2022 ANNUAL FINANCIAL REPORT

CONTENTS

CORPORATE INFORMATION

Parent Company Registered Office

Sit S.p.A.

Viale dell'Industria, 31/33

35129 Padua – Italy

www.sitgroup.it

Parent Company Legal Details

Share capital approved Euro 96,162,195.00

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,

We posted another year of growth in 2022, in confirmation of the group's strength, as we focus on the development path we will pursue for the coming years.

SIT has made a concerted push towards technological innovation with the help of investment in R&D, the nerve centre of the group's business, and our development strategy based on high-value partnerships and synergies. In 2022, we placed particular emphasis on external partnerships aimed at accessing specialist resources and accelerating the technological development of new products. Of particular importance in this regard are the strategic agreement with a leading player in the water metering sector aimed at creating a joint venture for the development and production of an ultrasonic flow meter and the agreement to acquire a minority interest in a startup in the air sensors sector.

The work we have done, of which I am extremely proud, has enabled us to confirm the great value of SIT and our leadership in this climate of continuing uncertainty for the global economy. In particular, within a very short period of time, many extraordinary events have placed supply chain structure and management in the spotlight. These events include, of course, the pandemic, the subsequent rebound of the economy (to varying degrees around the world), the geopolitical instability brought about by Russia's invasion of Ukraine and the tensions between the USA and China in the Pacific Rim, renewed inflation caused in part by the crisis in Russian gas, and the energy transition. As such, we have worked to mitigate these risks and to build a new supply chain aimed at procuring services, materials and components at the right price, at the right time, and at high levels of quality, while promoting observance of the Group's code of ethics and principles of sustainability, strengthening the development of stable relationships, and promoting safety, innovation and technological development throughout the value chain.

As did most companies, we experienced shortages of most electronic components in 2022 and were forced to procure them via alternative channels at significantly higher costs. In order to minimise operating risks and ensure business continuity, and in response to the war in Ukraine, the group has decided to launch a plan for the insourcing of circuit boards, and this plan is proceeding as scheduled. The year was also characterised by significant inflation, which impacted many areas of production in addition to electronic components, such as batteries, certain industrial metals including steel, packaging, and all energy sources generally.

In 2022 we were very active in the ESG field. Business differentiation and market response strategies targeting new "green" technologies complement our traditional range, making SIT a leading player in energy efficiency pathways, utilization of natural resources, decarbonization, and the search for carbon-neutral solutions. This is a path that SIT has been on for some time, in which it is a leading player together with its customers and all stakeholders.

2022 also saw the unveiling of our 2025 Sustainability Plan - Made to Matter. This sets out our dedicated commitment to cultural reinforcement and corporate involvement in sustainability, including through our innovative Sustainability Governance, which involves a team of professionals who are focused on identifying, pursuing and finalizing the plan's goals and actions.

Among the projects in the plan (which are also described in SIT's non-financial statement), I would like to highlight the work we have dedicated to the Carbon Footprint: having adopted a methodology to measure our Product Carbon Footprint, in 2022 we calculated the Organization Carbon Footprint, which allowed us to establish a perimeter for this data and define concrete reduction measures to be pursued over time. This is a structured approach, which allows us to spread and share best practices in measuring and reporting sustainability KPIs.

I also note that joining the United Nations Global Compact represents another important step in SIT's commitment to fully adopting principles related to social, environmental, and anti-corruption issues.

Alongside our quest for sustainability, the Company's talent enhancement project continues apace. This finds expression in concrete corporate welfare actions and a path dedicated to "Diversity & Inclusion," in order to cultivate the most important resource: our people. The commitment and collaboration of all of our personnel allow SIT to build the future, step by step, with precision and care. The distinctive talents of every person translate every day into identifying new market opportunities, devising new products, constantly engaging in research and development, collaborating across disciplines, and building a stimulating work environment.

Talent is, in fact, one of the pillars of the SIT - Sport Inclusion Talent Foundation, which took its first steps in the Padua area in 2022. This is a project I care deeply about, not just as Chairperson of SIT but as an entrepreneur. It is also a project that ably reflects that spirit of "giving back" that I believe is central to doing business in today's world.

I conclude by looking ahead, and invite you, our stakeholders, to do the same. In 2023 SIT will be 70 years old, and we will celebrate the milestone with the commitment to achieve great results as part of a company that evolves and adapts to anticipate market needs and respond to the new needs of all stakeholders, all without ever losing sight of its identity. In a world that demands of us ever more speed and specialisation, we continue to serve our customers with the same unwavering belief in the values that have always underpinned our activities.

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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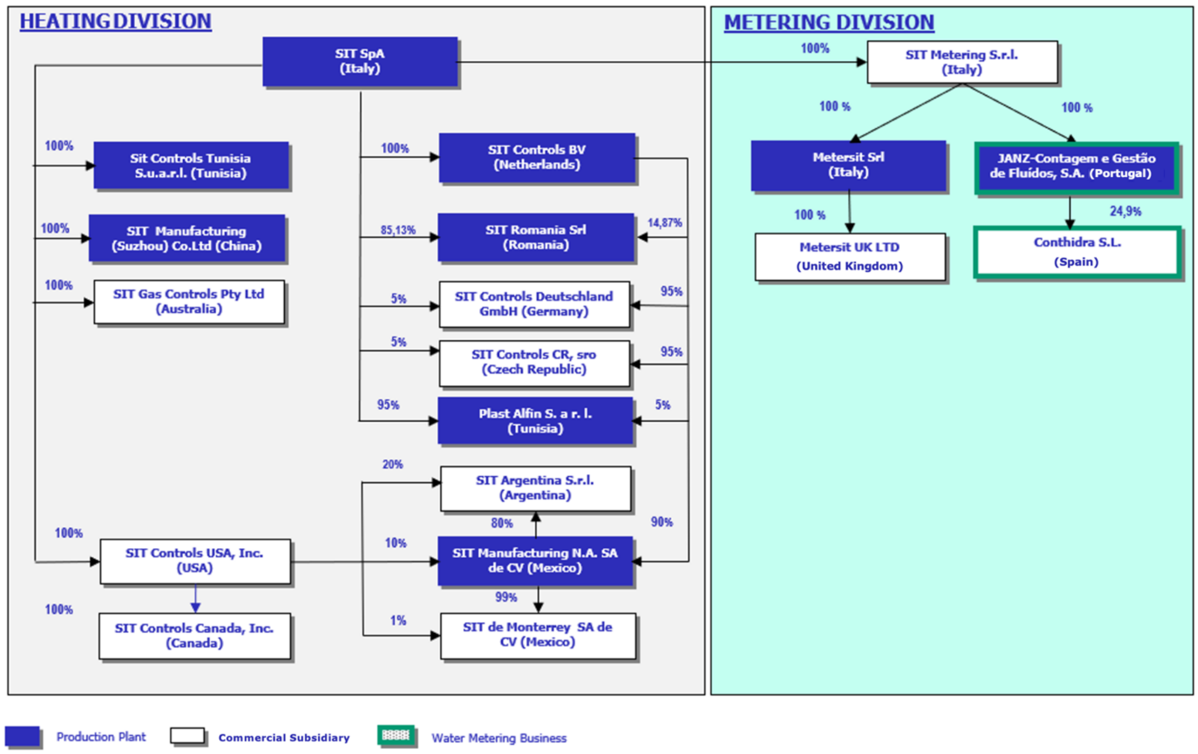
GROUP STRUCTURE



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 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 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	2022	%	2021	%	change	change %
Revenues from contracts with customers	393,305	100.0%	380,521	100.0%	12,784	3.4%
EBITDA	38,209	9.7%	51,215	13.5%	(13,006)	-25.4%
EBIT	10,557	2.7%	24,330	6.4%	(13,773)	-56.6%
Net profit for the year	11,213	2.9%	8,243	2.2%	2,970	36.0%
Cash flows from operating activities after investment activities	(13,145)		27,198			

Balance Sheet	31/12/2022	31/12/2021	Change	change %
Net financial position	(130,501)	(106,729)	(23,772)	22.3%
Net trade working capital	73,752	45,423	28,329	62.4%
Net trade working capital/Revenues	18.8%	11.9%		

ALTERNATIVE PERFORMANCE MEASURES

(Euro.000)

Operating results	2022	%	2021	%	Change	Change %
Revenues from contracts with customers	393,305	100.0%	380,521	100.0%	12,784	3.4%
EBITDA	38,209	9.7%	51,215	13.5%	(13,006)	-25.4%
EBITDA adjusted	47,099	12.0%	51,215	13.5%	(4,116)	-8.0%
EBIT	10,557	2.7%	24,330	6.4%	(13,773)	-56.6%
EBIT adjusted	19,447	4.9%	24,330	6.4%	(4,883)	-20.1%
Financial charges	4,760	1.2%	14,074	3.7%	(9,314)	-66.2%
Financial income	9,263	2.4%	395	0.1%	8,868	2245.1%
Net financial (charges)/income adjusted	(4,245)	-1.1%	(3,706)	-1.0%	(539)	14.5%
Result before taxes (EBT)	13,568	3.4%	11,706	3.1%	1,863	15.9%
Result before taxes adjusted (EBT)	13,710	3.5%	21,679	5.7%	(7,969)	-36.8%
Net Profit of the year	11,213	2.9%	8,243	2.2%	2,970	36.0%
Adjusted net profit of the year	10,898	2.8%	16,311	4.3%	(5,413)	-33.2%
Cash flows from operating activities after investment activities	(13,145)		27,198			

(Euro.000)

Balance Sheet	31/12/2022	31/12/2021	Change	change %
Net Capital Employed	295,998	269,153	26,845	10.0%
Shareholders' Equity	165,495	153,676	11,819	7.7%
Net financial position	(130,501)	(106,729)	(23,772)	22.3%
Adjusted Net Financial Position	(115,596)	(90,810)	(24,786)	27.3%
Financial liabilities for Warrants	-	(8,748)	8,748	-100.0%
Net trade working capital	73,752	45,423	28,329	62.4%

Key performance indicators	31/12/2022	31/12/2021
ROIC [(1)]	15.9%	19.0%
Net financial position / Shareholders' equity	0.79	0.69
Net financial position/Adjusted EBITDA	2.77	2.10

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

Composition of the main alternative performance indicators

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	2022 EBITDA	2021 EBITDA
EBIT	**10,557**	**24,330**
Depreciation, amortisation and write-downs	27,771	26,897
Write-downs	(119)	(12)
EBITDA	**38,209**	**51,215**
Provision for out-of-court settlement (1)	8,580	-
Provisions for other risks	310	-
Total non-recurring operating charges (income)	**8,890**	**-**
EBITDA adjusted	**47,099**	**51,215**

(1) The *Provision for out-of-court settlement* represents the best estimate of the costs, including legal fees, following a dispute with a customer regarding the Mexican subsidiary, a production company. The dispute was settled in 2023.

- 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	2022 EBIT	2021 EBIT
EBIT	**10,557**	**24,330**
Provision for out-of-court settlement	8,580	-
Provisions for other risks	310	-
Total non-recurring operating charges (income)	**8,890**	**-**
EBIT adjusted	**19,447**	**24,330**

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	2022 Financial (charges)/income	2021 Financial (charges)/income
Financial charges	**(4,760)**	**(14,074)**
Financial charges concerning refinancing transaction	-	430
Early settlement of IRS on bank debt	-	565
Changes on Warrants fair value	-	8,978
Financial charges adjusted	**(4,760)**	**(4,101)**
Financial income	**9,263**	**395**
Changes on Warrants fair value	(8,748)	-
Adjusted financial income	**515**	**395**
Adjusted net financial (charges)/income	**(4,245)**	**(3,706)**

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

(Euro.000)

Reconciliation of EBT adjusted	2022 Profit/(loss) before taxes	2021 Profit/(loss) before taxes
Profit before taxes for the year	**13,568**	**11,706**
Provision for out-of-court settlement	8,580	-
Provisions for other risks	310	-
Total non-recurring operating charges (income)	**8,890**	**-**
Early settlement of IRS on bank debt	-	995
Changes on Warrants fair value	(8,748)	8,978
Non-recurring financial charges (income)	**(8,748)**	**9,973**
Adjusted result before taxes (EBT)	**13,710**	**21,679**

- 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	2022 Net Profit	2021 Net Profit
Net Profit of the year	**11,213**	**8,243**
Provision for out-of-court settlement	8,210	-
Provisions for other risks	223	-
Total non-recurring operating charges (income)	**8,434**	**-**
Early settlement of IRS on bank debt	-	756
Changes on Warrants fair value	(8,748)	8,978
Non-recurring net financial charges (income)	**(8,748)**	**9,734**
Patent Box tax income	**-**	**(1,666)**
Adjusted net profit of the year	**10,898**	**16,311**

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	**31/12/2022**	**31/12/2021**
Goodwill	87,946	87,946
Other intangible assets	55,276	61,611
Property, plants and equipment	106,103	98,039
Investments in other companies	630	325
Non-current financial assets	5,186	2,139
Fixed assets (A)	**255,141**	**250,060**
Inventories	91,352	70,123
Trade receivables	63,800	56,052
Trade payables	(81,400)	(80,752)
Trade net working capital (B)	**73,752**	**45,423**
Other current assets	12,597	15,745
Tax receivables	2,281	2,965
Other current liabilities	(23,113)	(23,163)
Tax payables	(1,205)	(3,267)
Other current assets, liabilities and taxes (C)	**(9,441)**	**(7,720)**
Net working capital (B + C)	**64,311**	**37,703**
Deferred tax assets	10,492	7,897
Provisions for risks and charges	(13,844)	(4,941)
Net liabilities for employee benefits	(5,093)	(5,762)
Other non-current liabilities	(4)	(61)
Deferred tax liabilities	(15,005)	(15,743)
Other non-current liabilities, assets and provisions (D)	**(23,454)**	**(18,610)**
Net capital employed (A + B + C + D)	**295,998**	**269,153**

- 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	31/12/2022	31/12/2021
A. Cash	18	32
B. Cash equivalents	23,517	46,635
C. Other current financial assets	6,269	527
D. Cash and cash equivalents (A) + (B) + (C)	**29,804**	**47,194**
E. Current financial debt (including debt instruments but excluding the current portion of non-current financial debt)	8,196	10,032
F. Current portion of the non-current debt	20,589	14,727
G. Current financial debt (E + F)	**28,785**	**24,759**
H. Net current financial debt (G - D)	**(1,020)**	**(22,435)**
I. Non-current financial debt	92,001	89,727
J. Debt instruments	39,520	39,438
K. Trade payables and other non-current payables	-	-
L. Non-current financial debt (I + J + K)	**131,521**	**129,165**
M. Net Financial Position (H + L)	**130,501**	**106,729**
IFRS 16 – Leases	(14,905)	(15,919)
Net financial position adjusted	**115,596**	**90,810**

As required by the above communication, the Group reports net liabilities for employee defined benefits of Euro 5,093 thousand (Note 16) and Provisions for risks and charges for Euro 13,844 thousand (Note 15).

GENERAL OVERVIEW

Climate change and the role of SIT

Climate change is transforming the world we live in. 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 took place simultaneously with trickle-down effects that are 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 combating 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 (decarbonization), 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.

Against this backdrop, at an operating level the new process of developing new products and solutions is inspired by the logic of eco-design, paying special attention to carbon footprint profiles and environmental impact in general. SIT has ensured its products are ready for the use of alternative fuel sources (primarily hydrogen and biomethane).

Over the long term, the Company is carefully monitoring the debate, particularly within the European Union, related to the technological transition towards food and energy, the outcome and impact of which on the Company's business are not currently foreseeable.

Business differentiation and market response strategies, in addition to responding to the risks inherent in transition processes, are therefore geared towards new "green" technologies. The Company is investing heavily in these areas by collaborating with major customers in technology partnership projects and diversifying its business into market segments that prioritize sustainability topics, such as controlled mechanical ventilation.

For more information on climate change, please refer to the appropriate risk section of this Report.

General economic overview

In 2022, the world economy was heavily influenced by geopolitical events in major countries. Instability resulting from the Russian invasion of Ukraine, US-China tensions in the Pacific Rim, increasing barriers to international trade, and supply difficulties for production chains caused price shocks in energy and all commodities, which in turn led to repeated interest rate hikes by central banks in response to rising inflation.

GDP movements	2022	2021
Italy	3.7%	6.6%
Euro	3.5%	5.3%
USA	2.1%	5.9%
China	3.0%	8.1%

US GDP grew 2.1% in 2022, which is slower than the post-pandemic rebound of 2021 but still represents expansion. The trend in GDP for the second half of the year offset the contraction of the first half, thereby surpassing expectations and lessening fears of a recession.

China's GDP posted growth of 3% in 2022, the slowest rate in over 40 years. This weak performance was due, above all, to the impact of the country's "zero-tolerance" COVID policy, as well as to the collapse of the real estate market and weak foreign demand.

GDP for the euro area rose 3.5% on 2021. The performance of Europe's main economies was in line with the average for the continent.

In 2022, Italy's economy posted marked growth, but at a rate slower than in 2021. GDP growth (+3.7%) was driven by domestic demand, while foreign demand and changes in inventory had a negative impact. In terms of the supply of goods and services, value added grew in construction and many service sectors, while contracted in agriculture. The ratio of net public debt to GDP improved over 2021.

In 2022, production in the mechanical engineering segment posted inconsistent performance, both year on year and on an intra-annual basis, resulting in a 0.4% drop in production compared to 2021, essentially in line with the trend for the manufacturing industry as a whole (-0.3%). The levels of production reached in 2022 were buoyed by exports, which grew 14.4% from 2021, while imports grew 19.7%. The trend in energy prices continued to have an impact on production costs and on the mechanical engineering segment as a whole, which is the leading consumer of metals. In 2022, production costs increased 12.3% year on year.

Sources: ISTAT, Eurostat, Il Sole 24 Ore, Federmeccanica

ECONOMIC PERFORMANCE

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

SIT obtains EcoVadis' Silver sustainability rating

In January 2022, the Company was awarded a "Silver" rating by EcoVadis, an international rating agency that measures companies' corporate social responsibility (CSR) 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.

SIT obtains MID certification for commercial 100% hydrogen gas meter

In March, SIT, Through its subsidiary Metersit, obtained Measuring Instrument Directive (MID) 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., is valid in Europe and in the UK and also recognised 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.

SIT agrees loan with Cassa Depositi e Prestiti

Finally, in March 2022, SIT obtained 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.

SIT agrees loan with Unicredit

On May 31, 2022, SIT completed a bilateral funding transaction with Unicredit for Euro 10 million and with 3 years amortising maturity. The transaction was supported by an EIB - European Investment Bank guarantee, with the purpose of supporting the company's growth and working capital investment.

SIT launches campaign to support Ukrainian children

As part of the 'SIT People for Ukraine' campaign to support the Ukrainian people, SIT launched an initiative that enabled the group's more than 2,500 employees to donate up to eight hours worktime to facilitate family reunifications for Ukrainian children. The value of workers' donations was doubled by SIT and the entire amount donated to the non-profit CONADI - National Council for Child and Adolescent Rights Association. The initiative launched by the SIT group in Italy drew support from the subsidiaries SIT Netherlands, Portugal's Janz and SIT Romania, providing a framework for the international mobilisation of solidarity toward Ukraine.

SIT presents "Made to Matter - Our commitment to making the difference" - the Sustainability Plan to 2025

On May 4, SIT presented via web streaming the Sustainability Plan 2025, approved by the Board of Directors on December 17, 2021. The plan includes financial resources (Capex/Opex) in excess of Euro 8 million, with more than 50 initiatives and projects, involving all areas of the company, and contributes to the achievement of 11 Sustainable Development Goals of the UN 2030 Agenda. As part of the plan, SIT forecasts a reduction in Co2 production and the installation of new photovoltaic systems to increase the energy used by the company from renewable sources by 12% (+18% for the Italian energy-intensive plants).

The plan presentation with full details is available at www.sitcorporate.it/sostenibilità

SIT obtains Carbon Footprint certification

In June 2022, SIT obtained certification of its Product Carbon Footprint Management System (CFP Systematic Approach) from Bureau Veritas Italy. This certification guarantees the effectiveness of SIT's systematic approach to product life cycle analysis, on a cradle-to-gate basis in line with the standards set out in ISO 14067:2018. Such a systematic approach in fact makes it possible to calculate emission values related to the individual products offered, but also to perform scenario simulations on products under development in order to adopt the optimal technical, production and logistic solutions from a CFP perspective.

The process of measuring product emissions, based on the systematic approach, is thus an officially recognized tool and has become an asset of the company, available to support the achievement of emission reduction targets.

SIT ranks second in the Integrated Governance Index 2022

The Integrated Governance Index is a quantitative index developed by ET Group that measures the level of integration of Sustainability into Corporate Governance. The 2022 survey, now in its seventh edition, was conducted on a panel of approx. 300 companies, divided into three categories: the top 100 companies by stock market capitalisation, other listed companies (Non Top 100) and the top 50 unlisted industrial companies in the Mediobanca rankings.

The results of the Integrated Governance Index 2022 were presented on June 15, 2022 at the ESG Business Conference, where SIT ranked second in the Non Top 100 category, winning the title of Leader in its category.

SIT unveils 100% hydrogen boiler with its customers at Milan trade show

In June, the 100% hydrogen boiler with SIT technology was presented at the Mostra Convegno Expocomfort (MCE) in Milan. At one of the major sector fairs, SIT presented "Alteas 100% hydrogen ready”, the new Ariston-branded boiler with zero carbon dioxide emissions thanks to the 100% use of hydrogen. The boiler was made with "made by SIT” combustion control systems that allow zero emissions thanks to the use of green hydrogen.

This is another tangible sign of SIT's commitment to combining market expectations with environmental sustainability as part of the energy transition, particularly with a view to accelerating the decarbonisation of residential heating appliances such as boilers.

SIT was selected by Italgas to design the smart meters of the future

It was chosen to design Italgas Reti's next-generation smart meters through the Group's subsidiary Metersit. Metersit will develop the product from thermo-mass technology, in which it is a world leader, allowing accurate measurement in any conditions, without the need for external conversion devices, as is now the case with other technologies. Accuracy in consumption measurement is guaranteed for a variety of uses: natural gas, biomethane and hydrogen, both pure and "blended" with natural gas blends.

In addition to its design, a field test phase of at least 12 months is planned with the installation of 10 thousand meters across Italy. The overall duration of the project and testing will be approx. 24 months.

New smart and metering solutions for both water and gas meters were presented at Enlit Europe 2022.

At one of the largest conference and exhibition events dedicated to the energy ecosystem, held between November 29 and December 1, SIT showcased its new line of Janz-branded smart water meters for the water metering sector. The new range combines the expertise in electronics and communication technology of Metersit, a Group company that specializes in smart gas metering, with the water metrology expertise of Janz, a company specializing in water metering that was acquired by SIT in 2020.

The new range, which allows meters to be connected to utility smart grids, thus enabling better grid management and waste reduction, consists of:

- "eRegister," a fully integrated meter that combines volumetric metrology, Janz's area of expertise, with communication technology in a single product;
- an "add-on radio module", which enables Janz's traditional mechanical meters to communicate measurements, effectively turning them into smart meters;

Both solutions combine the most widely used communication protocols and technologies on the market and can be connected to the proprietary IoT application "MyWater" or customer applications.

For smart gas meters, Metersit has launched two new solutions:

- "Domusnext Vision", a cutting-edge meter designed for both residential and commercial applications. It introduces significant advancements to the market, including dual "NB-IoT" and "Wireless Mbus" communication, an anti-fraud system, remote anomaly and leak detection through artificial intelligence, and the capability to measure the percentage of hydrogen present, thus allowing utility providers to effectively manage gas blends with reduced carbon content;

- A new version of "Domusnext MMU6", which can measure natural gas and hydrogen blends of up to 23%.

SIT signs up to the United Nations Global Compact

In November 2022, SIT joined the United Nations Global Compact, the world's largest corporate sustainability initiative, with over 18,000 companies and organizations present in 160 countries. This is a voluntary leadership platform for the development, introduction and communication of sustainable business practices consistent with the Sustainable Development Goals (SDGs) set by the United Nations 2030 Agenda.

As a member of the UN Global Compact, SIT is committed to aligning company operations with the UN Global Compact standard so that its ten principles become part of strategy, culture and daily operations, publicly supporting UN Global Compact and its principles through official media, and communicating progress and achievements to its stakeholders through an annual Communication On Progress (COP).

Participation in the United Nations Global Compact is further confirmation of the Group's commitment to contributing to the United Nations 2030 Agenda's Sustainable Development Goals (SDGs), adopting a broad vision and international comparison in enacting the 2025 "Made to Matter" Sustainability Plan.

Strategic partnership to produce ultrasonic smart water meters for residential use announced.

SIT and GWF, a pioneer in advanced metering infrastructure technologies, have entered into a strategic partnership to develop, produce, and distribute ultrasonic smart water meters for residential applications.

Through its subsidiaries Metersit and Janz, SIT and GWF have joined forces to help water utility customers and local municipalities increase efficiency and accelerate their sustainability strategies at the best total cost of operation through the use of high-performance smart water meters.

GWF's contribution to the partnership consists of innovative and patented expertise in "4D technology®," a high-performance ultrasonic signal processing technology with a robust mechanical design. Thanks to its experience installing more than seven million smart gas meters, SIT contributes relevant knowledge in communication technologies to the partnership. The collaboration will also benefit from SIT's expertise in the mass production of high-precision components and its access to a global supply chain.

Based on complementary skills and extensive experience in the water industry, the partners will create a joint venture dedicated to the development and production of high-performance, cost-competitive, and sustainable meters. To ensure maximum quality and scalability at optimized costs, the companies will jointly build state-of-the-art production and testing facilities in Portugal and Switzerland.

SIT acquires stake in UpSens (Optoi Group), an innovative SME developing air quality monitoring sensors

In December, through a share capital increase, SIT acquired a 10% stake in UpSens, an innovative SME based in Trento and belonging to the Optoi Group, specialising in the development of devices for monitoring indoor environmental parameters, both in standard and custom versions, with specific expertise in air quality.

Major synergies will arise from the collaboration between SIT and UpSens in the area of air quality solutions, particularly in the VMC (Controlled Mechanical Ventilation) segment. VMC solutions enable air exchange and filtration and, through heat exchange between the outgoing and incoming air, improve the thermal efficiency of buildings. SIT is already a supplier of control electronics for the VMC segment and plans to further expand its range over the coming years. The partnership with UpSens is part of this strategic development path for the segment, with expectations of approx. 3 million systems installed in Europe in 2026, triple those currently installed.

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)	2022	%	2021	%	diff	diff %
Heating	315,338	80.2%	298,251	78.4%	17,087	5.7%
Metering	72,516	18.4%	76,913	20.2%	(4,397)	(5.7%)
Total sales	387,854	98.6%	375,164	98.6%	12,689	3.4%
Other revenues	5,451	1.4%	5,357	1.4%	94	1.8%
Total revenues	**393,305**	**100%**	**380,521**	**100%**	**12,784**	**3.4%**

Revenue by region

(Euro.000)	2022	%	2021	%	diff	change %
Italy	99,452	25.3%	106,992	28.1%	(7,540)	(7.1%)
Europe (excluding Italy)	169,396	43.1%	167,497	44.0%	1,899	1.2%
The Americas	85,481	21.7%	74,241	19.5%	11,240	15.1%
Asia/Pacific	38,976	9.9%	31,791	8.4%	7,185	22.6%
Total revenues	**393,305**	**100%**	**380,521**	**100%**	**12,784**	**3.4%**

2022 consolidated revenues were Euro 393.3 million, up 3.4% on 2021 (Euro 380.6 million). Q4 2022 consolidated revenues totalled Euro 102.9 million, increasing Euro 8.6 million or 9.1% on the same period of the previous year (Euro 94.3 million).

Heating Division sales in 2022 amounted to Euro 315.3 million, +5.7% compared to Euro 298.3 million in 2021 (+2.4% at like-for-like exchange rates). In the fourth quarter, the division's core sales rose 4.1% to Euro 80.5 million, compared with Euro 77.4 million in the same period of 2021.

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

(Euro.000)	2022	%	2021	%	diff	change %
Italy	56,116	17.8%	55,682	18.7%	434	0.8%
Europe (excluding Italy)	138,022	43.8%	140,078	47.0%	(2,056)	(1.5%)
The Americas	82,839	26.3%	72,025	24.1%	10,814	15.0%
Asia/Pacific	38,361	12.2%	30,467	10.2%	7,894	25.9%
Total sales	**315,338**	**100%**	**298,251**	**100%**	**17,087**	**5.7%**

Italian sales were substantially in line with 2021 at Euro 56.1 million (Euro 55.7 million in the previous year). The Catering segment performed strongly with growth of Euro 1.4 million, (+34.7%), while Direct Heating sales rose Euro 0.6 million (+8.1%), thanks particularly to Space Heaters; Central Heating saw a contraction of Euro 1.8 million (-5.3%), particularly due to the contraction of Integrated Systems (Euro -1.9 million, -45.1%) and electronics (Euro -0.6 million); Fans grew Euro 1.0 million overall (+12.1%), recovering the delays suffered in the initial months of the year due to component shortages.

Sales in Europe (excluding Italy) in 2022 decreased Euro 2.1 million (-1.5%) on the previous year. Turkey, the top shipping market with 12.1% of division sales, grew 7.9% on 2021, particularly in the Central Heating segment, while the UK, accounting for 6.4% of division sales, contracted 9.5% in the Central Heating segment, mainly due to the family of Flues products. Central Europe remains strong, thanks to the introduction of new products, up Euro 3.9 million on 2021 (+8.1%). The Russian market, in terms of sales made before July 10, 2022, the date on which the Heating product sanctions entered into force, accounted for 3.0% of division sales (Euro 9.4 million).

Sales in the Americas rose 15.0% (+3.6% at like-for-like exchange rates), thanks to fireplaces growth of Euro 5.9 million (+15.6%) and the Central Heating electronics performance, which reported growth of Euro 5.1 million (+50%) on 2021; the Storage Water Heating applications contracted 12.3% (Euro 2.7 million).

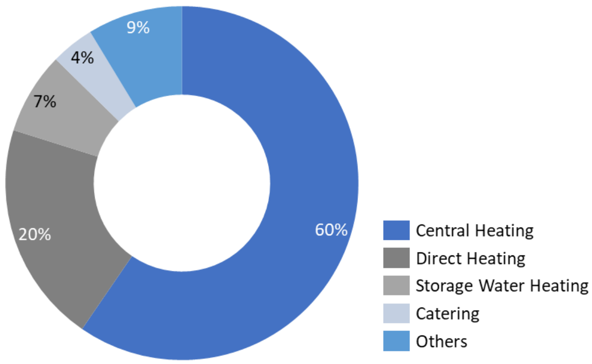
Asia/Pacific sales were up 25.9% (+20.0% at like-for-like exchange rates) to Euro 38.4 million (Euro 30.5 million in 2021). Growth was reported in China (7.6% of the division), up 22.7% (+Euro 4.4 million) as a result of the Central Heating retail market recovery, and in Australia - improving Euro 1.1 million (+15.7%).

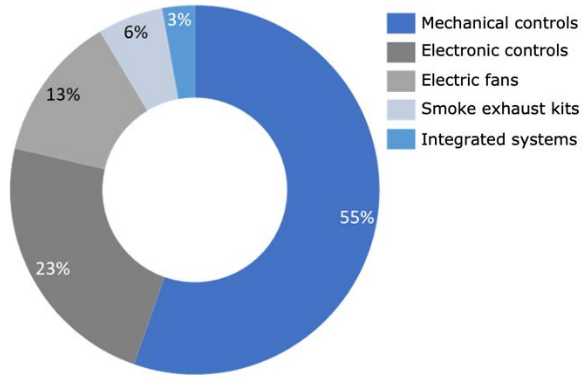
Looking at the main product categories, we note a rise in the sales of Electronic Controls (+33.7%, Euro 18.5 million) and Fans (+9.0%, Euro 3.3 million). These product categories benefited from the normalization of the supply chain, which had previously affected their sales in 2021 and the first half of 2022. The mechanical controls segment shows no significant change from the previous year, whereas the Flues and Integrated Systems segments experienced a decline of 16.3% and 14.5%, respectively.

At the application segment level, Central Heating accounted for 59.6% of division sales, increasing 5.5%, while Direct Heating (20.3% of the division sales) rose 8.6% due to the strong fireplaces market in the USA and for applications sold in Italy.

In relation to the main clients of the Heating Division, 33.1% of 2022 sales were from the top five clients, while accounting for 33.5% in the previous year.

The following charts break down 2022 Heating sales by product family and application (data from management sources):





Metering Division sales were Euro 72.5 million (Euro 76.9 million, reducing 5.7% on the previous year).

In 2022, sales in the Smart Gas Metering sector totalled Euro 48.4 million, reducing 15.4% on 2021. This performance reflects the curve for the initial installation of smart meters on the Italian market, of which more than 80% have now been replaced. Sales in Italy accounted for 92.5% of the total, while overseas sales accounted for 7.5% (from Greece, Central Europe, the UK and India).

In terms of the main Smart Gas Metering division clients, 55.6% of sales in 2022 were from the top 3 clients, while accounting for 61.6% in the previous year.

Water Metering sales totalled Euro 24.2 million, up 22.2% on 2021. Portugal accounts for 24.6% of sales, Spain for 30.0%, the rest of Europe for 32.5% and America and Asia respectively for 7.0% and 6.0%.

Operating performance

2022 consolidated revenues were Euro 393.3 million, up 3.4% on 2021 (Euro 380.5 million).

Purchase costs of raw materials and consumables, including changes in inventories, amounted to Euro 213.7 million (54.3% of revenues, compared to 52.4% in 2021) and reflects rising raw material costs as a result of inflation and of the shortages of electronic components and the consequent need to turn to alternate supply channels in order to ensure service levels to our customers.

Service costs in 2022 totalled Euro 52.3 million, compared to Euro 48.4 million in the previous year (respectively 13.3% and 12.7% of revenues). The increase reflects higher transport costs (Euro 1.7 million, +16.0%) due to procurement policies implemented and the direct impact of rising energy costs; the increase in legal and administrative consultancy (Euro 0.6 million; +9.1% on 2021); ordinary maintenance expenses (Euro 0.6 million, +15.5%), and travel expenses (Euro 0.3 million; +46.1%).

Personnel expense totalled Euro 80.2 million (reducing Euro 1.8 million), accounting for 20.4% of revenues (21.5% in 2021), in particular due to the variable component such as temporary labour and the decrease in MBO bonuses.

Amortisation, depreciation and write-downs of Euro 27.8 million rose on the previous year (Euro 26.9 million), due to the increase in new investments in the previous period and the new operating leases recognised as per IFRS 16.

Provisions for risks amounted to Euro 8.7 million following an out-of-court settlement signed at the beginning of 2023 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.

2022 Consolidated Adjusted EBITDA (therefore net of non-recurring charges) was Euro 47.1 million (12.0% margin), decreasing 8.0% on Euro 51.2 million (13.5% margin) in 2021.

2022 Group EBIT totalled Euro 10.6 million (2.7% margin), with Adjusted EBIT of Euro 19.4 million (4.9% margin). EBIT in 2021 was Euro 24.3 million (6.4% margin).

Net financial income of Euro 4.5 million was reported in 2022, due to the positive effect from the change in the fair value of the SIT warrants, settled in Q3, with a positive impact of Euro 8.7 million. Adjusted net financial charges amount to Euro 4.2 million (1.1% of revenues), compared to Euro 3.7 million in the previous year (1.0% of revenues).

The pre-tax profit was Euro 13.6 million (3.4% revenue margin), compared to Euro 11.7 million (3.1% margin) in 2021.
The net profit was Euro 11.2 million (2.9% margin), compared to Euro 8.2 million in 2021, which included the positive impact of the extraordinary tax income of Euro 1.7 million relating to the Patent Box.
Net of non-recurring charges and income, the adjusted net profit in 2022 was Euro 10.9 million, compared to Euro 16.3 million in the previous year (2.8% and 4.3% margin respectively).

Cash Flow performance

The net financial debt at December 31, 2022 was Euro 130.5 million, compared to Euro 106.7 million at December 31, 2021. The movements in the net financial position are reported below:

(Euro.000)	Dec 31, 22	Dec 31, 21
Cash flow from current activities (A)	46,372	52,177
Change in inventories	(19,730)	(13,036)
Change in trade receivables	(6,715)	9,910
Change in trade payables	(675)	7,890
Change in other current assets and liabilities and for taxes	(5,514)	(3,685)
Cash flow from changes in Working Capital (B)	(32,634)	1,079
CASH FLOW FROM OPERATING ACTIVITIES (A + B)	**13,738**	**53,256**
Cash flow from investing activities (C)	(26,883)	(26,058)
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)	**(13,145)**	**27,198**
Interest	(3,327)	(3,666)
Dividends	(7,299)	(6,890)
Acquisition of treasury shares	(599)	(3,912)
Equity changes	857	44
FV derivative changes	2,062	562
IFRS 16	(1,963)	(2,991)
Other	(360)	(1,053)
Change in net financial position	**(23,774)**	**9,292**
Opening net financial position	**106,729**	**116,021**
Closing net financial position	**130,501**	**106,729**

Cash flows from operating activities of Euro 46.4 million were generated in the year, with an absorption as a result of the increase in working capital of Euro 32.6 million, of which Euro 19.7 million due to increased inventories on the basis of the electronic component procurement policy to offset the impact of shortages and maintain service to customers. The trend in trade receivables for the year, absorbing Euro 6.7 million, reflects the increase in sales in the fourth quarter of the year, particularly within the Smart Gas Metering division.

Investing activities absorbed cash of Euro 26.9 million, compared to Euro 26.1 million in 2021.

Cash flows from operating activities after investments of Euro 13.1 million were therefore absorbed, compared to a generation of Euro 27.2 million in 2021.

Financing activity cash flows in the year included interest of Euro 3.3 million and dividends of Euro 7.3 million, in addition to the purchase of treasury shares for Euro 0.6 million; the IFRS 16 impact was Euro 2.0 million, while the fair value of hedging derivatives improved Euro 2.1 million.

The net financial position at December 31, 2022 was Euro 130.5 million, increasing Euro 23.8 million on December 31, 2021 (Euro 106.7 million).

Investments

In 2022, the Group invested Euro 27.1 million, of which Euro 10.2 million to refurbish the headquarters and build new R&D labs at the Padua office. Of the remaining investments, Euro 14.4 million (85.2% of the total) was in the Heating Division, Euro 1.8 million (9.0% of the total) in the Smart Gas Metering Division and Euro 0.7 million in the Water Metering Division. Total investments in 2021 amounted to Euro 24.7 million.

In the Heating Division investments essentially related to plant maintenance (Euro 5.2 million), the renewal of die-casting moulds (Euro 3.4 million), increase in production capacity (Euro 1.6 million) and new product development (Euro 1.3 million).

Investment in Smart Gas Metering was essentially for new product development (Euro 1.4 million or 80.5% of the divisional total), of which Euro 1.1 million related to development costs for two specific projects (i.e. Smartio, for development of the ultrasonic flow meter, a project led by Metersit, and the design of a new platform for one of our main clients). 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 2022 mainly regarded the maintenance of existing plants (Euro 0.5 million, 75.9% of the division's total).

RESEARCH, DEVELOPMENT AND QUALITY CONTROL

In 2022 the Group incurred research and development costs for a total of Euro 13.6 million, equivalent to 3.5% of revenues, compared to Euro 12.5 million in the previous year (3.3% of revenues).

In 2022, the research and development area had an average workforce of 124, including 79 located at the Parent Company. In 2021, these numbered 120 and 79 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 seeks to provide its customers with innovative solutions that enhance efficiency and expedite their sustainability strategies at the most favourable total cost of ownership, while ensuring a rapid time-to-market.

In recent years, the Group has progressively incorporated sustainability into its approach to product development and innovation. This encompasses product specifications, performance and usage, consumption, and emissions. Additionally, it applies the principles of eco-design, which consider the environmental impact from the initial concept and design stages to the entire product life cycle and its eventual disposal.

The product development procedure was updated in 2022 to include Product Carbon Footprint of analysis during the early stages of design. In this way, SIT systematically evaluates design alternatives from a life cycle assessment perspective, taking CO_2 emissions into consideration alongside technical and economic aspects throughout the product development, production, and life cycle stages. Circular economy principles are also gaining traction through the minimization of material consumption and selection of materials with lower environmental footprints or recycled alternatives. We note that all die-cast bodies used in mechanical controls are sourced from secondary aluminium, and ongoing projects are exploring the use of recycled plastics. Furthermore, we are currently assessing the possibility of launching a packaging reuse project in collaboration with a major customer.

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 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 2022, 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 Electronics, new products continue to be developed with the aim of improving SIT's presence, in particular in the form of co-development projects with its main clients focusing on remote control, colour touchscreen control panels, integration of devices into BMSs (Building Management Systems) and Home Automation (integration with Amazon Alexa and Google Home) systems.

In 2022, we placed significant emphasis on projects to integrate sensors with different technologies into flow detection applications for adaptive gas and hydrogen-operated applications, including both blended and pure hydrogen. Our development roadmap now encompasses a wide range of products applicable to both residential and professional appliances, including those with high modulation performance, such as the Electronic Combustion Management System (e-CMS).

As part of our sensor initiatives, we acquired a 10% stake in UpSens, a Trento-based innovative SME belonging to the Optoi Group. UpSens specializes in developing devices for monitoring (standard and custom) indoor environmental parameters, with specific expertise in air quality. Major synergies will arise from the collaboration between SIT and UpSens in the area of air quality solutions, particularly in the VMC (Controlled Mechanical Ventilation) segment. VMC solutions enable air exchange and filtration and, through heat exchange between the outgoing and incoming air, improve the thermal efficiency of buildings. SIT is already a supplier of control electronics for the VMC segment and plans to further expand its range over the coming years.

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, hydrogen 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 program is part of the United Kingdom's national "heating decarbonization" plan, which evaluates the use of hydrogen appliances as a means of reducing CO_2 emissions. BOSCH applications and Metersit meters are currently being used in pilot projects, such as the hydrogen villages in Gateshead, UK. These projects align with the government's new policy, which seeks to refinance them.

In June 2022, the 100% hydrogen boiler with SIT technology was presented at the Mostra Convegno Expocomfort (MCE) in Milan, one of the principal industry trade fairs, developed for the client Ariston, "Alteas 100% hydrogen ready". The boiler was made with "made by SIT" combustion control systems that allow zero emissions thanks to the use of green hydrogen.

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

In 2022, the Metering Division's research and development activities created economies of scope and synergies to pool research activities of the Smart Gas Metering Division and the Water Metering Division, leveraging the specific distinctive competencies. Joint development activities have begun for the residential product range, especially in electronics and communication.

Our latest platform for the UK smart gas metering sector (MMU6 PT3) has successfully obtained all the necessary product certifications, complying with SMETS 2, ZigBee, and UKCA regulations. The product boasts a dual battery, dual-band communication and a new thermo-mass sensor that can measure hydrogen consumption, and is currently being tested by major local customers.

In 2022, Italgas Reti asked SIT to design its next-generation smart meters through the Group’s subsidiary Metersit. Metersit will develop the product from thermo-mass technology, in which it is a world leader, allowing accurate measurement in any conditions, without the need for external conversion devices, as is now the case with other technologies. Accuracy in consumption measurement is guaranteed for a variety of uses: natural gas, biomethane and hydrogen, both pure and "blended" with natural gas blends. The new meter, which will be launched in 2023, incorporates innovative sensor technology that can analyse potential pressure losses in pipelines and detect seismic activity.

Metersit has also launched two new solutions:

- “Domusnext Vision”, a cutting-edge meter designed for both residential and commercial applications. It introduces significant advancements to the market, including dual “NB-IoT” and “Wireless Mbus” communication, an anti-fraud system, remote anomaly and leak detection through artificial intelligence, and the capability to measure the percentage of hydrogen present, thus allowing utility providers to effectively manage gas blends with reduced carbon content;
- A new version of “Domusnext MMU6”, which can measure natural gas and hydrogen blends of up to 23%.

During Enlit Europe 2022, one of the largest conference and exhibition events dedicated to the energy ecosystem, Janz showcased its new line of smart water meters for the water metering sector. The new range combines Metersit's expertise in electronics and communication technology with Janz's water metrology expertise.

The new range, which allows meters to be connected to utility smart grids, thus enabling better grid management and waste reduction, consists of:

- "eRegister," a fully integrated meter that combines volumetric metrology, Janz's area of expertise, with communication technology in a single product;
- an "add-on radio module", which enables Janz's traditional mechanical meters to communicate measurements, effectively turning them into smart meters;

Both solutions combine the most widely used communication protocols and technologies on the market and can be connected to the proprietary IoT application "MyWater" or customer applications.

SIT and GWF, a pioneer in advanced metering infrastructure technologies, have entered into a strategic partnership to develop, produce, and distribute ultrasonic smart water meters for residential applications.

Through its subsidiaries Metersit and Janz, SIT and GWF have joined forces to help water utility customers and local municipalities increase efficiency and accelerate their sustainability strategies at the best total cost of operation through the use of high-performance smart water meters.

GWF's contribution to the partnership consists of innovative and patented expertise in "4D technology®," a high-performance ultrasonic signal processing technology with a robust mechanical design. Thanks to its experience installing more than seven million smart gas meters, SIT contributes relevant knowledge in communication technologies to the partnership. The collaboration will also benefit from SIT's expertise in the mass production of high-precision components and its access to a global supply chain.

In 2022, 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 multijet 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 March - through its subsidiary Metersit - SIT was the first worldwide to obtain 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., is valid in Europe and in the UK and also recognised 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.

Quality

The 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 and 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. 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; in 2022 the testing areas covered were extended and international approval obtained. ISO 17025 certification for Metersit's laboratory as a calibration lab confirms the level of expertise achieved.

In response to the evolving European market, we initiated the process of certifying specific 100%-hydrogen product lines in accordance with GAR (Regulation 2016/426 EU) in 2023.

In 2022, 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.

Metersit confirmed 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.

During 2022, Metersit obtained MID - Measuring Instrument Directive certification for the Domusnext® 2.0 MMU40 H2 commercial meter issued by the "notified body" NMi Certin B.V., completing the certification process for its residential and commercial 100%-hydrogen meters.

In relation to JANZ, the company operating in the water metering sector, in 2022 positive confirmation was received for the ISO 9001:2015 and Production Quality Assurance (Module D of the MID Directive 2014/32/EU) certifications.

Janz's laboratory, dedicated to Water Meter and Linear Metrology, has obtained ISO 17025 certification, which complements its existing AS9100 certification, underscoring its high level of expertise and quality assurance standards.

HUMAN RESOURCES AND ORGANISATION

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

	2022 average	%	31/12/2022	%	2021 average	%	31/12/2021 at year end	%
Executives	40	1%	42	2%	39	1%	38	1%
White-collar	600	22%	626	24%	557	20%	584	21%
Blue-collar	1,801	66%	1,681	65%	1,892	69%	1,881	67%
Temporary	276	10%	233	9%	286	10%	311	11%
Total	**2,717**	**100%**	**2,582**	**100%**	**2,774**	**100%**	**2,814**	**100%**

At the reporting date:

- Metering Division had 383 employees, of whom 94 in Italy and 289 abroad; in 2021 there were 381 employees, of which 82 in Italy;

- at Group level, employees in Italy numbered 909 (35% of the total) while those based in other countries numbered 1,673 (65% of the total). In the previous year, these figures were 949 (34% of the total) and 1,865 (66% of the total), respectively.

Employer Branding

With the aim of attracting the very best talent, SIT has established strong and fruitful collaborative relationships with numerous Italian schools and universities and undertaken diverse projects and initiatives.

The Company has established contacts and collaborations with over 30 institutions, including research institutions and universities in Italy. It actively participates in events sponsored by the Career Services of renowned universities such as the University of Padua, the University of Calabria, the Polytechnic University of Bari, the University of Pavia, the University of Udine, and the University of Catania.

In 2022, a research project “Driving the transition of manufacturing firms towards customized, integrated solutions through smart product-service systems” continued, and is run in collaboration with the Department of Economic and Management Engineering, at the University of Padua.

In 2022, SIT opened the doors of its production plants to more than 50 students from vocational colleges in the province of Padua and Rovigo to show them the production process at SIT plants. SIT also took part in a project promoted by Confindustria titled “SME DAY - Let’s Get Industrial”. Its key themes were beauty, the art of “knowing how to do things well,” and how skills, value and culture are expressed in the Group’s precision products.

Great Place To Work

In 2022, the Group started the process of improving its working environment by engaging in employee listening activities through the “Great Place to Work” survey. The survey, conducted over a two-week period, was sent out to Italian employees and sought to gauge their level of trust and overall perception of the organization and its representatives. The initiative was supported by an extensive digital and traditional communication campaign, which was further strengthened by corner stands at production plants and training sessions conducted with department heads and the General Workers’ Representative Body (RSU). The campaign concluded with a presentation of the results. 69% of individuals participated in the initiative, allowing for strengths and areas of improvement to be highlighted. The survey found that one in two employees consider SIT to be a “Great Place to Work.”

Based on the results obtained, SIT is creating programs to improve working conditions and personal support, identifying them with the logo "SIT: towards the best place to work", which will identify all well-being initiatives for employees.

In line with the Group's long-standing commitment to these matters, the survey also facilitated an exploration of a Diversity & Inclusion index. This served to establish a comprehensive information framework for the development of a new Group policy on the subject.

People Attraction

SIT pays particular attention to its Employee Value Proposition (EVP), which essentially consists of the experience had by employees and potential candidates in the workplace. EVP is rated based on the company's intrinsic characteristics, its brand identity, its corporate culture and the relationship it has with its employees. The EVP is most explicitly expressed in the way SIT designs and manages its recruitment process: open, inclusion and without any forms of discrimination.

A new section called "Careers at SIT" was created on the company intranet dedicated to internal career opportunities (job rotations) and the candidate referral program. Through job rotations, SIT incentivizes professional development and encourages change by igniting ambition and offering new forms of stimulation to people who are ready to step into a new role. Nearly 60% of positions were filled through internal promotions and job rotations in 2022, solidifying SIT's focus on career plans and internal development.

SIT has created an onboarding program called the Employee Journey for all newly hired employees. The program is designed to progressively integrate individuals into the Company and create a welcoming and supportive opportunity to socialize within the organization. A large part of the onboarding program is dedicated to an induction plan, which underwent a redesign and was fully digitalized in 2022 through updates to the custom application on the company intranet. SIT's induction plan consists of a structured "journey" comprising multiple appointments referred to as stations. These stations are designed to engage all new hires in their first 90 days at the Company. At monthly and recurring meetings, newly hired employees have the opportunity to meet representatives from various company departments. This approach promotes early familiarity with the Company's structure and characteristics, fostering a welcoming environment and socialization.

Organizational Talent Review

During 2022, SIT began the process of redefining, measuring, and targeting its talent through an Organizational Talent Review (OTR) process. The goal of the OTR is to map the Company in terms of its organizational dynamism and to gauge the risks and impacts of personnel management choices. During the year, SIT defined the characteristics of its talent in focus groups involving 40 leaders, identifying a model for potential analysis and performance evaluation. The skills model was incorporated into an OTR evaluation survey to measure the potential and performance of white-collar employees. The data collection enables an evaluation of both current and prospective individual contributions to the organization.

Alongside the PxP (performance per potential) matrix, the OTR facilitated the identification of KPIs, assessing the growth potential of individuals within the organization. It also provided insight into potential risks and impacts associated with resignations, enabling the definition of effective retention and backup policies.

Compensation

SIT's compensation policies are designed to foster equal opportunities and cultivate a culture built on meritocracy, equality, and respect for diversity. These policies align with the broader objective of promoting sustainable personal development, while creating a positive, safe, and inspiring working environment. SIT remains dedicated to carrying out salary review initiatives that are guided by a meritocratic and objective approach. These initiatives seek to value the contributions of all employees, while adopting a reward logic based on performance and potential. Within its broader Total Rewarding strategy, compensation-related activities have been broken down into specific components:

- Benefits & welfare
- Base salary
- Short-term incentives (MBOs and performance bonuses)
- Long-term incentives (e.g., stability packs and LTIs)

Following the launch of a Job Levelling and Job Analysis project in 2021, in collaboration with a leading consulting firm in the Total Reward space, SIT commenced banding and grading activities in 2022. These efforts encompassed 50 employees considered to be crucial for the development and sustainability of the Company's operations in Italy and used the Global Grade System, a widely recognized methodology. The above activities laid the foundations for the tailored definition and adoption of a SIT-specific banding structure based on the Company’s characteristics and the unique qualities of its workforce, which guided the pay policies for the year.

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.

Welfare and well-being

In 2022, SIT strengthened its Welfare and Well-Being policies by paying special attention to safeguarding the physical and mental health of its employees, championing broadly accessible and inclusive initiatives that promote opportunities for balance and well-being. The initiatives have increased fringe-benefit purchasing power, facilitated a healthier work-life-balance, and fostered a climate of personal and professional health and well-being. In addition to the existing initiatives established in previous years, SIT has further enhanced its familial support through a partnership with the ISTUD Business School. This is a tangible benefit that provides children and siblings of employees with favourable access to the school's master's degree programs.

Welfare

The Company reaffirms its commitment to supporting the purchasing power of employees and their families by strengthening the on-top portion of its flexible benefits. These efforts complement the provisions outlined in national collective bargaining agreements and SIT's welfare portfolio, which has also been strengthened in recent years. Strengthening corporate welfare policies as a means of supporting families is a concrete sign of social responsibility, especially in the current social and economic context. Specifically, as part of its standardization and merit policies, SIT awarded an additional bonus to employees in the Rovigo Metering Division in 2022.

SIT employees have access to a welfare budget, which can be utilized through the Edenred platform. Operational since January 2022, this platform offers a diverse array of services, enabling employees to utilize their welfare credit for themselves and members of their household. During the year, a decision was made to expand the selection of services based on employee preferences, ensuring that the service offer remains tailored to their interests. The introduction of a "Health Insurance Fund" (Cassa Sanitaria) provides employees with the opportunity to seek reimbursement for various medical specialist expenses, including new categories of care, medication, and pharmacy expenses, and formerly ineligible medical devices. Additionally, the fund provides access to a wide network of contracted healthcare professionals throughout Italy. To assist with rising utility costs, employees can now also apply to have their household utility expenses reimbursed through their welfare portfolio.

Well-being

SIT maintains its commitment to safeguard the health of its workers by granting them the option to request leave for medical appointments, in accordance with the relevant regulations and provisions. This benefit was included in the additional agreements entered into locally in Italian production plants. More than 2,400 hours were used in 2022.

Within the framework of the SIT People Program, multiple projects were adopted to promote personal well-being, with the goal of fostering an understanding of cognitive and physical resources, in addition to emphasizing individual well-being and the central role of each person. The program consists of three categories of initiatives, with some starting in 2022: (i) Well-Being at the Company, which consists of a series of webinars led by experts in Yoga Coaching, Mindfulness, the Ability to Disconnect, and Positive Empowerment. The webinars seek to raise awareness about techniques and tools for physical and mental well-being. Around 100 individuals have participated in the program thus far. (ii) Well-Being in Action: at our Padua headquarters, two in-person Yoga courses were piloted after the working day on company premises. Over 30 employees have taken part thus far. (iii) Well-Being in Flow: starting in 2023, Well-Being in Flow will take the form of columns on topics such as sports, nutrition, and work, focusing on individual well-being.

Training

As part of its ongoing approach to improvement and growth, and in alignment with the achievement of corporate objectives, the Company has increased its investment in development and training initiatives. In 2022, training aligned even more closely with the hybrid working model. Employees were granted access to training opportunities in several formats: live, recorded, in-person, remote, and blended sessions, thus expanding their options for engagement, accessibility, and inclusion.

Training initiatives are both global in scope, with programs involving employees at the group level, and local, targeted more towards the needs of specific professions and contexts.

Analysis of training needs involved managers, with the goal of identifying their team upskilling and reskilling needs through a structured and widespread approach. In 2022, this process also made use of a newly established Training Committee, which is tasked with balancing and merging cross-departmental training needs and facilitating joint progress towards the development of shared skills. Thanks to these new delivery formats, more than 10,800 hours of training were delivered as part of the training plan, a 30% increase on the previous year.

In 2022, 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 Carbon Footprint Expert course commenced in 2021 and ended in September 2022, resulting in a nine-person team successfully obtaining GHG Verifier and Validator certification. During the year, nine Local ESG Engagement webinars were organized to promote the circulation and sharing of best practices when measuring and reporting on sustainability-related KPIs. These sessions were attended by 35 individuals in Italy and abroad.

We note that the Academy and Skills Mapping initiatives will be launched in 2022 within the Research and Development Department. Several employees put themselves forward to become internal trainers, sharing their specific knowledge and skills with colleagues from other departments. These training sessions have the objective of making the vast expertise possessed by the organization accessible to all and fostering a climate of professional recognition, collaboration, and knowledge capitalization. After assessing the relevant needs, training programs were organized with both internal and external trainers. These programs focused on developing technical and managerial skills, in addition to a self-efficacy and empowerment development program.

Finally, in 2022, SIT launched its Skills-Up Digital Academy for Italian white-collar employees and key figures overseas. This innovative platform allows employees to participate in modern, interactive training courses divided into sections within broader programs, which are available in both Italian and English. Three content categories have been developed within the digital academy: Corporate Culture, Personal Development, and Group Compliance. At December 31, 2022, nearly 400 active users had benefited from close to 2,000 hours of training.

At Group level, approximately 64,000 hours of training were delivered.

Labour/management relations

Through its personnel management policies, SIT has always promoted stable, continuous employment relationships, and contractual formulas that meet the flexibility needs of its employees.

For industrial relations management, SIT refers to the applicable legislation in each of the various States in which the Group's plants and commercial offices are located. The Company recognizes in trade union organizations the role of signatories of national collective bargaining agreements, and in their territorial representatives the natural counterparties for negotiations regarding economic, regulatory and employment matters and criticalities.

In 2022, SIT strengthened its industrial relations system by introducing a dedicated technical role within its organization - HR Industrial Relations Italy. The objective is to optimize work organization by improving the effectiveness of contractual tools. The results achieved indicate a positive outcome of this initiative, meeting both the needs of the business and the demands of trade unions.

Digital and Lean transformation

In 2022, SIT continued on its long-term digital and lean transformation plan. The plan consists of two coordinated, integrated projects based on:

- continuous review and improvement of processes
- use of integrated digital technologies
- increased customer value added and elimination of waste
- enhancement of workers' skills and professional and organisational development.
- the design and introduction of new business models with more customer service content (servitization).

The development of an e-commerce platform began in 2022. Its initial focus will be to manage the aftermarket. This platform will serve as a digital enabler, providing customers with a dedicated web page where they can access their order history, benefit from personalized promotions, and stay informed about marketing initiatives and content. It is essentially an improved service that offers users the possibility of access at any time from any device. It can also be used to promote and market new services, and provide after-sales support.

In the era of digital transformation, Augmented Reality represents an innovative and promising solution capable of revolutionizing business processes from a sustainable perspective.

Augmented reality is essentially an extension of a user's environment, which is enriched in real time by overlaying digital information, such as text, graphics, and multimedia content. By leveraging wearable devices and real-time video streaming, this technology enables seamless visual interaction between two or more users. This innovative approach allows individuals, including those without specialized skills, to effectively carry out operations while keeping their hands free. At the same time, this technology reduces the need for travel, thus positively impacting the CO_2 emissions of transportation vehicles, in addition to travel costs.

This technology is currently employed for a range of activities at SIT, including remote customer support, intercompany collaboration and training, and audits. In 2022, approximately 30% of audits conducted at overseas production plants utilized the augmented reality platform and smart glasses, eliminating the need for travel while enabling prompt action and contributing to environmental sustainability.

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 activities are being implemented:

- extension of a system of common KPIs at all plants, making them comparable and facilitating budgeting and localization policies;
- strengthening 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;
- utilisation 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;

In 2022, significant focus was placed on rolling out the Lean Transformation project to the Janz plant in Portugal. This expansion resulted in the adoption of at least 20 improvement initiatives, accompanied by a significant overhaul of the production planning system.

RISK MANAGEMENT POLICY

The Enterprise Risk Management (ERM) process is an integral part of the Group's Internal Control and Risk Management System (ICRMS) and is carried out on a half-yearly basis, according to a consolidated model (Enterprise Risk Model) that provides for a Group-wide risk assessment, over a time period consistent with the Company's multi-year strategic plan, with the involvement of the main departments/corporate functions. Risks are assessed according to impact/probability parameters established according to a matrix (Risk Scoring Scale) that allows them to be divided into majors and minors. This 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 Strategic Plan.

The current model includes the following macro-categories of risks:

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

Beginning in 2022, specific analysis was also undertaken on potential risks related to the achievement of goals related to the Group's Sustainability Plan ("Made To Matter"), and more generally aspects related to Environment, Social and Governance (ESG) issues. These risks are therefore displayed in a new category (ESG Risks) for the purposes of coordination with the Group’s NFS.

In accordance with the model described above, in 2022 the following activities were undertaken:

- risk assessment - aimed at identifying and assessing new and emerging risks, as well as establishing appropriate "mitigation plans" where deemed necessary;
- follow up - aimed at updating the assessment of impact / probability of the risks identified in the previous sessions, including on the basis of the progress of related "mitigation plans".

The results of ERM activities were first presented to the Risk Control and Sustainability Committee and the Board of Statutory Auditors, and then to the Board of Directors, so that the Board of Directors may use them as a key tool in establishing risk management guidelines and coordination, as required by the ICRMS.

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 start-up of operations in Tunisia exposed the Group to a new risk created by the country's political and institutional instabilities, combined with the economic crisis exacerbated by the pandemic. In this context, the business community continues to demonstrate a highly positive attitude towards the Group's initiative. The project has been recognized as one of national interest by the TIA (Tunisian Investment Authority), and to date, operations have remained unaffected by any negative impacts. In any case, 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.

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.

The Group does not hold direct investments in the two countries. Commercial coverage of the Group's Heating Division is guaranteed by local distributors. Sales made before July 10, 2022, the date on which the Heating product sanctions entered into force, totalled Euro 9.4 million, accounting for 3.0% of division sales. This marked a decrease of approximately 35% compared to the previous year. At December 31, 2022, outstanding receivables amounted to 55 thousand, which were fully collected in January 2023.

In terms of supplies, the production of electronic boards for the Heating sector continues on schedule at the facility of a US multinational supplier located in Ukraine near the western border; in 2022, the Division reduced these purchases and in order to reduce operating risks and business continuity, the Group decided to commence an insourcing plan for electronic boards which is proceeding on schedule.

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. In 2022, particular emphasis was placed on external partnerships aimed at accessing specialist resources and accelerating the development of new products. Of particular importance in this regard are the strategic agreement with a leading player in the water metering sector aimed at creating a joint venture for the development and production of an ultrasonic flow meter and the agreement to acquire a minority interest in a startup in the air sensors sector.

The consolidated policy continues of partnership with leading universities and research centres, but also the major project involving the construction of new research laboratories is almost complete: they will be operative in the initial months of 2023.

Please make reference to the section titled ESG Risks – Climate Change for a comprehensive description of the management policies adopted with regard to innovation risks arising from the energy transition.

Operating risks

Supply chain

In recent years, global events such as the pandemic, the recovery of the economy after the pandemic (of varying degrees around the world), the geopolitical instability brought about by Russia's invasion of Ukraine, and the tensions between the USA and China in the Pacific Rim, renewed inflation caused in part by the crisis in Russian gas, and the energy transition, have once again emphasized the importance of the structure and management of the supply chain for companies.

Given the impacts that could disrupt the current paradigm of global supply chains reliant on comparative and highly flexible cost advantages, we must consider devising adequate management strategies and risk mitigation policies that facilitate the establishment of a new supply chain. A strategy that seeks to procure services, materials and components at the right price, in the right time frame, and at high levels of quality, while promoting an ethical and sustainability-oriented environment, in addition to supporting the development of stable relationships, and promoting safety, innovation and technological development throughout the value chain.

In 2022, we further strengthened our structured supplier management process by applying ESG criteria to the supplier engagement, evaluation, and selection stages. Structurally, the objective is to increase its contractual coverage of suppliers in pursuit of more transparent and clearer relations, in line with SIT's Ethics Code.

During 2022, there was a shortage of electronic components that could only be procured by resorting to alternative channels such as brokers, resulting in significant extra costs that could not be fully passed on to customers, with a consequent impact on the Group's results. The year also featured significant inflation, which affected the cost of production factors. The phenomenon impacted several commodity categories, specifically electronic components, batteries, certain industrial metals including steel, and packaging in general. The indirect impact of increased energy costs along the supply chain and its subsequent effect on all purchasing categories should not be underestimated.

Currently the shortage of electronic components for 2023 appears under control, however, there remains a possibility that a hypothetical shortage and/or significant fluctuations of the price of purchasing the materials concerned could in future have an adverse effect on the Company's business, financial performance, financial position, operating results and outlook.

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.

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.

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).

Please make reference to the Research and Development and Quality Control Activities section for a more detailed explanation of the activities carried out during the year.

Legal and compliance risks

Compliance with laws and regulations

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.

Contractual risks

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

During 2022, the Company worked with its insurance broker to continue updating its assessment of the types of risks deemed relevant for insurance purposes and the insurance coverage opportunities offered by the market.

In particular, all Group companies insurance policies were renewed for the coverage of the principal risks such as: third party and employee civil liability; product liability; directors, statutory auditors, executives and managers liability; 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. Other policies have been taken out locally to protect specific local needs and/or regulations.

ESG risks

Climate Change

The risk pertains to the potential consequences of climate change on SIT's activities, assessed from a dual materiality perspective.

On the one hand, the Company's business development needs to take into account the potential impacts of increasing global temperatures, particularly in relation to "transition risks," which include:

- the introduction of new regulations and product standards;
- the development of new technologies that use energy sources other than gas;
- the evolution of market demand toward low-carbon and/or energy-efficient applications.

There is also a need to assess possible "physical risks" related to the rise in catastrophic natural events (floods, droughts, earthquakes) over time, which could have an impact on the Group's business continuity.

SIT has been proactively committed to these causes for some time by continuously monitoring the development of industry regulations. The Company has also participated in debates with regulatory bodies in the sectors in which it operates, at both the national and international level. It also engages in constant communication with its main stakeholders.

The process of developing new products and solutions is inspired by the logic of eco-design, paying special attention to carbon footprint profiles and environmental impact in general. SIT has ensured its products are ready for the use of alternative fuel sources (primarily hydrogen and biomethane).

Business differentiation and market response strategies are geared towards new "green" technologies. The Company is investing heavily in these areas by collaborating with some major customers in technology partnership projects and diversifying its business into market segments that prioritize sustainability topics, such as controlled mechanical ventilation and heat pumps.

The Company has adopted appropriate emergency management procedures to safeguard business continuity against physical risks. The Company constantly monitors these types of risks through property and business continuity risk assessment activities, with the use of specialized insurance consulting firms.

The second perspective related to climate change risk assessment involves exploring how the Company can combat climate change by adopting specific measures to mitigate the environmental impact of its operations. This can be achieved by reducing its carbon footprint, in addition to cutting emissions and consumption. By aligning its strategies with the carbon neutrality objectives set by the international community, the Company intends to contribute to the enhancement of community well-being as a whole.

SIT can be regarded as a leader in this particular area because:

- it has certified its product carbon footprint measurement system according to ISO standards and is in the process of certifying its organizational carbon footprint (GHG inventory);
- as a crucial step, it has integrated CFP measurements into its product development process, taking environmental impact into consideration alongside economic and financial evaluations;
- it has established a long-term plan to reduce CO_2 emissions (scopes 1 and 2), in line with European Community targets;
- it is actively engaged in specific projects to limit Scope 3 emissions, which involve significant participation from its value chain;

The Company anticipates no significant medium-term consequences on the development of its business, as it has already factored in potential changes in demand for its products and solutions through strategic planning, which involves conducting relevant scenario analyses.

Over the long term, the Company is carefully monitoring the debate, particularly within the European Union, related to the technological transition towards food and energy, the outcome and impact of which on the Company's business are not currently foreseeable.

The Company will continue assessing the potential risks related to the energy transition aimed at preparing strategic plans in line with changes in applicable laws and regulations and with the targets of the Sustainability Plan in this regard.

As mentioned, the Company is increasingly investing in market segments that prioritize sustainability concerns. This includes areas such as controlled mechanical ventilation and heat pumps, in addition to investments in products compatible with alternative energy sources such as hydrogen and biomethane.

Environmental impact risk

The principal risks in this domain relate to the management of business operations, encompassing the entire value chain.

The evaluations include impact factors related to evolving environmental regulations, monitoring and containing pollutant emissions, managing energy consumption and natural resources, and ensuring appropriate disposal or reuse of waste.

In this regard, SIT ensures strict compliance with environmental regulations in all countries in which it operates. The Group's main production plants are environmentally certified (ISO 14001:2015), and its Rovigo die-casting plant possesses an Integrated Environmental Authorization.

Environmental risks are closely monitored across all levels of the organization through the adoption of suitable structures and procedures. This is to ensure conformity with regulations, in addition to the performance of regular audits and monitoring controls. SIT also relies on independent laboratories and certifying bodies to guarantee the accuracy of the collected data and compliance with regulations.

SIT is subject to periodic audits by environmental supervisory authorities, which are carried out with full transparency and proactive cooperation.

The Company is dedicated to undertaking actions to reduce emissions, optimize energy consumption efficiency, and promote recycling and resource reuse in its production processes.

Similarly, in this case, the Company's risk level is considered to be medium-low. This is due to the significant absence of major events linked to the environmental impact of SIT's operations in its history and the positive results of periodic audits carried out by regulatory authorities.

Looking ahead, the Company adheres to the highest standards regarding the adoption of measures to minimize its environmental footprint, which can be deemed appropriately proportional to the environmental impact it generates.

Protecting occupational health and safety

The assessed risk relates to SIT's failure to adopt appropriate policies and actions to safeguard the health and safety of Group employees and contractors.

SIT is equipped with an organizational safety structure that reflects the requirements of the most advanced management systems. The same procedures and behavioural principles are applied across the entire Group, as in the case of its Italian production plants, which are governed by the strictest regulations.

Each plant has designated company representatives specifically responsible for Health, Safety & Environment matters. These representatives are coordinated in Italy by the Employer in compliance with the provisions of Legislative Decree No. 81/2008. At the global level, these teams are overseen by the Group's HSE Manager, who conducts regular inspections to guarantee compliance with local and international regulations, provide specialized training to local representatives, and develop and execute relevant mitigation plans for identified non-compliance risks.

The entire safety management system is based on the presence of the appropriate certifications issued by local supervisory authorities, the establishment and execution of safety plans, and specific tools for reporting, analysing, assessing, managing, sharing, and reporting (by the production plants to the Parent Company) potentially relevant and/or improvable conditions and events concerning the aspects of health, safety, and the environment.

Absolute importance is given to accident prevention through regular training and refresher courses for workers.

Over the years, SIT has not detected any significant concerns related to this risk type through the activities mentioned above and is consistently striving to improve and monitor the working conditions of its employees and collaborators, thereby retaining a low-risk profile.

Human Rights

This risk relates to the potential violation of human rights within the scope of activities carried out by SIT, with extension to the monitoring of policies and actions taken by the Group's main stakeholders.

In 2022, SIT significantly invested in revising its ESG policy framework.

In this context, special attention was paid to the matter of human rights, which was included ex-novo as a material topic in the NFS. In this sense, SIT has made efforts to:

- update its Code of Ethics, devoting special attention to the respect and protection of fundamental rights within the value chain;
- draft and publish a policy dedicated to diversity and inclusion (D&I) topics.

Joining the United Nations Global Compact (in October 2022) represents another important step in the Company's commitment to fully adopting principles related to social, environmental, and anti-corruption issues.

In 2023, SIT will ensure the full adoption and circulation of the above policies within the Group and monitor their results through appropriate KPIs. SIT has also recently embarked on the path of "equal opportunity certification."

Active and passive corruption

The risk pertains to the adoption of conduct that may lead to the commission of corruption offenses by SIT employees, collaborators, or relevant stakeholders in the management of Company activities or in the context of business relations.

In general, the Company takes a zero-tolerance approach to corruption and has prepared and adopted appropriate policies and procedures to prevent risks of this nature.

The Group's Italian companies have adopted Organization, Management, and Control Models in accordance with the regulations set out in Legislative Decree No. 231/01. These models establish behavioural rules and control principles that stakeholders must adhere to, with specific reference to corruption offenses. At the international level, basic principles are defined by the Code of Ethics and dedicated procedures and policies.

In 2022, the Company drafted an Anti-Corruption Policy that will be adopted and circulated in 2023. It includes appropriate risk assessment activities, employee training, and dedicated monitoring tools.

The Company historically has not experienced incidents of corruption and has a medium-low profile of exposure to this type of crime, but constantly works to maintain high standards of ethics and integrity.

IT risks

Cyber risks mainly concern:

- improper use by SIT employees and collaborators of the IT infrastructure and devices that the Company makes available for the performance of their work duties;
- the Company's exposure to cyber attacks, which could compromise the normal course of business processes/activities and/or the theft or loss of sensitive data, even going so far as to compromise business continuity.
- SIT's IT Department has appointed specific professionals with experience in cyber security and annually defines a risk assessment and management program that includes:
- a system of internal policies and procedures that outline the main rules for the use of corporate IT resources by employees, including the regulation of physical and digital access to data and information;
- the continuous updating of IT infrastructure at both the HW and SW level to ensure the best active and passive protection solutions against external attacks (viruses, ransomware, phishing, etc.);
- a program of penetration testing and vulnerability assessments, to identify potential gaps in IT infrastructure and draft appropriate remediation plans related to detected non-conformities.
- extensive training for all employees with digital identities on cyber risks.

The Company responded promptly to the increase in cyber risks in 2022 due to recent geopolitical events by intensifying its monitoring activities and strengthening related safeguards, in line with the best benchmarks, to maintain a low risk profile.

Tax risk

SIT's approach to taxation complies with the provisions of its Organization, Management and Control Models pursuant to Legislative Decree No. 231/2001, with particular attention paid to the special sections dedicated to tax offences. This approach is based on the principles of prudence, responsibility, consistency, and transparency towards the Company's stakeholders, including the Tax Authorities. All Group activities comply with the relevant tax regulations and tax planning activities are always aligned with business activities.

Individual entities belonging to the Group must comply with the principle of lawfulness and apply the tax legislation of the jurisdiction in which it operates to ensure that regulations are observed.

The Group has adopted a set of rules, procedures and principles that are part of its wider system of organization and control and which are to be considered fundamental points of reference with which all parties are required to comply, in accordance with the type of relationship they have with the Group.

In order to promote transparency and cooperation with the tax authorities, the Group prepares specific documentation on transfer pricing in compliance with OECD Guidelines.

Based on specific transactions or issues, the Finance, Control & Administration Department is supported by external consultants (including specialists in transfer pricing, direct/indirect taxes, and taxes withheld and paid on behalf of employees) in order to ensure the best approach in line with lawful and transparent behaviour.

It should be emphasized that, over the years, the entities belonging to the Group have not been subject to investigations that have revealed fraudulent behaviour and/or behaviour aimed exclusively at obtaining a reduction in the tax burden.

Please make reference to the Group's NFS for tax reporting in compliance with GRI 207.

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 2022, 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:

(Euro.000)	2022	% Revenues	2021	% Revenues
EUR	276,171	70.2%	280,249	73.6%
USD	80,966	20.6%	68,071	17.9%
CNY	23,095	5.9%	18,708	4.9%
AUD	7,076	1.8%	6,189	1.6%
MXN	4,807	1.2%	5,761	1.5%
GBP	1,134	0.3%	1,490	0.4%
Other	55	0.0%	54	0.0%
Total	**393,305**	**100%**	**380,521**	**100%**

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

(Euro.000)	2022	% Purchases	2021	% Purchases
EUR	144,074	61.7%	140,764	66.8%
USD	73,462	31.5%	56,345	26.7%
CHF	6,145	2.6%	5,834	2.8%
CNY	6,261	2.7%	3,998	1.9%
RON	2,162	0.9%	2,409	1.1%
MXN	1,149	0.5%	1,097	0.5%
TND	276	0.1%	204	0.1%
Other	44	0.0%	33	0.0%
Total	**233,573**	**100%**	**210,685**	**100%**

During 2022, 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)	Dec 31, 22
Currency	
Euro	9,609
US Dollar	8,006
Chinese Yuan	1,716
Mexican Peso	478
Australian Dollar	358
Other currencies	415
Total	**20,583**

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 1,097 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.

In response to the rising inflation being reported in the world’s leading economies in 2022, central banks have tightened monetary policy, which has led to higher interest rates. By way of example, the 6m Euribor rates at December 31, 2021, June 30, 2022, and December 31, 2022, were -0.546%, 0.263% and 2.693%, respectively.

Within this landscape, the adoption of the interest rate hedging policy has been particularly important and beneficial. At the reporting date, the Group has variable rate loans for a nominal capital amount of Euro 99 million. This loan provides for a variable interest rate of Euribor 6 months, and is hedged by interest rate swaps totalling Euro 84 million, or 85% 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 300 basis points of the variable interest rate would result in an increase in financial charges for SIT for the year 2022 of Euro 727 thousand, taking into account the hedging in the period. The same simulation carried out with assumptions of no hedging would result in a Euro 3,353 thousand increase in financial charges.

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.

2022 saw strong inflation affecting the industrial supply market for raw materials and components, most commodity categories, and the energy market.

The commodity categories that have been affected by these price dynamics are 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. During 2022, there was a notable impact caused by a shortage of electronic components that could only be procured by resorting to alternative channels such as brokers, resulting in significant extra costs that could not be fully passed on to customers, with a consequent impact on the Group's results.

Currently the shortage of electronic components for 2023 appears under control, however, there remains a possibility that a hypothetical shortage and/or significant fluctuations of the price of purchasing the materials concerned could in future have an adverse effect on the Company's business, financial performance, financial position, operating 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. Throughout 2022, SIT made sure to conduct these activities while taking into consideration the uncertainties stemming from the Russo-Ukraine War, inflation (energy costs), and the influence of inventory growth resulting from the procurement policy, especially in relation to electronic components.

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.

On May 31, 2022, SIT completed a bilateral funding transaction with Unicredit for Euro 10 million and with 3 years amortising maturity. The transaction was supported by an EIB - European Investment Bank guarantee, with the purpose of supporting the company's growth and working capital investment.

Through these transactions finalised during the first half of 2022 and recent new funding transactions concluded during 2021 SIT diversified its sources of financing, increasing its financial flexibility and significantly lengthening the average term of its debt.

The funding transactions stipulate 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 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 signed in 2021 in addition requires compliance with an established debt/own funds ratio.

As at December 31, 2022, 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 288.2 million, compared to Euro 269.8 million in the previous year (+6.8%). 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 182.8 million accounting for approx. 63.4% of revenues, an increase compared to 59.1% in the previous year.

Personnel expense totalled Euro 45.5 million compared to Euro 48.0 million in the previous year, representing 15.8% and 17.8% of revenues respectively.

Service costs amounted to Euro 35.7 million and accounted for 12.4% of revenues, compared to Euro 35.5 million and 13.2% in 2021.

2022 EBIT totalled Euro 8.2 million compared to Euro 12.0 million in 2021 (revenue margin of 2.8% and 4.4% respectively).

Income from equity investments amounted to Euro 2.2 million, compared to Euro 9.8 million in the previous year. Financial income amounted to Euro 10.2 million, compared to Euro 0.9 million in 2021 and in the current year includes Euro 8.7 million as fair value change of the Warrants matured and therefore cancelled in July 2022.

2022 pre-tax profit was Euro 15.3 million (5.3% margin) compared to Euro 9.4 million in 2021 (3.5% margin).

Income taxes amounted to Euro 0.9 million, compared to Euro 0.4 million in the previous year.

2022 net profit was Euro 14.4 million (5.0% margin) compared to Euro 9.0 million in 2021 (3.3% margin).

In 2022 the Parent Company acquired 70,962 treasury shares amounting to Euro 0.6 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 conditions.

The net financial position at December 31, 2022 was Euro 131.7 million (Euro 97.7 million at December 31, 2021). The breakdown of the net financial position is shown below:

(Euro.000)

Composition net financial position (1)	Dec 31, 22	Dec 31, 21
A. Cash	3	12
B. Cash equivalents	12,323	33,451
C. Other current financial assets	27,370	46,784
D. Cash and cash equivalents (A) + (B) + (C)	**39,696**	**80,246**
E. Current financial debt (including debt instruments but excluding the current portion of non-current financial debt)	27,322	42,829
F. Current portion of the non-current debt	20,589	14,784
G. Current financial debt (E + F)	**47,911**	**57,613**
H. Net current financial debt (G - D)	**8,215**	**(22,633)**
I. Non-current financial debt	83,944	80,918
J. Debt instruments	39,520	39,438
K. Trade payables and other non-current payables	0	0
L. Non-current financial debt (I + J + K)	**123,464**	**120,357**
M. Net Financial Position (H + L)	**131,679**	**97,724**

(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 Company reports net liabilities for employee-defined benefits of Euro 4,328 thousand (Note 16) and Provisions for risks and charges for Euro 1,942 thousand (Note 15) in the separate financial statements.

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.000)	Net Equity at 31.12.2022	Profit FY 2022	Net Equity at 31.12.2021	Profit FY 2021
Statutory financial statements of the parent company	**166,250**	**14,385**	**154,263**	**9,023**
Difference between the carrying amount of the investments and net equity and net profit/(loss) of the consolidated subsidiaries(1)	3,367	2,729	3,613	10,620
Elimination of intercompany gains and losses	(3,852)	(656)	(3,885)	(946)
Adjustments in the financial statements of the consolidated companies in line with group accounting policies	(271)	(181)	(307)	(112)
Elimination dividends from investees	0	(4,955)	-	(10,276)
Other adjustments	0	(110)	(9)	(65)
Minority interest capital and reserves	-	-	-	-
Group & Minority int. consol. financial statements	**165,495**	**11,213**	**153,676**	**8,243**

(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 management 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 parent company Technologies S.a.p.a. di F.d.S. S.S.

In this regard, it should be noted that at the corporate level, as part of a reorganisation of the chain of control, SIT Technologies S.p.A has established as a limited partner, a limited partnership named "Technologies S.a.p.a. di F.d.S. S.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 transfer of 13,279,465 shares, or 53.102% of the SIT S.p.A. share capital, with accounting effect from January 1, 2022.

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.

At June 30, 2022, the SIT Warrants, issued at the same time as the merger transaction of 2017, held by SIT Technologies S.p.A, totalled 3,113,314. As per the relevant Regulations, these Warrants matured on July 19, 2022.

SIT, 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 2022-2024. 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 Technologies 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. In 2021, the subsidiary SIT Metering S.r.l. also joined the Group VAT procedure and from the following year the parent company Technologies SAPA di F.D.S. S.S. also joined.

Treasury shares

At December 31, 2022, the Company held 800,409 treasury shares without nominal value, equal to 3.19% of the share capital, of which 70,962 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		
	2022	2021	Change	2022	2021	Change	2022	2021	Change
SIT Argentina S.r.l.	30	42	(12)	1	(0)	1	-	-	-
SIT Gas Controls Pty Ltd	7,138	6,189	950	426	332	94	5	7	(2)
SIT Controls Canada Inc.	310	416	(106)	72	168	(96)	1	1	-
SIT Manufacturing (Suzhou) Co. Ltd	25,367	21,268	4,099	948	346	601	61	69	(8)
SIT Controls CR, S.r.o.	1,503	1,831	(328)	697	898	(200)	7	7	-
SIT Controls Deutschland GmbH	1,282	1,302	(20)	346	383	(38)	4	4	-
SIT manufacturing Na Sa deCV	75,394	70,215	5,179	(5,359)	4,380	(9,738)	278	436	(158)
SIT de monterrey SA de CV	7	2,285	(2,278)	3	84	(81)		-	-
SIT Controls BV	43,112	33,273	9,839	2,123	2,326	(203)	152	177	(25)
SIT Romania Srl	71,208	67,464	3,744	1,377	1,919	(542)	568	653	(85)
SIT Controls USA Inc.	3,765	3,391	374	1,497	1,587	(90)	6	6	-
Sit Controls Tunisia S.u.a.r.l	36,082	5,445	30,638	1,843	(1,149)	2,993	242	131	111
Plast Alfin S.a.r.l.	3,229	3,613	(384)	65	318	(253)	53	68	(15)

Business sector: Smart Metering

(Euro.000)

Company	Revenue			Net Profit			Employees		
	2022	2021	Change	2022	2021	Change	2022	2021	Change
MeteRSit S.r.l.	61,456	82,326	(20,870)	1,266	2,445	(1,178)	94	82	12
Metersit Romania S.r.l.	2	27,441	(27,439)	(31)	(126)	96	-	9	(9)
Sit Metering S.r.l.	158	202	(44)	(288)	(336)	47	-	-	-
Metersit UK Ltd	13	-	13	(229)	(92)	(136)	2	2	-
JANZ – Contagem e Gestão de Fluídos, SA	24,745	20,888	3,857	1,678	982	696	287	288	(3)

SUBSEQUENT EVENTS TO YEAR-END AND MANAGEMENT PERFORMANCE

In January 2023, the Company was again awarded a "Silver" rating as part of its annual CSR (Corporate Social Responsibility) performance assessment conducted by EcoVadis, an international ratings agency in the ESG field.

Despite being awarded the same rating as the previous year, the Company achieved a higher score, placing it in the top 10% of companies in the sector under analysis (compared to the top 22% the previous year).

Outlook

2023 began amid a cloud of uncertainty, with outside factors affecting the ability to draw up a certain and reliable sales outlook.

In particular, the prudent sourcing in 2022 for the Heating division market led to the now very high inventory levels, whose timeframe to normalise may not be forecast.

From a geographic perspective, expectations in a number of areas are strong, while the markets directly and indirectly impacted by the Russia/Ukraine conflict remain uncertain.

The production footprint is expected to become fully operational during the year, driving a stronger performance and with an increased contribution from the Tunisian plant.

Finally, as the Company pro-actively taps into the opportunities arising from the energy transition, SIT considers its fundamentals to be strong.

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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 allocate earnings of Euro 14,385,360.24 to the extraordinary reserve; it should be noted that the legal reserve has already reached one-fifth of share capital, as required by Article 2430 of the Civil Code;
- to reclassify part of the reserve for exchange gains, equal to Euro 496,578.91, to the extraordinary reserve, as the reserve is no longer required, in accordance with Article 2426 No. 8-bis of the Civil Code;
- 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 21, 2023

The Chairperson of the Board of Directors

(Mr. Federico de' Stefani)

CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2022

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(Euro.000)	**Note**	**31/12/2022**	**31/12/2021**
Goodwill	1	87,946	87,946
Other intangible assets	1	55,276	61,611
Property, plants and equipment	2	106,103	98,039
Investments	3	630	325
Non-current financial assets	4	5,186	2,139
Deferred tax assets	5	10,492	7,897
Non-current assets		**265,633**	**257,957**
Inventories	6	91,352	70,123
Trade receivables	7	63,800	56,052
Other current assets	8	12,597	15,745
Tax receivables	9	2,280	2,965
Other current assets	4	6,269	527
Cash and Cash Equivalents	10	23,535	46,667
Current assets		**199,833**	**192,079**
Total assets		**465,466**	**450,036**
Share capital	11	96,162	96,162
Total Reserves	12	58,120	49,271
Net Profit		11,213	8,243
Minority interests net equity		0	0
Shareholders' Equity		**165,495**	**153,676**
Medium/long-term loans and borrowings	13	77,968	74,540
Other non-current financial liabilities and derivative financial instruments	14	53,553	54,625
Provisions for risks and charges	15	13,844	4,941
Post-employment benefit provision	16	5,093	5,762
Other non-current liabilities		4	61
Deferred tax liabilities	17	15,005	15,743
Non-current liabilities		**165,467**	**155,672**
Short-term bank loans	18	23,551	19,770
Other current financial liabilities and derivative financial instruments	19	5,235	4,988
Trade payables	20	81,400	80,752
Other current liabilities	21	23,113	23,163
Financial instruments for Warrants	22	0	8,748
Tax payables	23	1,205	3,267
Current liabilities		**134,504**	**140,688**
Total Liabilities		**299,971**	**296,360**
Total Shareholders' Equity and Liabilities		**465,466**	**450,036**

CONSOLIDATED INCOME STATEMENT

(Euro.000)	**Note**	**2022**	**2021**
Revenues from sales and services	**24**	**393,305**	**380,521**
Raw materials, ancillaries, consumables and goods	25	233,573	210,685
Change in inventories	25	(19,886)	(11,286)
Services	26	52,301	48,424
Personnel expense	27	80,182	81,990
Depreciation, amortisation and write-downs	28	27,771	26,897
Provisions	29	8,722	(83)
Other charges (income)	30	85	(436)
EBIT		**10,557**	**24,330**
Investment income/(charges)		(166)	31
Financial income	31	9,263	395
Financial charges	32	(4,760)	(14,074)
Net exchange gains (losses)	33	(1,326)	1,024
Impairments on financial assets		0	0
Profit before taxes		13,568	11,706
Income taxes	34	(2,355)	(3,462)
Net profit for the year		**11,213**	**8,243**
Minority interest result		**0**	0
Group net profit		**11,213**	**8,243**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(Euro.000)	**2022**	**2021**
Net profit	**11,213**	**8,243**
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	5,609	886
Income taxes	(1,346)	(213)
Total unrealised financial asset gains/(losses)	**4,263**	**673**
Translation of financial statements in currencies other than the Euro	2,928	986
Total of other comprehensive income statement items which may be subsequently reclassified to the profit/(loss) for the year, net of taxes	**7,191**	**1,659**
Other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes:		
Unrealised actuarial gains	582	(108)
Income taxes	(140)	26
Total unrealised actuarial gains/(losses)	**442**	**(82)**
Total of other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes		
Total other comprehensive income/(expense) for the year, net of taxes	442	(82)
	7,633	**1,577**
Total comprehensive income/(expense)	**18,846**	**9,820**
Total comprehensive income/(expense) for the year attributable to:		
Parent company shareholders	**18,846**	**9,820**
Minority shareholders	-	-

Basic earnings per share	**0.4609**	**0.3360**
Diluted earnings per share	**0.1013**	**0.6859**

CONSOLIDATED CASH FLOW STATEMENT

(Euro.000)	**Note**	**2022**	**2021**
Net profit		11,213	8,243
Amortisation & depreciation	1 - 2	27,652	26,885
Non-cash adjustments		9,669	(59)
Income taxes	34	2,356	3,462
Net financial charges/(income)	31 - 32	(4,518)	13,646
CASH FLOW FROM CURRENT ACTIVITIES (A)		**46,372**	**52,177**
Changes in assets and liabilities:			
Inventories		(19,730)	(13,036)
Trade receivables		(6,715)	9,910
Trade payables		(675)	7,890
Other assets and liabilities		1,185	2,790
Income taxes paid		(6,699)	(6,475)
CASH FLOW GENERATED (ABSORBED) FROM CHANGES IN WORKING CAPITAL (B)		**(32,634)**	**1,079**
CASH FLOW FROM OPERATING ACTIVITIES (A + B)		**13,738**	**53,256**
Investing activities:			
Investments in property, plant & equipment		(24,823)	(22,701)
Other changes in property, plant & equipment		335	340
Investments in intangible assets		(1,986)	(4,225)
Other changes in intangible assets		0	9
Investments in financial assets		(409)	0
Other changes in financial assets		0	(35)
Other cash flows from current financial assets		(3,450)	626
Acquisition or sale of subsidiaries or business units net of cash and cash equivalents		0	(72)
CASH FLOW FROM INVESTING ACTIVITIES (C)		**(30,333)**	**(26,058)**
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)		**(16,595)**	**27,198**
Financing activities:			
Interest paid		(3,275)	(3,566)
Repayment of non-current financial payables	19	(21,000)	(139,060)
Increase (decrease) current financial payables		2,756	(198)
Increase (decrease) other financial payables	19 - 35	(2,977)	(2,759)
New loans	19	25,000	133,482
Payment of dividends	12	(7,299)	(6,890)
Paid-in share capital increase	11	0	10
Treasury shares	12	(599)	(3,922)
CASH FLOW FROM FINANCING ACTIVITIES (D)		**(7,394)**	**(22,903)**
Change in translation reserve	12	857	44
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)		**(23,132)**	**4,339**
Cash & cash equivalents at beginning of the year		**46,667**	**42,328**
Increase (decrease) in cash and cash equivalents		(23,132)	4,339
Cash & cash equivalents at end of the year		**23,535**	**46,667**

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 & 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	Res. for warrants	Res. for performance shares	Retained earnings (accum. losses)				
December 31, 2020	**96,152**	**10,360**	**(2,212)**	**19,230**	**(8,242)**	**175**	**(718)**	**16,615**	**(574)**	**1,491**	**(1,567)**	**0**	**9,286**	**13,225**	**153,221**	**0**	**153,221**
Allocation of the 2020 result	0	0	0	0	0	(175)	0	0	0	0	522	0	12,877	(13,225)	0	0	0
Comprehensive profit 2021	**0**	**0**	**0**	**0**	**987**	**0**	**673**	**0**	**(82)**	**0**	**0**	**0**	**0**	**8,243**	**9,820**	**0**	**9,820**
Change in Warrants	10	0	0	0	0	0	0	0	0	0	1,275	0	0	0	1,285	0	**1,285**
Assignment L.T.I. to employees	0	0	0	0	0	174	0	0	0	0	0	0	0	0	174	0	**174**
Dividends	0	0	0	0	0	0	0	0	0	0	0	0	(6,890)	0	(6,890)	0	**(6,890)**
Other movements	0	0	0	0	0	0	0	0	0	0	0	0	(12)	8	(12)	0	**(12)**
Acquisition of treasury shares	0	0	(3,922)	0	0	0	0	0	0	0	0	0	0	0	(3,922)	0	**(3,922)**
December 31, 2021	**96,162**	**10,360**	**(6,134)**	**19,230**	**(7,255)**	**174**	**(45)**	**16,615**	**(656)**	**1,491**	**230**	**0**	**15,261**	**8,243**	**153,676**	**0**	**153,676**
Allocation of the 2021 result	0	0	0	2	0	0	0	0	0	0	0	0	8,241	(8,243)	0	0	0
Comprehensive profit 2022	**0**	**0**	**0**	**0**	**2,928**	**0**	**4,263**	**0**	**442**	**0**	**0**	**0**	**0**	**11,213**	**18,846**	**0**	**18,846**
Assignment L.T.I. to employees	0	0	0	0	0	880	0	0	0	0	0	0	0	0	880	0	880
Dividends	0	0	0	0	0	0	0	0	0	0	0	0	(7,299)	0	(7,299)	0	(7,299)
Other movements	0	0	0	0	0	0	0	0	0	230	(230)	0	(8)	0	(8)	8	(8)
Acquisition of treasury shares	0	0	(599)	0	0	0	0	0	0	0	0	0	0	0	(599)	0	(599)
December 31, 2022	**96,162**	**10,360**	**(6,733)**	**19,232**	**(4,328)**	**1,053**	**4,218**	**16,615**	**(214)**	**1,721**	**0**	**0**	**16,196**	**11,213**	**165,495**	**0**	**165,495**

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 Euronext Milan market (former MTA 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 21, 2023 and authorised for publication on the website www.sitgroup.it by April 6, 2023. 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, 2022 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, 2022 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, 2022 are the same as those adopted for the consolidated financial statements at December 31, 2021.

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, 2022

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group from January 1, 2022:

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 current 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 revenues from sales and related costs will therefore be recognised through 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.

The adoptions of these amendments do not have any effects on the Group 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, 2022

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 PAA 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

PAA method do not apply to the valuation of liabilities for existing claims, which are measured with the General Model. However, it is necessary to discount these cash flows where it is expected that the balance will be paid or received within one year from the date on which the claim occurred.

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

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

Amendments to 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 amendment to have a significant impact on the Group consolidated financial statements.

Disclosure of Accounting Policies—Amendments to IAS 1 and IFRS Practice Statement 2" and "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 are currently assessing the possible effects of introduction of these amendments on the Group'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 amendment to have a significant impact on the Group consolidated financial statements.

IFRS Standards, Amendments and Interpretations not yet approved by the European Union

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

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

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" and on October 31, 2022 published an amendment entitled "Amendments to IAS 1 Presentation of Financial Statements: Non-Current Liabilities with Covenants". The purpose of the documents is to clarify how to classify payables and other short or long-term liabilities. These amendments shall enter into force on January 1, 2024 and early application is permitted. The Directors do not expect this amendment to have a significant impact on the Group 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 are currently assessing the possible effects of introduction of this amendment on the Group'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 amendment to have a significant impact on the Group consolidated financial statements.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback

On September 22, 2022, the IASB published an amendment entitled "Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback". The document requires the seller-lessee to measure the lease liability arising from a sale & leaseback transaction so as not to recognise income or losses relating to the retained right of use. The amendments will be applicable from January 1, 2024, although advance application is permitted. The Directors do not expect this amendment to have a significant impact on the Group 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/Group 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, 2022 reflect the considerations made by the Directors on the amounts by the public authorities of the countries affected, in addition to the Russia-Ukraine conflict.

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 Montecarlo simulation model for the plans with employees. The assumptions used for the estimate of the fair value of the share-based payments are shown in Note 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, 2022 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	96,162,195	100
Metersit S.r.l.	Italy	Padua	EUR	1,129,681	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	16,000	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	Tunis	TND	200,000	100
Sit Metering S.r.l.	Italy	Padua	EUR	1,500,000	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.

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	2022		2021	
	December 31, 2022	2022 average	December 31, 2021	2021 average
Mexican Peso	20.8560	21.1869	23.1438	23.9852
Argentinean Peso	188.5033	136.7767	116.3622	112.4215
Romanian Leu	4.9495	4.9313	4.9490	4.9215
US Dollar	1.0666	1.0530	1.1326	1.1827
Canadian Dollar	1.4440	1.3695	1.4393	1.4826
Czech Crown	24.1160	24.5659	24.8580	25.6405
Australian Dollar	1.5693	1.5167	1.5615	1.5749
Chinese Yuan	7.3582	7.0788	7.1947	7.6282
Tunisian Dinar	3.3221	3.2509	3.2603	3.2881
UK Sterling	0.8869	0.8528	0.8403	0.8596

Translation of accounts in foreign currencies: transactions and balances

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

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

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

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

Valuation at fair value

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

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

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

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

The fair value of an asset or liability is measured adopting the assumptions which market operators would utilise in the determination of the price of the asset or liability, assuming they act to best satisfy their economic interests.
All the assets and liabilities for which the fair value is measured or stated in the financial statements are categorised based on the fair value hierarchy, as described below:

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

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

Business combinations and goodwill

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

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

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

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

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

Research and Development Costs

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

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

Other intangible assets

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

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

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

Intangible assets with definite useful life	Average rate
Product development costs	Straight-line over 3 years
Licenses	Straight-line over 3 years
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
Water metering	Straight-line over 7 years
Customer List Heating	Straight-line over 15 years
Customer List Water metering	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, however not exercising control or joint control.

With the equity method, the investment in an associated company or a joint venture is initially recognised 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 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 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 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 taxable income is sufficient to permit such deferred tax assets to be recovered.

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

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

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

Earnings per share

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

Diluted earnings per share

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

Grants

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

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

COMMENTS ON THE MAIN ITEMS OF THE CONSOLIDATED BALANCE SHEET

Non-current assets

Note 1: Goodwill and Other intangible assets

(Euro.000)	Balance at Dec. 31, 21	Increases	Disposals	Amortisation	Other movements	Translation differences	Balance at Dec. 31, 22
Goodwill	**87,946**	**-**	**-**	**-**	**-**	**-**	**87,946**
Development costs	-	4	-	-	-	-	4
Patent rights	12,317	364	-	(3,147)	47	7	9,588
Concessions, licences and trademarks	19,699	16	(0)	(1,580)	-	329	18,465
Other intangible assets	29,333	60	-	(3,932)	145	(1)	25,606
Intangible assets in progress and advances	262	1,542	-	-	(192)	2	1,614
Total other intangible assets	**61,611**	**1,986**	**(0)**	**(8,659)**	**-**	**338**	**55,276**
Total goodwill and other intangible assets	**149,557**	**1,986**	**(0)**	**(8,659)**	**-**	**338**	**143,222**

GOODWILL

At December 31, 2022, 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, 2022 the residual value is Euro 5,034 thousand relating to the Heating sector and Euro 960 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, 2022, the residual value amounts to Euro 2,394 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. The increases refer to the filing of new patents and implementation of new software.

CONCESSIONS, LICENSES AND TRADEMARKS

The amount of Euro 18,465 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, 2022 the residual value is Euro 11,443 thousand relating to the Heating sector and Euro 2,154 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, 2022, the residual value amounts to Euro 1,630 thousand, amortised over 10 years.

Changes in the financial year are mainly related to amortisation.

OTHER INTANGIBLE ASSETS

This account, amounting to Euro 25,606 thousand, 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, 2022 amounted to Euro 18,025 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, 2022, the residual value is Euro 6,245 thousand and Euro 530 thousand respectively.

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

ASSETS IN PROGRESS AND ADVANCES

Increases include development costs, which were capitalised during the year in relation to two new projects in the Smart Gas Metering segment in the amount of Euro 1,057 thousand.

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, 2022 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 21, 2023. The methodology to be used in carrying out the test was approved by the Board of Directors on December 16, 2022.

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.

The Company anticipates no significant consequences on the development of its business over the short or medium term, as it has already factored in potential changes in demand for its products and solutions through planning processes.

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 this time horizon.

Over the long term, the Company is carefully monitoring the debate, particularly within the European Union, related to the technological transition towards food and energy, the outcome and impact of which on the Company's business are not currently foreseeable.

In 2023, the Company will continue assessing the potential risks related to the energy transition aimed at preparing strategic plans in line with changes in applicable laws and regulations and with the targets of the Sustainability Plan in this regard.

Cash flows used in impairment testing are based on the 2023 budget approved by the Board of Directors on December 16, 2022, and on the underlying trends in the business plan approved by the Board of Directors on July 8, 2022. 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.

Heating Division CGU

The growth rate (g) is assumed to be 2% in line with an inflationary scenario in the risk free rate and in the cost of the debt (Kd).

The Heating CGU's WACC was estimated by assuming:

- a risk free rate of 4.50% calculated as a half-yearly average from July 1, 2022 to December 31, 2022 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 0.88 estimated on the basis of a panel of comparable listed companies;
- an equity risk premium of 5.6%, 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) equal to 1.5%; a cost of debt calculated on the basis of a half-yearly IRS average rate from July 1, 2022 to December 31, 2022, 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 10.20% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk.

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

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

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 10.9%, whereas the g rate of indifference was 1%.

Smart Gas Metering Division CGU

The growth rate (g) is assumed to be 2%.

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

- a risk free rate of 3.79% calculated as a half-yearly average from July 1, 2022 to December 31, 2022 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 0.81 estimated on the basis of a panel of comparable listed companies;
- an equity risk premium of 5.6%, 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 a half-yearly IRS average rate from July 1, 2022 to December 31, 2022, 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 10.30% 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 11.5%, whereas the g rate of indifference was 0.2%.

Water Metering Division CGU

The growth rate (g) is assumed to be 2.0%.

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

- a risk free rate of 3.04% calculated as a half-yearly average from July 1, 2022 to December 31, 2022 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 0.96 estimated on the basis of a panel of comparable listed companies;
- an equity risk premium of 5.6%, 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 a half-yearly IRS average rate from July 1, 2022 to December 31, 2022, 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 9.69% 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 indifference of the WACC, i.e. the discount rate that results in a headroom (difference between the amount recoverable calculated through the value of use and the carrying amount of the CGU) of zero, is 12.4%, whereas the g rate of indifference was -2.2%.

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 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 2022 are summarised below:

(Euro.000)

	Historical cost at 31/12/21	Accumulated deprec. at 31/12/21	Balance at 31/12/21	Of which "Right-of-use" IFRS 16	Historical cost at 31/12/22	Accumulated deprec. at 31/12/22	Balance at 31/12/22	Of which "Right-of-use" IFRS 16
Land and buildings	56,074	(25,278)	30,796	10,911	57,235	(27,960)	29,275	9,731
Plant and machinery	148,324	(115,257)	33,067	-	155,845	(123,649)	32,196	-
Industrial and commercial equipment	101,583	(91,286)	10,297	1,446	107,652	(97,161)	10,491	1,253
Other assets	13,646	(8,702)	4,945	3,335	14,992	(9,965)	5,027	3,557
Tangible assets in progress and advances	18,932	-	18,932	-	29,115	-	29,115	-
Total property, plant and equipment	**338,559**	**(240,523)**	**98,037**	**15,692**	**364,840**	**(258,735)**	**106,105**	**14,541**

The following tables outline the changes in the historic cost and accumulated depreciation in 2022 by category.

HISTORICAL COST

(Euro.000)

	Historical cost at Dec. 31, 21	Of which "Right-of-use" IFRS 16	Increases	Disposals	Other movements	Translation differences	Historical cost at Dec. 31, 22	Of which "Right-of-use" IFRS 16
Land and buildings	56,074	14,116	940	(266)	37	450	57,235	14,194
Plant and machinery	148,324	-	4,591	(903)	2,851	982	155,845	-
Industrial & commercial equipment	101,583	2,585	4,612	(769)	1,913	314	107,652	2,912
Other assets	13,646	5,990	1,636	(446)	39	117	14,992	7,238
Assets in progress and advances	18,932	-	15,025	-	(4,841)	(1)	29,115	-
Total property, plant & equipment	**338,559**	**22,691**	**26,804**	**(2,384)**	**-**	**1,861**	**364,840**	**24,343**

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 2022 and renewed in the year. For further information, reference should be made to Note 35. The increases in assets in progress include costs that are being incurred by the Parent Company for the refurbishment of the labs at the headquarters in Viale dell'Industria 31/33, Padua (Italy).

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, 2021 were in progress and which in 2022 became fixed assets to be depreciated.

ACCUMULATED DEPRECIATION

(Euro.000)

	Provision at Dec. 31, 21	Of which "Right-of-use" IFRS 16	Depreciation	Disposals	Other movements	Translation differences	Balance at Dec. 31, 22	Of which "Right-of-use" IFRS 16
Acc. Depr. Land and buildings	(25,278)	(3,205)	(2,578)	257	-	(360)	(27,960)	(4,463)
Acc. Depr. Plant and machinery	(115,257)	-	(8,478)	873	0	(788)	(123,649)	-
Acc. Depr. Industrial & commercial equipment	(91,286)	(1,139)	(6,351)	761	-	(285)	(97,161)	(1,659)
Acc. Depr. Other assets	(8,702)	(2,655)	(1,584)	423	(0)	(102)	(9,965)	(3,681)
Assets in progress and advances	-	-	-	-	-	-	-	-
Total accumulated depreciation Property, plant and equipment	**(240,523)**	**(6,999)**	**(18,991)**	**2,314**	**-**	**(1,536)**	**(258,735)**	**(9,803)**

Property, plant and equipment were depreciated at December 31, 2022 at the following rates:

	Rate
Land & buildings	48.85%
Plant and machinery	79.34%
Industrial and commercial equipment	90.25%
Other assets	66.47%
Leasing	40.27%

Note 3: Investments

The following table reports the movements in 2022 in investments.

(Euro.000)

Investments	Balance at 31/12/2021	Increases for the year	Decreases for the year	Other changes	Balance at 31/12/2022
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.	521	-	-	-	521
Immobiliare Polesana (formerly IMER)	1	-	-	-	1
UpSens srl	-	300	-	-	300
Conthidra S. L.	275	5	-	-	280
Other minor	1	-	-	-	1
Doubtful debt provision 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	**325**	**305**	**-**	**-**	**630**

The increase of Euro 300 thousand for the period concerns the subscription of 10% of the capital of UpSens S.r.l. (Trento). The increase of Euro 5 thousand relates to 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, 2022 is as follows:

(Euro.000)	Dec 31, 22	Dec 31, 21
Guarantee deposits	325	318
Escrow deposit account - long term	1,500	1,500
Derivative financial instruments	3,361	321
Non-current financial assets	**5,186**	**2,139**
Short-term deposits	3,450	-
Escrow deposit account - short term	500	500
Derivative financial instruments	2,319	27
Other current financial assets	**6,269**	**527**

The main accounts are commented upon below.

RESTRICTED DEPOSIT ACCOUNT (SHORT AND MEDIUM TERM)

In 2020, the Parent Company Sit S.p.A. paid Euro 3,000 thousand on behalf of the subsidiary Sit Metering S.r.l. as a guarantee, as part of the acquisition of the company JANZ Contagem e Gestão de Fluídos SA. At December 31, 2022, the amount of Euro 2,000 thousand, recognised under current and non-current financial assets, was paid in as a restricted deposit for the maximum duration of 5 years. It should be noted that, in early 2023, the short-term portion of the restricted deposit account was also released in accordance with the contract.

DERIVATIVE FINANCIAL INSTRUMENTS (CURRENT AND NON-CURRENT)

Following the refinancing carried out in the second half of 2021, the Parent Company signed a 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, 2022, the mark to market of derivatives was positive on the non-current portion for Euro 3,361 thousand and on the current portion for Euro 2,195 thousand. Please refer to Note No. 19 for further information on the loan agreement.

In 2022 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 purchases	AUD	1,494,000	EUR	1.5823	1.5843	7		
Forward sales	CNY	15,000,000	EUR	6.8570	7.0040			102
Forward sales	GBP	400,000	EUR	0.8733	0.8780	6		
Forward sales	USD	1,315,000	EUR	1.0609	1.0644	9		
Total						**22**	**0**	**102**

SHORT-TERM DEPOSITS

The amount relates entirely to the payment of a security deposit to a supplier to guarantee supplies of electronic components having particularly long lead times and whose delivery has been particularly unpredictable over the past 12 months. This deposit constitutes the commitment of Sit S.p.A. (for Euro 2,300 thousand) and Metersit S.r.l. (for Euro 1,150 thousand) to maintain orders to support the supplier's business in the current context of electronic component shortage. Reimbursement is expected upon delivery of the material during the period.

Note 5: Deferred tax assets

A breakdown of temporary differences and the consequent deferred tax assets at December 31, 2022 and at December 31, 2021 is reported below, on the basis of the breakdown by type of the temporary differences:

December 31, 2022

(Euro.000)	Changes IRES	Changes IRAP	IRES tax effect	IRAP tax effect
Employee provisions	5,115	4,294	1,276	167
Other risk and charges provisions	1,721	1,719	413	67
Costs deductible in future years	6,815	-	2,044	-
Employee benefits	(42)	-	(10)	-
Write-down of inventories	2,443	2,099	607	82
Deprec. suspended on revaluations	171	171	41	7
Tax losses	15,630	-	3,751	-
Non-deductible interest	-	-	-	-
Other & overseas	1,680	49	479	2
Inter-company transactions	5,294	5,294	1,271	206
Cash Flow Hedge Reserve	-	-	-	-
Unrealised foreign exchange losses	368	-	88	-
Total	**39,195**	**13,628**	**9,961**	**531**

Balance at December 31, 2021

(Euro.000)	Changes IRES	Changes IRAP	IRES tax effect	IRAP tax effect
Employee provisions	4,665	3,859	1,168	150
Other risk and charges provisions	1,109	1,107	266	43
Costs deductible in future years	1,935	-	581	-
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**

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, 22	Dec 31, 21
Raw materials, ancillary and consumables	52,549	37,902
Work-in-progress and semi-finished goods	17,204	15,816
Finished products and goods	20,938	16,369
Advances to suppliers	661	35
Inventories	**91,352**	**70,123**

The movements in the inventory obsolescence provision were as follows:

(Euro.000)	Dec 31, 22
Obsolescence provision 31/12/2021	**3,415**
Utilisation in the year	(257)
Allocation in the year	585
Obsolescence provision 31/12/2022	**3,744**

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, 22	Dec 31, 21
Trade receivables	65,440	57,529
Receivables from companies of the Group	609	626
Trade receivables from holding company	-	63
Receivables from companies subject to control of holding company	18	16
Current trade receivables	**66,067**	**58,234**
Doubtful debt provision	(2,267)	(2,182)
Trade receivables	**63,800**	**56,052**

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 12,601 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 2,267 thousand, with the movements in 2022 reported in the following table:

(Euro.000)	Dec 31, 22
Doubtful debt provision 31/12/2021	**(2,182)**
Utilisation in the year	34
Allocation in the year	(119)
Doubtful debt provision 31/12/2022	**(2,267)**

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, 2022					
Trade receivables	55,297	4,982	2,144	2,991	65,414
December 31, 2021					
Trade receivables	47,952	4,387	2,798	2,392	57,529

Note 8: Other current assets

The account is broken down as follows:

(Euro.000)	Dec 31, 22	Dec 31, 21
Tax receivables	6,407	10,374
Advances	1,476	1,814
Prepayments and accrued income	1,228	1,257
Other receivables	1,194	684
Other tax credits	2,205	1,278
Employee receivables	1	22
Social security institution receivables	87	316
Other current assets	**12,597**	**15,745**

TAX RECEIVABLES

The breakdown is as follows:

(Euro.000)	Dec 31, 22	Dec 31, 21
VAT receivables	4,165	3,403
Group VAT receivables	469	2,267
Withholding taxes	1,773	4,704
Total tax receivables	**6,407**	**10,374**

VAT RECEIVABLES

The VAT balance includes Euro 1,122 thousand concerning the subsidiary SIT Manufacturing N.A.S.A. de C.V. against regulatory changes introduced by the local government which in 2020 removed the possibility of offsetting VAT credits with current tax payables. The subsidiary submitted a request to the State for reimbursement, obtaining a partial offsetting.

The balance also includes Euro 2,915 thousand attributable to the subsidiary JANZ, which requested a refund of a portion of this VAT credit for a total of Euro 2,712 thousand and is awaiting said refund, which is expected to be received in 2023.

GROUP VAT RECEIVABLES

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 469 thousand concerns the net receivable with the parent company, respectively of Euro 813 thousand with Sit S.p.A. and a payable of Euro 344 thousand with Metersit S.r.l.

WITHHOLDING TAX RECEIVABLES

Withholding tax receivables of Euro 1,773 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. Following the agreement reached in 2021 with the Tax Agency on the calculation of the economic benefits from intangible assets (”Patent Box” optional system), during the year the Parent Company filed a supplemental return for the fiscal period covered by the ruling, making use of the option to calibrate the use of past losses and of the ACE deduction, which resulted in a significant recovery of the receivables for withholdings incurred overseas.

ACCRUED INCOME AND PREPAYMENTS

At December 31, 2022, 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 CREDITS

At December 31, 2022, this item consists primarily of:

- Euro 968 thousand relating to the tax credit accrued for research, development and technological innovation activities (Budget Law 2020 No. 160/2019), of which Euro 418 thousand pertaining to the Parent Company and Euro 550 thousand pertaining to the subsidiary Metersit S.r.l.;
- Euro 115 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 96 thousand pertaining to the Parent Company Sit S.p.A. and Euro 19 thousand pertaining to the subsidiary Metersit S.r.l.
- Euro 220 thousand relating to the residual excess IRES transferred from Sit Technologies S.p.A. pursuant to Article 43-*ter* of Presidential Decree No. 602 of 1973 and recognised by the same Company in the CNM - income 2021 form.

Note 9: Tax receivables

Income tax receivables were as follows:

(Euro.000)	Dec 31, 22	Dec 31, 21
IRES receivables	563	57
IRAP receivables	671	327
Tax consolidation receivables	829	107
Other current taxes	218	2,474
Tax receivables	**2,281**	**2,965**

The amount of 829 thousand 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, 22	Dec 31, 21
Cash in hand and similar	18	32
Bank and postal deposits	23,517	46,635
Cash and cash equivalents	**23,535**	**46,667**

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, 2022 to Euro 96,162 thousand, comprising 209,110,209 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%	Euronext

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. July 2022 was the deadline for exercising the SIT warrants and the related increase in share capital.

Note 12: Reserves

A breakdown follows:

(Euro.000)	Dec 31, 22	Dec 31, 21
Share premium reserve	10,360	10,360
Capital payments reserve	16,615	16,615
Total capital reserves	**26,975**	**26,975**
Legal reserve	19,232	19,230
Treasury shares reserve	(6,733)	(6,134)
Cash flow hedge reserve	4,219	(45)
Actuarial reserve	(214)	(656)
Extraordinary reserve	1,721	1,491
Translation reserve	(4,328)	(7,255)
LTI reserve	1,053	174
Warrant Reserve	-	230
Retained earnings (accum. losses)	16,196	15,261
Total profit reserves	**31,146**	**22,296**
Total reserves	**58,121**	**49,271**

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.

LEGAL RESERVE

The legal reserve increased Euro 2 thousand following the resolution passed by the Shareholders’ Meeting of April 29, 2022, due to the provisioning of a portion of the 2021 profit.

TREASURY SHARES RESERVE

The treasury shares reserve amounts to Euro 6,733 thousand. During 2022, an additional 70,962 treasury shares were purchased for a total amount of Euro 599 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, 2022, 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.

On April 29, 2021, the Shareholders' Meeting approved 3 new incentive plans (Performance Shares Plan, Restricted Shares Plan, Advisory Board Stock Compensation Plan), one of which provides for three allocation cycles in 2021, 2022 and 2023. At December 31, 2022, the item includes the fair value of the 3 new plans and the relative allocations in the year for Euro 1,053 thousand. For further details, reference should be made to Note 37.

CASH FLOW HEDGE RESERVE

The cash flow hedge reserve at December 31, 2021 is recorded as a negative value of Euro 45 thousand, net of the Euro 14 thousand tax effect. This reserve derives from the Fair Value valuation of the 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, 2022 had a positive value of Euro 4,219 thousand, net of the tax effect of Euro 1,350 thousand.

ACTUARIAL RESERVE

At December 31, 2022, the actuarial reserve was a negative Euro 214 thousand and derives from the effects of discounting post-employment benefits.

EXTRAORDINARY RESERVE

The extraordinary reserve at December 31, 2022 amounted to Euro 1,721 thousand, increasing by Euro 230 thousand during the year due to the release of the reserve for warrants that expired on July 19 in accordance with the warrant rules.

RETAINED EARNINGS (ACCUM. LOSSES)

At December 31, 2022, the account is positive for Euro 16,196 thousand compared to Euro 15,261 thousand at December 31, 2021. The net increase of Euro 935 relates to the positive amount of Euro 8,241 thousand in allocation of a portion of the 2021 result, while the negative amount of Euro 7,299 thousand concerns the dividends paid during the year following the motion taken by the Shareholders' Meeting of April 29, 2021 and Euro 8 thousand to other movements.

Non-current liabilities

Note 13: Medium/long-term loans and borrowings

The breakdown of the account at December 31, 2022 is illustrated below:

(Euro.000)	Dec 31, 22	Dec 31, 21
Non-current portion of loans	77,968	74,540
Medium/long-term loans and borrowings	**77,968**	**74,540**

The balance at December 31, 2022 of Euro 77,968 thousand increased by Euro 3,428 thousand on December 31, 2021. This increase is mainly due to the non-current portion of two loans entered into during the first half of 2022 with leading banks (Unicredit for Euro 7,000 thousand and Cassa Depositi e Prestiti for Euro 11,250 thousand), as well as to the short-term reclassification of the financial debt related to the Senior Financial Agreement (SFA 2021) of Euro 15,000 thousand. 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, 2022 is illustrated below:

(Euro.000)	Dec 31, 22	Dec 31, 21
Other non-current financial liabilities	1,986	2,068
Bond loan - non-current portion	39,520	39,438
Non-current financial lease payables - IFRS 16	12,047	13,119
Other non-current financial liabilities and derivative financial instruments	**53,553**	**54,625**

OTHER NON-CURRENT FINANCIAL LIABILITIES

The amount at December 31, 2022 includes Euro 1,913 thousand relating to the payable for the acquisition of the investment in JANZ - Contagem e Gestão de Fluídos, SA, which was finalised on December 29, 2020.

The item also includes Euro 73 thousand (of which Euro 45 thousand relating to Sit S.p.A. and Euro 28 thousand to the subsidiary Metersit S.r.l.) related to loans granted by Sace-Simest, under the Decree Law of March 17, 2020 converted by the Law of April 24, 2020 No. 27, to be used for participation at fairs and exhibitions overseas and for personnel 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, 2022, 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, 21	Provisions	Utilisations	Release	Dec 31, 22
Agents indemnity provision	152	2	-	-	154
Other risks provision	3,873	8,951	(134)	(243)	12,447
Product warranty provision	916	329	(2)		1,243
Total provisions for risks and	**4,941**	**9,283**	**(136)**	**(243)**	**13,844**

AGENTS INDEMNITY PROVISION

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

OTHER RISKS PROVISION

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

- Euro 7,462 thousand relates to the provision against an out-of-court settlement signed at the beginning of 2023, equal to Euro 7,427 thousand (USD 8,000 thousand), 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 provision also includes Euro 35 thousand for legal fees incurred in early 2023.

- Euro 2,216 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 240 thousand takes into account the discounting of cash flows, utilising a pre-tax discount rate. The provision decreased on the previous year by Euro 14 thousand.
- Euro 750 thousand refers to the subsidiary Metersit S.r.l. for specific claims and 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 provision increased by Euro 208 thousand for a technical issue with meters sold, Euro 90 thousand for a dispute related to the validity of the Metersit S.r.l. patents, and Euro 10 thousand for potential penalties due to delays in deliveries during the year. Over the same period, Euro 135 thousand was released at the end of the warranty replacement period, and Euro 55 thousand was released for the expiration of the period in which claims can be filed. There was also a Euro 3 thousand use of the provision in response to customer claims for penalties.
- Euro 728 thousand to hedge the risks over ongoing disputes with the Parent Company's customers, whose risk of loss is highly probable. During the year this provision increased Euro 173 thousand, while the decrease amounting to Euro 54 thousand is due to the reduced contractual obligations towards customers for potential indemnities;
- Euro 851 thousand relating to the costs of the reclamation of a plot of land owned by the Company. Euro 553 thousand was also allocated and Euro 60 thousand was used.
- The provision for risks also includes Euro 69 thousand for ongoing disputes with employees; during the year this provision increased by Euro 9 thousand.

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 798 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 amounted to Euro 329 thousand.
- Euro 140 thousand relating to products sold by the Parent Company, calculated on the basis of the assessment and analysis of returns. The value of the provision is in line with the previous year.

Note 16: Post-employment benefit provision

The movements in the account in the year to December 31, 2022 and to December 31, 2021 were as follows:

(Euro.000)	Dec 31, 22	Dec 31, 21
Net liabilities for employee benefits	4,649	5,338
Liabilities for retention or other	444	424
Post-employment benefit provision	**5,093**	**5,762**

The movements in post-employment benefits were as follows:

(Euro.000)	Dec 31, 22	Dec 31, 21
Post-em. bens. at beginning of year	5,337	5,659
Payments in the year	(252)	(535)
Current service cost	97	88
Interest cost	50	17
Actuarial gains	(582)	108
Post-em. bens. at end of year	**4,649**	**5,338**

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

Defined benefit plans	Dec 31, 22	Dec 31, 21
Annual discount rate	3.63%	0.98%
Annual inflation rate	2.30%	1.75%
Annual increase in post-employment benefit	3.23%	2.81%
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 liabilities

A breakdown of temporary differences and the consequent deferred tax liabilities at December 31, 2022 and at December 31, 2021 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, 2022

(Euro.000)	Changes IRES	Changes IRAP	IRES tax effect	IRAP tax effect
Tax on business combinations	47,065	37,616	11,296	1,467
Accelerated depreciation	376	-	90	-
Finance Leases	881	881	211	34
Unrealised for. exchange gains/losses	635	-	152	-
Other	1,411	-	424	-
Derivative financial instruments	5,543	-	1,330	-
Total	**55,910**	**38,496**	**13,504**	**1,501**

Balance at December 31, 2021

(Euro.000)	Changes IRES	Changes IRAP	IRES tax effect	IRAP tax effect
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**

Current liabilities

Note 18: Short-term loans and borrowings

The breakdown is as follows:

(Euro.000)	Dec 31, 22	Dec 31, 21
Utilisation short-term lines	2,934	40
Current portion of loans	20,580	19,727
Current financial charges	37	3
Short-term loans and borrowings	**23,551**	**19,769**

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 with the following main features:

- original amount of Euro 90,000 thousand, 5-year duration with maturity June 30, 2026;
- settlement according to a repayment plan stipulating half-yearly instalments 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 2022, 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.

As at December 31, 2022, the Company was in compliance with all covenants.

The residual nominal amount at December 31, 2022 totals Euro 75,000 thousand, of which the non-current portion Euro 60,000 thousand and the current portion Euro 15,000 thousand. The residual amount at amortised cost at December 31, 2022 totals Euro 74,548 thousand, of which the non-current portion Euro 59,718 thousand and the current portion Euro 14,830 thousand.

During the first half of 2022, the Parent Company, in support of the investments for the new HQ and R&D laboratories and to cover the increased working capital, obtained two new credit lines with a total nominal value of Euro 25 million, of which the non-current portion amounting to Euro 18,250 thousand (Euro 7,000 thousand from Unicredit and Euro 11,250 thousand from Cassa Depositi e Prestiti) and with the current portion amounting to Euro 5,750 thousand (of which Euro 2,000 thousand from Unicredit and Euro 3,750 thousand from Cassa Depositi e Prestiti).

Note 19: Other current financial liabilities and derivative financial instruments

A breakdown follows:

(Euro.000)	Dec 31, 22	Dec 31, 21
Bond loan - current portion	34	20
Other current financial payables	799	968
Dividend payables	2	-
Factoring payables	718	608
Derivative financial instruments (current portion)	823	593
Current financial lease payables - IFRS 16	2,859	2,800
Other current financial liabilities and derivative financial instruments	**5,235**	**4,988**

BOND LOAN - CURRENT PORTION

The account includes Euro 116 thousand concerning the payable for interest charges on the bond loan, net of the amortised cost effect (Euro 82 thousand).

OTHER CURRENT FINANCIAL PAYABLES

The amount, equal to Euro 799 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 251 thousand.

The decrease of Euro 169 thousand from the previous year is mainly due to payment of the earn-outs related to acquisition of the investment in JANZ for Euro 42 thousand and to the final tranche of the acquisition of the investment in Plast Alfin S.a.r.l. for Euro 150 thousand.

The item also includes the current portion of the Sace-Simest loans, as described in greater detail in Note 14, amounting to Euro 49 thousand (of which Euro 30 thousand for SIT and Euro 19 thousand for the subsidiary Metersit S.r.l.).

DERIVATIVE FINANCIAL INSTRUMENTS - CURRENT PORTION

In 2022 the Company entered into currency hedging contracts that 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 these derivatives are summarised below:

(Euro.000)

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 purchases	CNY	8,900,000	EUR	7.4327	7.4326	(5)		
Total						**(5)**	**-**	**-**

The currency contracts at December 31, 2021 were as follows:

(Euro.000)

Transaction type	Curre ncy	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)**

In 2022, the Company undertook hedging contracts against gas and electricity prices. These contracts do not meet the hedging requirements established by IFRS 9 for the application of hedge accounting. The main characteristics of these financial instruments are summarised below:

(Euro.000)

Transaction type	Beginning date	Maturity	Fixed price EUR/MWh	Quantity MWh Dec 31, 22	Fair value Dec 31, 22
Commodity swap Natural Gas-PSV	01/01/2023	31/12/2023	142.50	4,800	(299)
Commodity swap Electricity-PUN	01/01/2023	31/12/2023	321.50	5,040	(519)
Total					**(818)**

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, 21	Drawdown	Acquisitions	Reimbursements/settlements	Reclassification	Fair Value Changes	Change in amortised cost	Dec 31, 22
Bank payables - non-current portion of loans	75,000	25,000			(21,750)			78,250
Bank payables - non-current portion amortised cost	(460)				178			(282)
Total bank payables - non-current portion loans	**74,540**	**25,000**	**0**	**0**	**(21,572)**	**0**	**0**	**77,968**
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)				82			(480)
Derivative financial instruments - non-current portion	-							-
IFRS16	13,120	1,536			(2,609)			12,047
Payables to other lenders	2,067				(82)			1,986
Total other non-current financial liabilities and derivative financial instruments	**54,625**	**1,536**	**-**	**-**	**(2,609)**	**-**	**-**	**53,553**
Total non-current financial liabilities	**129,166**	**26,536**	**0**	**0**	**(24,181)**	**0**	**0**	**131,521**
Bank payables - current portion of loans	20,000			(21,000)	21,750			20,750
Bank payables - current portion amortised cost	(273)			281	(178)			(170)
Current account and accrued interest expense	42	2,971		(42)				2,971
Total bank payables - current portion of loans	**19,770**	**2,971**	**0**	**(20,761)**	**21,572**	**0**	**0**	**23,551**
Shareholder loan - current portion of loans	-							-
Bond loan - current portion	-							-
Bond loan - amortised cost current portion	(81)			81	(82)			(82)
Bond loan - accrued interest expense	100	116		(100)				116
Derivative financial instruments - current portion	593			(593)		823		823
Factoring payables	608	718		(608)				718
IFRS16	2,800	527		(3,077)	2,609			2,859
Payables to other lenders	968	2		(252)	82			800
Total other current financial liabilities and derivative financial instruments	**4,988**	**1,363**	**0**	**(4,549)**	**2,609**	**823**	**0**	**5,234**
Total current financial liabilities	**24,758**	**4,334**	**0**	**(25,310)**	**24,181**	**823**	**0**	**28,785**

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, 2022, trade payables were broken down as follows:

(Euro.000)	Dec 31, 22	Dec 31, 21
Trade payables	81,400	80,739
Trade payables to holding company	-	13
Trade payables	**81,400**	**80,752**

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, 2022					
Trade payables	65,243	11,006	4,105	1,045	81,400
December 31, 2021					
Trade payables	66,883	9,443	1,615	2,798	80,739

SUPPLIER 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 509 thousand.

Note 21: Other current liabilities

A breakdown follows:

(Euro.000)	Dec 31, 22	Dec 31, 21
Other payables	2,362	2,386
Customer advances	1,848	951
Current remuneration payables	2,295	2,303
Deferred remuneration payables	4,593	4,410
Payables to social security institutions	3,311	3,330
Result bonuses	2,591	3,905
Accrued expenses	1,861	1,352
Substitute tax payables	3,389	3,729
VAT payables	864	798
Other current liabilities	**23,113**	**23,163**

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 2022 salaries, paid in January 2023.

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 2022 bonuses, to be paid in 2023.

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. At December 31, 2021, the account came to Euro 8,748 thousand. As per the rules, these warrants expired on July 19, 2022; therefore, the liability was eliminated, and the value was recognised as a financial gain.

Note 23: Tax payables

The amount of Euro 1,205 thousand mainly concerns the payable for direct income taxes of the foreign subsidiaries.

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)	2022	2021
Revenues from product sales	392,284	379,095
Revenues from services	1,021	1,426
Revenues from sales and services	**393,305**	**380,521**

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

(Euro.000)	2022	2021
Heating	319,773	301,382
Smart Gas Metering	48,856	58,049
Water metering	24,676	21,089
Total revenues from sales and services	**393,305**	**380,521**

Group revenues by region were as follows:

(Euro.000)	2022	2021
Italy	99,452	106,992
Foreign EU	169,396	167,497
Foreign Non-EU	124,457	106,032
Total revenues from sales and services	**393,305**	**380,521**

Note 25: Raw materials, ancillaries, consumables and goods

The breakdown of the account in 2022 and 2021 was as follows:

(Euro.000)	2022	2021
Purchases of ancillary materials	10,241	7,105
Purchases of raw materials, semi-finished & packaging	184,151	172,769
Finished products purchases	30,813	23,290
Purchases of consumable materials	55	182
Purchases of goods	89	412
Maintenance and repair materials	2,737	2,748
Other purchases	3,519	2,757
Duties on purchases	1,968	1,422
Raw materials, ancillaries, consumables and goods	**233,573**	**210,685**
Changes in inventories of raw materials, ancillaries, consumables and goods	(14,885)	(4,796)
Change in inventories of finished & semi-finished products and goods	(5,001)	(6,490)
Change in inventories	**(19,886)**	**(11,286)**
Total cost of raw materials, ancillaries, consumables and goods	**213,687**	**199,399**

Raw materials, ancillaries, consumables and goods, including changes in inventories, amounted to Euro 213,687 thousand, accounting for 54.3% of revenues, increasing on 2021 (52.4%) due to the strong raw material price tensions arising during the year.

Note 26: Services

The composition of the account is as follows:

(Euro.000)	2022	2021
Rent, hire and leases	512	426
Outsourcing	10,103	9,773
Transport	12,010	10,351
Commissions	387	323
Legal, administrative and other	7,112	6,519
Insurance	1,055	1,054
Management services	622	676
Maintenance & repair expenses	4,710	4,076
Utilities	5,139	5,464
Personnel expense	2,409	2,190
Cleaning and security	1,502	1,524
Advertising, marketing, and sponsorship	734	490
Directors, statutory & independent auditor fees	2,337	2,396
Travel and accommodation	1,030	705
Bank charges & commissions	608	782
Other services	1,716	1,437
Listing charges	315	238
Service costs	**52,301**	**48,424**

TRANSPORT

Transport costs increased by Euro 1,659 thousand compared to the previous year due both to supply-chain management, focused on obtaining raw materials and components rather than optimising costs related to incoming goods flows and to increased transport costs on purchases.

LEGAL, ADMINISTRATIVE AND OTHER

Consultancy costs, amounting to Euro 7,112 thousand, rose by Euro 593 thousand on the previous year due to increased use of technical and product consultancy.

Note 27: Personnel expense

Personnel expenses are shown below:

(Euro.000)

Personnel expense	2022	2021
Wages and salaries	54,974	56,106
Social security charges	13,458	13,474
Temporary personnel	7,288	7,965
Post-employment benefits	2,837	2,919
Other costs	1,625	1,526
Personnel expense	**80,182**	**81,990**

The average number of personnel in 2022 and 2021 was as follows:

Employees	2022	2021
Executives	40	39
White-collar	600	557
Blue-collar	1,801	1,892
Temporary	276	286
Total employees	**2,717**	**2,774**

WAGES AND SALARIES

The decrease in salaries and wages of Euro 1,132 thousand on the previous year was mainly due to the lower MBO (Management by Objectives) in line with the achievement of the Group strategic objectives.

TEMPORARY PERSONNEL

Temporary personnel costs decreased Euro 677 thousand on the previous year in order to provide greater flexibility in production.

Note 28: Depreciation, amortisation and write-downs

The breakdown is as follows:

(Euro.000)	2022	2021
Amortisation of intangible assets	8,659	8,787
Depreciation of property, plant and equipment	15,865	14,239
Depreciation of operating lease IFRS 16	3,129	2,874
Total depreciation and amortisation	**27,653**	**25,900**
Write-down of current receivables	118	12
Write-down of non-current receivables	-	-
Write-down of tangible assets	-	985
Write-down of intangible assets	-	-
Total write-downs	**118**	**997**
Depreciation, amortisation and write-downs	**27,771**	**26,897**

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)	2022	2021
Provision for disputes	8,949	397
Provisions for return risks	-	208
Others	34	55
Uses/releases provisions	(261)	(743)
Provisions for risks	**8,722**	**(83)**

In 2022, provisions totalled Euro 8,983 thousand and were stated net of utilisations and releases of Euro 261 thousand. The main changes in the year refer to:

- Euro 7,346 thousand for the allocation by the Mexican subsidiary SIT Manufacturing Na Sa deCV following an out-of-court settlement reached in early 2023, in addition to Euro 35 thousand related to legal fees. For further information, reference should be made to Note 15;
- Euro 240 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 329 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, entirely relating to the subsidiary Metersit S.r.l.;
- Euro 381 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 173 thousand regarding the Parent Company and Euro 208 thousand concerning the subsidiary Metersit S.r.l.
- Euro 553 thousand of provisions for the costs of the reclamation of a plot of land owned by the Company, recorded in the Parent Company;
- Euro 90 thousand related to a dispute involving the subsidiary Metersit S.r.l. regarding existing patents.
- Euro 10 thousand related to a dispute involving the subsidiary Metersit S.r.l. for potential penalties for late deliveries.

The decrease includes Euro 109 thousand of releases from provision for risks and charges due to lower obligations to clients for potential contractual compensation, of which Euro 54 thousand in the parent company and Euro 55 thousand in the subsidiary Metersit S.r.l. The decreases include Euro 135 thousand attributable to Metersit S.r.l. in relation to expiration of the warranty replacement period.

Note 30: Other charges (income)

The account is broken down as follows:

(Euro.000)

Other charges (income)	**2022**	**2021**
Misc. recoveries	467	956
Prior year income	202	141
Gains on fixed assets	305	199
Grants	969	886
Other revenues	50	27
Other income	**1,993**	**2,209**
Misc. taxes & non-deductible costs	415	396
Losses on fixed assets	33	63
Associations	267	247
Prior year charges	137	79
Losses on receivables	68	19
IMU Property tax	193	208
Misc. reimbursements	190	6
Other charges	775	755
Other charges	**2,078**	**1,773**
Other charges (income)	**85**	**(436)**

GRANTS

This account includes the tax credit for research, development and technological innovation activities for the year 2022 as provided for by Budget Law 2020 No. 160/2019 and a government contribution obtained by Sit S.p.A. (Euro 715 thousand) and Metersit S.r.l. (Euro 155 thousand).

MISCELLANEOUS RECOVERIES

Miscellaneous recoveries increased by Euro 184 thousand compared to the previous year. The aggregate includes Euro 95 thousand related to compensation granted to a supplier, recognised among non-recurring charges.

Note 31: Financial income

In 2022, this amounted to Euro 9,263 thousand and was broken down as follows:

(Euro.000)	2022	2021
Interest income on bank accounts	48	2
Other interest income	31	163
Profits on derivative financial instruments	436	229
Adjustment to fair value of financial liabilities	8,748	-
Financial income	**9,263**	**395**

PROFITS ON DERIVATIVE FINANCIAL INSTRUMENTS

The amount relates for Euro 325 thousand to the mark to market of the derivative contracts on foreign currencies which do not comply with the company's formal hedging policy and for Euro 112 thousand mark to market on IRS currency hedging contracts.

ADJUSTMENT TO FAIR VALUE OF FINANCIAL LIABILITIES

As per the rules, the SIT warrants expired on July 19, 2022; therefore, a gain of Euro 8,748 thousand was recognised for the effect of the expired warrants that were not exercised.

Note 32: Financial charges

Financial charges consist of:

(Euro.000)	2022	2021
Financial charges on hedging contracts	335	1,095
Interest charges to holding company	-	114
Interest and other bank charges	1,743	2,578
Interest charges to third parties	385	-
Interest on bond loans	956	577
Fair value of financial instruments	850	9,211
Financial charges for operating leases - IFRS 16	491	499
Financial charges	**4,760**	**14,074**

FINANCIAL CHARGES ON HEDGING CONTRACTS

The account refers to the differential matured at December 31, 2022 relating to the derivatives (IRS) on the loan contract.

INTEREST AND OTHER BANK CHARGES

The amount of Euro 1,743 thousand concerns interest on outstanding loans. The amount recorded in 2021 thousand included the effects accruing in the year from the settlement of the 2017 Senior Facility Agreement, of which Euro 695 thousand was the amortised cost portion and Euro 1,136 thousand the interest portion. In addition, the item included 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 956 thousand entirely concerns the interest charges accruing in the period on the bond loan. For further information, reference should be made to the Directors' Report and to Note 14.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

At December 31, 2022, the item amounts to Euro 850 thousand and refers for Euro 818 thousand to the fair value derivatives contracts on electricity and gas, which are not treated as hedging instruments. In 2022, the account included Euro 8,978 thousand related to the fair value adjustment of SIT Warrants outstanding and unexercised at December 31, 2021.

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 1,326 thousand are comprised as follows:

(Euro.000)	2022	2021
Realised exchange gains	7,201	6,745
Realised exchange losses	(8,611)	(6,215)
Unrealized exchange gains	1,461	1,710
Unrealised exchange losses	(1,377)	(1,217)
Net exchange gains and losses	**(1,326)**	**1,024**

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.

Net exchange rate gains and losses for 2022 came to a net loss of Euro 1,326 thousand, compared to a net gain of Euro 1, 024 thousand for the previous year, as a result of an unfavourable exchange rate on the conversion of revenues into the Group's functional currency.

Note 34: Income taxes

The breakdown of Income taxes in 2022 and 2021 was as follows:

(Euro.000)	2022	2021
Current income taxes	5,044	7,867
Deferred tax charges	(3,484)	(2,117)
Deferred tax income	796	(2,882)
Income from tax consolidation	(452)	(117)
Taxes from previous year	23	(550)
Other	428	1,261
Income taxes	**2,355**	**3,462**

Income taxes, which decreased on the previous year, was primarily affected by the Group's lower assessable income.

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.

Reconciliation of theoretical and actual tax rates	Dec 31, 22	Dec 31, 21
Adjustments for items not subject to taxation		
Pre-tax profit	**13,567**	**11,706**
Theoretical IRES in Italy 24.0%	**(3,256)**	**(2,809)**
Tax effect non-deductible costs	(2,877)	(2,876)
Tax effect on higher deductible costs	1,036	1,091
Tax effect on non-assessable income	2,043	0
Adjustments for prior period taxes	258	2,747
Tax Receivables	-	28
Other	75	(700)
Difference the tax rate on foreign entities	861	(561)
IRAP	**(594)**	**(932)**
Prior year IRAP:	**(51)**	**448**
IRAP deferred tax charge	100	100
IRAP deferred tax income	51	1
Tax at effective rate	**(2,355)**	**(3,462)**
Effective tax rate	**17.35%**	**29.58%**

Note 35: Leasing contracts

The tables below summarise the effects on the Group financial statements at December 31, 2022 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	Dec 31, 22
Operating lease contract charges	3,375
Contracts classified as short-term leases	34
Contracts classified as low-value assets	15
Total costs for services	**3,424**
Land & buildings	(1,529)
Industrial & commercial equipment	(545)
Other tangible assets	(1,055)
Total depreciation	**(3,129)**

Income from sub-leasing contracts	-
Sales and leaseback transaction	-
Total other charges/(income)	**-**
Interest charges on financial liabilities	(491)
Total financial charges	**(491)**

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

(Euro.000)	Dec 31, 22
Net investments accounted as ROU as at 1.1.2022	15,693
Increases in the year	2,063
Early settlements in the year	(89)
Depreciation and amortisation of the year	(3,129)
Exch. diff.	(5)
Net investments accounted as ROU as at 31.12.22	**14,534**
Payable for financial liabilities from ROU assets at 1.1.2022	15,919
Commitments in the year	2,063
Early settlements in the year	(100)
Cash outflows	(2,965)
Exch. diff.	(12)
Gross value of liabilities from ROU assets at 31.12.2022	**14,905**
Obligations for short-term lease contracts	0
Obligations for low-value asset contracts	34
Total obligations for lease contracts with recognition to costs of payments due	**34**

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

(Euro.000)	31/12/2022
Within the year	2,859
Between 1 and 5 years	8,073
Over 5 years	3,973
Total liabilities deriving from operating lease contracts	**14,905**

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	**Dec 31, 22**	**Dec 31, 21**
Profit attributed to the ordinary shareholders of the Parent Company	11,213	8,243
Dilution effect deriving from potential ordinary shares	(8,748)	8,978
Total profit/(loss) attributed to the ordinary shareholders of the Parent Company	**2,465**	**17,221**

Earnings per share	**Dec 31, 22**	**Dec 31, 21**
Weighted average number of ordinary shares, excluding treasury shares, to calculate basic earnings per share	24,327,666	24,531,526
Dilution effects for Warrants	-	574,802
Dilution effects for Performance Shares	-	-
Weighted average number of ordinary shares due to dilution effect	24,327,666	25,106,329
Basic earnings per share	**0.4609**	**0.3360**
Diluted earnings per share	**0.1013**	**0.6859**

Note 37: Share-based payments

At December 31, 2022, the company holds 800,409 treasury shares, of which 70,962 were acquired in 2022 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	**2022**	**2021**
Costs from equity-settled share-based payment transactions	857	174
Costs from cash-settled share-based payment transactions	-	-
Total costs deriving from share-based payment transactions	**857**	**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.
- 2021-2023 Restricted Shares Plan: provides for the identification and nomination by the Board of Directors of 8 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 the beneficiaries of the first cycle of the Performance Shares Plan and of the other two plans described above. On July 8, 2022, the Board of Directors identified the beneficiaries of the second cycle of the Performance Shares Plan. The following tables illustrates the number and average weighed exercise price (PMPE) of the options during the year:

	2022	
2021-2025 Performance Shares Plan 1st Cycle	**No. options**	**Weighted average price**
Outstanding at January 1	142,560	7.26
Assigned during the year	-	-
Cancelled during the year	(3,000)	7.26
Exercised during the year	-	-
Change in the year	13,487	7.26
Expired during the year	-	-
Outstanding at December 31	**153,047**	**7.26**
Exercisable at December 31	**-**	**-**

	2022	
2021-2025 Performance Shares Plan 2nd Cycle	**No. options**	**Weighted average price**
Outstanding at January 1	-	-
Assigned during the year	156,215	4.41
Cancelled during the year	-	-
Exercised during the year	-	-
Change in the year	-	-
Expired during the year	-	-
Outstanding at December 31	**156,215**	**4.41**
Exercisable at December 31	**-**	**-**

	2022	
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	-	-
Changes in the year	13,489	7.26
Expired during the year	-	-
Outstanding at December 31	**61,442**	**7.26**
Exercisable at December 31	**-**	**-**

	2022	
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** **1st Cycle**	**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%

Shown below is the information utilised in the model for the second cycle of the Performance Shares Plan:

2021-2025 Performance Shares Plan **Assumptions for the measurement of the plan fair value** **2nd Cycle**	**2022**
Weighted fair value at the measurement date	4.41
Dividend yield (%)	5.00
Interest free risk rate (%)	(2.45)
Expected useful life of the options (in years)	2.6

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

2022

(Euro.000)	Heating	Metering	Eliminations	Consolidated
Revenue from sales and services	322,351	73,728	(2,774)	393,305
Operating costs	(311,998)	(73,524)	2,774	(382,748)
EBIT	10,353	204	0	10,557

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

Balance Sheet

2022

(Euro.000)	Heating	Metering	Eliminations	Consolidated
Assets	400,254	101,258	(36,046)	465,466
Liabilities	272,490	63,418	(35,937)	299,971
Shareholders' Equity	127,764	37,840	(108)	165,495

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

Related party transactions

SIT has prepared procedures for related party transactions in accordance with Article 4 of the CONSOB Regulation concerning related party transactions. This Regulation was adopted by Consob with Resolution No. 17221 of March 12, 2010, as subsequently amended and updated and, most recently, with Consob Resolution No. 21623 and 21624 of December 10, 2020. The Procedures for Transactions with Related Parties was published on the Company's website www.sitcorporate.it (Corporate Governance, Governance Documents section). Reference should be made to the Directors' Report for further information.

Parent company and Related party transactions

The principal transactions of SIT with related parties are those undertaken with the 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, 22	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
Technologies SAPA di F.D.S. S.S.	-	-	-	-	-	-	-	-
Holding company	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
SIT Immobiliare S.p.a.	17	-	-	-	-	-	17	-
SIT Technologies S.p.A.	24	-	5,915	-	-	-	1,694	-
Transactions with other related parties	**42**	**-**	**5,915**	**-**	**-**	**-**	**1,711**	**-**

The table below shows related party transactions during the year and reflects the chain of control in place at December 31, 2021:

(Euro.000)

Dec 31, 22	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 parent 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**

The SIT's operating revenues generated on transactions with SIT Immobiliare S.p.A. and SIT Technologies S.p.A. refer to advice and counsel provided by the Company in financial, administrative, tax and management control matters under a service agreement.

The financial income in respect of SIT Technologies S.p.A. refers to the change in the fair value of the SIT Warrants held until July 19, 2022.

SIT, 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 2022-2024. 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 Technologies 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, took part in 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. In 2021, the subsidiary SIT Metering S.r.l. also joined the Group VAT procedure and from the following year the parent company Technologies SAPA di F.D.S. S.S. also joined.

At December 31, 2022, the receivable of the Company from SIT Technologies S.p.A. amounted to Euro 813 thousand.

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)	2022	2021
Director fees	914	1,098
Statutory auditor fees	166	163
Total	**1,080**	**1,261**

The Group paid to the audit firm and its relative network total fees of Euro 488 thousand as follows:

(Euro.000)	2022	2021
Fees received by Deloitte & Touche S.p.A. for audit services	305	277
Fees received by other Deloitte network companies for audit services for the overseas investees	158	193

Fees received by the Deloitte network for audit services	**463**	**470**

(Euro.000)	2022	2021
Fees received by Deloitte & Touche S.p.A. for verification services for the issue of a statement	25	24
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	**25**	**24**

Guarantees

The off-balance sheet commitments of the Parent Company at December 31, 2022 were as follows.

(Euro.000)	2022	2021
Other unsecured guarantees	66,278	64,051
Secured guarantees	-	-
Total guarantees	**66,278**	**64,051**

Other unsecured guarantees

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

(Euro.000)	2022	2021
In the interest of subsidiaries	66,043	63,943
In own interest	235	108
Total other guarantees	**66,278**	**64,051**

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 2022, 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.

In response to the rising inflation being reported in the world’s leading economies in 2022, central banks have tightened monetary policy, which has led to higher interest rates. By way of example, the 6m Euribor rates at December 31, 2021, June 30, 2022, and December 31, 2022, were -0.546%, 0.263% and 2.693%, respectively.

Within this landscape, the adoption of the interest rate hedging policy has been particularly important and beneficial. At the reporting date, the Group has variable rate loans for a nominal capital amount of Euro 99 million. This loan provides for a variable interest rate of Euribor 6 months, and is hedged by interest rate swaps totalling Euro 84 million, or 85% of the underlying value.

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

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, 2022, the following table outlines the type of instrument, its value at the reporting date and the fair value hierarchy utilised:

(Euro.000)

Transaction type	Value at Dec 31, 22	Valuation criterion	Level 1	Level 2	Level 3
Interest Rate Swap	5,556	*Fair value*		5,556	
Forex Forward	119	*Fair value*		119	
Commodity Swaps	(818)	*Fair value*		(818)	

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, 2021:

(Euro.000)

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*		-	

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 by the parent company SIT S.p.A and by the subsidiary Metersit S.r.l. from the public sector are presented below.

(Euro.000)

Entity	Grants received in accordance with Law 124/2017 Sec. 125	as
Fondimpresa - Rome	29	Reimbursement of quota of fondimpresa training plan code 328029
Fondirigenti - Rome	8	Reimbursement of quota of fondirigenti training plan code FDIR 30123
Fondimpresa - Rome	14	Reimbursement of quota of fondimpresa training plan code 311786
Fondirigenti - Rome	2	Reimbursement of quota of fondirigenti training plan code FDIR30124
Simest SpA	2	Contribution for Hearth Patio & Barbecue Expo 2021 - prot.44854/FM/FP
Simest SpA	10	Contribution for ISH CHINA & CIHE 2021 - prot.44833/FM/FP
Simest SpA	68	Contribution for Technical assistance programme Tunisia - prot.20351/AT/FP
Simest SpA	18	Contribution for Enlit Europe - Milan - prot.44835/FM/FP
Simest SpA	11	Contribution for 28th World Gas Conference WGC 2021 - Daegu - prot.44834/FM/FP
Total	**164**	

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 21, 2023

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 2022.

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 21, 2023

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

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
SIT S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of SIT S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2022, 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. (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 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 the goodwill relating to the Heating, Smart Gas Metering and Water Metering CGUs	
Description of the key audit matter	The consolidated financial statements as at December 31, 2022 include a goodwill of Euro 87.9 million allocated to the Heating "cash generating unit" ("CGU") for Euro 62.1 million, to the Smart Gas Metering CGU for Euro 17.2 million and to the Water Metering CGU for Euro 8.6 million. Goodwill, as required by "IAS 36 Reduction in the value of assets", is not amortized, but is subjected to 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 test was approved by the Board of Directors on March 21, 2023. The Directors evaluation process is complex and it is based on assumptions regarding, among other things, the expected cash flows of 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 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 CGUs and the key variables of the impairment model, we have considered the impairment test of the goodwill allocated to the aforementioned CGUs a key audit matter of the Group's financial statements. Note 1 of the notes to the consolidated financial statements provides information on goodwill and on the impairment test.
Audit procedures performed	As part of our audit, among other things, we carried out the following procedures, also with the support of experts from 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, Smart Gas Metering and Smart Water Metering CGUs, analyzing the methods and assumptions used for the development of the impairment test; • analysis of reasonableness of the main assumptions adopted for the formulation of the expected cash flows also through analysis of sector data and obtaining information from Management;

- analysis of actual data with respect to the original plans to assess the nature of the deviations and the reliability of the plan preparation process;
- assessment of the reasonableness of discount rates (WACC) and long-term growth rate (g-rate);
- verification of the mathematical accuracy of the models used to determine the value 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 impairment test 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, actions taken to eliminate threats or safeguards applied.

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 as at December 31, 2022, 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 as at December 31, 2022 have been prepared in XHTML format and have been marked up, in all material respects, in accordance with the provisions of the Delegated Regulation.

Due to certain technical limitations, some information contained in the explanatory notes to the consolidated financial statements, when extracted from XHTML format in an XBRL instance, may not be reproduced in the same way as the corresponding information displayed in the consolidated financial statements in XHTML format.

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, 2022, 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, 2022 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, 2022 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.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

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

Padua, Italy
April 6, 2023

This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

SEPARATE FINANCIAL STATEMENTS AT DECEMBER 31, 2022

FINANCIAL STATEMENTS

BALANCE SHEET

(in Euro)	Note	December 31, 22	December 31, 21
Goodwill	1	85,087,912	85,087,912
Other intangible assets	1	18,408,006	21,066,152
Property, plant and equipment	2	71,997,344	65,729,029
Investments	3	78,417,532	77,913,319
Non-current financial assets	4	30,727,466	1,991,287
Deferred tax assets	17	5,002,156	4,063,072
Non-current assets		**289,640,416**	**255,850,771**
Inventories	5	30,309,538	24,581,625
Trade receivables	6	72,029,009	61,222,584
Other current assets	7	4,787,350	8,676,257
Tax receivables	8	1,368,000	1,159,365
Other current assets	9	27,370,220	46,783,525
Cash and Cash Equivalents	10	12,325,856	33,454,417
Current assets		**148,189,973**	**175,877,773**
Total assets		**437,830,389**	**431,728,544**
Share capital	11	96,162,195	96,162,195
Total Reserves	12	55,702,827	49,077,866
Net Profit		14,385,360	9,022,970
Shareholders' Equity		**166,250,382**	**154,263,031**
Medium/long-term loans and borrowings	13	77,968,432	74,540,376
Other non-current financial liabilities and derivative financial instruments	14	45,495,851	45,755,313
Provisions for risks and charges	15	1,942,366	1,318,935
Post-employment benefit provision	16	4,328,215	5,023,578
Deferred tax liabilities	17	7,299,843	6,892,974
Non-current liabilities		**137,034,707**	**133,531,176**
Short-term loans and borrowings	18	21,439,262	19,787,005
Other current financial liabilities and derivative financial instruments	19	26,441,432	37,879,993
Trade payables	20	74,039,536	64,349,192
Other current liabilities	21	12,625,070	12,825,118
Financial instruments for Warrants	22	0	8,748,297
Income tax payables	23	0	344,732
Current liabilities		**134,545,300**	**143,934,337**
Total Liabilities		**271,580,007**	**277,465,513**
Total Shareholders' Equity and Liabilities		**437,830,389**	**431,728,544**

INCOME STATEMENT

(in Euro)	Note	2022	2021
Revenues from sales and services	**24**	**288,244,269**	**269,768,224**
Raw materials, ancillaries, consumables and goods	25	187,952,659	163,244,728
Change in inventories	25	(5,103,516)	(3,892,316)
Service costs	26	35,654,547	35,542,302
Personnel expense	27	45,506,662	47,956,409
Depreciation, amortisation and write-downs	28	15,448,344	15,330,522
Provisions for risks	29	671,549	(457,984)
Other charges (income)	30	(59,451)	58,493
EBIT		**8,173,475**	**11,986,070**
Investment income/(charges)	31	2,224,713	9,768,972
Financial income	32	10,228,632	916,065
Financial charges	33	(4,603,607)	(13,706,071)
Net exchange gains (losses)	34	(763,518)	462,893
Impairments on financial assets		-	-
Profit before taxes		**15,259,695**	**9,427,929**
Income taxes	35	874,335	404,959
Net Profit		**14,385,360**	**9,022,970**

OTHER COMPREHENSIVE INCOME STATEMENT

(Euro)	2022	2021
Net Profit	**14,385,360**	**9,022,970**
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	5,614,482	886,322
Income taxes	(1,347,476)	(212,717)
Taxes (rate adjustment)	-	-
Total other comprehensive income statement items which may be subsequently reclassified to the profit/(loss) for the year, net of taxes	**4,267,006**	**673,605**
Other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes		
Unrealised actuarial gains	466,133	(94,708)
Income taxes	(111,872)	22,730
Total other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes	**354,261**	**(71,978)**
Total other comprehensive income/(expense) for the year, net of taxes	**4,621,267**	**601,627**
Total comprehensive income/(expense)	**19,006,627**	**9,624,597**

CASH FLOW STATEMENT

(Euro)	**Note**	**2022**	**2021**
Net profit		14,385,360	9,022,970
Amortisation, depreciation & write-downs	28	15,448,344	15,330,522
Non-cash adjustments		1,158,502	(329,284)
Income taxes	35	874,334	404,959
Net financial charges	32 - 33	(5,625,025)	12,790,006
(Dividends)	31	(2,224,713)	(9,768,972)
CASH FLOW FROM CURRENT ACTIVITIES (A)		**24,016,802**	**27,450,201**
Changes in assets and liabilities:			
Inventories	5	(5,727,913)	(3,896,737)
Trade receivables	6	(10,806,425)	(12,485,253)
Trade payables	20	9,690,344	10,179,292
Other assets and liabilities		593,160	1,351,783
Income taxes paid		(653,412)	(458,484)
CASH FLOW GENERATED (ABSORBED) FROM CHANGES IN WORKING CAPITAL (B)		**(6,904,246)**	**(5,309,400)**
CASH FLOW FROM OPERATING ACTIVITIES (A + B)		**17,112,555**	**22,140,802**
Investing activities:			
Investments in property, plant & equipment		(18,995,471)	(16,517,726)
Other changes in property, plant & equipment		2,172,535	2,922,275
Investments in intangible assets	1	(554,473)	(837,440)
Investments in financial assets		(299,980)	500,000
Other changes in financial assets		(5,253)	(1,955)
Investments in non-current financial assets		(2,304,478)	500,000
CASH FLOW FROM INVESTING ACTIVITIES (C)		**(19,987,121)**	**(13,434,846)**
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)		**(2,874,565)**	**8,705,955**
Financing activities:			
Interest paid		(2,193,845)	(2,711,844)
Paid-in share capital increase		0	10,274
Repayment of non-current financial payables	13 - 14	(21,000,000)	(139,059,166)
Increase (decrease) in short-term bank payables		803,593	-
New loans	13 - 14	25,000,000	133,482,508
(Increase)/decrease in loans to subsidiaries		(8,718,568)	(2,926,617)
Change in current accounts with subsidiaries		(14,081,289)	13,720,801
(Increase)/decrease in other financial payables		(1,826,573)	(1,663,385)
Sale/(Acquisition) of treasury shares	12	(599,489)	(3,922,017)
Dividends received		11,661,112	7,176,274
Payment of dividends	12	(7,298,939)	(6,889,665)
CASH FLOW FROM FINANCING ACTIVITIES (D)		**(18,253,996)**	**(2,782,837)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)		**(21,128,561)**	**5,923,118**
Cash & cash equivalents at beginning of the year		**33,454,417**	**27,531,299**
Increase (decrease) in cash and cash equivalents		(21,128,561)	5,923,118
Cash & cash equivalents at end of the year		**12,325,856**	**33,454,417**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Euro)								DETAILS OF OTHER RESERVES							
IFRS standards	**Share capital**	**Share premium reserve**	**Legal reserve**	**Share capital increase**	**Treasury shares reserve**	**FTA reserve**	**Currency differences reserve**	**Cash Flow hedge reserve**	**Actuarial reserve**	**Extra. reserve**	**Warrant reserve**	**L.T.I. reserve**	**Total other reserves**	**Retained earnings/ accum. losses**	**Shareholders' Equity**
December 31, 2020	**96,151,921**	**10,359,557**	**19,230,384**	**16,615,618**	**(2,211,398)**	**659,609**	**0**	**(727,847)**	**(361,138)**	**6,109,470**	**(1,567,420)**	**166,626**	**3,619,691**	**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)	**-**	**-**	**-**	**-**	**-**	**-**	**0**	**673,605**	**(71,978)**	**-**	**-**	**-**	**601,627**	**9,022,970**	**9,624,598**
Exercise warrants	10,274	-	-	-	-	-		-	-	-	1,274,769	-	1,274,769	-	1,285,043
Purchase treasury shares	-	-	-	-	(3,922,017)	-		-	-	-	-	-	-	-	(3,922,017)
Employee L.T.I. movements	-	-	-	-	-	-		-	-	166,626	-	(18,430)	148,195	-	148,195
December 31, 2021	**96,162,195**	**10,359,557**	**19,230,384**	**16,615,618**	**(6,133,415)**	**627,928**	**0**	**(54,242)**	**(433,115)**	**8,487,134**	**229,822**	**148,195**	**8,377,794**	**9,022,970**	**154,263,031**
Allocation of 2021 result	-	-	2,055	-	-	(31,681)	657,757	-	-	8,394,839	0	-	8,394,839	(9,022,970)	-
Dividend Approval		-	-	-	-	-		-	-	(7,298,940)	-	-	(7,298,940)	-	(7,298,940)
2022 Result	-	-	-	-	-	-	-	-	-	-	-	-	-	14,385,360	14,385,360
Other comprehensive profits (losses):															
Cash flow hedges	-	-	-	-	-	-		4,267,006	-	-	-	-	4,267,006	-	4,267,006
Adjustment post-em. bens.	-	-	-	-	-	-		-	354,261	-	-	-	354,261	-	354,261
Comprehensive profit/ (loss)	**-**	**-**	**-**	**-**	**-**	**-**	**0**	**4,267,006**	**354,261**	**-**	**-**	**-**	**4,621,267**	**14,385,360**	**19,006,627**
Exercise warrants	-	-	-	-	-	-		-	-	229,822.00	(229,822)	-	0	-	0
Purchase treasury shares	-	-	-	-	(599,489)	-		-	-	-	-	-	-	-	(599,489)
Employee L.T.I. movements	-	-	-	-	-	-		-	-	0	-	879,152	879,152	-	879,152
December 31, 2022	**96,162,195**	**10,359,557**	**19,232,439**	**16,615,618**	**(6,732,904)**	**596,247**	**657,757**	**4,212,764**	**(78,854)**	**9,812,855**	**(0)**	**1,027,348**	**14,974,112**	**14,385,360**	**166,250,382**

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 21, 2023 and authorised for publication on the website www.sitgroup.it by April 6, 2023. 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, 2022 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.

The 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, 2022 are the same as those adopted for the separate financial statements at December 31, 2021.

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

IFRS accounting standards, amendments and interpretations applicable from January 1, 2022

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group from January 1, 2022.

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 revenues from sales and related costs will therefore be recognised through 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.

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

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, 2022

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 PAA 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 PAA method do not apply to the valuation of liabilities for existing claims, which are measured with the General Model. However, it is 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 will have a significant impact on the company's financial statements.

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 will have a significant impact on the company's financial statements.

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 are currently assessing the possible effects from the introduction of these amendments on the separate financial statements of the Company.

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 amendment to have a significant impact on the company's 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" and "Amendments to IAS 1 Presentation of Financial Statements: Non-Current Liabilities with Covenants"

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" and on October 31, 2022 published an amendment entitled "Amendments to IAS 1 Presentation of Financial Statements: Non-Current Liabilities with Covenants". The purpose of the documents is to clarify how to classify payables and other short or long-term liabilities. These amendments shall enter into force on January 1, 2024 and early application is permitted. The Directors do not expect this amendment 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 are currently assessing the possible effects from the introduction of these amendments on the separate financial statements of the Company.

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 amendment to have a significant impact on the company's separate financial statements.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback

On September 22, 2022, the IASB published an amendment entitled "Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback". The document requires the seller-lessee to measure the lease liability arising from a sale & leaseback transaction so as not to recognise income or losses relating to the retained right of use. The amendments will be applicable from January 1, 2024, although advance application is permitted. The Directors do not expect this amendment 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.

DRAFTING CRITERIA

The consolidated financial statements of the SIT Group at December 31, 2022 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, 2022 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, 2022 are the same as those adopted for the consolidated financial statements at December 31, 2021.

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, 2022

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group from January 1, 2022:

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 revenues from sales and related costs will therefore be recognised through 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.

The adoptions of these amendments do not have any effects on the Group 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, 2022

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 PAA 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 PAA method do not apply to the valuation of liabilities for existing claims, which are measured with the General Model. However, it is necessary to discount these cash flows where it is expected that the balance will be paid or received within one year from the date on which the claim occurred.

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

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

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 amendment to have a significant impact on the Group consolidated financial statements.

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 are currently assessing the possible effects of introduction of these amendments on the Group's consolidated financial statements.

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 amendment to have a significant impact on the Group consolidated financial statements.

IFRS Standards, Amendments and Interpretations not yet approved by the European Union

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

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**" and on October 31, 2022 published an amendment entitled "**Amendments to IAS 1 Presentation of Financial Statements: Non-Current Liabilities with Covenants."**. The purpose of the documents is to clarify how to classify payables and other short or long-term liabilities. These amendments shall enter into force on January 1, 2024 and early application is permitted. The Directors do not expect this amendment to have a significant impact on the company’s consolidated financial statements.

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 are currently assessing the possible effects from the introduction of these amendments on the separate financial statements of the company.

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 amendment to have a significant impact on the company’s financial statements.

On September 22, 2022, the IASB published an amendment entitled "**Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback”.** The document requires the seller-lessee to measure the lease liability arising from a sale & leaseback transaction so as not to recognise income or losses relating to the retained right of use. The amendments will be applicable from January 1, 2024, although advance application is permitted. The Directors do not expect this amendment to have a significant impact on the company's financial statements.

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/Group 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, 2022 reflect the considerations made by the Directors on possible developments linked to the current national and international environment shaped by the Russia-Ukraine conflict.

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, 2022 are disclosed below.

Translation of accounts in foreign currencies: transactions and balances

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

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

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

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

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 definite useful life	Amortisation rate
Patents	10.00
Licenses	33.33
Brands	5.6 - 10.00
Other deferred costs	20.00 - on the basis of the contractual duration

Property, plant 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 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 taxable income is sufficient to permit such deferred tax assets to be recovered.

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

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

The 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, 21	Balance at Jan. 1, 22	Increases	Disposals	Amortisation	Other movements	Write-downs	Balance at Dec. 31, 22
Goodwill	**85,087,912**	**85,087,912**	-	-	-	-	-	**85,087,912**
Patent rights	7,439,788	7,439,788	227,901	-	(1,767,421)	-	-	5,900,268
Concessions, licences and trademarks	12,486,002	12,486,002	12,749	-	(1,013,704)	-	-	11,485,048
Other intangible assets	975,430	975,430	60,472	-	(431,494)	100,000	-	704,409
Intangible assets in progress and advances	164,932	164,932	253,350	-	-	(100,000)	-	318,282
Total other intangible assets	**21,066,152**	**21,066,153**	**554,473**	-	**(3,212,619)**	-	-	**18,408,006**
Total goodwill and other intangible assets	**106,154,064**	**106,154,065**	**554,473**	-	**(3,212,619)**	-	-	**103,495,918**

GOODWILL

These amount to Euro 85,088 thousand at December 31, 2022 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, 2021.

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, 2022 was Euro 5,034 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 11,485 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, 2022 was Euro 11,443 thousand.

Changes in the financial year are mainly related to amortisation.

OTHER INTANGIBLE ASSETS

This account includes other long-term charges which were capitalised. In particular, this principally includes costs incurred for the introduction of the SAP operating system. This project had already been initiated in previous years at SIT La Precisa S.p.A., before its incorporation through the December 2014 merger.

ASSETS IN PROGRESS AND ADVANCES

This item refers for Euro 318 thousand to capitalised costs for the year related to projects not completed as at December 31, 2022.

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 21, 2023. The methodology to be used in carrying out the test was approved by the Board of Directors on December 16, 2022.

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, which are based on the 2023 Budget approved by the Board of Directors on December 16, 2022 and the key trends of the business plan of the Heating CGU approved at the July 8, 2022 Board of Directors meeting.

The growth rate (g) is assumed to be 2% consistent with the inflationary scenario reflected in the WACC construction parameters.

The WACC was estimated assuming:

- a risk free rate of 4.50% calculated as a half-yearly average from July 1, 2022 to December 31, 2022 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 0.88 estimated on the basis of a panel of comparable listed companies;
- an equity risk premium of 5.6%, 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 a half-yearly IRS average rate from July 1, 2022 to December 31, 2022, 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 10.20% 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 the value of the g growth rate.

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 10.9%, whereas the g rate of indifference was 1%.

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 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 2022 are summarised below:

(in Euro)	Historical cost at Dec. 31, 21	Accumulated depreciation at Dec. 31, 21	Balance at Dec. 31, 21	"Right-of-use" IFRS 16 at Dec. 31, 21	Historical cost at Dec. 31, 22	Acc. Deprec. Dec 31, 22	Balance at Dec. 31, 22	Of which "Right-of-use" IFRS 16
Land & buildings	39,363,068	(18,835,380)	20,527,687	3,568,584	39,645,784	(19,927,089)	19,718,695	3,192,537
Plant and machinery	114,664,151	(95,348,319)	19,315,832	0	115,450,617	(99,251,129)	16,199,488	0
Industrial and commercial equipment	77,183,431	(70,757,406)	6,426,025	1,175,163	82,382,744	(75,409,717)	6,973,027	994,581
Other assets	9,626,595	(5,921,087)	3,705,508	2,957,368	10,781,516	(6,909,355)	3,872,160	3,226,061
Assets in progress and advances	15,753,977	0	15,753,977	0	25,233,974	0	25,233,974	0
Total property, plant and equipment	**256,591,221**	**(190,862,192)**	**65,729,029**	**7,701,114**	**273,494,635**	**(201,497,290)**	**71,997,344**	**7,413,179**

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 2022 by category.

HISTORICAL COST

(in Euro)	Historical cost at Dec. 31, 21	Application IFRS 16	Historical cost Jan 1, 22	Increases	Disposals	Other movements	Historical cost at Dec. 31, 22	Of which "Right-of-use" IFRS 16
Land and buildings	34,467,744	4,895,324	39,363,068	261,532	-	21,184	39,645,784	4,952,780
Plant and machinery	114,664,151	-	114,664,151	3,097,856	(3,215,900)	904,510	115,450,617	-
Industrial & commercial equipment	75,051,062	2,132,368	77,183,431	3,695,770	(285,484)	1,789,028	82,382,744	2,419,717
Other assets	4,491,684	5,134,911	9,626,595	1,218,229	(74,812)	11,505	10,781,516	6,274,245
Assets in progress and advances	15,753,977	-	15,753,977	12,206,223	-	(2,726,226)	25,233,974	-
Total property, plant & equipment	**244,428,618**	**12,162,603**	**256,591,221**	**20,479,610**	**(3,576,197)**	**-**	**273,494,635**	**13,646,742**

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 1,790 thousand to the sale of a new production line to the subsidiary SIT Romania S.r.l., with the other decreases relating to the sale and disposal of tangible fixed assets, most of which have already been depreciated. Disposals of industrial and commercial equipment largely refer to the sale of obsolete equipment and moulds that are no longer usable.

Other movements include investments which at December 31, 2021 were in progress and which in 2022 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, 21	Application IFRS 16	Provision at Jan 1, 22	Depreciation	Disposals	Balance at Dec. 31, 22	Of which "Right-of-use" IFRS 16
Acc. Depr. Land and buildings	(17,508,640)	(1,326,741)	(18,835,380)	(1,091,708)	-	(19,927,089)	(1,760,243)
Acc. Depr. Plant and machinery	(95,348,319)	-	(95,348,319)	(5,185,260)	1,282,451	(99,251,129)	-
Acc. Depr. Industrial and commercial equipment	(69,800,201)	(957,205)	(70,757,406)	(4,895,676)	243,364	(75,409,717)	(1,425,136)
Acc. Depr. Other assets	(3,743,543)	(2,177,543)	(5,921,087)	(1,063,081)	74,812	(6,909,355)	(3,048,184)
Total accumulated depreciation Property, plant and equipment	**(186,400,703)**	**(4,461,489)**	**(190,862,192)**	**(12,235,726)**	**1,600,627**	**(201,497,290)**	**(6,233,563)**

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 and buildings	504,587	427,918	1,986,325	3,313,100	2,306,930	8,538,860
Plant, machinery & equipment	200,377	-	5,569,926	-	-	5,770,303
Other assets	-	-	54,378	-	-	54,378
Total	**704,964**	**427,918**	**7,610,629**	**3,313,100**	**2,306,930**	**14,363,541**

Property, plant and equipment were depreciated at December 31, 2022 at the following rates:

	Rate
Land & buildings	52.36%
Plant and machinery	85.97%
Industrial and commercial equipment	92.52%
Other assets	85.67%
Leasing	45.68%

Note 3: Investments

The following table reports the movements in 2022 in investments.

	Balance at Dec 31, 21	Increases for the year	Decreases for the year	Other changes	Balance at Dec 31, 22
INVESTMENTS:					
IN SUBSIDIARIES					
SIT Gas Controls Pty Ltd (Australia)	1,265,051	1,346	-	-	1,266,397
SIT Controls U.S.A. Inc. (USA)	4,572,804	30,243	-	-	4,603,047
SIT Controls BV - (Netherlands)	35,538,428	35,621	-	-	35,574,048
SIT Controls Deutschland GmbH (Germany)	3,365	859	-	-	4,224
SIT Controls CR, sro (Czech Republic)	2,425	365	-	-	2,790
SIT Romania S.r.l. - (Romania)	2,694,414		-	-	2,694,414

SIT Manufacturing (SUZHOU) Co.Ltd (China)	2,607,061	14,830	-	-	2,621,891
Plast Alfin S.A.R.L. (Tunisia)	1,235,517	2,695	-	-	1,238,212
SIT Controls Tunisia S.U.A.R.L. (Tunisia)	63,447	4,788	-	-	68,235
SIT Metering S.r.l. (Italy)	29,880,811	113,486	-	-	29,994,297
Total investments in subsidiaries	**77,863,322**	**204,232**	-	-	**78,067,555**
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
Upsens srl	-	299,980	-	-	299,980
Doubtful debt provision 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**	**299,980**	-	-	**349,977**
TOTAL INVESTMENTS	**77,913,319**	**504,212**	-	-	**78,417,532**

The increase in investments in subsidiaries of Euro 204 thousand concerns the employee incentive plan (L.T.I.), while the increase in other companies of Euro 300 thousand concerns the undertaking of a 10% holding in the company Upsens srl (TN).

The figures for subsidiaries (result and net equity) refer wholly to the financial statements at December 31, 2022, 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)	63,723	426,277	2,621,218	2,621,218	100%	1,266,397
SIT Controls U.S.A. Inc. (USA)	Charlotte (USA)	304,707	1,496,676	1,821,676	1,821,676	100%	4,603,047
SIT Controls BV - (Netherlands)	Hoogeveen (Netherlands)	46,000	2,123,090	40,575,948	40,575,948	100%	35,574,048
SIT Controls Deutschland GmbH (Germany)	Arnsbert (Germany)	51,129	345,781	1,250,892	62,545	5%	4,224
SIT Controls CR, sro (Czech Republic)	Brno (Rep. Republic	41,627	697,231	2,738,420	136,921	5%	2,790
SIT Romania Srl – Romania	Brasov (Romania)	1,878,563	1,376,877	13,246,284	11,276,562	85.13%	2,694,414
SIT Manufacturing (SUZHOU) Co.Ltd (China)	Suzhou (China)	2,840,451	947,886	1,557,451	1,557,451	100%	2,621,891
Plast Alfin S.A.R.L. (Tunisia)	Tunis (Tunisia)	10,454	64,682	864,967	821,719	95%	1,238,212
SIT Controls Tunisia S.U.A.R.L. (Tunisia)	Tunis (Tunisia)	61,303	1,843,394	640,304	640,304	100%	68,235
SIT Metering S.r.l. (Italy)	Italy	1,500,000	(288,364)	29,235,684	29,235,684	100%	29,994,297
Total							**78,067,555**

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, 2022 of Euro 1,050 thousand is allocated as follows and is unchanged compared to December 31, 2021:

	December 31, 22	December 31, 21
SIT Gas Controls Pty Ltd (Australia)	178,000	178,000
SIT Romania Srl – Romania	872,000	872,000
Total	**1,050,000**	**1,050,000**

As a result of this recognition, a temporary assessable difference was generated which required the recognition of deferred taxes; at December 31, 2022, this account amounts to Euro 52 thousand.

In addition, in the financial statements at December 31, 2022, 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:

	December 31, 22
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, 2022 is as follows:

(in Euro)	December 31, 2022	December 31, 2021
Guarantee deposits	175,937	170,684
Restricted deposit account	1,500,000	1,500,000
Receivables from subsidiaries	25,690,541	-
Derivative financial instruments	3,360,988	320,603
Non-current financial assets	**30,727,466**	**1,991,287**

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; in 2021, the counterparty was recognised Euro 374 thousand and the amount of Euro 626 thousand was released, in accordance with the contractual agreements.

At December 31, 2022, the residual amount was recognised as follows:

- Euro 1,500 thousand under non-current financial assets, as an escrow deposit for a maximum of 5 years;
- Euro 500 thousand to current financial assets.

RECEIVABLES FROM SUBSIDIARIES

This item refers to the loan granted to the subsidiary SIT Metering S.r.l. for the acquisition of JANZ. During the year this loan was extended and repayment is scheduled for a single instalment on conclusion (December 31, 2026). The loan stipulates a fixed interest rate of 1.40%.

DERIVATIVE FINANCIAL INSTRUMENTS

The item represents the mark-to-market at December 31, 2022 of the interest rate risk hedging derivative contracts entered into against the following bank loans: Senior Financial Agreement 2021 (SFA 2021), hedged for 80% of the residual nominal value of Euro 75,000 thousand; Unicredit loan and Cassa Depositi e Prestiti loan, both with 100% of their residual nominal value hedged, respectively amounting to Euro 9,000 thousand and Euro 15,000 thousand.

Please refer to Note No. 13 for further information on the loan agreements.

Current assets

Note 5: Inventories

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

(in Euro)	December 31, 2022	December 31, 2021
Raw materials, ancillary and consumables	13,312,981	9,901,497
Work-in-progress and semi-finished goods	9,202,021	8,083,960

Finished products and goods	7,134,685	6,560,714
Advances to suppliers	659,851	35,454
Inventories	**30,309,538**	**24,581,625**

The movements in the inventory obsolescence provision were as follows:

	December 31, 2022
Obsolescence provision 31/12/2021	1,675,127
Utilisation in the year	(44,401)
Allocation in the year	272,391
Obsolescence provision 31/12/2022	**1,903,117**

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, 2022	December 31, 2021
Trade receivables	23,352,727	22,868,241
Trade receivables from holding company	0	63,717
Trade receivables - subsidiaries	49,154,525	38,804,665
Receivables from companies subject to control of holding company	16,717	14,386
Current trade receivables	**72,523,969**	**61,751,009**
Doubtful debt provision	(494,960)	(528,425)
Trade receivables	**72,029,009**	**61,222,584**

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 495 thousand, with the movements in 2022 reported in the following table:

	December 31, 2022
Doubtful debt provision 31/12/2021	528,425
Utilisation in the year	(33,465)
Allocation in the year	-
Doubtful debt provision 31/12/2022	**494,960**

The balance of receivables from customers is net of a without recourse receivable factoring transaction totalling approx. Euro 12,601 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 79 thousand (exchange losses).

TRADE RECEIVABLES - SUBSIDIARIES

The breakdown by investee is presented below:

	Opening balance	Changes in the year	Closing balance
SIT Gas Controls Pty Ltd (Australia)	467,912	299,125	767,037
SIT Controls U.S.A. Inc. (USA)	46,949	(6,643)	40,305
SIT Controls BV - (Netherlands)	2,004,950	2,812,381	4,817,331
SIT Controls Deutschland GmbH (Germany)	37,728	20,148	57,876
SIT Controls CR, sro (Czech Republic)	23,638	(4,186)	19,452
SIT Romania S.r.l. (Romania)	8,368,794	1,898,103	10,266,897
METERSIT Romania Srl (Romania)	17,400	(17,400)	-
SIT Manufacturing (SUZHOU) Co.Ltd (China)	12,139,906	(5,920,496)	6,219,409
Sit Manufacturing N.A. SA de CV (Mexico)	4,519,176	3,448,095	7,967,271
MeteRSit S.r.l. (Italy)	2,504,709	(489,145)	2,015,564
SIT Metering S.r.l. (Italy)	260,447	(13,331)	247,116
Plast Alfin S.A.R.L. (Tunisia)	623,988	(257,291)	366,697
SIT Controls Tunisia S.U.A.R.L. (Tunisia)	7,441,328	8,082,388	15,523,716
Janz - Contagem e Gestao De Fluidos, SA (Portugal)	347,741	491,545	839,286
Metersit UK Limited (United Kingdom)	-	6,867	6,867
Total receivables from subsidiaries	**38,804,665**	**10,350,160**	**49,154,825**

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 163 thousand (exchange losses).

Note 7: Other current assets

The account is broken down as follows:

(in Euro)	December 31, 2022	December 31, 2021
Group VAT receivables	813,266	1,975,829
Withholding taxes	1,517,699	4,699,930
Income tax receivables	1,415,861	999,482
Advances	264,878	335,159
Prepayments and accrued income	709,301	617,736
Other receivables	32,880	13,195
Social security institution receivables	33,465	34,926
Other current assets	**4,787,350**	**8,676,257**

GROUP VAT RECEIVABLES

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. SIT Metering S.r.l. has also joined the procedure from the present fiscal year. The amount of Euro 813 thousand concerns the net receivable of the company from the parent company. It should be noted that in 2022 the company received a refund of Euro 1,900 thousand relating to the VAT credit for the previous year.

WITHHOLDING TAXES

Receivables for withholding taxes of Euro 1,518 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.

Following the agreement reached in 2021 with the Tax Agency on the calculation of the economic benefits from intangible assets ("Patent Box" optional system), during the year the Company filed a supplemental return for the fiscal period covered by the ruling, making use of the option to calibrate the use of past losses and of the ACE deduction, which resulted in a significant recovery of the receivables for withholdings incurred overseas.

TAX RECEIVABLES

The item refers for Euro 796 thousand to the tax credit accrued for research, development and technological innovation activities (Budget Law 2020 No. 160/2019), for Euro 216 thousand to the tax credit accrued for expenses incurred on investment in new capital goods and for Euro 332 thousand the tax credit for new capital goods 4.0 (Law No. 160/2019 and Law No. 178/2020) , for Euro 13 thousand the

"Art-Bonus" tax credit (Law No. 106 of July 29, 2014) and for Euro 59 thousand the acquisition of a "Superbonus 110%" tax credit.

ADVANCES TO SUPPLIERS

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

PREPAYMENTS AND ACCRUED INCOME

At December 31, 2022, accruals and prepayments were composed as follows:

	Balance at December 31, 2022				Balance at December 31, 2021
	Within one year	Beyond one year	Duration beyond 5 years	Total	Total
Accrued financial income	194	-	-	194	-
Total accrued income	**194**	**-**	**-**	**194**	-
Prepaid financial charges	71,120	-	-	71,120	33,881
Prepayments on fees, rental & insurance premiums	393,712	3,142	-	396,855	346,700
Other prepayments	239,204	1,929	-	241,132	237,155
Total prepayments	**704,036**	**5,071**	**-**	**709,107**	**617,736**
Total accrued income and prepayments	**704,230**	**5,071**	**0**	**709,301**	**617,736**

Note 8: Income tax receivables

Income tax receivables were as follows:

(in Euro)	**December 31, 2022**	**December 31, 2021**
IRAP receivables	510,772	159,365
Tax consolidation receivables	857,228	-
Other tax credits	-	1,000,000
Tax receivables	**1,368,000**	**1,159,365**

The item IRAP receivables is represented by the IRAP advance paid net of the tax payable for the year ended December 31, 2022.

The amount of Euro 858 thousand concerns the net receivable from the company's involvement in the tax consolidation with the holding company SIT Technologies S.p.A. The company in fact took part in the National Tax Consolidation governed by Legislative Decree No. 344 of December 12, 2003 and in particular Articles 117 to 129 of the Income Tax Law, as the consolidated company and as expressly approved by its Board of Directors for the 2016-2018 three-year period and as per the tax consolidation agreement signed by the interested companies, the agreement has been extended for the three year period 2022-2024. This item had a debit balance in 2021.

The item Other tax credits reduced to zero during the year due to its use in offsetting tax payables; the amount of Euro 1,000 thousand referred 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, 2022	December 31, 2021
Short-term financial receivables from subsidiaries	22,246,984	36,819,900
Dividends from subsidiaries	-	9,436,399
Guarantee deposits	2,304,478	-
Restricted deposit account	500,000	500,000
Derivative financial instruments	2,318,758	27,226
Other current financial assets	**27,370,220**	**46,783,525**

FINANCIAL ASSETS FROM 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, 2022 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	6,500,000	-
SIT Manufacturing (Suzhou) Co.Ltd.	2,038,542	2,038,542	-
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	-	1,819,230
Plast Alfin s.a.r.l.	500,000	185,000	-
Plast Alfin s.a.r.l.	2,000,000	-	420,727
SIT Metering s.r.l.	1,000,000	-	830,127
Janz Contagem e Gestao de Fluidos SA	1,500,000	1,150,000	-
SIT Manufacturing N.A. S.A. de C.V.	7,500,469	3,750,234	-
SIT Manufacturing N.A. S.A. de C.V.	1,406,338	-	688,399
MeterSit UK Ltd	450,994	169,123	-
S.I.T. Controls U.S.A., Inc.	1,406,338	-	695,602
Total	**31,302,680**	**17,792,899**	**4,454,085**

DIVIDENDS FROM SUBSIDIARIES

During the year, all dividends approved in 2021 were received.

GUARANTEE DEPOSITS

The amount relates for Euro 2,300 thousand to the payment of a security deposit to a supplier to guarantee supplies of electronic components having particularly long lead times and whose delivery has been particularly unpredictable over the past 12 months. This deposit constitutes the company's commitment to maintain orders to support the supplier's business in the current context of electronic component shortage.

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

The account, amounting to Euro 2,319 thousand, includes:

- Euro 2,195, of which Euro 1,817 thousand the current portion of the IRS contracts on the SFA 2021 loan, Euro 129 thousand concerning the Unicredit EIB loan and Euro 249 thousand concerning the current portion of the IRS contract on the loan agreed with Cassa Depositi e Prestiti S.p.A. The following table provides a breakdown by individual contract:

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional Dec 31, 22	Fair value Dec 31, 22
IRS on SFA 2021	Euro	06/08/2021	30/06/2026	-0.07%	60,000,000	1,816,811
IRS on Unicredit-EIB loan	Euro	06/06/2022	31/05/2025	1.444%	9,000,000	129,495
IRS on CDP loan	Euro	30/06/2022	31/12/2026	1.410%	15,000,000	248,564
Total					**84,000,000**	**2,194,870**

- for the remainder, 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, 2022 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 purchases	AUD	1,494,000	EUR	1.5823	1.5843	6,980		
Forward sales	CNY	15,000,000	EUR	6.8570	7.0040			101,859
Forward sales	GBP	400,000	EUR	0.8733	0.8780	6,244		
Forward sales	USD	1,315,000	EUR	1.0609	1.0644	8,805		
Total						**22,029**	**0**	**101,859**

Note 10: Cash and Cash Equivalents

(in Euro)	December 31, 2022	December 31, 2021
Cash in hand and similar	3,214	11,812
Bank and postal deposits	12,322,642	33,442,605
Cash and cash equivalents	**12,325,856**	**33,454,417**

Cash and cash equivalents relate to current accounts and cash in hand and similar at December 31, 2022.

Shareholders' Equity

Shareholders' equity at December 31, 2022 amounts to Euro 166,250,382, increasing Euro 11,987,351 on Euro 154,263,031 at December 31, 2021. 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, 2022 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 divisible share capital increase approved by the Shareholders' Meeting of May 5, 2017 for a maximum total amount of Euro 153,438, to be executed through the issue of 1,534,380 ordinary SIT shares, reserved in turn for the exercise of the option right due to the SIT Warrant holders is no longer feasible, losing all effect from July 20, 2022.

In fact, pursuant to Article 6.1 of the Warrant Regulations, at July 20, 2022, (exercise deadline) the Warrants have been forfeited of any further rights, becoming invalid for all purposes as, pursuant to and for the purposes of Article 3.1 of the aforementioned regulations, the Monthly Average Price for the previous month of June 2022 was Euro 7.5126 and being lower than the Strike Price of Euro 9.30, the condition for exercising the Warrants was no longer applicable.

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)	10,359,557				(a)
Capital payments reserve	16,615,618	(1)(2)(3)	16,615,618				(a)
TOTAL CAPITAL RESERVES							
Legal reserve	19,232,439	(2)					(b)
Treasury shares reserve	(6,732,904)						(a)/(b)
First time application IAS/IFRS reserve	596,247	(2)			181,062	II	(b)
Reserve for currency differences	657,757	(1)(2)					(b)
Cash Flow Hedge Reserve	4,212,764						(b)
Actuarial Reserve - Employee benefits	(78,854)				-		
Extraordinary reserve	9,812,855	(1)(2)(3)	9,812,855				
LTI Reserve	1,027,348		1,027,348				(b)
Retained earnings (accum. losses)	-			2,747,710			
Result 2022	14,385,360		14,385,360				
TOTAL	166,250,382		52,200,738				
NON-DISTRIBUTABLE AMOUNT			(161,178)			I	
RESIDUAL DISTRIBUTABLE AMOUNT			52,361,917				

(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 exchange gains reserve for Euro 161,178.46 are not distributable.
(II) The first time application IAS/IFRS reserve at December 31, 2022 comprises:
- positive reserves for Euro 596,246 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 2,302,152 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 184,772

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 increased Euro 2,055 thousand following the resolution passed by the Shareholders' Meeting of April 29, 2022, due to the allocation of a portion of the 2021 profit.

TREASURY SHARES RESERVE

The treasury shares reserve amounts to Euro 6,732,904. It should be noted that during the year 2022, a further 70,962 treasury shares were purchased for a total amount of Euro 599,489. 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

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, 2022, the item includes the fair value component referring to the year 2022 of the 3 plans for Euro 1,027,348. 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, 2021 is recorded as a negative value of Euro 54,242, net of the Euro 17,129 tax effect. This reserve derives from the Fair Value valuation of the 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, 2022 had a positive value of Euro 4,212,764, net of the tax effect of Euro 1,330,346.

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.

At December 31, 2021, the Warrant Reserve, equivalent to Euro 229,822, derived from the initial recognition 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. In accordance with the relevant regulations, these Warrants matured on July 19, 2022 and therefore at December 31, 2022 the reserve amounted to zero.

ACTUARIAL RESERVE

At December 31, 2022, the actuarial reserve amounts to Euro 78,854 and derives from the effects of discounting post-employment benefits.

EXTRAORDINARY RESERVE

The extraordinary reserve at December 31, 2022 amounts to Euro 9,812,855. During the year, it increased by Euro 1,095,899 due to the resolution of the Shareholders' Meeting of April 29, 2022 that approved the financial statements for the year ended December 31, 2021 and by Euro 229,822 as a result of the release of the Warrants reserve, as maturing on July 19 in accordance with the regulation.

Non-current liabilities

Note 13: Non-current bank payables

The breakdown is as follows:

(in Euro)	December 31, 2022	December 31, 2021
Bank payables - non-current portion of loans	78,250,000	75,000,000
Bank payables - non-current portion amortised cost	(281,568)	(459,624)
Total bank payables - non-current portion loans	**77,968,432**	**74,540,376**

At December 31, 2022, short-term loans and borrowings represent the non-current portion of the following contracts:

- for Euro 60,000 thousand the Senior Financial Agreement 2021 (SFA 2021), which the company entered into on August 6, 2021 with a bank syndicate, whose main features are:
  - 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 2022, 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, 2022 were 3.50x and 5.0x, respectively.

  As at December 31, 2022, the Company was in compliance with all covenants.

  The residual nominal amount at December 31, 2022 totals Euro 75,000 thousand, of which the non-current portion Euro 60,000 thousand and the current portion Euro 15,000 thousand. The residual amount at amortised cost at December 31, 2022 totals Euro 74,548 thousand, of which the non-current portion Euro 59,718 thousand and the current portion Euro 14,830 thousand.

- for Euro 11,250 thousand the loan agreed on March 11, 2022 with Cassa Depositi e Prestiti S.p.A., whose main features are:
  - original amount of Euro 15,000 thousand, maturity of 31/12/2026, repayment according to half-yearly instalments from June 30, 2023;

- interest rate indexed to the 6 month Euribor, plus a margin of 1.24%

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 the net financial position and shareholders' equity, all ratios to be calculated as per that stated in the contract. The limit values of these covenants for the year ended December 31, 2022 were 3.50x and 1.5x, respectively.

As at December 31, 2022, the Company was in compliance with all covenants.

- for Euro 7,000 thousand the loan agreed on May 31, 2022 with Unicredit S.p.A., whose main features are:
  - original amount of Euro 10,000 thousand, maturity on May 31, 2025, repayment according to 6 half-yearly instalments, with the initial 5 for Euro 1,000 thousand from November 30, 2022, and a final instalment of Euro 5,000 thousand at May 31, 2025;
  - interest rate indexed to the 6 month Euribor, plus a margin determined on the basis of a grid of the ratio between the net financial position and EBITDA. The average interest margin in 2022 was equivalent to 1.30%;

Financial covenants based on the consolidated financial statements on a 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, 2022 were 3.50x and 5.0x, respectively.

As at December 31, 2022, the Company was in compliance with all covenants.

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

A breakdown follows:

(in Euro)	December 31, 2022	December 31, 2021
Other non-current payables	44,835	108,121
Non-current financial lease payables - IFRS 16	5,930,675	6,208,861
Bond loan	39,520,341	39,438,331
Other non-current financial liabilities and derivative financial instruments	**45,495,851**	**45,755,313**

OTHER NON-CURRENT FINANCIAL LIABILITIES

The account totalling Euro 45 thousand relates to the 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 75 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.

BOND LOAN

The account refers to the bond loan signed by Pricoa in May 2021 for the nominal value of Euro 40,000 thousand. 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, 2022, 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, 2021	Provisions	Utilisations/Releases	December 31, 2022
Agents indemnity provision	151,639	2,494	-	154,133
Product warranty provision	140,253	-	-	140,253
Other risks provision	1,027,042	734,549	(113,612)	1,647,979

Total provisions for risks and charges	**1,318,935**	**737,043**	**(113,612)**	**1,942,366**

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

OTHER PROVISIONS

Other provisions include:

- Risks provision for Euro 728 thousand, which concerns the risks over ongoing disputes, whose risk of loss is probable. During the year this provision increased Euro 173 thousand, while the decrease amounting to Euro 54 thousand is due to the reduced contractual obligations towards customers for potential indemnities;
- The provision for risks also includes Euro 69 thousand for ongoing disputes with employees; during the year this provision increased by Euro 9 thousand;
- The future charges provision of Euro 851 thousand relates to the costs of the reclamation of a plot of land owned by the Company; the use in the year of Euro 60 thousand concerned the costs incurred for the reclamation activity; during the year, Euro 553 thousand was in addition allocated.

Note 16: Post-employment benefit provision

The movements in the account in the year to December 31, 2022 and to December 31, 2021 were as follows:

	December 31, 2022	December 31, 2021
Net liabilities for employee benefits	4,023,898	4,635,919
Liabilities for retention or other	304,317	387,660
Net liabilities for defined employee benefits	**4,328,215**	**5,023,578**

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

	December 31, 2022	December 31, 2021
Post-em. bens. at beginning of year	4,635,919	5,057,433
Payments in the year	(197,214)	(531,610)
Interest cost	43,499	15,388
Actuarial gains/(losses) recognised	(471,956)	94,708
Post-em. bens. at end of year	**4,010,248**	**4,635,919**

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

Defined benefit plans	December 31, 2022	December 31, 2021
Annual discount rate	3.63%	0.98%
Annual inflation rate	2.30%	1.75%
Annual increase in post-employment benefit	3.23%	2.81%
Annual increase in real 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, 2022 and at December 31, 2021 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, 2021				December 31, 2022			
	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	437,910	437,910	105,098	17,078	373,317	373,317	89,596	14,559
Other provisions for risks and charges	1,107,295	1,107,295	265,751	43,185	1,719,232	1,719,232	412,616	67,050
Write-down of inventories	1,675,127	1,675,127	402,030	65,330	1,903,117	1,903,117	456,748	74,222
Unrealised exchange losses	332,639	0	79,833	0	361,742	0	86,818	0
Deprec. suspended on prop. revaluations	171,004	171,004	41,041	6,669	171,004	171,004	41,041	6,669
Other	377,643	49,411	90,634	1,927	223,675	49,411	53,682	1,927
Deferred taxes concerning previous years tax losses	11,694,776	0	2,806,746	0	6,071,334	0	1,457,120	0
ACE	0	0	0	0	9,333,782	0	2,240,108	0
Post-employment benefits	502,578	0	120,619	0	0	0	0	0
Derivative financial instruments	71,372	0	17,129	0	0	0	0	0
TOTAL DEFERRED TAX ASSETS	**16,370,344**	**3,440,747**	**3,928,882**	**134,189**	**20,157,204**	**4,216,081**	**4,837,729**	**164,427**
DEFERRED TAX LIABILITIES								
Accelerated depreciation	(376,010)	0	(90,242)	0	(375,842)	0	(90,202)	0
Revaluation land & buildings from merger	(3,162,260)	(3,162,260)	(758,942)	(123,328)	(3,152,204)	(3,152,204)	(756,529)	(122,936)
Reval. Investments for positive cancellation diff.	(52,500)	0	(12,600)	0	(52,500)	0	(12,600)	0
Valuation brands and Technologies for consolidation diff.	(18,996,046)	(18,996,046)	(4,559,051)	(740,846)	(16,476,312)	(16,476,312)	(3,954,315)	(642,576)
Dividends	(471,820)	0	(113,237)	0	0	0	0	0
Unrealised exchange gains	(986,611)	0	(236,787)	0	(602,734)	0	(144,656)	0
Finance Leases	(924,520)	(924,520)	(221,885)	(36,056)	(880,579)	(880,579)	(211,339)	(34,343)
Derivative financial instruments	0	0	0	0	(5,543,110)	0	(1,330,346)	0
TOTAL DEFERRED TAXES	**(24,969,766)**	**(23,082,825)**	**(5,992,744)**	**(900,230)**	**(27,083,282)**	**(20,509,096)**	**(6,499,988)**	**(799,855)**
TAX: DEFERRED TAX ASSETS/(LIABILITIES) TO BALANCE SHEET TOTAL	**(8,599,422)**	**(19,642,078)**	**(2,063,862)**	**(766,041)**	**(6,926,078)**	**(16,293,015)**	**(1,662,259)**	**(635,428)**

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

Following the agreement reached in 2021 with the Tax Agency on the calculation of the economic benefits from intangible assets (”Patent Box” optional system), during the year the Company filed a supplemental return for the fiscal period covered by the ruling, making use of the option to calibrate the use of past losses and of the ACE deduction, which resulted in an increase of deferred tax assets for ACE of Euro 2,240 thousand.

Current liabilities

Note 18: Short-term loans and borrowings

The breakdown is as follows:

(in Euro)	December 31, 2022	December 31, 2021
Utilisation short-term lines	822,298	-
Current portion of loans	20,579,520	19,783,665
Current financial charges	37,444	3,340
Short-term loans and borrowings	**21,439,262**	**19,787,005**

UTILISATION SHORT-TERM LINES

The item includes advances on exports received from various banks totalling Euro 803 thousand, in addition to accrued and outstanding bank interest payable of Euro 19 thousand.

CURRENT PORTION OF BANK LOANS

The account includes the current portion of the Senior Financial Agreement 2021 loan for Euro 14,830 thousand, the current portion of the Unicredit loan for Euro 2,000 thousand and the Cassa Depositi e Prestiti loan for Euro 3,750 thousand, as per Note 13.

CURRENT FINANCIAL LIABILITIES

The item represents accrued interest at December 31, 2022 on the Senior Financial Agreement 2021 loan for Euro 9 thousand and on the Unicredit loan for Euro 28 thousand.

Note 19: Other current financial liabilities and derivative financial instruments

A breakdown follows:

(in Euro)	December 31, 2022	December 31, 2021
Current financial payables - subsidiaries	23,204,379	34,886,611
Other current payables	63,780	183,900
Factoring payables	717,766	608,098
Derivative financial instruments (current portion)	823,165	592,643
Current financial lease payables - IFRS 16	1,630,716	1,608,741
Dividends	1,626	-
Other current financial liabilities and derivative financial instruments	**26,441,432**	**37,879,993**

CURRENT FINANCIAL PAYABLES - SUBSIDIARIES

The balances at December 31, 2022 and December 31, 2021 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, 2022	December 31, 2021
SIT Gas Controls Pty Ltd (Australia)	41,870	91,300
SIT Romania S.r.l. (Romania)	5,763,997	5,661,692
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)	9,846,558	13,843,459
SIT Controls Deutschland GmbH (Germany)	748,717	1,489,616
SIT Controls CR, sro (Czech Republic)	2,025,598	1,156,129
MeteRSit S.r.l. (Italy)	4,777,639	8,429,337
Total current financial payables - subsidiaries	**23,204,379**	**34,886,611**

OTHER CURRENT FINANCIAL PAYABLES

The item of Euro 64 thousand relates for Euro 30 thousand to the current portion of the Sace-Simest loans as better specified in Note 14, and for Euro 34 thousand 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, 2022 of Euro 823 thousand concerns:

- for Euro 5 thousand exchange rate risk hedging contracts.
- For Euro 818 thousand energy and gas price risk hedging contracts.

In 2022, the company undertook hedges on exchange rate risk and the risk concerning the volatility of energy and natural gas prices. 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, 2022 are summarised below:

The characteristics and fair value of the current portion of exchange rate and energy and gas price risk 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 purchases	CNY	8,900,000	EUR	7.4327	7.4326	(4,917)		
Total						**(4,917)**	-	-

Transaction type	Beginning date	Maturity	Fixed price EUR/MWh	Quantity MWh	Fair value
				Dec 31, 22	Dec 31, 22
Commodity swap Natural Gas-PSV	01/01/2023	31/12/2023	142.50	4,800	(298,879)
Commodity swap Electricity-PUN	01/01/2023	31/12/2023	321.50	5,040	(519,368)
Total					(818,247)

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, 21	Drawdown	Acquisitions	Reimbursements/settlements	Reclassification	Fair Value Changes	Change in amortised cost	Dec 31, 22
Bank payables - non-current portion of loans	75,000,000	25,000,000			(21,750,000)			78,250,000
Bank payables - non-current portion amortised cost	(459,624)				178,056			(281,568)
Total bank payables - non-current portion loans	**74,540,376**	**25,000,000**	-	-	**-21,571,944**	-	-	**77,968,432**
Shareholder loans - non-current portion of loans	-							-
Shareholder loan - amortised cost	-							-
Bond loan - non-current portion	40,000,000							40,000,000
Bond loan - amortised cost, non-current portion	(561,669)				82,276		(266)	(479,659)
Derivative financial instruments - non-current portion	-							-
IFRS16	6,208,861	1,237,248			(1,515,434)			5,930,675
Payables to other lenders	108,121			(33,305)	(29,980)			44,836
Total other non-current financial liabilities and derivative financial instruments	**45,755,313**	**1,237,248**	-	**(33,305)**	**(1,463,138)**	-	**(266)**	**45,495,852**
Total non-current financial liabilities	**120,295,689**	**26,237,248**	-	**(33,305)**	**(23,035,082)**	-	**(266)**	**123,464,284**
Bank payables - current portion of loans	20,000,000			(21,000,000)	21,750,000			20,750,000
Bank payables - current portion amortised cost	(216,335)			223,910	(178,056)			(170,481)
Current account and accrued interest expense	3,339	856,403						859,742
Total bank payables - current portion of loans	**19,787,004**	**856,403**	-	**(20,776,090)**	**21,571,944**	-	-	**21,439,261**
Shareholder loan - current portion of loans	-							-
Bond loan - current portion	-							-
Bond loan - amortised cost current portion	(80,556)			80,556	(82,276)			(82,276)
Bond loan - accrued interest expense	100,333	116,167		(100,333)				116,167
Derivative financial instruments - current portion	592,643			(592,643)		823,165		823,165
Financial liabilities to subsidiaries	34,886,610	971,774		(12,654,005)				23,204,379
Factoring payables	608,098	717,766		(608,098)				717,766
IFRS16	1,608,741	253,590		(1,747,049)	1,515,434			1,630,716

Payables to other lenders	164,124	1,626		(164,213)	29,980			31,517
Total other current financial liabilities and derivative financial instruments	**37,879,993**	**2,060,923**	**-**	**(15,785,785)**	**1,463,138**	**823,165**	**-**	**26,441,434**
Total current financial liabilities	**57,666,998**	**2,917,326**	**-**	**(36,561,875)**	**23,035,082**	**823,165**	**-**	**47,880,696**

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, 2022, trade payables were broken down as follows:

(in Euro)	December 31, 2022	December 31, 2021
Trade payables	49,711,276	47,772,534
Trade payables to holding company	-	3,171
Trade payables to subsidiaries	24,328,260	16,566,487
Trade payables	**74,039,536**	**64,349,192**

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 371 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 gains of Euro 68 thousand.

Trade payables to subsidiaries by individual subsidiary are presented below:

	December 31, 2022	December 31, 2021
SIT Gas Controls Pty Ltd (Australia)	6,561	152
SIT Controls U.S.A. Inc. (USA)	97,876	75,303
SIT Controls BV (Netherlands)	913,299	579,627
SIT Controls Deutschland GmbH (Germany)	455,410	380,618
SIT Controls CR, sro (Czech Republic)	414,743	655,564
SIT Romania S.r.l. (Romania)	14,142,877	10,020,372
METERSIT Romania S.R.L. (Romania)	0	111,774
Sit Manufacturing (SUZHOU) Co Ltd (China)	3,302,225	3,263,048
MeteRSit S.r.l. (Italy)	45,433	67,460
SIT Metering Srl (Italy)	157,981	153,838
Sit Manufacturing N.A. SA de CV (Mexico)	410,740	504,352
SIT Controls Tunisia SUARL. (Tunisia)	4,020,210	380,703
Plast Alfin S.A.R.L. (Tunisia)	360,906	373,678
Total trade payables to subsidiaries	**24,328,260**	**16,566,487**

Note 21: Other current liabilities

A breakdown follows:

(in Euro)	December 31, 2022	December 31, 2021
Other payables	532,685	727,569
Customer advances	1,353,005	712,588
Current remuneration payables	1,619,746	1,551,861
Deferred remuneration payables	2,456,943	2,359,735
Payables to social security institutions	2,336,484	2,414,893
Retention fund, MBO and PDR	2,136,559	3,224,978
Accrued expenses	541,166	257,095
Substitute tax payables	1,648,482	1,576,399
Other current liabilities	**12,625,070**	**12,825,118**

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 2022 salaries, paid in January 2023.

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 2022 bonuses, principally to be paid in 2023.

SUBSTITUTE TAX PAYABLES

The account concerns payables for withholding taxes on wages and salaries accruing in 2022.

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. At December 31, 2021, the account came to Euro 8,748 thousand. As per the rules, these warrants expired on July 19, 2022 therefore, the liability was eliminated, and the value was recognised as a financial gain.

Note 23: Income tax payables

The Payables to the parent company SIT Technologies S.p.A. for the tax consolidation at December 31, 2022 present a receivable balance. Reference should be made to Note 8 for further details.

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)	2022	2021
Revenues from product sales	260,305,362	248,364,158
Revenues from services	27,938,907	21,404,066
Revenues from sales and services	**288,244,269**	**269,768,224**

REVENUES FROM PRODUCT SALES

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

Category of activity	2022	2021
Mechanical controls	162,799,066	160,726,684
Electronic controls	25,906,743	14,038,066
Fans	42,474,807	38,692,396
Flue systems	18,897,127	22,635,358
Other products	10,227,619	12,271,655
Total	**260,305,362**	**248,364,158**

	2022	2021
Italy	51,516,415	50,560,904
European Union	84,295,760	86,206,558
Other countries	124,493,187	111,596,697
Total revenues	**260,305,362**	**248,364,158**

REVENUES FROM SERVICES

This account is comprised as follows:

	2022	2021
Provision of other services	5,679,122	5,577,006
Recovery of misc. expenses	2,174,058	1,681,547
Seconded personnel recharges	1,351,076	854,481
Royalties & TP Compensation	18,705,483	13,241,173
Commission income	29,167	49,859
Total revenue from services	**27,938,907**	**21,404,066**

PROVISION OF OTHER SERVICES

These mainly concern support services to the manufacturing companies provided by SIT S.p.A. for centralised functions carried out in the areas of quality, procurement, logistics and production planning, in addition to process engineering. They in addition concern general services such as centralised treasury, IT services and in certain cases administrative support.

RECOVERY OF MISC. EXPENSES

They mainly include recharges to third parties and other Group companies of costs incurred on their behalf.

ROYALTIES & TP COMPENSATION

The amount refers partly to royalties invoiced to the subsidiaries SIT Manufacturing Na. Sa. de CV for Euro 14,686 thousand, SIT Controls BV (Netherlands) for Euro 886 thousand and SIT Manufacturing (SUZHOU) Co. Ltd (China) for Euro 301 thousand, against the use by these of technical-productive know-how of non-patented technology and the SIT brand, all owned by the Company, in addition to Euro 2,833 thousand charged to SIT Controls BV (Netherlands) for TP Compensation.

Note 25: Raw materials, ancillaries, consumables and goods

The breakdown of the account in 2022 and 2021 was as follows:

(in Euro)	2022	2021
Purchases of ancillary materials	3,371,313	3,388,412
Purchases of raw materials, semi-finished & packaging	102,439,223	86,234,496
Finished products purchases	41,076,686	25,760,643
Purchases of goods	36,659,265	43,849,649
Maintenance and repair materials	1,488,145	1,719,736
Other purchases	2,330,010	1,798,069
Duties on purchases	588,017	493,723
Raw materials, ancillaries, consumables and goods	**187,952,659**	**163,244,728**
Changes in inventories of raw materials, ancillaries, consumables and goods	(3,367,083)	(2,309,502)
Change in inventories of finished & semi-finished products and goods	(1,736,433)	(1,582,814)
Change in inventories	**(5,103,516)**	**(3,892,316)**
Total cost of raw materials, ancillaries, consumables and goods	**182,849,143**	**159,352,412**

Raw materials, ancillaries, consumables and goods, including changes in inventories, amounted to Euro 182,849 thousand, accounting for 63% of revenues, increasing on 2021 by Euro 23,497 thousand and against a revenue percentage of 59%.

Note 26: Service costs

The composition of the account is as follows:

(in Euro)	2022	2021
Rent, hire and leases	289,512	226,089
Outsourcing	8,129,872	8,233,282
Transport	4,375,852	3,867,751
Commissions	2,598,476	2,888,922
Legal, administrative and other	3,998,618	3,952,656
Insurance	810,082	766,831
Management services	261,789	289,240
Maintenance & repair expenses	3,764,844	3,252,438
Utilities	3,232,463	3,891,975
Personnel expense	1,468,493	1,362,253
Cleaning and security	794,825	887,347
Advertising, marketing, and sponsorship	364,111	234,133
Directors, statutory & independent auditor fees	1,697,618	1,858,669
Travel and accommodation	433,029	285,420
Bank charges & commissions	533,618	464,483
Other services	390,482	497,138
Listing charges	315,174	237,903
Royalties charges	2,195,689	2,345,772
Service costs	**35,654,547**	**35,542,302**

The item is substantially in line with the previous year, with the main changes including the increase in transport costs (Euro +0.5 million), due to the general increase in costs and the reduction of utilities (Euro -0.6 million), due to the contracts signed at favourable prices.

Note 27: Personnel expenses

Personnel expenses are shown below:

(in Euro)	2022	2021
Wages and salaries	30,525,029	31,427,148
Social security charges	9,322,856	9,764,099
Temporary personnel	3,377,394	4,455,968
Post-employment benefits	2,215,496	2,193,784
Other costs	65,887	115,410
Personnel expense	**45,506,662**	**47,956,409**

The item decreased Euro 2,450 thousand, of which Euro 1,079 thousand due to the lesser use of temporary work contracts.

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

Employees	2022	2021
Executives	28	25
White-collar	290	278
Blue-collar	428	450
Temporary	95	130
Total employees	**841**	**883**

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)	2022	2021
Amortisation of intangible assets	3,212,619	3,218,566
Depreciation of property, plant and equipment	10,463,651	10,450,105
Depreciation of operating lease IFRS 16	1,772,074	1,661,851
Total depreciation and amortisation	**15,448,344**	**15,330,522**
Write-down of current receivables	-	-
Write-down of non-current receivables	-	-
Write-down of intangible assets	-	-
Total write-downs	**-**	**-**
Depreciation, amortisation and write-downs	**15,448,344**	**15,330,522**

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)	2022	2021
Provision for disputes	725,549	102,965
Uses/releases provisions	(54,000)	(560,949)
Provisions for risks	**671,549**	**(457,984)**

Provisions amount to Euro 726 thousand and refer to:

- Euro 553 thousand of provisions for the costs of the reclamation of a plot of land owned by the Company;
- Euro 173 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.

The decreases amount to Euro 54 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)	2022	2021
Misc. recoveries	120,247	116,142
Prior year income	178,705	81,093
Gains on fixed assets	210,725	79,071
Grants	715,492	691,347
Other revenues	84,109	80,284
Other income	**1,309,278**	**1,047,937**
Misc. taxes & non-deductible costs	176,492	163,829
Losses on fixed assets	13,760	12,070
Associations	151,110	127,673
Prior year charges	121,490	230,717
Losses on receivables	67,768	19,352
IMU Property tax	193,373	208,317
Misc. reimbursements	38,095	3,403
Other charges	487,739	341,069
Other charges	**1,249,827**	**1,106,430**
Other charges (income)	**(59,451)**	**58,493**

Other income in 2022 increased Euro 261 thousand, mainly due to the increase in fixed asset capital gains.

Note 31: Investment charges and (income)

The account concerns dividends approved by the subsidiaries, recognised in 2022 and particularly:

	2022	2021
Dividends from subsidiary: SIT Controls BV - (Netherlands)	-	5,500,000
Dividends from subsidiary: SIT Controls U.S.A. Inc. (USA)	1,899,516	2,216,705
Dividends from subsidiary: SIT Gas Controls Pty Ltd (Australia)	275,198	252,573
Dividends from subsidiary: SIT Controls CR, sro (Czech Republic)	-	80,000
Dividends from subsidiary: SIT Romania S.r.l. (Romania)	-	1,719,694
Dividends from subsidiary: SIT Controls Deutschland GmbH (Germany)	50,000	-
Total charges and (income) from investments	**2,224,713**	**9,768,972**

At year-end, the dividends had all been received.

Note 32: Financial income

In 2022, this amounted to Euro 10,229 thousand and was broken down as follows:

(in Euro)	2022	2021
Interest income on bank accounts	25,475	1,107
Other interest income	30,670	13,070
Interest income from Group companies	987,913	691,085
Profits on derivative financial instruments	436,277	210,803
FV Warrant adjustment	8,748,297	-
Financial income	**10,228,632**	**916,065**

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), JANZ Contagem e Gestão de Fluídos SA (Portugal) and SIT Manufacturing N.A. SA de CV (Mexico) for a total of Euro 811 thousand; while including for Euro 177 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 of Euro 325 thousand relates to the mark-to-market of currency derivative contracts, which do not meet the formal hedging requirements under the relevant accounting standards, while for a total of Euro 112 thousand the differentials accrued during 2022 related to interest rate risk hedging contracts (IRS) on the SFA 2021 loan agreement (Euro 104 thousand), the Unicredit loan agreement (Euro 7 thousand) and the Cassa Depositi e Prestiti loan agreement (Euro 1 thousand).

FV WARRANT ADJUSTMENT

As per the rules, the SIT warrants expired on July 19, 2022; therefore, a gain of Euro 8,748 thousand was recognised for the effect of the expired warrants that were not exercised.

Note 33: Financial charges

Financial charges consist of:

(in Euro)	**2022**	**2021**
Financial charges on hedging contract differences	335,411	1,095,188
Interest and other bank charges	1,734,140	2,481,753
Interest charges to third parties	430,429	173,638
Interest expenses on current accounts subsidiaries	143,330	6,894
Losses on other financial instruments	850,390	232,472
Financial charges for operating leases - IFRS 16	153,783	160,943
Adjustment Fair Value warrants	-	8,978,119
Interest on bonds	956,124	577,064
Financial charges	**4,603,607**	**13,706,071**

FINANCIAL CHARGES ON HEDGING CONTRACT DIFFERENCES

The item refers to differentials accrued during 2022 related to interest rate risk hedging contracts (IRS) on the SFA 2021 loan agreement (Euro 172 thousand), the Unicredit loan agreement (Euro 74 thousand) and the Cassa Depositi e Prestiti loan agreement (Euro 89 thousand).

INTEREST AND OTHER BANK CHARGES

The amount of Euro 1,734 thousand consists of Euro 224 thousand as the portion of amortized cost and Euro 1,133 thousand for interest on the Senior Facility Agreement 2021 pertaining to the year; Euro 89 thousand for interest on the Unicredit loan; Euro 146 thousand on the Cassa Depositi e Prestiti loan; and Euro 34 thousand on other loans and bank advances. The account in addition includes Euro 108 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 derivative contracts that do not meet the formal hedging requirements of the company policy, specifically Euro 519 thousand on energy, Euro 299 thousand on gas, and Euro 32 thousand on currencies.

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.

FV WARRANT ADJUSTMENT

The amount at December 31, 2022 has a positive balance so the item has been reclassified to financial income.

INTEREST ON BOND LOANS

The amount of Euro 956 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 losses of Euro 764 thousand are comprised as follows:

(in Euro)	2022	2021
Realised exchange gains	3,483,221	1,720,356
Realised exchange losses	(4,407,918)	(1,915,220)
Unrealised exchange gains	601,106	941,912
Unrealised exchange losses	(439,927)	(284,155)
Net exchange gains and losses	**(763,518)**	**462,893**

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 2022 and 2021 was as follows:

(in Euro)	2022	2021
Current income taxes	594,098	2,404,754
Deferred tax income	925,256	(2,284,866)
Deferred tax charges	(923,478)	(743,266)
Taxes from previous year	39,200	(447,317)
Other	239,259	1,475,654
Total income taxes	**874,335**	**404,959**

Current income taxes reduced on the previous year, mainly due to the use of prior year losses and of the ACE benefit.

The increase in the previous year in "deferred tax income", "taxes from previous years" and "Other" were 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 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, 22	effective tax rate %	Dec 31, 21	effective tax rate %
Income before taxes	15,259,694	24.00%	9,427,929	24.00%
Adjustments for items not subject to taxation (non-recurring components)	0		0	
Result before taxes adjusted	15,259,694	**24.00%**	9,427,929	**24.00%**
Theoretical IRES charge	3,662,327		2,262,703	
Lower taxes:				
- dividends from investments	(507,235)		(2,227,326)	
- super & hyper depreciation	(752,159)		(808,197)	
- IRES deduction IRAP portion on personnel expense	(72,640)		(39,909)	
- ACE benefit and 4% Post-employment benefit provisions	(279,826)		(225,106)	
- valuation financial instruments (warrants)	(2,099,591)		2,154,749	
- Plant & R&D grants	(165,123)		(139,821)	
Higher taxes:				
- other non-deductible costs	346,638		366,684	
Total income taxes (IRES)	**132,391**	**0.87%**	**1,343,778**	**14.25%**
Taxes for previous financial years	(4,283)		(2,665,662)	
Foreign tax on royalties	239,259		1,475,654	
TOTAL INCOME TAXES (IRES)	**367,367**	**2.41%**	**153,769**	**1.63%**
IRAP	594,098		780,307	
Taxes for previous financial years	43,483		(448,488)	
IRAP deferred tax charge	(100,375)		(100,375)	
IRAP deferred tax income	(30,238)		19,747	
Total taxes recognised to the Income statement	**874,335**	**5.73%**	**404,959**	**4.30%**

Note 36: Leasing contracts

The tables below summarise the effects on the Company financial statements at December 31, 2022 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	2022
Operating lease contract charges	1,894
Contracts classified as short-term leases	20
Contracts classified as low-value assets	3
Total service costs	**1,917**
Land & buildings	(434)
Industrial & commercial equipment	(468)
Other tangible assets	(871)
Total depreciation	**(1,773)**
Income from sub-leasing contracts	-

Sales and leaseback transaction	-
Total other charges/(income)	**-**

Interest charges on financial liabilities	(154)
Total financial charges	**(154)**

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

(Euro.000)	**31/12/2022**
Net investments accounted as ROU as at 1.1.2022	7,701
Increases in the year	1,491
Early settlements in the year	(7)
Depreciation and amortisation of the year	(1,772)
Exch. diff.	-
Net investments from ROU assets at 31.12.2022	**7,413**
Payable for financial liabilities from ROU assets at 1.1.2022	7,818
Commitments in the year	1,491
Early settlements in the year	(7)
Cash outflows	(1,740)
Exch. diff.	-
Gross value of liabilities from ROU assets at 31.12.2022	**7,561**
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)	**31/12/2022**
Within the year	1,631
Between 1 and 5 years	4,343
Over 5 years	1,587
Total liabilities deriving from operating lease contracts	**7,561**

Note 37: Share-based payments

At December 31, 2022, the company holds 800,409 treasury shares, of which 70,962 were acquired in 2022 in order to service the long-term incentive plan for employees and/or collaborators of the company and/or subsidiary companies, in order to incentivise achievement of the medium-term plan.

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

Costs deriving from share-based payment transactions	**2022**	**2021**
Costs from equity-settled share-based payment transactions	674,919	135,699
Total costs deriving from share-based payment transactions	**674,919**	135,699

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

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.

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

- 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.

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:

	2022	
2021-2023 Performance Shares Plan 1st Cycle	**No. options**	**Weighted average price**
Outstanding at January 1	142,560	7.26
Assigned during the year	-	-
Cancelled during the year	(3,000)	7.26
Exercised during the year	-	-
Change in the year	13,487	7.26
Expired during the year	-	-
Outstanding at December 31	**153,047**	**7.26**
Exercisable at December 31	**-**	**-**

	2022	
2022-2025 Performance Shares Plan 2nd Cycle	**No. options**	**Weighted average price**
Outstanding at January 1	-	-
Assigned during the year	156,215	4.41
Cancelled during the year	-	-
Exercised during the year	-	-
Change in the year	-	-
Expired during the year	-	-
Outstanding at December 31	**156,215**	**4.41**
Exercisable at December 31	**-**	**-**

(Euro.000)	2022	
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	-	-
Change in the year	13,489	-
Expired during the year	-	-
Outstanding at December 31	**70,433**	**7.26**
Exercisable at December 31	**-**	**-**

(Euro.000)	2022	
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** **1st Cycle**	**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

Shown below is the information utilised in the model for the second cycle of the Performance Shares Plan:

2022-2025 Performance Shares Plan **Assumptions for the measurement of the plan fair value** **2nd Cycle**	**2022**
Weighted fair value at the measurement date	4.41
Dividend yield (%)	5
Interest free risk rate (%)	2.45
Expected useful life of the options (in years)	2.6

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.

Parent company and Related party transactions

The principal transactions of SIT with related parties are those undertaken with the 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, 22	**Revenues**	**Costs**	**Financial income**	**Financial charges**	**Financial receivables**	**Financial payables**	**Other receivables**	**Other payables**
Technologies SAPA di F.D.S. S.S.	-	-	-	-	-	-	-	-
Holding company	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
SIT Immobiliare S.p.a.	17	-	-	-	-	-	17	-
SIT Technologies S.p.A.	24	-	5,915	-	-	-	1,694	-
Transactions with other related parties	**42**	**-**	**5,915**	**-**	**-**	**-**	**1,711**	**-**

The table below shows related party transactions during the year and reflects the chain of control in place at December 31, 2021:

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 parent 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**

The SIT's operating revenues generated on transactions with SIT Immobiliare S.p.A. and SIT Technologies S.p.A. refer to advice and counsel provided by the Company in financial, administrative, tax and management control matters under a service agreement.

The financial income in respect of SIT Technologies S.p.A. refers to the change in the fair value of the SIT Warrants held until July 19, 2022.

SIT, 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 2022-2024. 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 Technologies 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 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. In 2021, the subsidiary SIT Metering S.r.l. also joined the Group VAT procedure and from the following year the parent company Technologies SAPA di F.D.S. S.S. also joined.

At December 31, 2022, the receivable of the Company from the holding company, SIT Technologies S.p.A., amounted to Euro 1,694 thousand.

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 2022, the company carried out the following transactions with subsidiaries and presented the following balances at the reporting date (in Euro thousands):

Dec 31, 22	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
SIT Gas Controls Pty Ltd (Australia)	2,860	16	275	7	0	42	767	7
SIT (Shanghai) Trading Co. Ltd. (China)	-	-	-	-	-	-	-	-
SIT Manufacturing (Suzhou) Co.Ltd (China)	12,011	2,939	82	0	2,039	0	6,219	3,302
SIT Controls CR, sro (Czech Republic)	19	1,114	0	7	0	2,026	19	415
SIT Controls Deutschland GmbH (Germany)	120	974	50	6	0	749	58	455
Sit Manufacturing N.A. SA de CV (Mexico)	31,094	2,576	23	58	4,462	0	7,967	411
SIT Controls BV - (Netherlands)	6,813	2,883	0	29	0	9,847	4,817	913
SIT Romania Srl (Romania)	38,303	62,690	188	3	736	0	10,267	14,143
MeteRSit Romania Srl (Romania)	1	0	0	2	0	0	0	0
SIT Controls U.S.A. Inc. (USA)	39	213	1,902	14	696	0	40	98
MeteRSit S.r.l. (Italy)	2,243	33	0	18	0	4,778	2,016	49
Plast Alfin S.a.r.l (Tunisia)	1,182	2,001	21	0	606	0	366	361
SIT Controls Tunisia S.u.a.r.l (Tunisia)	19,537	9,491	214	0	5,819	0	15,524	4,020
SIT Metering S.r.l (Italy)	11	158	417	0	26,521	0	247	158
JANZ - Contagem e Gestao de Fluidos,SA (Portugal)	454	0	37	0	1,150	0	839	0
Metersit UK (UK)	3	7	4	0	169	0	7	0
Subsidiaries	**114,692**	**85,096**	**3,213**	**143**	**42,197**	**17,440**	**49,155**	**24,332**

The transactions in 2021 are presented in the following table:

2021	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**

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:

	2022	**2021**
Director fees	883,100	1,068,407
Statutory auditor fees	108,216	108,251
Total directors' and statutory auditors' fees	**991,316**	**1,176,658**

The Company paid to the audit firm fees of Euro 279 thousand, in addition to reimbursement of expenses and supervisory contributions, as follows:

	2022	**2021**
Fees paid to the audit firm for audit services	229,093	207,345
Limited review of the consolidated non-financial report	31,052	28,812
Other verification services for the issue of a statement	18,670	18,000
Total	**278,815**	**254,157**

Guarantees, commitments and off-balance sheet contingent liabilities

The off-balance sheet commitments at December 31, 2022 were as follows.

	2022	**2021**
Other unsecured guarantees	66,278,063	64,051,251
Secured guarantees	-	-
Total guarantees	**66,278,063**	**64,051,251**

Other unsecured guarantees

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

	2022	**2021**
In the interest of subsidiaries	66,042,594	63,942,782
In own interest	235,469	108,469
Total other guarantees	**66,278,063**	**64,051,251**

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 for Euro 54 thousand, and the surety given as a guarantee for the reclamation works in the Padua area for Euro 121 thousand.

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 2022, 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.

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.

In response to the rising inflation being reported in the world's leading economies in 2022, central banks have tightened monetary policy, which has led to higher interest rates. By way of example, the 6m Euribor rates at December 31, 2021, June 30, 2022, and December 31, 2022, were -0.546%, 0.263% and 2.693%, respectively.

Within this landscape, the adoption of the interest rate hedging policy has been particularly important and beneficial. At the reporting date, the Group has variable rate loans for a nominal capital amount of Euro 99 million. This loan provides for a variable interest rate of Euribor 6 months, and is hedged by interest rate swaps totalling Euro 84 million, or 85% 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.

2022 saw strong inflation affecting the industrial supply market for raw materials and components, most commodity categories, and the energy market.

The commodity categories that have been affected by these price dynamics are 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. During 2022, there was a notable impact caused by a shortage of electronic components that could only be procured by resorting to alternative channels such as brokers, resulting in significant extra costs that could not be fully passed on to customers, with a consequent impact on the Group's results.

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, 2022, the following table outlines the type of instrument, its value at the reporting date and the fair value hierarchy utilised:

(Euro thousands)

Transaction type	Value at Dec 31, 22	Valuation criterion	Level 1	Level 2	Level 3
Interest Rate Swap	5,556	*Fair value*		5,556	
Forex Forward	119	*Fair value*		119	
Commodity Swaps	(818)	*Fair value*		(818)	

In 2022, 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, 2021:

(Euro thousands)

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)	

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	28,735	Reimbursement of quota of fondimpresa training plan code 328029
Fondirigenti - Rome	8,070	Reimbursement of quota of fondirigenti training plan code FDIR 30123
Simest SpA	2,000	Contribution for Hearth Patio & Barbecue Expo 2021 - prot.44854/FM/FP
Simest SpA	10,498	Contribution for ISH CHINA & CIHE 2021 - prot.44833/FM/FP
Simest SpA	68,169	Contribution for Technical assistance programme Tunisia - prot.20351/AT/FP
Total	**117,472**	

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 2022 net profit, reference should be made to the Directors’ Report.

Padua, March 21, 2023

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 2022.

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 21, 2023

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, 2022, 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, 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

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

Impairment test of goodwill relating to Heating CGU	
Description of the key audit matter	The financial statements as at December 31, 2022 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 21, 2023. 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.

Deloitte.

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, 2022, 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, 2022 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, 2022 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 6, 2023

This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

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, 2022, 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 Corporate Governance Code 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 appointment was made in accordance with the law and By-Laws, based on the slates submitted by the shareholders, also taking into account the gender balance provisions.

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 Legislative Decree No. 58 of February 24, 1998 and as per the Corporate Governance Code.
All members also declare that they do not hold administrative or control positions exceeding the limits established by applicable law and regulations.

The execution of the accounting and statutory audits is assigned to the independent 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;

- monitored compliance with disclosure obligations on regulated or inside information;
- 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 and Company Management on the activities carried out, on the general operating performance and on the outlook, on the advancement of the strategic projects launched, as well as on the main operating and financial transactions during the year;
- noted the statements made by the Directors and the evaluations expressed by the Board of Directors and verified the correct application of the assessment procedures adopted to evaluate the independence of the members of the Board of Directors, in relation to which the Board did not find any matters to be highlighted in this report;
- 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 organizational structure;
- acquired knowledge of and supervised, to the extent of its competence, the adequacy of the Company's organizational 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 organizational 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 second and third level control functions, with nothing emerging that requires 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 control and risk management 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. 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;

- verified the content of the Remuneration Report prepared pursuant to Article 123-*ter* of the CFA and available on the Company's website, which sets out a detailed account of the implementation of remuneration policies. The Board of Statutory Auditors reviewed the application of the Company's remuneration policies with particular reference to, among others, the Chief Executive Officer and the Internal Audit Manager. At its meeting of March 21, 2023, the Board of Directors verified the achievement of the targets of the MBO plan for Senior Directors, Senior Executives, the Chief Financial Officer and the Internal Audit Manager; the Board gave its positive opinion in accordance with the provisions of the law;
- 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;
- as regards the reporting of non-financial information and information on the diversity of the composition of the governance, management and control bodies of large companies and groups (Legislative Decree No. 254 of December 30, 2016 and the Implementing Regulation adopted by Consob resolution no. 20267 of January 18, 2018)
    - verified the Company's organisational structure for discharging the obligation to prepare a Non-Financial Statement pursuant to Legislative Decree No. 254/2016;
    - received constant information regarding the activities carried out to identify non-financial reporting areas relevant to the SIT Group to be included in the Non-Financial Statement;
    - observed the adoption of policies by the Board of Directors relating to sustainability topics;
    - met with the independent audit firm Deloitte & Touche S.p.A., which was commissioned to conduct a limited review of the Non-Financial Statement;
- 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 disclosure 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 report on the Non-Financial Statement, on the basis of which the audit firm did not encounter any elements indicating that the Consolidated Non-Financial Statement of the SIT Group relating to the year ended December 31, 2022 has not been prepared, in terms of all the significant aspects, as per Articles 3 and 4 of the above decree and the GRI Standards.

On the basis of the information acquired, the Board of Statutory Auditors considers that operations were carried out in accordance with the principles of correct administration and that the organisational, administrative and accounting structure that guides the financial disclosure system and the internal control and risk management system are overall adequate to company needs; the Board also believes that the organizational structure to oversee non-financial disclosure is adequate.

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

1. Considerations on the main economic, financial and equity transactions carried out by the Company and their compliance with law and the company By-Laws

   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 Board of Statutory Auditors closely monitored - directly or using recordings of conference calls for presentations to the market - shareholder engagement activities.

   The main transactions executed during the year which the Board of Statutory Auditors highlights are:

   - in March, the signing of a medium- to long-term loan agreement issued by Cassa Depositi e Prestiti S.p.A. in the amount of Euro 15 million to support a portion of the Company's financial needs for new investments and initiatives for the Company's growth in Italy and abroad;
   - in June, the signing of a medium-term loan agreement provided by Unicredit S.p.A. and guaranteed by the European Investment Bank in the amount of Euro 10 million to support a portion of the financial requirements related to working capital;
   - in July 2022, ascertainment of the forfeiture of all rights to the warrants issued in May 2017, finding that a total of 745,633 warrants were exercised during the period of possible exercise, with the issuance of 128,980 shares and a corresponding capital increase of Euro 12,898;
   - negotiation of a joint venture agreement to establish a Portuguese-registered company operating in the water metering sector, 50% owned by the subsidiary Metersit S.r.l. and 50% owned by another party;
   - provision of the sum of Euro 7.3 million, representing the total estimated charge for the out-of-court settlement signed by the Mexican subsidiary with a customer in early 2023;
   - presentation of the 2025 Sustainability Plan "Made to Matter," with projected economic resources exceeding Euro 8 million, which seeks to achieve 11 Sustainable Development Goals of the UN 2030 Agenda;
   - membership of the United Nations' Global Compact initiative, which is designed to promote on a global scale the culture of corporate social responsibility and a sustainable global economy;

- achievement of Ecovadis' "Silver" sustainability rating, which demonstrates SIT's ethical and proactive approach to ESG principles and the Company's sustainable action.
- achievement of Product Carbon Footprint management system certification, which confirms SIT's approach to product life cycle analysis.

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 party 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 2022 Half-Year Report; the planning of the audit activities for the 2022 Financial Statements; the progress of the audit activity on the 2022 Financial Statements and the results of the audit activity on the 2022 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 6, 2023, the independent audit firm issued their Report on the audit of the financial statements at December 31, 2022 and the Report on the audit of the consolidated financial statements at December 31, 2022 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, 2022, 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, 2022 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 6, 2023, 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. <u>Presentation of any notices pursuant to Article 2408 of the Civil Code, of any initiatives undertaken and the relative outcomes</u>

   The Board of Statutory Auditors, during the year ended December 31, 2022, did not receive any indications or notices as per Article 2408 of the Civil Code.

7. <u>Presentation of any petitions pursuant to Article 2408 of the Civil Code, of any initiatives undertaken and relative outcomes</u>

   No petitions were received by the Board of Statutory Auditors.

8. <u>Conferment of other assignments to the audit firm and relative costs</u>

   During 2022, the Company assigned Deloitte & Touche S.p.A. the following non-audit appointments, not falling within those prohibited by EU Regulation 537/2014: (i) certification activities for the recognition of the tax credit for research and development expenses and technological innovation, against fees of Euro 14,670 for the work carried out in favour of the Company and for Euro 6,280 with reference to the activity carried out for the subsidiary Metersit S.r.l.; (ii) performance of activities to calculate the financial covenants referring to the loan agreement entered into with a bank syndicate led by BNL S.p.A., for fees of Euro 4,000 per fiscal year. Permitted services other than auditing were approved in advance by the Board of Statutory Auditors, which assessed their adequacy in accordance with the criteria of Regulation EC 537/2014.

   The fees were recognized 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.

   On April 6, 2023, the audit firm issued the annual letter confirming its independence, as required by Article 6, paragraph 2, letter a) 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.

   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.

9. <u>Conferment of assignments to parties related to the audit firm and related costs</u>

   In 2022, the Company did not grant assignments to parties related to the audit firm.

10. <u>Opinions issued in accordance with law</u>

    During the year, the Board of Statutory Auditors issued the following opinions, as required by current regulations, the Corporate Governance Code and the policies and procedures adopted by the Company: *(i)* opinion regarding the engagement of Deloitte & Touche to certify for the recognition of tax credit for research and development expenses and technological innovation; *(ii)* opinions regarding the Remuneration Policies contained in the Remuneration Report; *(iii)* opinion regarding the engagement of Deloitte & Touche to carry out activities to calculate the financial covenants relating to the loan agreement signed with a bank syndicate led by BNL S.p.A.

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:
    - 1 Shareholders' Meeting,
    - 11 Board of Directors' meetings,
    - 7 Control, Risks and Sustainability Committee meetings,
    - 6 Remuneration Committee meetings.

    During the year, the Board of Statutory Auditors met 22 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 organizational structure
    The Board of Statutory Auditors has supervised the adequacy of the organizational 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 implications of the geo-political crisis.
    In accordance with Legislative Decree No. 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 disclosure 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 disclosure. 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 and to the verification activities carried out as part of the internal control system; *(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, pursuant to the combined provisions of Articles 36 and 39 of the Stock Exchange Regulation; *(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, as provided for under Article 15 of the Stock Exchange Regulation adopted by Consob Resolution No. 20249 of December 28, 2017.

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. <u>Adequacy of the instructions issued by the Company to the subsidiaries in accordance with Article 114, paragraph 2 of Legislative Decree No. 58/1998</u>

    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. <u>Observations on significant aspects emerging during meetings with the auditors as per Article 150424, paragraph 2 of Legislative Decree No. 58/1998</u>

    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 Legislative Decree No. 58/1998, no aspects emerged which warrant inclusion in the present Report.

18. <u>Compliance with the Corporate Governance Code of the Corporate Governance Committee for Listed Companies</u>

    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 2022 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 Legislative 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, 2022 of SIT S.p.A., their approval and the matters for which it is responsible.

Conclusions
The statutory financial statements of SIT S.p.A. at and for the year ended December 31, 2022 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, 2022 and the proposals made by the Board of Directors.

Modena, April 6, 2023

THE BOARD OF STATUTORY AUDITORS

Matteo Tiezzi

Loredana Anna Conidi

Saverio Bozzolan