154,016,878**	**148,304,929**
Medium/long-term loans and borrowings	13	91,904,197	85,029,870
Other non-current financial liabilities and derivative financial instruments	14	6,064,367	3,734,147
Provisions for risks and charges	15	1,863,844	1,872,588
Post-employment benefit provision	16	5,460,590	5,640,191
Deferred tax liabilities	17	7,636,240	8,261,501
Non-current liabilities		**112,929,238**	**104,538,297**
Short-term loans and borrowings	18	46,474,283	19,627,249
Other current financial liabilities and derivative financial instruments	19	21,896,169	27,739,892
Trade payables	20	54,169,900	53,056,000
Other current liabilities	21	10,370,941	10,617,271
Financial instruments for Warrants	22	1,044,947	1,567,420
Current liabilities		**133,956,240**	**112,607,832**
Total Liabilities		**246,885,478**	**217,146,129**
Total Shareholders' Equity and Liabilities		**400,902,356**	**365,451,058**

INCOME STATEMENT

(in Euro)	Notes	2020	2019
Revenues from sales and services	**23**	**217,034,572**	**219,561,224**
Raw materials, ancillaries, consumables and goods	24	123,651,695	123,565,899
Change in inventories	24	(918,002)	1,234,792
Service costs	25	30,916,615	30,490,418
Personnel expense	26	41,873,488	43,271,905
Depreciation, amortisation and write-downs	27	15,168,239	14,732,956
Provisions for risks	28	254,457	157,530
Other charges (income)	29	248,374	(689,232)
EBIT		**5,839,706**	**6,796,956**
Investment income	30	6,843,701	6,121,623
Financial income	31	1,103,996	2,725,650
Financial charges	32	(3,978,736)	(4,528,633)
Net exchange gains (losses)	33	(238,477)	(73,231)
Profit before taxes		**9,570,190**	**11,042,365**
Income taxes	34	(21,306)	(2,893,765)
Net profit		**9,591,496**	**13,936,130**

OTHER COMPREHENSIVE INCOME STATEMENT

(Euro)	**2020**	**2019**
Net profit	**9,591,496**	**13,936,130**
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	399,726	11,730
Income taxes	(96,300)	(445)
Taxes (rate adjustment)	-	-
Total other comprehensive income statement items which may be subsequently reclassified to the profit for the year, net of taxes	**303,426**	**11,285**
Other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes		
Unrealised actuarial gains	89,060	(345,729)
Income taxes	(21,375)	82,975
Total other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes	**67,686**	**(262,754)**
Total other comprehensive income/(expense) for the year, net of taxes	**371,112**	**(251,469)**
Total comprehensive income	**9,962,608**	**13,684,661**

CASH FLOW STATEMENT

(Euro)	**Notes**	**2020**	**2019 RESTATED**
Net profit		9,591,496	13,936,130
Amortisation & depreciation	27	15,168,239	14,732,956
Non-cash adjustments		237,453	(231,483)
Income taxes	34	(21,306)	(2,893,765)
Net financial charges	31 - 32	2,874,375	1,802,983
(Dividends)	30	(6,843,701)	(6,145,264)
CASH FLOW FROM CURRENT ACTIVITIES (A)		**21,006,556**	**21,201,557**
Changes in assets and liabilities:			
Inventories	5	(915,449)	1,234,159
Trade receivables	6	3,083,649	104,494
Trade payables	20	1,113,900	(3,386,727)
Other assets and liabilities		(2,313,909)	(1,178,640)
Income taxes paid		(2,577,403)	(1,938,539)
CASH FLOW GENERATED (ABSORBED) FROM CHANGES IN WORKING CAPITAL (B)		**(1,609,212)**	**(5,165,252)**
CASH FLOW FROM OPERATING ACTIVITIES (A + B)		**19,397,344**	**16,036,304**
Investing activities:			
Investments in property, plant & equipment		(9,851,641)	(20,208,452)
Other changes in property, plant & equipment		266,801	1,868,442
Investments in intangible assets	1	(651,174)	(594,095)
Other changes in intangible assets		-	1,212
Investments in financial assets		(3,212,250)	-
Other changes in financial assets		1,182,320	19,146
Investments in non-current financial assets		(1,000,000)	-
CASH FLOW FROM INVESTING ACTIVITIES (C)		**(13,265,944)**	**(18,913,746)**
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)		**6,131,400**	**(2,877,442)**
Financing activities:			
Interest paid		(2,600,049)	(2,855,426)
(Decrease) in bank borrowings	19	(22,415,834)	(16,875,000)
Increase (decrease) in short-term bank payables		-	(10)
Increase in bank loans, net of accessory charges	19	55,500,000	-
(Increase)/decrease in loans to subsidiaries		(26,964,051)	3,986,702
Change in current accounts with subsidiaries		(3,465,899)	3,117,979
(Increase)/decrease in other financial payables		(863,505)	(1,495,915)
Sale/(Acquisition) of treasury shares	12	(775,002)	(684,757)
Dividend payments	12	(3,475,657)	(6,969,300)
CASH FLOW FROM FINANCING ACTIVITIES (D)		**(5,059,996)**	**(21,775,725)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)		**1,071,404**	**(24,653,167)**
Cash & cash equivalents at beginning of the year		**26,459,895**	**51,113,062**
Increase (decrease) in cash and cash equivalents		1,071,404	(24,653,167)
Cash & cash equivalents at end of the year		**27,531,299**	**26,459,895**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Euro)							DETAIL OF OTHER RESERVES									
IFRS standards	**Share capital**	**Share premium reserve**	**Legal reserve**	**Share capital increase**	**Treasury Shares reserve**	**FTA Reserve**	**Cash Flow Hedge Reserve**	**Actuarial Reserve**	**Extra. reserve**	**Warrant Reserve**	**Performance Shares Reserve**	**L.T.I. Reserve**	**Total other reserves**	**Retained earnings/accum. losses**	**Net profit (loss)**	**Shareholders' Equity**
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**	**(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	-
Dividend Approval	-	-	-	(2,202,381)	-	-	-	-	-	-	-	-	-	(4,766,919)	-	(6,969,300)
2019 Result	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,936,130	13,936,130
Other comprehensive profits (losses):																
Cash flow hedges	-	-	-	-	-	-	11,285	-	-	-	-	-	11,285	-	-	11,285
Adjustment post-em. bens.	-	-	-	-	-	-	-	(262,754)	-	-	-	-	(262,754)	-	-	(262,754)
Comprehensive profit/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**11,285**	**(262,754)**	**-**	**-**	**-**	**-**	**(251,469)**	**-**	**13,936,130**	**13,684,661**
Performance shares conversion	-	-	-	-	-	-	-	-	-	-	8,260,000	0	8,260,000	-	-	8,260,000
Acquisition of treasury shares	-	-	-	-	(684,757)	-	-	-	-	-	-	-	-	-	-	(684,757)
Assignment L.T.I. to employees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
December 31, 2019	**96,151,921**	**10,359,557**	**19,230,384**	**16,615,618**	**(1,436,396)**	**501,939**	**(1,031,274)**	**(414,133)**	**0**	**(3,027,733)**	**0**	**166,626**	**(4,306,515)**	**(2,747,710)**	**13,936,130**	**148,304,928**
Allocation of 2019 result	-	-	-	-	-	142,980	-	-	6,109,470.39	1,460,313		-	7,569,783	6,223,367	- 13,936,130	-
Dividend Approval	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,475,657)	-	(3,475,657)
2020 Result	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,591,496	9,591,496
Other comprehensive profits (losses):																
Cash flow hedges	-	-	-	-	-	-	303,426	-	-	-	-	-	303,426	-	-	303,426
Adjustment post-em. bens.	-	-	-	-	-	14,690	-	52,996	-	-	-	-	52,996	-	-	67,686
Comprehensive profit	**-**	**-**	**-**	**-**	**-**	**14,690**	**303,426**	**52,996**	**-**	**-**	**-**	**-**	**356,422**	**-**	**9,591,496**	**9,962,608**
Performance shares conversion	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Acquisition of treasury shares	-	-	-	-	(775,002)	-	-	-	-	-	-	-	-	-	-	(775,002)
Assignment L.T.I. to employees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
December 31, 2020	**96,151,921**	**10,359,557**	**19,230,384**	**16,615,618**	**(2,211,398)**	**659,609**	**(727,847)**	**(361,138)**	**6,109,470**	**(1,567,420)**	**0**	**166,626**	**3,619,691**	**0**	**9,591,496**	**154,016,878**

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 29, 2021 and authorised for publication on the website www.sitgroup.it by April 7, 2021. 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.

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, 2020 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;
- 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, 2020 are the same as those adopted for the separate financial statements at December 31, 2019.

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

IFRS accounting standards, amendments and interpretations applicable from January 1, 2020

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group from January 1, 2020

References to the Conceptual Framework in IFRS Standards”

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 policies when no IFRS standard is applicable to a particular transaction and, more generally, helps stakeholders to understand and interpret the Standards.

The adoption of this amendment does not have effects on the financial statements of the company.

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 adoption of this amendment does not have effects on the financial statements of the company.

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

On October 31, 2018, the IASB published the document “Definition of Material (Amendments to IAS 1 and IAS 8)”. The document 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 if it is described in a way that results in an effect for the primary users of the financial statements similar to that which would have resulted if the information in question had been omitted or misstated.

The adoption of this amendment does not have effects on the financial statements of the company.

Definition of a Business (Amendments to IFRS 3)

On October 22, 2018, the IASB published the document “Definition of a Business (Amendments to IFRS 3)”. The document provides certain clarification on the definition of a 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 satisfy the definition of a business, an integrated set of activities/processes and assets shall include, at the very least, an input and a substantive process which, together, make a significant contribution towards the ability to create outputs. Accordingly, the IASB has replaced the term “ability to create outputs” with “ability to contribute towards the creation of outputs” in order to clarify that a business may exist even without the presence of all of the inputs and processes necessary to create an output.

The amendment also introduced an optional test ("concentration test"), which allows for the exclusion of the presence of a business if the price paid is substantially attributable to a single asset or group of assets. The amendments apply to all business combinations and acquisitions of activities after January 1, 2020, although advance application is permitted.

The adoption of this amendment does not have effects on the financial statements of the company.

COVID-19 Related Rent Concessions (Amendment to IFRS 16)

On May 28, 2020, the IASB published an amendment called "Covid-19 Related Rent Concessions (Amendment to IFRS 16)". The document establishes for lessees the option to account for the reductions in rents connected with COVID-19 without having to assess, through the analysis of contracts, whether the definition of lease modification of IFRS 16 has been complied with. Therefore, lessees applying this option will be able to account for the effects of rent reductions directly in the income statement on the effective date of the reduction.

The adoption of this amendment does not have effects on the financial statements of the company.

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, 2020

Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)

On May 28, 2020, the IASB published an amendment called "Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)". The amendments allow the temporary exemption from the application of IFRS 9 to be extended until January 1, 2023 for insurance companies. The amendments will enter into force from January 1, 2021. The Directors do not expect this amendment to have a significant impact on the company's separate financial statements.

Interest Rate Benchmark Reform—Phase 2

On August 27, 2020, the IASB published, in light of the reform on interbank interest rates such as IBOR, the document "Interest Rate Benchmark Reform-Phase 2" which contains amendments to the following standards:

- IFRS 9 Financial Instruments;
- IAS 39 Financial Instruments: Recognition and Measurement;
- IFRS 7 Financial Instruments: Disclosures;
- IFRS 4 Insurance Contracts; and
- IFRS 16 Leases.

All the amendments will enter into force from January 1, 2021. The directors do not expect this amendment to have a significant impact on the Group consolidated financial statements.

IFRS Standards, Amendments and Interpretations not yet approved 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.

IFRS 17 – Insurance Contracts

On May 18, 2017, the IASB published IFRS 17 - Insurance Contracts which replaces IFRS 4 - Insurance Contracts.

The new standard ensures that an entity provides pertinent information which accurately presents the rights and obligations under insurance contracts. The IASB developed the standard in order to eliminate inconsistencies and weaknesses in the existing accounting policies, providing a single principle-based framework to take account of all types of insurance contracts, including reinsurance contracts held by an insurer.

The new standard sets out in addition presentation and disclosure requirements to improve comparability between entities belonging to the same sector.

It measures insurance contracts on the basis of a General Model or a simplified version of such, called the Premium Allocation Approach ("PAA"). The main features of the General Model are:

- the estimates and assumptions of future cash flows always refer to the current portion;
- the measurement reflects the time value of money;
- the estimates include an extensive use of observable market information;
- a current and clear risk measurement exists;
- the expected profit is deferred and aggregated into groups of insurance contracts on initial recognition; and,
- the expected profit is recognised in the period of contractual coverage, taking account of adjustments from changes in the assumptions on cash flows for each group of contracts.

The PPA approach involves the measuring of the liability for the residual coverage of a group of insurance contracts on the condition that, on initial recognition, the entity expects that this liability reasonably reflects an approximation of the General Model. Contracts with a coverage period of one year or less are automatically considered appropriate for the PAA approach. The simplifications from application of the PPA method do not apply to the valuation of liabilities for existing claims, which are measured with the

General Model. However, it is not necessary to discount these cash flows where it is expected that the balance will be paid or received within one year from the date on which the claim occurred.

The entity should apply the new standard to insurance contracts issued, including reinsurance contracts issued, reinsurance contracts held and also investment contracts with a discretionary participation feature (DPF).

The standard is effective from January 1, 2023, although advance application is permitted, only for entities applying IFRS 9 – Financial Instruments and IFRS 15 - Revenue from Contracts with Customers. The Directors do not expect that the adoption of this standard to have a significant impact on the company's separate financial statements.

Amendments to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or "Non-current"

On January 23, 2020, the IASB published an amendment entitled "Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current". The purpose of the document is to clarify how to classify payables and other short or long-term liabilities. These amendments shall enter into force on January 1, 2023 and early application is permitted. The Directors are currently assessing the possible effects from the introduction of these amendments on the separate financial statements of the company.

On May 14, 2020, the IASB published the following amendments:

Amendments to IFRS 3 Business Combinations

the purpose of the amendments is to update the reference in IFRS 3 to the revised version of the Conceptual Framework, without changing the provisions of IFRS 3.

Amendments to IAS 16 Property, Plant and Equipment

the purpose of the amendments is not to allow the amount received from the sale of goods produced during the testing phase of the asset to be deducted from the cost of the asset. These sales revenues and related costs will therefore be recognised to the income statement.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

the amendment clarifies that in estimating the possible onerousness of a contract, all costs directly attributable to the contract must be considered. Accordingly, the assessment of whether a contract is onerous includes not only incremental costs (such as the cost of direct material used in processing), but also all costs that the enterprise cannot avoid because it has entered into the contract (such as, for example, the share of personnel expenses and depreciation of machinery used to perform the contract).

Annual Improvements 2018-2020

the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples of IFRS 16 Leases.

All the amendments will enter into force from January 1, 2022. The Directors are currently assessing the possible effects from the introduction of these amendments on the separate financial statements of the company.

IFRS 14 - Regulatory Deferral Accounts

On January 30, 2014 the IASB published IFRS 14 Regulatory Deferral Accounts which permits only those adopting IFRS for the first time to continue to recognise amounts concerning Rate Regulation Activities according to the previous accounting standards adopted. As the Group is not a first-time adopter, this standard is not applicable.

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.

In this regard, the estimates made at December 31, 2020 reflect the considerations made by the Directors on possible developments linked to the current national and international environment dominated by the COVID-19 outbreak and the resulting restrictive containment measures implemented by the public authorities of the countries affected. These developments, which emerged in the initial months of 2020, are extraordinary in nature and extent and will have direct and indirect repercussions on economic activity, giving rise to an environment of general uncertainty and whose evolution and effects are currently not entirely foreseeable.

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.

Inventory obsolescence provision

The inventory of raw materials, semi-finished and finished products are valued at the lower of cost and market value, applying the average weighted cost criteria in establishing the cost. The valuation of inventories includes direct materials and labour costs and indirect costs (variable and fixed). Provisions are made for materials, finished products and obsolete or slow moving items, while also taking into account their expected future use and realisable value.

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 in strictly related to the project's technical and economic feasibility opinion. The Directors are therefore required to draw up the assumptions relating to the expected future cash flows from the assets, the discount rate to be applied and the periods of the expected benefits. Further details are reported at Note 1.

Deferred tax assets

Deferred tax assets are recognised in accordance with IAS 12. A discretional valuation is required by the Directors to establish the amount of the deferred tax assets which may be recorded. They must estimate the probable timeframe and amount of future assessable income, in addition to a planning strategy for future taxes. The carrying amount of deferred tax assets is reported at Note 17.

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. Further details are reported at Note 15.

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.

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 Montercarlo simulation model for the plans with employees. The assumptions used for the estimate of the fair value of the share-based payments are shown in Note 36.

IFRS 16 - Estimation of the marginal lending rate

In order to determine the implied contract interest rate, the Company uses the marginal interest rate, i.e. the interest rate which the lessee should pay for a loan with similar duration and guarantees, in order to acquire the leased asset. Where there are no observable data (such as in the case of investees that are not direct counterparties to financial transactions) or when rates must be adjusted to reflect the terms and conditions of the lease, the Company estimates the rate to be applied using observable data (such as market interest rates) if available, and making specific considerations about the terms and conditions of the investee.

ACCOUNTING PRINCIPLES AND VALUATION CRITERIA

The main accounting policies adopted in the preparation of the separate financial statements at December 31, 2020 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 Company 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". For accounting purposes, therefore, market warrants 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 - listed prices (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 Company 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, at the end of the period in which the combination takes place, the initial accounting for a business combination is incomplete, the provisional amounts of the items whose accounting is incomplete are recognised in the financial statements. During the valuation period, the provisional amounts recognised at the acquisition date are retroactively adjusted to reflect new information obtained regarding facts and circumstances that existed at the acquisition date which, if known, would have affected the valuation of the amounts recognised at that date. The valuation period shall not extend for more than one year from the date of acquisition.

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.

Leasing

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.

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 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 has 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:

- 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.

When the Company 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 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 due beyond one year, non-interest bearing or which mature interest below lower 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, cancelled or fulfilled. 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 reproportioned on the basis of the years of services matured compared to the total years of service.

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

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

Share-based payments

Equity-settled share-based payment transactions

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

The cost of the equity-based transactions is determined by the fair value at the assignment date utilising an appropriate valuation method, as illustrated in greater detail at Note 36.

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.

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 taxes

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

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

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

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

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

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

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

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

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

Earnings per share and diluted earnings per share

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

Grants

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

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

COMMENTS ON THE MAIN ITEMS OF THE BALANCE SHEET

Non-current assets

Note 1: Goodwill and Other intangible assets

(in Euro)	Balance at Dec. 31, 19	Application IFRS 16	Balance at Jan. 1, 20	Increases	Disposals	Amortisation	Other movements	Write-downs	Balance at Dec. 31, 20
Goodwill	**85,087,912**	**-**	**85,087,912**	**-**	**-**	**-**	**-**	**-**	**85,087,912**
Patent rights	10,184,860	-	10,184,860	204,057	-	(1,719,945)	143,726	-	8,812,698
Concessions, licences and trademarks	14,498,773	-	14,498,773	-	-	(1,012,805)	-	-	13,485,968
Other intangible assets	846,920	-	846,920	306,370	-	(380,646)	178,740	-	951,383
Intang. Assets in progress and advances	403,948	-	403,948	140,747	-	-	(322,466)	(25,000)	197..229
Total other intangible assets	**25,934,501**	**-**	**25,934,501**	**651,174**	**-**	**(3,113,396)**	**-**	**(25,000)**	**23,477,278**
Total goodwill and other intangible assets	**111,022,413**	**-**	**111,022,413**	**651,174**	**-**	**3,113,396)**	**-**	**(25,000)**	**108,535,190**

GOODWILL

These amount to Euro 85,088 thousand at December 31, 2020 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, 2019.

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, 2020 was Euro 8,054 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 AND TRADEMARKS

The amount of Euro 13,486 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, 2020 was Euro 13,462 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 29, 2021 after approval of the 2021-2025 company plan at the same Board meeting. The methodology to be used in carrying out the test was approved by the Board of Directors on December 18, 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 CO_2 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) is assumed to be 2%, based on the most up-to-date revenue forecasts. This is an increase on the first year covered by the plan and the result of a possible medium-term change in the market, which sees further acceleration of the appliance replacement market by means of economic incentives for end users.

The WACC was estimated assuming:

- a risk free rate of 3.10% calculated as average of the long-term government bond rates in the CGU's target countries, weighted by the portion of each country's sales on total sales;
- a beta unlevered coefficient for a value of 0.87 estimated on the basis of a panel of comparable listed companies;

- an equity risk premium of 6%, equivalent to the average of the market's risk premium in the main countries where the Heating CGU is active (source: Pablo Fernandez);
- 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 December 31, 2020, 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 9.04% 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 SIT S.p.A. 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 calculated through the value of use and the carrying amount of the CGU) of zero, is 10%, whereas a 17.1% percent reduction of the terminal value is required to achieve this same result.

Due to the particular economic situation marked by the pandemic, it was decided, in continuity with the previous financial statements, to maintain an additional level of sensitivity in order to test the effect of the potential volatility of cash flows. The zero headroom level was therefore verified on the basis of reduced revenues expected in the first three years covered. This break-even point is achieved by reducing revenues by 18.5% for each of the first three years covered, without considering the effects of actions aimed at reducing overheads and the benefits associated with the reduction in 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 2020 are summarised below:

(in Euro)	Historical cost at Dec. 31, 19	Accumulated depreciation at Dec. 31, 19	Balance at Dec. 31, 19	"Right-of-use" IFRS 16 at Dec. 31, 19	Historical cost at Dec. 31, 20	Acc. Deprec. Dec 31, 20	Balance at Dec. 31, 20	"Right-of-use" IFRS 16
Land & buildings	35,327,110	(16,739,725)	18,587,384	999,525	38,967,824	(17,898,414)	21,069,410	3,959,846
Plant and machinery	106,295,335	(87,548,134)	18,747,201	-	111,196,679	(91,952,919)	19,243,760	-
Industrial and commercial equipment	71,518,790	(64,122,036)	7,396,754	1,025,553	74,448,959	(68,032,721)	6,416,238	767,972
Other assets	7,949,802	(4,617,785)	3,332,017	2,287,337	7,932,074	(5,041,745)	2,890,329	1,983,994
Assets in progress and advances	12,093,145	-	12,093,145	-	11,907,642	-	11,907,642	-
Total property, plant and equipment	**233,184,182**	**173,027,680)**	**60,156,501**	**4,312,415**	**244,453,178**	**(182,925,799)**	**61,527,379**	**6,711,811**

The account includes the effect from the application of IFRS 16 regarding lease contracts in place within the company. For further information, reference should be made to Note 35.

The following tables outline the changes in the historic cost and accumulated depreciation in 2020 by category.

HISTORIC COST

(in Euro)	Historical cost at Dec. 31, 19	Application IFRS 16	Historical cost Jan. 1, 20	Increases	Disposals	Other movements	Write-downs	Balance at Dec. 31, 20	"Right-of-use" IFRS 16
Land & buildings	33,873,683	1,453,426	35,327,110	3,559,994	-	80,720	-	38,967,824	4,855,773
Plant and machinery	106,295,335	-	106,295,335	4,283,726	(178,502)	796,121	-	111,196,679	-
Industrial and commercial equipment	70,199,345	1,319,445	71,518,790	2,664,712	(1,400,170)	1,665,627	-	74,448,959	1,319,445
Other assets	4,986,456	2,963,346	7,949,802	497,109	(537,426)	22,588	-	7,932,074	3,336,232
Assets in progress and advances	12,093,145	-	12,093,145	2,621,331	-	(2,565,056)	(241,778)	11,907,642	-
Total property, plant and equipment	**227,447,965**	**5,736,217**	**233,184,182**	**13,626,872**	**(2,116,098)**	**-**	**(241,778)**	**244,453,178**	**9,511,449**

The increases in the year include, in addition to the purchases of property, plant and equipment in the year, also the effect of recognising right-of-use on leased assets; 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. While the increases relating to land and buildings amounting to Euro 3,560 thousand refer for Euro 3,402 thousand to the redefinition of the lease term for the building in Montecassiano concluding at the beginning of 2021.

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 investments which at December 31, 2019 were in progress and which in 2020 became fixed assets to be depreciated.

The account Write-downs of Euro 241 thousand refers to the write-down of costs capitalised in previous years and recognised as assets in progress, relating to abandoned projects.

The value of the land amounted to Euro 4,958 thousand at December 31, 2020 and did not change in the year.

ACCUMULATED DEPRECIATION

(in Euro)	Balance at Dec. 31, 19	Application IFRS 16	Provision at Jan 1, 20	Depreciation	Disposals	Balance at Dec. 31, 20	"Right-of-use" IFRS 16
Acc. Depr. Land & buildings	(16,285,824)	(453,901)	16,739,725)	(1,158,689)	-	(17,898,414)	(895,927)
Acc. Depr. Plant and machinery	(87,548,134)	-	(87,548,134)	(4,507,680)	102,895	(91,952,919)	-
Acc. Depr. Industrial and commercial equipment	(63,828,144)	(293,892)	(64,122,036)	(5,192,260)	1,281,575	(68,032,721)	(551,473)
Acc. Depr. Other assets	(3,941,776)	(676,009)	(4,617,785)	(929,435)	505,475	(5,041,745)	(1,352,238)
Total accumulated depreciation property, plant and equipment	**(171,603,878)**	**(1,423,802)**	**(173,027,680)**	**(11,788,064)**	**1,889,945**	**(182,925,799)**	**(2,799,638)**

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

	L.72/83	L.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	200,377	-	5,571,232	-	-	5,771,609
Other assets	-	-	54,378	-	-	54,378
Total	**704,964**	**427,918**	**7,611,935**	**3,313,100**	**2,306,930**	**14,364,847**

Property, plant and equipment were depreciated at December 31, 2020 at the following rates:

	Rate
Land & buildings	49.84%
Plant and machinery	82.69%
Industrial and commercial equipment	92.28%
Other assets	80.28%
Leased assets	29.43%

Note. 3: Investments

The following table reports the movements in 2020 in investments.

	Balance at Dec 31, 19	Increases for the year	Decreases for the year	Other changes	Balance at Dec 31, 20
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 Romania S.r.l. - Romania	2,694,414		-	-	2,694,414
SIT Manufacturing (SUZHOU) Co.Ltd (China)	2,603,863		-	-	2,603,863
Plast Alfin S.A.R.L. (Tunisia)	-	1,235,000	-	-	1,235,000
SIT Controls Tunisia S.U.A.R.L. (Tunisia)	-	62,250	-	-	62,250
MeteRSit S.r.l. (Italy)	29,680,810		-	-	29,680,810
SIT Metering S.r.l. (Italy)	-	200,000	-	-	200,000
Total investments in subsidiaries	**76,353,576**	**1,497,250**	-	-	**77,850,826**
IN OTHER COMPANIES					
CONAI consortium	146	-	-	-	146
Società Garanzia Marche	129	-	-	-	129
Consorzio regionale garanzia	129	-	-	-	129
Confidi	77	-	-	-	77
Immobiliare Golf Montecchia	28,405	-	-	-	28,405
Fondazione ABO in liquidation	6,000	-	-	-	6,000
Italmed Llc.	378,025	-	-	-	378,025
Cyrus Intersoft Inc.	365,677	-	-	-	365,677
Infracom S.p.A.	521,420	-	-	-	521,420

SAPI immobiliare	4,080	-	(4,080)	-	-
Immobiliare Polesana (formerly IMER)	1,034	-	-	-	1,034
1 Fondazione ABO in liq. write-down prov.	(6,000)	-	-	-	(6,000)
Italmed Llc. write-down prov.	(378,025)	-	-	-	(378,025)
Cyrus Intersoft Inc. write-down prov.	(365,677)	-	-	-	(365,677)
Infracom S.p.A. write-down prov.	(501,343)		-	-	(501,343)
Total investments in other companies	**54,077**	**-**	**(4,080)**	**-**	**49,997**
TOTAL INVESTMENTS	**76,407,654**	**1,497,250**	**(4,080)**	**-**	**77,900,824**

The increases for the year refer to:

- for Euro 1,235 thousand the acquisition of the company Plast Alfin S.a.r.l. (Tunisia) on July 17, 2020;
- for Euro 62 thousand the incorporation at year-end 2020 of the company SIT Controls Tunisia S.u.r.l. (Tunisia);
- for Euro 200 thousand the incorporation on November 10, 2020 of the company SIT Metering s.r.l. (Italy), as the holding company of the Metering division.

The decrease in investments in other companies of Euro 4 thousand concerns the disposal of the investment in the company Sapi Immobiliare 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)	62,909	317,570	2,354,161	2,354,161	100%	1,265,051
SIT Controls U.S.A. Inc. (USA)	Charlotte (USA)	1,340,559	1,090,002	2,355,146	2,355,146	100%	4,565,457
SIT Controls BV - (Netherlands)	Hoogeveen (Netherlands)	46,000	2,022,992	34,962,631	34,962,631	100%	35,538,428
SIT Controls Deutschland GmbH (Germany)	Arnsbert (Germany)	51,000	263,000	1,539,000	76,950	5%	3,202
SIT Controls CR, sro (Czech Republic)	Brno (Rep. Republic	41,627	667,416	2,575,088	128,754	5%	2,351
SIT Romania Srl - Romania	Brasov (Romania)	1,909,897	1,358,815	12,186,426	10,374,304	85.13%	2,694,414
SIT Manufacturing (SUZHOU) Co.Ltd (China)	Suzhou (China)	2,605,249	503,935	306,969	306,969	100%	2,603,863
Plast Alfin S.A.R.L. (Tunisia)	Tunis (Tunisia)	6,071	351,497	443,642	421,460	95%	1,235,000
SIT Controls Tunisia S.U.A.R.L. (Tunisia)	Tunis (Tunisia)	60,711	(37,667)	24,126	24,126	100%	62,250
MeteRSit S.r.l. (Italy)	Italy	1,129,681	5,523,540	13,632,552	13,632,552	100%	29,680,810
SIT Metering S.r.l. (Italy)	Italy	200,000	(21,216)	178,784	178,784	100%	200,000
Total							**77,850,826**

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, 2020 was allocated as follows, unchanged on the year ended December 31, 2019:

	Dec 31, 20	Dec 31, 19

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 the recognition of deferred taxes of Euro 177 thousand. The account did not undergo changes compared to December 31, 2019

In addition, in the financial statements at December 31, 2020, 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, 20
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, 2020, prepared by the respective Boards of Directors and not yet approved.

The company subjected to recoverability tests the carrying amount of the Metersit S.r.l. investments at December 31, 2020.

In order to verify the recoverability of the value of the investment in Metersit S.r.l., in accordance with IAS 36, the recoverable value of the investment was calculated on the basis of the value in use established according to the Discounted Cash Flow (DCF) method, discounting the operating cash flows generated at a rate representative of the cost of capital.

The impairment test was submitted for the approval of the Board of Directors on March 29, 2021 after approval of the 2021-2025 company plan at the same Board meeting. The methodology to be used in carrying out the test was approved by the Board of Directors on December 18, 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 CO_2 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.

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 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 zero, 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 of 1.92% calculated as average of the long-term government bond rates in the CGU's target countries, weighted by the portion of each country's sales on total sales;
- a beta unlevered coefficient for a value of 0.78 estimated on the basis of a panel of comparable listed companies;

- an equity risk premium of 6%, equivalent to the average of the market's risk premium in the main countries where the Metering CGU is active (source: Pablo Fernandez);
- 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 December 31, 2020, 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 9.00% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk. 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 calculated through the value of use and the carrying amount of the CGU) of zero, is 12%, whereas a 37.9% percent reduction of the terminal value is required to achieve this same result.

Due to the particular economic situation marked by the pandemic, it was decided, in continuity with the previous financial statements, to maintain an additional level of sensitivity in order to test the effect of the potential volatility of cash flows. The zero headroom level was therefore verified on the basis of reduced revenues expected in the first three years covered. This break-even point is achieved by reducing revenues by 36.7% for each of the first three years covered, without considering the effects of actions aimed at reducing overheads and the benefits associated with the reduction in working capital.

The estimate of the recoverable value of the net capital employed of the Metersit holding 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 4: Non-current financial assets

The breakdown of non-current financial assets at December 31, 2020 is as follows:

(Euro)	December 31, 2020	December 31, 2019
Guarantee deposits	168,729	170,779
Escrow deposit account	2,000,000	1,199,832

Receivables from subsidiaries	25,316,541	-
Non-current financial assets	**27,485,270**	**1,370,611**

The main accounts are commented upon below.

ESCROW DEPOSIT ACCOUNT

In 2020, the deposit of Euro 1,200 thousand 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 was released as part of the wider renegotiation of the credit lines. In Q4 2020, the Company paid Euro 3,000 thousand on behalf of the subsidiary Sit Metering S.r.l. as a guarantee, as part of the acquisition of the company JANZ Contagem e Gestão de Fluídos SA. As per the contractual agreements, Euro 2,000 thousand of the amount was recorded under non-current financial assets, as an escrow deposit for a maximum of five years, whilst the remaining Euro 1,000 thousand was recorded as a short-term financial receivable from third parties.

RECEIVABLES FROM SUBSIDIARIES

The item of Euro 25,317 thousand refers to the loan granted to the subsidiary SIT Metering S.r.l. for the acquisition of JANZ, with bullet maturity (June 30, 2022) and carries a fixed interest rate of 1.40%.

Current assets

Note 5: Inventories

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

(in Euro)	December 31, 2020	December 31, 2019
Raw materials, ancillary and consumables	7,591,995	6,676,739
Work-in-progress and semi-finished goods	6,967,064	7,371,321
Finished products and goods	6,094,795	5,687,792
Advances to suppliers	31,034	33,587
Inventories	**20,684,888**	**19,769,439**

The movements in the inventory obsolescence provision were as follows:

	Dec. 31, 2020
Obsolescence provision 31/12/2019	1,391,824
Utilisation in the year	(10,949)
Allocation in the year	221,832
Obsolescence provision 31/12/2020	**1,602,706**

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 receivables and the relative doubtful debt provisions are summarised below.

(in Euro)	Dec. 31, 2020	Dec. 31, 2019
Trade receivables	23,900,944	22,347,786
Trade receivables from holding company	34,778	28,772
Trade receivables from subsidiaries	25,316,865	29,971,000
Trade receivables from companies under control of parent company	22,577	16,572
Current trade receivables	**49,275,164**	**52,364,130**
Doubtful debt provision	(537,833)	(543,150)
Trade receivables	**48,737,331**	**51,820,980**

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 538 thousand, with the movements in 2020 reported in the following table:

	December 31, 2020
Doubtful debt provision 31/12/2019	543,150
Utilisation in the year	(5,317)
Allocation in the year	-
Doubtful debt provision 31/12/2020	**537,833**

The balance of receivables from customers is net of a without recourse receivable factoring transaction totalling approx. Euro 10,264 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 45 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 the year	Closing balance
SIT Gas Controls Pty Ltd (Australia)	424,215	74,359	498,575
SIT Controls U.S.A. Inc. (USA)	21,315	5,662	26,977
SIT Controls BV - (Netherlands)	1,882,856	(105,330)	1,777,526
SIT Controls Deutschland GmbH (Germany)	22,113	51,896	74,009
SIT Controls CR, sro (Czech Republic)	17,422	386	17,808
SIT Romania S.r.l. – Romania	5,576,610	880,462	6,457,072
METERSIT Romania Srl – Romania	6,803	366	7,169
SIT Manufacturing (SUZHOU) Co.Ltd (China)	10,256,489	(571,362)	9,685,127
Sit Manufacturing N.A. SA de CV (Mexico)	8,792,377	(5,477,788)	3,314,589
MeteRSit S.r.l. (Italy)	2,970,800	(544,027)	2,426,774
SIT Metering S.r.l. (Italy)	-	581,884	581,884
Plast Alfin S.A.R.L.	-	345,358	345,358
SIT Controls Tunisia S.U.A.R.L.	-	103,997	103,997
Total receivables from subsidiaries	**29,971,000**	**(4,657,136)**	**25,316,865**

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 198 thousand (exchange losses).

Note 7: Other current assets

The account is broken down as follows:

(in Euro)	December 31, 2020	December 31, 2019
VAT receivables	0	831,962
Receivables from parent company for Group VAT	2,315,509	0
Withholding taxes	5,191,316	3,172,985
Income tax receivables	249,630	0
Advances	252,776	250,344
Prepayments and accrued income	699,537	581,100
Other receivables	76,951	120
Employee receivables	0	221
Social security institution receivables	36,012	41,579
Other current assets	**8,821,731**	**4,878,311**

VAT RECEIVABLES

The decrease in VAT receivables was due to the use of the receivable in question for offsetting against other taxes in 2020.

INCOME TAX RECEIVABLES

This item refers to the tax credit accrued for 2020 for research, development and technological innovation activities (Budget Law 2020 No. 160/2019) AND THE tax credit accrued for expenses incurred as investment in new capital goods (Budget Law 2020 No. 160/2019), both due beyond 12 months.

RECEIVABLES FROM PARENT COMPANY FOR GROUP VAT

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, adhered to the Group VAT settlement procedure governed by Article 73, final paragraph, of Presidential Decree 633/1972, as approved by their respective governing bodies in 2019. The amount of Euro 2,316 thousand concerns the net receivable of the company from the parent company.

WITHHOLDING TAXES

Receivables for withholding taxes of Euro 5,191 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.

PREPAYMENTS AND ACCRUED INCOME

At December 31, 2020, accruals and prepayments were composed as follows:

	Balance at Dec. 31, 2020				**Balance at Dec. 31, 2019**
	Within one year	Beyond one year	Duration beyond 5 years	Total	Total
Accrued financial charges	0	0	0	0	3,846
Total accrued income	**0**	**0**	**0**	**0**	**3,846**
Prepaid financial charges	30,261	2,985	659	33,905	12,747
Prepayments on fees, rental & insurance premiums	560,730	0	0	560,730	370,376
Other prepayments	103,175	1,728	0	104,903	194,130
Total prepayments	**694,166**	**4,712**	**0**	**699,537**	**577,253**
Total accrued income and prepayments	**694,166**	**4,712**	**659**	**699,537**	**581,100**

Note 8: Income tax receivables

Income tax receivables were as follows:

(in Euro)	December 31, 2020	December 31, 2019
IRAP receivables	187,250	475,259
Receivable from holding company for tax consolidation	3,001,586	2,134,277
Other tax receivables	125,887	57,393
Tax receivables	**3,314,723**	**2,666,929**

The item IRAP receivables is represented by the IRAP advance paid net of the tax payable for the year ended December 31, 2020.

The amount of Euro 3,002 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.

The amount of Euro 126 thousand consists of Euro 89 thousand from the short-term tax credit accrued for the 2020 financial year for research, development and technological innovation activities (Budget Law 2020 No. 160/2019), Euro 18 thousand from the tax credit accrued for expenses incurred to invest in new capital goods (Budget Law 2020 No. 160/2019) and Euro 19 thousand from the tax credit for expenses incurred during the year for sanitising environments and purchasing personal protective equipment, as provided for by Article 125 of Decree Law No. 34 of May 19, 2020.

Note 9: Other current financial assets

A breakdown of other current financial assets follows:

(in Euro)	December 31, 2020	December 31, 2019
Current loans from subsidiaries	6,520,024	7,842,942
Dividends from subsidiaries	6,843,701	0
Escrow deposits	1,000,000	0
Derivative financial instruments	31,802	22,757
Other current financial assets	**14,395,527**	**7,865,699**

LOANS TO SUBSIDIARIES

The company carries out financial coordination for the subsidiaries and Group treasury services. This account concerns funding operations through credit lines agreed in the undertaking of these activities and those of a financial nature concerning current accounts of the subsidiaries of SIT S.p.A., as per the table below. The interest matured until December 31, 2020 is recognised on an accruals basis to the income statement for the year.

Company	credit line	utilisations	intercompany acc.
SIT Romania s.r.l.	7,500,000	3,000,000	
SIT Manufacturing (Suzhou) Co.Ltd.	1,869,742	1,869,742	
SIT Controls Tunisia s.u.a.r.l.	2,000,000	1,462,510	
Plast Alfin s.a.r.l.	500,000	185,000	
SIT Controls U.S.A. Inc.	-	-	2,772
Total	**11,869,742**	**6,517,252**	**2,772**

DIVIDENDS FROM SUBSIDIARIES

This account represents the dividends approved by the subsidiaries and not collected at year-end, in particular:

	2020
Dividends from subsidiary: SIT Controls BV - (Netherlands)	6,658,516
Dividends from subsidiary: SIT Gas Controls Pty Ltd (Australia)	185,185
Total charges and (income) from investments	**6,843,701**

ESCROW DEPOSITS

With regards to the amount of Euro 1,000 thousand, reference should be made to the "Escrow deposit account" paragraph above, as part of the acquisition of the company JANZ Contagem e Gestão de Fluídos SA.

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, 2020 is presented below:

Transaction type	Currency	Currency amount	Currency value	average spot exchange rate	average forward exchange rate	Maturity date / Fair value at the date		
						<3m	>3m; <6m	>6m; <9m
forward sales	CNY	15,000,000	EUR	7.8194	7.9112	18,608		
forward sales	CNY	5,000,000	EUR	7.8194	7.9557		6,052	
forward purchases	USD	2,500,000	EUR	1.2252	1.2276	7,142		
Total						**25,750**	**6,052**	**0**

Note 10: Cash and cash equivalents

(in Euro)	December 31, 2020	December 31, 2019
Cash in hand and similar	13,477	13,821
Bank and postal deposits	27,517,822	26,446,074
Cash and cash equivalents	**27,531,299**	**26,459,895**

Cash and cash equivalents relate to current accounts and cash in hand and similar at December 31, 2020.

The account includes cash in foreign currencies which, at the December 31, 2020 exchange rate, had a value of Euro 7 thousand.

Shareholders' equity

Shareholders' equity at December 31, 2020 amounts to Euro 154,016,878, increasing Euro 5,711,949 on Euro 148,304,929 at December 31, 2019. 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, 2020 to Euro 96,151,921, comprising 25,007,465 shares without express nominal value.

The classes of shares issued by the company are reported below.

Shares	No. shares	% of share capital	Listing
Ordinary shares	25,007,465	100%	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:

(in Euro)	Amount	Possibility of use	Quota available	Summary of utilisations made in the three previous years		Notes	Composition of reserves
Nature/description				**To cover losses**	**For other reasons**		
SHARE CAPITAL	96,151,921						
CAPITAL RESERVES							
Share premium reserve	10,359,557	(1)(2)	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	(2,211,398)						(a)/(b)
First time application IAS/IFRS reserve	659,609	(2)			2,136,773	II	(b)
Cash Flow Hedge Reserve	(727,847)						(b)
Actuarial Reserve - Employee benefits	(361,138)				-		
Extraordinary reserve	6,109,470	(1)(2)(3)	6,109,470				
Warrants Reserve	(1,567,420)						
LTI Reserve	166,626		166,626				(b)
Retained earnings (accum. losses)	-			13,077,490			
Result 2020	9,591,496		9,591,496				
TOTAL	154,016,878		42,842,767				
NON-DISTRIBUTABLE AMOUNT			522,473			I	
RESIDUAL DISTRIBUTABLE AMOUNT			42,320,294				

(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 amortising development costs.
The 2020 net profits are in addition non-distributable, which shall be allocated to the Warrant reserve for Euro 522,473.
(II) The first time application IAS/IFRS reserve at December 31, 2020 comprises:
- positive reserves for Euro 659,609 concerning the application of the finance method to leased assets

In compliance with the content of the Operating guidelines for accounting management of the rules on the distribution of profits and reserves as per Legislative Decree No. 38 of February 28, 2005, the utilisation of the reserves for a total of Euro 2,136,773 concern:
- recovery of the negative reserve for Euro 142,967 relating to employee benefits;
- complete recovery of the negative reserve for Euro 316,534 concerning the reversal of start-up and expansion costs;
- recovery of the positive reserve for Euro 964,933 relating to the capitalisation of development costs;
- recovery of the negative reserve for Euro 918,014 relating to the application of the amortised cost;
- complete recovery of the negative reserve concerning the valuation of hedging derivatives for Euro 1,813,920;
- recovery of the positive reserve concerning the application of the finance method to leased assets for Euro 89,729.

SHARE PREMIUM RESERVE

The share premium reserve of Euro 10,359,557 did not change during the year.

CAPITAL PAYMENTS RESERVE

The shareholders' capital payments reserve of Euro 16,615,618 did not change during the year.

LEGAL RESERVE

The legal reserve of Euro 19,230,384 did not change during the year.

TREASURY SHARES RESERVE

The treasury shares reserve amounted to Euro 2,211,398 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 and 2019, the company acquired 102,264 treasury shares, amounting to Euro 775,718, for the purposes of the stock option plan, which were allocated to some executives and employees to subscribe to shares of the company.
- in 2020, the company repurchased 149,615 treasury shares, for a total of Euro 775,001, 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 36.

CASH FLOW HEDGE RESERVE

The cash flow hedge reserve is recorded as a negative value of Euro 727,847, net of the Euro 229,847 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 1,567,420, 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 profits for 2017, 2018 and 2019 as per the resolution of the Shareholders' Meeting.

RETAINED EARNINGS (ACCUM. LOSSES)

At December 31, 2020, the item reduced to nil due to the coverage of losses resolved by the Shareholders' Meeting of May 6, 2020 .

Non-current liabilities

Note 13: Non-current bank payables

The breakdown is as follows:

(in Euro)	December 31, 2020	December 31, 2019
Non-current portion of loans	92,100,000	85,725,000
Non-current portion of loans - amortised cost	(195,803)	(695,130)
Short-term loans and borrowings	**91,904,197**	**85,029,870**

As at December 31, 2020, short-term loans and borrowings represent the value of the loan agreement's non-current portion (Senior Financial Agreement 2017, SFA 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 following uses are in place under this loan agreement:

I. Senior Facility whose main conditions are as follows:

- original amount of Euro 135,000 thousand, non-current residual amount of Euro 62,100 thousand and current amount of Euro 23,625 thousand, with 5 year duration, maturing June 30, 2022; repayment according to pre-established half-yearly instalments;
- 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 2020 was equivalent to 2.057%. The financial liability is measured using the amortised cost criterion.

II. Additional Facility, to fund the subsidiary SIT Metering s.r.l. for the payment of the acquisition price of Janz-Contagem e Gestão de FluÍdos S.A. and the accessory charges, whose principal conditions are:

- original amount of Euro 30,000 thousand, with a residual non-current amount of Euro 30,000 thousand, with maturity on June 30, 2022; bullet repayment on maturity;
- fixed interest rate of 1.40%.

For both utilisations, an early repayment option without penalties and without collateral security is stipulated.
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 related (negative) pledges, except within the limits established therein.

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, 2020 were respectively 2.50x and 5.0x, amended - as per the contract due to the acquisition - to 3.25x and 5.0x.

As at December 31, 2020, the Company was in compliance with all covenants.

The residual nominal amount at December 31, 2020 totals Euro 115,725 thousand, of which the non-current portion Euro 92,100 thousand and the current portion Euro 23,625 thousand. The residual amount at amortised cost at December 31, 2020 totals Euro 115,030 thousand, of which the non-current portion Euro 91,904 thousand and the current portion Euro 23,125 thousand.

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

A breakdown follows:

(in Euro)	December 31, 2020	December 31, 2019
Other non-current financial payables	142,500	0
Non-current financial lease payables - IFRS 16	5,656,036	3,072,723
Derivative financial instruments - Non-current	265,831	661,424
Other non-current financial liabilities and derivative financial instruments	**6,064,367**	**3,734,147**

OTHER NON-CURRENT FINANCIAL PAYABLES

The account of Euro 143 thousand concerns the acquisition of the investment in Plast Alfin S.a.r.l., completed on July 17, 2020, to be recognised on conclusion of the second year from the closing date.

NON-CURRENT FINANCIAL 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. The increase on the previous year concerns the recognition of the financial liability relating to the redetermination of the maturing lease term. For further information, reference should be made to Note 35.

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, 2020 are summarised below:

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional	Fair value
					Dec 31, 20	Dec 31, 20
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	45,339,000	(153,771)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	33,401,000	(112,060)
Total					**78,740,000**	**(265,831)**

Note 15: Provisions for risks and charges

The changes to the account were as follows:

	Dec. 31, 2019	Provisions	Utilisations	December 31, 2020
Agents indemnity provision	144,581	734	0	145,316
Product warranty provision	88,305	4,444	0	92,749
Other risks provision	1,639,702	259,005	(272,929)	1,625,778
Total provisions for risks and charges	**1,872,588**	**264,184**	**(272,929)**	**1,863,844**

AGENTS 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, following the assessment and analysis of returns for defects, an accrual of Euro 4 thousand was made.

OTHER PROVISIONS

Other provisions include:

- Risks provision for Euro 1,163 thousand, which concerns the risks over ongoing disputes, whose risk of loss is probable; The utilisation in the year concerns specific claims recognised to customers.
- The future charges provision of Euro 462 thousand relates to the costs of the reclamation of a plot of land owned by the Company; the use in the year of Euro 61 thousand concerned the costs incurred for the initiation of reclamation activity; during the year, Euro 111 thousand was in addition allocated.

Note 16: Post-employment benefit provision

The movements in the account in the year to December 31, 2020 and to December 31, 2019 were as follows:

	Dec. 31, 2020	Dec. 31, 2019
Net liabilities for employee defined benefits	5,057,433	5,462,792
Liabilities for retention or other	403,157	177,399
Net liabilities for defined employee benefits	**5,460,590**	**5,640,191**

The movement in the account Net liabilities for employee benefits is presented below:

	Dec. 31, 2020	Dec. 31, 2019
Post-em. bens. at beginning of year	5,462,792	5,349,637
Payments in the year	(355,862)	(308,896)
Interest cost	39,347	78,934
Actuarial gains/(losses) recognised	(88,844)	343,117
Post-em. bens. at end of year	**5,057,433**	**5,462,792**

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

Defined benefit plans	Dec. 31, 2020	Dec. 31, 2019
Annual discount rate	0.34%	0.77%
Annual inflation rate	0.80%	1.20%
Annual increase in post-employment benefit	2.10%	2.40%
Annual increase in salaries	N/A	N/A
Death	The RG48 mortality tables published by the General State Controller	
Disability	INPS tables by age and gender	
Retirement	100% on satisfying AGO requirements	

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

Note 17: Deferred tax income & charges

A breakdown of temporary differences and the consequent deferred tax assets/liabilities at December 31, 2020 and at December 31, 2019 is reported below, based on the type of temporary differences, applying respectively a tax rate of 24% for IRES and 3.9% for IRAP:

DEFERRED TAX ASSET/(LIABILITY)	Dec. 31, 2019				Dec. 31, 2020			
	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	172,615	172,615	41,428	6,732	405,431	405,431	97,303	15,812
Other provisions for risks and charges	1,653,007	1,653,007	396,722	64,467	1,718,527	1,718,527	412,446	67,023
Write-down of inventories	1,391,824	1,391,824	334,038	54,281	1,602,706	1,602,706	384,649	62,506
Unrealised exchange losses	348,477	0	83,634	0	289,064	0	69,375	0
Deprec. suspended on prop. revaluations	171,004	171,004	41,041	6,669	171,004	171,004	41,041	6,669
Non-deductible interest	4,392,240	0	1,054,138	0	1,151,515	0	276,364	0
Other	202,641	49,411	48,634	1,927	120,439	49,411	28,905	1,927
Deferred taxes concerning previous years tax losses	583,311	0	139,995	0	583,311	0	139,995	0
ACE	1,166,644	0	279,995	0	0	0	0	0
Reversal of other intangible assets	0	15,911	0	621	0	0	0	0
Post-employment benefits	634,003	0	152,161	0	559,716	0	134,332	0
Derivative financial instruments	1,357,420	9,368	325,781	365	957,694	0	229,847	0
TOTAL DEFERRED TAX ASSETS	**12,073,186**	**3,463,140**	**2,897,565**	**135,062**	**7,559,407**	**3,947,079**	**1,814,258**	**153,936**
DEFERRED TAX LIABILITIES								
Accelerated depreciation	(376,417)	0	(90,340)	0	(376,089)	0	(90,261)	0
Revaluation land & buildings from merger	(3,182,372)	(3,182,372)	(763,769)	(124,113)	(3,172,316)	(3,172,316)	(761,356)	(123,720)
Reval. Investments for consolidation diff.	(736,627)	0	(176,790)	0	(736,627)	0	(176,790)	0
Valuation brands and Technologies for consolidation diff.	(24,035,512)	(24,035,512)	(5,768,523)	(937,385)	(21,515,779)	(21,515,779)	(5,163,787)	(839,115)
Dividends	0	0	0	0	(342,185)	0	(82,124)	0
Unrealised exchange gains	(436,767)	0	(104,824)	0	(355,113)	0	(85,227)	0
Other	(55,405)	0	(13,297)	0	(181,908)	0	(43,658)	0
Finance Leases	(1,012,400)	(1,012,400)	(242,976)	(39,484)	(968,460)	(968,460)	(232,430)	(37,770)
TOTAL DEFERRED TAXES	**(29,835,500)**	**(28,230,285)**	**(7,160,520)**	**(1,100,981)**	**(27,648,477)**	**(25,656,555)**	**(6,635,634)**	**(1,000,606)**
DEFERRED TAX ASSETS/(LIABILITIES) TO BALANCE SHEET TOTAL	**(17,762,314)**	**(24,767,145)**	**(4,262,955)**	**(965,919)**	**(20,089,070)**	**(21,709,476)**	**(4,821,376)**	**(846,670)**

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

Current liabilities

Note 18: Short-term loans and borrowings

The breakdown is as follows:

(in Euro)	December 31, 2020	December 31, 2019
Utilisation short-term lines	0	314
Current portion of loans	46,459,616	19,626,935
Current financial charges	14,667	0
Short-term loans and borrowings	**46,474,283**	**19,627,249**

CURRENT PORTION OF BANK LOANS

The account includes the current share of the bank loan (Senior Financial Agreement 2017) referred to in Note 13 for Euro 23,125 thousand, in addition to the residual portion of the loans obtained following the COVID-19 emergency during the first half of 2020 for Euro 23,334 thousand.

Note 19: Other current financial liabilities and derivative financial instruments

A breakdown follows:

(in Euro)	December 31, 2020	December 31, 2019
Current financial payables - subsidiaries	19,109,089	25,545,417
Other current payables	142,500	0
Factoring payables	647,123	158,142
Derivative financial instruments (current portion)	875,441	753,751
Current financial lease payables - IFRS 16	1,122,016	1,282,582
Other current financial liabilities and derivative financial instruments	**21,896,169**	**27,739,892**

CURRENT FINANCIAL PAYABLES - SUBSIDIARIES

The balances at December 31, 2020 and December 31, 2019 concern financial transactions relating to the current accounts held by the subsidiaries with SIT S.p.A. as part of the centralised treasury services provided by SIT S.p.A. to the Group companies.

Current financial payables to subsidiaries by investee company are presented below:

	Dec. 31, 2020	Dec. 31, 2019
SIT Gas Controls Pty Ltd (Australia)	21,960	390,804
SIT Romania S.r.l. (Romania)	4,277,444	2,401,604
SIT Controls BV (Netherlands)	8,878,669	2,970,435
SIT Controls Deutschland GmbH (Germany)	880,453	750,036
SIT Controls CR, sro (Czech Republic)	1,835,373	1,309,025
Sit Manufacturing N.A. SA de CV (Mexico)	1,597,560	17,723,511
Metersit S.r.l. (Italy)	1,617,631	-
Total current financial payables - subsidiaries	**19,109,089**	**25,545,416**

OTHER CURRENT FINANCIAL PAYABLES

The account of Euro 143 thousand concerns the acquisition of the investment in Plast Alfin S.a.r.l., completed on July 17, 2020, with the amount to be recognised within one 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 35.

DERIVATIVE FINANCIAL INSTRUMENTS - CURRENT PORTION

The balance at December 31, 2020 of Euro 875 thousand concerns for Euro 692 the Interest Rate Swaps (IRS) hedging the variable rate bank loan (Senior Financial Agreement 2017), as outlined in greater detail at Note No. 14.

The characteristics and Fair Value of the current portion of interest rate swaps are presented below:

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional Dec 31, 20	Fair value Dec 31, 20
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	45,339,000	(400,202)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	33,401,000	(291,661)
Total					**78,740,000**	**(691,863)**

In 2020 the Company undertook hedging contracts against currency risk. These contracts do not meet the hedging requirements established by IFRS 9 for the application of hedge accounting. The features and the fair value of the current portion of the derivative financial instruments at December 31, 2020 are summarised below:

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	average spot exchange rate	average forward exchange rate	Maturity date / Fair value at the date		
						<3m	>3m; <6m	>6m; <9m
forward sales	AUD	1,625,000	EUR	1.6539	1.6580	(44,561)		
forward sales	AUD	2,500,000	EUR	1.6397	1.6467		(55,547)	
forward sales	CNY	15,000,000	EUR	8.2321	8.4730			(83,470)
Total						**(44,561)**	**(55,547)**	**(83,470)**

The breakdown is provided below of changes to liabilities deriving from financial activities, where such relates to cash flows or non-monetary changes:

	Dec 31, 19	Drawdown	Acquisitions	Reimbursement/ settlements	Reclass.	Fair Value Changes	Change in amortised cost	Dec 31, 20
Bank payables - non-current portion of loans	85,725,000	43,760,000			-37,385,000			92,100,000
Bank payables - non-current portion amortised cost	-695,129						499,327	-195,803
Total bank payables - non-current portion loans	**85,029,871**	**43,760,000**	**0**	**0**	**-37,385,000**	**0**	**499,327**	**91,904,197**
Shareholder loans - non-current portion of loans	-							-
Shareholder loan - amortised cost	-							-
Derivative financial instruments - non-current portion	661,424					-395,593		265,831
IFRS16	3,072,723	2,583,313						5,656,036
Payables to other lenders			142,500					142,500
Total other non-current financial liabilities and derivative financial instruments	**3,734,147**	**2,583,313**	**142,500**	**0**	**0**	**-395,593**	**0**	**6,064,367**
Total non-current financial liabilities	**88,764,018**	**46,343,313**	**142,500**	**0**	**-37,385,000**	**-395,593**	**499,327**	**97,968,564**
Bank payables - current portion of loans	20,250,000	11,740,000		-22,415,834	37,385,000			46,959,166
Bank payables - current portion amortised cost	-623,065						123,515	-499,550
Current account and accrued interest expense	1,446	3,969		14,353				19,768
Total bank payables - current portion of loans	**19,628,381**	**11,743,969**	**0**	**-22,401,481**	**37,385,000**	**0**	**123,515**	**46,479,384**
Shareholder loan - current portion of loans	-							0
Derivative financial instruments - current portion	753,752					121,689		875,441
Financial liabilities to subsidiaries	25,545,406			-6,436,317				19,109,089
Factoring payables	158,152	488,971						647,123
IFRS16	1,282,582	1,191,920		-1,352,486				1,122,016
Payables to other lenders			142,500					142,500
Total other current financial liabilities and derivative financial instruments	**27,739,892**	**1,680,891**	**142,500**	**-7,788,803**	**0**	**121,689**	**0**	**21,896,169**
Total current financial liabilities	**47,368,273**	**13,424,860**	**142,500**	**-30,190,284**	**37,385,000**	**121,689**	**123,515**	**68,375,553**

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

Note 20: Trade payables

At December 31, 2020, trade payables were broken down as follows:

(in Euro)	December 31, 2020	December 31, 2019
Trade payables	39,708,932	38,512,028
Trade payables - subsidiaries	14,460,968	14,543,972
Trade payables	**54,169,900**	**53,056,000**

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 123 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 133 thousand.

Trade payables to subsidiaries by individual subsidiary are presented below:

	Dec. 31, 2020	Dec. 31, 2019
SIT Controls U.S.A. Inc. (USA)	51,863	59,845
SIT Controls BV (Netherlands)	519,734	324,843
SIT Controls Deutschland GmbH (Germany)	362,853	377,565
SIT Controls CR, sro (Czech Republic)	550,237	500,742
SIT Romania S.r.l. (Romania)	7,569,614	9,781,829
Sit Manufacturing (SUZHOU) Co Ltd (China)	4,458,849	3,297,268
MeteRSit S.r.l. (Italy)	68,492	45,977
Sit Manufacturing N.A. SA de CV (Mexico)	171,705	155,904
Plast Alfin S.A.R.L.	707,622	0
Total trade payables to subsidiaries	**14,460,968**	**14,543,973**

Note 21: Other current liabilities

A breakdown follows:

(in Euro)	December 31, 2020	December 31, 2019
Other payables	344,177	320,079
Customer advances	386,588	226,404
Current remuneration payables	1,492,267	1,487,702
Deferred remuneration payables	2,173,346	2,172,893
Payables to social security institutions	2,203,144	2,376,740
Retention fund, MBO and PDR	2,153,184	2,350,252
Deferred income	73,365	1,506
Substitute tax payables	1,544,870	1,681,695
Other current liabilities	**10,370,941**	**10,617,271**

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 2020 salaries, paid in January 2021.

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 2020 bonuses, to be paid in 2021.

SUBSTITUTE TAX PAYABLES

The account concerns payables for withholding taxes on wages and salaries accruing in 2020.

Note 22: 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, 2020 amounted to Euro 1,045 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, 2020 were adjusted to fair value, recognising the differential between the date of December 31, 2019 (Euro 0.3) and the price at the reporting date (Euro 0.2) to the income statement under financial income for Euro 522 thousand.

COMMENTS ON THE MAIN ITEMS OF THE INCOME STATEMENT

Note 23: Revenue from sales and services

Revenues from sales and services are comprised as follows:

(in Euro)	2020	2019
Revenues from product sales	200,513,172	205,766,327
Revenues from services	16,521,400	13,794,897
Revenues from sales and services	**217,034,572**	**219,561,224**

REVENUES FROM PRODUCT SALES

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

By business line	2020	2019
Mechanical controls	135,496,564	137,268,318
Electronic controls	7,425,823	7,478,802
Fans	29,656,331	31,293,435
Flue systems	19,104,968	20,853,467
Other products	8,829,486	8,872,304
Total	**200,513,172**	**205,766,327**

	2020	2019
Italy	40,763,287	47,131,211
European Union	89,868,087	90,933,145
Other countries	69,881,798	67,701,971
Total revenues	**200,513,172**	**205,766,327**

REVENUES FROM SERVICES

This account is comprised as follows:

	2020	2019
Provision of other services	4,307,827	4,530,643
Recovery of misc. expenses	1,881,880	972,237
Seconded personnel recharges	767,122	979,757
Royalties & TP Compensation	9,530,733	7,217,239
Commission income	33,838	95,022
Total revenue from services	**16,521,400**	**13,794,898**

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. The increase in the account is mainly due to the costs recharged to SIT Metering as part of the acquisition of the Portuguese company JANZ.

ROYALTIES & TP COMPENSATION

The amount refers solely to royalties invoiced to the subsidiaries SIT Manufacturing Na. Sa. de CV for Euro 8,367 thousand, SIT Controls BV (Netherlands) for Euro 702 thousand and SIT Manufacturing (SUZHOU) Co. Ltd (China) for Euro 462 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 24: Raw materials, ancillaries, consumables and goods

The breakdown of the account in 2020 and 2019 was as follows:

(in Euro)	2020	2019
Purchases of ancillary materials	2,869,260	3,040,867
Purchases of raw materials, semi-finished & packaging	62,681,901	61,710,322
Finished products purchases	18,621,336	23,738,552
Purchases of goods	36,172,608	31,854,112
Maintenance and repair materials	1,399,917	1,485,504
Other purchases	1,633,146	1,409,371
Duties on purchases	273,527	327,171
Raw materials, ancillaries, consumables and goods	**123,651,695**	**123,565,899**
Changes in inventories of raw materials, ancillaries, consumables and goods	(904,307)	964,028
Change in inventories of finished & semi-finished products and goods	(13,695)	270,764
Change in inventories	**(918,002)**	**1,234,792**
Total cost of raw materials, ancillaries, consumables and goods	**122,733,693**	**124,800,691**

Purchase costs of raw materials and consumables, including changes in inventories, amounted to Euro 122,734 thousand (56.6% of revenues, substantially in line with in 2019).

Note 25: Service costs

The composition of the account is as follows:

(in Euro)	2020	2019
Rent, hire and leases	430,633	277,283
Outsourcing	6,794,704	6,718,004
Transport	2,451,825	2,553,374
Commissions	2,467,591	2,508,812
Legal, administrative and other	2,850,744	2,672,733
Insurance	734,927	754,030
Management services	250,000	263,084
Maintenance & repair expenses	3,113,685	2,875,594
Utilities	4,125,027	4,650,857
Personnel expense	876,994	1,047,054
Cleaning and security	837,436	636,889
Advertising, marketing, and sponsorship	210,965	510,688
Directors, statutory & independent auditor fees	1,493,578	530,955
Travel and accommodation	184,804	590,437
Bank charges & commissions	267,328	254,803
Other services	455,562	653,300
Listing charges	232,091	234,830
Royalties charges	3,138,721	2,757,691
Service costs	**30,916,615**	**30,490,418**

The movement in the director's remuneration account is mainly due to the release of the accrual of the variable extraordinary bonus allocated to the Executive Chairman during the previous year for an amount of Euro 754 thousand.

Note 26: Personnel expense

Personnel expense is shown below:

(in Euro)	2020	2019
Wages and salaries	28,204,211	29,556,035
Social security charges	8,741,036	9,215,996
Temporary personnel	2,779,025	2,294,001
Post-employment benefits	2,090,520	2,110,404
Other costs	58,696	95,469
Personnel expense	**41,873,488**	**43,271,905**

The reduction is attributable to both the grants and concessions put in place by the government to address the Covid-19 pandemic during the lockdown period in the early part of the year and a decreased use of temporary labour. Average personnel over the last two years are broken down as follows:

Employees	2020	2019
Executives	24	24
White-collar	265	257
Blue-collar	466	489
Temporary	89	71
Total employees	**844**	**841**

The national collective work contract applied is that for the mechanical engineering sector and for executives that applicable to industrial enterprise executives.

The decrease in personnel costs of Euro 1,399 thousand on the previous year was mainly due to:

- The application for government benefits and support for the workforce in view of the COVID-19 pandemic during the lockdown, in addition to the increased utilisation of the provisions in place for deferred remuneration;
- H1 2019 included non-recurring costs of Euro 342 thousand for the transfer of blue-collar workers from the Padua plant to the new production and logistics hub at Rovigo.

Note 27: Depreciation, amortisation and write-downs

The breakdown is as follows:

(in Euro)	2020	2019
Amortisation of intangible assets	3,113,396	3,298,065
Depreciation of property, plant and equipment	10,412,228	9,383,058
Depreciation of operating lease IFRS 16	1,375,836	1,423,802
Total depreciation and amortisation	**14,901,460**	**14,104,925**
Write-down of intangible assets	25,000	-
Write-downs of tangible fixed assets	241,779	628,031
Total write-downs	**266,779**	**628,031**
Depreciation, amortisation and write-downs	**15,168,239**	**14,732,956**

The account Write-downs of Euro 267 thousand refers to the write-down of costs capitalised in previous years and recognised as assets in progress, relating to abandoned projects.

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

Note 28: Provisions for risks

In 2020, provisions totalled Euro 254 thousand and were stated net of releases of Euro 9 thousand. The main changes in the year refer to:

- Euro 111 thousand of provisions for the costs of the reclamation of a plot of land owned by the Company;

- Euro 148 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 4 thousand of accruals to the product warranty provision due to application of an updated percentage based on an assessment and analysis of returns for defects;
- Euro 9 thousand of releases from provision for risks and charges due to the lapse of obligations to clients for potential contractual compensation.

Note 29: Other charges (income)

The account is broken down as follows:

(in Euro)	2020	2019
Misc. recoveries	185,710	1,011,533
Prior year income	115,070	165,729
Gains on fixed assets	41,602	449,631
Grants	375,287	63,447
Other revenues	79,638	83,984
Other income	**797,307**	**1,774,324**
Misc. taxes & non-deductible costs	171,876	176,755
Losses on fixed assets	954	36,976
Associations	115,290	112,245
Prior year charges	171,960	212,043
Losses on receivables	0	56,113
IMU Property tax	217,479	147,701
Misc. reimbursements	48,677	116,439
Other charges	319,445	226,820
Other charges	**1,045,681**	**1,085,092**
Other charges (income)	**248,374**	**(689,232)**

Other income in 2020 decreased Euro 977 thousand, mainly due to the insurance reimbursement recognised in the first half of the previous year.

Grants mainly refers to the tax credit for research, development and technological innovation activities for the year 2020 as provided for by Budget Law 2020 no. 160/2019.

Note 30: Investment charges and (income)

The account concerns dividends approved by the subsidiaries, recognised in 2020 and particularly:

	2020	2019
Dividends from subsidiary: SIT Controls BV - (Netherlands)	6,658,516	2,000,000
Dividends from subsidiary: SIT Controls U.S.A. Inc. (USA)	0	4,145,264
Dividends from subsidiary: SIT Gas Controls Pty Ltd (Australia)	185,185	0
Other income from investments	0	(23,641)
Total charges and (income) from investments	**6,843,701**	**6,121,623**

Dividends from subsidiaries at the end of the year have not yet been collected.

Note 31: Financial income

In 2020, this amounted to Euro 1,104 thousand and was broken down as follows:

(in Euro)	2020	2019
Interest income on bank accounts	35,713	208,617
Other interest income	184,158	252,014
Interest income from Group companies	272,094	646,731
Profits on derivative financial instruments	89,558	157,975
Adjustment to fair value of financial liabilities	522,473	1,460,313
Financial income	**1,103,996**	**2,725,650**

INTEREST INCOME FROM GROUP COMPANIES

They concern current loans in favour of SIT Metering S.r.l. (Italy), SIT Romania S.r.l. (Romania), SIT Manufacturing (Suzhou) Co. Ltd. (China), SIT Controls Tunisia S.u.a.r.l. (Tunisia) and Plast Alfin S.A.R.L. (Tunisia) for a total of Euro 186 thousand; while including for Euro 86 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 TO FAIR VALUE OF FINANCIAL LIABILITIES

The amount concerns the adjustment to the fair value of the 5,224,733 SIT Warrants in place and not exercised at December 31, 2020; the Fair Value was established utilising level 1 of the fair value hierarchy as the Warrants are listed on an active market.

Note 32: Financial charges

Financial charges consist of:

(in Euro)	2020	2019
Financial charges on hedging contract differences	669,541	749,804
Interest charges to holding company	0	6,735
Interest and other bank charges	2,726,149	2,599,638
Interest charges to third parties	234,156	546,522
Interest expenses on current accounts subsidiaries	48,487	407,313
Losses on derivative financial instruments	206,335	103,618
Financial charges on operating lease	94,068	115,003
Financial charges	**3,978,736**	**4,528,633**

FINANCIAL CHARGES ON HEDGING CONTRACT DIFFERENCES

The account refers to the differential matured in 2020 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 2,726 thousand comprises for Euro 623 thousand the portion of amortised cost accruing in the year, for Euro 1,804 thousand the interest on the Senior Facility Agreement 2017 accruing in the year and for Euro 112 thousand on other loans and bank advances. The account in addition includes Euro 187 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 information, reference should be made to Note 35.

Note 33: Net exchange gains (losses)

Net exchange losses of Euro 238 thousand are comprised as follows:

(in Euro)	2020	2019
Realised exchange gains	1,362,014	1,082,949
Realised exchange losses	(1,373,196)	(1,102,343)
Unrealised exchange gains	365,991	240,311
Unrealised exchange losses	(593,286)	(294,148)
Net exchange gains and losses	**(238,477)**	**(73,231)**

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 34: Income taxes

The breakdown of Income taxes in 2020 and 2019 was as follows:

	2020	2019
Current income taxes	303,077	476,969
Consolidation income tax	(731,157)	(168,882)
Deferred tax income	936,203	834,613
Deferred tax charges	(625,261)	(732,138)
Taxes from previous year	76,502	(3,509,473)
Other	19,331	205,146
Total income taxes	**(21,306)**	**(2,893,765)**

Current Income taxes reflects the tax break under Article 24 of Legislative Decree 34/2020 - Relaunch Decree - which permits the cancellation of the initial 2020 IRAP payment on account as economic support in view of the Coronavirus, benefitting the company.

Prior year taxes, in 2019, 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, as 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 movement in the income from tax consolidation item mainly refers to the transfer of the ACE pertaining to fiscal years 2019 and 2020 by the subsidiary SIT S.p.A. to the tax consolidation.

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:

	Dec 31, 20	effective tax rate %	Dec 31, 19	effective tax rate %
Income before taxes	**9,570,190**	**24.00%**	**11,042,365**	**24.00%**
Adjustments for items not subject to taxation (non-recurring components)	0		0	
Result before taxes adjusted	9,570,190	**24.00%**	11,042,365	**24.00%**
Theoretical IRES charge	2,296,846		2,650,168	
Lower taxes:				
- dividends from investments	(1,560,364)		(1,401,120)	
- super & hyper depreciation	(834,253)		(762,789)	
- IRES deduction IRAP portion on personnel costs	(24,200)		(45,292)	
- ACE benefit and 4% Post-employment benefit provisions	(239,115)		(298,660)	
- valuation financial instruments (warrants)	(125,394)		(350,475)	
- Plant & R&D grants	(74,769)		0	
Higher taxes:				
- prior year charges	0		212,043	
- other non-deductible costs	260,648		31,398	
Total current taxes (IRES)	**(300,601)**	**-3.14%**	**35,273**	**0.32%**
Tax credits	0		(29,250)	
Taxes for previous financial years	74,832		(3,509,473)	
Foreign tax on dividends collected	19,331		234,396	
TOTAL INCOME TAXES (IRES)	**(206,439)**	**-2.16%**	**(3,269,055)**	**-29.60%**
IRAP	303,077		476,969	
Taxes for previous financial years	1,670		0	
IRAP deferred tax charge	(100,375)		(100,375)	
IRAP deferred tax income	(19,239)		(1,304)	
Total taxes recognised to the Income statement	**(21,306)**	**-0.22%**	**(2,893,765)**	**-26.21%**

Note 35: Leasing contracts

The tables below summarise the effects on the Company financial statements at June 31, 2020 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 thousands)

Economic effect from ROU assets	**2020**
Operating lease contract charges	1,447
Contracts classified as short-term leases	45
Contracts classified as low-value assets	-
Total service costs	**1,492**
Land & buildings	(442)
Other tangible assets	(934)
Total depreciation	**(1,376)**
Income from sub-leasing contracts	-
Sales and leaseback transaction	-
Total other charges/(income)	**-**
Interest charges on financial liabilities	(94)
Total financial charges	**(94)**

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

(Euro thousands)	**31/12/2020**
Net investments accounted as ROU as at 1.1.2020	4,312
Increases of the period	3,775
Depreciation and amortisation of the period	(1,376)
Net investments from ROU assets at 31.12.2020	**6,712**
Payable for financial liabilities from ROU assets at 1.1.2020	4,355
Commitments in the period	3,775
Cash outflows	(1,352)
Gross value of liabilities from ROU assets at 31.12.2020	**6,778**
Obligations for short-term lease contracts	-
Obligations for low-value asset contracts	87
Total obligations for lease contracts with recognition to costs of payments due	**87**

The increases in the year of Euro 3,775 thousand include the effects from the redefinition of the lease terms for contracts which have not yet concluded, for which i) renewal for the non-cancellable contractual period is stipulated or ii) in the case in which the Group considers the renewal option reasonable, in view of the economic interest from exercise of the option.

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

(Euro thousands)	31/12/2020
Within the year	1,122
From 1 to 5 years	3,513
Over 5 years	2,143
Total liabilities deriving from operating lease contracts	**6,778**

Note 36: Share-based payments

At December 31, 2020, the company holds 316,724 treasury shares, of which 149,615 were acquired in 2020 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, a stock-option plan was in place which provides for payments to identified parties, based on the value of the share price. The table below shows the economic effects deriving from these instruments:

Costs deriving from share-based payment transactions	2020	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**

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:

	2020		2019		2018	
	No. options	**Weighted average price**	**No. options**	**Weighted average price**	**No. options**	**Weighted average price**
Outstanding at January 1	210,588	0.8244	212,359	0.8244	-	-
Assigned during the year	-	-	-	-	212,359	0.8244
Cancelled during the year	(4,598)	-	(1,771)	-	-	-
Exercised during the year	-	-	-	-	-	-
Expired during the year	-	-	-	-	-	-
Outstanding at December 31	**205,990**	**0.8244**	**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.

In view of the share performance and the results over the three-year period, it is likely that the plan shall not give rise to any allocation of shares on its conclusion.

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).

Dec 31, 20	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
SIT Immobiliare S.p.A.	14	0	0	0	0	0	23	0
Companies subject to the control of the holding company	**14**	**0**	**0**	**0**	**0**	**0**	**23**	**0**
SIT Technologies S.p.A.	24	0	24	0	0	184	5,352	0
Holding company	**24**	**0**	**24**	**0**	**0**	**184**	**5,352**	**0**

Transactions in 2019 are shown in the following table:

Dec. 31, 2019	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
SIT Immobiliare S.p.A.	14	0	0	0	0	0	17	0
Companies subject to the control of the holding company	**14**	**0**	**0**	**0**	**0**	**0**	**17**	**0**
SIT Technologies S.p.A.	24	0	84	0	0	90	2,163	0
Holding company	**24**	**0**	**84**	**0**	**0**	**90**	**2,163**	**0**

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 184 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, 2020, as described in further detail in the relative notes.

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. During the year, the subsidiary SIT Metering s.r.l. also joined the National Tax Consolidation.

Finally, We indicate that 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, adhered to the Group VAT settlement procedure governed by Article 73, final paragraph, of Presidential Decree 633/1972, as approved by their respective governing bodies in 2019.

At December 31, 2020, the amount receivable by the Company from the holding company, SIT Technologies S.p.A., amounted to Euro 5,352 thousand.

Related party transactions

The Group has signed two agreements, on the basis of which two Senior Executives have been recognised (i) a one-off payment respectively of Euro 135,000 and of Euro 90,000 (made in January 2021) and (ii) the allocation of a retention indemnity of a similar amount to accrue and payable on meeting certain conditions, applicable to similar agreements.

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 2020, the company carried out the following transactions with subsidiaries and presented the following balances at the reporting date (in Euro thousands):

Dec 31, 20	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
SIT Gas Controls Pty Ltd (Australia)	2,057	0	185	0	185	22	499	0
SIT (Shanghai) Trading Co. Ltd. (China)	0	0	0	0	0	0	0	0
SIT Manufacturing (Suzhou) Co.Ltd (China)	7,194	3,161	81	0	1,870	0	9,685	4,459
SIT Controls CR, sro (Czech Republic)	18	1,143	0	0	0	1835	18	550
SIT Controls Deutschland GmbH (Germany)	156	873	0	0	0	880	74	363
Sit Manufacturing N.A. SA de CV (Mexico)	23,590	1,353	0	43	78	1,675	3,315	172
SIT Controls BV - (Netherlands)	3,239	1,911	6659	0	6,659	8,879	1,778	520
SIT Romania Srl (Romania)	30,047	47,758	103	5	3,000	4,277	6,457	7,570
MeteRSit Romania Srl (Romania)	6	0	0	0	0	0	7	0
SIT Controls U.S.A. Inc. (USA)	28	128	28	0	3	0	27	52
MeteRSit S.r.l. (Italy)	2,301	80	46	0	0	0	2,427	72
Plast Alfin S.a.r.l (Tunisia)	472	1151	2	0	0	0	345	708
SIT Controls Tunisia S.u.a.r.l (Tunisia)	101	0	3	0	0	0	104	0
SIT Metering S.r.l (Italy)	573	0	9	0	0	0	581	0
Subsidiaries	**69,782**	**57,558**	**7,116**	**48**	**11,795**	**17,568**	**25,317**	**14,466**

Transactions in 2019 are shown in the following table:

Dec 31, 19	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
SIT Gas Controls Pty Ltd (Australia)	2,122	0	0	3	0	391	424	1
SIT (Shanghai) Trading Co. Ltd. (China)	0	0	0	0	0	0	0	0
SIT Manufacturing (Suzhou) Co.Ltd (China)	6,126	2,749	141	0	1,918	0	10,256	3,297
SIT Controls CR, sro (Czech Republic)	19	1,162	0	0	0	1309	17	501
SIT Controls Deutschland GmbH (Germany)	111	975	0	0	0	750	22	378
Sit Manufacturing N.A. SA de CV (Mexico)	22,946	1,552	0	359	0	17,724	8,792	156
SIT Controls BV - (Netherlands)	3,295	2,227	2004	0	0	2,970	1,883	325
SIT Romania Srl (Romania)	27,149	46,797	103	11	3,000	2,402	5,577	9,782
MeteRSit Romania Srl (Romania)	7	0	0	0	0	0	7	0
SIT Controls U.S.A. Inc. (USA)	24	135	4148	34	1512	0	21	68
MeteRSit S.r.l. (Italy)	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**	**14,462**

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:

	2020	2019
Director fees	942,454	913,945
Statutory auditor remuneration	108,008	99,723
Total directors' and statutory auditors' fees	**1,050,463**	**1,013,668**

The Company paid to the audit firm fees of Euro 210 thousand, in addition to reimbursement of expenses and supervisory contributions, as follows:

	2020	2019
Fees paid to the audit firm for audit services	205,800	158,800
Limited review of the consolidated non-financial report	28,000	28,000
Other verification services for the issue of a statement	4,000	15,000
Total	**237,800**	**201,800**

Guarantees, commitments and off-balance sheet contingent liabilities

The off-balance sheet commitments at December 31, 2020 were as follows.

	2020	2019
Other unsecured guarantees	61,275,498	52,112,206
Secured guarantees	-	-
Total guarantees	**61,275,498**	**52,112,206**

Other unsecured guarantees

The breakdown of the Other unsecured guarantees given by the company to third parties is as follows:

	2020	2019
In the interest of subsidiaries	61,167,029	51,957,654
In own interest	108,469	154,552
Total other guarantees	**61,275,498**	**52,112,206**

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 8,333 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 the surety guarantee granted to secure the lease agreement signed for the Rovigo property.

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 in currencies other than the functional currency of the companies and of the Group; (ii) risk deriving from fluctuations in market interest rates; (iii) price risk deriving from changes in market prices of certain raw materials used 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 2020, in line with its policies, the Company undertook financial hedges principally against net exposures in USD, ADU, GBP, CHF, and, to a lesser extent, CNY in closing hedging transactions in place since the previous year.

The currency hedging transactions at the reporting date and their fair values are shown in Notes 9 and 19.

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 variable rate loan for a nominal capital amount of Euro 115,725 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 78,740 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 19 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 2020 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.

In the second half of the year, as production activities resumed following the lockdown period, there was a significant increase in the market prices of certain raw materials and components used by the Group. This applied in particular to copper, aluminium, plastics and certain electronic components. In order to reduce purchase cost volatility, the Group therefore implemented procurement policies designed to meet requirements at the best conditions possible. It should also be noted that contracts with certain suppliers contain price adjustment clauses every six months. Should the aforementioned market trend continue, therefore, purchase costs for the following year will be affected.

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, 2020, 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 Dec 31, 20	Valuation criterion	Level 1	Level 2	Level 3
SIT Warrants		*Fair value*	1,045		
Interest Rate Swap	(958)	*Fair value*		(958)	
Forex Forward	(152)	*Fair value*		(152)	

In 2020, 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, 2019:

(Euro thousands)

Transaction type	Value at 31.12.2019	Valuation criterion	Level 1	Level 2	Level 3
SIT Warrants		*Fair value*	1,567		
Interest Rate Swap	(1,348)	*Fair value*		(1,348)	
Forex Forward	(44)	*Fair value*		(44)	

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, replaced by Article 35 of Leg. Decree 34/2019, the grants and subventions received from the public sector are presented below

Entity	Grants received with Law 124/2017, paragraph 125	in accordance
Fondimpresa - Rome	63,447	Reimbursement of quota of fondimpresa training plan code 240086
Fondimpresa - Rome	45,910	Reimbursement of quota of fondimpresa training plan code 251683
Fondirigenti - Rome	17,841	Reimbursement of quota of fondirigenti training plan code FDIR22500
Total	**127,198**	

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 information on the proposals to the Shareholders' Meeting concerning the allocation of the 2020 profit, reference should be made to the specific explanatory report on the matters on the Agenda of the Shareholders' Meeting scheduled for April 29, 2021.

Padua, March 29, 2021

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 considering the company`s characteristics and
- The application of the administrative and accounting procedures for the compilation of the separate financial statements for the period January - December 2020.

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 29, 2021

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

INDEPENDENT AUDITORS' REPORT ON THE SEPARATE FINANCIAL STATEMENTS

Deloitte.

Deloitte & Touche S.p.A.
Via N. Tommaseo, 78/C int. 3
35131 Padova
Italia

Tel: +39 049 7927911
Fax: +39 049 7927979
www.deloitte.it

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, 2020, 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, 2020, 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.

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, 2020 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 29, 2021. 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) and long-term grouth rate (g-rate). 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 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 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 disclosure 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 with the support of experts of the Deloitte network: • understanding of the main controls put in place by the Directors on the process of carrying out the impairment tests; • 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;
- analysis of the reasonableness of the main assumptions adopted for the formulation of the expected cash flows 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, taking into account Covid 19 effects, 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 disclosure 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, 2018 to December 31, 2026.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The Directors of SIT S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of SIT S.p.A. as at December 31, 2020, 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, 2020 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, 2020 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 7, 2021

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

BOARD OF STATUTORY AUDITORS' REPORT

SIT S.P.A.
Registered office in Padua - Viale dell'Industria No. 31
Share capital Euro 96,151,920.60 fully paid-in
Padua Companies Registration Office and Tax No.: 04805520287
Padua Economic and Administrative Index No.: 419813
*****

Report of the Board of Statutory Auditors to the Shareholders' Meeting in accordance with Article 153 of Legislative Decree No. 58/1998 and Article 2429 Civil Code

Dear Shareholders,

this report - drawn up as per Article 153 of Legislative Decree No. 58/1998 (Consolidated Finance Act) and Article 2429 of the Civil Code - outlines the supervisory activities carried out by the Board of Statutory Auditors of the Company SIT S.p.A. (hereinafter also the "Company") during the year ended December 31, 2020, in compliance with the "Principles of conduct for the Board of Statutory Auditors of listed companies" issued by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (Italian Accounting Profession), with Consob recommendations on corporate controls and the activities of the Board of Statutory Auditors and with the indications of the Code of Conduct prepared by the Corporate Governance Committee of Borsa Italiana and adopted by the Company.
The Board of Statutory Auditors carried out its supervisory activities also as the Internal Control and Audit Committee.

The Board of Statutory Auditors, comprising Matteo Tiezzi (Chairman), Loredana Conidi and Saverio Bozzolan (Statutory Auditors) was appointed by the Shareholders' Meeting of May 6, 2020 and shall conclude its mandate with the Shareholders' Meeting called to approve the 2022 Annual Accounts; until its appointment during the year, the Board of Statutory Auditors comprised Saverio Bozzolan (Chairman), Loredana Conidi and Ivano Pelassa (Statutory Auditors).
The Board of Statutory Auditors verified, when accepting the appointment and later during the course of the appointment, that its members met the requirements of integrity and professionalism specified by Ministerial Decree No. 162 of March 30, 2000, that there were no reasons for removal from office or ineligibility and the holding of the independence requirements under Article 148 CFA, also in view of the Self-Governance Code.

The execution of the accounting and statutory audits is assigned to the Audit Firm Deloitte & Touche S.p.A., who has been assigned the legally-required audit for the years 2018-2026.

Carrying out its institutional activities, the Board of Statutory Auditors indicates to having:

- verified compliance with applicable law and the By-Laws;

- verified compliance with disclosure obligations concerning regulated and inside information and requests received from the supervisory authorities pursuant to Article 114 of Legislative Decree 58/1998;
- attended in collegial form all the meetings connected to the Shareholders' Meeting, the meetings of the Board of Directors and the meetings of the Board Committees set up and operating within the framework of the Board of Directors, and to having received continuous information from the Directors on the activities carried out, on the general operating performance and on the outlook, as well as on the main operating and financial transactions during the year;
- noted, on the basis of the declarations issued by the Directors and the assessments expressed by the Board of Directors, that the declaration criteria and procedures adopted by the Board of Directors to assess the independence of its members were correctly applied;
- ascertained the suitability of the composition 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 organisational structure;
- acquired knowledge of and supervised, to the extent of its competence, the adequacy of the Company's organisational structure and its compliance with the principles of proper administration, the adequacy of the administrative and accounting system and the reliability of the latter in correctly representing operating events, by collecting data and information from the heads of the main departments and from the Audit Firm;
- assessed and supervised the suitability of instructions imparted to the subsidiaries as per Article 114, paragraph 2 of Legislative Decree No. 58/1998;
- 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 criticalities emerged from this exchange;
- obtained information on the organisational and procedural activities carried out pursuant to Legislative Decree No. 231/2001, including through meetings with the Company's Supervisory Board, and exchanged information with the internal control functions, with nothing emerging requiring reporting herein;
- supervised, in its capacity as Internal Control Committee pursuant to Article 19 of Legislative Decree No. 39/2010, *(i)* the financial reporting process, *(ii)* the effectiveness of the internal audit system, *(iii)* the legal audit of the separate and consolidated financial statements and *(iv)* the independence of the Audit Firm;
- supervised compliance with the Related Party Transactions Policy adopted by the Company, noting that no atypical and/or unusual transactions were carried out with related parties and/or capable of significantly affecting the Company's income statement, balance sheet and financial position; no elements to be reported with regard to the appropriateness and correspondence with the interests of the Company of Related Party Transactions were highlighted; the information on these transactions included in the notes to the financial statements and in the Directors' Report was adequate;
- declared that the Corporate Governance and Ownership Structure Report was prepared as per Article 123-*bis* of the CFA and that it provides an analytical illustration of the concrete implementation of the corporate governance rules under the Self-Governance Code, with which

the company complies; where necessary, for the limited number of cases for which the company has departed from the Code's provisions, it outlined its reasoning;

- noted the content of the Remuneration Report, which sets out a detailed account of the implementation of remuneration policies;
- met periodically with the audit firm to exchange information and significant data and to supervise the financial disclosure process and its suitability and integrity, in addition to compliance with legal provisions concerning the formation of financial statements, their layout and structure;
- received from the audit firm the "Report to the Internal Control and Audit Committee" required by Article 11 of Regulation 537/EU/2014, which *(i)* includes the declaration of independence of the audit firm, *(ii)* illustrates the scope and timing of the audit, describes the methodology used and indicates the quantitative level of overall significance, *(iii)* indicates the valuation methods applied to the various financial statements items, without highlighting critical issues on the appropriateness of the accounting standards adopted, *(iv)* does not raise doubts about the Company's ability to continue to operate as a functioning entity, *(v)* does not report significant deficiencies in the internal control system in relation to the financial reporting process, *(vi)* does not report cases of non-compliance with laws, regulations or statutory provisions, *(vii)* does not contain reports of limitations to the audit activity nor significant difficulties emerging from the audit; the report does not indicate significant criticalities that require your attention;
- received from the audit firm the consolidated non-financial report, on the basis of which the audit firm did not encounter any elements indicating that the consolidated non-financial report of the SIT Group relating to the year ended December 31, 2020 has not been prepared, in terms of all the significant aspects, as per Articles 3 and 4 of Legislative Decree No. 254/2016 and the GRI Standards.

In accordance with the indications provided by Consob in its communication DEM/1025564 of April 6, 2001, the following information is provided below:

1. <u>Considerations on the main economic, financial and equity transactions carried out by the company and their compliance with law and the company by-laws</u>
   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.
   The main transactions executed during the year which the Board of Statutory Auditors highlights are:
   - June 2020: Metersit, part of the Smart Gas Metering division, obtained for a residential gas meter the CPA certification from the British cyber security agency; the certification guarantees the integrity of communications against cyber fraud, completing the certification process for the UK market;
   - July 2020: acquisition of Plast Alfin, a Tunisian company specialised in the production of plastic materials; the acquisition represents a first step for the expansion of

production, with the start-up of a new production hub in Tunisia dedicated to electronic boards and plastic materials;
- December 2020: acquisition of Janz-Contagem e Gestaõ de Fluìdos S.A., a Portuguese company specialised in the production of residential water meters; the transaction is undertaken so as to enter the smart water meters sector, with industrial and environmental value, in line with the Group's sustainability objectives; as part of the transaction, the Group also acquired 24.9% of Conthidra, a distribution company based in Spain;
- during the year, the Group, against the backdrop of the uncertainty arising as a result of the COVID-19 outbreak, prudently obtained additional credit lines totalling Euro 35.5 million;
- the Group also during the year obtained a further Euro 30 million loan as an additional line to the syndicate loan already in place, to support the above indicated acquisitions of holdings.

2. <u>Atypical and/or unusual transactions, including inter-company or related party transactions</u>
The inter-company transactions or those with related parties complied with law, the By-Laws and the related parties transactions policy adopted by the company. They are not likely to give rise to doubts concerning the correctness and completeness of the related financial statements disclosures, the existence of situations of conflict of interest and the safeguarding of the company's assets.
On the basis of the information available to the Board of Statutory Auditors, atypical and/or unusual transactions did not emerge, according to the definition as per note 2 of CONSOB Communication No. DEM/1025564 of 6/4/2001.
3. <u>Adequacy of the information provided in the Directors' Report in relation to atypical and/or unusual transactions, including inter-company and related party transactions.</u>
The Directors have adequately reported and illustrated in specific notes accompanying both the separate and the consolidated financial statements the main inter-company or related party transactions, outlining their characteristics.
4. <u>Observations and proposals on the findings and requests for disclosure contained in the auditors' report.</u>
The audit firm issued on April 7, 2021 the Auditors' Report on the statutory financial statements and the consolidated financial statements at and for the year ended December 31, 2020, issuing *(i)* an opinion stating 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, 2020, as well as of the result and cash flows for the year ending at that date, in compliance with the IAS/IFRS adopted by the European Union; *(ii)* a conformity opinion stating that the directors' reports accompanying the statutory and consolidated financial statements at and for the year ended December 31, 2020 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; *(iii)* a declaration indicating nothing to report 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.

5. Presentation of any notices pursuant to Article 2408 of the Civil Code, of any initiatives undertaken and the relative outcomes
The Board of Statutory Auditors, during the year ended December 31, 2020, did not receive any notices as per Article 2408 of the Civil Code.
6. Presentation of any petitions pursuant to Article 2408 of the Civil Code, of any initiatives undertaken and relative outcomes
No petitions were received by the Board of Statutory Auditors.
7. Conferment of other assignments to the audit firm and relative costs
During 2020, the Company assigned Deloitte & Touche S.p.A. the following non-audit appointments, not falling within those prohibited by Regulation 537/2014: *(i)* limited audit of the non-financial report against fees of Euro 28,000, *(ii)* the undertaking of the procedures on financial covenants included in the compliance certificate drawn up according to the SIT financial statements data against fees of Euro 4,000.
The fees were recognised to the income statement and are reported in the attachment to the separate financial statements, as required by Article 19-*duodecies* of the Issuers' Regulation.
It should also be noted that other overseas companies belonging to the SIT Group have appointed companies of the Deloitte network to provide auditing services.
Taking account of the assignments awarded by SIT S.p.A. and by Group companies to Deloitte & Touche 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.
On April 7, 2021, the 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. The Board of Statutory Auditors acknowledges the transparency report prepared by the audit firm as per Article 13 of the European Regulation 53772014 and published on its website.
8. Conferment of assignments to parties related to the audit firm and related costs
In 2020, the company did not grant assignments to parties related to the audit firm.
9. Opinions issued in accordance with law
During the year, the Board of Statutory Auditors issued opinions concerning the undertaking of the procedures on covenants included in the compliance certificate prepared according to SIT's financial statements (04.03.2020) and the remuneration recognised to the chief executive officer (11.05.2020), as required by the applicable regulation, the Self-Governance Code and by the policies and procedures adopted by the company.
10. Meetings of the Board of Directors and the Board of Statutory Auditors
During the year, the following meetings were held, at which the Board of Statutory Auditors took part in collegial form:
    - Shareholders' Meeting of May 6, 2020,
    - 11 Board of Directors' meetings,
    - 7 Control and Risks and Sustainability Committee meetings,
    - 5 Remuneration Committee meetings.

    During the year, the Board of Statutory Auditors met 16 times.

11. Observations on compliance with the principles of correct administration
    The Board of Statutory Auditors did not report any observations in regard to compliance with the principles of correct administration which appears to be fully complied with.
12. Observations on the adequacy of the organisational structure
    The Board of Statutory Auditors has supervised the adequacy of the organisational structure, and has no observations to report to the Shareholders' Meeting.
13. Observations on the adequacy on the internal control system, in particular on the activities undertaken by the internal control manager and any corrective actions undertaken and/or those to be undertaken
    The Board of Statutory Auditors has verified the suitability of the Internal Control and Risk Management System, making such assessments also in joint meetings with the Control, Risks and Sustainability Committee, as well as with the Internal Audit Manager, in order to obtain information regarding the results of the audit process. The Board of Statutory Auditors has conducted periodic exchanges of information with members of the Compliance and Risk Management Functions and the Internal Audit Function, in addition to the Supervisory Board, 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.
14. Considerations on the adequacy of the administrative and accounting system and the reliability of the system to correctly represent operating events
    The Board of Statutory Auditors has verified the suitability of the internal control and administration and accounting systems and the reliability of this latter in correctly representing operating events by obtaining of information from the persons responsible for the various functions, examining company documents, assessing the findings of the Internal Audit Function's plan of activities and analysing the results of the work performed by the independent audit firm, in addition to supervising the activity of the person responsible for internal control.
    The Board of Statutory Auditors focussed on *(i)* the process of ongoing updates to internal procedures relating to the main company cycles and the verification activities undertaken by internal control; *(ii)* 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; *(iii)* confirmation that the reporting streams from the non-EU subsidiaries are adequate for performing control activity on the annual and interim accounts.
15. Adequacy of the instructions issued by the Company to the subsidiaries in accordance with Article 114, paragraph 2 of Legs. Decree No. 58/1998
    We have acquired knowledge and supervised, to the extent of our remit, the adequacy of the provisions issued by the company to the subsidiaries, as per Article 114, paragraph 2 of Legs. Decree No. 58/1998.

The Board of Statutory Auditors has no observations to make on the adequacy of the information flows provided by the subsidiaries to the Parent Company to ensure the timely fulfilment of the disclosure obligations required by law.

16. Observations on significant aspects emerging during meetings with the auditors as per Article 150, paragraph 2 of Legs. Decree No. 58/1998
    At the periodic exchanges of data and information between the Board of Statutory Auditors with the Audit Firm, in accordance also with Article 150, paragraph 3 of Legs. Decree No. 58/1998, no aspects emerged which warrant inclusion in the present Report.
17. Compliance with the Self-Governance Code of the Corporate Governance Committee of listed companies
    The Company adopted the Self-Governance Code of Listed companies promoted by Borsa Italiana; to the extent of its specific remit, the Board of Statutory Auditors supervised the methods to concretely implement the corporate governance rules with which the company complies; in particular, with regards to the Self-Governance Code, the Board of Statutory Auditors supervised *(i)* the method to implement the corporate governance rules established, without expressing any observations; *(ii)* the correct application of the assessment criteria and procedures adopted by the Board of Directors to assess the independence of its members;
18. Conclusions on the supervision activities undertaken and information on any omissions, citable events or irregularities recorded during the year
    The supervisory activities of the Board of Statutory Auditors were carried out in 2020 regularly and no omissions, citable events or irregularities to be reported emerged.
19. Indications of any proposals to be presented to the Shareholders' Meeting as per Article 153, paragraph 2 of Legs. Decree No. 58/1998
    As a result of the supervisory activity performed during the year, the Board of Statutory Auditors does not have any proposals to make pursuant to Article 153, paragraph 2 of Legislative Decree No. 58/1998 concerning the separate financial statements at December 31, 2020 of SIT S.p.A., their approval and the matters for which it is responsible.

Conclusion

The statutory financial statements of SIT S.p.A. at and for the year ended December 31, 2020 and the consolidated financial statements at and for the year ended on that same date have been drawn up in accordance with the IAS/IFRS issued by the International Accounting Standards Board ("IASB"), pursuant to the provisions of Legislative Decree No. 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 the general conformity with the law in relation to their formation and structure, and we have no particular matters to report upon in this regard.

In relation to the ongoing Covid-19 health emergency, also in light of the recommendations issued by the ESMA, as implemented by CONSOB, 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 verified that the financial statements and report on operations correspond to the facts and the information which we have acquired during our work and we have no matters to report. The statutory and consolidated financial statements of SIT S.p.A. are accompanied by the prescribed report by the independent audit firm, to which we refer.

On all the above grounds, the Board of Statutory Auditors expresses a favourable opinion on the approval of the statutory financial statements at and for the year ended December 31, 2020, 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.

Modena, April 7, 2021

THE BOARD OF STATUTORY AUDITORS

Matteo Tiezzi

Loredana Conidi

Saverio Bozzolan