2021 ANNUAL FINANCIAL REPORT

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CORPORATE INFORMATION

Parent Company Registered Office

Sit S.p.A.

Viale dell'Industria, 31/33

35129 Padua – Italy

www.sitgroup.it

Parent Company Legal Details

Share capital approved Euro 96,162,195.00

Share Capital subscribed and paid-in Euro 96,162,195.00

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

CHAIRPERSON'S LETTER

Dear Stakeholders,

2021 was a year of sustained recovery. Our working culture across all levels has paved the way for exceptional results compared to the previous year - and which even beat 2019.

In terms of acquisition-led growth, in Q3 2021 we completed the acquisition of the NGA product line - electronic valves for gas storage water heaters from the US company Emerson Electric Co. The acquisition covers the product and the related patents and production lines, to be installed at SIT's production facility in Monterrey (Mexico).

The SIT share saw sustained growth over the first ten months of the year, closing up 60% year-on-year. The share performance directly reflects the quality of our work and the capacity of our team to convert it into value.

2021's main initiatives were focused on just that.

We remain committed with a great sense of responsibility to our role as an enabler of the **energy and ecological transition.** We play a role into equally important areas: the development of alternatives to natural gas for heating homes and the control and limiting of the wastage of a precious but scarce resource: water. In terms of the former, we are working on hydrogen alongside leading global enterprises and a range of institutions. During 2021, we unveiled the world's first 100% hydrogen residential meter to achieve MID (Measuring Instrument Directive) certification, valid throughout the European Union, the UK and many countries outside the EU. The meter was installed in 100% green hydrogen-operated homes built in Gateshead, northern England, and was presented at the COP26 conference in Glasgow.

Water has become a key part of our development strategies within the metering division. With Janz, a well-established Portuguese operator who joined the group at the end of 2020, we entered the water meter market with a focus on value creation and the protection of the natural resource. 2021 was a key year for the quick integration of Janz with the smart metering technological expertise of MeteRSit in the gas sector, with the goal of adding smart water meters to SIT's product portfolio. This is our contribution to water efficiency.

It was truly a very busy year in which we were involved on the one hand in recovering profitability and on the other in pursuing those strategic initiatives which will key to SIT's future.

The Group can rely on a solid business model focused on long-term sustainable value creation, with a strong management team the top-level governance of a highly capitalised Italian enterprise. The issues related to the energy transition and the sustainable consumption of natural resources ensure solid growth prospects for the coming years, with demand supported by incentives - without forgetting the interesting hydrogen economy opportunities.

I remain truly convinced that the ability to generate value should be assessed over the long-term, but built day-by-day.

Federico de' Stefani

Chairperson & Chief Executive Officer

SIT S.p.A.

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	*Chairperson 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	*Chairperson*
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 **	Chairperson
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.
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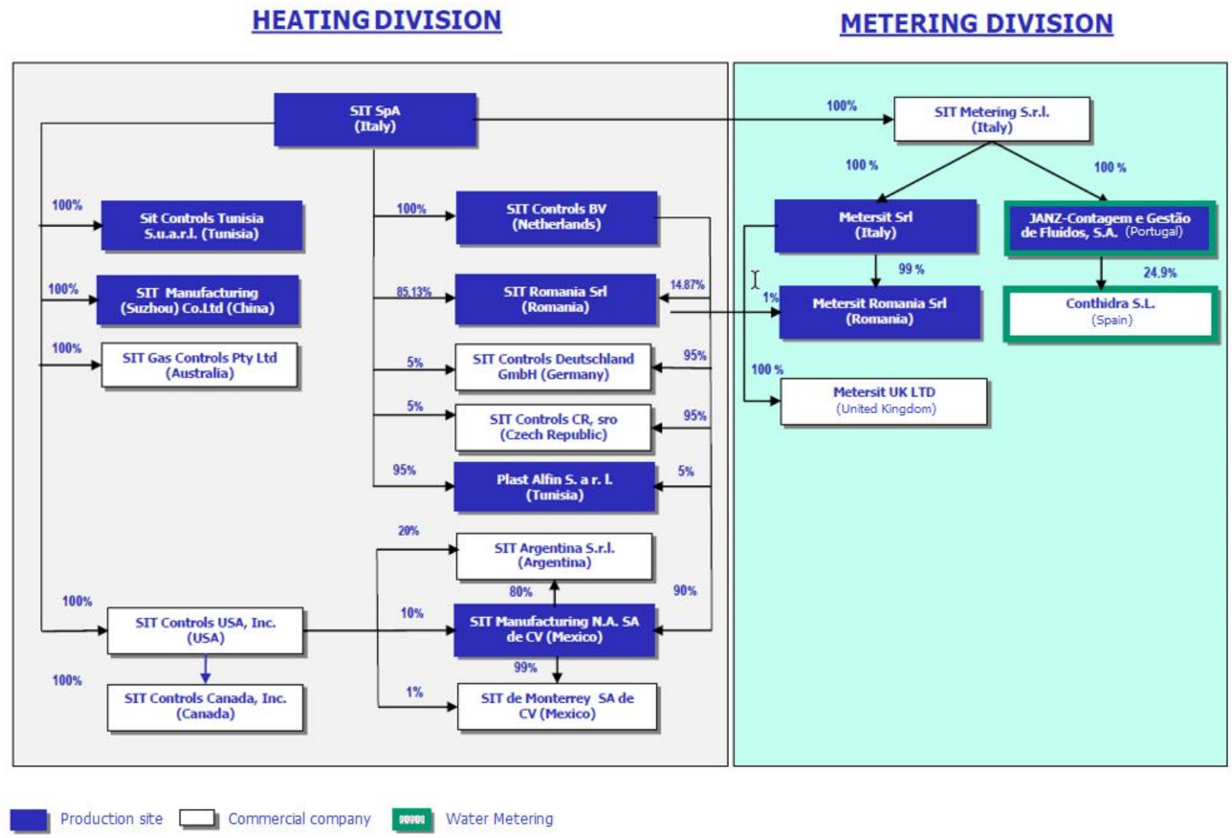
GROUP STRUCTURE



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., a holding company 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.
- Metersit UK Ltd, a trading company established during 2021 as an agency with the goal of developing the UK smart gas metering market.

  JANZ - Contagem e Gestão de Fluídos, SA (Lisbon), a company acquired at the end of 2020, operating in the residential water meter sector through development, production and distribution activities, mainly on 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	2021	%	2020	%	change	change %
Revenues from contracts with customers	380,521	100.0%	320,731	100.0%	59,790	18.6%
EBITDA	51,215	13.5%	43,621	13.6%	7,594	17.4%
EBIT	24,330	6.4%	19,616	6.1%	4,714	24.0%
Net profit for the year	8,243	2.2%	13,225	4.1%	(4,982)	-37.7%
Cash flows from operating activities after investment activities	27,198		(13,783)		40,981	

(Euro.000)

Balance Sheet	31/12/2021	31/12/2020 RESTATED	change	change %
Net financial position	(106,729)	(116,021)	9,292	-8.0%
Net trade working capital	45,423	49,615	(4,192)	-8,4%
Net trade working capital/Revenues	11.9%	15.5%		

ALTERNATIVE PERFORMANCE MEASURES

(Euro.000)

Operating results	2021	%	2020	%	Change	Change %
Revenues from contracts with customers	380,521	100.0%	320,731	100.0%	59,790	18.6%
EBITDA	51,215	13.5%	43,621	13.6%	7,594	17.4%
EBITDA adjusted	51,215	13.5%	44,600	13.9%	6,615	14.8%
EBIT	24,330	6.4%	19,616	6.1%	4,714	24.0%
EBIT adjusted	24,330	6.4%	20,595	6.4%	3,735	18.1%
Financial charges	14,074	3.7%	3,939	1.2%	10,135	257.3%
Financial income	395	0.1%	835	0.3%	(440)	-52.7%
Net financial (charges)/income adjusted	(3,706)	-1.0%	(3,626)	-1.1%	(79)	2.2%
Result before taxes (EBT)	11,706	3.1%	15,991	5.0%	(4,285)	-26.8%
Result before taxes adjusted (EBT)	21,679	5.7%	16,448	5.1%	5,231	31.8%
Net Profit of the year	8,243	2.2%	13,225	4.1%	(4,982)	-37.7%
Adjusted net profit of the year	16,311	4.3%	13,409	4.2%	2,903	21.7%
Cash flows from operating activities after investment activities	27,198		(13,783)		40,981	

(Euro.000)

Balance Sheet	31/12/2021	31/12/2020 RESTATED	Change	change %
Net capital employed	269,153	270,287	(1,135)	-0.4%
Shareholders' Equity	153,676	153,221	455	0.3%
Net financial position	(106,729)	(116,021)	9,292	-8.0%
Adjusted Net Financial Position	(90,810)	(100,414)	9,604	-9.6%
Financial liabilities for Warrants	(8,748)	(1,045)	(7,703)	737.1%
Net trade working capital	45,423	49,615	(4,192)	-8.4%

Key performance indicators	31/12/2021	31/12/2020
ROIC (1)	19.0%	16.5%
Net financial position/Shareholders' equity	0.69	0.76
Net financial position/Adjusted EBITDA	2.10	2.60

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

Composition of the main alternative performance measures

The alternative performance indicators describe the economic/financial results 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.

In application of Consob Communication of December 3, 2015, which enacts in Italy the guidelines on Alternative Performance Measures (APM’s) issued by the European Securities and Markets Authority (ESMA), the criteria used for their calculation and a summary of their composition, in addition to a reconciliation with the corresponding official figures, is presented below:

- 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	2021 EBITDA	2020 EBITDA
EBIT	**24,330**	**19,616**
Depreciation, amortisation and write-downs	26,897	24,052
Write-downs	(12)	(47)
EBITDA	**51,215**	**43,621**
Acquisition costs [1]	-	979
Total non-recurring operating charges (income)	**-**	**979**
EBITDA adjusted	**51,215**	**44,600**

(1) 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.

- 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	2021 EBIT	2020 EBIT
EBIT	**24,330**	**19,616**
Acquisition costs	-	979
Total non-recurring operating charges (income)	**-**	**979**
EBIT adjusted	**24,330**	**20,595**

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	2021 Financial (charges)/income	2020 Financial (charges)/income
Financial charges	**(14,074)**	**(3,939)**
Early settlement of financing	995	-
Changes on Warrants fair value	8,978	-
Financial charges adjusted	**(4,101)**	**(3,939)**
Financial income	**395**	**835**
Changes on Warrants fair value	-	(522)
Adjusted financial income	**395**	**313**
Adjusted net financial (charges)/income	**(3,706)**	**(3,626)**

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

(Euro.000)

Reconciliation of EBT adjusted	2021 Profit before taxes	2020 Profit before taxes
Profit before taxes for the year	**11,706**	**15,991**
Acquisition cost	-	979
Total non-recurring operating charges (income)	**-**	**979**
Early settlement of financing	995	-
Changes on Warrants fair value	8,978	(522)
Non-recurring financial charges (income)	**9,973**	**(522)**
Adjusted result before taxes (EBT)	**21,679**	**16,448**

- 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	2021 Net Profit	2020 Net Profit
Net Profit for the year	**8,243**	**13,225**
Acquisition costs	-	706
Total non-recurring operating charges (income)	**-**	**706**
Early settlement of financing	756	-
Changes on Warrants fair value	8,978	(522)
Non-recurring net financial charges (income)	**9,734**	**(522)**
Patent Box tax income	**(1,666)**	**-**
Adjusted net profit for the year	**16,311**	**13,409**

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	31/12/2021	31/12/2020 RESTATED
Goodwill	87,946	87,946
Other intangible assets	61,611	66,178
Property, plant and equipment	98,039	90,228
Investments in other companies	325	326
Non-current financial assets	2,139	2,282
Fixed assets (A)	**250,060**	**246,960**
Inventories	70,123	56,453
Trade receivables	56,052	65,365
Trade payables	(80,752)	(72,203)
Trade net working capital (B)	**45,423**	**49,615**
Other current assets	15,745	14,234

Tax receivables	2,965	3,983
Other current liabilities	(23,163)	(18,638)
Tax payables	(3,267)	(2,062)
Other current assets, liabilities and taxes (C)	**(7,720)**	**(2,483)**
Net working capital (B + C)	**37,703**	**47,132**
Deferred tax assets	7,897	4,861
Provisions for risks and charges	(4,941)	(4,990)
Net liabilities for employee benefits	(5,762)	(6,095)
Other non-current liabilities	(61)	(35)
Deferred tax liabilities	(15,743)	(17,546)
Other non-current liabilities, assets and provisions (D)	**(18,610)**	**(23,805)**
Net capital employed (A + B + C + D)	**269,153**	**270,287**

- 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 ESMA32-382-1138 of March 4, 2021 and without considering the financial payable for Warrants, as this item will not result in a financial outlay.

Composition net financial position	31/12/2021	31/12/2020 RESTATED
A. Cash	32	26
B. Cash equivalents	46,635	42,302
C. Other current financial assets	527	1,032
D. Cash and cash equivalents (A) + (B) + (C)	**47,194**	**43,359**
E. Current financial debt (including debt instruments but excluding the current portion of non-current financial debt)	10,032	28,107
F. Current portion of the non-current debt	14,727	22,856
G. Current financial debt (E + F)	**24,759**	**50,963**
H. Net current financial debt (G - D)	**(22,436)**	**7,604**
I. Non-current financial debt	89,727	108,418
J. Debt instruments	39,438	-
K. Trade payables and other non-current payables	-	-
L. Non-current financial debt (I + J + K)	**129,165**	**108,418**
M. Net Financial Position (H + L)	**106,729**	**116,021**
IFRS 16 – Leases	(15,919)	(15,607)
Net financial position adjusted	**90,810**	**100,414**

As required by the above communication, the Group reports net liabilities for employee defined benefits of Euro 5,762 thousand (Note 16) and Provisions for risks and charges for Euro 4,941 thousand (Note 15).

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. The rise in heat waves, droughts, and floods is already exceeding the tolerance thresholds of plants and animals, causing mass mortality in species such as trees and coral. These extreme weather events are occurring simultaneously and have trickle-down effects that are becoming increasingly difficult to manage. They have exposed millions of people to severe food and water instabilities, particularly in Africa, Asia, Central and South America, on small islands, and the Arctic. Nowhere on the planet is safe from the combined effects of human-induced climate change.

The scientific world, starting with the United Nation's Intergovernmental Panel on Climate Change (IPCC), is unanimous in its message that rapid, immediate action is needed. We have less than ten years to keep temperature increases below the 1.5-degree threshold limit. The main cause of ongoing climate change is the emission of large amounts of greenhouse gases (GHGs). To avoid the increasing loss of life, biodiversity, and infrastructure, we need to take ambitious and accelerated action so that we can adapt to climate change while rapidly and profoundly reducing our GHG emissions. Adaptation to date has been uneven and the gaps between what is being completed and what is needed to address the increasing risks is growing, according to the new report. These gaps are greatest among low-income populations.

The SIT Group operates in a sector in which 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.

SIT's products are already compatible with alternative eco-friendly gases such as biomethane. SIT is also a leader in the creation of intelligent solutions to control environmental conditions and measure consumption. 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.

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 sustainable and create awareness of the topic, thanks in part to its participation in the Value of Water Community promoted by The European House - Ambrosetti.

Finally, SIT's participation at COP26 (the UN climate change conference in Glasgow in November 2021) was significant. SIT participated in the conference with the UK's Department for Business, Energy and Industrial Strategy (BEIS) to provide concrete evidence of its commitment to sustainability and reducing CO_2 through the manufacture of products for the hydrogen supply chain. COP26's objectives (to accelerate the phase-out of coal, particularly) are therefore fully aligned with those defined by SIT, which has taken a proactive role in the decarbonization process and in the reduction of waste produced as a result of gas and water consumption by measuring energy consumption and monitoring climate conditions with its products.

Macroeconomic Overview

The global economy in the second half of 2021 confirmed its growth trajectory, although the persistent supply-side bottlenecks, rising raw material prices and the COVID-19 Omicron variant outbreak continue to weigh on the short-term growth outlook.

GDP movements	2021	2020
Italy	6.6%	-8.9%
Euro	5.3%	-6.8%
USA	5.7%	-3.5%
China	8.1%	2.3%

In the United States, following the widespread slowdown in economic output in Q3, signs of a return to a more sustained recovery emerged at the end of the year. GDP grew by 5.7% in 2021, the highest figure since 1984.

Chinese's GDP in 2021 was up 8.1% - the best result since 2011 - although a sharp slowdown was evident at the end of the year as a result of contracting demand, supply shocks and weaker than expected forecasts for the coming months.

The Eurozone in 2021 reported 5.3% GDP growth, confirming its robust recovery, driven by strong internal demand. Growth moderated in the final quarter due to rising energy costs that impacted consumption and equipment, material and labour shortages that restricted manufacturing in certain industries, causing delays in construction and slowing the recovery of certain service sector segments.

The Italian economy in 2021 saw exceptional growth due to the strong recovery of production output, with GDP up 6.6%. This was driven by domestic demand (+6.2%), while overseas demand (+0.2%) and the change in inventories (+0.2%) made very limited contributions. In terms of the supply of goods and services, value added grew significantly, particularly in manufacturing, construction and many service sectors.

Following the significant slowdown in Q3, mechanical sector output in Italy declined in the final part of the year.

In the final quarter of 2021, in fact, production volumes on the preceding quarter contracted 1.8%, following growth of 0.3% in Q3, while a modest 1.2% increase was reported on the same period of the previous year.

Despite the contractions in Q4 2021, overall mechanical output in the year was up 15.9% on 2020.

Mechanical industry exports in 2021 grew on average by 18.4% on 2020, with year-on-year increases throughout the year, although slowing significantly in the final quarter (+4.9%).

Imports of mechanical products on average grew 24.9% on the previous year, with the greatest increases from non-EU markets (+25.8%) rather than from the EU (+24.2%).

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

The Company has retained its Covid Committee into 2021, 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.

Thanks to the preventative measures put in place, Group operations ran substantially on schedule during the year.

Transfer of Metersit S.r.l. to Sit Metering S.r.l. and incorporation of Metersit UK L.t.d.

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. In addition, in 2021 the company Metersit UK L.t.d. was incorporated, wholly-owned by Metersit s.r.l. and operating as the UK gas meter market agent.

Metersit smart meters installation in 100% hydrogen-powered homes

In May 2021, Metersit S.r.l. participated in an innovative project for developing a safe, efficient and technologically-advanced use of hydrogen for private homes and commercial buildings. The project involved homes under construction in Low Thornley in northern England and the site of the British gas provider Northern Gas Networks (NGN), with the installation of Metersit meters at 100% hydrogen-powered homes and shall demonstrate the use of domestic appliances and heating and cooking systems powered entirely by hydrogen.

The project is part of the broader product innovation strategy of the Smart Gas Metering division, which by June 2020 had already seen Metersit S.r.l. obtain the Commercial Product Assurance (CPA) certification from the British cyber security agency (National Cyber Security Centre) for the Domusnext® H2 residential gas meter.

Bond loan issue

On May 19, 2021, SIT completed the placing of a non-convertible bond loan for a value of Euro 40 million, entirely subscribed by PRICOA Private Capital. The bonds were issued in a single tranche and have 10-year duration, with a 6-year grace period. The fixed half-yearly coupon is indexed from the fifth year to a sustainability rating ("ESG") provided by the international agency EcoVadis. The contract provides the option for SIT to request PRICOA over the next three years to subscribe to additional bonds, up to a total amount of USD 100 million (or Euro equivalent).

The contract stipulates financial covenants, as used in similar transactions, which at the reporting date had been fully complied with.

With this transaction, SIT diversifies its funding streams, improves its financial flexibility and significantly lengthens its average debt duration. The funds raised were partially used to refinance the bank debt in August, stemming also from the recent acquisition of Janz and, at the same time, underscores the Group's concrete commitment to the issues of sustainability and climate change, which in fact have become central to its business decisions and growth strategies.

Sustainability governance

Fully supporting our Sustainability approach, SIT in July decided to adopt a Governance system focused on outlining the Group's ESG strategy and trajectory in order to achieve "sustainable success" - according to the Corporate Governance Code for companies listed on the Mercato Telematico Azionario ("MTA") (Italian Stock Exchange).

The Board of Directors of SIT S.p.A. therefore on July 26 appointed the Director Chiara de Stefani as Corporate Sustainability Director, granting her the powers necessary to co-ordinate the Group Sustainability Plan, the associated improvement policies and objectives and to facilitate stakeholder engagement and communication.

Bank loans

On August 6, 2021, SIT agreed with a bank syndicate a Euro 90 million 5-year amortising loan to settle the bank debt and meet ordinary Group financial needs.

The loan's unguaranteed interest rate is indexed to a sustainability rating ("ESG") issued by the international EcoVadis agency. As is usual in similar transactions, it stipulates a series of commitments for the Company, such as a prohibition, except for within the provided limits, on assuming further debt and providing related guarantees (negative pledges), in addition to limits on the distribution of dividends and the sale of assets or divestment of businesses. Financial covenants based on the consolidated financial statements on a half-yearly basis regard: (i) the ratio between the net financial position and EBITDA and (ii) the ratio between EBITDA and net financial charges, all ratios to be calculated as per that stated in the contract. They had been fully complied with at December 31, 2021.

NGA Electronic Valve Product Line Acquisition

On August 31, 2021, the subsidiary SIT Manufacturing N.A.S.A. de C.V., headquartered in Mexico, completed the transaction agreed in July with the US company Emerson Electric Co. for the acquisition of the electronic valves for gas storage water heaters product line (NGA product line), a very significant market segment in the United States (approx. 73% of the market in 2020) and forecast to achieve single digit growth over the coming years. The acquisition also allows the expansion of the current product portfolio in the market of components for storage water heaters in which SIT is already present with the mechanical valve. The transaction therefore strengthens SIT's competitive positioning and market share.

SIT participates at COP26 in Glasgow with BEIS

At the COP26 United Nations conference on climate change held in November 2021 in Glasgow, SIT participated in the conference with the UK's Department for Business, Energy and Industrial Strategy (BEIS) to provide concrete evidence of its commitment to sustainability and reducing CO_2 through the manufacture of products for the hydrogen supply chain. SIT has always been actively involved in energy policy, promoting the transition to fuels with lower environmental impact; this commitment has been strongly renewed in 2019, making it a founding element of the company's mission. COP26's objectives (to accelerate the phase-out of coal, particularly) are therefore fully aligned with those defined by SIT, which has taken a proactive role in the decarbonization process and in the reduction of waste produced as a result of gas and water consumption by measuring energy consumption and monitoring climate conditions with its products.

SIT achieves world's first MID certification for hydrogen meter

SIT, through its subsidiary Metersit, has obtained MID - Measuring Instrument Directive certification for the Domusnext® 2.0 $MMU6_{H2}$ residential meter operating with 100% hydrogen. The MID certificate was issued by the notified body NMi Certin B.V., is valid in Europe and in the UK but also recognised in other non-EU countries and guarantees the accuracy and reliability of the measuring instrument. The Domusnext® 2.0 $MMU6H_2$ meter model - the first in the world to achieve MID certification - was developed as part of the UK government 's Hy4Heat program**,** in collaboration with BEIS - Department for Business, Energy and Industrial Strategy of the UK government; it is also the same model that was installed in the 100% hydrogen-powered homes built in Gateshead, in the north of England, and was exhibited at the COP26 conference in Glasgow, on the BEIS stand.

Sales overview

The SIT Group comprises two Divisions:

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

Revenue by Division

(Euro.000)	2021	%	2020	%	diff	diff %
Heating	298,251	78.4%	249,003	77.6%	49,248	19.8%
Metering	76,913	20.2%	68,634	21.4%	8,279	12.1%
Total business revenues	375,164	98.6%	317,637	99.0%	57,527	18.1%
Other revenues	5,357	1.4%	3,094	1.0%	2,263	73.1%
Total revenues	**380,521**	**100%**	**320,731**	**100%**	**59,790**	**18.6%**

Revenue by region

(Euro.000)	2021	%	2020	%	diff	change %
Italy	106,992	28.1%	107,654	33.6%	(662)	(0.6%)
Europe (excluding Italy)	167,497	44.0%	128,827	40.2%	38,670	30.0%
The Americas	74,241	19.5%	58,537	18.3%	15,704	26.8%
Asia/Pacific	31,791	8.4%	25,712	8.0%	6,078	23.6%
Total revenues	**380,521**	**100%**	**320,731**	**100%**	**59,790**	**18.6%**

2021 consolidated revenues were Euro 380.5 million, increasing 18.6% on 2020 (Euro 320.7 million). The 2021 figures include the sales of Janz, the Portuguese Water Metering company acquired at the end of 2020, which in the first year of consolidation reported sales of Euro 19.8 million.

Heating Division sales in 2021 amounted to Euro 298.3 million, +19.8% compared to Euro 249.0 million in 2020 (+20.2% at like-for-like exchange rates). In the fourth quarter, the division's core sales rose 3.6% to Euro 77.4 million, compared with Euro 74.7 million in the same period of 2020.

The following table presents Heating Division core sales by region according to management criteria:

(Euro.000)	2021	%	2020	%	diff	change %
Italy	55,682	18.7%	43,945	17.6%	11,737	26.7%
Europe (excluding Italy)	140,078	47.0%	120,213	48.3%	19,865	16.5%
The Americas	72,025	24.1%	57,960	23.3%	14,065	24.3%
Asia/Pacific	30,467	10.2%	26,885	10.8%	3,581	13.3%
Total sales	**298,251**	**100%**	**249,003**	**100%**	**49,248**	**19.8%**

Italian sales were up 26.7% on 2020, thanks to strong Central Heating demand, supported also by incentives; mechanical controls rose (Euro +5.7 million, +27.5%), as did fans (Euro +5.6 million, +38.2%) and flue kits (Euro +0.8 million, +40.0%).

Europe (excluding Italy) in 2021 saw sales increase 16.5% on the previous year, for a total of Euro 140.1 million. All regions report improvements on 2020; Turkey in particular, the leading market with 11.8% of division sales, saw growth of 20.4% (Euro +6.0 million), thanks to recovering Central Heating demand from multi-national customers in the country, while the UK, 7.5% of division sales, was up 6.2% on an annual basis (Euro 1.3 million). Central European remains strong, thanks to the introduction of new products, up 26.7% on 2020 (Euro 6.4 million).

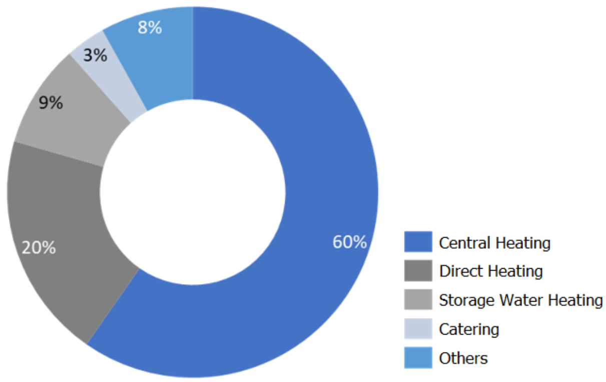
Sales in the Americas rose 24.3% (+27.7% at like-for-like exchange rates), thanks to fireplaces growth, with a strong recovery on a 2020 shaped by COVID; in 2021, Storage Water Heating applications contracted 6.1% (-4.0% at like-for-like exchange rates) due to a number of shipment delays in Q4.

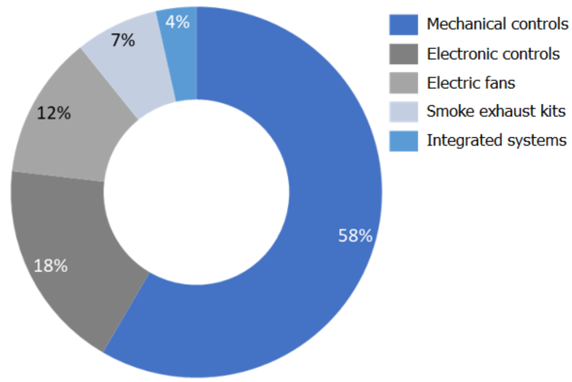
Asia/Pacific sales were up 13.3% to Euro 30.5 million (Euro 26.9 million in 2020). Growth was reported in China (6.5% of the division), up 32.3% as a result of the Central Heating retail market recovery and in Australia, improving Euro 1.1 million (+18.2%).

Among the main product families, Mechanical controls sales were up (+18.1%, Euro 26.7 million), as were Fans (+31.2%, Euro 8.8 million) and Electronic controls (+17.7%, Euro 8.3 million). At the application segment level, Central Heating accounted for 59.7% of division sales, increasing 20.0%, while Direct Heating (17.5% of the division sales) rose 35.0% due to the strong fireplaces market.

In relation to the main customers of the Heating Division, 37.0% of 2021 sales were from the top five clients, while accounting for 41.6% in 2020.

The following charts break down H1 2021 Heating sales by product family and application (data from management sources):





The **Metering Division** in 2021 reports sales of Euro 76.9 million (+12.1%), including those of Janz (Water Metering enterprise acquired at the end of December 2020) of Euro 19.8 million.

Smart Gas Metering sales in 2021 totalled Euro 57.1 million, compared to Euro 68.6 million in 2020 (-16.7%). This performance, as forecasted, was due to the contraction of the Italian market in view of the advanced phase of the initial replacement of installed meters, which is over 80% completed. Overseas sales accounted for approx. 7% of the total and were mainly in Greece and Croatia. Commercial & Industrial sales rose considerably (+39.6%) following the introduction of the new generation of products and due to the overseas contribution.

Looking to the **Water Metering** division, this new Group operating segment, following the acquisition of the Portuguese Janz at the end of December 2020, reported in its first year of operations sales of Euro 19.8 million. The sales concerned finished meters for Euro 9.3 million and components for Euro 9.1 million.

Economic performance

Consolidated revenues in 2021 totalled Euro 380.5 million, increasing 18.6% on 2020 (Euro 320.7 million). The purchase of raw materials and consumables, including changes in inventories, totalled Euro 199.4 million, accounting for 52.4% of revenues, decreasing on 53.3% in 2020, despite the increases in raw materials, demonstrating the Group's ability to absorb these increases, also through higher sales prices to customers.

Service costs of Euro 48.4 million accounted for 12.7% of revenues, compared to 11.9% in the previous year (Euro 38.2 million). These cost increases reflect higher transport costs (Euro 4.0 million), in particular on purchases and the greater use of outsourcing (Euro 1.6 million). The increase in consultancy (+29.7%) on the previous year mainly concerns product technical consultancy.
Personnel costs totalled Euro 82.0 million, accounting for 21.5% of revenues (20.8% in 2020), increasing Euro 15.4 million. This increase is due for Euro 5.6 million to the expansion of the Group's scope, with the inclusion of the subsidiary JANZ and for Euro 2.5 million the greater use of temporary personnel (service which was reduced in 2020 in view of the COVID impact). We note that in early 2020, during the most acute phase of the pandemic, the Group received contributions and benefits from local governments as a result of the state of emergency, and made greater use of provisions for deferred remuneration.

Amortization, depreciation and write-downs of Euro 26.9 million were up 11.8% on the previous year (Euro 24.1 million). The increase is mainly due to greater capex in 2021 than the previous year.

The item Provisions for risks is negative for Euro 0.1 thousand, compared to Euro 0.8 million in 2020. The net change was affected by the release of provisions for future risks and charges (Euro 0.7 million) and provisions for the period (Euro 0.6 thousand) relating to obligations to customers for potential contractual indemnities.

Other income and charges totalled Euro 0.4 million, a change of Euro 1.0 million on the previous year. In 2021 this amount includes income of Euro 0.8 million for the recognition of research and development tax credits (Euro 0.4 million in the previous year) and Euro 0.7 million in extra costs re-invoiced to customers.

EBITDA was Euro 51.2 million, up 17.4% on 2020 (Euro 43.6 million). Non-recurring costs were incurred in 2020 totalling Euro 1 million related to the acquisition of JANZ. For further details, see the paragraph Composition of main alternative performance measures.

Group EBIT therefore rose from Euro 19.6 million in 2020 to Euro 24.3 million in 2021 (+24.0%), with a 6.4% margin, increasing from 6.1%.

Financial charges totalled Euro 14.1 million, rising Euro 10.1 million on the previous year. The cost recognised in 2021 includes Euro 9.0 million for the increase in the fair value of the Warrants. Financial income of Euro 0.4 million decreased compared to the previous year (Euro 0.8 million). In 2020, this financial income included the positive change in fair value related to the performance of the market value of the Warrants for Euro 0.5 million.

Adjusted net financial charges, net of the aforementioned changes in fair value, were Euro 3.7 million in 2021, in line with the previous year.

Income taxes totalled Euro 3.5 million, compared to Euro 2.8 million in 2020. This amount is net of the positive effect from non-recurring income (Euro 1.7 million) relating to the agreement of the Parent Company with the Tax Agency on the calculation of the financial contribution of intangible assets (Patent Box optional regime), in addition to the reduction in the pre-tax result on the previous year.

The net profit was Euro 8.2 million (Euro 13.2 million in 2020).

The adjusted net profit, net of the above-stated non-recurring effects, was Euro 16.3 million (4.3% margin), compared to Euro 13.4 million in 2020 (4.2% margin).

Cash Flow performance

At December 31, 2021, the net financial debt was Euro 106.7 million, compared to Euro 116.0 million at December 31, 2020, improving by Euro 9.3 million. The movements in the net financial position are reported below:

(Euro.000)	2021	2020 RESTATED
Cash flow from current activities (A)	**52,177**	**44,210**
Cash flow generated (absorbed) from Working Capital (B)	**1,079**	**(16,929)**
CASH FLOW FROM OPERATING ACTIVITIES (A + B)	**53,256**	**27,281**
Cash flow from investing activities (C)	(26,058)	(41,064)
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)	**27,198**	**(13,783)**
Interest paid	(3,566)	(3,024)
Changes in accrued interest, MTM and amortised cost	(537)	(203)
Equity changes	(3,868)	(2,684)
Changes to financial assets	(500)	1,000
Changes in payables for acquisitions	446	(3,570)
Dividends paid	(6,890)	(3,476)
IFRS 16	(2,991)	(11,902)
Change in net financial position	**9,292**	**(37,642)**
Opening net financial position	**116,021**	**78,379**
Closing net financial position	**106,719**	**116,021**

(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 2021 amounted to Euro 52.2 million, compared to Euro 44.2 million in the previous year.

Cash flows from working capital movements amounted to Euro 1.1 million in 2021 compared to an absorption of Euro 16.9 million in 2020. Commercial working capital generated Euro 4.8 million in 2021 due to an increase in current payables and the without recourse factoring of trade receivables. Inventory increased by Euro 13.0 million in the year. Tax liabilities remained substantially in line with 2020, while other working capital items generated a cash flow of Euro 2.8 million.

In terms of investments, in 2021 cash investments of Euro 26.1 million were made, compared to Euro 41.1 million in 2020, including the acquisition of JANZ, the Portuguese water metering enterprise and of Plast Alfin, a Tunisian plastics manufacturing company, for a total outlay of Euro 28.4 million.

Operating cash flows after investments therefore were Euro 27.2 million, compared to Euro -13.7 million in the previous year.

Among the financing activity cash flows, in 2021 we indicate the payment of interest for Euro 3.5 million (Euro 3.0 million in 2020), and the payment of dividends for Euro 6.9 million in 2021 (Euro 3.5 million in 2020).

The movement in the net debt reflects the subscription of new contracts 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 3.0 million increase in 2021.

Investments

In 2021 the Group invested Euro 24.7 million, of which Euro 23.2 million (94.1% of the total) in the Heating Division, Euro 0.7 million (2.7% of the total) in the Smart Gas Metering Division and Euro 0.8 million (3.2% of the total) in the Water Metering Division. Total investments in 2020 amounted to Euro 14.4 million, of which Euro 13.6 million in Heating.

The acquisition of the NGA product line from the U.S. company Emerson Electric was completed in H2 2021. This transaction enables the Company to enter the electronic controls segment of the SWH sector and involves the acquisition of not only the products and the production lines, but also the related patents.

At operating investment level, the main events in 2021 concerned the new production lines installed at the new Tunisian plant and related accessory expenses (Euro 4.0 million).

The remaining Heating segment investments essentially related to plant maintenance (Euro 4.8 million), the renewal of die-casting moulds (Euro 3.3 million) and new product development (Euro 2.5 million).

Investment in Smart Gas Metering was essentially for new product development (Euro 0.2 million or 23.0% of the divisional total). The remainder relates to industrial and laboratory equipment, the purchase of hardware and software and production streamlining.

As regards the Water Metering division, investments in 2021 mainly regarded the maintenance of existing plants (Euro 0.7 million, 83.5% of the division's total).

RESEARCH, DEVELOPMENT AND QUALITY CONTROL

In 2021 the Group incurred research and development costs for a total of Euro 12.5 million, equivalent to 3.3% of revenues, compared to Euro 11.2 million in the previous year (3.5% of revenues).

In 2021, the research and development area had an average workforce of 120, including 79 located at the Parent Company. In 2020, these numbered 104 and 74 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 CO_2 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. Among the most significant developments of 2021 was the launch of projects based on advanced sensor technologies - major innovations in the sector - in the area of intelligent combustion control and safety control for fully hydrogen boilers. This line of research has seen SIT initiate projects with established technology incubators to accelerate the research process and draw on expertise developed in other sectors.

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 Milan Polytechnic, the University of Padua and the University of Ferrara, 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.

As regards to the main projects for 2021, we highlight the expansion of the 877 range, the new platform of mechanical controls with electrical modulation intended for the Central Heating market, especially in Europe. This family of mechanical controls is 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. The platform makes use of the new e-CMS Electronic Combustion Management System, with which SIT enables its customers to 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 the area of electronic products, the development of new products that improve the presence of SIT in the sector continues, in particular through co-development projects with major customers in the field of remote control, control panels on color touch technology, integration of devices in BMS (Building Management System) and Home Automation systems (integration with Amazon Alexa and Google Home); projects to integrate sensors of different technologies in flow detection applications for hydrogen-powered applications have also begun.

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 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.

In 2021, other major Group customers also began development of their own hydrogen-powered applications. SIT has initiated application development projects with these customers and is actively collaborating in the start-up, testing and adaptation to various specifications. The Heating Division's entire product catalogue - pneumatic (platform 848) and electric (platform 877) valves and fans for condensing boilers (NG40, NG40E, NG20 and Integra) - has been approved for the use of a mixture or 100% hydrogen, while solutions for high modulation of combustion based on sensors are under development.

Metering Division

Following the acquisition of JANZ (a Portuguese company operating in the water metering sector) in late 2020, the Metering Division's research and development activities in 2021 created economies of scope and synergies to pool research activities, leveraging the specific distinctive competencies. Joint development activities have begun for the residential product range, especially in electronics and communication.

As regards the smart gas metering sector, the projects concerned the UK market and the development of the communication technologies needed to access various foreign markets. Major projects completed during 2021 included:

- Development and certification of the U6 ZigBee dual band product for the UK market;
- Development and certification of the low cost walk-by single battery domestic product for the Indian market;
- Development and customer approval of the industrial meter in NB-IoT version;

Welmec 2019 MID (Measuring Instruments Directive) certifications were also obtained for the entire range of household meter releases in the fields of statutory metrology.

In the water metering business, in 2021 JANZ focused on completing and maintaining existing products. Particular focus was placed on the single jet meter line, making the products more stable through some investments in manufacturing and introducing the new version with a composite body intended mainly for the South American market.

In 2021, particular emphasis was placed on the topic of sustainability and the circular product economy. In both gas and water metering, projects began on the use of recycled plastics, as did feasibility studies into possible scrapping and recovery activities. Also from the point of view of the circular economy, it is important to underline that the bodies of the volumetric and multi-jet meters are made of brass and are therefore entirely recyclable. JANZ has therefore introduced repair activities that allow the brass body to be recovered, integrating it into new meters that are then returned to the customer.

Hydrogen

In 2021, Metersit continued its work on initiatives involving the use of hydrogen as a clean energy source.

Testing was completed on a measurement sensor that extends gas measurement from group H to groups H, L, E, with blends up to 23% hydrogen.

As part of the English project Hy4Heat to define the technical feasibility, safety conditions and cost-effectiveness of replacing methane gas with hydrogen in both commercial and residential applications - a project assigned by the Department for Business, Energy & Industrial Strategy (BEIS) - MID (Measuring Instrument Directive) certification was obtained in 2021 for the residential meter Domusnext® 2.0 MMU6H_2 operating with 100% hydrogen. This is the same meter installed in the 100% hydrogen homes being built in Low Thornley in northern England, at the site of UK gas distributor Northern Gas Networks (NGN) and subsequently displayed at COP26 in Glasgow, at which Metersit participated alongside BEIS

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 organization'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, and EMC testing recognition was extended in 2021.

In 2021, Metersit confirmed its ISO 9001:2015, ISO 14001:2015 certifications and all Production Quality Assurance certifications (Module D of the MID Directive 2014/32/EU and Annex IV of the Atex Directive 2014/34/EU) of its Production Plants.

ISO 17025 certification for Metersit's R&D laboratory as a calibration lab confirms the level of expertise achieved there.

Metersit passed the Audit to renew its ISO 27001 certification (Information Security Management) and its CPA certifications have been extended to cover the UK market. This step is key as we approach major overseas markets where data management (such as both HW and SW project data, meter data, cryptographic keys and others) is required for the acceptance of smart products.

Finally, all UK activities began to obtain certification pursuant to UKEX Regulations SI 2016:1107 (Equipment and Protective Systems Intended for Use in Potentially Explosive Atmospheres Regulations), a mandatory certification from January 2023. These activities will be completed in 2022.

In 2021 JANZ renewed its ISO 9001:2015 and Production Quality Assurance (Module D of the MID Directive 2014/32/EU) certifications.

Recognition of its Water Meter and Linear Metrology Laboratory activities in accordance with the principles of ISO 17025 confirm the high level of expertise achieved there, as does the renewal of ISO 9100 certification.

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 average (*)	%	31/12/2020 (*)	%	2021 average	%	31/12/2021	%
Executives	36	1%	37	1%	39	1%	38	1%
White-collar	455	20%	521	19%	557	20%	584	21%
Blue-collar	1,641	71%	1,915	71%	1,892	69%	1,881	67%
Temporary	193	8%	247	9%	286	10%	311	11%
Total	**2,325**	**100%**	**2,720**	**100%**	**2,774**	**100%**	**2,814**	**100%**

(*) The number of employees at December 31, 2020 and the average figure for 2020 have been restated.

At the reporting date:

- Metering Division had 381 employees, of whom 82 in Italy and 299 abroad; in 2020, before the acquisition of JANZ there were 162 employees, of which 74 in Italy;
- at Group level, employees in Italy numbered 949 (34% of the total) while those based in other countries numbered 1,865 (66% of the total). In the previous year, these figures were 949 (35% of the total) and 1,771 (65% of the total), respectively.

Smart working

2021 saw the continuation of the hybrid work model, which alternates days of physical presence in the office and days of agile work and is formalized through company regulations. This approach to work affords greater autonomy through accountability for results, talent development and trust, which have therefore become the key principles of this new approach.

The regulation introduced in 2019 provides for the possibility, through individual agreements, for all those whose duties do not explicitly require physical presence on the premises to work remotely up to two days a week, at a place that complies with occupational health, safety and hygiene standards and that guarantees confidentiality of data processed.

The introduction of the new model has enabled an approach of active listening to staff working remotely. It aims to safeguard employee psychological well-being to guide them to work remotely in ways that are efficient but which, above all, allow for a good work-life balance. Workshops were therefore launched under the title "Smart working & work life balance". These sought both to gather feedback and to define best practices for managing work flexibility in the best possible way, mitigating the risks and excesses connected with the approach.

Employer branding. With the aim of attracting the best talent, over time SIT has established solid and fruitful relationships with a number of Italian universities, working on projects to promote the SIT brand within the university and school population. In 2021 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 has participated in 10 events sponsored by the Career Services of universities throughout Italy, meeting students from the University of Padua, the University of Milan-Bicocca, La Sapienza in Rome and the Marche Polytechnic University. During the Digital Recruiting Week organised by StartHub Consulting, there was a particular focus on candidates in the STEM (Science, Technology, Engineering, Mathematics) area.

Finally, as evidence of its sensitivity towards gender equality, in 2021 SIT took part in two days dedicated to the world of women with Womenhack Milano, a recruitment and networking event dedicated to women in the hi-tech world, and GirlZ Power day during the STEM Digital Recruiting Week.

Digital and Lean transformation

In 2021 SIT gave new impetus to 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.

The main results achieved in the Digital area were:

- extension of the CRM platform adopted by the Group to include the Smart Gas Metering Division;

- launch of Product Carbon Footprint certification according to the UNI EN ISO 14067:2018 standard and the Life Cycle Analysis (LCA) methodology on a preliminary set of products from the two divisions;
- introduction of an augmented reality platform to improve interaction between plants and with customers and suppliers; several quality audits were successfully carried out for the first time remotely at a number of plants in both the Heating and Metering divisions;
- further progress on the Industrial Internet of Things (IioT) platform in the main production plants, providing real-time data on productivity, causes of downtime, waste or failure, and therefore allowing action to be taken and related operational reports to be prepared;

In addition to the coaching and training activities taking place at plants with the support of external consultants, as part of the Lean transformation project the following objectives were achieved in 2021:

- definition of a system of shared KPIs at all plants, making them comparable and facilitating budgeting and localization policies;
- introduction of the *daily gemba walk*, a methodology at the heart of a culture of continuous improvement. This is a daily monitoring activity that enables problems in individual departments to be identified and therefore immediately resolved with the involvement of the correct managers;
- installation of monitors in the various plants to inform employees of lean principles and the various initiatives underway, along with the introduction of further visual management initiatives;
- realization of specific workshops on TPM (Total Productive Maintenance) topics, 5S (5 Japanese words that in English stand for Separate, Set in order, Shine, Standardize and Sustain) and SMED (Single Minute Exchange Die, a technique to reduce machine tooling time);
- definition of medium-term objectives and work streams both in production plants and at headquarters.

L.T.I. – Long Term Incentive

On April 29, 2021, the SIT Shareholders' Meeting approved the medium/long-term incentive (LTI) plan for employees of the Company, its subsidiaries and the Advisory Board. The plan provides for the free allocation of a maximum of 794,479 Company shares and is divided into (i) a Performance shares plan, whose shares which are allocated based on the achievement of certain performance targets; (ii) a Restricted shares plan, whose shares which are allocated based on continued employment with the

Company for a predetermined time frame and (iii) a plan of shares reserved for the Advisory Board, whose shares are allocated based on an increase in the SIT share price within a predetermined time frame.

The performance share plan is divided into three rolling allocation cycles (the plan cycles), each lasting three years, at the end of which the shares will be allocated free of charge, provided that: (i) the relationship between the beneficiary and the Group is still in place at the end of the allocation period; (ii) the performance targets have been achieved, calculated with reference to the following: a) cumulative three-year adjusted EBITDA; b) adjusted net financial position at the end of the period; c) ESG indicator, i.e. award of a certain score by the EcoVadis certification body.

The Performance shares plan also has a one-year lockup clause for the relevant beneficiaries for a specified percentage of the shares granted.

The Restricted Shares Plan also has a three-year duration, at the end of which the shares will be allocated free of charge if, at the allocation date, the beneficiary's relationship with the Company or with the Group's relevant subsidiary is ongoing and he/she continues to be a beneficiary, with reference to the role held and without prejudice to the provisions of the regulations covering the usual definitions of good leaver and bad leaver.

The plan for the Advisory Board also has a three-year duration, at the end of which the shares will be allocated free of charge if the beneficiary's relationship with the Company is ongoing at the date the shares are allocated and certain targets for increasing the SIT share price have been met.

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

Training

The annual training plan ensures a broad-base increase in managerial, technical, specialist and safety skills. In 2021, areas of development included the following:

- training courses on leadership and strategic vision, designed for Executives and managers in their role as agents of change with top-level responsibility for business processes and the organization;
- training activities on support for, management and training of the remote working population to reinforce the Company's choice of a large-scale hybrid working model;
- specialised training for function managers, e.g. execution leadership projects for R&D managers responsible for product platforms, and value selling training projects to develop a new strategic commercial approach;
- a further training course focused on the development of project management skills for the supply chain area.

In 2021, a significant commitment was made to cultural consolidation and corporate involvement in Sustainability issues, which are a fundamental part of SIT's corporate values and mission. The project Driving Corporate Sustainability began in 2020 and ended in April 2021. This was provided for a management team and enabled action on three distinct targets: integrating the principles of sustainable business into decision-making activities; developing a new way of conceptualizing sustainability issues through the definition of a Green paper (SIT's sustainability manifesto) and finally identifying a set of indicators for monitoring corporate sustainability.

Equally significant was the Carbon management project, whose training modules included courses on the Introduction to the carbon footprint and on the product Climate Footprint, a project that has addressed the technical and regulatory basis of the UNI EN ISO 14067:2018 standard on the product Carbon footprint, experimenting in the field with the issues of quantification of product CO_2.

Approximately 7,800 training hours were delivered to SIT and Metersit employees. At Group level, around 73,700 hours of training were provided, an increase of over 40% on the previous year.

RISK MANAGEMENT POLICY

In 2021, the Group further consolidated its Enterprise Risk Management process as an integral part of its Internal Control and Risk Management System.

Specifically, in H1 2021 a new risk assessment was conducted on the Group's Metering Division. This also involved representatives of the Portuguese company Janz, acquired in late 2020 and operating in the Water Metering sector.

In order to improve risk assessment, and with a view to long-term sustainable success, a number of innovative elements were introduced into the Group's risk model in 2021. These included a time horizon for analysis consistent with the horizon of the strategic plan (2021-2025) and a focus on risks that may have an impact on sustainability objectives (e.g. climate change). In addition, a single risk model has been adopted for all Group divisions, eliminating the separation that previously existed between the risk assessment and follow-up processes of the two divisions, Heating and Metering.

Adopting this new approach ensures:
(i) greater timeliness and incisiveness in identifying risks;
ii) more frequent follow-up activities linked to the remediation plans agreed with top management;
(iii) greater responsiveness to risk mitigation needs in accordance with the strategic objectives set out in the Company's Strategic Plan.
The work carried out in both the assessment and remediation phases was reported to the Control, Risks and Sustainability Committee and the Board of Statutory Auditors and subsequently to the Board of Directors. The latter was able to decide on the most appropriate risk mitigation actions and policies, agreeing on the methods and frequency of monitoring and follow-up.

The Group adopted the following classification of risks:

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

As is well known, 2021 was also affected by COVID-19 and the consequent restrictive measures put in place by the public authorities of the countries concerned, including Italy. The effects of this general economic environment and the subsequent quick rebound in global economic activity as a result of the vaccine plan roll-outs and the gradual normalisation of activities will also inevitably extend to the management of the risks, with particular regard to operating risks (supply chain and business interruption) and financial risks (raw material price risk). For an initial assessment of the risks related to the outbreak of conflict between Russia and Ukraine, see the section on events subsequent to the end of the financial year.

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.

In 2020, SIT acquired a company, already supplying plastic components, located in Tunisia and therein established SIT Controls Tunisia in order to develop a captive production hub for electronic boards and mechanical components, both for the Heating division and the Metering division.

The country risk arising from locating in Tunisia was evident in the first half of 2021 in terms of the local political and institutional crises, exacerbated by the serious economic and healthcare situation caused by COVID. No negative impacts have to date emerged from this situation and the Group continues to closely monitor the developing political situation, supported also by a network of contacts and relations with the business community and institutions.

We note, however, that the decision to locate production in Tunisia - right from the planning stage - was made in line with a policy of double sourcing to allow the rapid start up of local production at other Group sites should production be interrupted because of the contingent situation in the country.

Climate-related risks

SIT is a key manufacturer of control, safety, performance and consumption measurement tools for gas appliances. In the heating sector the components and systems produced by SIT are key to monitoring the energy efficiency and CO_2 emissions of devices utilised by its end 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 and 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-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 biomethane. As regards hydrogen, we highlight the applied research initiatives for a hydrogen boiler with major customers 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 H1 2022.

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 2021, 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 Code of Ethics. Finally, the policy of identifying alternative suppliers in order to reduce supply concentration was stepped up.

From the second half of 2020 and the entire 2021, as production activities resumed following the lockdown period, there was a significant increase in the market demand for many raw materials and components used by the Group. In particular, copper, aluminium, steel, plastics and certain electronic components have experienced procurement difficulties and price increases. The availability of inbound transportation, particularly from China and the Far East, has also been reduced by the sharp increase in demand. The Group therefore implemented procurement policies designed to meet requirements at the best conditions possible, both with a view to production continuity and to reducing purchase cost volatility. Longer-term risk management also considers the approval, where possible, of alternative (particularly electronic) components.

In view of the above and the currently visible future outlook, it may not be ruled out that market demand levels may lead to shortages of materials and an increase in their purchase price, which could therefore impact the Group's business and its operating and financial results and prospects.

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 have proved efficient at every stage of the supply chain. With regards to the possible impacts on business continuity from the contingent situation of the procurement markets, reference should be made to the previous paragraph.

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

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 the first half of 2021, activities were undertaken to obtain and renew quality and environmental certifications that are due to expire or that have been included in the Group's quality plan. In addition, importance is placed on the provisions in place at the Group's sites to ensure immediate action is taken in case of an environmental emergency. Said provisions guarantee a prompt response in the case of an accidents so as avoid or minimise any environmental impact.

Finally, SIT has adopted operating procedures and instructions to guarantee the correct processing of hazardous waste (used oil, solvents, aqueous rinsing liquids).

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 2021 for a reduction of the INAIL premium, granted every year since 2011.

See the 2021 Consolidated Non-Financial Statement for further and more comprehensive discussion of the matters covered in this paragraph.

Legal and compliance risks

SIT is exposed to the risk of delayed compliance with 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.

The Parent Company, as listed on the Italian Stock Exchange's "Mercato Telematico Azionario", has 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 any disputes, the Company's 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.

Insurance Coverage

With the collaboration of its insurance broker, in 2021 the Company updated its assessment of the types of risk considered relevant and the various insurance cover opportunities offered by the market. In 2021 this market highlighted a series of critical issues, especially in the third party liability sector where risk assessment on an international scale showed a significant increase in the related premiums. To overcome these issues, the Company organized a number of technical sessions with a range of leading insurers and, in collaboration with its broker, provided an extremely solid technical representation, restricting premium increases to well below the market benchmark.

In particular, coverage of all Group companies insurance policies were renewed 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 2021, 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)	2021	% Revenues	2020	% Revenues
EUR	280,249	73.6%	240,388	75.0%
USD	68,071	17.9%	56,265	17.5%
CNY	18,708	4.9%	13,966	4.4%
AUD	6,189	1.6%	5,472	1.7%
MXN	5,761	1.5%	3,241	1.0%
GBP	1,490	0.4%	1,143	0.4%
Other	54	0.0%	255	0.1%
Total	**380,521**	**100%**	**320,730**	**100%**

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

(Euro.000)	2021	% Purchases	2020	% Purchases
EUR	140,764	66.8%	117,297	67.5%
USD	56,345	26.7%	43,707	25.2%
CHF	5,834	2.8%	6,878	4.0%
CNY	3,998	1.9%	3,125	1.8%
RON	2,409	1.1%	1,623	0.9%
MXN	1,097	0.5%	596	0.3%
AUD	204	0.1%	446	0.3%
Other	33	0.0%	24	0.0%
Total	**210,685**	**100%**	**173,696**	**100%**

During 2021, in line with its policies, the Company undertook financial hedges principally against net exposures in USD, AUD, GBP, CHF, and CNY.

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)	31.12.2021
Currency	
Euro	29,431
US Dollar	7,873
Chinese Yuan	6,452
Romanian Leu	823
Australian Dollar	794
Other currencies	1,113
Total	**46,486**

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 1,705 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 90 million. 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 72 million, or 80.0% 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 charges for SIT for the year 2021 of Euro 204 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 101 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.

From the second half of 2020 and the entire 2021 there was a significant increase in the market prices of certain raw materials and components used by the Group, particularly copper, aluminium, steel, plastics and certain electronic components. The magnitude of market price fluctuations has led the Company to take further action to mitigate this risk. This action included the search for alternative suppliers, technical approval for alternative components and the monitoring of supply markets, including by the foreign subsidiaries located in China and Mexico. In order to reduce purchase cost volatility, the Group therefore implemented procurement policies designed to meet requirements at the best conditions possible and guarantee regular supply. It should also be noted that contracts with certain suppliers contain price adjustment clauses every six months and therefore the aforementioned market trend will have effects on purchase costs for the following year.

No transactions to hedge against this risk were undertaken during the period.

In view of that indicated above and the foreseeable outlook, 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.

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 strictly monitored and managed centrally by the Parent Company, which carried out the Group Treasury Management and Financial Coordination to ensure an effective and efficient management of financial resources in correlation with the underlying market conditions.

On May 19, 2021, Sit S.p.a. completed the placing of a non-convertible bond loan for a value of Euro 40 million, entirely subscribed by PRICOA Private Capital. The bonds were issued in a single tranche and have 10-year duration, with a 6-year grace period. The fixed half-yearly coupon is indexed from the fifth year to a sustainability rating ("ESG") provided by the international agency EcoVadis. The contract provides the option for Sit S.p.a. to request PRICOA over the next three years to subscribe to additional bonds, up to a total amount of USD 100 million (or Euro equivalent).

With this transaction, SIT diversifies its funding streams, improves its financial flexibility and significantly lengthens its average debt duration.

On August 6, 2021, SIT agreed with a bank syndicate a Euro 90 million 5-year amortising loan to settle the bank debt and meet ordinary Group financial needs.

The loan's unguaranteed interest rate is indexed to a sustainability rating ("ESG") issued by the international EcoVadis agency. As is usual in similar transactions, the loan stipulates a series of commitments for the Company, such as a prohibition, except for within the provided limits, on assuming further debt and providing related guarantees (negative pledges), in addition to limits on the distribution of dividends and the sale of assets or divestment of businesses.

Both the bank loan and SIT's syndicate loan include covenants based on the consolidated 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 these contracts 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 bond loan in addition requires compliance with an established debt/own funds ratio.

As at December 31, 2021, 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 269.8 million, compared to Euro 217.0 million in the previous year (+24.3%). 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 159.4 million accounting for approx. 59.1% of revenues, an increase compared to 56.6% in the previous year.

Personnel costs totalled Euro 48.0 million, (Euro 41.9 million in the previous year), representing 17.8% of revenues (19.3% in 2020).

Service costs amounted to Euro 35.5 million and accounted for 13.2% of revenues, compared to Euro 30.9 million and 14.2% in 2020.

2021 EBIT totalled Euro 12.0 million compared to Euro 5.8 million in 2020 (4.4% revenue margin vs. 2.7% in 2020).

Income from equity investments amounted to Euro 9.8 million, compared to Euro 6.8 million in the previous year. Financial income amounted to Euro 0.9 million, compared to Euro 1.1 million in 2020. Financial charges amounted to Euro 13.7 million in 2021, primarily due to the Euro 10.0 million increase in the fair value of the SIT Warrants. Non-recurring financial charges were also recorded in relation to the refinancing transactions carried out in 2021: specifically, the settlement of the interest rate hedging transactions and the recognition to the income statement of the residual amortised cost on the loan repaid in advance for Euro 0.6 million and Euro 0.4 million respectively.

2021 pre-tax profit was Euro 9.4 million (3.5% revenue margin) compared to Euro 9.6 million in 2020 (4.4% margin).

Taxes for the year amounted to Euro 0.4 million, compared with zero the previous year. A positive non-recurring impact of Euro 1.7 million was reported during the year following recognition of the agreement reached with the tax authorities regarding the Patent Box.

2021 net profit was Euro 9.0 million (3.3% revenue margin) compared to Euro 9.6 million in 2020 (4.4% margin).

In 2020 the Parent Company acquired 412,723 treasury shares amounting to Euro 3.9 million, 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, 2021 was a net debt of Euro 97.7 million (Euro 124.4 million at December 31, 2020). The breakdown of the net financial position is shown below:

(Euro.000)

Composition net financial position (1)	**31/12/2021**	**31/12/2020**
A. Cash	12	13
B. Cash equivalents	33,451	27,815
C. Other current financial assets	46,784	14,396
D. Cash and cash equivalents (A) + (B) + (C)	**80,246**	**42,224**
E. Current financial debt (including debt instruments but excluding the current portion of non-current financial debt)	42,829	45,532
F. Current portion of the non-current debt	14,784	23,136
G. Current financial debt (E + F)	**57,613**	**68,668**
H. Net current financial debt (G - D)	**(22,633)**	**26,444**
I. Non-current financial debt	80,918	97,969
J. Debt instruments	39,438	-
K. Trade payables and other non-current payables	-	-
L. Non-current financial debt (I + J + K)	**120,357**	**97,969**
M. Net Financial Position (H + L)	**97,724**	**124,412**

(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.

As required by the Communication ESMA32-382-1138 of March 4, 2021, the Group reports net liabilities for employee-defined benefits of Euro 5,024 thousand (Note 16) and Provisions for risks and charges for Euro 1,319 thousand (Note 15).

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.

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 31.12.2021	Profit FY 2021	Net Equity at 31.12.2020	Profit FY 2020
Statutory financial statements of the parent company	**154,263**	**9,023**	**154,017**	**9,591**
Difference between the carrying amount of the investments and net equity and net profit/(loss) of the consolidated subsidiaries(1)	3,613	10,620	2,118	11,362
Elimination of intercompany gains and losses	(3,885)	(946)	(2,669)	(45)
Adjustments in the financial statements of the consolidated companies in line with group accounting policies	(307)	(112)	(242)	(171)
Elimination dividends from investees	-	(10,276)	-	(7,485)
Other adjustments	(9)	(65)	(4)	(28)
Minority interest capital and reserves	-	-	-	-
Group & Minority int. consol. financial statements	**153,676**	**8,243**	**153,220**	**13,225**

(1) This difference includes the PPA originally recorded and the PPA following the acquisition of Janz

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.

At its meeting of June 11, 2021, the Board of Directors of SIT approved the update to the related party transactions policy, pursuant to Article 4 of the Consob Regulation containing provisions on related party transactions, adopted by Consob with Resolution No. 17221 of March 12, 2010 as most recently amended with Consob Resolutions No. 21623 and 21624 of December 10, 2020, and published on the website www.sitcorporate.it in the *Corporate Governance/Governance Documents* section.

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 with SPAC ISI2 in 2017, SIT S.p.A. issued 5,350,000 Warrants of which 300,000 assigned to the holding company Sit Technologies S.p.A., whose conversion is governed by the Warrant Regulation, as described in the Explanatory Notes.

In 2021, the parent company SIT Technologies S.p.A launched a voluntary public tender offer for all the outstanding warrants (4,269,319) issued by SIT S.p.A. The transaction was designed to (i) provide warrant holders with an exit option in view of the fact that, since the commencement of trading of the warrants on the MTA, the warrant exercise condition had never been met; (ii) limit the risk of any dilution resulting from the exercise of the warrants and the consequent issue of new SIT shares should the average monthly price of SIT shares exceed Euro 9.30.

The outcome of the aforementioned public tender offer was positive for a number of 2,157,900 Warrants, or 50.5444% of the warrants covered by the offer. 3.113.314 warrants were therefore held by SIT Technologies S.p.A. at December 31, 2021. At corporate level, we note that, as part of a reorganization of the chain of control in 2021, a transfer was carried out with effect from January 1, 2022. The parent company SIT Technologies S.p.A., as limited partner, established a limited partnership called "Technologies S.a.p.a. di F.d.S." (SAPA). On October 29, 2021, SAPA's Shareholders’ Meeting approved a paid-in capital increase in the amount of Euro 50 thousand, offered as an option exclusively to the shareholder SIT Technologies S.p.A., which was paid for by the free transfer of 13,279,465 shares, or 53.102% of the SIT S.p.A. share capital.

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 2020 the subsidiary SIT Metering S.r.l. joined the National Tax Consolidation procedure for the three-year period 2020-2022, while in 2021 the parent company Technologies SAPA di F.D.S. S.S. also joined for the three-year period 2021-2023, both as consolidated companies.

Finally we report 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. From next year the subsidiary SIT Metering S.r.l. will also join the Group VAT procedure as a subsidiary.

Treasury shares

At December 31, 2021, the Company held 729,447 treasury shares without nominal value, equal to 2.91% of the share capital, of which 412,723 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		
	2021	2020	Change	2021	2020	Change	2021	2020	Cge.
SIT Argentina S.r.l.	42	28	14	-	1	(1)	-	-	-
SIT Gas Controls Pty Ltd	6,189	5,472	717	332	318	14	7	6	1
SIT Controls Canada Inc.	416	292	124	168	82	86	1	1	-
SIT Manufacturing (Suzhou) Co. Ltd	21,268	17,152	4,116	346	504	(158)	69	79	(10)
SIT Controls CR, S.r.o.	1,831	1,434	397	898	667	231	7	8	(1)
SIT Controls Deutschland GmbH	1,302	1,109	193	383	263	120	4	3	1
SIT manufacturing Na Sa deCV	70,215	56,471	13,744	4,380	2,428	1,952	436	431	5
SIT de monterrey SA de CV	2,285	4,066	(1,781)	84	43	41	-	-	-
SIT Controls BV	33,273	29,699	3,574	2,326	2,023	303	177	149	28
SIT Romania Srl	67,464	54,229	13,235	1,919	1,359	560	653	622	31
SIT Controls USA Inc.	3,391	2,738	653	1,587	1,090	497	6	6	-
Sit Controls Tunisia S.u.a.r.l	5,445	-	5,445	(1,149)	(38)	(1,111)	131	6	125
Plast Alfin S.a.r.l.	3,613	1,663	1,950	318	351	(33)	68	113	(45)

Business sector: Smart Metering

(Euro.000)

Company	Revenue			Net Profit			Employees		
	2021	2020	Change	2021	2020	Change	2021	2020	Change
MeteRSit S.r.l.	82,326	98,516	(16,190)	2,445	5,524	(3,079)	82	76	6
Metersit Romania S.r.l.	27,441	37,610	(10,169)	(126)	692	(818)	9	78	(69)
Sit Metering S.r.l.	202	-	202	(336)	(21)	(314)	-	-	-
Metersit UK Ltd	-	-	-	(92)	-	(92)	2	-	2
JANZ – Contagem e Gestão de Fluídos, SA	20,888	-	20,888	982	-	982	288	-	288

SUBSEQUENT EVENTS TO YEAR-END AND MANAGEMENT PERFORMANCE

In January the Company was awarded a "Silver" rating by EcoVadis, an international rating agency that measures companies' CSR (Corporate Social Responsibility) performance using a method based on the highest international reference standards. This represents a significant improvement, achieved in the space of just one year following the "Bronze" rating achieved in 2020, and is the result of SIT's commitment to one of the Group's strategic objectives, a testament to SIT's ethical and proactive approach to ESG principles and the Company's sustainable action towards its stakeholders and the ecosystem in which it operates.

SIT ranks among the top 22% of companies assessed by EcoVadis in its sector.

Through its subsidiary Metersit, in March SIT obtained MID (Measuring Instrument Directive) certification for its 100% hydrogen Domusnext® 2.0 MMU40 H2 commercial meter. The MID certificate was issued by the notified body NMi Certin B.V.. It is valid in Europe and the UK but also recognized in other non-EU countries and guarantees the accuracy and reliability of the measuring instrument. This achievement comes in addition to similar certification obtained in 2021 for the residential meter model, both of which reflect the Group's commitment to hydrogen applications and the energy transition.

With regards to the political situation arising from the invasion of Ukraine by the Russian army, the impacts on SIT Group operations are being continually monitored.

2021 revenues directly from Russia and Ukraine totalled approx. 5% of consolidated revenues and entirely concerned the Heating Division.

The Group does not hold direct investments in the two countries. Commercial coverage is provided by local distributors managed by employees of the group's Czech subsidiary based in Moscow. There are currently no significant positions past due.

For procurement, a supplier of electronic board assembly belonging to an American multinational company is based in Ukraine, on the Slovak border. The boards provided are used in Heating and now represent approx. 25% of the Division's total. This supply currently continues uninterrupted. However, SIT has initiated a contingency plan to accelerate insourcing and the shifting of production to suppliers located in other low-cost countries.

Finally, in March 2022, SIT agreed a loan with Cassa Depositi e Prestiti S.p.A. in order to support new environmental, energy efficiency, sustainable development promotion and green economy investment and to launch initiatives to grow the Group in Italy and overseas.

The amortizing and unsecured loan amounts to Euro 15 million and has a duration of 5 years. It marks a further step in the Company’s capital source diversification policy and the beginning of a new strategic relationship with a leading institutional investor.

Outlook

Tensions on both prices and the availability of raw materials and electronic components continued into the initial months of 2022, alongside the ongoing political and economic uncertainty from the Russia/Ukraine crisis.

Despite this environment, SIT remains confident in the positive fundamental trends on which its growth, market and technology leadership is based: the energy transition towards lower emissions and hydrogen-ready solutions, energy efficiency supported also by incentives, the optimisation of water consumption through new metering systems, the replacement of gas meters for the domestic market and the group's ability to pass on to customers the cost increases resulting from the new inflationary environment.

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In accordance with the provisions of IAS 1, simultaneous to the authorization of the publication of the separate financial statements, the Board of Directors of SIT S.p.A. proposes to the Shareholders' Meeting:

- to distribute a dividend of Euro 0.30 for each of the shares in circulation at the ex-dividend date, excluding portfolio treasury shares at that date. The total value of dividends, considering shares outstanding at March 22, 2022, is Euro 7,298,940;
- to allocate part of the profit for the year, equal to Euro 2,054.88, to the legal reserve pursuant to Article 2430 of the Civil Code, thereby reaching one-fifth of the share capital;
- to allocate part of the net profit for the year, equal to Euro 657,757.37, to set up a reserve for unrealized foreign exchange gains, in accordance with Article 2426 No. 8-*bis* of the Civil Code;
- to allocate the remaining profit to the extraordinary reserve;
- to release the reserve for the first application of IAS/IFRS equal to Euro 31,680.93 and reclassify this amount to the extraordinary reserve.

Padua, March 22, 2022

The Chairperson of the Board of Directors

(Mr. Federico de' Stefani)

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2021

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(Euro.000)	**Note**	**31/12/2021**	**31/12/2020 RESTATED**
Goodwill	1	87,946	87,946
Other intangible assets	1	61,611	66,178
Property, plant and equipment	2	98,039	90,228
Investments	3	325	326
Non-current financial assets	4	2,139	2,282
Deferred tax assets	5	7,897	4,861
Non-current assets		**257,957**	**251,821**
Inventories	6	70,123	56,453
Trade receivables	7	56,052	65,365
Other current assets	8	15,745	14,234
Tax receivables	9	2,965	3,983
Other current financial assets	4	527	1,032
Cash and cash equivalents	10	46,667	42,328
Current assets		**192,079**	**183,395**
Total assets		**450,036**	**435,216**
Share capital	11	96,162	96,152
Total Reserves	12	49,271	43,844
Net profit		8,243	13,225
Minority interest net equity		-	-
Shareholders' Equity		**153,676**	**153,221**
Medium/long-term loans and borrowings	13	74,540	91,734
Other non-current financial liabilities and derivative financial instruments	14	54,625	16,484
Provisions for risks and charges	15	4,941	4,990
Post-employment benefit provision	16	5,762	6,095
Other non-current liabilities		61	35
Deferred tax liabilities	17	15,743	17,546
Non-current liabilities		**155,672**	**136,884**
Short-term loans and borrowings	18	19,770	46,533
Other current financial liabilities and derivative financial instruments	19	4,988	4,630
Trade payables	20	80,752	72,203
Other current liabilities	21	23,163	18,638
Financial instruments for Warrants	22	8,748	1,045
Tax payables	23	3,267	2,062
Current liabilities		**140,688**	**145,111**
Total Liabilities		**296,360**	**281,995**
Total Shareholders' Equity and Liabilities		**450,036**	**435,216**

CONSOLIDATED INCOME STATEMENT

(Euro.000)	**Note**	**2021**	**2020**
Revenues from sales and services	**24**	**380,521**	**320,731**
Raw materials, ancillaries, consumables and goods	25	210,685	173,696
Change in inventories	25	(11,286)	(2,777)
Services	26	48,424	38,198
Personnel expense	27	81,990	66,581
Depreciation, amortisation and write-downs	28	26,897	24,052
Provisions	29	(83)	815
Other charges (income)	30	(436)	550
EBIT		**24,330**	**19,616**
Investment income/(charges)		31	-
Financial income	31	395	835
Financial charges	32	(14,074)	(3,939)
Net exchange gains (losses)	33	1,024	(521)
Impairments on financial assets		-	-
Profit before taxes		**11,706**	**15,991**
Income taxes	34	(3,462)	(2,766)
Net profit for the year		**8,243**	**13,225**
Minority interest result		-	-
Group net profit		**8,243**	**13,225**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(Euro.000)	2021	2020
Net profit	**8,243**	**13,225**
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	886	399
Income taxes	(213)	(96)
Total unrealised financial asset gains/(losses)	**674**	**303**
Translation of financial statements in currencies other than the Euro	986	(3,685)
Total of other comprehensive income statement items which may be subsequently reclassified to the profit/(loss) for the year, net of taxes	**1,660**	**(3,381)**
Other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes:		
Unrealised actuarial gains	(108)	96
Income taxes	26	(23)
Total unrealised actuarial gains/(losses)	**(82)**	**73**
Total of other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes	**(82)**	**73**
Total other comprehensive income/(expense) for the year, net of taxes	**1,577**	**(3,309)**
Total comprehensive income	**9,820**	**9,916**
Total comprehensive income for the year attributable to:		
Parent company shareholders	9,820	9,916
Minority shareholders	-	-

CONSOLIDATED CASH FLOW STATEMENT

(Euro.000)	Note	2021	2020 RESTATED
Net profit		8,243	13,225
Amortisation & depreciation	1 - 2	26,885	24,006
Non-cash adjustments		(59)	1,109
Income taxes	34	3,462	2,766
Net financial charges/(income)	31 - 32	13,646	3,104
CASH FLOW FROM CURRENT ACTIVITIES (A)		**52,177**	**44,210**
Changes in assets and liabilities:			
Inventories		(13,036)	(2,876)
Trade receivables		9,910	(6,051)
Trade payables		7,890	(1,554)
Other assets and liabilities		2,790	(133)
Income taxes paid		(6,475)	(6,315)
CASH FLOW GENERATED (ABSORBED) FROM CHANGES IN WORKING CAPITAL (B)		**1,079**	**(16,929)**
CASH FLOW FROM OPERATING ACTIVITIES (A + B)		**53,256**	**27,281**
Investing activities:			
Investments in property, plant & equipment		(22,701)	(14,026)
Other changes in property, plant & equipment		340	710
Investments in intangible assets		(4,225)	(685)
Other changes in intangible assets		9	25
Other changes in financial assets		(35)	1,280
Other cash flows from current financial assets		626	(626)
Acquisition or sale of subsidiaries or business units net of cash and cash equivalents		(72)	(27,742)
CASH FLOW FROM INVESTING ACTIVITIES (C)		**(26,058)**	**(41,064)**
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)		**27,198**	**(13,783)**
Financing activities:			
Interest paid		(3,566)	(3,024)
Repayment of non-current financial payables	19	(139,060)	(22,416)
Increase (decrease) current financial payables		(198)	146
Increase (decrease) other financial payables	19 - 35	(2,759)	(2,000)
New loans	19	133,482	55,500
Payment of dividends	12	(6,890)	(3,476)
Paid-in share capital increase	11	10	-
Treasury shares	12	(3,922)	(775)
CASH FLOW FROM FINANCING ACTIVITIES (D)		**(22,903)**	**23,955**
Change in translation reserve	12	44	(1,909)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)		**4,339**	**8,263**
Cash & cash equivalents at beginning of the year		**42,328**	**34,065**
Increase (decrease) in cash and cash equivalents		4,339	8,263
Cash & cash equivalents at end of the year		**46,667**	**42,328**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

	Share capital	Share premium reserve	Treasury shares reserve	Legal reserve	Other reserves									Net Profit for the year	Group shareholders' equity	Minority interest capital and reserves	Total Group and Minority Interest Shareholders' Equity
					Currency conversion difference	Allocation and employee L.T.I. reserve	Cash flow hedge reserve	Capital payments	Actuarial reserve	Extraordinary reserve	Warrants reserve	Performance share reserve	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 the 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**
Allocation of the 2020 result	-	-	-	-	-	(175)	-	-	-	-	522	-	12,877	(13,225)	-	-	**-**
Comprehensive profit 2021	**-**	**-**	**-**	**-**	**987**	**-**	**673**	**-**	**(82)**	**-**	**-**	**-**	**-**	**8,243**	**9,820**	-	**9,820**
Change in Warrants	10	-	-	-	-	-	-	-	-	-	1,275	-	-	-	1,285	-	**1,285**
Assignment L.T.I. to employees	-	-	-	-	-	174	-	-	-	-	-	-	-	-	174	-	**174**
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	(6,890)	-	(6,890)	-	**(6,890)**
Other movements	-	-	-	-	-	-	-	-	-	-	-	-	(12)	-	(12)	-	**(12)**
Acquisition of treasury shares	-	-	(3,922)	-	-	-	-	-	-	-	-	-	-	-	(3,922)	-	**(3,922)**
December 31, 2021	**96,162**	**10,360**	**(6,134)**	**19,230**	**(7,255)**	**174**	**(45)**	**16,615**	**(656)**	**1,491**	**230**	**-**	**15,261**	**8,243**	**153,676**	-	**153,676**

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 22, 2022 and authorised for publication on the website www.sitgroup.it by April 7, 2022. 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.

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, 2021 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, 2021 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, 2021 are the same as those adopted for the consolidated financial statements at December 31, 2020.

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, 2021

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group from January 1, 2021

Covid-19 Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)

On March 31, 2021, the IASB published an amendment entitled "Covid-19-Related Rent Concessions beyond June 30, 2021 (Amendments to IFRS 16)"by which it extends by one year the period of application of the amendment issued in 2020 , which provided lessees the option to account for Covid-19-related rent reductions without having to assess through contract analysis whether the definition of lease modification in IFRS 16 was met. Therefore, the lessees who applied this option in fiscal year 2020 accounted for the effects of rent reductions directly in the income statement on the effective date of the reduction. The 2021 amendment, which is only available to entities that have already adopted the 2020 amendment, applies from April 1, 2021, and early adoption is permitted.

The adoption of this amendment does not have effects on the company's consolidated financial statements

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

On June 25, 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 adoption of this amendment does not have effects on the company's 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 entered into force as of January 1, 2021.

The adoption of this amendment does not have effects on the company's consolidated financial statements

IFRS and IFRIC standards, amendments and interpretations endorsed by the EU, not yet mandatory and not adopted in advance by the Group at December 31, 2021

IASB Amendments May 14, 2020

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 the standard.
- 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 statement of profit or loss.
- 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 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 do not expect this amendment to have a significant impact on the company's consolidated financial statements.

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 will have a significant impact on the company's 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.

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 do not expect this standard will have a significant impact on the company's consolidated financial statements.

Disclosure of Accounting Policies—Amendments to IAS 1 and IFRS Practice Statement 2; Definition of Accounting Estimates—Amendments to IAS 8

On February 12, 2021, the IASB published two amendments entitled "Disclosure of Accounting Policies—Amendments to IAS 1 and IFRS Practice Statement 2" and "Definition of Accounting Estimates—Amendments to IAS 8". The changes are intended to improve disclosure on accounting policies to provide more useful information to investors and other primary users of financial statements and to help companies distinguish between changes in accounting estimates and changes in accounting policies. The amendments will be applicable from January 1, 2023, although advance application is permitted.

The Directors do not expect this standard will have a significant impact on the company's consolidated financial statements.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

On May 7, 2021, the IASB published an amendment called "Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction". The document clarifies how deferred taxes should be accounted for on certain transactions that can generate assets and liabilities of equal amounts, such as leases and decommissioning obligations. The amendments will be applicable from January 1, 2023, although advance application is permitted.

The Directors do not expect this standard will have a significant impact on the company's consolidated financial statements.

Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information

On December 9, 2021, the IASB published an amendment called "Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information". The amendment is a transition option related to comparative information on financial assets presented at the date of initial application of IFRS 17. The amendment is intended to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and thus improve the usefulness of comparative information for financial statement readers. The amendments will apply from January 1, 2023, together with the application of IFRS 17.

The Directors do not expect this standard will have a significant impact on the company'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 Company is 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, 2021 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.

The events related to the conflict between Russia and Ukraine have been considered non-adjusting events in respect of the accounts of the 2021 financial statements, according to the definition given in IAS 10 §21, since they occurred after year-end.

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, 2021 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
JANZ – Contagem e Gestão de Fluídos, SA	Portugal	Lisbon	EUR	1,000,000	100
Plast Alfin S.a.r.l.	Tunisia	Ben Arous	TND	20,000	100
SIT Controls Tunisia S.u.a.r.l.	Tunisia	Tunisia	TND	200,000	100
Sit Metering S.r.l.	Italy	Padua	EUR	200,000	100
Metersit UK Ltd	United Kingdom	Manchester	GBP	150,000	100

Consolidation method

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

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

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

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

Acquisition 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. The consideration for the acquisition, provisionally set at Euro 27,346 thousand, at December 31, 2021 was subject to adjustments following the price adjustment of Euro 743 thousand, becoming definitive in the first half of 2021 and the obtaining of certain information which permitted the valuation of the contractually established earn-outs at Euro 1,013 thousand. The following table provides a reconciliation between the estimated consideration at the preparation date of the consolidated financial statements at December 31, 2020 and the preparation date of the 2021 Annual Financial Report:

(Euro.000)	
Estimated consideration 31/12/2020	27,346
Price adjustment 2021	(743)
Estimated earn outs	1,013
Estimated consideration 31/12/2021	**27,616**

The assets acquired and the liabilities assumed by the SIT Group as the result of the acquisition of Janz are reported in detail below:

(Euro.000)	**Janz Book Value 31/12/2020**	**Allocation**	**Fair Value 31/12/2020**
Other intangible assets	27	13,609	13,636
Property, plant and equipment	3,091	3,366	6,457
Investments	276	-	276
Non-current financial assets	27	-	27
Deferred tax assets	-	99	99
Non-current assets	**3,420**	**17,074**	**20,494**
Inventories	3,982	(49)	3,933
Trade receivables	3,639	(153)	3,486
Other current assets	753	-	753
Tax receivables	271	-	271
Cash and cash equivalents	942	-	942
Current assets	**9,587**	**(202)**	**9,385**
Total assets	**13,007**	**16,872**	**29,879**
Share capital	1,000	-	1,000
Total Reserves	7,604	10,395	17,999
Shareholders' Equity	**8,604**	**10,395**	**18,999**
Medium/long-term loans and borrowings	200	(200)	(0)
Other non-current financial liabilities and derivative financial instruments	-	3,245	3,245
Provisions for risks and charges	-	250	250
Deferred tax liabilities	-	2,893	2,893
Non-current liabilities	**200**	**6,187**	**6,387**
Short-term loans and borrowings	81	(81)	(0)
Other current financial liabilities and derivative financial instruments	967	403	1,370
Trade payables	1,786	-	1,786
Other current liabilities	1,370	-	1,370
Tax payables	-	(32)	(32)
Current liabilities	**4,203**	**290**	**4,493**
Total Liabilities	**4,403**	**6,477**	**10,880**
Total Shareholders' Equity and Liabilities	**13,007**	**16,872**	**29,879**

Euro 13,609 thousand was allocated to “Other intangible assets”, of which Euro 3,352 thousand concerning Know How, Euro 2,038 thousand regarding the Brand, Euro 7,206 thousand the Customer Relationship and Euro 1,013 thousand to the fair value of the project engineering contract. “Deferred tax liabilities” includes Euro 2,858 thousand concerning the tax effect of the described allocations.

“Other non-current financial liabilities and derivative financial instruments” were impacted for Euro 3,045 thousand by the initial recognition of the medium/long-term financial payable for IFRS 16; the short-term portion of Euro 322 thousand was recognised among current liabilities to the “Other current financial liabilities and derivative financial instruments” account. The Right-of-Use (ROU) was entirely recognised to tangible fixed assets for Euro 3,367 thousand.

The difference between the price paid, the assets acquired and the liabilities assumed was provisionally allocated for Euro 8,617 thousand to Goodwill.

The valuation techniques used to determine the fair value of the principal assets acquired are shown below:

Assets acquired	Valuation method
Know how Brand	***Relief from royalty method***: The Relief From Royalty method ("RFR") is based on the assumption that the value of an asset can be estimated as the present value of the savings, in terms of royalties to be paid to a third party, deriving from the possession of the asset itself or, alternatively, from the present value of the cash flows that can be obtained from the licensing of the brand being valued. The useful life attributed to the Brand is 10 years, while for Know How is 7 years
Customer relationship	***Multi-period excess earning method:*** this is based on the assumption that the income from the identified asset can be determined by deducting from the overall income the normal remuneration of all other assets (tangible and intangible). The fair value of the dominant asset is obtained by discounting the expected excess earnings over the residual years of the asset's life (multi-period). The useful life attributed to the Customer Relationship is 15 years
Order backlog	The fair value of the asset was taken as the amount due as an earnout from the purchaser to the sellers for the engineering contract, in place at the date of acquisition of control. The useful life attributed is that of the duration of the contract.

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 at the acquisition date and available until the preparation date of these financial statements.

Restatement of comparative figures

At December 31, 2020, given the limited information available and the acquisition date of December 29, 2020, the differential was allocated entirely to goodwill.

In accordance with international accounting standard IFRS 3, and as a result of the elements obtained following the approval of the financial statements at December 31, 2020 and the valuations carried out and described above, the comparative figures in these consolidated financial statements were amended to retroactively reflect the provisional results of the "Purchase Price Allocation" (PPA) process. The table below summarises the effects on the balance sheet at December 31, 2020:

(Euro.000)	Note	Published 31/12/2020	for PPA	Restated 31/12/2020
Goodwill	1	98,070	(10,124)	87,946
Other intangible assets	1	52,569	13,609	66,178
Property, plant and equipment		90,228	-	90,228
Investments		326	-	326
Non-current financial assets		2,282	-	2,282
Deferred tax assets	5	4,762	99	4,861
Non-current assets		**248,237**	**3,584**	**251,821**
Inventories	6	56,502	(49)	56,453
Trade receivables	7	65,518	(153)	65,365
Other current assets		14,234	-	14,234
Tax receivables		3,983	-	3,983
Other current financial assets		1,032	-	1,032
Cash and cash equivalents		42,328	-	42,328
Current assets		**183,597**	**(202)**	**183,395**
Total assets		**431,834**	**3,382**	**435,216**
			-	
Share capital		96,152	-	96,152
Total Reserves		43,844	-	43,844
Net profit		13,225	-	13,225
Minority interest net equity		-	-	-
Shareholders' Equity		**153,221**	**-**	**153,221**
			-	
Medium/long-term loans and borrowings		91,934	(200)	91,734
Other non-current financial liabilities and derivative financial instruments	14	15,634	850	16,484
Provisions for risks and charges	15	4,740	250	4,990
Post-employment benefit provision		6,095	-	6,095
Other non-current liabilities		35	-	35
Deferred tax liabilities	17	14,653	2,893	17,546
Non-current liabilities		**133,091**	**3,793**	**136,884**
Short-term loans and borrowings		46,614	(81)	46,533
Other current financial liabilities and derivative financial instruments	19	4,928	(298)	4,630
Trade payables		72,203	-	72,203
Other current liabilities		18,638	-	18,638
Financial instruments for Warrants		1,045	-	1,045
Tax payables	23	2,094	(32)	2,062
Current liabilities		**145,522**	**(411)**	**145,111**
Total Liabilities		**278,613**	**3,382**	**281,995**

Total Shareholders' Equity and Liabilities	**431,834**	**3,382**	**435,216**

The allocation had no impact on the comparative figures in the income statement.

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 statement of comprehensive income 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, 2021	**2021 average**	**December 31, 2020**	**2020 average**
Mexican Peso	23.1438	23.9852	24.4160	24.5194
Argentinean Peso	116.3622	112.4215	103.2494	80.9218
Romanian Leu	4.9490	4.9215	4.8683	4.8383
US Dollar	1.1326	1.1827	1.2271	1.1422
Canadian Dollar	1.4393	1.4826	1.5633	1.5300
Czech Crown	24.8580	25.6405	26.2420	26.4551
Australian Dollar	1.5615	1.5749	1.5896	1.6549
Chinese Yuan	7.1947	7.6282	8.0225	7.8747
Tunisian Dinar	3.2603	3.2881	3.2943	3.1997
UK Sterling	0.8403	0.8596	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 statement of comprehensive income 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 statement of comprehensive income.

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
SIT brand	Straight-line over 20 years
Janz Brand	Straight-line over 10 years
Heating Technology	Straight-line over 12 years
Metering technology	Straight-line over 10 years
Watermetering	Straight-line over 7 years
Customer List Heating	Straight-line over 15 years
Customer List Watermetering	Straight-line over 15 years
Order backlog	Duration of the contract

Property, plant and 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

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 statement of comprehensive income relating to these investee companies is presented as part of the Group's statement of comprehensive income.

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 realisable value. Write-downs 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 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 statement of comprehensive income, 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, 20	Restatement for PPA	Balance at Dec. 31, 20 R	Increases	Disposals	Amortisation	Other move.	Tran. diffs	Balance at Dec. 31, 21
Goodwill	**98,070**	**(10,125)**	**87,946**	**-**	**-**	**-**	**-**	**-**	**87,946**
Development costs	-	-	-	-	-	-	-	-	-
Patent rights	11,575	3,352	14,927	586	(3)	(3,215)	18	5	12,317
Concessions, licences and trademarks	16,022	2,038	18,060	3,059	-	(1,420)	-	(-)	19,699
Other intangible assets	24,723	8,219	32,942	407	-	(4,152)	136	(-)	29,333
Intangible assets in progress and advances	250	-	250	173	(6)	-	(154)	-	262
Total other intangible assets	**52,569**	**13,609**	**66,178**	**4,225**	**(9)**	**(8,787)**	**-**	**4**	**61,611**
Total goodwill and other intangible assets	**150,640**	**3,484**	**154,124**	**4,225**	**(9)**	**(8,787)**	**-**	**4**	**149,557**

GOODWILL

At December 31, 2021, goodwill of Euro 87,946 thousand is unchanged 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 8,617 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.
- 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

The account includes the non-patented technical/production and technological know-how 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. At December 31, 2021 the residual value is Euro 6,544 thousand relating to the Heating sector and Euro 1,680 thousand relating to the Smart Gas Metering sector.

The amount also includes the effects of the allocation of the higher price paid for the acquisition of Janz, then allocated to Know How, for an original value of Euro 3,352 thousand. At December 31, 2021 the residual value amounts to Euro 2,873 thousand, amortised over 7 years.

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 19,699 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. At December 31, 2021, the residual value is Euro 12,452 thousand relating to the Heating sector and Euro 2,345 thousand relating to the Smart Gas Metering sector

The amount also includes the effects of the allocation of the higher price paid for the acquisition of Janz, then allocated to the Brand, for an original value of Euro 2,038 thousand. At December 31, 2021 the residual value amounts to Euro 1,834 thousand, amortised over 10 years.

The changes during the year are mainly due to the amortisation for the period and for Euro 3,041 thousand to intellectual property acquired following the purchase of the business unit for the production of the NGA product line, completed by the Mexican subsidiary SIT de Monterrey S.A de C.V. in H2 2021.

OTHER INTANGIBLE ASSETS

This account includes the residual value of the customer relationship identified, with reference to the Heating sector, 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, 2021 amounted to Euro 20,871 thousand.

The item also includes the effects of the allocation of the higher price paid for the acquisition of Janz, then allocated to Customer Relationship, for an original value of Euro 7,206 thousand and to the Order Backlog for an original value of Euro 1,013 thousand. The expected useful life was set at 15 years and 4 years, respectively, with non-linear amortisation in proportion to the contract billing period. At December 31, 2021, the residual value is Euro 6,726 thousand and Euro 663 thousand respectively.

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 and Water Metering, comparing their recoverable value with the respective carrying values of capital invested, including allocated goodwill.

Goodwill totalling Euro 87,946 thousand at December 31, 2021 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 8,617 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 22, 2022. The methodology to be used in carrying out the test was approved by the Board of Directors on December 17, 2021.

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 and used in support of the impairment tests.

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.

The following are assumptions about the construction methods which are common to all three CGUs analysed:

- The flows used represent forecast results based on the 2022 Budgets for the CGUs analysed and the best information currently available to management;
- The forecasts do not take account of the effects of changes in the Group's consolidation scope or industrial footprint;
- Revenue forecasts represent changes in the existing product portfolio and therefore the geographical or application markets already served by the Group;
- The impact of Russia and Ukraine is considered a "non-adjusting event”. Forecasts will not, therefore, take into account any expected impact. This effect will be included in the sensitivity analyses.

Heating Division CGU

The growth rate (g) is prudently assumed as equal to zero.

The Heating CGU's WACC was estimated by assuming:

- a risk free rate of 2.66% calculated as annual average of the long-term government bond rates (10 years) 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 0.89 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;
- 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, 2021, to which a spread of 2.0% is added, in line with the contractual conditions of the loans;
- 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, the cost of money and takes account of the specific CGU 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 9.7%, whereas a 11.6% percent reduction of the terminal value is required to achieve this same result.

Given the particular economic situation, which features difficulties in sourcing certain raw materials, a general increase in the cost of these materials and of energy, and which has been further exacerbated by the Russia-Ukraine conflict, it was deemed necessary to test the effect of potential cashflow volatility. The zero headroom level was therefore verified on the basis of reduced revenues expected in the first three years covered. This point is reached with a 9.5% reduction in revenues for each of the first three years covered.

Smart Gas Metering Division CGU

The growth rate (g) is assumed as equal to zero.

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

- a risk free rate of 1.10% calculated as annual average of the long-term government bond rates (10 years) 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 0.79 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 Division is active;
- 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, 2021, to which a spread of 2.0% is added, in line with the contractual conditions of the loans;
- 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 8.11% 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 9.6%, whereas a 22.3% percent reduction of the terminal value is required to achieve this same result.

Given the particular economic situation, which features difficulties in sourcing certain raw materials, a general increase in the cost of these materials and of energy, and which has been further exacerbated by the Russia-Ukraine conflict, it was deemed necessary to test the effect of potential cashflow volatility. The reduction in revenues for each of the first three forecast years required to reach zero headroom is 30.2%.

We note that the CGU is not currently exposed to the markets affected by the aforementioned conflict, either directly or indirectly.

Water Metering Division CGU

The growth rate (g) is assumed to be 1.5%.

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

- a risk free rate of 1.52% calculated as annual average of the long-term government bond rates (10 years) 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 0.98 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 Division is active;
- 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, 2021, to which a spread of 2.0% is added, in line with the contractual conditions of the loans;
- 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 8.81% 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 10.7%, whereas a 29.1% percent reduction of the terminal value is required to achieve this same result.

Given the particular economic situation, which features difficulties in sourcing certain raw materials, a general increase in the cost of these materials and of energy, and which has been further exacerbated by the Russia-Ukraine conflict, it was deemed necessary to test the effect of potential cashflow volatility. The reduction in revenues for each of the first three forecast years required to reach zero headroom is 48.8%.

We note that the CGU is not currently exposed to the markets affected by the aforementioned conflict, either directly or indirectly.

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 and equipment

The movements in property, plant and equipment in 2021 are summarised below:

(Euro.000)

	Historical cost at Dec. 31, 20	Accum. depreciation at Dec. 31, 20	Balance at Dec. 31, 20	Of which "Right-of-use" IFRS 16	Historical cost at Dec. 31, 21	Accum. depreciation at Dec. 31, 21	Balance at Dec. 31, 21	Of which "Right-of-use" IFRS 16
Land & buildings	53,526	(22,750)	30,776	12,207	56,130	(25,334)	30,796	10,911
Property and machinery	141,571	(110,092)	31,480	-	150,178	(116,746)	33,432	-
Industrial & commercial equipment	97,526	(87,526)	10,000	1,108	101,591	(91,283)	10,308	1,504
Other assets	11,202	(7,363)	3,839	2,197	13,645	(8,703)	4,942	3,278
Tangible assets in progress	12,010	-	12,010	-	14,344	-	14,344	-
Advances	2,124	-	2,124	-	4,214	-	4,214	-
Total property, plant and equipment	**317,960**	**(227,731)**	**90,229**	**15,512**	**340,103**	**(242,066)**	**98,037**	**15,693**

The following tables outline the changes in the historic cost and accumulated depreciation in 2021 by category.

HISTORICAL COST

(Euro.000)

	Balance at Dec. 31, 20	Of which "Right-of-use" IFRS 16	Increases	Disposals	Other movements	Interco mpany	Write-downs	Translation differences	Historical cost at Dec. 31, 21	Of which "Right-of-use" IFRS 16
Land & buildings	53,526	14,023	1,379	(147)	1,138	-	-	235	56,130	14,172
Property and machinery	141,571	-	7,890	(1,512)	1,387	(1,807)	-	841	150,178	-
Industrial & commercial equipment	97,526	1,766	5,267	(2,796)	1,477	(55)	-	117	101,591	2,645
Other assets	11,202	3,864	2,639	(388)	81	1	-	110	13,645	5,930
Tangible assets in progress	12,010	-	6,396	-	(4,089)	373	-	27	14,344	-
Advances	2,124	-	2,091	-	-	-	-	-	4,214	-
Total intangible assets	**317,960**	**19,652**	**25,663**	**(4,843)**	**(6)**	**(1,488)**	**-**	**1,330**	**340,103**	**22,747**

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 commitments for IFRS 16 relating to contracts concluding in 2021 and renewed in the year. 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, 2020 were in progress and which in 2021 became fixed assets to be depreciated.

ACCUMULATED DEPRECIATION

(Euro.000)

	Provision at Dec. 31, 20	Of which "Right-of-use" IFRS 16	Depreci ation	Disposals	Other movements	Interco mpany	Write-downs	Translation differences	Balance at Dec. 31, 21	Of which "Right-of-use" IFRS 16
Acc. Depr. Land & buildings	(22,750)	(1,816)	(2,563)	145	-	-	-	(166)	(25,334)	(3,261)
Acc. Depr. Plant and machinery	(110,092)	-	(7,482)	1,512	-	1,342	(143)	(541)	(116,746)	-
Acc. Depr. Industrial & commercial equipment	(87,526)	(658)	(6,366)	2,663	53	2	-	(107)	(91,283)	(1,141)
Acc. Depr. Other assets	(7,363)	(1,666)	(1,543)	344	(48)	1	-	(94)	(8,703)	(2,652)
Assets in progress and advances	-	-	-	-	-	-	-	-	-	-
Total accumulated depreciation Property, plant and equipment	**(227,731)**	**(4,140)**	**(17,954)**	**4,664**	**5**	**1,345**	**(143)**	**(908)**	**(242,066)**	**(7,054)**

Property, plant and equipment were depreciated at December 31, 2021 at the following rates:

	Rate
Land & buildings	45.14%
Plant and machinery	77.74%
Industrial and commercial equipment	89.85%
Other assets	63.78%
Leasing	31.01%

Note 3: Investments

The following table reports the movements in 2021 in investments.

(Euro.000)

Investments	Balance 31/12/2020	Increases in the year	Decreases in the year	Other changes	Balance 31/12/2021
Company					
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
Immobiliare Polesana (formerly IMER)	1	-	-	-	1
Conthidra S. L.	252	23	-	-	275
Other minor	25	-	(24)	-	1
1 Fondazione ABO in liq. write-down prov.	(6)	-	-	-	(6)
Italmed Llc. write-down prov.	(378)	-	-	-	(378)
Cyrus Intersoft Inc. write-down prov.	(366)	-	-	-	(366)
Infracom S.p.A. write-down prov.	(502)	-	-	-	(502)
Total investments	**326**	**23**	**(24)**	**0**	**325**

The increase of Euro 23 thousand in the year relates to the increase for the company Conthidra S.L., held by JANZ Contagem e Gestão de Fluídos valued using the equity method.

Note 4: Current and non-current financial assets

The breakdown of financial assets at December 31, 2021 is as follows:

(Euro.000)

Current and non-current financial assets	Dec 31, 21	Dec 31, 20
Guarantee deposits	318	282
Escrow deposit account - long term	1,500	2,000
Derivative financial instruments	321	-
Non-current financial assets	**2,139**	**2,282**
Escrow deposit account - short term	500	1,000
Derivative financial instruments	27	32
Other current financial assets	**527**	**1,032**

The main accounts are commented upon below.

RESTRICTED DEPOSIT ACCOUNT (SHORT AND MEDIUM TERM)

In 2020, as part of the acquisition of JANZ Contagem e Gestão de Fluídos SA, 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 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.

During the first half of 2021, the short-term receivable of Euro 1,000 thousand was released by paying the counterparty Euro 374 thousand and releasing the amount of Euro 626 thousand, as provided for in the contractual agreements. In addition, Euro 500 thousand was reclassified under current financial assets.

LONG-TERM DERIVATIVE FINANCIAL INSTRUMENTS

Following the refinancing carried out in the second half of 2021, the Parent Company signed a new loan *(Senior Financial Agreement 2021, SFA 2021)* with a nominal value of Euro 90,000 thousand, on which derivative contracts were signed to hedge the interest rate risk, equal to 80% of the nominal value. At December 31, 2021, the mark to market of derivatives was positive on the non-current portion for Euro 321 thousand. Please refer to Note No. 19 for further information on the new loan agreement.

SHORT-TERM DERIVATIVE FINANCIAL INSTRUMENTS

In 2021 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	GBP	12,000	EUR	0.8408	0.8413	-	-	-
forward sales	GBP	750,000	EUR	0.8425	0.8425	-	3	-
forward sales	GBP	1,750,000	EUR	1.1319	1.1330	8	-	-
forward sales	CNY	12,000,000	EUR	7.2146	7.2486	6	-	-
forward purchases	CHF	1,500,000	EUR	1.0424	1.0417	6	-	-
forward purchases	CHF	1,000,000	EUR	1.0424	1.0413	-	4	-
Total						**20**	**7**	**-**

Note 5: Deferred tax assets

A breakdown of temporary differences and the consequent deferred tax assets at December 31, 2021 and at December 31, 2020 is reported below, on the basis of the breakdown by type of the temporary differences:

December 31, 2021

(Euro.000)	Temporary Diff. IRES	Temporary Diff. IRAP	Tax effect IRES	Tax effect IRAP
Employee provisions	4,665	3,859	1,168	150
Other risk and charges provisions	3,044	1,107	847	43
Employee benefits	626	-	151	-
Write-down of inventories	2,155	1,841	534	72
Deprec. suspended on revaluations	171	171	41	7
Tax losses	11,695	-	2,807	-
Non-deductible interest	-	-	-	-
Other & overseas	1,507	49	429	2
Inter-company transactions	5,528	5,528	1,327	216
Cash Flow Hedge Reserve	71	-	17	-
Unrealised foreign exchange losses	360	-	86	-
Total	**29,820**	**12,555**	**7,407**	**490**

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 (*)	1,998	1,719	477	67
Employee benefits	811	-	213	-
Write-down of inventories (*)	2,186	1,764	531	69
Deprec. suspended on revaluations	171	171	41	7
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	-
Total (*)	**17,736**	**10,834**	**4,439**	**423**

(*) The amounts at December 31, 2020 have been restated to include the effects recognised in the PPA.

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, 21	Dec 31, 20
Raw materials, ancillary and consumables (*)	37,902	31,329
Work-in-progress and semi-finished goods (*)	15,816	9,836
Finished products and goods (*)	16,369	15,247
Advances to suppliers (*)	35	41
Inventories	**70,123**	**56,453**

(*) The amounts at December 31, 2020 have been restated to include the effects recognised in the PPA.

The movements in the inventory obsolescence provision were as follows:

(Euro.000)	Dec 31, 21
Obsolescence provision 31/12/2020 (*)	**3,170**
Utilisation in the year	(64)
Allocation in the year	310
Increase for acquisitions in the year	-
Obsolescence provision 31/12/2021	**3,415**

(*) The amounts at December 31, 2020 have been restated to include the effects recognised in the PPA.

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

Note 7: Trade receivables

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

(Euro.000)	Dec 31, 21	Dec 31, 20
Trade receivables (*)	57,529	67,004
Receivables from companies of the Group	626	448
Trade receivables from holding company	63	69
Trade receivables from companies subject to control of holding company	16	24
Current trade receivables (*)	**58,234**	**67,545**
Doubtful debt provision	(2,182)	(2,180)
Trade receivables (*)	**56,052**	**65,365**

(*) The amounts at December 31, 2020 have been restated to include the effects recognised in the PPA.

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 13,818 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.

RECEIVABLES FROM COMPANIES OF THE GROUP

This item refers to receivables from Conthidra S.L., a company consolidated at equity.

DOUBTFUL DEBT PROVISION

The doubtful debt provision amounts to Euro 2,182 thousand, with the movements in 2021 reported in the following table:

(Euro.000)	Dec 31, 21
Doubtful debt provision 31/12/2020	**(2,180)**
Utilisation in the year	18
Allocation in the year	(20)
Doubtful debt provision 31/12/2021	**(2,182)**

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
December 31, 2021					
Trade receivables	47,952	4,387	2,798	2,392	57,529
December 31, 2020					
Trade receivables (*)	57,834	3,222	1,648	4,299	67,004

(*) The amounts at December 31, 2020 have been restated to include the effects recognised in the PPA.

Note 8: Other current assets

The account is broken down as follows:

(Euro.000)	Dec 31, 21	Dec 31, 20
Tax receivables	10,374	11,322
Advances	1,814	843
Prepayments and accrued income	1,257	1,120
Other receivables	684	259
Other tax receivables	1,278	326
Employee receivables	22	84
Social security institution receivables	316	280
Total other current assets	**15,745**	**14,234**

TAX RECEIVABLES

The breakdown is as follows:

(Euro.000)	Dec 31, 21	Dec 31, 20
VAT receivables	3,402	4,433
Receivables from parent companies for Group VAT	2,267	1,549
Withholding taxes	4,704	5,340
Total tax receivables	**10,374**	**11,322**

VAT RECEIVABLES

The VAT balance includes Euro 1,403 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 a request to the State for reimbursement of all monthly payments until offsetting of the payable balance, which was achieved. The balance also includes Euro 1,562 thousand relating to the subsidiary JANZ.

RECEIVABLES FROM PARENT COMPANIES 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 2,267 thousand concerns the receivable of the companies Sit S.p.A. and Metersit S.r.l. from the parent company, respectively of Euro 1,976 thousand and Euro 291 thousand.

WITHHOLDING TAX RECEIVABLES

Receivables for withholding taxes of Euro 4,704 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. During 2021, following the agreement reached with the Tax Agency on the calculation of the economic benefits from intangible assets (”Patent Box” optional system), receivables for withholdings incurred overseas reduced by Euro 1,448 thousand.

PREPAYMENTS AND ACCRUED INCOME

At December 31, 2021, accrued income and prepayments were mainly related to prepayments on fees, rental and insurance premiums, as well as fees for maintenance and repair materials.

OTHER TAX RECEIVABLES

At December 31, 2021, this item consists primarily of:

- Euro 899 thousand relating to the tax credit accrued for research, development and technological innovation activities (Budget Law 2020 No. 160/2019), of which Euro 644 thousand pertaining to the Parent Company and Euro 255 thousand pertaining to the subsidiary Metersit S.r.l.;

- Euro 358 thousand relating to tax credit accrued for expenses incurred as investment in new capital goods (Law No. 160/2019 and Law No. 178/2020), of which Euro 335 thousand pertaining to the Parent Company and Euro 23 thousand pertaining to the subsidiary Metersit S.r.l..

Note 9: Tax receivables

Income tax receivables were as follows:

(Euro.000)	Dec 31, 21	Dec 31, 20
IRES receivables	725	616
IRAP receivables	327	257
Receivable from holding company for tax consolidation	107	3,008
Other current taxes	1,806	101
Tax receivables	**2,965**	**3,983**

The “Receivable from holding company for tax consolidation” at December 31, 2021 shows a debit balance. Please refer to Note No. 23 for further details.

The amount of Euro 1,700,000 refers to the IRES receivable transferred by the parent company SIT Technologies S.p.A. to the subsidiaries SIT S.p.A. and Metersit s.r.l. as part of the national consolidation process, as provided for in Article 43-ter of Presidential Decree 602/1973.

Note 10: Cash and cash equivalents

Cash and cash equivalents are presented below:

(Euro.000)	Dec 31, 21	Dec 31, 20
Cash in hand and similar	32	26
Bank and postal deposits	46,635	42,302
Cash and cash equivalents	**46,667**	**42,328**

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, 2021 to Euro 96,162 thousand, comprising 25,110,209 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	25,110,209	100.0%	MTA Italy

The company, on July 13, 2017, 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, 21	Dec 31, 20
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	(6,134)	(2,212)
Cash flow hedge reserve	(45)	(718)
Actuarial reserve	(656)	(574)
Extraordinary reserve	1,491	1,491
Translation reserve	(7,255)	(8,242)
LTI reserve	174	175
Warrant Reserve	230	(1,567)
Retained earnings (accum. losses)	15,261	9,286
Total profit reserves	**22,296**	**16,870**
Total reserves	**49,271**	**43,845**

SHARE PREMIUM RESERVE

The share premium reserve of Euro 10,360 thousand did not change during the year.

CAPITAL PAYMENTS RESERVE

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

TREASURY SHARES RESERVE

The treasury shares reserve amounts to Euro 6,134 thousand. During 2021, an additional 412,723 treasury shares were purchased for a total amount of Euro 3,922 thousand. This repurchase is for the purpose of the new share-based compensation plans for executives and employees of the Company and/or its subsidiaries, as approved by the Shareholders' Meeting of April 29, 2021.

LONG TERM INCENTIVE PLAN RESERVE

At December 31, 2020, the long-term incentive plan (L.T.I.) reserve included the value of the share-based payments in favour of employees and key executives, settled with capital securities. The plan stipulated the vesting of the units granted in shares upon the simultaneous satisfaction of all conditions, by June 30, 2021. At June 30 2021, the conditions for the conversion of the Units into shares had not matured and therefore the L.T.I. reserve was released.

In April 29, 2021, the Shareholders' Meeting approved 3 new incentive plans (Performance Shares Plan, Restricted Shares Plan, Advisory Board Stock Compensation Plan) At December 31, 2021, the item includes the fair value of the 3 new plans for Euro 174 thousand. For further details, reference should be made to Note 39.

CASH FLOW HEDGE RESERVE

The cash flow hedge reserve at December 31, 2020 is recorded as a negative value of Euro 718 thousand, net of the Euro 227 thousand tax effect. This reserve arose from the fair value measurement of the derivative financial instruments hedging the “SFA” loan, in compliance with IFRS 9. Movements in the year related to the early repayment of the underlying loan and the agreement of new hedging contracts against the new loan that the company finalised on August 6, 2021 with a banking syndicate, for Euro 90 million with a duration of 5 years. The Reserve at December 31, 2021 was a negative value of Euro 45 thousand, net of the tax effect of Euro 17,129.

ACTUARIAL RESERVE

At December 31, 2021, the actuarial reserve amounts to Euro 656 thousand and derives from the effects of discounting post-employment benefits.

EXTRAORDINARY RESERVE

The extraordinary reserve at December 31, 2021 amounted to Euro 1,491 thousand, with no changes in the year.

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 230 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, 2021, the account is positive for Euro 15,261 thousand compared to Euro 9,286 thousand at December 31, 2020. The net increase of Euro 5,975 relates to the positive amount of Euro 12,877 thousand in allocation of a portion of the 2020 result, while the negative amount of Euro 6,890 thousand concerns the dividends paid during the year following the motion taken by the Shareholders' Meeting of April 29, 2021 and Euro 12 thousand to movements.

Non-current liabilities

Note 13: Medium/long-term loans and borrowings

The breakdown of the account at December 31, 2021 is illustrated below:

(Euro thousands)	Dec 31, 21	Dec 31, 20
Non-current portion of loans (*)	74,540	91,934
Medium/long-term loans and borrowings (*)	**74,540**	**91,934**

(*) The amounts at December 31, 2020 have been restated to include the effects recognised in the PPA.

The balance at December 31, 2021 of Euro 74,540 thousand decreased by Euro 17,195 thousand on December 31, 2020. The movement relates for Euro 91,734 thousand to the settlement of the financial payable under the "Senior Financial Agreement" which the Company signed in 2017 with BNP Paribas as part of the overall refinancing transaction at the same time as the merger of SPAC Industrial Stars of Italy 2 and for Euro 74,540 thousand to the long-term portion of the new loan in place, net of the amortised cost. For further information, reference should be made to Note 18.

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

The breakdown of the account at December 31, 2021 is illustrated below:

(Euro.000)	Dec 31, 21	Dec 31, 20
Other non-current financial payables (*)	2,068	2,800
Bond loan - non-current portion	39,438	-
Derivative financial instruments - Non-current	-	266
Non-current financial lease payables - IFRS 16 (*)	13,119	13,417
Other non-current financial liabilities and derivative financial instruments (*)	**54,625**	**16,483**

(*) The amounts at December 31, 2020 have been restated to include the effects recognised in the PPA.

OTHER NON-CURRENT FINANCIAL PAYABLES

The amount at December 31, 2020 of Euro 2,800 thousand included Euro 2,650 thousand related to the acquisition of the equity investment in JANZ - Contagem e Gestão de Fluídos, SA, completed on December 29, 2020, of which Euro 2,000 thousand as a guarantee and Euro 650 thousand as the medium/long-term portion of the earn-out paid to the counterparty. The amount also included Euro 150 thousand related to the acquisition of the equity investment in Plast Alfin S.a.r.l..

The amount of Euro 2,068 thousand decreased by Euro 732 thousand, mainly due to the combined effect of the following movements:

- A decrease of Euro 500 thousand as a result of the short-term reclassification of the guarantee provided for the acquisition of the investment in JANZ - Contagem e Gestão de Fluídos, SA, which was finalised on December 29, 2020;
- A decrease of Euro 233 thousand following the short-term reclassification of the earn-out portion recognised as part of the acquisition of JANZ - Contagem e Gestão de Fluídos, SA;
- A decrease of Euro 150 thousand following the short-term reclassification of the payable for the purchase of the equity investment in Plast Alfin S.a.r.l.;
- An increase of Euro 108 thousand relating to the initial disbursement, equal to 50%, on loans granted by Sace- Simest, pursuant to the latest Legislative Decree of March 17, 2020 converted into Law No. 27 of April 24, 2020, to be used for participation in fairs and exhibitions overseas and for staff training. No guarantees are provided on these loans.

BOND LOAN - NON-CURRENT PORTION

The account refers to the bond loan signed by Pricoa in May 2021. The payable was valued according to the amortised cost method over the duration of the contract, equal to 10 years, with a 6-year grace period. The fixed half-yearly coupon is indexed from the fifth year to a sustainability rating ("ESG") provided by the international agency EcoVadis. The contract provides the option for Sit S.p.a. to request Pricoa over the next three years to subscribe to additional bonds, up to a total amount of USD 100 million (or Euro equivalent).

The bond loan 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, (ii) ratio between EBITDA and net financial charges and (iii) an established debt/own funds ratio. As at December 31, 2021, the Company was in compliance with all covenants.

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.

Note 15: Provisions for risks and charges

The changes to the account were as follows:

(Euro.000)

	Dec 31, 20	Provisions	Utilisations	Reclassifications	Dec 31, 21
Agents indemnity provision	145	6	-	-	152
Other risks provision	4,073	637	(263)	(561)	3,886
Product warranty provision (*)	760	208	(65)	-	904
Total provisions for risks and charges (*)	**4,978**	**852**	**(328)**	**(561)**	**4,941**

(*) The amounts at December 31, 2020 have been restated to include the effects recognised in the PPA.

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 1,990 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 in the year of Euro 308 thousand takes into account the discounting of cash flows, utilising a pre-tax discount rate. Finally, Euro 110 thousand were released as the period covered by the replacement under warranty has elapsed and therefore the provision can no longer be justified.
- Euro 664 thousand refers to the subsidiary Metersit S.r.l. to cover risks on the reasonable estimate of the potential penalties matured based on contractual provisions due to delays in the supply of products to the principal clients of the company. The amount includes Euro 51 thousand relating to provisions for integration of replacement guarantees deriving from a contract with a specific customer.
- Euro 609 thousand to hedge the risks over ongoing disputes with the Parent Company's customers, whose risk of loss is highly probable; The decrease during the year, amounting to Euro 598 thousand, relates to specific claims acknowledged to customers, amounting to Euro 37 thousand, as well as a release of the provision, amounting to Euro 561 thousand, due to the lack of obligations towards customers for potential indemnities provided for in the contract.
- Euro 358 thousand relating to the costs of the reclamation of a plot of land owned by the parent company; the use in the year of Euro 119 thousand concerned the costs incurred for the initiation of reclamation activity. During the year, Euro 16 thousand was in addition allocated.
- The provision for risks and charges also includes Euro 60 thousand for ongoing disputes with employees;

A dispute began in 2021 with a customer attributable to the alleged defectiveness of a certain number of valves supplied by the Mexican subsidiary and installed on products sold on the American market. The dispute is at an early stage and at this time the cause of the malfunction of the appliance on which the valves disputed by the customer are installed has not been proven. The parties, through their legal teams, are considering the possibility of a mediation procedure, the conclusion and outcome of which may not be predicted at the moment.

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 provision mainly includes:

- Euro 250 thousand represent the estimated future charges relating to the subsidiary Janz on meters sold up to the date of the financial statements. The value of the provision is in line with the previous year;
- Euro 468 thousand relating to the best estimate of replacement costs of meters sold by the subsidiary Metersit S.r.l. up to the date of the financial statements, covered by warranty. The provision for the year amounts to Euro 111 thousand, while a further Euro 50 thousand represents a supplementary guarantee deriving from a contract with a specific customer.
- Euro 140 thousand relating to products sold by the Parent Company, calculated on the basis of the assessment and analysis of returns due to defects. The provision for the year amounts to Euro 48 thousand.

Note 16: Post-employment benefit provision

The movements in the account in the year to December 31, 2021 and to December 31, 2020 were as follows:

(Euro.000)	Dec 31, 21	Dec 31, 20
Net liabilities for employee benefits	5,338	5,659
Liabilities for retention or other	424	436
Post-employment benefit provision	**5,762**	**6,095**

The movements in post-employment benefits were as follows:

(Euro.000)	Dec 31, 21	Dec 31, 20
Post-em. bens. at beginning of year	5,659	5,984
Payments in the year	(535)	(371)
Current service cost	88	99
Interest cost	17	43
Actuarial gains	108	(96)
Post-em. bens. at end of year	**5,338**	**5,659**

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

Defined benefit plans	Dec 31, 21	Dec 31, 20
Annual discount rate	0.98%	0.34%
Annual inflation rate	1.75%	0.80%
Annual increase in post-employment benefit	2.81%	2.10%
Annual increase in salaries	1	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, 2021 and at December 31, 2020 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, 2021

(Euro thousands)	Temporary Diff. IRES	Temporary Diff. IRAP	Tax effect IRES	Tax effect IRAP
Tax on business combinations	54,475	43,892	13,074	1,712
Accelerated depreciation	376	-	90	-
Finance Leases	925	925	222	36
Dividends	472	-	113	-
Unrealised for. exchange gains/losses	993	-	238	-
Other	857	-	258	-
Total	**58,097**	**44,816**	**13,996**	**1,748**

Balance at December 31, 2020

(Euro thousands)	Temporary Diff. IRES	Temporary Diff. IRAP	Tax effect IRES	Tax effect IRAP
Tax on business combinations(*)	64,109	50,331	14,973	1,963
Accelerated depreciation	376	-	90	-
Finance Leases	968	968	232	38
Dividends	342	-	82	-
Unrealised for. exchange gains/losses	365	-	88	-
Other	347	-	80	-
Total (*)	66,508	51,299	15,545	2,001

(*) The amounts at December 31, 2020 have been restated to include the effects recognised in the PPA.

Current liabilities

Note 18: Short-term loans and borrowings

The breakdown is as follows:

(Euro.000)	Dec 31, 21	Dec 31, 20 RESTATED
Utilisation short-term lines (*)	40	58
Current portion of loans	19,731	46,464
Current financial charges	-	11
Short-term loans and borrowings (*)	**19,770**	**46,533**

(*) The amounts at December 31, 2020 have been restated to include the effects recognised in the PPA.

CURRENT PORTION OF LOANS

On August 6, 2021, the Parent Company signed a loan agreement *(Senior Financial Agreement 2021, SFA 2021*) with a bank syndicate, in order to repay the outstanding bank debt *(Senior Financial Agreement 2017*) and meet the Group's ordinary financial requirements. The main features are as follows:

- original amount of Euro 90,000 thousand, with 5 year duration, maturing June 30, 2026; repayment according to pre-established half-yearly instalments commencing from June 30, 2022;
- 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. During 2021, the average interest margin was 1.50%; the margin is also determined on the basis of a sustainability ("ESG") rating issued by the international agency EcoVadis;

the financial liability is measured using the amortised cost criterion. The loan contract provides for an early repayment option without penalties and without collateral security. As is usual in similar transactions, it stipulates a series of commitments for the Company, such as a prohibition, except for within the provided limits, on assuming further debt and providing related guarantees (negative pledges), in addition to limits on the distribution of dividends and the sale of assets or divestment of businesses. Financial covenants are established, to be calculated at consolidated financial statement level on a half-yearly basis: (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.

As at December 31, 2021, the Company was in compliance with all covenants.

The residual nominal amount at December 31, 2021 totals Euro 90,000 thousand, of which the non-current portion Euro 75,000 thousand and the current portion Euro 15,000 thousand. The residual amount at amortised cost at December 31, 2021 totals Euro 89,324 thousand, of which the non-current portion Euro 74,540 thousand and the current portion Euro 14,784 thousand.

During 2021 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 residual nominal amount at December 31, 2021 totals Euro 5,000 thousand.

Note 19: Other current financial liabilities and derivative financial instruments

A breakdown follows:

(Euro.000)	**Dec 31, 21**	**Dec 31, 20**
Other current financial payables (*)	968	771
Bond loan - current portion	20	-
Factoring payables	608	647
Derivative financial instruments (current portion)	593	894
Current financial lease payables - IFRS 16 (*)	2,800	2,319
Other current financial liabilities and derivative financial instruments (*)	**4,988**	**4,630**

(*) The amounts at December 31, 2020 have been restated to include the effects recognised in the PPA.

OTHER CURRENT FINANCIAL PAYABLES

The amount, equal to Euro 968 thousand, includes Euro 500 thousand relating to the short-term portion of the security deposit paid as part of the acquisition of the equity investment in JANZ - Contagem e Gestão de Fluídos, SA, as well as the short-term portion of the earn-outs contracted during the same transaction, amounting to Euro 233 thousand. The amount also includes Euro 150 thousand related to the purchase of the equity investment in Plast Alfin S.a.r.l., to be settled within one year.

The item also includes the current portion of the Sace-Simest loans, as described in greater detail in Note 14, amounting to Euro 30 thousand (of which Euro 22 thousand for SIT and Euro 8 thousand for the subsidiary Metersit S.r.l.).

DERIVATIVE FINANCIAL INSTRUMENTS - CURRENT PORTION

The balance at December 31, 2021 of Euro 593 thousand concerns:

- Euro 392 thousand for the short-term portion of interest rate hedges *(Interest Rate Swaps - IRS)* in connection with the new *SFA 2021* bank loan at a floating rate, as described in greater detail in Note 14. With regard to these hedging contracts, the medium/long-term portion has a positive mark-to-market value of Euro 321 thousand, as indicated in Note 4, resulting in an overall net effect of Euro 71 thousand; and

- for Euro 201 thousand for exchange rate risk hedging contracts.

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

Balance at December 31, 2021

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional Dec 31, 21	Fair value Dec 31, 21
IRS on SFA 2021	Euro	06/08/2021	30/06/2026	-0.07%	72,000	(392)
Total					**72,000**	**(392)**

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)**

In 2021 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, 2021 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	2,000,000	EUR	1.5742	1.5768	(8)	-	-
forward sales	GBP	700,000	EUR	0.8491	0.8508	(8)	-	-
forward sales	GBP	1,000,000	EUR	0.8491	0.8532	-	(12)	-
forward sales	USD	1,000,000	EUR	1.1679	1.1716	(24)	-	-
forward sales	CNY	15,000,000	EUR	7.6893	7.9767	-	-	(149)
Total						**(40)**	**(12)**	**(149)**

The currency contracts at December 31, 2020 were as follows

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)**

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, 20	Drawdown	Acquisitions	Reimbursements / settlements	Reclassification	Fair Value Changes	Change in amortised cost	Dec 31, 21
Bank payables - non-current portion of loans (*)	92,099	90,000	-	(92,099)	(15,000)	-	-	75,000
Bank payables - non-current portion amortised cost	(365)	(460)	-	196	56	-	113	(460)
Total bank payables - non-current portion loans (*)	**91,734**	**89,540**	**-**	**(91,903)**	**(14,944)**	**-**	**113**	**74,540**
Shareholder loans - non-current portion of loans	-	-	-	-	-	-	-	-
Shareholder loan - amortised cost	-	-	-	-	-	-	-	-
Bond loan - non-current portion	-	40,000	-	-	-	-	-	40,000
Bond loan - amortised cost, non-current portion	-	-	-	-	-	-	(562)	(562)
Derivative financial instruments - non-current portion	266	-	-	(266)	-	-	-	-
IFRS16 (*)	13,418	1,805	-	-	(2,103)	-	-	13,120
Payables to other lenders	2,929	180	-	(129)	(913)	-	-	2,067
Total other non-current financial liabilities and derivative financial instruments (*)	**16,613**	**41,985**	**-**	**(395)**	**(3,016)**	**-**	**(562)**	**54,625**
Total non-current financial liabilities (*)	**108,347**	**131,525**	**-**	**(92,298)**	**(17,960)**	**-**	**(449)**	**129,165**
Bank payables - current portion of loans (*)	46,878	5,000	-	(46,878)	15,000	-	-	20,000
Bank payables - current portion amortised cost	(500)	-	-	500	(57)	-	(216)	(273)
Current account and accrued interest expense	154	-	-	(112)	-	-	-	42
Total bank payables - current portion of loans (*)	**46,533**	**5,000**	**-**	**(46,490)**	**14,943**	**-**	**(216)**	**19,770**
Shareholder loan - current portion of loans	-	-	-	-	-	-	-	-
Bond loan - current portion	-	-	-	-	-	-	-	-
Bond loan - amortised cost current portion	-	-	-	-	-	-	(81)	(81)
Bond loan - accrued interest expense	-	100	-	-	-	-	-	100
Derivative financial instruments - current portion	894	-	-	(894)	-	593	-	593
Factoring payables	647	608	-	(647)	-	-	-	608
IFRS16 (*)	2,190	-	1,187	(2,680)	2,104	-	-	2,800
Payables to other lenders	900	-	245	(1,090)	913	-	-	968
Total other current financial liabilities and derivative financial instruments (*)	**4,630**	**708**	**1,432**	**(5,310)**	**3,017**	**593**	**(81)**	**4,988**
Total current financial liabilities	**51,162**	**5,708**	**-**	**(51,800)**	**17,960**	**593**	**(297)**	**24,758**

(*) The amounts at December 31, 2020 have been restated to include the effects recognised in the PPA.

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, 2021, trade payables were broken down as follows:

(Euro.000)	Dec 31, 21	Dec 31, 20
Trade payables	80,739	72,095
Trade payables to holding company	13	108
Trade payables	**80,752**	**72,203**

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
December 31, 2021					
Trade payables	66,883	9,443	1,615	2,798	80,739
December 31, 2020					
Trade payables	63,608	6,334	989	1,165	72,095

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 110 thousand.

Note 21: Other current liabilities

A breakdown follows:

(Euro.000)	Dec 31, 20	Dec 31, 20
Other payables	2,386	1,760
Customer advances	951	831
Current remuneration payables	2,303	2,319
Deferred remuneration payables	4,410	3,589
Payables to social security institutions	3,330	3,054
Retention fund, MBO and PDR	3,905	2,263
Accrued expenses	1,352	990
Substitute tax payables	3,728	3,018
VAT payables	798	816
Other current liabilities	**23,162**	**18,638**

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 2021 salaries, paid in January 2022.

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 2022.

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, 2021 amounted to Euro 8,748 thousand, representing the Fair Value of the Warrants, calculated by assigning to each 4,604,367 Warrant issued and not yet exercised at the reporting date the listing price at that date.

Financial liabilities recognised at December 31, 2021 were adjusted to fair value, recognising the differential between the date of December 31, 2020 (Euro 0.2) and the price at the reporting date (Euro 0.2) to the income statement under financial charges for Euro 8,978 thousand.

Note 23: Tax payables

The sum of Euro 3,267 thousand primarily relates to the direct taxes payable on income for the year, Euro 1,518 thousand of which is due to the participation of the Parent Company and 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 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)	2021	2020
Revenues from product sales	379,095	319,820
Revenues from services	1,426	911
Revenues from sales and services	**380,521**	**320,731**

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

(Euro.000)	2021	2020
Heating	301,382	251,782
Smart Gas Metering	58,049	68,949
Watermetering	21,089	-
Total revenues from sales and services	**380,521**	**320,731**

The increase on the previous year in Watermetering division revenues refers exclusively to the company JANZ - Contagem e Gestão de Fluídos, acquired at the end of FY 2020.

Group revenues by region were as follows:

(Euro.000)	2021	2020
Italy	106,992	107,654
Foreign EU	167,497	128,827
Foreign Non-EU	106,032	84,249
Total revenues from sales and services	**380,521**	**320,731**

Note 25: Raw materials, ancillaries, consumables and goods

The breakdown of the account in 2021 and 2020 was as follows:

(Euro.000)	2021	2020
Purchases of ancillary materials	7,105	3,696
Purchases of raw materials, semi-finished & packaging	172,769	144,681
Finished products purchases	23,290	19,716
Purchases of consumable materials	182	93
Purchases of goods	412	212
Maintenance and repair materials	2,748	2,316
Other purchases	2,757	2,201
Duties on purchases	1,422	781
Raw materials, ancillaries, consumables and goods	**210,685**	**173,696**
Changes in inventories of raw materials, ancillaries, consumables and goods	(4,796)	(4,761)
Change in inventories of finished & semi-finished products and goods	(6,490)	1,985
Change in inventories	**(11,286)**	**(2,777)**
Total cost of raw materials, ancillaries, consumables and goods	**199,399**	**170,919**

Raw material and consumable costs, including changes in inventories, amounted to Euro 199,399 thousand, accounting for 52.4% of revenues, reducing on 2020 (53.3%), supported by increased sales volumes on the previous year (which was also shaped by the temporary shutdown of production during the lockdown).

Note 26: Service costs

The composition of the account is as follows:

(Euro.000)	2021	2020
Rent, hire and leases	426	598
Outsourcing	9,773	8,137
Transport	10,351	6,336
Commissions	323	413
Legal, administrative and other	6,519	5,027
Insurance	1,054	868
Management services	676	924
Maintenance & repair expenses	4,076	3,514
Utilities	5,464	5,179
Personnel expense	2,190	1,262
Cleaning and security	1,524	1,205
Advertising, marketing, and sponsorship	490	577
Directors, statutory & independent auditor fees	2,396	2,005
Travel and accommodation	705	351
Bank charges & commissions	782	644
Other services	1,437	926
Listing charges	238	232
Service costs	**48,424**	**38,198**

OUTSOURCING

Outsourcing costs increased Euro 1,636 thousand on the previous year; the increase is mainly due to the contraction in production activities in the first half of 2020 as a result of the COVID-19 pandemic.

TRANSPORT

Transport costs increased by Euro 4,015 thousand compared to the previous year due to supply-chain management, focused on obtaining raw materials and components rather than optimising costs related to incoming goods flows. It should be recalled that in the first half of the previous year the Group's operations featured a contraction in output volumes during the COVID-19 pandemic.

LEGAL, ADMINISTRATIVE AND OTHER

Consultancy costs, amounting to Euro 6,519 thousand, rose by Euro 1,492 thousand on the previous year due to increased use of technical and product consultancy.

PERSONNEL EXPENSE

The increase in personnel expense of Euro 928 thousand on the previous year relates to the resumption of production activities post the COVID-19 pandemic. The Group had taken steps to improve flexibility, reducing the use of temporary work during the lockdown period and training and hiring activities, while also limiting the use of the canteen service due to the significant uptake of remote working by employees.

OTHER SERVICES

The account increased on the previous year by Euro 511 thousand, due to the reduction in customs duties on sales for Euro 382 thousand.

Note 27: Personnel expense

Personnel expenses are shown below:

(Euro.000)

Personnel expense	2021	2020
Wages and salaries	56,106	46,095
Social security charges	13,474	11,152
Temporary personnel	7,965	5,505
Post-employment benefits	2,919	2,737
Other costs	1,526	1,092
Personnel expense	**81,990**	**66,581**

The average number of personnel in 2021 and 2020 was as follows:

Employees	2021	2020
Executives	39	36
White-collar	557	455
Blue-collar	1,892	1,641
Temporary	286	193
Total employees	**2,774**	**2,325**

WAGES AND SALARIES

The increase in the cost of wages and salaries of Euro 10,011 thousand compared to the previous year is attributable for Euro 4,065 thousand to the extension of the Group scope with the inclusion of the subsidiary Janz. It is recalled that in 2020 the Group requested and obtained 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.

TEMPORARY PERSONNEL

The increase in the cost of temporary personnel was Euro 2,460 thousand, rising on the previous year due to the recovery of production activities after the lockdown period, which mainly affected the first half of 2020.

Note 28: Depreciation, amortisation and write-downs

The breakdown is as follows:

(Euro.000)	**2021**	**2020**
Amortisation of intangible assets	8,787	7,217
Depreciation of property, plant and equipment	14,239	14,265
Depreciation of operating lease IFRS 16	2,874	1,989
Total depreciation and amortisation	**25,900**	**23,471**
Write-down of current receivables	12	47
Write-downs of tangible fixed assets	985	509
Write-down of intangible assets	-	25
Total write-downs	**997**	**581**
Depreciation, amortisation and write-downs	**26,897**	**24,052**

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

The breakdown is as follows:

(Euro.000)	**2021**	**2020**
Provision for disputes	397	871
Provisions for return risks	208	76
Others	55	4
Uses/releases provisions	(743)	(136)
Provisions for risks	**(83)**	**815**

In 2021, provisions totalled Euro 660 thousand and were stated net of utilisations and releases of Euro 743 thousand. The main changes in the year refer to:

- Euro 308 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 209 thousand relating to allocations to the product warranty provision for the application of an updated valuation percentage and analysis of returns due to defects, of which Euro 161 thousand relating to the subsidiary Metersit S.r.l. and Euro 48 thousand relating to the parent company;
- Euro 73 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, of which Euro 43 thousand regarding the Parent Company and Euro 30 thousand concerning the subsidiary Metersit S.r.l..

The decrease includes Euro 561 thousand of releases from provision for risks and charges of the parent company due to the lapse of obligations to clients for potential contractual compensation.

Note 30: Other charges (income)

The account is broken down as follows:

(Euro.000)

Other charges (income)	**2021**	**2020**
Misc. recoveries	956	323
Prior year income	141	124
Gains on fixed assets	199	177
Utilisation of provisions	-	-
Grants	886	492
Other revenues	27	4
Other income	**2,209**	**1,120**
Misc. taxes & non-deductible costs	396	363
Losses on fixed assets	63	11
Associations	247	190
Prior year charges	79	206
Losses on receivables	19	3
IMU Property tax	208	217
Misc. reimbursements	6	75
Other charges	755	604
Other charges	**1,773**	**1,670**
Other charges (income)	**(436)**	**550**

GRANTS

In 2021, this item increased Euro 394 thousand. This increase refers to the tax credit for research, development and technological innovation activities for the year 2021 as provided for by Budget Law 2020 No. 160/2019.

MISC. RECOVERIES

Miscellaneous recoveries increased by Euro 633 thousand compared to the previous year. The item includes Euro 628 thousand of extra costs re-invoiced to the main customers by the Dutch subsidiary.

Note 31: Financial income

In 2021, this amounted to Euro 395 thousand and was broken down as follows:

(Euro.000)	2021	2020
Interest income on bank accounts	2	37
Other interest income	163	185
Profits on derivative financial instruments	229	90
Adjustment to fair value of financial liabilities	-	522
Financial income	**395**	**835**

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

The amount concerns the adjustment to the Fair Value of the 4,604,367 SIT Warrants in place and not exercised at December 31, 2021; at December 31, 2020 the SIT Warrants reported a gain of Euro 522 thousand; the Fair Value was established utilising level 1 of the fair value hierarchy as the Warrants are listed on an active market. For further information, reference should be made to Note 32.

Note 32: Financial charges

Financial charges consist of:

(Euro.000)

Financial charges	2021	2020
Financial charges on hedging contract differences	1,095	670
Interest and other bank charges	2,578	2,642
Interest charges to third parties	114	214
Interest on bond loans	577	-
Fair value of financial instruments	9,211	225
Financial charges for operating leases - IFRS 16	499	188
Financial charges	**14,074**	**3,939**

FINANCIAL CHARGES ON HEDGING CONTRACTS

The item also includes Euro 958 thousand related to the settlement of the IRS derivatives in place on the loan *(Senior Facility Agreement* of 2017) which, in the first half of 2021 were considered as hedging derivatives and, as such, recorded as a cash flow hedge reserve. As previously described, the loan agreement (Senior Facility Agreement of 2017) was settled in August 2021. The item also includes Euro 137 thousand regarding the new SFA 2021 loan agreement.

INTEREST AND OTHER BANK CHARGES

The amount of Euro 2,578 thousand includes the effects accruing in the year from the settlement of the 2017 Senior Facility Agreement, of which Euro 695 thousand is the amortised cost portion and Euro 1,136 thousand the interest portion. In addition, the item includes the amortized cost and interest portion of the new loan known as Senior Facility Agreement 2021 amounting to Euro 89 thousand and Euro 354 thousand respectively.

INTEREST ON BOND LOANS

The amount of Euro 577 thousand entirely concerns the interest charges accruing in the period on the bond loan signed in May 2021. For further information, reference should be made to the Directors' Report and to Note 14

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The amount of Euro 9,211 thousand includes Euro 8,978 thousand relating to the adjustment to the fair value of the SIT warrants in place and not exercised at December 31, 2021; the fair value of the warrants was established utilising level 1 of the hierarchy as they are listed on an active market. In 2020, the SIT Warrants resulted in financial income, as indicated at Note 31 of the account "Adjustment to fair value of financial liabilities".

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 1,024 thousand are comprised as follows:

(Euro.000)	2021	2020
Realised exchange gains	6,745	11,534
Realised exchange losses	(6,215)	(11,958)
Unrealised exchange gains	1,710	1,104
Unrealised exchange losses	(1,217)	(1,201)
Net exchange gains and losses	**1,024**	**(521)**

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 2021 and 2020 was as follows:

(Euro.000)	2021	2020
Current income taxes	7,867	5,171
Deferred tax charges	(2,117)	(1,757)
Deferred tax income	(2,882)	228
Income from tax consolidation	(117)	(738)
Taxes from previous year	(550)	(170)
Other	1,261	31
Income taxes	**3,462**	**2,766**

Income taxes, which rose on the previous year, was primarily affected by the Group's higher assessable income due to the increase in revenues and the expansion of the Group's scope of consolidation to include the subsidiary Janz.

The account also includes the contribution of the parent company, of Euro 1.7 million, as a result of the agreement reached with the Tax Agency on the calculation of the economic contribution of intangible assets (optional Patent Box system). This benefit is reflected for Euro 2,667 thousand as higher deferred tax assets for losses to be recovered relating to the years covered by the agreement (2016 - 2020), for Euro 447 thousand under the item Prior year taxes, as lower IRAP and for Euro 1,448 thousand, under the item Other, as a lower receivable to be recovered for withholdings paid overseas.

It is recalled that in the previous year, the Italian companies benefitted from the tax break under Article 24 of Legislative Decree 34/2020 - Relaunch Decree - which permitted the cancellation of the 2019 IRAP balance and the initial 2020 IRAP payment on account as economic support in view of the Coronavirus.

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 movement in "Income from tax consolidation" refers primarily to the transfer of interest expense for the year by the subsidiary SIT Metering Srl to the tax consolidation.

Reconciliation effective tax charge	31/12/2021	31/12/2020
Adjustments for items not subject to taxation		
Pre-tax profit	**11,706**	**15,990**
Theoretical IRES in Italy 24.0%	**(2,809)**	**(3,838)**
Tax effect non-deductible costs	(2,864)	(366)
Tax effect on higher deductible costs	1,091	1,347
Adjustments for prior period taxes	2,747	(6)
Other	(683)	509
Difference the tax rate on foreign entities	(561)	(141)
IRAP	**(932)**	**(653)**
Prior year IRAP:	**448**	**234**
IRAP deferred tax charge	100	100
IRAP deferred tax income	1	46
Tax at effective rate	**(3,462)**	**(2,766)**
Effective tax rate	**29.58%**	**17.30%**

Note 35: Leasing contracts

The tables below summarise the effects on the Group financial statements at December 31, 2021 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	2021
Operating lease contract charges	3,160
Contracts classified as short-term leases	5
Contracts classified as low-value assets	10
Total service costs	**3,175**
Land & buildings	(1,414)
Industrial & commercial equipment	(483)
Other tangible assets	(978)
Total depreciation	**(2,875)**
Income from sub-leasing contracts	-
Sales and leaseback transaction	-
Total other charges/(income)	**-**
Interest charges on financial liabilities	(503)
Total financial charges	**(503)**

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

(Euro.000)	31/12/2021
Net investments accounted as ROU as at 1.1.2021	15,512
Increases in the year	2,991
Depreciation and amortisation of the year	(2,875)
Exch. diff.	65
Net investments from ROU assets at 31.12.2021	**15,693**
Payable for financial liabilities from ROU assets at 1.1.2021	15,607
Commitments in the year	2,991
Cash outflows	(2,759)
	79
Gross value of liabilities from ROU assets at 31.12.2021	**15,919**
Obligations for short-term lease contracts	10
Obligations for low-value asset contracts	3
Total obligations for lease contracts with recognition to costs of payments due	**13**

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

(Euro.000)	31/12/2021
Within the year	2,807
Between 1 and 5 years	8,122
Over 5 years	4,990
Total liabilities deriving from operating lease contracts	**15,919**

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	31/12/2021	31/12/2020
Profit attributed to the ordinary shareholders of the Parent Company	8,243	13,225
Dilution effect deriving from potential ordinary shares	8,978	(522)
Total profit/(loss) attributed to the ordinary shareholders of the Parent Company	**17,221**	**12,703**

(Euro.000)

Earnings per share	31/12/2021	31/12/2020
Weighted average number of ordinary shares, excluding treasury shares, to calculate basic earnings per share	24,531,526	24,804,061
Dilution effects for Warrants	574,802.23	-
Dilution effects for Performance Shares	-	-
Weighted average number of ordinary shares due to dilution effect	25,106,329	24,804,061
Basic earnings per share	**0.3360**	**0.5332**
Diluted earnings per share	**0.6859**	**0.5121**

Note 37: Share-based payments

At December 31, 2021, the company holds 729,447 treasury shares, of which 412,723 were acquired in 2021 in order to service the long-term incentive plan for employees and/or collaborators of the company and/or subsidiary companies, in order to incentivise achievement of the medium-term plan, as further described in Note 12.

At the date of the present financial statements, 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	2021	2020
Costs from equity-settled share-based payment transactions	174	-
Costs from cash-settled share-based payment transactions		
Total costs deriving from share-based payment transactions	**174**	**-**

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

On April 29, 2021, the Shareholders' Meeting approved 3 new incentive plans, with the following characteristics:

- 2021-2025 Performance Shares Plan: provides for the identification and nomination by the Board of Directors of executives and employees of the company and/or of the subsidiaries, with the objective of:
  - better aligning the interests of management and the creation of shareholder value with a view to medium to long-term sustainability;
  - strengthening the motivation of management to pursue objectives that are not only profitable/business-related but that also create value for shareholders;

- ensuring a high level of attraction and retention of key personnel, offering remuneration packages in line with market practice.

The Plan has a multi-year duration and is divided into 3 cycles ("rolling"), each of three years, starting in January 2021, January 2022 and January 2023.

- 2021-2023 Restricted Shares Plan: provides for the identification and nomination by the Board of Directors of 4 executives, from among those who play a key role in achieving the SIT Group's objectives. Through the adoption of the plan, the Company seeks to ensure a high level of retention of key personnel, offering remuneration packages in line with market practice, taking into account in particular the combined incentive effect of the performance shares plan of which the Beneficiaries are also recipient.
- 2021-2024 Advisory Board Share Remuneration Plan: to incentivise the Advisory Board to undertake its consultative functions effectively through an incentive system linked to the achievement of performance objectives over an extended period. The Plan in addition furthers the creation of shareholder value with a view to medium to long-term sustainability.

On July 26, 2021, the Board of Directors identified by name the beneficiaries of the plans described above. The following table illustrates the number and average weighed exercise price (PMPE) of the options during the year:

	2021	
2021-2025 Performance Shares Plan	**No. options**	**Weighted average price**
Outstanding at January 1	142,560	7.26
Assigned during the year	-	-
Cancelled during the year	-	-
Exercised during the year	-	-
Expired during the year	-	-
Outstanding at December 31	**142,560**	**7.26**
Exercisable at December 31	-	-

	2021	
2021-2023 Restricted Shares Plan	**No. options**	**Weighted average price**
Outstanding at January 1	56,944	7.26
Assigned during the year	-	-
Cancelled during the year	-	-
Exercised during the year	-	-
Expired during the year	-	-
Outstanding at December 31	**56,944**	**7.26**
Exercisable at December 31	-	-

	2021	
2021 - 2024 Advisory Board Plan	**No. options**	**Weighted average price**
Outstanding at January 1	30,000	9.65
Assigned during the year	-	-
Cancelled during the year	-	-
Exercised during the year	-	-
Expired during the year	-	-
Outstanding at December 31	**30,000**	**9.65**
Exercisable at December 31	-	-

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, 2021, and which remains valid for the current year:

2021-2025 Performance Shares Plan **Assumptions for the measurement of the plan fair value**	**2021**
Weighted fair value at the measurement date	7.26
Dividend yield (%)	3.91
Interest free risk rate (%)	(0.74)
Expected useful life of the options (in years)	2.6

2021-2023 Restricted Shares Plan **Assumptions for the measurement of the plan fair value**	**2021**
Weighted fair value at the measurement date	7.26
Dividend yield (%)	3.91
Interest free risk rate (%)	(0.74)
Expected useful life of the options (in years)	2.6

2021 - 2024 Advisory Board Plan **Assumptions for the measurement of the plan fair value**	**2021**
Weighted fair value at the measurement date	9.65
Dividend yield (%)	3.91
Expected volatility (%)	31%
Interest free risk rate (%)	(0.74)
Expected useful life of the options (in years)	2.6
Model adopted	Monte - Carlo
Correlation with index	33%

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.

OTHER INFORMATION

Disclosure by operating segment

Income Statement

2021

(Euro.000)	Heating	Metering	Eliminations	Consolidated
Revenue from sales and services	304,066	79,337	(2,881)	380,521
Operating costs	(282,957)	(76,116)	2,881	(356,191)
EBIT	21,109	3,221	-	24,330

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

Balance Sheet

2021

(Euro.000)	Heating	Metering	Eliminations	Consolidated
Assets	392,786	98,691	(41,761)	449,715
Liabilities	276,855	60,926	(41,742)	296,039
Shareholders’ Equity	115,931	37,765	(19)	153,676

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	-	153,220

Related party transactions

At its meeting of June 11, 2021, the Board of Directors of SIT approved the update to the related party transactions policy, pursuant to Article 4 of the Consob Regulation containing provisions on related party transactions, adopted by Consob with Resolution No. 17221 of March 12, 2010 as most recently amended with Consob Resolutions No. 21623 and 21624 of December 10, 2020, and published on the website www.sitcorporate.it in the *Corporate Governance/Governance Documents* section. 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, 21	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
SIT Immobiliare S.p.a.	14	-	-	-	-	-	14	-
Companies subject to the control of the holding company	**14**	**-**	**-**	**-**	**-**	**-**	**14**	-
SIT Technologies S.p.A.	25	-	-	4,861	-	5,915	2,036	345
Holding company	**25**	-	-	**4,861**	-	**5,915**	**2,036**	**345**

Transactions in 2020 are shown in the following table:

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**	-

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 charges 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 5,915 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 at December 31, 2021, 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. In 2020 the subsidiary SIT Metering S.r.l. joined the National Tax Consolidation procedure for the three-year period 2020-2022, while in 2021 the newly-incorporated company Technologies SAPA di F.D.S. S.S. also joined for the three-year period 2021-2023, both as consolidated companies.

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. From next year, as a subsidiary, the subsidiary SIT Metering Srl will also join the Group VAT procedure.

At December 31, 2021, the receivable of the Company from the holding company, SIT Technologies S.p.A., amounted to Euro 2,036 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.

As illustrated in the table below, we also report in 2021 the Group incurred costs for consultancy totalling Euro 26 thousand with a company in which the Non-Executive Chairperson is a member of the Board of Directors of SIT.

Dec 31, 21	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
Oaklins Arietti S.r.l	-	26	-	-	-	-	-	-
Transactions with other related parties	**-**	**26**	**-**	**-**	**-**	**-**	**-**	**-**

December 31, 2020

Dec 31, 20	Revenues	Costs	Financial income	Financial charges	Financial receivables	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)	2021	2020
Director fees	1,098	962
Statutory auditor fees	163	149
Total	**1,261**	**1,111**

The Group paid to the audit firm and its relative network total fees of Euro 494 thousand as follows:

(Euro.000)	2021	2020
Fees received by Deloitte & Touche S.p.A. for audit services	277	268
Fees received by other Deloitte network companies for audit services for the overseas investees	193	184
Fees received by the Deloitte network for audit services	**470**	**453**

(Euro.000)	2021	2020
Fees received by Deloitte & Touche S.p.A. for verification services for the issue of a statement	24	4
Fees received by other Deloitte network companies for verification services for the issue of a statement	-	-
Fees received by Deloitte network companies for verification services for the issue of a statement	**24**	**4**

The off-balance sheet commitments of the Parent Company at December 31, 2021 were as follows.

(Euro.000)	2021	2020
Other unsecured guarantees	64,051	61,275
Secured guarantees	-	-
Total guarantees	**64,051**	**61,275**

Other unsecured guarantees

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

(Euro.000)	2021	2020
In the interest of subsidiaries	63,943	61,167
In own interest	108	108
Total other guarantees	**64,051**	**61,275**

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 8,259 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 the surety guarantee granted to secure the lease agreement signed for the Rovigo property.

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 2021, in line with its policies, the Company undertook financial hedges principally against net exposures in USD, AUD, GBP, CHF, and CNY.

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.

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 90 million. 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 72 million, or 80.0% 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.

From the second half of 2020 and the entire 2021 there was a significant increase in the market prices of certain raw materials and components used by the Group, particularly copper, aluminium, steel, plastics and certain electronic components. The magnitude of market price fluctuations has led the Company to take further action to mitigate this risk. This action included the search for alternative suppliers, technical approval for alternative components and the monitoring of supply markets, including by the foreign subsidiaries located in China and Mexico. In order to reduce purchase cost volatility, the Group therefore implemented procurement policies designed to meet requirements at the best conditions possible and guarantee regular supply. It should also be noted that contracts with certain suppliers contain price adjustment clauses every six months and therefore the aforementioned market trend will have effects on purchase costs for the following year.

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, 2021, the following table outlines the type of instrument, its value at the reporting date and the fair value hierarchy utilised:

Transaction type	Value at Dec 31, 21	Valuation criterion	Level 1	Level 2	Level 3
SIT Warrants	(8,748)	*Fair value*	(8,748)		
Interest Rate Swap	(71)	*Fair value*		(71)	
Forex Forward	(173)	*Fair value*		(173)	
Commodity Swaps	-	*Fair value*		-	

In 2021, 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, 2020:

(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)	

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 Sec. 125	as
Fondimpresa - Rome	26	Reimbursement of quota of fondimpresa training plan code 296923
Fondimpresa - Rome	58	Reimbursement of quota of fondimpresa training plan code 301791
Fondirigenti - Rome	15	Reimbursement of quota of fondirigenti training plan code FDIR 25921
Fondirigenti - Rome	10	Reimbursement of quota of fondirigenti training plan code FDIR28027
Total	**109**	

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.

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Padua, March 22, 2022

The Chairperson 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 2021.

In addition, we declare that the consolidated financial statements:

- corresponds 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 22, 2022

The Chief Executive Officer

Federico de' Stefani

The Executive Officer for Financial Reporting

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, 2021, 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, 2021, 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.

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, 2021 include a goodwill amounted to Euro 87,9 million allocated to the Heating Cash Generating Unit for Euro 62,1 million, to the Smart Gas Metering Cash Generating Unit for Euro 17,2 million and to the Smart Water Metering Cash Generating Unit for Euro 8,6 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 22, 2022. 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. 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;

Deloitte.

- analysis of actual data with respect to the original plans to assess the nature of the deviations and the reliability of the plan preparation process;
- assessment of the reasonableness of discount rates (WACC) and long-term growth rate (g-rate);
- verification of the mathematical accuracy of the models used to determine the value 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 on the compliance with the provisions of the Delegated Regulation (EU) 2019/815

The Directors of SIT S.p.A. are responsible for the application of the provisions of the European Commission Delegated Regulation (EU) 2019/815 with regard to the regulatory technical standards on the specification of the single electronic reporting format (ESEF – European Single Electronic Format) (hereinafter referred to as the "Delegated Regulation") to the consolidated financial statements, to be included in the annual financial report.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 700B in order to express an opinion on the compliance of the consolidated financial statements with the provisions of the Delegated Regulation.

In our opinion, the consolidated financial statements have been prepared in XHTML format and have been marked up, in all material respects, in accordance with the provisions of the Delegated Regulation.

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, 2021, 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, 2021 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, 2021 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 54

The Directors of SIT S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Cristiano Nacchi
Partner

Padova, Italy
April 7, 2022

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

SEPARATE FINANCIAL STATEMENTS AT DECEMBER 31, 2021

FINANCIAL STATEMENTS

BALANCE SHEET

(in Euro)	Note	December 31, 21	December 31, 20
Goodwill	1	85,087,912	85,087,912
Other intangible assets	1	21,066,152	23,447,278
Property, plant and equipment	2	65,729,029	61,527,379
Investments	3	77,913,319	77,900,824
Non-current financial assets	4	1,991,287	27,485,270
Deferred tax assets	17	4,063,072	1,968,194
Non-current assets		**255,850,771**	**277,416,857**
Inventories	5	24,581,625	20,684,888
Trade receivables	6	61,222,584	48,737,331
Other current assets	7	8,676,257	8,821,731
Tax receivables	8	1,159,365	3,314,723
Other current financial assets	9	46,783,525	14,395,527
Cash and cash equivalents	10	33,454,417	27,531,299
Current assets		**175,877,773**	**123,485,499**
Total assets		**431,728,544**	**400,902,356**
Share capital	11	96,162,195	96,151,921
Total Reserves	12	49,077,866	48,273,461
Net profit		9,022,970	9,591,496
Shareholders' Equity		**154,263,031**	**154,016,878**
Medium/long-term loans and borrowings	13	74,540,376	91,904,197
Other non-current financial liabilities and derivative financial instruments	14	45,755,313	6,064,367
Provisions for risks and charges	15	1,318,935	1,863,844
Post-employment benefit provision	16	5,023,578	5,460,590
Deferred tax liabilities	17	6,892,974	7,636,240
Non-current liabilities		**133,531,176**	**112,929,238**
Short-term loans and borrowings	18	19,787,005	46,474,283
Other current financial liabilities and derivative financial instruments	19	37,879,993	21,896,169
Trade payables	20	64,349,192	54,169,900
Other current liabilities	21	12,825,118	10,370,941
Financial instruments for Warrants	22	8,748,297	1,044,947
Total current liabilities	23	344,732	0
Current liabilities		**143,934,337**	**133,956,240**
Total Liabilities		**277,465,513**	**246,885,478**
Total Shareholders' Equity and Liabilities		**431,728,544**	**400,902,356**

INCOME STATEMENT

(in Euro)	Note	2021	2020
Revenues from sales and services	**24**	**269,768,224**	**217,034,572**
Raw materials, ancillaries, consumables and goods	25	163,244,728	123,651,695
Change in inventories	25	(3,892,316)	(918,002)
Service costs	26	35,542,302	30,916,615
Personnel expense	27	47,956,409	41,873,488
Depreciation, amortisation and write-downs	28	15,330,522	15,168,239
Provisions for risks	29	(457,984)	254,457
Other charges (income)	30	58,493	248,374
EBIT		**11,986,070**	**5,839,706**
Investment income/(charges)	31	9,768,972	6,843,701
Financial income	32	916,065	1,103,996
Financial charges	33	(13,706,071)	(3,978,736)
Net exchange gains (losses)	34	462,893	(238,477)
Impairments on financial assets		-	-
Profit before taxes		**9,427,929**	**9,570,190**
Income taxes	35	404,959	(21,306)
Net Profit		**9,022,970**	**9,591,496**

OTHER COMPREHENSIVE INCOME STATEMENT

(Euro)	**2021**	**2020**
Net Profit	**9,022,970**	**9,591,496**
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	886,322	399,726
Income taxes	(212,717)	(96,300)
Taxes (rate adjustment)	-	-
Total other comprehensive income statement items which may be subsequently reclassified to the profit/(loss) for the year, net of taxes	**673,605**	**303,426**
Other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes		
Unrealised actuarial gains	(94,708)	89,060
Income taxes	22,730	(21,375)
Total other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes	**(71,978)**	**67,686**
Total other comprehensive income/(expense) for the year, net of taxes	**601,627**	**371,112**
Total comprehensive income	**9,624,597**	**9,962,608**

CASH FLOW STATEMENT

SIT S.P.A.
Cash Flow Statement

(Euro)	Note	2021	2020 RESTATED
Net profit		9,022,970	9,591,496
Amortisation & depreciation	28	15,330,522	15,168,239
Non-cash adjustments		(329,284)	237,453
Income taxes	35	404,959	(21,306)
Net financial charges	32 - 33	12,790,006	2,874,375
(Dividends)	31	(9,768,972)	(6,843,701)
CASH FLOW FROM CURRENT ACTIVITIES (A)		**27,450,201**	**21,006,556**
Changes in assets and liabilities:			
Inventories	5	(3,896,737)	(915,449)
Trade receivables	6	(12,485,253)	3,083,649
Trade payables	20	10,179,292	1,113,900
Other assets and liabilities		1,351,783	(2,313,909)
Income taxes paid		(458,484)	(2,577,403)
CASH FLOW GENERATED (ABSORBED) FROM CHANGES IN WORKING CAPITAL (B)		**(5,309,400)**	**(1,609,212)**
CASH FLOW FROM OPERATING ACTIVITIES (A + B)		**22,140,802**	**19,397,344**
Investing activities:			
Investments in property, plant & equipment		(16,517,726)	(9,851,641)
Other changes in property, plant & equipment		2,922,275	266,801
Investments in intangible assets	1	(837,440)	(651,174)
Investments in financial assets		500,000	(3,212,250)
Other changes in financial assets		(1,955)	1,182,320
Investments in non-current financial assets		500,000	(1,000,000)
CASH FLOW FROM INVESTING ACTIVITIES (C)		**(13,434,846)**	**(13,265,944)**
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)		**8,705,955**	**6,131,400**
Financing activities:			
Interest paid		(2,711,844)	(2,600,049)
Paid-in share capital increase		10,274	-
Repayment of non-current financial payables	13 - 14	(139,059,166)	(22,415,834)
New loans	13 - 14	133,482,508	55,500,000
(Increase)/decrease in loans to subsidiaries		(2,926,617)	(26,964,051)
Change in current accounts with subsidiaries		13,720,801	(3,465,899)
(Increase)/decrease in other financial payables		(1,663,385)	(863,505)
Sale/(Acquisition) of treasury shares	12	(3,922,017)	(775,002)
Dividends received		7,176,274	-
Dividend payments	12	(6,889,665)	(3,475,657)
CASH FLOW FROM FINANCING ACTIVITIES (D)		**(2,782,837)**	**(5,059,996)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)		**5,923,118**	**1,071,404**
Cash & cash equivalents at beginning of the year		**27,531,299**	**26,459,895**
Increase (decrease) in cash and cash equivalents		5,923,118	1,071,404
Cash & cash equivalents at end of the year		**33,454,417**	**27,531,299**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Euro)

IFRS standards	Share capital	Share premium reserve Shares	Legal reserve	Share capital increase	Treasury Shares reserve	FTA Reserve	DETAIL OF OTHER RESERVES Cash Flow Hedge Reserve	Actuarial Reserve	Extra. reserve	Warrant Reserve	L.T.I. Reserve	Total other reserves	Retained earnings/accum. losses	Net profit (loss)	Shareholders' Equity
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)**	**166,626**	**(4,306,515)**	**(2,747,710)**	**13,936,130**	**148,304,928**
Allocation of 2019 Result	-	-	-	-	-	142,980	-	-	6,109,470	1,460,313	-	7,569,783	6,223,367	(13,936,130)	-
Dividend Approval	-	-	-	0	-	-	-	-	0	-	-	0	(3,475,657)	-	(3,475,657)
2020 Result	-	-	-	-	-	-	-	-	0	-	-	-	-	9,591,496	9,591,496
Other comprehensive profits (losses):															
Cash flow hedges	-	-	-	-	-	-	303,426	-	0	-	-	303,426	-	-	303,426
Adjustment post-em. bens.	-	-	-	-	-	14,690	-	52,996	0	-	-	52,996	-	-	67,686
Comprehensive profit/(loss)	**-**	**-**	**-**	**-**	**-**	**14,690**	**303,426**	**52,996**	**0**	**0**	**-**	**356,422**	**-**	**9,591,496**	**9,962,608**
Acquisition of treasury shares	-	-	-	-	(775,002)	-	-	-	-	-	-	-	-	-	(775,002)
Balance at 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)**	**166,626**	**3,619,691**	**0**	**9,591,496**	**154,016,878**
Allocation of 2020 Result	-	-	-	-	-	(31,681)	-	-	9,100,704	522,473	-	9,623,177		(9,591,496)	-
Dividend Approval	-	-	-	-	-	-	-	-	(6,889,665)	-	-	(6,889,665)		-	(6,889,665)
2021 Result	-	-	-	-	-	-	-	-	-	-	-	-	-	9,022,970	9,022,970
Other comprehensive profits (losses):															
Cash flow hedges	-	-	-	-	-	-	673,605	-	-	-	-	673,605	-	-	673,605
Adjustment post-em. bens.	-	-	-	-	-	-	-	(71,978)	-	-	-	(71,978)	-	-	(71,978)
Comprehensive profit/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**673,605**	**(71,978)**	**-**	**-**	**-**	**601,627**	**-**	**9,022,970**	**9,624,598**
Warrant exercise	10,274	-	-	-	-	-	-	-	-	1,274,769	-	1,274,769	-	-	1,285,043
Acquisition of treasury shares	-	-	-	-	(3,922,017)	-	-	-	-	-	-	-	-	-	(3,922,017)
L.T.I. employee movements	-	-	-	-	-	-	-	-	166,626	-	(18,430)	148,195	-	-	148,195
Balance at December 31, 2021	**96,162,195**	**10,359,557**	**19,230,384**	**16,615,618**	**(6,133,415)**	**627,928**	**(54,242)**	**(433,115)**	**8,487,134**	**229,822**	**148,195**	**8,377,794**	**0**	**9,022,970**	**154,263,031**

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

EXPLANATORY NOTES

GENERAL INFORMATION

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

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

These financial statements were approved by the Board of Directors on March 22, 2022 and authorised for publication on the website www.sitgroup.it by April 7, 2022. The financial statements are subject to the approval of the Shareholders' Meeting.

It is noted that 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, 2021 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 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.

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, 2021 are the same as those adopted for the separate financial statements at December 31, 2020.

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

IFRS accounting standards, amendments and interpretations applicable from January 1, 2021

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group from January 1, 2021

Covid-19 Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)

On March 31, 2021, the IASB published an amendment entitled "Covid-19-Related Rent Concessions beyond June 30, 2021 (Amendments to IFRS 16)"by which it extends by one year the period of application of the amendment issued in 2020 , which provided lessees the option to account for Covid-19-related rent reductions without having to assess through contract analysis whether the definition of lease modification in IFRS 16 was met. Therefore, the lessees who applied this option in fiscal year 2020 accounted for the effects of rent reductions directly in the income statement on the effective date of the reduction. The 2021 amendment, which is only available to entities that have already adopted the 2020 amendment, applies from April 1, 2021, and early adoption is permitted.

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

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

On June 25, 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 adoption of this amendment does not have effects on the financial statements of the company.

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 entered into force as of January 1, 2021. The effect on the company financial statements from the adoption of this amendment is not considered significant.

IFRS and IFRIC accounting standards, amendments and interpretations approved by the EU, not yet mandatory and not adopted in advance by the Group at December 31, 2021

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. All the amendments will enter into force from January 1, 2022. The Directors do not expect this amendment to have a significant impact on the company's separate financial statements.

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 statement of profit or loss. All the amendments will enter into force from January 1, 2022. The Directors do not expect this amendment to have a significant impact on the company's separate financial statements.

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). All the amendments will enter into force from January 1, 2022. The Directors do not expect this amendment to have a significant impact on the company's separate financial statements.

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 do not expect this amendment to have a significant impact on the company's separate financial statements.

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.

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.

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 do not expect that the adoption of this standard to have a significant impact on the company's separate financial statements.

Disclosure of Accounting Policies—Amendments to IAS 1 and IFRS Practice Statement 2; Definition of Accounting Estimates—Amendments to IAS 8

On February 12, 2021, the IASB published two amendments entitled "Disclosure of Accounting Policies—Amendments to IAS 1 and IFRS Practice Statement 2" and "Definition of Accounting Estimates—Amendments to IAS 8". The changes are intended to improve disclosure on accounting policies to provide more useful information to investors and other primary users of financial statements and to help companies distinguish between changes in accounting estimates and changes in accounting policies. The amendments will be applicable from January 1, 2023, although advance application is permitted.

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 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

On May 7, 2021, the IASB published an amendment called "Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction". The document clarifies how deferred taxes should be accounted for on certain transactions that can generate assets and liabilities of equal amounts, such as leases and decommissioning obligations. The amendments will be applicable from January 1, 2023, although advance application is permitted.

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 IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information

On December 9, 2021, the IASB published an amendment called "Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information". The amendment is a transition option related to comparative information on financial assets presented at the date of initial application of IFRS 17. The amendment is intended to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and thus improve the usefulness of comparative information for financial statement readers. The amendments will apply from January 1, 2023, together with the application of IFRS 17.

The Directors do not expect that the adoption of this standard to have a significant impact on the company's separate 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 Company is 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, 2021 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.

The events related to the conflict between Russia and Ukraine have been considered non-adjusting events in respect of the accounts of the 2021 financial statements, according to the definition given in IAS 10 §21, since they occurred after year-end.

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 carrying 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.

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.

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 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, 2021 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 statement of comprehensive income 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 statement of comprehensive income.

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

Fair value measurement

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 finite 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 and 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 value of the asset after the last recording of a loss in value. 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 realisable value. Write-downs 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 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.

Revenue recognition

Core business revenues refer to sales of safety, comfort and high performance systems for gas equipment. These revenues – in addition to those from the provision by SIT S.p.A., as parent company, of services relating to strategic guidance, oversight and coordination of group companies – include a single performance obligation relating to the sale of the product or the provision of a service, which does not include ancillary services or products that might qualify as separate performance obligations under the Standard.

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

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

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

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

Dividends

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

Financial income and charges

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

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

matured.

Current income taxes

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

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

Deferred tax 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 statement of comprehensive income, 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, 20	Increases	Disposals	Amortisation	Other movements	Write-downs	Balance at Dec. 31, 21
Goodwill	**85,087,912**	-	-	-	-	-	**85,087,912**
Patent rights	8,812,698	376,662	-	(1,749,572)	-	-	7,439,788
Concessions, licences and trademarks	13,485,968	13,391	-	(1,013,357)	-	-	12,486,002
Other intangible assets	951,383	343,201	-	(455,638)	136,484	-	975,430
Intangible assets in progress and advances	197,229	104,187	-	-	(136,484)	-	164,932
Total other intangible assets	**23,447,278**	**837,440**	**-**	**(3,218,566)**	**-**	**-**	**21,066,152**
Total goodwill and other intangible assets	**108,535,190**	**837,440**	**-**	**(3,218,566)**	**-**	**-**	**106,154,064**

GOODWILL

These amount to Euro 85,088 thousand at December 31, 2021 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, 2020.

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, 2021 was Euro 6,544 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 mainly related to amortisation.

CONCESSIONS, LICENSES AND TRADEMARKS

The amount of Euro 12,486 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, 2021 was Euro 12,452 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 2014 merger.

ASSETS IN PROGRESS AND ADVANCES

This item refers for Euro 156 thousand to capitalised costs for the year related to projects not completed as at December 31, 2021 and for Euro 9 thousand to advances paid to suppliers.

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.

The impairment test was approved by the Board of Directors on March 22, 2022. The methodology to be used in carrying out the test was approved by the Board of Directors on December 17, 2021.

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 and used in support of the impairment tests.

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.

The following are some assumptions about how to reconstruct:

- The flows used represent forecast results based on the 2022 Budgets for the CGU analysed and the best information currently available to management;
- The forecasts do not take account of the effects of changes in the Group's consolidation scope or industrial footprint;
- Revenue forecasts represent changes in the existing product portfolio and therefore the geographical or application markets already served by the Group;
- The impact of Russia and Ukraine is considered a "non-adjusting event”. Forecasts will not, therefore, take into account any expected impact. This effect will be included in the sensitivity analyses.

The growth rate (g) is prudently assumed as equal to zero.

The WACC was estimated assuming:

- a risk free rate of 2.66% calculated as annual average of the long-term government bond rates (10 years) in the target countries, weighted by the portion of each country's sales on total sales;
- a beta unlevered coefficient for a value of 0.89 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 served;
- 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, 2021, to which a spread of 2.0% is added, in line with the contractual conditions of the loans;
- 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.

Considering the assumptions described, at the reporting date the recoverable value of the net capital employed 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 net capital employed) of zero, is 9.8%, whereas a 12.1% percent reduction of the terminal value is required to achieve this same result.

Given the particular economic situation, which features difficulties in sourcing certain raw materials, a general increase in the cost of these materials and of energy, and which has been further exacerbated by the Russia-Ukraine conflict, it was deemed necessary to test the effect of potential cashflow volatility. The zero headroom level was therefore verified on the basis of reduced revenues expected in the first three years covered. This point is reached with a 9.9% reduction in revenues for each of the first three years covered.

The estimate of the recoverable value of the of net capital employed 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 will be monitored constantly by the company.

Note 2: Property, plant and equipment

The movements in property, plant and equipment in 2021 are summarised below:

(in Euro)	Historical cost at Dec. 31, 20	Accumulated depreciation at Dec. 31, 20	Balance at Dec. 31, 20	"Right-of-use" IFRS 16 at Dec. 31, 20	Historical cost at Dec. 31, 21	Acc. Deprec. at Dec 31, 21	Balance at Dec. 31, 21	Of which "Right-of-use" IFRS 16
Land & buildings	38,967,824	(17,898,414)	21,069,410	3,959,846	39,363,068	(18,835,380)	20,527,687	3,568,584
Plant & machinery	111,196,679	(91,952,919)	19,243,760	-	114,664,151	(95,348,319)	19,315,832	-
Industrial and commercial equipment	74,448,959	(68,032,721)	6,416,238	767,972	77,183,431	(70,757,406)	6,426,025	1,175,163
Other assets	7,932,074	(5,041,745)	2,890,329	1,983,994	9,626,595	(5,921,087)	3,705,508	2,957,368
Assets in progress and advances	11,907,642	-	11,907,642	-	15,753,977	-	15,753,977	-
Total property, plant & equipment	**244,453,178**	**(182,925,799)**	**61,527,379**	**6,711,811**	**256,591,221**	**(190,862,192)**	**65,729,029**	**7,701,114**

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 36.

The following tables outline the changes in the historic cost and accumulated depreciation in 2021 by category.

HISTORICAL COST

(in Euro)	Balance at Dec. 31, 20	Application IFRS 16	Historical cost at Jan. 1, 21	Increases	Disposals	Other movements	Historical cost at Dec. 31, 21	Of which "Right-of-use" IFRS 16
Land & buildings	34,112,051	4,855,773	38,967,824	475,882	(147,391)	66,753	39,363,068	4,895,324
Plant & machinery	111,196,679	-	111,196,679	6,493,488	(4,119,213)	1,093,198	114,664,151	-
Industrial & commercial equipment	73,129,514	1,319,445	74,448,959	4,363,044	(2,589,889)	961,317	77,183,431	2,132,368
Other assets	4,595,842	3,336,232	7,932,074	1,863,235	(174,343)	5,629	9,626,595	5,134,911
Assets in progress and advances	11,907,642	-	11,907,642	5,973,231	-	(2,126,896)	15,753,977	-
Total property, plant & equipment	**234,941,729**	**9,511,449**	**244,453,178**	**19,168,880**	**(7,030,837)**	**-**	**256,591,221**	**12,162,603**

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 decreases for the year in plant and machinery are attributable for Euro 2,393 thousand to the sale of certain production lines to the subsidiary SIT Controls Tunisia S.u.a.r.l., the other decreases relate to the sale and disposal of tangible fixed assets, most of which have already been depreciated.

Other movements include investments which at December 31, 2020 were in progress and which in 2021 became fixed assets to be depreciated.

“Assets in progress and advances" mainly includes investments relating to the Company's new headquarters and the new research and development laboratories of both the Heating Division and the Smart Gas Metering Division.

ACCUMULATED DEPRECIATION

(in Euro)	Provision at Dec. 31, 20	Application IFRS 16	Provision at Jan 1, 21	Depreciation	Disposals	Balance at Dec. 31, 21	Of which “Right-of-use” IFRS 16
Acc. Depr. Land & buildings	(17,002,487)	(895,927)	(17,898,414)	(1,081,716)	144,750	(18,835,380)	(1,326,741)
Acc. Depr. Plant & machinery	(91,952,919)	-	(91,952,919)	(4,971,633)	1,576,233	(95,348,319)	-
Acc. Depr. Industrial & commercial equipment	(67,481,248)	(551,473)	(68,032,721)	(5,006,511)	2,281,826	(70,757,406)	(957,205)
Acc. Depr. Other assets	(3,689,507)	(1,352,238)	(5,041,745)	(1,052,096)	172,754	(5,921,087)	(2,177,543)
Total accumulated depreciation Property, plant and equipment	**(180,126,162)**	**(2,799,638)**	**(182,925,799)**	**(12,111,956)**	**4,175,563**	**(190,862,192)**	**(4,461,489)**

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, 2021 at the following rates:

	Rate
Land & buildings	50.80%
Plant & machinery	83.15%
Industrial and commercial equipment	93.00%
Other assets	83.34%
Leasing	36.68%

Note. 3: Investments

The following table reports the movements in 2021 in investments.

	Balance at Dec 31, 20	Increases for the year	Decreases for the year	Other changes	Balance at Dec 31, 21
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	7,347	-	-	4,572,804
SIT Controls BV - (Netherlands)	35,538,428		-	-	35,538,428
SIT Controls Deutschland GmbH (Germany)	3,202	163	-	-	3,365
SIT Controls CR, sro (Czech Republic)	2,351	74	-	-	2,425
SIT Romania S.r.l. - (Romania)	2,694,414		-	-	2,694,414
SIT Manufacturing (SUZHOU) Co.Ltd (China)	2,603,863	3,197	-	-	2,607,061
Plast Alfin S.A.R.L. (Tunisia)	1,235,000	517	-	-	1,235,517
SIT Controls Tunisia S.U.A.R.L. (Tunisia)	62,250	1,197	-	-	63,447
MeteRSit S.r.l. (Italy)	29,680,811		(29,680,811)	-	-
SIT Metering S.r.l. (Italy)	200,000	29,680,811	-	-	29,880,811
Total investments in subsidiaries	**77,850,826**	**29,693,307**	**(29,680,811)**	-	**77,863,322**
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
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	**49,997**	-	-	-	**49,997**
TOTAL INVESTMENTS	**77,900,824**	**29,693,307**	**(29,680,811)**	-	**77,913,319**

Movements during the year refer to the contribution by SIT S.p.A. of its equity investment in Metersit s.r.l. to SIT Metering s.r.l., a company incorporated in 2020 and 100% controlled by SIT S.p.A., effective January 1, 2021. It should be noted that the equity investment was transferred in continuity with its book values.

The figures for subsidiaries (result and net equity) refer wholly to the financial statements at December 31, 2021, prepared by the respective Boards of Directors and not yet approved.

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)	64,041	331,864	2,475,073	2,475,073	100%	1,265,051
SIT Controls U.S.A. Inc. (USA)	Charlotte (USA)	392,091	1,587,047	2,058,096	2,058,096	100%	4,572,804
SIT Controls BV - (Netherlands)	Hoogeveen (Netherlands)	46,000	2,326,091	31,870,886	31,870,886	100%	35,538,428
SIT Controls Deutschland GmbH (Germany)	Arnsbert (Germany)	51,129	383,330	1,909,899	95,495	5%	3,365
SIT Controls CR, sro (Czech Republic)	Brno (Rep. Republic	41,627	897,682	1,977,392	98,870	5%	2,426
SIT Romania Srl - Romania	Brasov (Romania)	1,878,753	1,919,235	11,875,670	10,109,758	85.13%	2,694,414
SIT Manufacturing (SUZHOU) Co.Ltd (China)	Suzhou (China)	2,905,001	346,457	660,228	660,228	100%	2,607,061
Plast Alfin S.A.R.L. (Tunisia)	Tunis (Tunisia)	6,134	318,039	769,019	730,568	95%	1,235,517
SIT Controls Tunisia S.U.A.R.L. (Tunisia)	Tunis (Tunisia)	61,344	(1,149,443)	(1,134,867)	(1,134,867)	100%	63,447
SIT Metering S.r.l. (Italy)	Italy	1,500,000	(335,547)	29,524,048	29,524,048	100%	29,880,811
Total							**77,863,322**

With regard to the equity investment held in SIT Controls Tunisia, it should be noted that the negative shareholders' equity recorded at the end of the financial year 2021 is due to the result accrued in the start-up phase of the company, which was still in the start-up and volume ramp-up phase during the year. This trend was also affected by the scarce availability of electronic components, which slowed down the start-up of production and led to the under utilisation of production capacity. Production is expected to increase during 2022, while the company will be recapitalised during the year.

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.

The deficit at December 31, 2021 is allocated as follows and decreased by Euro 13,683 thousand compared to the year ended December 31, 2020 due to the contribution of the investment in Metersit srl to SIT Metering srl:

	Dec 31, 21	Dec 31, 20
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
Total	**1,050,000**	**14,732,537**

As a result of this allocation, a temporary taxable difference was generated that required the recognition of deferred taxes in the amount of Euro 177 thousand. This item reports a movement of Euro 164 thousand compared to the year ended December 31, 2020 due to the transfer by SIT S.p.A of the equity investment in Metersit s.r.l. to SIT Metering s.r.l.

In addition, in the financial statements at December 31, 2021, 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, 21
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**

Note 4: Non-current financial assets

The breakdown of non-current financial assets at December 31, 2021 is as follows:

(in Euro)	December 31, 2021	December 31, 2020
Guarantee deposits	170,684	168,729
Escrow deposit account	1,500,000	2,000,000
Derivative financial instruments - Non-current	320,603	-
Receivables from subsidiaries	-	25,316,541
Non-current financial assets	**1,991,287**	**27,485,270**

The main accounts are commented upon below.

RESTRICTED DEPOSIT ACCOUNT

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 contractual agreements the following has been recognised:

- Euro 2,000 thousand under non-current financial assets, as an escrow deposit for a maximum of 5 years and reclassified in 2021 to current financial assets for Euro 500 thousand;

- Euro 1,000 thousand under current financial assets and this amount was released during the first half of 2021, recognising to the counterparty Euro 374 thousand and releasing the amount of Euro 626 thousand, in accordance with contractual agreements.

DERIVATIVE FINANCIAL INSTRUMENTS

Following the refinancing carried out in the second half of 2021, the Company signed a new loan (Senior Financial Agreement 2021, SFA 2021) with a nominal value of Euro 90,000 thousand, on which derivative contracts were signed to hedge the interest rate risk, equal to 80% of the nominal value. At December 31, 2021, the mark to market of derivatives was positive on the non-current portion for Euro 321 thousand. Please refer to Note No. 13 for further information on the new loan agreement.

RECEIVABLES FROM SUBSIDIARIES

This item refers to the loan granted to the subsidiary SIT Metering S.r.l. for the acquisition of JANZ. The loan is to be repaid in a single instalment at maturity (June 30, 2022) and has therefore been reclassified to other current financial assets. The loan stipulates a fixed interest rate of 1.40%, and an extension of the loan is being finalised with the counterparty.

Current assets

Note 5: Inventories

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

(in Euro)	December 31, 2021	December 31, 2020
Raw materials, ancillary and consumables	9,901,497	7,591,995
Work-in-progress and semi-finished goods	8,083,960	6,967,064
Finished products and goods	6,560,714	6,094,795
Advances to suppliers	35,454	31,034
Inventories	**24,581,625**	**20,684,888**

The movements in the inventory obsolescence provision were as follows:

	December 31, 2021
Obsolescence provision 31/12/2020	1,602,706
Utilisation in the year	(2,349)
Allocation in the year	74,769
Obsolescence provision 31/12/2021	**1,675,127**

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)	December 31, 2021	December 31, 2020
Trade receivables	22,868,241	23,900,944
Trade receivables from holding company	63,717	34,778
Trade receivables - subsidiaries	38,804,665	25,316,865
Trade receivables from companies subject to control of holding company	14,386	22,577
Current trade receivables	**61,751,009**	**49,275,164**
Doubtful debt provision	(528,425)	(537,833)
Trade receivables	**61,222,584**	**48,737,331**

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 528 thousand, with the movements in 2021 reported in the following table:

	December 31, 2021
Doubtful debt provision 31/12/2020	537,833
Utilisation in the year	(9,408)
Allocation in the year	-
Doubtful debt provision 31/12/2021	**528,425**

The balance of receivables from customers is net of a without recourse receivable factoring transaction totalling approx. Euro 13,818 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 10 thousand (exchange gains).

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)	498,575	(30,663)	467,912
SIT Controls U.S.A. Inc. (USA)	26,977	19,972	46,949
SIT Controls BV - (Netherlands)	1,777,526	227,424	2,004,950
SIT Controls Deutschland GmbH (Germany)	74,009	(36,281)	37,728
SIT Controls CR, sro (Czech Republic)	17,808	5,830	23,638
SIT Romania S.r.l. (Romania)	6,457,072	1,911,721	8,368,794
Metersit Romania Srl (Romania)	7,169	10,230	17,400
SIT Manufacturing (SUZHOU) Co.Ltd (China)	9,685,127	2,454,779	12,139,906
Sit Manufacturing N.A. SA de CV (Mexico)	3,314,589	1,204,587	4,519,176
MeteRSit S.r.l. (Italy)	2,426,774	77,935	2,504,709
SIT Metering S.r.l. (Italy)	581,884	(321,437)	260,447
Plast Alfin S.A.R.L. (Tunisia)	345,358	278,630	623,988
SIT Controls Tunisia S.U.A.R.L. (Tunisia)	103,997	7,337,331	7,441,328
Janz - Contagem e Gestao De Fluidos, SA (Portugal)	-	347,741	347,741
Total receivables from subsidiaries	**25,316,865**	**13,487,800**	**38,804,665**

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 706 thousand (exchange losses).

Note 7: Other current assets

The account is broken down as follows:

(in Euro)	December 31, 2021	December 31, 2020
Receivables from parent companies for Group VAT	1,975,829	2,315,509
Withholding taxes	4,699,930	5,191,316
Income tax receivables	999,482	249,630
Advances	335,159	252,776
Prepayments and accrued income	617,736	699,537
Other receivables	13,195	76,951
Social security institution receivables	34,926	36,012
Other current assets	**8,676,257**	**8,821,731**

RECEIVABLES FROM PARENT COMPANIES 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 1,976 thousand concerns the net receivable of the company from the parent company. It should be noted that in 2021 the company received a refund of Euro 1,000 thousand relating to the VAT credit for the previous year.

WITHHOLDING TAXES

Receivables for withholding taxes of Euro 4,700 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. During 2021, following the agreement reached with the Tax Agency on the calculation of the economic benefits from intangible assets (”Patent Box” optional system), receivables for withholdings incurred overseas reduced by Euro 1,448 thousand. This amount was recognised to the income taxes account of the income statement.

TAX RECEIVABLES

The item refers for Euro 644 thousand to the tax credit accrued for research, development and technological innovation activities (Budget Law 2020 No. 160/2019), for Euro 335 thousand to the tax credit accrued for expenses incurred by way of investment in new capital goods (Law No. 160/2019 and Law No. 178/2020) and for Euro 20 thousand from the "Art-Bonus" tax credit (Law No. 106 of July 29, 2014).

ADVANCES TO SUPPLIERS

Advances to suppliers refer to payments on account for services provided.

PREPAYMENTS AND ACCRUED INCOME

At December 31, 2021, accruals and prepayments were composed as follows:

	Balance at December 31, 2021				Balance at December 31, 2020
	Within one year	Beyond one year	Duration beyond 5 years	Total	Total
Accrued financial charges	0	0	0	0	0
Total accrued income	**0**	**0**	**0**	**0**	**0**
Prepaid financial charges	33,881	0	0	33,881	33,905
Prepayments on fees, rental & insurance premiums	342,549	3,850	301	346,700	560,730
Other prepayments	227,306	9,850	0	237,155	104,903
Total prepayments	**603,736**	**13,700**	**0**	**617,736**	**699,537**
Total accrued income and prepayments	**603,736**	**13,700**	**301**	**617,736**	**699,537**

Note 8: Income tax receivables

Income tax receivables were as follows:

(in Euro)	December 31, 2021	December 31, 2020
IRAP receivables	159,365	187,250
Receivable from holding company for tax consolidation	-	3,001,586
Other tax credits	1,000,000	125,887
Tax receivables	**1,159,365**	**3,314,723**

The item IRAP receivables is represented by the IRAP advance paid net of the tax payable for the year ended December 31, 2021.

The “Receivable from holding company for tax consolidation” at December 31, 2021 shows a debit balance. Please refer to Note No. 23 for further details.

The amount of Euro 1,000,000 refers to the IRES receivable transferred by the parent company SIT Technologies S.p.A as part of the national consolidation process, as provided for in Article 43-ter of Presidential Decree 602/1973.

Note 9: Other current financial assets

A breakdown of other current financial assets follows:

(in Euro)	December 31, 2021	December 31, 2020
Short-term financial receivables from subsidiaries	36,819,900	6,520,024
Dividends from subsidiaries	9,436,399	6,843,701
Escrow deposits	500,000	1,000,000
Derivative financial instruments	27,226	31,802
Other current financial assets	**46,783,525**	**14,395,527**

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, 2021 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	2,000,000	
SIT Manufacturing (Suzhou) Co.Ltd.	2,084,868	2,084,868	
SIT Controls Tunisia s.u.a.r.l.	4,000,000	4,000,000	
SIT Controls Tunisia s.u.a.r.l.	2,000,000		1,062,720
Plast Alfin s.a.r.l.	500,000	185,000	
SIT Metering s.r.l.	30,000,000	25,690,540	
SIT Metering s.r.l.	1,000,000		452,450
Janz Contagem e Gestao de Fluidos SA	1,000,000	800,000	
SIT Manufacturing N.A. S.A. de C.V.	1,324,386		544,323
Total	**49,409,254**	**34,760,408**	**2,059,492**

DIVIDENDS FROM SUBSIDIARIES

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

	December 31, 2021	December 31, 2020
Dividends from subsidiary: SIT Controls BV - (Netherlands)	5,500,000	6,658,516
Dividends from subsidiary: SIT Controls U.S.A. Inc. (USA)	2,216,705	0
Dividends from subsidiary: SIT Romania S.r.l. (Romania)	1,719,694	0
Dividends from subsidiary: SIT Gas Controls Pty Ltd (Australia)	0	185,185
Total dividends	**9,436,399**	**6,843,701**

ESCROW DEPOSITS

With regards to the amount of Euro 500 thousand, reference should be made to Note 4, to the paragraph “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, 2021 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	GBP	12,000	EUR	0.8408	0.8413	1		
forward sales	GBP	750,000	EUR	0.8425	0.8425		3,279	
forward sales	GBP	1,750,000	EUR	1.1319	1.1330	7,767		
forward sales	CNY	12,000,000	EUR	7.2146	7.2486	6,460		
forward purchases	CHF	1,500,000	EUR	1.0424	1.0417	5,832		
forward purchases	CHF	1,000,000	EUR	1.0424	1.0413		3,886	
Total						**20,060**	**7,166**	**0**

Note 10: Cash and cash equivalents

(in Euro)	December 31, 2021	December 31, 2020
Cash in hand and similar	11,812	13,477
Bank and postal deposits	33,442,605	27,517,822
Cash and cash equivalents	**33,454,417**	**27,531,299**

Cash and cash equivalents relate to current accounts and cash in hand and similar at December 31, 2021.

The account includes cash in foreign currencies which, at the December 31, 2021 exchange rate, had a value of Euro 7 thousand.

Shareholders' Equity

Shareholders' equity at December 31, 2021 amounts to Euro 154,263,031, increasing Euro 246,153 on Euro 154,016,878 at December 31, 2020. 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, 2021 to Euro 96,162,195, comprising 25,110,209 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	25,110,209	100%	MTA Italy

The company on July 13, 2017, 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**		**Note**	**Composition of reserves**
Nature/description				**To cover losses**	**For other reasons**		
SHARE CAPITAL	96,162,195						
CAPITAL RESERVES							
Share premium reserve	10,359,557	(1)(2)	-				(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	(6,133,415)						(a)/(b)
First time application IAS/IFRS reserve	627,928	(2)			192,413	II	(b)
Cash Flow Hedge Reserve	(54,242)						(b)
Actuarial reserve - Employee benefits	(433,115)				-		
Extraordinary reserve	8,487,134	(1)(2)(3)	8,487,134				
Warrants Reserve	229,822						
Stock grant reserve	148,195		148,195				(b)
Retained earnings (accum. losses)	-			2,747,710			
Result 2021	9,022,970		9,022,970				
TOTAL	154,263,031		34,273,917				
NON-DISTRIBUTABLE AMOUNT			659,812			I	
RESIDUAL DISTRIBUTABLE AMOUNT			33,614,105				

(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. Profits allocated to the legal reserve for Euro 2,055 and to the unrealised exchange gains reserve for Euro 657,757 are not distributable
(II) The first time application IAS/IFRS reserve at December 31, 2021 comprises:
- positive reserves for Euro 627,928 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 2,333,832 concern:
- complete recovery of the negative reserve for Euro 416,252 relating to employee benefits;
- complete recovery of the negative reserve for Euro 425,421 concerning the reversal of start-up and expansion costs;
- complete recovery of the positive reserve for Euro 1,411,879 relating to the capitalisation of development costs;
- complete recovery of the negative reserve for Euro 1,326,746 relating to the application of the amortised cost;
- complete recovery of the negative reserve concerning the valuation of hedging derivatives for Euro 1,730,384;
- recovery of the positive reserve concerning the application of the finance method to leased assets for Euro 153,091.

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 amounts to Euro 6,133,415. It should be noted that during the year 2021, a further 412,723 treasury shares were purchased for a total amount of Euro 3,922,017. This repurchase is for the purpose of the new share-based compensation plans for executives and employees of the Company and/or its subsidiaries, as approved by the Shareholders' Meeting of April 29, 2021.

LONG TERM INCENTIVE PLAN RESERVE

At December 31, 2020, the long-term incentive plan (L.T.I.) reserve included the value of the share-based payments in favour of employees and key executives, settled with capital securities. The plan stipulated the vesting of the units granted in shares upon the simultaneous satisfaction of all conditions, by June 30, 2021. As the conditions for the conversion of the Units into shares have not matured, the L.T.I. reserve was released for Euro 166,626.

In April 2021, the Shareholders' Meeting approved 3 new incentive plans (Performance Shares Plan, Restricted Shares Plan, Advisory Board Stock Compensation Plan) At December 31, 2021, the item includes the fair value component referring to the year 2021 of the 3 new plans for Euro 148,195. For further details on these plans, reference should be made to Note 37.

CASH FLOW HEDGE RESERVE

The cash flow hedge reserve at December 31, 2020 is recorded as a negative value of Euro 727,847, net of the Euro 229,847 tax effect. This reserve arose from the fair value measurement of the derivative financial instruments hedging the “SFA” loan, in compliance with IFRS 9. Movements in the year related to the early repayment of the underlying loan and the agreement of new hedging contracts against the new loan that the company finalised on August 6, 2021 with a banking syndicate, for Euro 90 million with a duration of 5 years. The Reserve at December 31, 2021 was a negative value of Euro 54,242 thousand, net of the tax effect of Euro 17,129.

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 Euro 229,822, 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 prior year profits as per the resolution of the Shareholders' Meeting.

ACTUARIAL RESERVE

At December 31, 2021, the actuarial reserve amounts to Euro 433,115 and derives from the effects of discounting post-employment benefits.

EXTRAORDINARY RESERVE

The extraordinary reserve at December 31, 2021 amounts to Euro 8,487,134. During the year, it increased by Euro 2,211,038 due to the resolution of the Shareholders' Meeting of April 29, 2021 that approved the financial statements for the year ended December 31, 2020 and by Euro 166,626 as a result of the release of the long-term incentive plan reserve (L.T.I.) as the conditions for the conversion of the Units into shares did not apply.

Non-current liabilities

Note 13: Non-current bank payables

The breakdown is as follows:

(Euro thousands)	December 31, 2021	December 31, 2020
Bank payables - non-current portion of loans	75,000,000	92,100,000
Bank payables - non-current portion amortised cost	(459,624)	(195,803)
Total bank payables - non-current portion loans	**74,540,376**	**91,904,197**

At December 31, 2021, non-current bank payables represent the value of the non-current portion of the loan agreement (Senior Financial Agreement 2021, SFA 2021) that the Company signed on August 6, 2021 with a banking syndicate, for the repayment of the outstanding bank debt and the meeting of the Group's ordinary financial requirements. The main features are as follows:

- original amount of Euro 90,000 thousand, with 5 year duration, maturing June 30, 2026; repayment according to pre-established half-yearly instalments commencing from June 30, 2022;
- 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. During 2021, the average interest margin was 1.50%; the margin is also determined on the basis of a sustainability ("ESG") rating issued by the international agency EcoVadis;
- the financial liability is measured using the amortised cost criterion.

The loan contract provides for an early repayment option without penalties and without collateral security. As is usual in similar transactions, it stipulates a series of commitments for the Company, such as a prohibition, except for within the provided limits, on assuming further debt and providing related guarantees (negative pledges), in addition to limits on the distribution of dividends and the sale of assets or divestment of businesses. Financial covenants based on the consolidated financial statements on a half-yearly basis regard: (i) the ratio between the net financial position and EBITDA and (ii) the ratio between EBITDA and net financial charges, all ratios to be calculated as per that stated in the contract. The limit values of these covenants for the year ended December 31, 2021 were 3.50x and 5.0x, respectively.

As at December 31, 2021, the Company was in compliance with all covenants.

The residual nominal amount at December 31, 2021 totals Euro 90,000 thousand, of which the non-current portion Euro 75,000 thousand and the current portion Euro 15,000 thousand. The residual amount at amortised cost at December 31, 2021 totals Euro 89,324 thousand, of which the non-current portion Euro 74,540 thousand and the current portion Euro 14,784 thousand.

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

A breakdown follows:

(in Euro)	December 31, 2021	December 31, 2020
Other non-current payables	108,120	142,500
Non-current financial lease payables - IFRS 16	6,208,861	5,656,036
Derivative financial instruments - Non-current	-	265,831
Bond loan	39,438,331	-
Other non-current financial liabilities and derivative financial instruments	**45,755,312**	**6,064,367**

OTHER NON-CURRENT FINANCIAL LIABILITIES

The account totalling Euro 108 thousand relates to the initial disbursement, equal to 50%, on loans granted by Sace- Simest, pursuant to the latest Legislative Decree of March 17, 2020 converted into Law No. 27 of April 24, 2020, to be used for participation in fairs and exhibitions overseas and for staff training. No guarantees are provided on these loans.

In this specific case, the loans received amount to a total of Euro 130 thousand, at a subsidised rate of 0.055%, repayable in 6 six-monthly instalments starting from October and December 2022 until maturity in April and June 2025.

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. For further information, reference should be made to Note 36.

DERIVATIVE FINANCIAL INSTRUMENTS - NON-CURRENT

In 2021, as part of the overall refinancing which is better described in the Directors' Report, the company settled in advance interest rate swap (IRS) hedges in place on debt granted in 2017.

BOND LOAN

The account refers to the bond loan signed by Pricoa in May 2021. The payable was valued according to the amortised cost method over the duration of the contract, equal to 10 years, with a 6-year grace period. The fixed half-yearly coupon is indexed from the fifth year to a sustainability rating ("ESG") provided by the international agency EcoVadis. The contract provides the option for Sit S.p.a. to request Pricoa over the next three years to subscribe to additional bonds, up to a total amount of USD 100 million (or Euro equivalent). The bond loan 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, (ii) ratio between EBITDA and net financial charges and (iii) an established debt/own funds ratio. As at December 31, 2021, the Company was in compliance with all covenants.

Note 15: Provisions for risks and charges

The changes to the account were as follows:

	December 31, 2020	Provisions	Utilisations/ Releases	December 31, 2021
Agents indemnity provision	145,316	6,324	-	151,639
Product warranty provision	92,749	47,504	-	140,254
Other risks provision	1,625,778	119,042	(717,778)	1,027,042
Total provisions for risks and charges	**1,863,844**	**172,870**	**(717,778)**	**1,318,935**

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 due to defects, a provision of Euro 48 thousand was set aside.

OTHER PROVISIONS

Other provisions include:

- Risks provision for Euro 609 thousand, which concerns the risks over ongoing disputes, whose risk of loss is probable. The decrease during the year, amounting to Euro 598 thousand, relates to specific claims acknowledged to customers, amounting to Euro 37 thousand, as well as a release of the provision, amounting to Euro 561 thousand, due to the lack of obligations towards customers for potential indemnities provided for in the contract;

- The provision for risks and charges also includes Euro 60 thousand for ongoing disputes with employees;
- The future charges provision of Euro 358 thousand relates to the costs of the reclamation of a plot of land owned by the Company; the use in the year of Euro 119 thousand concerned the costs incurred for the initiation of reclamation activity; during the year, Euro 16 thousand was in addition allocated.

Note 16: Post-employment benefit provision

The movements in the account in the year to December 31, 2021 and to December 31, 2020 were as follows:

	December 31, 2021	December 31, 2020
Net liabilities for employee benefits	4,635,919	5,057,433
Liabilities for retention or other	387,660	403,157
Net liabilities for defined employee benefits	**5,023,578**	**5,460,590**

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

	December 31, 2021	December 31, 2020
Post-em. bens. at beginning of year	5,057,433	5,462,792
Payments in the year	(531,610)	(355,862)
Interest cost	15,388	39,347
Actuarial gains/(losses) recognised	94,708	(88,844)
Post-em. bens. at end of year	**4,635,919**	**5,057,433**

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

Defined benefit plans	December 31, 2021	December 31, 2020
Annual discount rate	0.98%	0.34%
Annual inflation rate	1.75%	0.80%
Annual increase in post-employment benefit	2.81%	2.10%
Annual increase in salaries	1	1
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, 2021 and at December 31, 2020 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)	December 31, 2020				December 31, 2021			
	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	405,431	405,431	97,303	15,812	437,910	437,910	105,098	17,078
Other provisions for risks and charges	1,718,527	1,718,527	412,446	67,023	1,107,295	1,107,295	265,751	43,185
Write-down of inventories	1,602,706	1,602,706	384,649	62,506	1,675,127	1,675,127	402,030	65,330
Unrealised exchange losses	289,064	0	69,375	0	332,639	0	79,833	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	1,151,515	0	276,364	0	0	0	0	0
Other	120,439	49,411	28,905	1,927	377,643	49,411	90,634	1,927
Deferred taxes concerning previous years tax losses	583,311	0	139,995	0	11,694,776	0	2,806,746	0
Post-employment benefits	559,716	0	134,332	0	502,578	0	120,619	0
Derivative financial instruments	957,694	0	229,847	0	71,372	0	17,129	0
TOTAL DEFERRED TAX ASSETS	**7,559,408**	**3,947,079**	**1,814,258**	**153,936**	**16,370,343**	**3,440,747**	**3,928,882**	**134,189**
DEFERRED TAX LIABILITIES								
Accelerated depreciation	(376,089)	0	(90,261)	0	(376,010)	0	(90,242)	0
Revaluation land & buildings from merger	(3,172,316)	(3,172,316)	(761,356)	(123,720)	(3,162,260)	(3,162,260)	(758,942)	(123,328)
Reval. Investments for consolidation diff.	(736,627)	0	(176,790)	0	(52,500)	0	(12,600)	0
Valuation brands and Technologies for consolidation diff.	(21,515,779)	(21,515,779)	(5,163,787)	(839,115)	(18,996,046)	(18,996,046)	(4,559,051)	(740,846)
Dividends	(342,185)	0	(82,124)	0	(471,820)	0	(113,237)	0
Unrealised exchange gains	(355,113)	0	(85,227)	0	(986,611)	0	(236,787)	0
Other	(181,908)	0	(43,658)	0	(0)	0	(0)	0
Finance Leases	(968,460)	(968,460)	(232,430)	(37,770)	(924,520)	(924,520)	(221,885)	(36,056)
TOTAL DEFERRED TAXES	**(27,648,477)**	**(25,656,555)**	**(6,635,634)**	**(1,000,606)**	**(24,969,766)**	**(23,082,825)**	**(5,992,744)**	**(900,230)**
DEFERRED TAX ASSETS/(LIABILITIES) TO BALANCE SHEET TOTAL	**(20,089,069)**	**(21,709,476)**	**(4,821,376)**	**(846,670)**	**(8,599,423)**	**(19,642,078)**	**(2,063,862)**	**(766,041)**

The recognition of the deferred tax assets was made against an assessment on the reasonable recovery in future years. It should be noted that the increase in "deferred taxes concerning previous years' tax losses" for Euro 2,667 thousand relates to the agreement reached with the Tax Agency on the calculation of the economic contribution of intangible assets (“Patent Box regime”).

Current liabilities

Note 18: Short-term loans and borrowings

The breakdown is as follows:

(in Euro)	December 31, 2021	December 31, 2020
Current portion of loans	19,783,665	46,459,616
Current financial charges	3,340	14,667
Short-term loans and borrowings	**19,787,005**	**46,474,283**

CURRENT PORTION OF BANK LOANS

The item includes the current portion of the bank loan (Senior Financial Agreement 2021) referred to in Note 13 for Euro 14,784 thousand, as well as the portion of a short-term loan obtained for Euro 5,000 thousand from Banca BPER maturing on October 30, 2022 and bearing a fixed interest rate of 0.40%.

Note 19: Other current financial liabilities and derivative financial instruments

A breakdown follows:

(in Euro)	December 31, 2021	December 31, 2020
Current financial payables - subsidiaries	34,886,611	19,109,089
Other current payables	183,900	142,500
Factoring payables	608,098	647,123
Derivative financial instruments (current portion)	592,643	875,441
Current financial lease payables - IFRS 16	1,608,741	1,122,016
Other current financial liabilities and derivative financial instruments	**37,879,993**	**21,896,169**

CURRENT FINANCIAL PAYABLES - SUBSIDIARIES

The balances at December 31, 2021 and December 31, 2020 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:

	December 31, 2021	December 31, 2020
SIT Gas Controls Pty Ltd (Australia)	91,300	21,960
SIT Romania S.r.l. (Romania)	5,661,692	4,277,444
S.C.Metersit Romania S.r.l. (Romania)	2,578,223	-
Plast Alfin s.a.r.l. (Tunisia)	186,305	-
SIT Controls U.S.A. Inc. (USA)	1,450,550	-
SIT Controls BV (Netherlands)	13,843,459	8,878,669
SIT Controls Deutschland GmbH (Germany)	1,489,616	880,453
SIT Controls CR, sro (Czech Republic)	1,156,129	1,835,373
Sit Manufacturing N.A. SA de CV (Mexico)	-	1,597,560
MeteRSit S.r.l. (Italy)	8,429,337	1,617,631
Total current financial payables - subsidiaries	**34,886,611**	**19,109,089**

OTHER CURRENT FINANCIAL PAYABLES

The item of Euro 184 thousand relates for Euro 143 thousand to the second tranche for the purchase of the equity investment in Plast Alfin S.a.r.l., completed on July 17, 2020, an amount that will be paid to the sellers by July 31, 2022, for Euro 22 thousand it relates to the current portion of the Sace-Simest loans as better specified in Note 14, and for Euro 19 thousand it relates to the interest accruing on the bond adjusted by the current portion of the related transaction costs.

DERIVATIVE FINANCIAL INSTRUMENTS - CURRENT PORTION

The balance at December 31, 2021 of Euro 593 thousand concerns:

- Euro 392 thousand for the short-term portion of interest rate hedges *(Interest Rate Swaps - IRS*) in connection with the new *SFA 2021* bank loan at a floating rate, as described in greater detail in Note 14. With regard to these hedging contracts, the medium/long-term portion has a positive mark-to-market value of Euro 321 thousand, as indicated in Note 4, resulting in an overall net effect of Euro 71 thousand;
- for Euro 201 thousand for exchange rate risk hedging contracts.

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, 21	Fair value Dec 31, 21
IRS on SFA 2021	Euro	06/08/2021	30/06/2026	-0.07%	72,000,000	(391,974)
Total					**72,000,000**	**(391,974)**

In 2021 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, 2021 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	2,000,000	EUR	1.5742	1.5768	(7,788)		
forward sales	GBP	700,000	EUR	0.8491	0.8508	(8,189)		
forward sales	GBP	1,000,000	EUR	0.8491	0.8532		(11,808)	
forward sales	USD	1,000,000	EUR	1.1679	1.1716	(23,949)		
forward sales	CNY	15,000,000	EUR	7.6893	7.9767			(148,936)
Total						**(39,925)**	**(11,808)**	**(148,936)**

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

(in Euro)	Dec 31, 20	Drawdown	Acquisitions	Reimbursements / settlements	Reclassification	Fair Value Changes	Change in amortised cost	Dec 31, 21
Bank payables - non-current portion of loans	92,100,000	90,000,000		(92,100,000)	(15,000,000)			75,000,000
Bank payables - non-current portion amortised cost	(195,803)			195,803			(459,624)	(459,624)
Total bank payables - non-current portion loans	**91,904,197**	**90,000,000**	**0**	**(91,904,197)**	**(15,000,000)**	**0**	**(459,624)**	**74,540,376**
Shareholder loans - non-current portion of loans	0							0
Shareholder loan - amortised cost	0							0
Bond loan - non-current portion	0	40,000,000						40,000,000
Bond loan - amortised cost, non-current portion	0						(561,669)	(561,669)
Derivative financial instruments - non-current portion	265,831			(265,831)				0
IFRS16	5,656,036	1,628,335			(1,075,510)			6,208,861
Payables to other lenders	142,500	129,745			(142,500)	(21,624)		108,121
Total other non-current financial liabilities and derivative financial instruments	**6,064,367**	**41,758,080**	**0**	**(265,831)**	**(1,218,010)**	**(21,624)**	**(561,669)**	**45,755,313**
Total non-current financial liabilities	**97,968,564**	**131,758,080**	**0**	**(92,170,028)**	**(16,218,010)**	**(21,624)**	**(1,021,293)**	**120,295,689**
Bank payables - current portion of loans	46,973,833	5,000,000		(46,973,833)	15,000,000			20,000,000
Bank payables - current portion amortised cost	(499,550)			499,550			(216,335)	(216,335)
Current account and accrued interest expense	0	3,339						3,339
Total bank payables - current portion of loans	**46,474,283**	**5,003,339**	**0**	**(46,474,283)**	**15,000,000**	**0**	**(216,335)**	**19,787,004**
Shareholder loan - current portion of loans	0							0
Bond loan - current portion	0							0
Bond loan - amortised cost current portion	0						(80,556)	(80,556)
Bond loan - accrued interest expense	0	100,333						100,333
Derivative financial instruments - current portion	875,441			(875,441)		592,643		592,643
Financial liabilities to subsidiaries	19,109,089	15,777,521						34,886,610
Factoring payables	647,123	608,098		(647,123)				608,098
IFRS16	1,122,016	1,022,820		(1,611,605)	1,075,510			1,608,741
Payables to other lenders	142,500			(142,500)	164,124			164,124
Total other current financial liabilities and derivative financial instruments	**21,896,169**	**17,508,772**	**0**	**(3,276,669)**	**1,239,634**	**592,643**	**(80,556)**	**37,879,993**
Total current financial liabilities	**68,370,452**	**22,512,111**	**0**	**(49,750,952)**	**16,239,634**	**592,643**	**(296,891)**	**57,666,998**

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 36.

Note 20: Trade payables

At December 31, 2021, trade payables were broken down as follows:

(in Euro)	December 31, 2021	December 31, 2020
Trade payables	47,779,534	39,708,932
Trade payables to holding company	3,171	-
Trade payables to subsidiaries	16,566,487	14,460,968
Trade payables	**64,349,192**	**54,169,900**

TRADE PAYABLES

These include payables in foreign currency and are therefore stated in the financial statements and in the above table net of the relative unrealised exchange differences, equating to exchange losses of Euro 218 thousand.

TRADE PAYABLES TO 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 losses of Euro 4 thousand.

Trade payables to subsidiaries by individual subsidiary are presented below:

	December 31, 2021	December 31, 2020
SIT Gas Controls Pty Ltd (Australia)	152	-
SIT Controls U.S.A. Inc. (USA)	75,303	51,863
SIT Controls BV (Netherlands)	579,627	519,734
SIT Controls Deutschland GmbH (Germany)	380,618	362,853
SIT Controls CR, sro (Czech Republic)	655,564	550,237
SIT Romania S.r.l. (Romania)	10,020,372	7,569,614
METERSIT Romania S.R.L. (Romania)	111,774	-
Sit Manufacturing (SUZHOU) Co Ltd (China)	3,263,048	4,458,849
MeteRSit S.r.l. (Italy)	67,460	68,492
SIT Metering Srl (Italy)	153,838	-

Sit Manufacturing N.A. SA de CV (Mexico)	504,352	171,705
SIT Controls Tunisia SUARL. (Tunisia)	380,703	-
Plast Alfin S.A.R.L. (Tunisia)	373,678	707,622
Total trade payables to subsidiaries	**16,566,487**	**14,460,968**

Note 21: Other current liabilities

A breakdown follows:

(in Euro)	December 31, 2021	December 31, 2020
Other payables	727,569	344,177
Customer advances	712,588	386,588
Current remuneration payables	1,551,861	1,492,267
Deferred remuneration payables	2,359,735	2,173,346
Payables to social security institutions	2,414,893	2,203,144
Retention fund, MBO and PDR	3,224,978	2,153,184
Accrued expenses	257,095	73,365
Substitute tax payables	1,576,399	1,544,870
Other current liabilities	**12,825,118**	**10,370,941**

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 2021 salaries, paid in January 2022.

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 2021 bonuses, principally to be paid in 2022.

SUBSTITUTE TAX PAYABLES

The account concerns payables for withholding taxes on wages and salaries accruing in 2021.

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, 2021 amounted to Euro 8,748 thousand, representing the Fair Value of the 4,604,367 Warrants issued and not yet exercised at the reporting date, allocating to each the listing price at that date.

Financial liabilities recognised at December 31, 2021 were adjusted to fair value, recognising the differential between the date of December 31, 2020 (Euro 0.2) and the price at the reporting date (Euro 1.9) to the income statement under financial charges for Euro 8,978 thousand.

Note 23: Income tax payables

The amount of Euro 345 thousand concerns the net payable 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. This item had a credit balance in 2020.

COMMENTS ON THE MAIN ITEMS OF THE INCOME STATEMENT

Note 24: Revenue from sales and services

Revenues from sales and services are comprised as follows:

(in Euro)	2021	2020
Revenues from product sales	248,364,158	200,513,172
Revenues from services	21,404,066	16,521,400
Revenues from sales and services	**269,768,224**	**217,034,572**

REVENUES FROM PRODUCT SALES

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

By business line	2021	2020
Mechanical controls	160,726,684	135,496,564
Electronic controls	14,038,066	7,425,823
Fans	38,692,396	29,656,331
Flue systems	22,635,358	19,104,968
Other products	12,271,655	8,829,486
Total	**248,364,158**	**200,513,172**

	2021	2020
Italy	50,560,904	40,763,287
European Union	119,716,325	89,868,087
Other countries	78,086,929	69,881,798
Total revenues	**248,364,158**	**200,513,172**

REVENUES FROM SERVICES

This account is comprised as follows:

	2021	2020
Provision of other services	5,577,006	4,307,827
Recovery of misc. expenses	1,681,547	1,881,880
Seconded personnel recharges	854,481	767,122
Royalties & TP Compensation	13,241,173	9,530,733
Commission income	49,859	33,838
Total revenue from services	**21,404,066**	**16,521,400**

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. The increase in this item is primarily related to the increase in volumes during the year, which required greater support from the Company's functions to its subsidiaries.

RECOVERY OF MISC. EXPENSES

They mainly include recharges to third parties and other Group companies of costs incurred on their behalf. The decrease is mainly due to the costs recharged to SIT Metering in connection with the acquisition of the Portuguese company JANZ in the previous year.

ROYALTIES & TP COMPENSATION

The amount refers solely to royalties invoiced to the subsidiaries SIT Manufacturing Na. Sa. de CV for Euro 12,204 thousand, SIT Controls BV (Netherlands) for Euro 798 thousand and SIT Manufacturing (SUZHOU) Co. Ltd (China) for Euro 238 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 25: Raw materials, ancillaries, consumables and goods

The breakdown of the account in 2021 and 2020 was as follows:

(in Euro)	**2021**	**2020**
Purchases of ancillary materials	3,388,412	2,869,260
Purchases of raw materials, semi-finished & packaging	86,234,496	62,681,901
Finished products purchases	25,760,643	18,621,336
Purchases of goods	43,849,649	36,172,608
Maintenance and repair materials	1,719,736	1,399,917
Other purchases	1,798,069	1,633,146
Duties on purchases	493,723	273,527
Raw materials, ancillaries, consumables and goods	**163,244,728**	**123,651,695**
Changes in inventories of raw materials, ancillaries, consumables and goods	(2,309,502)	(904,307)
Change in inventories of finished & semi-finished products and goods	(1,582,814)	(13,695)
Change in inventories	**(3,892,316)**	**(918,002)**
Total cost of raw materials, ancillaries, consumables and goods	**159,352,412**	**122,733,693**

Raw material and consumable costs, including changes in inventories, amounted to Euro 159,352 thousand, accounting for 59% of revenues, increasing on 2020 by Euro 36,619 thousand, accounting for

56.6%, supported by increased sales volumes on the previous year (which was also shaped by the temporary shutdown of production during the lockdown).

Note 26: Service costs

The composition of the account is as follows:

(in Euro)	2021	2020
Rent, hire and leases	226,089	430,633
Outsourcing	8,233,282	6,890,124
Transport	3,867,751	2,451,825
Commissions	2,888,922	2,467,591
Legal, administrative and other	3,952,656	2,850,744
Insurance	766,831	734,927
Management services	289,240	250,000
Maintenance & repair expenses	3,252,438	3,113,685
Utilities	3,891,975	4,125,027
Personnel expense	1,362,253	876,994
Cleaning and security	887,347	837,436
Advertising, marketing, and sponsorship	234,133	210,965
Directors, statutory & independent auditor fees	1,858,669	1,398,158
Travel and accommodation	285,420	184,804
Bank charges & commissions	464,483	267,328
Other services	497,138	455,562
Listing charges	237,903	232,091
Royalties charges	2,345,772	3,138,721
Service costs	**35,542,302**	**30,916,615**

The increase in costs reflect the recovery of production from the general contraction during the lockdown in the previous year, with an increase in transport costs (+Euro 1.4 million), outsourcing (+Euro 1.3 million) and temporary personnel costs (+Euro 0.5 million).

Note 27: Personnel expenses

Personnel expenses are shown below:

(in Euro)	2021	2020
Wages and salaries	31,427,148	28,204,211
Social security charges	9,764,099	8,741,036
Temporary personnel	4,455,968	2,779,025
Post-employment benefits	2,193,784	2,090,520
Other costs	115,410	58,696
Personnel expense	**47,956,409**	**41,873,488**

The item increased by Euro 6,083 thousand, of which Euro 1,677 thousand due to the greater use of temporary work contracts due to the restart of production activities. It should be recalled that in the previous year the company had benefited from contributions and supports put in place by the government to deal with the COVID-19 pandemic during the lockdown period, in the first part of the year, as well as increased use of existing provisions for deferred remuneration.

Average personnel over the last two years are broken down as follows:

Employees	2021	2020
Executives	25	24
White-collar	278	265
Blue-collar	450	466
Temporary	130	89
Total employees	**883**	**844**

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

Note 28: Depreciation, amortisation and write-downs

The breakdown is as follows:

(in Euro)	2021	2020
Amortisation of intangible assets	3,218,566	3,113,396
Depreciation of property, plant and equipment	10,450,105	10,412,228
Depreciation of operating lease IFRS 16	1,661,851	1,375,836
Total depreciation and amortisation	**15,330,522**	**14,901,460**
Write-down of intangible assets	-	25,000
Write-downs of tangible fixed assets	-	241,779
Total write-downs	**-**	**266,779**
Depreciation, amortisation and write-downs	**15,330,522**	**15,168,239**

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 for risks

The breakdown is as follows:

(in Euro)	2021	2020
Provision for disputes	102,965	263,449
Uses/releases provisions	(560,949)	(8,992)
Provisions for risks	**(457,984)**	**254,457**

Provisions amount to Euro 103 thousand and refer to:

- Euro 12 thousand of provisions for the costs of the reclamation of a plot of land owned by the Company;
- Euro 43 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 48 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.

The decreases amount to Euro 561 thousand and concern releases from the provision for risks and charges due to the lapse of obligations to clients for potential contractual compensation.

Note 30: Other charges (income)

The account is broken down as follows:

(in Euro)	2021	2020
Misc. recoveries	116,143	185,710
Prior year income	81,093	115,070
Gains on fixed assets	79,071	41,602
Grants	691,347	375,287
Other revenues	80,284	79,638
Other income	**1,047,937**	**797,307**
Misc. taxes & non-deductible costs	163,829	171,876
Losses on fixed assets	12,070	954
Associations	127,673	115,290
Prior year charges	230,717	171,960
Losses on receivables	19,352	-
IMU Property tax	208,317	217,479
Misc. reimbursements	3,403	48,677
Other charges	341,069	319,445
Other charges	**1,106,430**	**1,045,681**
Other charges (income)	**58,493**	**248,374**

Other income in 2021 increased Euro 251 thousand, mainly due to the increase in the grants item. This account refers to the tax credit for research, development and technological innovation activities for the year 2021 as provided for by Budget Law 2020 No. 160/2019.

Note 31: Investment charges and (income)

The account concerns dividends approved by the subsidiaries, recognised in 2021 and particularly:

	2021	2020
Dividends from subsidiary: SIT Controls BV - (Netherlands)	5,500,000	6,658,516
Dividends from subsidiary: SIT Controls U.S.A. Inc. (USA)	2,216,705	0
Dividends from subsidiary: SIT Gas Controls Pty Ltd (Australia)	252,573	185,185
Dividends from subsidiary: SIT Controls CR, sro (Czech Republic)	80,000	0
Dividends from subsidiary: SIT Romania S.r.l. (Romania)	1,719,694	0
Total charges and (income) from investments	**9,768,972**	**6,843,701**

At the end of the year, dividends amounting to Euro 9,436 thousand had yet to be collected.

Note 32: Financial income

In 2021, this amounted to Euro 916 thousand and was broken down as follows:

(in Euro)	2021	2020
Interest income on bank accounts	1,107	35,713
Other interest income	13,070	184,158
Interest income from Group companies	691,085	272,094
Profits on derivative financial instruments	210,803	89,558
Adjustment to fair value of financial liabilities	-	522,473
Financial income	**916,065**	**1,103,996**

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), Plast Alfin S.A.R.L. (Tunisia) and JANZ Contagem e Gestão de Fluídos SA (Portugal) for a total of Euro 635 thousand; while including for Euro 56 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 concerning the adjustment to the Fair Value of the 4,604,367 SIT Warrants in place and not exercised at December 31, 2021 was reclassified to financial charges, while at December 31, 2020 reporting a gain of Euro 522 thousand; the Fair Value was established utilising level 1 of the fair value hierarchy as the Warrants are listed on an active market.

Note 33: Financial charges

Financial charges consist of:

(in Euro)	2021	2020
Financial charges on hedging contract differences	1,095,188	669,541
Interest and other bank charges	2,481,753	2,726,149
Interest charges to third parties	173,638	234,156
Interest expenses on current accounts subsidiaries	6,894	48,487
Losses on other financial instruments	232,472	206,335
Financial charges for operating leases - IFRS 16	160,943	94,068
Adjustment Fair Value warrants	8,978,119	-
Interest on bonds	577,064	-
Financial charges	**13,706,071**	**3,978,736**

FINANCIAL CHARGES ON HEDGING CONTRACT DIFFERENCES

The account refers to the differential matured in 2021 of Euro 958 thousand relating to the interest rate risk contracts (IRS) on the loan contracts (Senior Facility Agreement of 2017) settled in the year and for Euro 137 thousand relating to the new SFA 2021 loan.

INTEREST AND OTHER BANK CHARGES

The amount of Euro 2,482 thousand comprises for Euro 695 thousand the portion of amortised cost and for Euro 1,136 thousand interest on the Senior Facility Agreement 2017 accruing in the year; for Euro 89 thousand the portion of the amortised cost and for Euro 354 thousand the interest on the Senior Facility Agreement 2021 accruing in the year and for Euro 101 thousand on other loans and bank advances. The account in addition includes Euro 107 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 36.

WARRANT FV ADJUSTMENT

The amount relates to the fair value adjustment of 4,604,367 SIT Warrants outstanding and unexercised at December 31, 2021. At December 31, 2020 the SIT Warrants reported a gain of Euro 522 thousand; the Fair Value was established utilising level 1 of the fair value hierarchy as the Warrants are listed on an active market.

INTEREST ON BOND LOANS

The amount of Euro 577 thousand concerns the interest charges accruing in the period on the bond loan signed in May 2021. For further information, reference should be made to the Directors' Report and to Note 14.

Note 34: Net exchange gains (losses)

Net exchange gains of Euro 463 thousand are composed as follows:

(in Euro)	2021	2020
Realised exchange gains	1,720,356	2,202,597
Realised exchange losses	(1,915,220)	(2,213,779)
Unrealised exchange gains	941,912	365,991
Unrealised exchange losses	(284,155)	(593,286)
Net exchange gains and losses	**462,893**	**(238,477)**

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 35: Income taxes

The breakdown of Income taxes in 2021 and 2020 was as follows:

(in Euro)	2021	2020
Current income taxes	2,404,754	303,077
Consolidation income tax	-	(731,157)
Deferred tax income	(2,284,866)	936,203
Deferred tax charges	(743,266)	(625,261)
Taxes from previous year	(447,317)	76,502
Other	1,475,654	19,331
Total income taxes	**404,959**	**(21,306)**

Current income taxes, increasing on the previous year, mainly reflects the higher pre-tax result of the Company. It is also noted that during the previous year the Company had benefited from the tax relief under Article 24 of Legislative Decree No. 34/2020 - Relaunch Decree - which allowed the cancellation of the first advance payment of IRAP 2020 as aid to support the economy in the Coronavirus emergency.

It should be noted that the increase in "deferred tax income", "taxes from previous years" and "Other" was mainly affected by the net benefit recorded by the Company for Euro 1.7 million due to the agreement reached with the Tax Agency on the calculation of the economic contribution of intangible assets ("Patent Box regime").

The change in "Income from tax consolidation" refers mainly to the transfer of the ACE by the subsidiary SIT S.p.A. to the tax consolidation for 2020, a transfer that did not take place in 2021 as it was used directly by the Company.

The IRES and IRAP rates applied by the company on estimated assessable income in the year are respectively 24% and 3.9%, for current taxes and for the calculation of deferred taxes. The reconciliation of the tax charge is reported in the table below:

	Dec 31, 21	effective tax rate %	Dec 31, 20	effective tax rate %
Income before taxes	9,427,929	**24.00%**	9,570,190	**24.00%**
Adjustments for items not subject to taxation (non-recurring components)	0		0	
Result before taxes adjusted	9,427,929	**24.00%**	9,570,190	**24.00%**
Theoretical IRES charge	2,262,703		2,296,846	
Lower taxes:				
- dividends from investments	(2,227,326)		(1,560,364)	
- super & hyper depreciation	(808,197)		(834,253)	
- IRES deduction IRAP portion on personnel costs	(39,909)		(24,200)	
- ACE benefit and 4% Post-employment benefit provisions	(225,106)		(239,115)	
- valuation financial instruments (warrants)	2,154,749		(125,394)	
- Plant & R&D grants	(139,821)		(74,769)	
Higher taxes:				
- other non-deductible costs	366,684		260,648	
Total current taxes (IRES)	**1,343,778**	**14.25%**	**(300,601)**	**-3.14%**
Taxes for previous financial years	(2,665,662)		74,832	
Foreign tax on royalties/dividends	1,475,654		19,331	
TOTAL INCOME TAXES (IRES)	**153,769**	**1.63%**	**(206,439)**	**-2.16%**
IRAP	780,307		303,077	
Taxes for previous financial year	(448,488)		1,670	
IRAP deferred tax charge	(100,375)		(100,375)	
IRAP deferred tax income	19,747		(19,239)	
Total taxes recognised to the Income statement	**404,959**	**4.30%**	**(21,306)**	**-0.22%**

Note 36: Leasing contracts

The tables below summarise the effects on the Company financial statements at June 31, 2021 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	**2021**
Operating lease contract charges	1,773
Contracts classified as short-term leases	-
Contracts classified as low-value assets	40
Total service costs	**1,812**
Land & buildings	(431)
Industrial & commercial equipment	(406)
Other tangible assets	(825)
Total depreciation	**(1,662)**
Income from sub-leasing contracts	-
Sales and leaseback transaction	-
Total other charges/(income)	**-**
Interest charges on financial liabilities	(161)
Total financial charges	**(161)**

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

(Euro.000)	**31/12/2021**
Net investments accounted as ROU as at 1.1.2021	6,723
Increases in the year	2,640
Depreciation and amortisation of the year	(1,662)
Exch. diff.	-
Net investments from ROU assets at 31.12.2021	**7,701**
Payable for financial liabilities from ROU assets at 1.1.2021	6,778
Commitments in the year	2,652
Cash outflows	(1,612)
Exch. diff.	-

Gross value of liabilities from ROU assets at 31.12.2021	**7,818**
Obligations for short-term lease contracts	-
Obligations for low-value asset contracts	-
Total obligations for lease contracts with recognition to costs of payments due	**-**

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

(Euro.000)	**31/12/2021**
Within the year	1,609
Between 1 and 5 years	4,337
Over 5 years	1,872
Total liabilities deriving from operating lease contracts	**7,818**

Note 37: Share-based payments

At December 31, 2021, the company holds 729,447 treasury shares, of which 412,723 were acquired in 2021 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	**2021**	**2020**
Costs from equity-settled share-based payment transactions	148,195	-
Costs from cash-settled share-based payment transactions		
Total costs deriving from share-based payment transactions	**148,195**	**-**

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 options are 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. In 2021, the conditions for the conversion for the previously granted units into shares did not emerge.

In April 2021, the Shareholders' Meeting approved 3 new incentive plans, with the following characteristics:

- 2021-2025 Performance Shares Plan: provides for the identification and nomination by the Board of Directors of executives and employees of the company and/or of the subsidiaries, with the objective of:
  - better aligning the interests of management and the creation of shareholder value with a view to medium to long-term sustainability;
  - strengthening the motivation of management to pursue objectives that are not only profitable/business-related but that also create value for shareholders;
  - ensuring a high level of attraction and retention of key personnel, offering remuneration packages in line with market practice.
- 2021-2023 Restricted Shares Plan: provides for the identification and nomination by the Board of Directors of 4 executives, from among those who play a key role in achieving the SIT Group's objectives. Through the adoption of the plan, the Company seeks to ensure a high level of retention of key personnel, offering remuneration packages in line with market practice, taking into account in particular the combined incentive effect of the performance shares plan of which the Beneficiaries are also recipient.
- 2021-2024 Advisory Board Share Remuneration Plan: to incentivise the Advisory Board to undertake its consultative functions effectively through an incentive system linked to the achievement of performance objectives over an extended period. The Plan in addition furthers the creation of shareholder value with a view to medium to long-term sustainability.

On July 26, 2021, the Board of Directors identified by name the beneficiaries of the plans described above. The following table illustrates the number and average weighed exercise price (PMPE) of the options during the year:

(Euro.000)	**2021**	
2021-2023 Performance Shares Plan	**No. options**	**Weighted average price**
Outstanding at January 1	142,560	7.26
Assigned during the year	-	-
Cancelled during the year	-	-
Exercised during the year	-	-
Expired during the year	-	-
Outstanding at December 31	**142,560**	**7.26**
Exercisable at December 31	**-**	**-**

(Euro.000)	**2021**	
2021-2023 Restricted Shares Plan	**No. options**	**Weighted average price**
Outstanding at January 1	56,944	7.26
Assigned during the year	-	-
Cancelled during the year	-	-
Exercised during the year	-	-
Expired during the year	-	-
Outstanding at December 31	**56,944**	**7.26**
Exercisable at December 31	**-**	**-**

(Euro.000)	**2021**	
2021 - 2024 Advisory Board Plan	**No. options**	**Weighted average price**
Outstanding at January 1	30,000	9.65
Assigned during the year	-	-
Cancelled during the year	-	-
Exercised during the year	-	-
Expired during the year	-	-
Outstanding at December 31	**30,000**	**9.65**
Exercisable at December 31	**-**	**-**

The fair value of the options allocated is measured at the allocation date, taking into account the terms and conditions on which the options were granted.

For the performance shares and restricted shares plan, the model estimated the actual value based on expected dividends and the discount rate for the vesting period.

The Monte Carlo simulation model was used for the advisory board plan.

The table below provides information utilised in the model for the plan adopted for the year December 31, 2021, and which remains valid for the current year:

2021-2023 Performance Shares Plan Assumptions for the measurement of the plan fair value	2021
Weighted fair value at the measurement date	7.26
Dividend yield (%)	3.91
Interest free risk rate (%)	(0.74)
Expected useful life of the options (in years)	2.6

2021-2023 Restricted Shares Plan Assumptions for the measurement of the plan fair value	2021
Weighted fair value at the measurement date	7.26
Dividend yield (%)	3.91
Interest free risk rate (%)	(0.74)
Expected useful life of the options (in years)	2.6

2021 - 2024 Advisory Board Plan Assumptions for the measurement of the plan fair value	2021
Weighted fair value at the measurement date	9.65
Dividend yield (%)	3.91
Expected volatility (%)	31
Interest free risk rate (%)	(0.74)
Expected useful life of the options (in years)	2.6
Model adopted	Monte - Carlo
Correlation with index (%)	33

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.

OTHER INFORMATION

Related party transactions

At its meeting of June 11, 2021, the Board of Directors of SIT approved the update to the related party transactions policy, pursuant to Article 4 of the Consob Regulation containing provisions on related party transactions, adopted by Consob with Resolution No. 17221 of March 12, 2010 as most recently amended with Consob Resolutions No. 21623 and 21624 of December 10, 2020, and published on the website www.sitcorporate.it in the *Corporate Governance/Governance Documents* section. 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, 21	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	14	0
Companies subject to the control of the holding company	**14**	**0**	**0**	**0**	**0**	**0**	**14**	**0**
SIT Technologies S.p.A.	25	0	0	4,861	0	5,915	2,036	345
Holding company	**25**	**0**	**0**	**4,861**	**0**	**5,915**	**2,036**	**345**

Transactions in 2020 are shown in the following table:

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**

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 charges 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 5,915 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 at December 31, 2021, 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. In 2020 the subsidiary SIT Metering S.r.l. joined the National Tax Consolidation procedure for the three-year period 2020-2022, while in 2021 the newly-incorporated company Technologies SAPA di F.D.S. S.S. also joined for the three-year period 2021-2023, both as consolidated companies.

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. From next year, as a subsidiary, the subsidiary SIT Metering Srl will also join the Group VAT procedure.

At December 31, 2021, the receivable of the Company from the holding company, SIT Technologies S.p.A., amounted to Euro 2,036 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.

As illustrated in the table below, we also report in 2021, the company incurred costs for consultancy totalling Euro 26 thousand with a company in which the Non-Executive Chairperson is a member of the Board of Directors of SIT.

Dec 31, 21	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
Oaklins Arietti S.r.l	-	26	-	-	-	-	-	-
Transactions with other related parties	-	26	-	-	-	-	-	-

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 2021, the company carried out the following transactions with subsidiaries and presented the following balances at the reporting date (in Euro thousands):

Dec 31, 21	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
SIT Gas Controls Pty Ltd (Australia)	2,712	17	253	-	-	91	468	-
SIT (Shanghai) Trading Co. Ltd. (China)	-	-	-	-	-	-	-	-
SIT Manufacturing (Suzhou) Co.Ltd (China)	13,435	4,435	82	-	2,085	-	12,140	3,256
SIT Controls CR, sro (Czech Republic)	24	1,484	80	-	-	1,156	24	656
SIT Controls Deutschland GmbH (Germany)	167	1,009	-	-	-	1,490	38	381
Sit Manufacturing N.A. SA de CV (Mexico)	29,044	2,292	1	6	544	-	4,519	504
SIT Controls BV - (Netherlands)	3,736	2,483	5,500	-	5,500	13,843	2,005	580
SIT Romania Srl (Romania)	36,580	59,659	1,783	-	3,720	5,662	8,369	10,020
MeteRSit Romania Srl (Romania)	15	112	4	-	-	2,578	17	112
SIT Controls U.S.A. Inc. (USA)	47	180	2,217	1	2,186	1,420	47	75
MeteRSit S.r.l. (Italy)	2,091	25	-	-	-	8,429	2,505	71
Plast Alfin S.a.r.l (Tunisia)	1,447	2,223	6	-	185	186	624	374
SIT Controls Tunisia S.u.a.r.l (Tunisia)	8,862	465	117	-	5,063	-	7,441	381
SIT Metering S.r.l (Italy)	37	160	401	-	26,143	-	260	154
JANZ - Contagem e Gestao de Fluidos,SA (Portugal)	338	-	17	-	800	-	348	-
Subsidiaries	**98,535**	**74,544**	**10,461**	**7**	**46,226**	**34,855**	**38,805**	**16,564**

Transactions in 2020 are shown in the following table:

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**

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:

	2021	2020
Director fees	1,068,407	942,454
Statutory auditor fees	108,251	108,008
Total directors' and statutory auditors' fees	**1,176,658**	**1,050,463**

The Company paid to the audit firm fees of Euro 254 thousand, in addition to reimbursement of expenses and supervisory contributions, as follows:

	2021	2020
Fees paid to the audit firm for audit services	207,345	205,800
Limited review of the consolidated non-financial report	28,812	28,000
Other verification services for the issue of a statement	18,000	4,000
Total	**254,157**	**237,800**

Guarantees, commitments and off-balance sheet contingent liabilities

The off-balance sheet commitments at December 31, 2021 were as follows.

	2021	2020
Other unsecured guarantees	64,051,251	61,275,498
Secured guarantees	-	-
Total guarantees	**64,051,251**	**61,275,498**

Other unsecured guarantees

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

	2021	2020
In the interest of subsidiaries	63,942,782	61,167,029
In own interest	108,469	108,469
Total other guarantees	**64,051,251**	**61,275,498**

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 8,259 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 2021, in line with its policies, the Company undertook financial hedges principally against net exposures in USD, AUD, GBP, CHF, and CNY.

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 90 million. 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 72 million, or 80.0% 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.

From the second half of 2020 and the entire 2021 there was a significant increase in the market prices of certain raw materials and components used by the Group, particularly copper, aluminium, steel, plastics and certain electronic components. The magnitude of market price fluctuations has led the Company to take further action to mitigate this risk. This action included the search for alternative suppliers, technical approval for alternative components and the monitoring of supply markets, including by the foreign subsidiaries located in China and Mexico. In order to reduce purchase cost volatility, the Group therefore implemented procurement policies designed to meet requirements at the best conditions possible and guarantee regular supply. It should also be noted that contracts with certain suppliers contain price adjustment clauses every six months and therefore the aforementioned market trend will have effects on purchase costs for the following year.

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, 2021, 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	Valuation	Level 1	Level 2	Level 3

	Dec 31, 21	criterion		
SIT Warrants	(8,748)	*Fair value*	(8,748)	
Interest Rate Swap	(71)	*Fair value*		(71)
Forex Forward	(173)	*Fair value*		(173)

In 2021, 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, 2020:

(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)	

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 in accordance with Law 124/2017, paragraph 125	as
Fondimpresa - Rome	26,140	Reimbursement of quota of fondimpresa training plan code 296923
Fondimpresa - Rome	57,960	Reimbursement of quota of fondimpresa training plan code 301791
Fondirigenti - Rome	15,000	Reimbursement of quota of fondirigenti training plan code FDIR 25921
Fondirigenti - Rome	9,660	Reimbursement of quota of fondirigenti training plan code FDIR28027
Total	**108,760**	

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.

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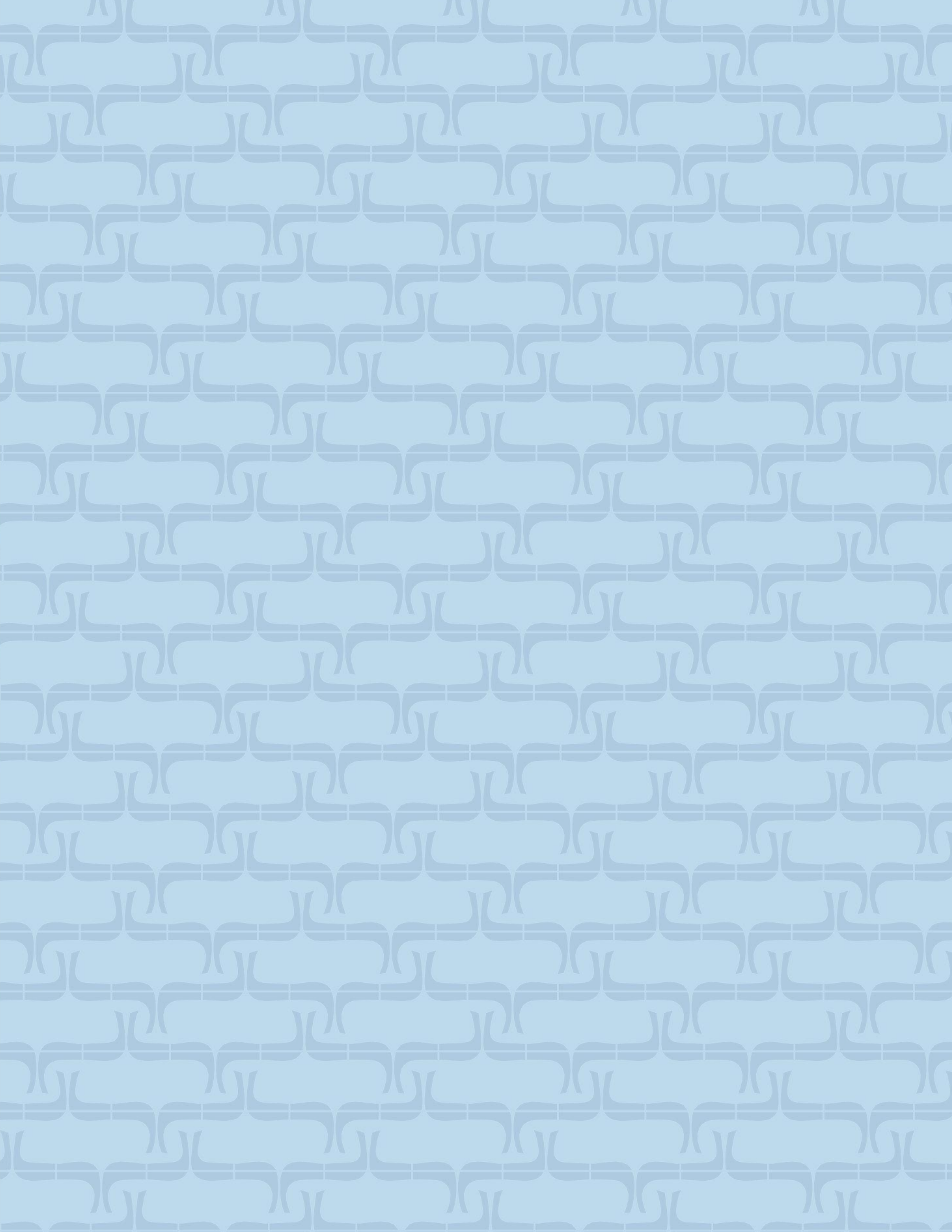
For the proposals to the Shareholders' Meeting regarding the allocation of the 2021 net profit, reference should be made to the Directors’ Report.

Padua, March 22, 2022

The Chairperson 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 2021.

We also certify that the separate financial statements:

- corresponds 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 22, 2022

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

INDEPENDENT AUDITORS' REPORT ON THE SEPARATE 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 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, 2021, 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, 2021, 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.

Deloitte.

Impairment test of goodwill relating to Heating CGU	
Description of the key audit matter	The financial statements as at December 31, 2021 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. The impairment test was approved by the Board of Directors on March 22, 2022. The Directors evaluation process is complex and it is based on assumptions regarding, among other things, the expected cash flows from the CGU and the determination of appropriate discount rate (WACC) and long-term growth rate (g-rate). These assumptions are influenced by future expectations and market conditions. As a result of the impairment test no impairment losses were recognized. The Directors have also prepared sensitivity analysis as described in the explanatory notes. 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 CGU Heating and of the key variables of the impairment model, we have considered the impairment test of goodwill a key audit matter of the financial statements of SIT S.p.A. The note 1 of the explanatory 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 test; • examination of the methods used by the Directors to determine the value in use of the Heating CGU, analyzing the methods and assumptions used for the development of the impairment test; • 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 and the reliability of the plan preparation process; • assessment of the reasonableness of discount rate (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;
- verification of the correct determination of the carrying amount of the CGU;
- 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 test 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 statemehnts 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 on the compliance with the provisions of the Delegated Regulation (EU) 2019/815

The Directors of SIT S.p.A. are responsible for the application of the provisions of the European Commission Delegated Regulation (EU) 2019/815 with regard to the regulatory technical standards on the specification of the single electronic reporting format (ESEF – European Single Electronic Format) (hereinafter referred to as the "Delegated Regulation") to the financial statements, to be included in the annual financial report.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 700B in order to express an opinion on the compliance of the financial statements with the provisions of the Delegated Regulation.

In our opinion, the financial statements have been prepared in XHTML format in accordance with the provisions of the Delegated Regulation.

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, 2021, 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, 2021 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, 2021 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, 2022

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 96,162,195 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, 2021, 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 (Chairperson), Loredana Anna 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.

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 2399 of the Civil Code and Article 148, paragraph 3 of Legs. Decree No. 58 of February 24, 1998 and as per the Corporate 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 Related Party Transactions Policy adopted by the Company, noting that no atypical and/or unusual transactions were carried out with related parties and/or such as to significantly affect the Company's operating and financial situation. During 2021, the Board of Directors resolved to update the Related Party Transactions Policy, already prepared pursuant to the regulation adopted by Consob with resolution No. 17221 of March 12, 2010 (the "RPT Regulation"), also taking into account Consob Communication No. DEM/10078683 of September 24, 2010, in light of the amendments to the RPT Regulation introduced with resolutions Nos. 21624 and 21623 of December 10, 2020. The policy in its current version became effective on July 1, 2021. No issues to be reported herein with regard to the suitability and benefit to the Company of the Related Party Transactions Policy arose. The information on such 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 Corporate 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, 2021 has not been prepared, in terms of all the significant aspects, as per Articles 3 and 4 of the above decree and the GRI Standards.

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:

- setting up of the commercial network overseas, with the establishment in February 2021 of two subsidiaries by the subsidiary Metersit Srl: one in the UK (Metersit UK Ltd) and one in India as a joint venture with a local partner;
- issue in May 2021 of a 10-year bond for an amount of Euro 40 million, placed in PRICOA private placement, to improve the group's financial flexibility and providing it with a long-term financial structure;
- refinancing for the amount of Euro 90 million the original loan line granted in 2017 for Euro 135 million, obtaining more advantageous economic conditions, with repayment in the form of instalments over 5 years;
- structuring of sustainability governance, dedicated to outlining the group's ESG journey;
- execution of the project for the construction of the new headquarters and laboratories, in order to extend the areas allocated to research and development;
- acquisition in September 2021 through the subsidiary SIT Manufacturing N.A. of a business unit operating in the water heating business for the American market.

2. Atypical and/or unusual transactions, including inter-company or related party transactions
   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. Adequacy of the information provided in the Directors' Report in relation to atypical and/or unusual transactions, including inter-company and related party transactions.
   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. Oversight of the auditing of accounts
   In accordance with Article 19 of Legislative Decree No. 39/2010, the Board of Statutory Auditors carried out the prescribed supervision of the independent audit firm's activity. In this regard, the Board of Statutory Auditors met several times with the independent audit firm Deloitte & Touche S.p.A., also pursuant to Article 150 of the Consolidated Finance Act, *inter alia*, with reference to: the review of the Management Letter and the Additional Report as per Article 11 of EU Regulation 537/2014; the limited audit on the Company's 2021 Half-Year Report; the planning of the audit activities for the 2021 Financial Statements; the progress of the audit activity on the 2021 Financial Statements and the results of the audit activity on the 2021 Financial Statements. At these meetings, the independent audit firm never indicated any facts or irregularities requiring specific reporting as per Article 155, paragraph 2, of the CFA.

5. Observations and proposals on the findings and requests for disclosure contained in the auditors' report.

   On April 7, 2022, the independent audit firm issued their Report on the audit of the financial statements at December 31, 2021 and the Report on the audit of the consolidated financial statements at December 31, 2021 of the Company, expressing *(i)* an opinion that the financial statements and the consolidated financial statements of SIT S.p.A. provide a true and fair view of the financial position of SIT S.p.A. and the Group's financial position at December 31, 2021, the operating result and cash flows for the year then ended in accordance with the IAS/IFRS standards adopted by the European Union; *(ii)* an opinion on consistency, from which it emerges that the Directors' Reports accompanying the separate and consolidated financial statements at December 31, 2021 and certain specific information contained in the "Corporate Governance and Ownership Structure Report" indicated in Article 123-*bis*, paragraph 4, of the Consolidated Finance Act - the responsibility for which lies with the Company's Directors - have been prepared in accordance with law; *(iii)* a declaration that there are no significant errors in the Directors' Report, based on the knowledge and understanding of the business and its context.

   On April 7, 2022, the independent audit firm presented its additional report, as required by Article 11 of European Regulation No 537/2014, to the Board of Statutory Auditors, acting as the Internal Control and Audit Committee. Today, as provided for by Article 19 of Legislative Decree No. 39/2010, the Board examined the document and sent it to the Board of Directors together with its own observations.
6. 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, 2021, did not receive any indications or notices as per Article 2408 of the Civil Code.
7. 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.
8. Conferment of other assignments to the audit firm and relative costs

   During 2021, the Company assigned Deloitte & Touche S.p.A. the following non-audit appointments, not falling within those prohibited by Regulation 537/2014: *(i)* audit of the statement of R&D for technological innovation expenses, against fees of Euro 20,000 *(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 149-*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 & Touche 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, 2022, 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

537/2014 and published on its website.

9. Conferment of assignments to parties related to the audit firm and related costs
   In 2021, the company did not grant assignments to parties related to the audit firm.
10. Opinions issued in accordance with law
   During the year, the Board of Statutory Auditors issued an opinion regarding the appointment of Deloitte & Touche to audit the statement of R&D for technological innovation expenses (May 19, 2021), as required by the applicable legislation, the Corporate Governance Code and the policies and procedures adopted by the Company.
11. 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:
   - the Shareholders' Meeting of April 29, 2021,
   - 11 Board of Directors' meetings,
   - 8 Control and Risks and Sustainability Committee meetings,
   - 2 Remuneration Committee meetings.

   During the year, the Board of Statutory Auditors met 14 times.
12. 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.
13. 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.
14. 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 following the analysis of the results of the Risk Assessment activity carried out by the Company. The Board also obtained information from the Chief Executive Officer and top management with regard to the risks associated with the COVID-19 pandemic and, more recently, the potential implications of the geo-political crisis.
   In accordance with Legislative Decree 39/2010, the Board of Statutory Auditors has conducted specific analyses of the activities and audits by the Finance department, also with the support of the Internal Audit Function, in respect of financial reporting processes.

15. 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 supervised the adequacy of the internal control system and the administrative and accounting system, in addition to the reliability of the latter to correctly represent operating events, by obtaining information from the Executive Officer for Financial Reporting and from the heads of the respective departments, and by examining corporate documents. In particular, the Executive Officer for Financial Reporting, with support from the competent company functions, carried out a monitoring plan involving key controls of processes relevant to financial reporting. The results of the programme of activities carried out do not reveal any critical aspects regarding compliance with Law 262/2005.

    The Board of Statutory Auditors paid attention to *(i)* the process of constant updating of internal procedures related to the main corporate cycles, as well as to the verification activities carried out by the internal audit function; *(ii)* the adoption of administrative procedures to provide the necessary information on the management and on the operating, equity and financial data of the companies incorporated and regulated by the laws of non-EU countries that are of significant importance; *(iii)* the assessment that the information flows provided by non-EU subsidiaries were adequate to carry out the control activities on annual and interim accounts.

    With regard to the preparation of the financial statements, the Board of Statutory Auditors acknowledges that the Board of Directors approved the compliance of the impairment test methodology with the requirements of international accounting standard IAS36, as required by the joint Bank of Italy/CONSOB/ISVAP document of March 3, 2010. The notes to the financial statements contain both the assumptions used in carrying out the test and the results of the assessment process conducted. The Board of Statutory Auditors has no comments on the impairment test procedure adopted.

16. 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 gained knowledge and oversight through, among others: *(i)* information acquired from the Chief Financial Officer and corporate officers; *(ii)* the acquisition of information from the heads of corporate functions; *(iii)* meetings and exchanges of information with the Boards of Statutory Auditors of the subsidiaries; and *(iv)* meetings with the independent audit firm, to the extent of our responsibility, on the adequacy of the instructions given by the Company to its subsidiaries pursuant to Article 114, paragraph 2, of Legislative 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.

17. Observations on significant aspects emerging during meetings with the auditors as per Article 150424, 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.

18. Compliance with the Corporate Governance Code of the Corporate Governance Committee of listed companies
    The Company has adopted the Corporate Governance Code of Listed Companies promoted by Borsa Italiana; to the extent of its specific scope, the Board of Statutory Auditors supervised the procedures for the effective implementation of the corporate governance rules which the Company has declared to comply with; in particular, with regard to the Corporate Governance Code, the Board of Statutory Auditors supervised *(i)* the methods for the implementation of corporate governance rules, as detailed in the Corporate Governance and Ownership Structure Report, 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;
19. 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 2021 regularly and no omissions, citable events or irregularities to be reported emerged.
20. 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, 2021 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, 2021 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.

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.

For all the above reasons, the Board of Statutory Auditors finds no reasons to prevent the approval of the financial statements at December 31, 2021 and the proposals made by the Board of Directors.

Modena, April 7, 2022

THE BOARD OF STATUTORY AUDITORS

Matteo Tiezzi

Loredana Anna Conidi

Saverio Bozzolan