2023 ANNUAL FINANCIAL REPORT

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CORPORATE INFORMATION

Parent Company Registered Office

Sit S.p.A.

Viale dell'Industria, 31/33

35129 Padua – Italy

www.sitgroup.it

Parent Company Legal Details

Share capital approved Euro 96,162,195.00

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

Tax and Padua Companies Registration Office No. 04805520287

Operating branches

Viale dell'Industria, 31 – 35129 Padua – Italy

Viale A. Grandi, 6 – 45100 Rovigo – Italy

Viale A. Grandi, 11 – 45100 Rovigo – Italy

Via Grazia Deledda 10/12 - 62010 Montecassiano - Italy

CHAIRPERSON'S LETTER

Dear Shareholders,

2023 was a year of transition, which has presented us with unexpected challenges while offering us new beginnings and opportunities.

Challenges have emerged from the complex global economic situation, particularly in the **Heating sector**. In this business we have suffered some unpredictable phenomena that have slowed down demand. Among these there were the uncertain regulation on the EPBD legislation - also known as "green homes" legislation -, the cancellation of incentives and the impacts of inflation and interest rates which have slowed down family investments. These elements caused a saturation of warehouses which made destocking for all manufacturers longer than expected, both in Europe and, to an even greater extent, in the United States. In this area, market trend was also affected by the contraction in the purchase of new homes, which affected the demand for fireplaces, a product for which SIT is a leader in the United States.

To face this **scenario of discontinuity** compared to previous years, we have implemented various actions.

First of all, the group has equipped itself with a **new, now more focused organization**. Since March 2023, the group's structure has shifted to three Business Units: Heating & Ventilation, Smart Gas Metering, Water Metering. Ventilation joins the core business "Heating", in order to develop solutions capable of improving the efficiency of gas, hybrid, biomethane and hydrogen heating appliances, as well as solutions for ventilation and air quality in indoor spaces, integrated into the domestic ecosystem, which guarantee the control and monitoring of the comfort of the environments, maximizing energy efficiency. An evolution aimed at positioning SIT into new market segments and proactively responding to new customer needs, while ensuring greater speed of response to the market.

For the **Metering** Division, 2023 was a year of satisfaction with a performance that exceeded expectations and met **important product goals**, in line with the timeline we had set ourselves. I am referring in particular to the launch of the SmartIO ultrasonic residential water meter developed in joint venture with GWF, our Swiss technological partner. The meter was presented at Enlit Europe and is represents our contribution to the global problem of managing efficiently water resources with the aim of reducing network losses, optimizing water consumption and digitizing infrastructures.

In terms of development and new business initiatives, during the year the SIT group entered into **strategic partnerships** which accelerated its entry into **business segments complementary** to the traditional ones. These partnerships have allowed us greater speed of execution in bringing our excellence in measurement technologies and R&D to markets that are, for us, still in the start-up phase, while in other cases they have allowed us to seize opportunities linked to changes in the competitive and regulatory scenario. Below a list of the main initiatives implemented in 2023:

- A partnership was concluded with **Panasonic Industry** for the launch of a new **fan for residential heat pumps**, which marked SIT's entry into this new market. The ventilator was jointly presented at MCE ExpoComfort in March 2024.
- We started the company **"SIT MBT" in the cooker hoods market** with the aim of promptly seizing the opportunities that will emerge, starting from the beginning of 2025, from the new European legislation on energy labels for extractor hoods and extraction surfaces for kitchens.
- We have signed a partnership the Optoi group and its subsidiary Upsens to create business synergies in the field of **air quality solutions**, in particular in the CMV (Controlled Mechanical Ventilation) segment, in which we plan to expand the range in next years.
- We participated in the "Hybitat" joint venture for the development of an unprecedented **green hydrogen generation and storage system for residential use**, a system which is expected to become the most efficient way to provide homes with the **clean energy necessary for heating, ventilation and air conditioning.**

Alongside these development initiatives, in order to meet the challenges of 2023 mentioned above various cost containment and reduction operations, including structural ones, have been launched, with the aim of redeveloping where necessary the base of our technical skills and making the organization even more flexible to respond promptly to the new context. The reorganization of the electronics production footprint that we announced in November and which is progressing on schedule will allow us to make the most of the new Tunisian plant; a shift that must be read in this context.

We started 2024 aware that some of the challenges that arose in 2023 will continue into this financial year. We know we can count on the **strength of the group** which has already demonstrated that it can activate strategic development levers and has **highly valuable know-how**. With the aim of growing, we are determined to build, one brick at a time, our role as sustainable partners in the present and future energy transition.

I therefore **strongly confirm the commitment** made by the entire group and in particular by the top management **to generate satisfaction**, during 2024 and for future years, **for all stakeholders**.

The Chairman

Federico de' Stefani

THE SIT GROUP'S MISSION, VISION AND VALUES

Mission

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

Vision

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

Values

CUSTOMER ORIENTATION

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

SUSTAINABILITY

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

LEAD BY EXAMPLE

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

TECHNOLOGY

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

LEAN

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

PASSION

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

DIRECTORS' REPORT

COMPOSITION OF THE CORPORATE BOARDS

Board of Directors*

Federico de Stefani	*Chairman, Chief Executive Officer, Director in charge of the Internal Control and Risk Management System (ICRMS)*
Chiara de Stefani	Director *and "Corporate Sustainability Director"*
Franco Stevanato**	*Independent Director*
Bettina Campedelli **	*Independent Director and "Lead Independent Director"*
Carlo Malacarne **	*Independent Director*
Lorenza Morandini **	*Independent Director*
Giorgio Martorelli **	*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
Giorgio Martorelli **	Member

Related Parties Committee

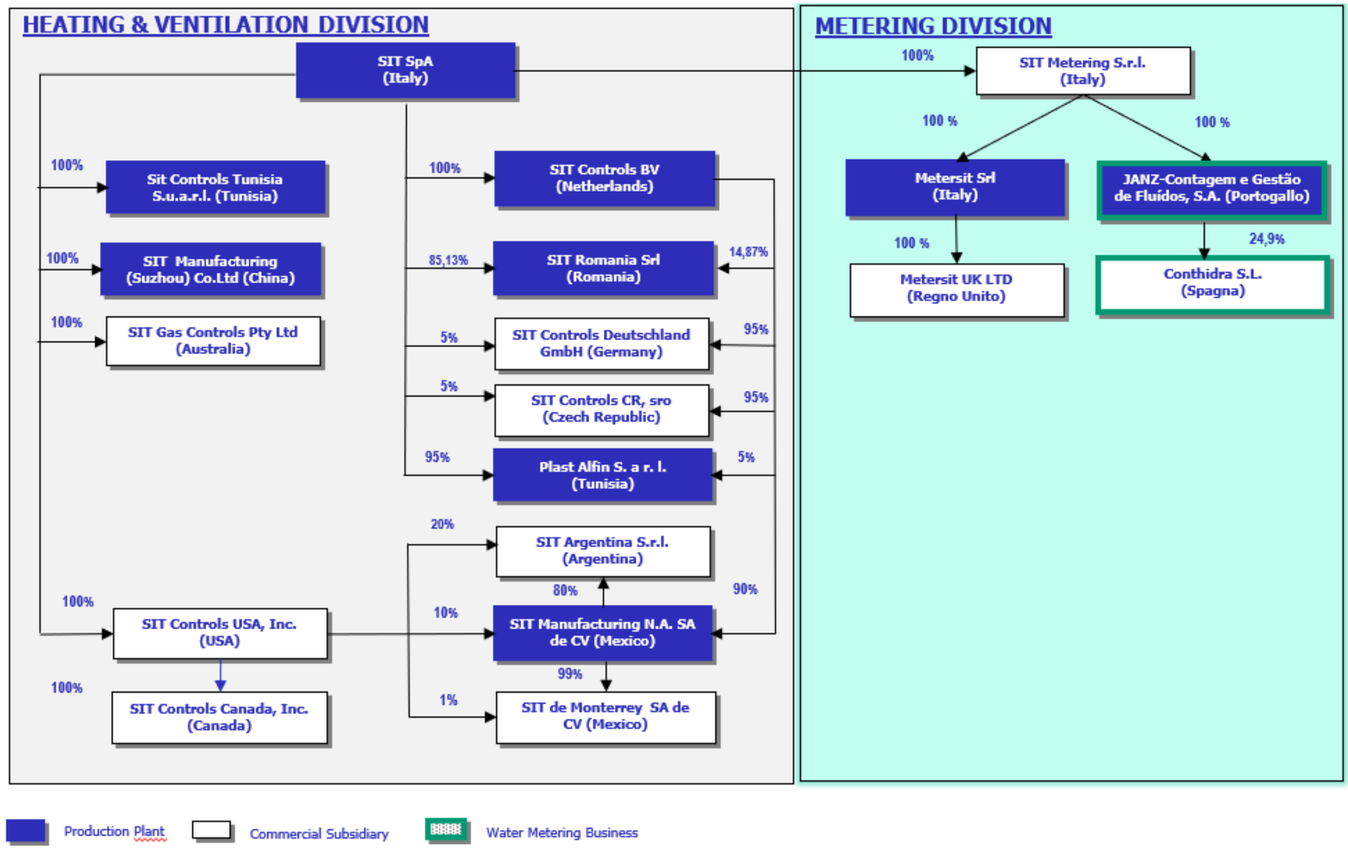
Bettina Campedelli **	Chairperson
Carlo Malacarne **	Member
Lorenza Morandini **	Member

Remuneration Committee

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

* The Board of Directors and the Board of Statutory Auditors were appointed by the Shareholders' Meeting of May 3, 2023 and remain in office until the approval of the 2025 Annual Accounts
** Independent directors.

GROUP STRUCTURE



The SIT Group

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

The Group comprises two divisions:

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

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

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

- SIT 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 with the goal of developing the UK smart gas metering market;
- JANZ - Contagem e Gestão de Fluídos, SA (Lisbon), a company that operates 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 include adjusted data and performance indicators not expressly defined for by IFRS; the definition and calculation of which are described in the following paragraph.

Euro.000

Financials	2023	%	2022	%	change	change %
Revenues from contracts with customers	326,261	100.0%	393,305	100.0%	(67,044)	(17.0%)
EBITDA	21,677	6.6%	38,209	9.7%	(16,532)	(43.3%)
EBIT	(25,219)	-7.7%	10,557	2.7%	(35,776)	(338.9%)
Net profit/(loss) for the period	(23,388)	-7.2%	11,213	2.9%	(34,601)	(308.6%)
Cash flow from operations after investing activities	(14,923)		(13,145)			

(Euro,000)

Balance Sheet	31/12/2023	31/12/2022	change	change %
Net Financial Position	(153,691)	(130,501)	(23,190)	17.8%
Net trade working capital	79,859	73,752	6,107	8.3%
Net trade working capital/Revenues	24.5%	18.8%		

ALTERNATIVE PERFORMANCE MEASURES

(Euro,000)

Financials	2023	%	2022	%	change	change %
Revenues from contracts with customers	326,261	100.0%	393,305	100.0%	(67,044)	(17.0%)
EBITDA	21,677	6.6%	38,209	9.7%	(16,532)	(43.3%)
EBITDA adjusted	28,971	8.9%	47,099	12.0%	(18,128)	(38.5%)
EBIT	(25,219)	-7.7%	10,557	2.7%	(35,776)	(338.9%)
EBIT adjusted	77	0.0%	19,447	4.9%	(19,370)	(99.6%)
Financial charges	7,827	2.4%	4,760	1.2%	3,067	64.4%
Financial income	942	0.3%	9,263	2.4%	(8,321)	(89.8%)
Financial income adjusted	942	0.3%	515	0.1%	428	83.2%
Net financial (charges)/income adjusted	(6,885)	-2.1%	(4,245)	-1.1%	(2,640)	62.2%
Result before taxes (EBT)	(31,300)	-9.6%	13,568	3.4%	(44,868)	(330.7%)
Result before taxes adjusted (EBT)	(6,004)	-1.8%	13,710	3.5%	(19,714)	(143.8%)
Net profit/(loss) for the period	(23,388)	-7.2%	11,213	2.9%	(34,601)	(308.6%)
Adjusted net profit for the period	(349)	-0.1%	10,898	2.8%	(11,247)	-103.2%
Cash flow from operations after investing activities	(14,923)		(13,145)			

(Euro,000)

Balance Sheet	31/12/2023	31/12/2022	Delta	Delta %
Net capital employed	296,814	295,998	816	0.3%
Shareholders' Equity	143,124	165,495	(22,371)	-13.5%
Net Financial Position	153,690	130,501	23,189	17.8%
Posizione finanziaria netta adjusted	140,182	115,596	24,586	21.3%
Capitale circolante netto commerciale	79,859	73,752	6,107	8.3%

Key performance indicators	31/12/2023	31/12/2022
ROIC [(1)]	9.8%	15.9%
Net financial position/Shareholders' equity	1.07	0.79
Net financial position/Adjusted EBITDA	5.30	2.77

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

Composition of key 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 exceptional 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.

The criteria used for the preparation of them and a brief description of their composition, as well as the reconciliation with the corresponding official data, are given below:

- EBITDA adjusted is the EBITDA (EBIT plus amortisation, depreciation and write-downs, net of doubtful debt provisions) net of exceptional 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	**2023**	**2022**
EBIT	**(25,219)**	**10,557**
Depreciation, amortisation and write-downs	47,090	27,771
Write-downs	(194)	(119)
EBITDA	**21,677**	**38,209**
Personnel costs	3,187	-
Sit Controls BV Reorganization Cost	2,715	-
Financial restructuring costs	786	-
Provisions for other risks	-	310
Write-downs of working capital after out-of-court transactions	535	-
Provision for out-of-court settlement	-	8,580
Other	71	-
Total exceptional operating charges (income)	**7,294**	**8,890**
EBITDA adjusted	**28,971**	**47,099**

Personnel costs amounting to 3.187 thousand euros include transaction costs and incentives for the consensual termination of employment with certain employees, including legal fees,

The *Sit Controls BV Reorganization Cost*, amounting to Euro 2.715 thousand, are related to the reorganization of the Dutch company Sit Controls B,V, aimed at downsizing the local production structure. The timing of the procedure will be defined according to local legislation while the project as a whole is expected to be completed in the first half of 2024. The cost is mainly related to the costs that the group will have to bear for the exit of employees belonging to the production area, as well as additional ancillary costs.

Financial restructuring costs. amounting to 786 thousand euros. refer to costs for consultancy to support the renegotiation of debt with credit institutions in progress at the end of the year.

Regarding the item *Write-downs of working capital after out-of-court transactions* this is the write-down of components of trade receivables and inventory specific to the business subject to the out-of-court settlement with a customer concluded in the last quarter of 2022.

For the year 2022, the item Provision for out-of-court settlement refers to the best estimate of costs, including legal fees, following a dispute with a customer against the Mexican subsidiary, as a manufacturing company, which ended in 2023.

The item *Other* refers entirely to consultancy services provided to assess the feasibility of an industrial and strategic project by the parent company SIT.

- EBIT adjusted is defined as the operating result, net of exceptional income and charges. The reconciliation, with indication of the exceptional charges and income, is presented in the following table:

(Euro,000)

Reconciliation of EBIT adjusted	**2023**	**2022**
EBIT	**(25,219)**	**10,557**
Personnel costs	3,187	-
Sit Controls BV Reorganization Cost	2,715	-
Financial restructuring costs	786	-
Provisions for other risks	-	310
Write-downs of working capital after out-of-court transactions	535	-
Provision for out-of-court settlement	-	8,580
Other	71	-
Asset write-downs	18,002	-
Total exceptional operating charges (income)	**25,296**	**8,890**
EBIT adjusted	**77**	**19,447**

Asset write-downs include Euro 17,000 thousand relating to the write-down of goodwill of the Heating & Ventilation division as well as Euro 1,002 thousand mainly relating to the partial write-down of the building of the current headquarters of the Parent Company in consideration of the upcoming transfer to the new headquarters, being finalized.

For a description of the other 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. It should be noted that the Warrants were extinguished in July 2022. The reconciliation is presented below:

(Euro,000)

Reconciliation of net financial (charges)/income adjusted	2023	2022
Financial charges	**(7,827)**	**(4,760)**
Financial charges adjusted	**(7,827)**	**(4,760)**
Financial income	**942**	**9,263**
Changes on Warrants fair value	-	(8,748)
Adjusted financial income	**942**	**515**
Adjusted net financial (charges)/income	**(6,885)**	**(4,245)**

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

(Euro,000)

Reconciliation of EBT adjusted	2023	2022
Profit before taxes for the year	**(31,300)**	**13,568**
Personnel costs	3,187	-
Sit Controls BV Reorganization Cost	2,715	-
Financial restructuring costs	786	-
Provisions for other risks	-	310
Write-downs of working capital after out-of-court transactions	535	-
Provision for out-of-court settlement	-	8,580
Other	71	-
Asset write-downs	18,002	-
Total exceptional operating charges (income)	**25,296**	**8,890**
Changes on Warrants fair value	-	(8,748)
Adjusted Financial charges	**0**	**(8,748)**
EBT adjusted	**(6,004)**	**13,710**

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

(Euro,000)

Reconciliation of adjusted net profit	2023	2022
Net Profit of the year	**(23,388)**	**11,213**
Personnel costs	2,310	-
Sit Controls BV Reorganization Cost	2,014	-
Financial restructuring costs	567	-
Provisions for other risks	-	223
Write-downs of working capital after out-of-court transactions	374	-
Provision for out-of-court settlement	-	8,210
Other	51	-
Asset write-downs	17,723	-
Total exceptional operating charges (income)	**23,039**	**8,434**
Changes on Warrants fair value	-	(8,748)
Adjusted Financial charges	**0**	**(8,748)**
Net profit adjusted	**(349)**	**10,898**

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	31/12/2023	31/12/2022
Goodwill	70,946	87,946
Other intangible assets	50,781	55,276
Property, plants and equipment	105,270	106,103
Investments in other companies	657	630
Non-current financial assets	2,533	5,186
Fixed assets (A)	**230,188**	**255,141**
Inventories	83,315	91,352
Trade receivables	63,458	63,800
Trade payables	(66,915)	(81,400)
Trade net working capital (B)	**79,859**	**73,752**
Other current assets	14,264	12,597
Tax receivables	3,752	2,281
Other current liabilities	(20,768)	(23,113)
Tax payables	(1,645)	(1,205)
Other current assets, liabilities and taxes (C)	**(4,397)**	**(9,441)**
Net working capital (B + C)	**75,461**	**64,311**
Deferred tax assets	18,874	10,492
Provisions for risks and charges	(10,513)	(13,844)
Net liabilities for employee benefits	(5,096)	(5,093)
Other non-current liabilities	(6)	(4)
Deferred tax liabilities	(12,094)	(15,005)
Other non-current liabilities, assets and provisions (D)	**(8,835)**	**(23,454)**
Net capital employed (A + B + C + D)	**296,814**	**295,998**

- The adjusted net financial position is calculated by deducting 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.

(Euro,000)

Composition net financial position	31/12/2023	31/12/2022
A. Cash	21	18
B. Cash equivalents	8,680	23,517
C. Other current financial assets	6,630	6,269
D. Cash and cash equivalents (A) + (B) + (C)	**15,330**	**29,804**
E. Current financial debt (including debt instruments but excluding the current portion of non-current financial debt)	26,836	8,196
F. Current portion of the non-current debt	32,567	20,589
G. Current financial debt (E + F)	**59,405**	**28,785**
H. Net current financial debt (G - D)	**44,074**	**(1,020)**
I. Non-current financial debt	70,011	92,001
J. Debt instruments	39,605	39,520
K. Trade payables and other non-current payables	-	-
L. Non-current financial debt (I + J + K)	**109,616**	**131,521**
M. Net Financial Position (H + L)	**153,690**	**130,501**
IFRS 16 – Leases	(13,509)	(14,905)
Net financial position adjusted	**140,181**	**115,596**

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 SITUATION

Climate change and SIT's role

Climate change is significantly altering our world, causing a wide range of effects from subtle changes to severe environmental disasters. These impacts are creating increasingly complex challenges for the environment, humanity, and the global economy. The United Nations' Intergovernmental Panel on Climate Change (IPCC) emphasizes the urgency for rapid and decisive action. The window to limit global temperature rise to within the critical threshold of 1.5 degrees Celsius has narrowed to less than a decade. Greenhouse Gas (GHG) emissions remain the primary driver of ongoing climate change. To prevent further biodiversity loss, infrastructure damage, and human suffering, there is a pressing need for accelerated efforts in both climate adaptation and GHG emission reductions.

Despite some progress, actions taken so far are uneven and insufficient to address the growing risks. These gaps are particularly stark among low-income populations, underscoring the need for a more inclusive and supportive approach.

Sustainability is central to the SIT group's operations. As a strategic supplier to leading players in the energy, utility, and alternative energy sectors, SIT is committed to enhancing the efficient use of natural resources, reducing carbon dioxide levels, and investing in carbon-neutral solutions. SIT's products are designed to be compatible with alternative and green gases, such as biomethane and hydrogen. Additionally, SIT leads in creating intelligent solutions for indoor climate control and consumption measurement. Significant collaborations and partnerships, including participation in the European Clean Hydrogen Alliance, place SIT at the forefront of hydrogen product development, encompassing residential heating (hydrogen boilers) and smart meters. This commitment positively impacts the entire supply chain, from suppliers and customers to end consumers.

Through the Water Metering Business Unit, SIT plays an active role in the energy transition. Recognizing water as an increasingly scarce resource, SIT applies its expertise in precise consumption measurement to promote efficient and sustainable water use. Participation in the "Valore Acqua per l'Italia" community promoted by The European House Ambrosetti further underscores this commitment.

SIT's product development process is guided by eco-design principles, with a strong focus on carbon footprint and overall environmental impact. SIT products are designed for the use of alternative combustion sources, particularly hydrogen and biomethane.

The Company is closely monitoring the evolving debates and regulations, particularly in the European Union, regarding the technological transition to electricity-powered products. The outcomes and impacts on the Company's business remain uncertain at this time.

In response to the risks associated with transition processes and to differentiate its business, the Company is investing significantly in new "green" technologies. These investments include technological partnership projects with key customers and diversification into sustainability-focused market segments. Noteworthy investments involve developing a range of electrical applications, such as heat pumps, controlled mechanical ventilation, and fans for cooker hoods, all of which contribute to sector decarbonization. To strengthen this strategy, during 2023, the company updated its organizational structure, which is now composed of three Business Units:

- Heating & Ventilation
- Smart Gas Metering
- Water Metering.

This restructuring aims to enhance management's focus on each market by anticipating new customer needs, particularly in technological innovation and energy transition. The core business of Heating is now supported by Ventilation, with a commitment to improving the efficiency of gas, hybrid, biomethane, and hydrogen heating appliances. Additionally, the Company focuses on ventilation and indoor air quality solutions that integrate into domestic ecosystems, ensuring environmental comfort control and monitoring while maximizing energy efficiency.

For further information related to climate change, please refer to the risk section of this Report.

Macroeconomic scenario

In 2023, the global economic landscape weakened due to persistently high inflation, ongoing monetary tightening, and the underperformance of certain economies, notably China, which struggled more than anticipated. The outlook remains weak and uncertain, with significant downside risks primarily stemming from escalating geopolitical tensions in the Middle East, increased fragmentation of international production, and potential impacts on commodity prices.

The global manufacturing sector experienced a substantial slowdown following the strong rebound post-COVID-19 shock. Several factors contributed to this deceleration:

- A shift in consumer spending from goods to services, particularly tourism.

- The weakening of the European industrial sector, heavily influenced by the German economy.

- Tougher conditions for demand, especially in investments, due to credit tightening and the gradual phasing out of emergency policies.

These factors resulted in a decline in global trade of goods, particularly hindered by high geopolitical uncertainty, the strengthening of the US dollar (the primary currency for much of global trade), and the proliferation of trade barriers.

In 2023, the year-on-year GDP trend of the main areas of interest for the Group is summarised in the table below:

Change in GDP	2023	2022
Italy	0.9%	3.7%
Euro	0.5%	3.5%
USA	2.5%	2.1%
China	5.3%	3.0%

The GDP of the US economy, which came in above expectations, was driven by higher growth in consumption and the labor market. In China, GDP continued to be affected by the effects of the pandemic and grew at the slowest pace in thirty years, impacted by the real estate sector in a context of demographic decline and an unemployment rate, especially among young people, continuing to rise.

For the eurozone economy, 2023 was a year of substantial stagnation due to high inflation, which dampened consumer demand and rising policy rates, the impacts of which were particularly evident in the construction sector.

In 2023, the Italian economy grew by 0.9%, decelerating compared to 2022. Growth was mainly driven by domestic demand net of inventories, with an equal contribution from consumption and investment. Net foreign demand made a slightly positive contribution, while the change in inventories was negative. On the supply side of goods and services, value added grew in construction and in many service sectors, while it contracted in agriculture and in all mining, manufacturing and other industrial activities. The growth in productive activity has been accompanied by an expansion of labour inputs and incomes.

As far as the Italian mechanical industry sector is concerned, the sharp slowdown in growth that occurred in the first half of 2023 continued into the rest of the year with production down 4.7% compared to 2022.

The negative trend is attributable to several concomitant factors, such as the progressive downsizing of building bonuses, the loss of purchasing power of households and the progressive lack of liquidity of companies.

OPERATING PERFORMANCE

Introduction

SIT S.p.A. (hereinafter "SIT", the "Company" or the "Parent Company") has decided to adopt the option allowed by art. 40 of Legislative Decree no. 127 of April 9, 1991, paragraph 2 bis, as amended by Legislative Decree no. 32 of February 2, 2007, which allows companies that prepare consolidated financial statements to present the Consolidated Management Report and the Company's Directors' Report in a single document.

Significant events of the year

SIT obtains EcoVadis' Silver sustainability rating.

In January 2023, the Company was notified of the achievement of the "Silver" rating by EcoVadis, an international rating agency that measures the CSR (Corporate Social Responsibility) performance of companies, using a methodology based on the highest international reference standards. The Company, confirming its rating range compared to the previous evaluation, obtained a higher score that places it in the top 10% of the companies in the sector under analysis (22% the previous year). Please note that EcoVadis announced in February 2024 a new rating for SIT group, which shows a further improvement. Please refer to the section "Significant events occurring after the end of the financial year" for further details.

SIT presents its new range of gas adaptive solutions and CMC applications at the Frankfurt trade fair.

From March 13 to 17, 2023, SIT participated in the ISH trade fair in Frankfurt, the largest international trade fair for heating, energy-saving, renewable energy, air conditioning and building automation technologies.

At this event, SIT presented the most complete range of gas-adaptive solutions on the market with its three versions: FLEXA IONO, FLEXA H2 and the latest FLEXA PRO, the residential and commercial sensorized mixer capable of directly measuring gas and air flows, optimizing the combustion system.

Also presented was the new 877 ELEKTRA XL boiler valve, designed for commercial appliances up to 150kW (also 100% hydrogen), which completes the SIT range for professional applications.

SIT's proposal at the fair also included electronic control solutions for Controlled Mechanical Ventilation (CMV), for indoor air exchange and heat recovery, which also integrate UpSens sensors for the first time, thanks to the recent partnership started with the Optoi Group.

New organizational structure was announced.

With the aim of focusing management more effectively on reference markets and anticipating new customer needs, with particular attention to technological innovation and the energy transition, in April 2023 SIT announced a new organizational structure of the Group, which is now composed of three Business Units:

- Heating & Ventilation
- Smart Gas Metering
- Water Metering

The historical core business of Heating is now joined by Ventilation with the aim of developing and manufacturing solutions for the continuous improvement of the efficiency of gas, hybrid, biomethane and hydrogen heating appliances, as well as solutions for ventilation and air quality in indoor spaces, integrated into the domestic ecosystem.

With the new organizational structure, Metering is divided into two Business Units.

The Smart Gas Metering Business Unit, whose mission is the design and construction of gas meters for residential and industrial systems, providing customers with new digital technologies for data reading, consumption control and cutting-edge measuring instruments in the sector.

The Water Metering Business Unit, headed by the Portuguese company JANZ acquired at the end of 2020, whose mission is to design, manufacture and market water consumption metering solutions with both traditional and smart technology, with the aim of providing water utilities and local municipalities with solutions to increase efficiency and accelerate their sustainability strategies at the best total cost of ownership.

At the same time, three Business Unit leaders were appointed, who, together with the Chief Product Officer and support functions, report to the CEO.

SIT obtains the Gender Equality Certification

During the first half of 2023, SIT obtained the certification on gender equality, pursuant to UNI/PdR 125:2022, issued by the certifying body Kiwa and supported by Variazioni, a consulting company specializing in innovation and Change Management projects. This certification, which is valid for three years and is subject to annual monitoring, has seen SIT be virtuous in all six areas that the certification investigates: Culture and Strategy, Governance, HR Processes, Opportunities for growth and inclusion of women in the company, Pay equity by gender and Protection of parenthood and work-life balance.

The equal opportunities certification, consistent with the company's "Made with Care" pillar dedicated to Social Responsibility and included in the company's sustainability plan, comes after two other important milestones in SIT's ESG journey: the new enhanced parenting policy, in force from March 1, 2023, and the Diversity & Inclusion policy issued in April 2023. The Parental and Diversity & Inclusion policies and the Gender Equality certification are an integral part of the company's sustainability roadmap, which aims to enable the energy transition through innovative solutions that help decarbonize the atmosphere and safeguard natural resources as well as enhance its human resources.

SIT extends Product Carbon Footprint (CFP) certification to gas meters.

During the first half of 2023, SIT strengthened its commitment to the detection and management of its CO2 emissions and obtained the certification of the Product Carbon Footprint measurement system (CFP Systematic Approach) of an additional product category: gas meters produced by the subsidiary Metersit. Through the methodology adopted, SIT is therefore able to calculate in a timely and certified manner the Carbon Footprint of each product throughout its life cycle (from production to disposal in a "*cradle-to-grave*" logic) in line with the standards set by the ISO 14067:2018 standard.

The certification, issued by the certifying body Bureau Veritas Italia, a world leader in inspection, compliance verification and certification services, is in addition to the one obtained in 2022 relating to the product lines of the Heating & Ventilation business unit (mechanical controls, fans, electronic controls).

SIT wins the Sustainability Award 2023 by ranking first in the Top 100 ESG Score

SIT has won the Sustainability Award 2023, an award promoted by Kon Group and Elite (Euronext) in partnership with Azimut. The award is a recognition of Italian companies that have best expressed their ability to innovate, renew and activate the best energies, promoting sustainable, inclusive and stable growth, creating added value for all stakeholders.

SIT ranked first in the Top 100 ESG Score, reserved for companies with a turnover of more than 250 million euro, having obtained the highest score in the three areas of the assessment model (environment, social responsibility, governance).

SIT - Panasonic partnership for the launch of new residential Heat Pump fan

In October 2023, the partnership with Panasonic Industry, a Japanese multinational and world leader in HVAC technologies, was announced for the launch of a new complete solution of fans for residential heat pumps.

The collaboration combines the quality and reliability of Panasonic Industry's Japanese-designed motors with SIT's advanced expertise in fluid dynamics and motor controls to develop a complete fan solution designed specifically for residential heat pumps. The new application – which was presented in mid-March at the MCE – Mostra Convegno Expocomfort exhibition in Milan – will be adapted to the specific needs of each heat pump manufacturer to ensure the best performance, minimized noise and low consumption.

The strategic initiative is focused on the European market, characterized by the adoption of the new green policy regarding F-Gas regulation, while European heat pump manufacturers are investing heavily in the development of new products and the localization of their supply chain in Europe.

SIT presents the SmartIO ultrasonic residential water meter for the European market at Enlit Europe

JANZ, a SIT group company leader in Water Metering, presented at Enlit Europe - an event dedicated to operators in the entire energy supply chain - SmartIO, the new smart water meter for residential use based on ultrasonic technology, with best-in-class measurement capacity, developed in a joint venture with GWF, a Swiss technological partner operating in the water sector.

SmartIO is a response to a global issue of efficient management of water resources and is part of a sector that is expected to grow in Italy as well, driven by the replacement of installed meters with smart appliances.

SmartIO uses patented and innovative technology and maintains a high level of accuracy throughout the product life cycle, with low maintenance costs. Thanks to IoT technology, the meter communicates with the proprietary MyWater software, concretely contributing to reducing water waste. The first target of SmartIO will be utilities, both in the Iberian market and in the Italian market, where it will be marketed through MeteRSit, a company of the SIT group leader in Smart Gas Metering.

SIT MBT joint venture in the cooker hood market

SIT strengthens its strategic development path in electrification with a company dedicated to the cooker hood market. With SIT MBT S.r.l., the Group wants to be a European leader in the design and production of fans for kitchen hoods, induction hobs and pellet stoves through the development of innovative products with high energy efficiency and their customization to the specific needs of customers, thanks to the technological skills of the Montecassiano center of excellence.

The company's primary objective is to promptly seize the opportunities that will emerge in the coming months, linked in particular to the entry into force, starting from the beginning of 2025, of the new European legislation on energy labels for extractor hoods and cooktops for kitchens. The new company wants to establish itself in the Italian and European market as an independent player with a historical track record, a recognized and reliable management team, an R&D competence center of excellence and production in Italy, in the Marche region, in the center of the hood and kitchen district, to give qualified technological support to the most important European manufacturers of kitchen extractor hoods and extractor hobs.

SIT MBT S.r.l. will include the business segment of SIT S.p.A. dedicated to ventilation and components for hoods and pellets and 100% of the innovative start-up Motors & Blowers Technology Srl (MBT), launched by a team of managers with long experience in the sector. To complete the structure of the company, the participation of Wentelon, a supplier of ventilation motors, which with its state-of-the-art Chinese plants will ensure technology and competitiveness for the initiative.

SIT MBT S.r.l. will be 70% owned by SIT and 30% by Wentelon and the managers of Motors & Blowers Technology S.r.l.

Update on bank negotiations 2023

With a letter of acceptance dated June 30, 2023, the Company's main lenders have granted a so-called waiver on the contractual financial covenants in place on the loans granted with reference to the recognition date of June 30, 2023. This consent was granted following a request made by the Company to the lenders at the beginning of June, made necessary by the economic and financial performance of the period, which would not have allowed compliance with the parameters in question.

The persistence of the negative economic situation in the Heating & Ventilation segment highlighted the impossibility for the Company to meet certain commitments to repay loans scheduled at the end of the year and financial covenants. Against this prospect, the Company promptly entered the necessary discussions with its lenders to reach, on December 29, 2023, an agreement to extend the main amounts due as of December 31, 2023 as well as a standstill agreement that provides for the suspension of certain contractual clauses – including compliance with financial parameters – until April 30, 2024.

The Company has also committed to providing lenders by February 28, 2024 with an update of the business plan approved by the Board of Directors on September 15, 2023 aimed at renegotiating the financial profile of debt and the consequent revision of financial parameters. For further information, please refer to the paragraph "Significant events occurring after the end of the year".

Sales analysis

SIT Group operates in two Divisions:

- Heating & Ventilation, which develops and manufactures systems for the safety, comfort and high efficiency of gas appliances;
- Metering, which develops and manufactures water and gas meters with remote control, consumption measurement, reading and communication functions.

Revenue by division

(Euro,000)	2023	%	2022	%	diff	diff %
Heating & Ventilation	233,997	71.7%	315,338	80.2%	(81,340)	(25.8%)
Metering	88,619	27.2%	72,516	18.4%	16,103	22.2%
Total sales	**322,617**	**98.9%**	**387,854**	**98.6%**	**(65,237)**	**(16.8%)**
Other revenues	3,644	1.1%	5,451	1.4%	(1,807)	(33.1%)
Total revenues	**326,261**	**100%**	**393,305**	**100%**	**(67,044)**	**(17.0%)**

Revenue by geography

(Euro,000)	2023	%	2022	%	diff	diff %
Italy	97,346	29.8%	99,452	25.3%	(2,106)	(2.1%)
Europe (excluding Italy)	151,359	46.4%	169,396	43.1%	(18,037)	(10.6%)
The Americas	47,144	14.4%	85,481	21.7%	(38,337)	(44.8%)
Asia/Pacific	30,412	9.3%	38,976	9.9%	(8,564)	(22.0%)
Total revenues	**326,261**	**100%**	**393,305**	**100%**	**(67,044)**	**(17.0%)**

Consolidated revenues for 2023 amounted to Euro 326.3 million, recording a decrease of 17% compared to 2022 (Euro 393.3 million). In the fourth quarter of 2023, consolidated revenues amounted to Euro 84.2 million, a decrease of 18.2% compared to the same period of the previous year (Euro 102.9 million).

Sales of the **Heating & Ventilation Division** in 2023 amounted to €234.0 million, -25.8% compared to €315.3 million in 2022 (-25.1% at same exchange rates).

In the fourth quarter, the Division achieved sales of Euro 57.9 million, down 28.1% compared to the fourth quarter of the previous year (Euro 80.5 million).

The fourth quarter of 2023 recorded a trend in the Heating end market in contrast to previous quarters, at least as far as boilers are concerned: in fact, final sales were substantially in line with those of the last quarter of 2022 after recording significant reductions in each previous quarter; the negative trend of heat pumps persisted also in the fourth quarter due to the interruption of incentives.

In this market context, SIT customers are still operating with consistent stock levels and therefore the improved performance of the fourth quarter has not yet translated into a recovery in SIT turnover.

The following table shows the sales by geographical area of the Heating & Ventilation Division:

(Euro,000)	2023	%	2022	%	diff	diff %
Italy	36,675	15.7%	56,116	17.8%	(19,441)	(34.6%)
Europe (excluding Italy)	119,632	51.1%	138,022	43.8%	(18,390)	(13.3%)
The Americas	44,767	19.1%	82,839	26.3%	(38,072)	(46.0%)
Asia/Pacific	32,923	14.1%	38,361	12.2%	(5,438)	(14.2%)
Total sales	**233,997**	**100%**	**315,338**	**100%**	**(81,340)**	**(25.8%)**

Sales in Italy decreased by 34.6% compared to 2022. This trend affected all major products and was affected by the interruption of sector incentives in 2023 as well as the slowdown in the home renovation market. It is worth noting the particularly negative trend, in the Direct Heating segment, of applications for Pellet Stoves (-77.5%), which in 2022 had benefited from the increase in gas prices.

As far as Europe is concerned, excluding Italy, in 2023 there was a reduction in sales of Euro 18.4 million, equal to 13.3% compared to the previous year. Turkey, the leading market by shipment with 18.1% of divisional sales, recorded a growth trend of 10.9% equal to Euro 4.2 million, mainly thanks to Fans for Central Heating applications penalized by supply problems during the first part of 2022. UK, 8.5% of divisional sales, marks a trend substantially in line with the year 2022, with a differentiated trend between product families in which there is a growth of Euro 2.5 million (+25.6%) in flows compared to 2022. As far as Central Europe is concerned, the overall trend in the period was in line with the Division (-28.5%), with sales of Heat Recovery Units achieving sales in line (+1.0%) with those of the previous year.

Sales in the Americas fell by 46.0% (exchange rate impact is not material). The reduction affected Storage Water Heating applications for Euro 10.2 million, while Direct Heating applications for fireplaces (-Euro 24.3 million, -55.4%) were affected by the negative trend of new buildings to which this segment is related.

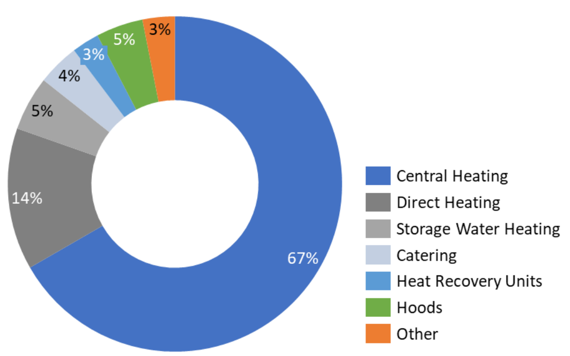
Sales in the Asia/Pacific area decreased by 14.2% (-9.2% on a like-for-like exchange rate basis) to Euro 32.9 million compared to Euro 38.4 million in 2022. As for China, 9.0% of divisional sales, sales for the year recorded a reduction of 11.6% compared to 2022, which at same exchange rates is -5.2%. Australia recorded sales of Euro 5.9 million in 2023, a reduction of 27.9% (23.3% at same exchange rates).

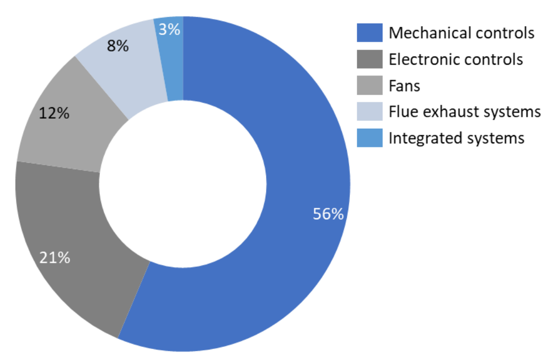
Coming to the main product families, the trend recorded during the year concerned the entire product portfolio with Mechanical controls at -24.4%, Electronic controls -33.6% and Fans at -32.4% while Flues recorded an increase of 7.9%.

In terms of application segment, Central Heating, which accounts for 66.7% of divisional sales, recorded a reduction of 16.9%, while Direct Heating (13.7% of divisional sales) recorded a reduction of 49.9% due to the performance of fireplaces in the USA and applications sold in Italy. Storage Water Heating recorded a 47.9% reduction due to the loss of share in the USA.

Regarding the main customers of the Heating & Ventilation division, it should be noted that 38.2% of sales were achieved with the top 5 customers in 2023, while last year this incidence was 33.9%.

The following graphs show Heating & Ventilation sales in 2023 by product family and by segment application (data from management source):





Sales of the **Metering Division** amounted to Euro 88.6 million compared to Euro 72.5 million, an increase of 22.2% compared to the previous year.

Sales in the **Smart Gas Metering** segment amounted to Euro 60.0 million, an increase of 24.0% compared to 2022. The performance is due to the group's good positioning in the Italian market and the new development and replacement projects launched by its main customers. Sales in Italy accounted for 96.6% of the total, while sales abroad, for 3.4% of the total, were made in Greece and Central Europe.

Sales in **Water Metering** amounted to Euro 28.6 million, up 18.5% compared to 2022. Sales were achieved in Portugal (19.0%), Spain (36.2%), the rest of Europe (34.7%) and America and Asia (7.3% and 2.7%) respectively.

Regarding the concentration of Metering sales, in the Smart Gas Metering it should be noted that 75.3% of sales were achieved with the first 5 customers in 2023, while last year this incidence was 64.7%. In Water Metering, the figures are 60.1% and 58.2% respectively.

Economic performance

Consolidated revenues for 2023 amounted to Euro 326.3 million, down 17.0% compared to 2022 (Euro 393.3 million).

The purchase cost of raw materials and consumables, including changes in inventories, amounted to Euro 175.8 million, accounting for 53.9% of revenues, compared to 54.3% in 2022.

Service costs amounted to Euro 46.5 million compared to Euro 52.3 million in the previous year (respectively equal to 14.3% and 13.3% of revenues).

Personnel costs amounted to Euro 80.7 million compared to Euro 80.2 million in the previous year, of 24.7% of revenues, up from 20.4% in the previous year. The item includes Euro 5.3 million restructuring costs, relating to the Parent Company for Euro 2.5 million and to the Dutch company for Euro 2.3 million, whose production plant is currently being closed.

Depreciation, amortization and impairment losses, amounting to Euro 47.1 million, increased compared to the previous year (Euro 27.8 million) due to the normal effect of the increase for new investments made during the year and the new operating lease agreements accounted for in accordance with IFRS16; it should also be noted that following the impairment test carried out during the half-year reporting on the invested capital of the two main CGUs, the Group adjusted the carrying amount of goodwill of the Heating & Ventilation CGU to its recoverable amount by recording an impairment charge of Euro 17.0

million. Euro 1.0 million refers to the partial write-down of the building of the current headquarters of the Parent Company in consideration of the planned transfer to the new headquarters under construction.

The provision for risks amounted to Euro 1.0 million, substantially in line with the value of the previous year, net of the extraordinary provision recorded in 2022 for the dispute with an American customer of Euro 7.6 million. In 2023, the item was affected by provisions for the disposal of batteries contained in meters and for environmental remediation costs on land owned by the Parent Company.

Adjusted EBITDA amounted to Euro 29.0 million, down 38.5% compared to the previous year (Euro 47.1 million) and was affected by the volume effect, especially in the Heating & Ventilation division, which was only partially offset by the Metering division and by efficiency and cost containment measures.

The operating result, in addition to the performance of operations, was particularly affected by the impairment loss and went from Euro 10.6 million in 2022 to Euro -25.2 million in 2023.

Adjusted operating profit amounted to Euro 0.1 million compared to Euro 19.4 million in 2022.

Net financial expense for 2023 amounted to Euro 6.9 million compared to net financial income of Euro 4.5 million in the previous year. It should be noted that in 2022 the amount is affected by the change in fair value deriving from the market value of the Warrants, which resulted in financial income of Euro 8.7 million.

Adjusted net financial expenses, net of the aforementioned fair value changes, amounted to Euro 6.9 million in 2023 compared to Euro 4.2 million in the previous year. The trend was upward due to both the increase in debt and the increase in interest rates.

Taxes for the period amounted to Euro 7.9 million and reflect the allocation of deferred tax assets deriving mainly from recoverable tax losses accrued by some foreign companies as well as by the Parent Company.

The net result for the period amounted to a loss of Euro 23.4 million compared to a profit of Euro 11.2 million in 2022.

The adjusted net result was a loss of Euro 0.3 million compared to an adjusted net profit of Euro 10.9 million in 2022.

Financial performance

As of December 31, 2023, net financial debt amounted to Euro 153.7 million compared to Euro 130.5 million as of December 31, 2022. The change of the net financial position is shown in the table below:

(Euro,000)	2023	2022
Cash flow from current activities (A)	**27,472**	**46,372**
Change in inventories	9,399	(19,730)
Change in trade receivables	951	(6,715)
Change in trade payables	(15,129)	(675)
Change in other current assets and liabilities and for taxes	(14,591)	(5,514)
Cash flow from changes in Working Capital (B)	**(19,370)**	**(32,634)**
CASH FLOW FROM OPERATING ACTIVITIES (A + B)	**8,102**	**13,738**
Cash flow from investing activities (C)	(23,025)	(26,883)
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)	**(14,923)**	**(13,145)**
Interest	(7,162)	(3,327)
Changes in MTM derivatives and amortized cost	113	1,702
Equity changes	(839)	857
Changes in financial assets	1,409	-
Acquisition of treasury shares	-	(599)
Dividends	-	(7,299)
IFRS 16	(1,785)	(1,963)
Change in net financial position	**(23,187)**	**(23,774)**
Opening net financial position	**130,501**	**106,729**
Closing net financial position	**153,690**	**130,501**

In 2023 generation of cash flows from current operations was Euro 25.0 million compared to Euro 46.4 million in 2022, a difference due to the economic performance in the two years.

In 2023, the absorption of working capital amounted to Euro 16.9 million compared to an absorption of Euro 32.6 million in the previous year.

The trend in inventories generated cash for Euro 9.4 million in 2023 while in 2022 it absorbed Euro 19.7 million – a trend deriving from the different economic situation in the sector in the two years, with particular reference to the Heating & Ventilation division. Consistently, payables to suppliers also reflect the trend in purchase volumes, with a reduction in value and cash absorption of Euro 15.1 million in 2023 compared to substantial stability in 2022; payables to investment suppliers increased compared to the previous year, in particular due to activities related to the restructuring of the new headquarters in Padua. About receivables from customers, a generation of Euro 1.0 million was recorded in 2023 compared to an absorption of Euro 6.7 million in 2022 due to the growth in turnover recorded in the final part of the previous year.

With regard to other working capital items, it should be noted that in the first quarter of 2023 there was a settlement disbursement with a customer following the agreement reached during the third quarter of 2022 and taxes were paid during the year of Euro 4.0 million.

Investment flows amounted to Euro 23.0 million compared to Euro 26.9 million in 2022. Cash flows from operations after investments therefore amounted to Euro -14.9 million compared to Euro -13.1 million in the previous year.

Cash flows from financial activities included interest in 2023 of Euro 7.2 million compared to Euro 3.3 million in 2022.

Capital expenditures

In 2023, the Group made investments of €23.3 million, of which €5.1 million related to the renovation of the headquarters and the construction of the new R&D laboratories in Padua. Of the remaining investments, €14.7 million is in the Heating & Ventilation Division (80.9% of the total), €1.8 million (9.7% of the total) in the Smart Gas Metering Division and €1.7 million in the Water Metering Division (9.4% of the total). In 2022, total investments amounted to Euro 27.1 million (of which Euro 10.2 million related to the aforementioned Padua headquarters).

In the Heating & Ventilation Division, investments concerned the development of new products (Euro 5.2 million), of which Euro 1.8 million refer to development costs related to four specific projects (*877 XL, EF90-EF150, Flexa Pro, Axial Fan*), plant maintenance (Euro 3.6 million), renewal of the die-casting moulds (Euro 2.1 million) and increase in production capacity (Euro 1.2 million).

In Smart Gas Metering, capex were made in the development of new products (amounting to Euro 1.3 million, 73.0% of the divisional total), of which Euro 1 million refers to development costs relating to three specific projects (*Smartio*, *Vision* and *G40* – the large meter). The remainder refers to industrial and laboratory equipment, the purchase of hardware and software, and the improvement of production efficiency.

Regarding the Water Metering division, investments in 2023 mainly concerned the development of new products (Euro 1.1 million, equal to 66% of the divisional total).

RESEARCH, DEVELOPMENT AND QUALITY CONTROL

During 2023, the Group incurred research and development costs for a total of Euro 15.5 million, equal to 4.8% of revenues, compared to Euro 13.6 million in the previous year (3.5% of revenues).

In 2023, the research and development area had an average workforce of 135 resources, 80 of which were located at the Parent Company. In 2022, there were 124 and 74 resources, respectively.

Heating & Ventilation Division

In 2023, the Research and Development department of the Heating & Ventilation (H&V) division experienced a strategic realignment of resources to better adapt with the fast-changing heating market. This realignment builds on a multi-year strategy that has progressively deepened the focus on sustainability. This focus encompasses both the specifications and the operational performance of our products—specifically in terms of usability, energy consumption, and emissions—as well as the integration of eco-design principles from inception through to the end of the product life cycle.

This shift was further accelerated by a significant reorganization within the Group, leading to the establishment of three independent business units. The former Heating division was renamed Heating & Ventilation, highlighting a renewed and intensified commitment to our rigorous program aimed at reducing energy use and pushing forward with decarbonization initiatives. This restructuring reflects our ongoing dedication to innovation and environmental stewardship in the heating sector.

The current technological landscape presents several critical trends that are shaping the strategic direction of the new business unit. Notably, there is an increasing adoption of biogas and hydrogen, ranging from mixtures to pure hydrogen, for use in gas and hybrid appliances. Additionally, the emphasis on enhancing building thermal insulation necessitates advanced management of air circulation and heat recovery, aiming to elevate both comfort and sustainability. The movement towards the electrification of domestic heating through the integration of heat pumps, along with the anticipated roll-out of hybrid appliances that utilize green fuels and electricity, also marks significant industry shifts.

During this phase of transition, the division's Research and Development efforts have been focused on strategically repositioning and aligning resources to foster the development of cutting-edge combustion products and systems. This initiative is also aimed at preparing the division for a successful entrance into the market of electrical appliances, specifically heat pumps and controlled mechanical ventilation systems with heat recovery (VMC/HRU). This alignment ensures that our division remains at the forefront of technological innovation and market focus.

SIT's R&D activity focuses on the development of mechatronic solutions for the proper functioning of domestic heating appliances running on gas, biogas and hydrogen. The research aims to develop electronic and mechanical solutions that are increasingly easy to integrate and at the same time capable of maximizing comfort performance while reducing energy consumption and CO_2 emissions. SIT's goal is to offer its customers innovative solutions to increase efficiency and accelerate their sustainability strategies at the best total cost of ownership. ensuring ever faster time to market.

As early as 2022, the Product Development Procedure was augmented to incorporate Carbon Footprint analysis from the initial design stages. This integration ensures that design alternatives are systematically assessed through a life cycle assessment framework, which not only considers technical and economic dimensions but also integrates the impact of CO_2 emissions across the entire chain of product development, production, and lifecycle. Moreover, the principles of the circular economy are increasingly being embraced, as evidenced by the reduction in material consumption, the selection of materials with lower environmental impacts, and the use of recycled materials. It is noteworthy that all die-cast bodies used in mechanical controls are fabricated from secondary aluminum, and there are ongoing initiatives focused on employing recycled plastics. Additionally, in the realm of packaging, we are collaborating with a major client to explore a project aimed at packaging reuse, and new products are being designed with packaging that adheres to circular economy principles.

On the mechanical front, our research strategy increasingly utilizes sophisticated tools such as mechanical simulation and fluid dynamics platforms. These tools are instrumental in developing products that are not only more compact and integrated but also significantly more efficient. Conversely, on the electronic side, there is a marked shift towards leveraging programmable microprocessor solutions that exhibit enhanced intelligence and the capability to interact with the environment through cutting-edge Internet of Things (IoT) technologies.

A critical element of our current research initiative is the deployment of projects that utilize advanced sensor technologies. These technologies are at the forefront of innovation within the industry, particularly in the areas of intelligent combustion control and safety mechanisms for boilers operating on 100% hydrogen. To further this line of research, SIT has initiated collaborations with established technology incubators. These partnerships aim to expedite the research process and incorporate expertise developed across various sectors, thereby enriching our technological advancements and reinforcing our commitment to innovation.

In the area of product development, the Group is engaged in projects aimed at four lines: (i) acquisition of new core technologies and processes; (ii) development of new products and product platforms; (iii) operational improvement of platform products; (iv) development of new vertical solutions or customized to customer needs starting from existing products.

The research and development activities are bolstered by robust collaborative relationships with premier academic institutions, including the Politecnico of Milano, the University of Padua, and the University of Ferrara. These partnerships are complemented by engagements with external companies that specialize in technology development and both Italian and international research centers, such as RAPRA, CERISE, and DVGW. Furthermore, SIT maintains an active participation in leading Italian and international industry associations. This strategic involvement enables the continuous acquisition of advanced expertise, not only in new technologies and solutions but also in research methodologies and the evolving regulatory and legislative frameworks in Europe and globally. This comprehensive approach ensures that SIT stays at the forefront of industry developments relevant to the application of the Group's products, thereby enhancing our competitive edge and operational excellence.

Coming to the main 2023 projects, in this year the initiatives on the infrastructure and resources front take on particular importance.

With the completion of the new headquarters in Padua dedicated to research and development laboratories, the department has completed the transfer of (i) equipment for testing gas appliances operating at any mixture for both domestic and light industrial powers; (ii) new electronic laboratories capable of carrying out all functional and EMC tests; (iii) started equipping the test laboratories for electrical equipment (both motors and fans) with test benches that will be further strengthened in capacity and functionality during 2024; (iv) transferred the technical staff of all the functions related to the development of new products to a single context, thus having in co-location mechanical, motor, fluid dynamic and electronic designers together with laboratory technicians, industrializers and technicians of motor quality and fan test; (v) started the rebalancing of resources by reducing the number of mechanical designers in favor of electronics, controllers, motorists and fluid dynamics, key figures in the development of ventilation. Finally, it is worth mentioning the opening in Turin of a local unit dedicated to research & development, which draws on the consolidated network of technical skills in the area.

In terms of gas combustion projects and systems, there have been various developments and the combination of some technical solutions proposed by SIT – a system called *Flexapro* – has been recognized by the market as the best solution to equip gas equipment in its role as a "bridge" towards decarbonization as it is able to dynamically adapt to the type of fuel injected: from methane to biogas, blend, up to 100% hydrogen.

The individual solutions that together are part of *Flexapro* also have specific commercial applications: (i) a control platform with stepper valve suitable for light commercial boilers up to 150kW designed for the US and European market; (ii) centrifugal fans for 90kW and 150kW power equipment, equipped with three-phase permanent magnet synchronous motors with electronic vector control. These are technical solutions in which SIT is at the forefront of the sector, able to guarantee maximum performance and very low vibrations; (iii) sensorized mixers for sizes of 40kW and 150kW respectively capable of measuring with great precision the quantities of air and gas delivered respectively by the fan and the valve.

In the application segment dedicated to gas fireplaces for the US market, an electronic platform for the control of fireplaces complete with new remote controls is being defined and developed; It is a complete platform – electronics, sensors, valve and remote control – that replaces a system that has been on the market for over 10 years.

During 2023, it took shape both at an organizational level through the division of the Group into three specific business units, and with a research & development action focused on the new segment of ventilation and electrification projects. For the SIT Group, it is a matter of seizing the opportunities related to the energy transition and the progressive electrification of domestic heating appliances.

In this context, the Heating & Ventilation division has designed, sampled and is testing in collaboration with some customers a first family of three-phase permanent magnet synchronous motors with electronic vector control. This family of motors is suitable both for boiler fans but also for motors dedicated to VMC (Controlled Mechanical Ventilation) and heat pump applications and where SIT's approach consists in internalizing the control electronics (decisive in the definition of performance and cost control) by developing the HW and motor control algorithms.

Finally, it is worth mentioning SIT's entry into the heat pump sector – already highlighted in the paragraph on Significant events of the year – through the technological and commercial partnership with Panasonic Industries. An axial fan with a diameter of 450mm is being advanced and is suitable for equipping medium-sized air-to-water heat pumps (monoblock or split), which make up a significant share of the market. From a technical point of view, noise, performance, durability and reliability are decisive in this product; SIT takes care of the fluid dynamics – in collaboration with Enginsoft – of the electronics and mechanics while Panasonic supplies the motor. The product was presented at the MCE exhibition in Milan in February 2024, already installed and running in an application of a primary customer.

Finally, the collaboration between SIT and UpSens continued in 2023 in integration projects with sensors of different technologies in flow detection applications. The collaboration between SIT and UpSens will result in significant synergies in the field of air quality solutions, in particular in the VMC (Controlled Mechanical Ventilation) segment. VMC solutions allow air exchange and filtration and, through the exchange of heat between the outgoing and incoming air, allow to 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 in the coming years.

Metering Division

In 2023, the Metering Division's research and development efforts were strategically enhanced through the implementation of economies of scope and the creation of synergies. This initiative aimed to consolidate the research activities of the Smart Gas Metering Division and the Water Metering Division, leveraging their unique, distinctive competencies. As a result, collaborative development projects were undertaken, focusing particularly on the residential product range with an emphasis on electronics and communications components.

As far as the Smart Gas Metering sector is concerned, it should be noted that the new platform for the UK market (MMU6 PT3) has obtained all the updates of product certifications in compliance with the SMETS 2, ZigBee and UKCA and SMDA regulations required by the market. This product, which is characterized by a double battery, dual band communication and a new thermo-mass sensor capable of measuring methane and hydrogen mixtures up to 23%, is in the process of being approved by some important local customers.

During 2023, Metersit, a Group company operating in Smart Gas Metering, developed the new generation of smart meters for Italgas Reti following the tender awarded in 2022. The product is designed starting from thermo-mass technology, of which Metersit is a world leader, which allows accurate measurements in any condition without the need for external conversion devices. The accuracy of 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 released during 2024, includes innovative sensors capable of analyzing pressure losses in pipelines, detecting fires as well as detecting any seismic phenomena.

During 2023, Metersit also began the development of an innovative G40 meter for the industrial and commercial market, again with thermo-mass technology, which will make it possible to measure, even in the industrial sector, natural gas and hydrogen mixtures with an NB-IoT remote communication interface. The new meter, which will be released in 2024, will make it possible to introduce, for the first time on the market, a very light industrial device with positive impacts on sustainability thanks to the possibility of injecting hydrogen into gas distribution networks.

Metersit has also produced two new solutions:

- "Domusnext Vision", the meter for residential and commercial use that introduces important innovations to the market such as the double communication "NB-IoT" and "Wireless Mbus", the anti-fraud system, artificial intelligence that allows anomalies or leaks to be identified remotely and the ability to detect the percentage of hydrogen present, thus allowing utilities to manage gas mixtures with a lower carbon content;
- "Domusnext MMU6" in a new version that supports the measurement of natural gas and hydrogen mixtures up to 23%.

In the Water Metering sector, JANZ presented at Enlit Europe 2023, one of the largest conventions and trade fairs dedicated to the entire energy ecosystem, the new ultrasonic smart meter that is the result of the strategic partnership with GWF presented in the previous edition of the fair.

This new meter uses the most advanced technology in the field of water flow measurement, has no moving parts, and offers significant advantages to network management companies in terms of installation flexibility and real-time network control capabilities. It has also been developed to minimize its environmental impact thanks to a careful choice of materials to be used. Production will be carried out in the new plant in Lisbon specially equipped for this purpose and is expected to start in the second quarter of 2024.

JANZ has also submitted a complete overhaul of its volumetric meter called JV 800. This product has been developed using all the experience gained with the JV 400 and 600 product lines. The result is a quieter meter, with a more stable metrological curve thanks to the use of the chamber with 2 inputs and a more reliable production process thanks to the pressed brass body.

During the year, some important improvements were also introduced to some existing products, in particular the metrological class of the Combi single jet meter is now R125 compared to the previous R100 and the MST DN40 commercial multijet meters which now have a resolution of one liter.

In 2023, a pronounced focus was placed on sustainability and the principles of the circular economy within our product lines. Initiatives have been undertaken in both the gas and water metering sectors to incorporate recycled plastics and to conduct feasibility studies on potential scrapping and recovery processes. In alignment with these circular economy principles, it is crucial to note that the casings of both volumetric and multijet meters are constructed from brass, making them fully recyclable. To capitalize on this, JANZ has initiated a repair program that facilitates the recovery of brass casings. These recovered materials are then reused in the production of new meters, which are subsequently redistributed to customers. This not only underscores our commitment to sustainability but also enhances our operational efficiency and customer service.

Hydrogen

During 2023, the development of an MMU16 industrial meter for the UK market began, which will allow a mixture of methane and hydrogen to be measured at up to 23%. This meter, despite being an industrial meter, will be built on the PT3 platform (mass market) and will include the introduction of two thermo-mass sensors in parallel. The G40 product, under development in 2023, will also allow the introduction of meters for the industrial market with the ability to measure methane-hydrogen mixtures of up to 23%.

Quality

Among the first companies in Italy to obtain the ISO 9001 Quality Certification in 1988, SIT has pursued over the years a constant progression aimed at adapting and often anticipating the growing needs of the market.

The Quality department, in addition to guaranteeing the normal control and prevention activities on processes and products, exercises constant supervision to ensure that company activities are aligned with the best standards of effectiveness and efficiency of quality management systems.

In Heating, the certifications have been regularly updated both as ISO 9001:2015 and as ISO 14001:2015 environmental certification.

The surveillance activity by the certification bodies confirms the organization's ability to keep the quality of the processes in line with the relevant international standards.

The recognition of the activities of the laboratories in accordance with the principles of ISO 17025 confirms the high level of technology and skills achieved; In 2023, the tests covered and the scope of international approvals obtained were extended.

In alignment with the evolving market dynamics and the European Union's decarbonization targets, the product portfolio of the Heating & Ventilation Division has been strategically enhanced to accommodate hydrogen utilization. Notably, in 2023, SIT distinguished itself as one of the first manufacturers globally to secure a significant accolade in Europe—the GAR certification (Regulation 2016/426 EU) for the 84X family of valves. This certification underscores our commitment to complying with rigorous environmental and safety standards, thereby reinforcing our position at the forefront of sustainable manufacturing practices.

During 2023, Metersit positively confirmed the ISO 9001:2015, ISO 14001:2015 certifications as well as all the 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 has positively confirmed the certification according to the ISO 27001 standard (Information Security Management).

Coming to JANZ, the company operating in the Water Metering sector, during 2023 the ISO 9001:2015 certifications, the AS9100 certification and the Production Quality Assurance certification (Module D of the MID Directive 2014/32/EU) were positively confirmed.

JANZ's laboratories dedicated to Water Metering and linear metrology have also been renewed in their accreditation in accordance with ISO 17025, confirming the high level of expertise and quality standards achieved.

HUMAN RESOURCES AND ORGANIZATION

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

	2022 average	%	31/12/2022 at year-end	%	2023 average	%	31/12/2023 at year-end	%
Executives	40	1%	42	2%	42	2%	39	2%
White-collar	600	22%	626	24%	713	30%	704	32%
Blue-collar	1,801	66%	1,681	65%	1,386	59%	1,271	57%
Temporary	276	10%	233	9%	220	9%	204	9%
Total	**2,717**	**100%**	**2,582**	**100%**	**2,361**	**100%**	**2,218**	**100%**

At the reporting date:

- Metering Division had 407 employees, of whom 86 in Italy and 321 abroad; in 2022 there were 383 employees, of which 94 in Italy;
- At Group level, employees in Italy numbered 838 (38% of the total) while those based in other countries numbered 1.380 (65% of the total). In the previous year, these figures were 909 (35% of the total) and 1.673 (65% 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 has undertaken diverse projects and initiatives.

Throughout 2023, the Company continued a research project titled "Driving the transition of manufacturing firms towards customized, integrated solutions through smart product-service systems," conducted in collaboration with the Department of Industrial Engineering and Management at the University of Padua, which concluded at the end of the year.

To facilitate the meeting of students, recent graduates, and PhD students across the country, in 2023, SIT participated in 15 events organized by Entities, Companies, and Career Services of Italian Universities. Thanks to these recruiting events and participation in 7 employer branding initiatives, SIT reached a total of 1,794 candidates from various fields of study, 19% more than in 2022. The Company developed contacts and collaborations with 35 Institutions, including Entities and Italian Universities, participating in events sponsored by the Career Services of the University of Padua, the University of Trento, the University of Ferrara, the Polytechnic University of Turin, the University of Pavia, the University of Palermo, and the Polytechnic University of Marche.

Some of the talents met during the employer branding and recruiting events were invited by SIT to participate in digital assessments aimed at initiating curricular and extracurricular internship programs, offering a concrete opportunity for training and growth within the organization.

Finally, to reduce the educational and skills mismatch, raising awareness about working in factories as a dignified space for all professions, and addressing the gender gap in STEM disciplines, in 2023, SIT opened its production plants to 149 students, a 162% increase compared to 2022. These students, from technical industrial and economic institutes in the provinces of Padua and Rovigo, as well as middle schools in the area, had the opportunity to learn about the SIT production process up close and in detail.

People Attraction

SIT places particular emphasis on the Employee Value Proposition (EVP), the work experience as perceived by employees and potential candidates, which is assessed based on the company's characteristics, its brand identity, corporate culture, and the relationship SIT has with its people. The EVP is first expressed in the way SIT designs and manages the recruitment and selection process: open, inclusive, and free from any discrimination.

On the company intranet, there is a section called "Career in SIT" dedicated to internal career opportunities (job rotation) and the referral program for recommending candidates. Through job rotation, SIT encourages professional development and fosters adaptability, capturing aspirations and offering new challenges to people who are ready to take on a new role.

For all new hires, SIT offers an onboarding program called the Employee Journey, a gradual integration into the business designed to provide a welcoming experience and support socialization within the Company. A significant part of the onboarding program is dedicated to the induction plan, which was strengthened in 2023 and fully digitalized through the enhancement of the custom application available on the company intranet. SIT's induction plan consists of a "journey" organized into multiple appointments, called stations, involving all new hires during their first 90 days in the company. The new hire meets, through monthly and recurring appointments, the representatives of the different company departments, thus promoting a good understanding of the company's structure and characteristics from the very first days, as well as encouraging and facilitating socialization.

Total Reward

SIT's human resources management approach is oriented towards the Total Reward Strategy, an approach that considers the multiple areas of focus where the company decides to invest strategically to incentivize and reward the talent and performance of SIT's people.

Aligned with the Employee Value Proposition, the Total Reward Strategy clearly defines the guiding criteria for human resource management processes and practices to balance company goals with employee motivation, increase performance, improve employee engagement, and strengthen talent retention and attraction along four main directions:

- People development
- Compensation
- Welfare and Wellbeing
- Work environment

SIT's policies in this area are aimed at ensuring equal opportunities, supporting, and promoting a culture based on meritocracy, equality, and respect for diversity, with the broader goal of supporting sustainable personal growth and generating a positive, safe, and stimulating work environment.

People development

In 2023, development and training proposals remained aligned with the hybrid organizational model, favouring various modes of participation, both in-person and remote, thus ensuring greater engagement and accessibility, even from different Group plants. In 2023, approximately 35,151 hours of training were delivered across the Group, equivalent to about 17.5 hours of training per capita.

In 2023, SIT strengthened and enriched the training offerings of the digital academy Skills-Up: the innovative platform that offers current, modern, and interactive training courses divided into "modules" within broader programs, available in both Italian and English. Platform access saw an 18% increase in users compared to 2022, with the user population growing by 14% compared to the launch year.

Within the digital academy, three categories of content are developed: Corporate Culture, Individual Development, and Group Compliance. The Corporate Culture section includes training proposals accessible to the entire user group on company values, ethical and sustainable organizational culture, through the creation of pathways that reflect the company's values in their expression and behavioural articulation. The Individual Development proposals are personalized based on the individual's needs concerning their skill enhancement requirements. For the Compliance section, customized training sessions are offered, internally developed on governance and compliance topics.

Throughout 2023, various initiatives were undertaken to strengthen engagement in Sustainability, a fundamental value for SIT, with a total of 420.5 hours of training delivered involving a total of 173 people.

Particularly significant was the “Fast Track Training program: Sustainability Culture and Future” held by SIT's Mission Leaders. The webinars, involving 154 employees from the Research & Development, Finance & Legal, and Supply Chain departments in three different sessions, aimed to share the sustainability strategy, roles, and actions converging in the "Made to Matter" Sustainability Plan. Each session was customized based on the participants, with an ad hoc structuring of the various topics related to the departments and the skills of the audience.

Furthermore, thanks to the adherence to the United Nations Global Compact, SIT employees had voluntary and unrestricted access to a wide range of online courses on ESG topics provided through the United Nations Global Compact Academy, a platform managed directly by the initiative's headquarters.

In 2023, the commitment of internal Academies under the Knowledge sharing format continued. The most qualified employees made themselves available as internal trainers within the company, disseminating their specific knowledge and skills to colleagues from other functions. The transfer of internal skills and their capitalization are also planned for the benefit of colleagues in internship positions who, supported by their tutors, experience work practice while continuing their learning process.

Compensation

SIT is committed to implementing salary review initiatives based on a meritocratic and objective vision aimed at enhancing everyone's contribution and moderated by rewarding logics based on performance and potential.

The tools of the Compensation system at SIT include:

- Base salary & increase
- Short-term incentives (MBO and performance bonuses)
- Long-term incentives (including instruments such as Performance Shares, Stability Pack, and Restricted Shares)
- Benefits & Welfare (supplementary health care, support for families and childcare)

In its personnel management policies, SIT has always promoted stable and long-lasting employment relationships, also favouring contractual formulas that can meet the need for greater flexibility and dynamism among its employees.

SIT adheres to the regulations in force in the various countries where the Group's production plants and commercial offices are located.

The company recognizes the Trade Unions signatory to the national collective labour agreement and their territorial representatives as natural counterparts in all negotiations and discussions, whether they are aimed at economic-normative management of work organization-related issues or maintaining employment levels.

Since 2021, following the internationally recognized Global Grade System methodology, SIT has implemented a banding structure for all strategic organizational positions within the Italian perimeter. The implemented system allows for mapping and weighting of the company's roles within the Italian territory and for most of the strategic roles located in foreign offices.

The SIT banding structure applied to Compensation systems allows for monitoring compensation levels with reference to external competitiveness benchmarks and ensuring internal equity through solid and objective criteria, guiding the remuneration adjustment process in a fair and merit-based logic.

L.T.I. – Long Term Incentive

On April 29, 2021, the Shareholders' Meeting of SIT approved the medium to long-term incentive plan (referred to as L.T.I. – Long Term Incentive), benefiting the employees of the Company and its subsidiaries, as well as the Advisory Board. The plan involves the free allocation of a maximum of 794,479 shares of the Company and is structured into (i) a Performance shares plan, where the allocation of shares is conditioned on achieving certain performance objectives; (ii) a Restricted shares plan, where the allocation of shares is conditioned on maintaining the relationship with the Company over a predetermined period, and (iii) a plan for shares reserved for the Advisory Board, under which the allocation of shares will be conditioned on the increase in the price of SIT shares over a predetermined period.

As for the Performance shares plan, it 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, subject to: (i) the continuation of the relationship between the beneficiary and the Group at the end of the allocation period; (ii) the achievement of performance objectives calculated with reference to the following: a) Cumulative adjusted EBITDA over the three-year period; b) Adjusted net financial position at the end of the period; c) ESG indicator, meaning the recognition of a certain score by the EcoVadis certification body.

The Performance shares plan also includes a lock-up clause of 1 year for the respective beneficiaries for a certain percentage of the allocated shares.

The Restricted shares plan also has a three-year duration, at the end of which the shares will be allocated free of charge if, on the allocation date, the beneficiary's relationship with the Company or the relevant subsidiary of the Group is still ongoing and their status as a beneficiary has not changed, subject to what is provided in the regulations regarding the usual definitions of good leavers and bad leavers.

Similarly, 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, on the allocation date, the beneficiary's relationship with the Company is still ongoing and certain objectives regarding the increase in the price of SIT stock have been achieved.

The L.T.I. plan, as conceived, aims to align the interests of various stakeholders in the medium to long term, particularly shareholders and managers in top or strategic positions. The organizational scope resulting from this initiative is significant within the SIT Group, as the number of employees eligible for the plan is particularly high, involving both Italian and foreign personnel.

Welfare and Wellbeing

In 2023, SIT strengthened its Welfare and Wellbeing policies by paying particular attention to the protection of the physical and mental health of its employees, promoting initiatives with broad accessibility and inclusivity that foster opportunities for balance and well-being. The promoted initiatives have impacted areas such as increasing purchasing power regarding fringe benefits, facilitating work-life balance, and fostering a climate of personal and professional health and well-being. Noteworthy is the launch of the Parental Policy in March 2023, supporting parenthood with concrete initiatives and measures offered during the prenatal period and immediately after the birth or the child's entry into the family, until the child turns three, to facilitate the return to work and work-life balance for its people.

Regarding family support, another safeguarded dimension, SIT's partnership with the ISTUD Business School has been added to what has already been consolidated in previous years. This tangible benefit ensures favourable conditions for the children and siblings of employees to access the school's specialized Master's programs.

WELFARE

The company confirms its support for the purchasing power of employees and their families by further strengthening the share of flexible benefits on top of what is consolidated by the National Collective Labor Agreement (CCNL) and in addition to the already reinforced welfare portfolio from previous years. The strengthening of corporate welfare policies, as a tool to support families, is a concrete sign of social responsibility, especially in the current socio-economic context.

The welfare budget available to SIT employees can be utilized through the Edenred platform, which offers a wide range of services through which employees can use their welfare credit for themselves and their family members. Additionally, during the year, it was decided to further expand the basket of services by focusing on those that employees themselves have shown the most interest in.

The "Health Fund" has also been made available, allowing for the reimbursement of specialist medical expenses for care categories previously not covered, expenses for medications and over-the-counter drugs, and medical devices that were not previously recognized. Additionally, employees can benefit from a wide range of affiliated healthcare professionals throughout Italy. To address the rising costs of utilities, the option to request reimbursement for household utility expenses using one's welfare portfolio has been added.

WELLBEING

As part of the initiatives to promote the well-being of people at SIT, to ensure support in managing and preventing stress and to foster better personal and emotional balance, several projects were carried out in 2023 under the framework of the SIT People Program BE.

The primary goal remains to facilitate engagement with disciplines and techniques that enable individuals to recognize their cognitive and physical resources in relation to their state of balance, as well as to emphasize the centrality of the individual and their well-being.

The three categories of initiatives—Wellness in the Workplace, Wellness in Action, and Wellness in Flow—were launched in 2022 and consolidated in 2023 with the initiation of structured programs.

Starting from January 2023, within the Wellness in Action category, SIT made the "Psychology and Emotions" service available. This service is dedicated to promoting personal and workplace well-being through freely accessible sessions for all SIT employees, including both white-collar and blue-collar workers across the Group. These are individual online appointments with a professional psychologist who provides support for discomfort with the aim of emotional balance and guidance. A professional is available for free, digital, anonymous sessions. The service is uniquely accessible in both Italian and English, with the psychologist’s availability scheduled to accommodate personnel located in the Group's foreign branches.

Work environment

The project for the new SIT Headquarters, located just a few meters from the historic offices, involves a dual intervention aimed at creating a technological campus that is modern and designed to embrace the future. This campus will feature indoor and outdoor spaces that respect the environment, people, and the local community.

The first phase, completed at the beginning of 2024, resulted in the construction of an entirely new technological building. This new architectural structure with its sinuous forms—resembling a spaceship—is named S_Lab and houses the Research and Development department. The second phase, currently nearing completion, involves the redevelopment of the industrial production warehouses, which will accommodate the executive offices and laboratories. These spaces are characterized by great flexibility to meet different work needs.

The project places significant emphasis on environmental sustainability, with a particular focus on energy efficiency. A photovoltaic system will produce part of the renewable energy needed to cover some of the company's energy requirements, while the environments will be climate-controlled with high-efficiency renewable energy systems, additionally recovering heat generated by boilers active in the R&D laboratories. The lighting systems will be managed intelligently through advanced technologies to reduce energy consumption, thereby contributing to the company's sustainability.

The SIT campus symbolizes and promotes social sustainability, beginning with functional access for people with different abilities. Attention has also been given to the design of the interior environments, following a sustainable approach that synergizes with the social aspect, respecting the various business and personal needs of those who work at SIT. The spaces, their distribution, and their furnishings have been designed in continuity with the hybrid organizational model, characterized by on-site presence and remote working. The management of the spaces is automated through reservation systems accessible to all employees, for various locations and across all locations, made recognizable by equipment and capacity.

Sustainability Culture

For the Group, it is essential to adopt and promote a culture of Sustainability, understood as a long-term commitment to every aspect of the company's activities, from product design to resource management, and relationships with employees, customers, and partners.

In particular, SIT is committed to minimizing the environmental impact of its activities, adopting sustainable practices for resource use, fostering a culture of diversity and inclusion, and working to improve the social and economic conditions of the communities in which it operates.

SIT's journey towards sustainability began with redefining its Mission and Vision, constructing the Green Paper, and establishing Sustainability Governance. These actions have gradually led the company towards achieving significant projects and milestones, such as joining the United Nations Global Compact and receiving various awards and recognitions in the ESG field.

To raise awareness and engage employees in the UN Global Compact initiative, the year started with a series of webinars about SIT's adherence to the program. These webinars were held during working hours, were voluntary, and offered in two languages, with the aim of informing and sharing SIT's international commitment with all employees, and raising awareness about the importance of a sustainable global economy and Corporate Social Responsibility.

In honour of the "International Day for the Elimination of Violence Against Women," celebrated annually in November, SIT reinforced its commitment through both physical and online initiatives focused on information, training, and awareness on the topic. These initiatives provided an opportunity for reflection, fostering dialogue and discussion through projects involving both the Italian and international plants of the Group. SIT declares zero tolerance towards all forms of violence and discrimination, and throughout 2023, it shared its stance through internal and external dissemination activities directed at key stakeholders.

Embodying one of the company's values, "Lead by Example," in 2023 SIT designed two programs aimed both internally and externally to share and raise awareness on sustainability topics. The Sustainability Corners held in June involved the Italian plants with the aim of sharing ongoing sustainability projects and thus generating greater culture and awareness of environmental and social sustainability, with a particular focus on multiculturalism.

"SIT Supplier Suite" is the name of the monthly newsletter sent by the Supply Chain department to the suppliers of the Heating & Ventilation division throughout 2023. This initiative sees SIT sharing the most significant aspects of its internal projects and the Sustainability journey it embarked on in 2018, in line with its origins, history, and values. This informative program, through short textual and video content, narrates some of the sustainable activities SIT is working on, aiming to stimulate mutual attention to sustainability as a value and concrete action, sharing its vision of the future.

Every day, SIT strives to engage its people and promote the dissemination and sharing of sustainability values and best practices through initiatives designed to make SIT and its activities a sustainable and responsible place. In 2023, materials, columns, webinars, and specially organized events were made available to employees, with the goal of raising awareness and enhancing knowledge of ESG topics.

Diversity, Inclusion and Equal Opportunities

SIT is committed to ensuring respect for equal opportunities and recognizing national and international laws in conducting its activities to support and promote, with its internal and external stakeholders, a culture based on meritocracy, equality, and respect for all kinds of diversity.

SIT adheres to, shares, applies, and supports the set of 10 fundamental principles established by the UN Global Compact related to human rights, labour standards, environmental protection, and anti-corruption efforts.

In 2023, in line with the declared objectives of the "Made To Matter" Sustainability Plan, SIT further strengthened its corporate policy framework in the ESG area. The company published three policies, approved by the Board of Directors, aimed at protecting the rights, equal opportunities, inclusion, and diversity of all people acting in the name or on behalf of the SIT group:

- Human Rights Policy;
- Code of Conduct (updated in 2023);
- Diversity & Inclusion Policy.

Through the adoption and dissemination of these three policies, SIT takes another step forward in the concrete implementation of its values, establishing rules and safeguards to enhance human capital in its precious breadth and variety. This commitment reflects the strategic role that diversity and inclusion play within a management style aimed at valuing individual contributions in work groups, fostering a collaborative, inclusive, and respectful work environment.

Certification of Gender Equality

As part of the "Made To Matter" Sustainability Plan's objective, SIT achieved the Gender Equality Certification for the Group's companies in April 2023, according to the UNI/PDR 125:2022 reference practice.

This certification attests to SIT's entrepreneurial orientation, which is founded on valuing people and their work, providing an environment where everyone can pursue their ambitions and realize their potential in an inclusive and equitable context. Inclusion, support for diversity, and gender equality are seen as values that form the basis for creating a balanced work environment, grounded in meritocracy, where the corporate culture can be a strategic element capable of generating value.

The certification, valid for three years and issued by the certification body Kiwa, aligns with the "Made with Care" pillar of SIT's Sustainability Plan, dedicated to Social Responsibility. It is the result of a structured journey towards equity, equality, and inclusion, demonstrating the company's excellence in all areas covered by the certification.

Workers’ Health and Safety

Among the topics that SIT considers of primary importance are the health and safety of workers, which are protected with the objective not only of complying with current regulations but also of constantly striving to improve working conditions. This commitment is realized through careful management aimed at ensuring each employee a suitable work environment and working conditions that respect individual dignity.

Information, training, and instruction conducted by expert personnel, both internal and external to the company, are of extreme value, contributing to added awareness. Specifically, in Italy in 2023, numerous training courses were conducted on safety, health, and emergency management, totalling approximately 2,675 hours, reaching a total of 14,714 hours worldwide, which is 46% of all training provided.

Regularly, both in Italy and abroad, there is periodic monitoring of risks and assessment of accidents to prevent incidents and continuously improve health and safety conditions at the various group sites.

Additionally, the company continuously plans and carries out maintenance and improvements to equipment, structures, and production processes.

The Group maintains constant constructive collaboration with workers' representatives, with whom periodic meetings are scheduled to jointly analyze risks based on health and safety hazards. During these meetings, improvement measures are shared and implemented, taking organizational changes into account. In all SIT Group plants, there are joint committees composed of worker representatives and company representatives that address and manage health and safety issues in the workplace.

Industrial Relations

SIT considers its employees a crucial resource for creating value within the organization and a fundamental factor for its success. In its personnel management policies, SIT has always promoted stable and long-term employment relationships, also favouring contractual arrangements that meet the employees' needs for greater flexibility and dynamism.

For managing industrial relations, SIT adheres to the regulations in force in the various countries where the group's plants and commercial offices are located. The company recognizes the trade unions that sign the national collective labour agreement and their local representatives as the natural counterparts in all discussions and negotiations, whether they are economic-normative in nature aimed at managing work organization issues or maintaining employment levels.

Industrial relations occupy a significant space in human resource management, considering the geographical spread of SIT's activities both in Italy and abroad. Within the pursued business strategies, SIT's primary objective is to enhance work, professional qualifications, and improve employee satisfaction levels, all within the framework set by legal and contractual regulations. Achieving these goals is strategic, with the involvement of trade union counterparts in an increasingly functional system of industrial relations aimed at achieving beneficial results for both the company and the employees.

SIT, while adhering to the provisions of the national collective labour agreement (CCNL), supports the importance and centrality of the right to information as an essential element of a correct and transparent system of industrial relations. This system is based on the method of dialogue and preventive information, with mutual recognition of roles, prerogatives, and competencies. Emphasizing the importance of this principle, SIT defined a model of industrial relations in the past year with monthly meetings with all the union representatives (RSU) present in the company, particularly addressing issues related to safety development plans, including the implementation methods of these plans concerning work organization.

Regarding the production plants in Italy, in addition to the application of the national collective labour agreement, almost all employees are ensured additional coverage through second-level bargaining, which aims to enhance worker involvement in achieving the specific goals of each plant.

Over 90% of the Group's employees are covered by collective bargaining agreements.

SIT Foundation

The SIT Foundation – Sport Inclusion Talent Ets was established to shape SIT's social commitment by creating and promoting educational projects through sports. It became operational in 2023 with various events and projects carried out throughout the year. The dialogue initiated with institutions and the world of associations immediately accredited the SIT Foundation as a significant interlocutor in the Third Sector.

The Foundation aims to be a home away from home, a place where people can engage in sports, study, and spend time together in a safe, healthy, and stimulating environment. In doing so, the following objectives and areas of intervention have been identified:

- Offering services to families;
- Addressing educational poverty;
- Combating school dropout;
- Promoting healthy lifestyles;
- Fighting sedentary behaviour and childhood obesity.

The SIT Foundation was officially presented on May 9 with a launch event featuring Sara Simeoni, Olympic champion and former world record holder in the high jump. Besides institutional guests, the event was attended by boys and girls from the main athletics clubs in Padua. The hashtag chosen for the event was #RaiseTheBar, teaching young people to aim high, like Sara Simeoni, an icon not only in sports but also in society, a model of female empowerment through sports, and a representation of the Italian ability to overcome obstacles without losing their smile and light-heartedness.

In the summer, the SIT Foundation participated in the Summer Camps organized by the University Sports Center (CUS) of Padua. Through the agreement signed with CUS, the 2023 edition was the most successful in the 31-year history of the Summer Camps. In addition to overwhelmingly positive feedback from families, the numbers certify the highest participation ever: 1,062 children and teenagers participated in the activities, totalling 2,819 weeks booked. Among them, 23 children and teenagers with disabilities participated for free thanks to the CEI (Inclusive Summer Camps) project. The Summer Camps were active for 12 weeks (with only one week off during mid-August) and involved both CUS Padua locations. The SIT Foundation contributed to the 2023 Summer Camps by providing uniforms for all instructors and participants and ensuring daily creative workshops and school return assistance with the "Back to School" initiative through educators from “Bottega dei Ragazzi “Cooperative.

Starting in September 2023, SIT Move, an after-school service combining homework assistance, sports, and play in the same equipped space and green area, was launched in collaboration with CUS Padua and “Bottega dei Ragazzi”. The target audience is primary school children and lower secondary school students (ages 6-14), who are welcomed every afternoon from Monday to Friday within the CUS Padua facilities by educators and instructors with the opportunity to use study rooms and sports facilities.

RISK MANAGEMENT POLICY

The Enterprise Risk Management (ERM) process is an integral part of the group's Internal Control and Risk Management System (ICRMS). It is carried out every six months according to a consolidated model (Enterprise Risk Model), which provides for a group-wide risk assessment over a time horizon consistent with the Company's multi-year strategic plan. This involves the main company departments/functions. The risk assessment is conducted based on impact/probability parameters defined by a matrix (Risk Scoring Scale) that classifies risks into major and minor categories. This approach ensures: (i) greater timeliness and incisiveness in the identification of risks; (ii) a more assiduous frequency in follow-up activities related to the remediation plans agreed upon with top management; (iii) greater compliance with risk mitigation needs following the strategic objectives defined in the Strategic Plan.

The current model provides for the following macro-categories of risks:

1. External risks
2. Strategic risks
3. Operational risks
4. Legal & Compliance Risks
5. ESG Risks
6. Financial risks

Starting from 2022, potential risks related to the achievement of the group's Sustainability Plan ("Made To Matter") objectives, and more generally, aspects related to Environment, Social, and Governance (ESG) issues, were also subject to specific analysis. Therefore, for coordination with the Group's NFS, these risks are included in a new category (ESG risks).

Per the model described above, the following activities were carried out in 2023:

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

The results of ERM's activities were presented first to the Control, Risk and Sustainability Committee and the Board of Statutory Auditors and, subsequently, to the Board of Directors, so that the Board of Directors can use them as a fundamental tool in defining the guidelines and coordination on risk management, as required by the ICRMS.

Country Risk

Given its international presence, SIT Group is exposed to the so-called country risk, i.e. the risk of possible changes in the political and socio-economic conditions of a given geographical area. However, this risk is mitigated by adopting a policy of diversification of businesses by product and geographical area, allowing the risk to be balanced at the Group level.
The location of a production hub in Tunisia of the SIT group, which supplies electronic boards and mechanical components to the Heating & Ventilation and Smart Gas Metering Business Units, exposes the group to risks linked to the country's political and institutional instability, aggravated by the economic crisis. Currently, the Tunisian situation is at the center of economic and political debates among European governments, which are pressuring the International Monetary Fund to provide a loan to stabilize the country's economic situation.

In any case, the group continues to closely monitor political and economic developments, supported by a network of contacts and relations with business communities and international and local institutions. It should be noted, however, that in the localization policy in Tunisia, efforts have been made, where possible, to implement a double sourcing logic. This allows local production to be started within a reasonable time at other Group offices or with other suppliers if production is interrupted due to the country's contingent situation.

With reference to the impact of the Russia-Ukraine and Middle East conflicts, the impacts on the operations of the SIT group are being continuously monitored. Although the group does not hold direct investments in these two countries, the risks monitored can be traced back to two areas, both pertaining to the Heating & Ventilation segment:

- from a commercial point of view, as of July 10, 2022, the Company has limited its direct relations with Russia only to Heating & Ventilation products for which no sanctions are in force;

- from a supply chain point of view, the production of electronic boards for the Heating & Ventilation segment is taking place regularly in the plant of a US multinational supplier located in Ukraine near the western border. To mitigate supply-related risks, the Company has reduced its purchase quotas and launched an insourcing plan for electronic boards, which is proceeding as planned to reduce operational and business continuity risks.

Strategic Risks

Innovation

The SIT Group operates in market sectors characterized by high competitiveness in terms of technological innovation of products, confronting, in this context, with multinational groups. While the SIT Group is exposed to risks associated with technological evolution, its ability to correctly interpret market needs can translate into opportunities by offering innovative, technologically advanced, and competitively priced products. To maintain a competitive advantage, SIT invests substantial resources in both research and development activities on existing and new technologies.

In 2023, the Company continued its efforts to seek and define external collaboration agreements to access specialized resources and accelerate the development of new products. Notable developments include:

- the strategic agreement, signed in November 2022 a leading operator in the Water Metering (GWF) sector to establish a joint venture for developing and producing an ultrasonic water meter. This was followed by the signing of the Joint Venture Agreement on April 20, 2023, leading to the incorporation of "Aquametric Solutions, S.A." under Portuguese law on January 15, 2024.

- the corporate agreement to acquire a minority stake in UpSens, an SME specializing in developing devices for monitoring indoor environmental parameters, both standard and custom, with specific expertise in air quality. This was finalized on January 17, 2023.

- the establishment, on July 7, 2023, of Hybitat Srl, the joint venture of SIT and E-novia to develop a new hydrogen generation and storage system for residential use;

- the partnership agreement signed with Panasonic Industry in November 2023 for developing a complete fan solution designed specifically for residential heat pumps.

- the strategic industrial transaction to establish SIT MBT aiming to position itself as a European leader in the design and production of fans for cooker hoods, induction hobs and pellet stoves through the development of innovative products with high energy efficiency, an operation which, on December 13, 2023, led to the signing of the Investment Agreement according to and for which SIT will become the holder of a stake in the SIT MBT equal to 70% of the share capital.

The consolidated policy of collaboration with leading universities and research centers, particularly in the STEM area, continues. The new R&D laboratories at the new headquarters became operational in early 2023.

For risks related to innovation arising from the energy transition, please refer to the section on ESG Risks – Climate Change for a comprehensive description of the management policies implemented.

Operational risks

Supply chain

In recent years, global events such as the pandemic, geopolitical instability from the Russia-Ukraine conflict, and tensions between the United States and China in the Pacific, along with inflation recovery linked to energy price volatility, have led to a reassessment of the supply chain's role within the Company.

The new management paradigm aims to secure components, materials, and services at the right price, on time, and with high quality while promoting ethics and sustainability, developing stable relationships, and ensuring innovation and technological development throughout the supply chain.

In 2023, the supplier management process was consolidated by applying ESG criteria in the engagement, evaluation, and selection phases. The Company has defined appropriate policies for managing suppliers to increase contractual coverage and maintain more transparent, stable, and clear relationships, in line with the SIT Code of Ethics. To measure business conduct and engage suppliers proactively, SIT chose EcoVadis to assess the sustainability of its supply chain.

During 2023, the risks associated with component procurement that characterized the 2022 financial year, particularly in electronics, decreased. The Company offset the related higher costs through appropriate pricing policies towards customers. It should be noted, however, that due to the high inflation rate that characterized 2023, the risks of high-cost volatility of various product categories and, in particular: electronic components, batteries, and certain industrial metals such as steel and packaging in general, remained unchanged. As far as the impact of the cost of energy is concerned, it was lower than initially forecast, with a reversal of the market trend and reference prices.

It should be noted that the phenomenon of the shortage of electronic components, which had heavily affected supply activity during the 2022 financial year, appears to have been almost completely resolved in 2023, allowing purchasing policies to return to ordinary supply channels. However, the sector continues to experience very long delivery lead times.

Given the above and the currently visible future prospects, it cannot be ruled out that market trends in raw material purchase prices, particularly energy, may negatively affect the Company's business, income statement, balance sheet, financial position, results of operations, and prospects.

Business interruption

Business interruption refers to the risk of production sites becoming unavailable, or their business continuity being compromised. SIT mitigates this risk through a business continuity procedure that aims to reduce the probability of occurrence and implement protections to limit their impact. Mitigation actions include diversifying suppliers, creating consignment stock, and using suppliers physically contiguous to the production plants where possible.

To further mitigate any risks from business interruption events, the SIT Group has long maintained a special insurance policy covering this risk.

Product Quality

SIT considers the risk associated with the marketing of the product to be of fundamental importance, in terms of quality and safety. The Group has always been committed to mitigating this risk through quality controls both on the internal production process and on suppliers, alongside error prevention activities. These activities aim to prevent problems before they occur, using specific robust design methodologies such as Failure Mode & Effect Analysis (FMEA), Quality Function Deployment (QFD) and Advanced Product Quality Planning (APQP).

Between 2022 and 2023, the Company implemented a new Quality organizational structure, based on the figures of the so-called "platform quality managers", professional figures specialized in the individual business segments (electronics, valves and systems, fans and flues, metering), who guarantee the application of high product quality standards and are responsible for homologation and testing activities.

The Company pays particular attention to compliance issues related to the use of hazardous or polluting substances in its production processes and products, also with reference to its supply chain. For this reason, SIT completed in 2023 a management system called *Material Trade Compliance (MTC),* a portal for interaction with the supply chain for monitoring the compliance status of SIT products. To date, MTC allows to cover the compliance issues regulated by the SIT 4900000 standard in the context of the Conflict Minerals regulation, the REACH and RoHS directives, the US Toxic Substances Control Act and an additional set called SIT Restricted Substances that allows you to monitor potential future criticalities in the procurement.

Legal & Compliance Risks

Compliance with regulations and laws

SIT is exposed to the risk of not promptly adapting to evolving laws and regulations in its sectors and markets. Of particular importance are the rules applicable to the Parent Company as a company listed on the Euronext market of the Italian Stock Exchange, as well as the regulations on intellectual and industrial property rights, competition, health and safety of workers, environmental protection, and the processing of personal data under European Regulation 2016/679 (GDPR), administrative liability of entities (Legislative Decree 231/01), protection of savings and regulation of financial markets (Law 262/05), and EU and national antitrust legislation.

To mitigate these risks, each company function oversees the evolution of relevant regulations, making use, if necessary, of external consultants.

The Parent Company, as an issuer listed on Euronext Milan, has consolidated its corporate governance system by adapting it to the provisions of current legislation and best market practices, both in terms of roles, responsibilities and committees, and in terms of procedures and policies.

Contractual risks

With regard to the management of any disputes, the Company's Legal Department periodically monitors the progress of potential or ongoing disputes and defines the strategy to be implemented and the most appropriate actions for managing them, making use, if necessary, of leading law firms competent for the various jurisdictions where the various Group companies are based. This involves relevant company departments and foreign company managers. The Administration, Finance and Control Department conducts appropriate assessments regarding these risks and their economic effects.

Aligned with its Governance objectives linked to the Sustainability Plan ("Made To Matter"), the Company has strengthened its compliance framework with laws, regulations, and best practices through the drafting, publication, and dissemination of a new Group Code of Ethics and new procedures and policies in various areas (human rights, environment, stakeholder engagement, etc.).

Insurance Coverage

During 2023, the Company, in collaboration with its insurance broker, continued monitoring and assessing the types of risk deemed relevant for insurance purposes and the coverage opportunities offered by the market, confirming the ongoing insurance structure. Coverage of main risks such as third-party and employee liability, product liability, and civil liability of directors, statutory auditors, executives, and managers has been renewed for all Group companies through international insurance programs. This also includes damage to company property, including damage caused by production interruption, as well as goods during transport and employee-related damages during duty performance. Other policies have been taken out locally to protect specific needs and/or comply with local regulations.

During the fourth quarter of 2023, the Company carried out a scouting for the assignment of the insurance brokerage assignment. During the scouting, in which the three main insurance brokers on the international market participated, all existing insurance coverage was again analyzed and any implementations were analyzed. At the end of this scouting, the brokerage assignment was again entrusted to the broker of the previous years.

ESG Risks

Climate change

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

On the one hand, the possible impacts of rising global temperatures must be considered in relation to the evolution of the Company's business, with particular reference to the so-called "transition risks", related to:

- introduction of new regulations and product standards;
- development of new technologies using alternative energy sources to gas;
- evolution of market demand towards applications with reduced CO_2 emissions and/or high energy efficiency.

Additionally, "physical risks" associated with the increased frequency of catastrophic natural events (e.g., floods, droughts, earthquakes) that could have an impact on the group's business continuity need to be assessed.

SIT has been addressing these risks through constant monitoring of the evolution of sector regulations, also being present and participating in the debate of the regulatory bodies of the sectors in which it operates, both nationally and internationally, in a constant dialogue with the main stakeholders of reference.

The development of new products and solutions follows eco-design principles, with a strong focus on carbon footprint and overall environmental impact. SIT products are designed for alternative combustion sources to gas, such as hydrogen and biomethane.

Business strategies and market responses are oriented towards new sustainable technologies, with significant investments in these areas through technological partnerships and diversification into market segments like controlled mechanical ventilation and heat pumps, which emphasize sustainability.

Regarding physical risks, the Company has adopted appropriate emergency management procedures to protect business continuity. Risks of this type are constantly monitored through property & business continuity risk assessments, with the use of specialized consulting firms in the insurance sector.

The second perspective, relating to the assessment of risks related to climate change, concerns the way in which the Company can intervene in the fight against climate change, with concrete actions that can reduce the impact of its operations on the environment, decreasing its carbon footprint and reducing emissions and consumption. Contributing to an overall improvement in the well-being of the community through the adoption of strategies in line with the objectives set by the international community.

In this context, SIT can certainly be considered at the forefront of its sector because:

- certified its product carbon footprint measurement system according to ISO 14067:2018 and verified the organization's carbon footprint (GHG inventory according to ISO 14064-1 standards;
- introduced CFP (Product Carbon Footprint) measurements in the development procedure of its products as a fundamental step, combining environmental impact with economic and financial assessments;
- outlined a multi-year plan to reduce CO2 emissions (scope 1 and 2) in line with the objectives of the European Community;
- has outlined a multi-year plan to reduce CO2 emissions (scope 3) by working on specific projects and providing for substantial involvement of its value chain.

The Company does not see any significant consequences in the medium term on the development of its business, having already taken into account the possible evolution of the demand for its products and solutions as part of its strategic planning, carrying out appropriate scenario analysis.

With reference to long-term scenarios, the Company is closely monitoring the evolution of the debate and regulations, especially in the European Union, related to the energy transition, the outcomes and impacts of which on the Company's business are currently not entirely predictable.

The Company will continue to analyze the potential risks associated with the energy transition process, functional to the preparation of its strategic plans, in line with the evolution of the relevant legislation and the objectives set by its Sustainability Plan in this area.

Specifically, the business plan, referring to the 2024–2027-time horizon, incorporates the expected downsizing of the domestic gas heating market and the development of new products in growth sectors, such as heat pumps, controlled mechanical ventilation and hood ventilation, which exploit technologies and markets already covered by the Group and which require specific investments for product development. Similarly, growth is expected in product or market segments where combustion will remain prevalent (commercial applications, both methane and hydrogen); finally, the plan reflects an expected recovery of the US market, on the horizon of which there do not yet seem to be restrictive regulations related to applications that use gas as a fuel.

The development guidelines of Metering, both Smart Gas Metering and Water Metering, are equally defined and based on the important investments that utilities in the sector are planning and making for the digitization and modernization of distribution networks.

This was carefully considered in the main estimation processes that involved the valuations carried out in the preparation of the 2023 financial statements. In particular, it is believed that the main balance sheet items affected by the risks associated with climate change are goodwill, other intangible assets and tangible fixed assets, in particular those used for the production of certain product families.

With regard to Goodwill, the verification of any impairment losses arising from the impact of climate change was carried out with the impairment tests, incorporating in the estimates of future flows, the uncertainties related to the legislation governing the domestic heating appliances sector. In particular, in the Business Plan, the assumptions on market trends, sales assumptions and strategies to react to the expected reduction in turnover of traditional products have been explicitly set out and aligned with the objectives linked to current legislation that encourages the use of appliances based on sustainable energy (decarbonisation of the sector).

With this in mind, it should also be noted that the item "Intangible assets under construction" also reflects the internal development of new products that the Group is implementing. As part of the Heating & Ventilation division, these are components intended for applications to support the decarbonisation of the sector - such as fans for electric heat pumps, as well as combustion control systems enabled to manage different types of gases including biomethane and hydrogen. In Metering, these are development costs for new families of smart meters.

The impact of the Climate change risk on the value of property, plant and equipment is attributable to the risk of obsolescence linked to technological transition processes, for which a more general assessment of the production footprint is underway with the aim of defining the most appropriate ways to cope with the expected reduction in production volumes of traditional products. In general terms, however, it should be noted that in most cases these are assets that have already been depreciated or assets whose residual useful life does not exceed the possibility of their use in the current production context, given the market prospects over the Plan horizon.

With reference to the impact of the "physical" risks of Climate change on the value of tangible fixed assets, attributable to insurance policies with regard to any impacts deriving from extreme weather events, specific assessments have been made from the insurance point of view which include, by way of example, damage from atmospheric events such as frost, flooding, floods, landslides and hail.

Risk of environmental impact

The main risks in this area relate to the management of the company's activities, also with reference to the value chain considered as a whole.

The assessments include impact dimensions related to the evolution of environmental regulations, the monitoring and containment of polluting emissions, the management of energy consumption and the use of natural resources, the correct management and disposal/reuse of waste.

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

Environmental risks are monitored at all levels of the organization through the operation of special structures and procedures designed to ensure compliance with regulations and the management of periodic checks and monitoring controls, for the performance of which SIT resorts to the use of independent laboratories and certification bodies, to guarantee the validity of the data collected and compliance with regulations.

SIT is subject to periodic audits by the environmental supervisory authorities, which are carried out in a regime of full transparency and effective cooperation.

The Company has historically been committed to reducing emissions, improving the efficiency/optimisation of energy consumption, recycling and reusing the resources used in production processes.

Also in this case, the Company's level of risk is medium/low, also in consideration of the positive outcome of the audits conducted periodically by the supervisory authorities.

Looking ahead, the Company is in line with regulatory and international standards that require the adoption of measures to reduce its environmental impact, which can be considered correctly sized in relation to the environmental impact generated.

Protection of health and safety in the workplace

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

SIT is equipped with an organizational safety structure that reflects the requirements of the most advanced management systems. The same procedures and principles of conduct apply to the entire perimeter of the Group as apply to the perimeter of the Italian production sites, which are subject to the most stringent regulations.

In May 2023, following changes in the group's organizational structure, it became necessary to update the security organization chart for SIT S.p.A. The Company has appointed a new Employer pursuant to art. 2, letter b) of Legislative Decree no. 81/2008 and its Delegates.

Each site has company representatives dedicated to Health, Safety & Environment (HSE) matters. In Italy, these representatives are coordinated by the Employer as per Legislative Decree 81/2008., At the international level, the activities of these structures are coordinated by the Group's HSE Manager, who carries out periodic inspections in order to ensure compliance with local and international regulations, carry out specific training for local representatives, and define and implement appropriate risk mitigation plans in the event of non-conformities detected.

The entire safety management system is supported by the presence of the appropriate certifications issued by the local supervisory authorities, on the definition and execution of safety plans, and on specific tools for reporting, analyzing, evaluating, managing, sharing and reporting (from the production plants to the Parent Company) of potentially relevant conditions and events and/or aspects that can be improved in the health field, safety and environment.

Absolute importance is given to the prevention of accidents by regularly organizing training and/or refresher courses for workers on the subject.

Over the years, SIT has not identified, through the activities described above, any particular critical issues related to this type of risk and constantly works to improve and monitor the working conditions of employees and collaborators, while maintaining a low risk profile.

Human rights

The risk relates to potential violations of Human Rights in the context of the activities carried out by SIT, with extension to the monitoring of the policies and actions adopted by the Group's main stakeholders.

SIT continues to invest significantly in the revision of its ESG policy framework.

In this context, particular attention was paid to the issue of respect for Human Rights, newly included among the material issues of the NFS. SIT, in this sense, has provided:

- to renew its Code of Ethics, paying particular attention to the respect and protection of Fundamental Rights within the value chain;
- the drafting and publication of the group's Human Rights Policy.
- the drafting and publication of a policy dedicated to diversity and inclusion (D&I) issues.

Joining the United Nations Global Compact in October 2022 was a further step in the commitment to the full implementation of principles related to social, environmental and anti-corruption issues. To fulfil the commitment undertaken by joining the framework, SIT is required to communicate to its stakeholders the progress and results achieved in relation to the 10 principles of the Global Compact. This reporting, on an annual basis, is required through the compilation of the so-called Communication On Progress (COP), a questionnaire built ad hoc by the Global Compact management to allow all member companies to provide their stakeholders with an overview of their commitment in relation to the fundamental values of the initiative. In December 2023, SIT submitted its first COP, thus maintaining its "Active" status.

In 2023, SIT ensured the full adoption and dissemination of the aforementioned policies within the Group, monitoring their results through appropriate KPIs.

SIT has also completed the "equal opportunities certification" process pursuant to UNI/PdR 125:2022, issued by the certifying body Kiwa. This certification, which is valid for three years and is subject to annual monitoring, has seen SIT be virtuous in all six areas that the certification investigates: Culture and Strategy; Governance; HR processes; Opportunities for growth and inclusion of women in the company; Gender pays equity and protection of parenthood and work-life balance.

Active and passive corruption

The risk relates to the adoption of conduct that leads to corruption offences committed by SIT employees and collaborators or its relevant stakeholders, in the context of the management of company activities and/or in the context of business relations.

The Company, in general, adopts a zero-tolerance approach to corrupt attitudes and has prepared and adopted appropriate policies and procedures to prevent risks of this nature.

The Italian companies in the Group have adopted Organizational, Management and Control Models following the provisions of Legislative Decree 231/01, which defines the rules of conduct and control principles to which stakeholders must comply, with explicit reference to offences related to corruption.

At the international level, the fundamental principles are defined by the Code of Ethics and the dedicated procedures and policies.

In 2023, SIT reviewed its Anti-Corruption Policy, which was disseminated and implemented at group level, through appropriate risk assessment activities, employee training and dedicated monitoring tools. In detail, the Policy requires all recipients to adopt behaviors and practices that are not permitted by the applicable law on corruption. All members of the corporate structure and external collaborators are required to collaborate in the implementation of the relevant anti-corruption prevention measures to protect the integrity and reputation of the group.

The Company has also set up adequate reporting mechanisms, in compliance with the requirements of Legislative Decree no. 24/2023, implementing European Directive 2019/1937 on the so-called "whistleblowing". In November 2023, SIT's Board of Directors also approved a dedicated *Policy* that governs the methods for making and managing reports of misconduct or suspected unlawful acts, carried out both internally and externally within the group, to combat any form of wrongdoing or unethical conduct.

The Company has historically not recorded any episodes of corruption and has a medium/low exposure profile to this type of crime, but constantly works to maintain high standards of ethics and integrity.

Cyber Risks

Cyber risks for SIT primarily involve:

- the improper use by SIT employees and collaborators of the IT infrastructures and devices that the Company makes available for the exercise of their work duties;
- the Company's exposure to cyber-attacks that could compromise the normal performance of business processes/activities and/or the theft or loss of sensitive data, even compromising business continuity;
- the accentuation of the occurrence of fraud attempts carried out through social engineering activities aimed at identifying public information relating to top management figures of the company with roles of responsibility in the financial field with the aim of impersonating their role and requesting the execution of urgent payments outside normal business processes;
- the loss of data or, more generally, the loss of availability of critical IT infrastructures for production and business, potentially also due to accidental homes.

SIT's IT Department has specific professionals with experience in the cybersecurity field and annually defines a risk assessment and management program that includes:

- a system of internal policies and procedures that define the main rules of conduct for the use of company IT resources by assignees, also regulating physical and logical access to data and information;
- a continuous updating of IT infrastructures both at HW and SW level, in order to ensure the best active and passive protection solutions against external attacks (viruses, ransomware, phishing, etc.);
- a penetration test and vulnerability assessment program, in order to identify possible gaps in IT infrastructures and prepare appropriate remediation plans related to the non-conformities detected.
- training extended to all employees with a digital identity on cyber risks through the adoption of a new training tool;
- a Backup and Disaster Recovery infrastructure sized according to the different needs and criticalities of the company.

During 2023, the Company strengthened its facilities and intensified its control activities to mitigate the so-called "S.S. *cyber risk*, maintaining a risk profile in line with the best reference benchmarks.

Tax risk

SIT's approach to taxation aligns with the Organization, Management and Control Models per Legislative Decree 231/2001, with particular reference to the special sections on the so-called "tax crimes". This approach is based on the principles of prudence, responsibility, consistency and transparency towards the Company's stakeholders, including the Tax Administrations. All the activities carried out by the Group comply with the relevant tax legislation and tax planning is always aligned with commercial activities.

The individual entities belonging to the Group must comply with the principle of legality, applying the tax legislation of each jurisdiction in which the Group operates, to ensure that the rules laid down for the subject matter are observed.

The Group has adopted a set of rules, procedures and principles that are part of the Group's broader system of organization and control, which are to be considered fundamental points of reference that all parties, about the type of relationship in place with the Group, are required to respect.

To promote transparency and collaboration with the tax authorities, the Group prepares specific documentation on Transfer Pricing by the provisions of the OECD Guidelines.

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

It should be noted that the entities belonging to the Group, over the years, have not been subjected to investigations that have brought to light fraudulent conduct and/or aimed exclusively at obtaining a reduction in the tax burden.

Reference should be made to the Group's NFS for tax reporting in compliance with GRI 207.

Financial risks

The Group is exposed to financial risks related to the following cases:

- Market risks: (i) exchange rate risk deriving from operations in currencies other than the functional currency of the companies and the Group; (ii) interest rate risk arising from fluctuations in market interest rates; (iii) price risk deriving from changes in the market prices of certain raw materials used by the Group in its production processes;
- Credit risk deriving from commercial relationships with its customers;
- Liquidity risk related to the availability of financial resources and access to the credit market.

The SIT Group has in place corporate policies for exchange rate risk management, interest rate risk management and liquidity management approved by the Board of Directors.

The purpose of these policies is to regulate within a shared framework the management approach, objectives, roles, responsibilities and operational limits in financial risk management activities.

In line with the policies, the Group has centralized the management of the financial risks of its subsidiaries in the parent company SIT S.p.A., taking on the role of coordinating processes, operating mechanisms and related organizational procedures at the Group level.

Currency risk

The Group is subject to the risk deriving from exchange rate fluctuations as it operates in an international context in which transactions are conducted in currencies other than the functional currency of the individual investee companies and the functional currency of the Group. The Group's exposure to exchange rate risk therefore derives from the geographical distribution of the markets in which it sells its products, the location of its production sites and the use of sources of supply denominated in different currencies.

In order to reduce exchange rate risk, it is a general policy to offset, where possible, exposures of opposite signs with correlated risk profiles (so-called Natural hedging).

In the Group's operations, exposure to exchange rate risk normally arises annually at the time of defining the sales and purchase lists during the setting of the budget change.

The Group regularly assesses its exposure and manages the exchange rate risk on net exposure, including through the use of derivative financial instruments. Speculative activities are not permitted.

Notwithstanding the validity of the aforementioned policies and compliance with exchange rate risk management practices and procedures, sudden fluctuations in market rates could have negative effects on the Group's operations, results of operations, balance sheet and financial position, results of operations, and prospects.

In 2023, the Heating & Ventilation division recorded a 25.8% reduction in sales compared to 2022, as better described in the specific paragraph Sales performance; this trend also affected the structure of the foreign currency exposure, where there was a significant reduction in the share of revenues in USD from 20.6% in 2022 to 12.7% in 2023. The change in the purchasing structure was less marked.

The following tables show the turnover in thousands of euros, at the average exchange rate for the year, respectively of revenues and purchase costs of raw materials, consumables and goods, broken down by currency.

Total revenues by currency:

(Euro,000)	2023	% Revenue	2022	% Revenue
EUR	253,759	77.8%	276,171	70.2%
USD	41,299	12.7%	80,966	20.6%
CNY	20,326	6.2%	23,095	5.9%
AUD	5,325	1.6%	7,076	1.8%
MXN	5,033	1.5%	4,807	1.2%
GBP	486	0.1%	1,134	0.3%
Other	33	0.0%	55	0.0%
Total	**326,261**	**100%**	**393,305**	**100%**

Total purchase costs of raw materials, consumables and goods broken down by currency:

(Euro,000)	2023	% Purchases	2022	% Purchases
EUR	106,817	63.9%	144,074	61.7%
USD	45,731	27.3%	73,462	31.5%
CHF	7,249	4.3%	6,145	2.6%
CNY	4,443	2.7%	6,261	2.7%
RON	1,986	1.2%	2,162	0.9%
MXN	695	0.4%	1,149	0.5%
TND	252	0.2%	276	0.1%
Other	38	0.0%	44	0.0%
Total	**167,211**	**100%**	**233,573**	**100%**

During the 2023 financial year, in line with company policies, the Company carried out financial hedging transactions mainly against net exposures in USD, AUD, GBP, CHF and CNY, while taking due account of the reduction in net exposure in USD.

The exchange rate risk hedging transactions outstanding at the balance sheet date and their fair value at the same date are set out in the Explanatory Notes.

The Group's financial debt is denominated entirely in Euro, while the breakdown by currency of the unrestricted bank account assets is shown in the table below:

(Euro,000)	31.12.2023
Currency	
Euro	3,175
U.S. Dollar	1,758
Chinese Yuan	2,834
Mexican Peso	592
Australian dollar	157
Other currencies	163
Total	**8,680**

With reference to these items in the financial statements, the potential loss deriving from a hypothetical unfavorable change in the Euro exchange rate equal to 10% would have a negative impact of Euro 550 thousand without considering the effect of existing hedges in this sensitivity analysis.

Interest rate risk

The Group is subject to the risk arising from fluctuations in market interest rates as it holds assets and liabilities that are sensitive to changes in market interest rates.

SIT regularly assesses its exposure to the risk of changes in interest rates and manages these risks also through the use of derivative financial instruments in accordance with the provisions of the company's policies. These policies define the financial instruments that can be used and speculative activities are not permitted.

Notwithstanding the validity of the aforementioned policies and compliance with interest rate management practices and procedures, sudden fluctuations in market rates could have negative effects on the Group's operations, results of operations, balance sheet and financial position, results of operations, and prospects.

During 2023, in the face of the persistence of the inflation rate and the restrictive policies implemented by the main central banks, market interest rates have remained high compared to recent years. By way of example, the 6m Euribor rate recorded on December 31, 2021, December 31, 2022 and December 31, 2023 was -0.546%, 2.693% and 3.877% respectively.

In this market scenario, the implementation of the interest rate hedging policy was particularly beneficial. As of the balance sheet date, the Group had outstanding term loans with a nominal principal amount of Euro 134.1 million. These loans are currently covered by Interest Rate Swaps or fixed-rate interest for an amount of Euro 106.3 million, equivalent to 79.2% of the underlying value. The average fixed coverage rate is 1.49%.

Hedging transactions outstanding at the date of the financial statements and their fair value at the same date are disclosed in the Explanatory Notes.

SENSITIVITY ANALYSIS

All other things being equal, the effects deriving from a hypothetical increase of 100 basis points in the variable interest rate would have led to an increase in financial charges for SIT for the year 2023 of Euro 393 thousand, taking into account the hedges in place during the period. The same simulation carried out for the previous year, again taking into account the existing hedges, would have led to an increase in financial charges of Euro 242 thousand.

Risk of fluctuations in commodity prices

The production costs of the SIT Group are influenced by the prices of certain raw materials, such as copper and aluminium, both as a result of the direct purchase of these raw materials and as a result of the fluctuations in their price on the purchase cost of components and semi-finished products that contain a significant quantity of them.

To mitigate these risks, SIT constantly monitors the availability of raw materials on the market, as well as the trend in their price, to promptly identify any shortage situations and then to activate suitable actions to ensure the necessary production autonomy and to keep its production cost competitive. In addition, the Group, when it deems it appropriate, with the expected trends, enters into financial contracts to hedge the risk of fluctuations in raw material prices.

Compared to the previous year, 2023 marked a trend towards normalization of the main supply markets in terms of availability, delivery times and volatility in the costs of raw materials and components – albeit in an inflationary scenario. As far as the impact of the cost of energy is concerned, it was lower than initially forecast, with a reversal of the market trend and reference prices.

It should be noted, however, that due to the persistence of the inflation rate that characterized 2023 and the presence of various situations of high geopolitical tension on the international chessboard, the risks of high-cost volatility of various product categories including electronic components, batteries, certain industrial metals such as steel and packaging in general remained high.

It should be noted that the phenomenon of the shortage of electronic components, which had heavily affected supply activity during the 2022 financial year, appears to have been almost completely reduced in 2023, allowing purchasing policies to be implemented in ordinary supply channels. However, the sector continues to be characterized by very long delivery lead times.

Credit risk

The credit risk deriving from the normal operations of the Group's companies with commercial counterparties is managed and controlled as part of the procedures for awarding and monitoring the credit standing of customers with the aim of ensuring that sales are made to reliable and solvent customers. The credit management activity is coordinated by the Parent Company for all Group companies through reporting and periodic meetings and is based on the information available on the solvency of customers by considering historical data and associating exposure limits for each customer. In addition, the schedule of trade receivables is constantly monitored during the year to anticipate and promptly intervene on credit positions that present a higher degree of risk.

At the balance sheet date, there are no significant credit risk positions. For further details on the composition of trade receivables, please refer to Note 7.

Working capital

During 2023, the market slowdown in the Heating & Ventilation sector highlighted a risk related to working capital management, with particular reference to the management of inventories.

Following the strong post-pandemic market recovery, the Company has encountered several issues related to shortages of raw materials and components related to production. To mitigate this risk, while maintaining an adequate level of customer service in terms of production and delivery times, the Group has carried out a series of actions aimed at ensuring the effectiveness of its supply chain, with particular reference to the procurement of critical components such as electronics. This policy, which proved to be rewarding during 2022, entailed the emergence of a risk related to the increase in inventories, upon the occurrence of the significant drop in demand that occurred in 2023. The problem concerns in particular the Heating & Ventilation segment of the business and some stocks of Smart Gas Metering electronics.

Given this situation, the Company has initiated, in particular, appropriate policies for reducing the number of inventories in the second half of the year:

- concerning raw materials, the Company has applied a conservative approach towards suppliers, cancelling or postponing a part of non-critical supplies because of the slowdown in production;

- regarding finished products, stricter conditions have been applied to the customer regarding the management of orders in the portfolio, providing for the possibility of cancellation only with adequate notice consistent with production and delivery times.

These management policies have made it possible to reduce the level of stocks compared to the levels recorded during the year and are a harbinger of further improvement in the course of 2024. The inventory level as of December 31, 2023 was Euro 83.3 million, while it was Euro 98.9 million as of June 30, 2023 and was Euro 91.4 million as of December 31, 2022.

Liquidity risk

Liquidity risk may arise from the difficulty of finding the financial resources necessary to ensure the operations of the Company and the Group at the required economic conditions and within the required timeframe.

SIT has adopted a series of policies aimed at optimising the management of financial resources to reduce liquidity risk through:

- monitoring of prospective liquidity conditions with the support of internal business planning processes, obtaining credit lines adequate to current and prospective needs.
- maintaining an adequate level of available liquidity.

The Group's cash flows, financial requirements and temporary cash equivalents are closely monitored and managed centrally by the Parent Company, which carries out the Group's treasury activities and financial coordination to ensure effective and efficient management of financial resources concerning changes in the macroeconomic conditions of reference.

During 2023, the contraction in sales recorded in the Heating & Ventilation division, for the reasons better described in the Sales Analysis section, led to a reduction in self-financing, only partially mitigated by the reduction in trade working capital, while the cash flows for the period were affected by the payment of the out-of-court settlement relating to a dispute with a customer and disbursements for operating investments. This leads to a situation of financial tension.

During the year, new financing transactions were completed to support current operations and liquidity needs arising from operating activities: in particular, a loan was signed with BPER for a nominal amount of €5 million with a maturity of 24 months, and a loan with Monte dei Paschi di Siena for a nominal amount of €5 million with a duration of 12 months. Both loans are unsecured with a floating interest rate and spreads of 1.25% and 0.8% respectively.

In addition to these transactions, during the year the Group increased the use of bank credit lines for the disposal of working capital against existing loans as well as new loans granted by the banking system in the second half of the year.

However, despite these transactions and the measures adopted during the year to contain costs and investments, the persistence of the negative economic situation in the Heating & Ventilation segment has highlighted the impossibility for the Parent Company to meet certain commitments to repay loans provided for the current year and the financial covenants. In view of this, the Parent Company promptly entered into the necessary discussions with its lenders and signed an extension and standstill agreement on December 29, 2023.

The agreement in question provided (i) the extension of the maturity date of the principal amounts due on December 31, 2023 to April 30, 2024; (ii) the regular payment as of December 31, 2023 of the amount due by way of interest; (iii) the waiver by the lenders until April 30, 2024 to assert the termination, withdrawal or forfeiture of the benefit of the term deriving from the extension in question as well as the failure to comply with the contractual financial parameters as of December 31, 2023 and finally (iv) the commitment of the lenders not to initiate precautionary and/or executive actions or to create liens in their favour concerning the outstanding financial debt.

For the period of validity of the agreement, the Company has undertaken to (i) provide, at certain agreed deadlines, information relating to cash forecasts and the evolution of short-term debt; (ii) not to incur financial debt in addition to that existing at the date of signature as well as limiting short-term financial debt within a certain threshold; (iii) not to distribute dividends.

The Company has also undertaken to provide lenders by February 28, 2024 with an update of the business plan, approved by the Board of Directors on September 15, 2023 to be submitted to an independent business review, documents that have supported the further discussions in the meantime begun with the banking class for the renegotiation of the financial profile of the debt and the consequent revision of the financial parameters being the parameters provided for by the current contracts that are not compatible with the Group's short- and medium-term income and financial outlook, as reflected in the updated plan.

Concerning the future evolution of liquidity, monitored through the preparation of a monthly cash plan, the Company believes that in the 2024–2025-time horizon the financial requirements deriving from current operating activities and investing activities will be more concentrated in the first half of 2024, in particular due to the foreseeable trend in Heating & Ventilation sales. in line with recent quarters. The cost reduction actions, both variable and structural, implemented during the year will also be able to mitigate the financial impact of this trend and, in the meantime, the action to reduce working capital will continue, also thanks to the normalization of supply market conditions. The contribution of the Metering division is expected to be positive.

With regard to the instruments to ease the situation of financial tension highlighted in the preamble, the cash plan considers the signing on April 22 and 23, 2024 of the agreements ("Agreements") with the credit institutions for the renegotiation of the repayment profile and the rescheduling of the final term. In particular, the Agreements provide for the extension of the original maturities by 24 months and the remodulation of the repayment profile in increasing instalments with the maintenance of the current interim intervals and the start of repayment from the signing of the Agreements without any provision for a moratorium period.

To further support this, the plan has a positive impact, starting from the date of signing of the Agreements, deriving from a shareholder loan of Euro 5 million, interest-bearing, with a capitalisation of the related financial charges, subordinated to the Company's bank debt.

The Agreements do not provide for the signing of additional loans or specific forms of automatic commitment on the maintenance of any existing short-term loans.

Finally, the agreements provide for the redefinition of the financial covenants consistent with the financial renegotiation described and the economic and financial profile of the business and financial plan.

After assessing the uncertainty profiles related to the achievement of the results envisaged in the approved business and financial plan and the targets for reducing net working capital, taking into account the performance of the first months of the current year and the forecasts contained in the updated business plan and the aforementioned cash plan, the financial commitments, as rescheduled in terms of repayment and debt service as a result of the Agreements, are considered, in terms of amount and time frame, to be consistent with the Group's current and prospective availability.

ECONOMIC AND FINANCIAL PERFORMANCE OF THE PARENT COMPANY SIT S.P.A.

Sit S.p.A. operates in the field of design, development, production and marketing of climate control and safety systems for domestic heating appliances and industrial cooking systems.

Net sales for the year amounted to Euro 234.6 million compared to Euro 288.2 million in the previous year, marking a decrease of 18.6%. Turnover includes revenues from third-party customers and sales of products and components to group companies, as well as royalties invoiced by the company to certain production subsidiaries in exchange for the use by these of technical production know-how, non-patented technology as well as SIT brand, all owned by the Company. It should be noted that in 2023, because of the reduction in sales accounted by the Mexican subsidiary, revenue from royalties was Euro 4.2 million compared to Euro 18.1 million in the previous year.

Purchase costs, net of changes in inventories, amounted to Euro 152.0 million, equal to 64.8% of revenues, up from 63.4% in the previous year.

Personnel costs amounted to Euro 44.6 million compared to Euro 45.5 million in the previous year, with an EBITDA margin of 19.0% and 15.8% respectively. This item includes Euro 2.5 million relating to charges for provisions relating to the staff mobility and reduction procedure launched at the end of 2023.

Costs for services, amounting to Euro 34.5 million, have an incidence of 14.7% on revenues, compared to Euro 35.7 million in 2022 (which was equal to 12.4%). This item includes Euro 0.8 million charges for legal and financial advice relating to debt rescheduling transactions carried out during the year.

Under the item Amortization, depreciation and impairment of assets, we report the recognition of the impairment of goodwill for Euro 17.0 million as a result of the impairment test carried out during the half-year reporting of 2023. This registration was made considering the trend and scenarios envisaged in the use of gas appliances in domestic heating as a result of the energy transition.

The 2023 operating result therefore amounted to a loss of Euro 30.5 million compared to a profit of Euro 8.2 million in 2022, with an incidence on revenues of -13.0% and 2.8%, respectively. Net of the items mentioned above and the impairment of goodwill, the parent company's operating result amounted to a loss of Euro 9.8 million (-4.2% of revenues), while also recovering the royalties that were lost during the year, operating income was positive for Euro 4.0 million (1.6% of revenues).

No income from equity investments was recorded in 2023, which amounted to Euro 2.2 million in 2022.

Financial income for 2023 amounted to Euro 3.7 million compared to Euro 10.2 million in 2022, which included Euro 8.7 million as a change in the fair value of the Warrants issued by the Company and which expired and were therefore cancelled in July 2022. Net of the change in the fair value of the Warrant, it should be noted that financial income increased from Euro 1.5 million to Euro 3.7 million as a result of the increase in loans to group companies – in particular to the Mexican subsidiary – and increases in market interest rates.

Financial expenses for 2023 amounted to Euro 7.9 million compared to Euro 4.6 million in 2022. The increase is due both to the increase in market rates of approximately 2.5% compared to the previous year and to the effect of the increase in both short-term and medium-long term debt – not hedged but contracted at market conditions. The negative economic impact of the financial hedging on energy on part of the exposure at the beginning of the year also had an impact

Profit before tax in 2023 amounted to Euro -34.7 million (-14.8% of revenues) compared to Euro 15.3 million in 2022 (5.3% of revenues).

Taxes for the year include deferred tax assets of Euro 5.4 million compared to taxes of Euro 0.9 million in the previous year.

The net result for 2023 is a loss of Euro 29.3 million, equal to 12.5% of revenues, compared to a profit of Euro 14.4 million in 2022, equal to 5.0% of revenues. Net of income and expense reported in the calculation of the adjusted net result – both operating and non-operating – the adjusted net result for 2023 is equal to a loss of Euro 9.1 million.

The financial position as of December 31, 2023 was Euro 147.2 million (Euro 131.7 million as of December 31, 2022). The breakdown of the net financial position is as follows:

(Euro,000)

Composition net financial position (1)	**31/12/23**	**31/12/22**
A. Cash	4	3
B. Cash equivalents	2,788	12,323
C. Other current financial assets	22,633	27,370
D. Cash and cash equivalents (A) + (B) + (C)	**25,424**	**39,696**
E. Current financial debt (including debt instruments but excluding the current portion of non-current financial debt)	35,958	29,322
F. Current portion of the non-current debt	32,567	18,589
G. Current financial debt (E + F)	**69,525**	**47,911**
H. Net current financial debt (G - D)	**44,101**	**8,215**
I. Non-current financial debt	63,489	83,944
J. Debt instruments	39,605	39,520
K. Trade payables and other non-current payables	0	0
L. Non-current financial debt (I + J + K)	**103,094**	**123,464**
M. Net Financial Position (H + L)	**147,194**	**131,679**

As required by Communication ESMA32-382-1138 of March 4, 2021, it should be noted that the company has net liabilities for defined employee benefits of Euro 4,122 thousand (Note no. 16) and provisions for risks and charges of Euro 2,098 thousand (Note no. 15) of the separate financial statements.

The Parent Company has a role of financial coordination for the benefit of the Group's subsidiaries. With some companies, both Italian and foreign, it carries out centralized treasury activities also through cash pooling systems provided by leading banks. With each of these companies, it maintains one or more intercompany current account relationships on which the financial transactions in question are settled.

RECONCILIATION OF SHAREHOLDERS' EQUITY AND PROFIT FOR THE YEAR

The reconciliation between the Parent Company's shareholders' equity and profit for the period and the consolidated shareholders' equity and profit for the period is summarised below:

(Euro,000)	Net Equity at 31.12.2023	Profit FY 2023	Net Equity at 31.12.2022	Profit FY 2022
Statutory financial statements of the parent company	**135,954**	**(29,319)**	**166,250**	**14,385**
Difference between the carrying amount of the investments and net equity and net profit/(loss) of the consolidated subsidiaries(1)	11,467	6,630	3,367	2,729
Elimination of intercompany gains and losses	(4,011)	(434)	(3,852)	(656)
Adjustments in the financial statements of the consolidated companies in line with group accounting policies	(291)	(265)	(271)	(181)
Elimination dividends from investees	-	-	-	(4,955)
Other adjustments	5	-	-	(110)
Minority interest capital and reserves	-	-	-	-
Group & Minority int. consol. financial statements	**143,124**	**(23,388)**	**165,495**	**11,213**

(1) This difference is inclusive of the PPA originally accounted and the PPA following the acquisition of JANZ

INTRA-GROUP AND WITH RELATED PARTIES TRANSACTIONS

SIT is a joint-stock company incorporated in Italy at the Padua Business Register.

SIT carries out management and coordination activities pursuant to art. 2497 et seq. of the Italian Civil Code for its Italian subsidiary. It is not subject to direction and coordination, pursuant to art. 2497 et seq. of the Italian Civil Code, by the parent company Technologies S.a.p.a. di F.d.S. S.S.

With regard to transactions carried out with related parties, including intra-group transactions, it should be noted that they cannot be qualified as either atypical or unusual, as they are part of the normal course of business of the Group companies.

These transactions are settled at normal market conditions, i.e. on terms that would have applied between two independent parties and have been carried out in the interest of the Group.

At its meeting on June 11, 2021, the Board of Directors of SIT approved the update to the procedure for transactions with related parties, pursuant to art. 4 of the Consob Regulation containing provisions on transactions with related parties, adopted by Consob with resolution no. 17221 of March 12, 2010 as subsequently amended, most recently, 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 detailed information on transactions with parent companies and companies under the control of the latter, transactions with other related parties and intra-group transactions.

It should be noted that SIT, SIT Immobiliare S.p.A., SIT Technologies S.p.A. and Metersit S.r.l. have adhered for the three-year period 2022 – 2024 to the National Tax Consolidation procedure, an institution governed by Legislative Decree No. 344 of December 12, 2003 and in particular by Articles 117 to 129 of the T.U.I.R., with SIT Technologies S.p.A. as consolidator and the other companies as consolidated, as per the resolution of the respective administrative bodies. During the 2020 financial year, the subsidiary SIT Metering s.r.l. adhered to the National Tax Consolidation procedure for the three-year period 2020 – 2022 and subsequently renewed for a further three-year period, while in 2021 the parent company Technologies SAPA of F.D.S. S.S. also joined for the three-year period 2021 – 2023, both as consolidated.

Finally, we would like to point out that since the 2020 fiscal year, SIT Technologies S.p.A., as parent company, SIT S.p.A., SIT Immobiliare S.p.A. and Metersit S.r.l., as subsidiaries, have adhered to the Group VAT settlement procedure, provided for by art. 73 last paragraph of Presidential Decree 633/1972 as resolved by the respective administrative bodies in 2019. Since 2022, the subsidiary SIT Metering s.r.l. has also adhered to the group VAT procedure, while the parent company Technologies SAPA of F.D.S. S.S. has adhered to the 2023 financial year.

Treasury Shares

As of December 31, 2023, the Company held 800,409 ordinary treasury shares, with no par value, equal to 3.19% of the share capital, none of which were purchased during the year.

Performance of Group companies

The following table shows some indicators on the performance of subsidiaries during the year

Heating & Ventilation

(Euro,000)

Entity	Turnover			Net income			Employees		
	2023	2022	diff	2023	2022	diff	2023	2022	diff
SIT Argentina S.r.l.	35	30	5	3	1	2	-	-	-
SIT Gas Controls Pty Ltd	5,372	7,138	(1,766)	248	426	(178)	4	5	(1)
SIT Controls Canada Inc.	199	310	(111)	5	72	(67)	1	1	-
SIT Manufacturing (Suzhou) Co. Ltd	22,838	25,367	(2,529)	855	948	(93)	73	61	12
SIT Controls CR, S.r.o.	1,119	1,503	(384)	561	697	(136)	5	7	(2)
SIT Controls Deutschland GmbH	1,199	1,282	(83)	216	346	(130)	8	4	4
SIT manufacturing Na Sa deCV	36,180	75,394	(39,214)	3,017	(5,359)	8,376	169	278	(109)
SIT de monterrey SA de CV	-	7	(7)	-	3	(3)	-	-	-
SIT Controls BV	31,115	43,112	(11,997)	(316)	2,123	(2,439)	118	152	(34)
SIT Romania Srl	57,144	71,208	(14,064)	1,087	1,377	(290)	407	568	(161)
SIT Controls USA Inc.	2,029	3,765	(1,736)	26	1,497	(1,471)	5	6	(1)
Sit Controls Tunisia S.u.a.r.l	46,219	36,082	10,137	2,803	1,843	960	199	242	(43)
Plast Alfin S.a.r.l.	3,846	3,229	617	67	65	2	73	53	20

Smart Metering

(Euro,000)

Entity	Turnover			Net income			Employees		
	2023	2022	diff	2023	2022	diff	2023	2022	diff
MeteRSit S.r.l.	76,657	61,456	15,201	805	1,266	(461)	86	94	(8)
Metersit Romania S.r.l.*	-	2	(2)	-	(31)	31	-	-	-
Sit Metering S.r.l.	163	158	5	(961)	(288)	(673)	-	-	-
Metersit UK Ltd	4	13	(6)	(259)	(229)	(30)	2	2	-
JANZ – Contagem e Gestão de Fluídos, SA	29,549	24,745	4,804	2,306	1,678	628	319	287	32

*Liquidated during 2022

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE YEAR

During the first months of 2024, the Company obtained the "Gold" rating as part of the annual CSR (Corporate Social Responsibility) performance assessment carried out by EcoVadis, an international ESG rating agency.

SIT has improved its rating range compared to the previous rating, obtaining a score of 77/100, moving from the 85th to the 98th percentile which places it in the range of the top 2% of companies evaluated by EcoVadis (15% the previous year).

We inform you that the project to downsize the production plant of the Dutch subsidiary announced on November 9, 2023, the date of the start of consultations with the competent local bodies, continues regularly. In February 2024, the total adherence by the employees concerned in the social plan proposed by the branch was formalized. The project is therefore expected to be completed by the first half of 2024.

At the MCE - Mostra Convegno Expocomfort exhibition, in the edition held between March 12 and 15, 2024, SIT presented the new fan for residential heat pumps developed in synergy with Panasonic Industry, a leading company in HVAC (Heating, Ventilation, Air Conditioning) technologies. This is SIT's debut in the electric heat pump sector and is one of the pillars of the Group's strategy in the decarbonisation of the domestic heating sector. The aim of the collaboration is to develop a complete fan solution designed specifically for residential heat pumps. The distribution of the integrated motor-fan system to the market will be carried out by SIT and will be available from the beginning of 2025.

On January 15, 2024, the Portuguese company Aquametric Solutions, S.A., with registered office in Lisbon, was established, in which the SIT Group owns 50% of the share capital. The remaining 50% is owned by Swiss technological partner GWF AG. The company will be active in the manufacture of Smartio, a new "smart" water meter for residential use based on ultrasonic technology.

As of April 1, 2024, SIT-MBT S.r.l., an affiliate of SIT that focuses on fans for extractor hoods, officially began its operations. The company is a merger of SIT’s dedicated business unit for ventilation and components used in kitchen hoods and pellet stoves, and the entirety of Motors & Blowers Technology Srl (MBT), an innovative startup founded by a group of experienced and reputable managers in the industry. Additionally, the corporate structure is strengthened by the inclusion of Wentelon, a vendor partner that supplies ventilation motors. Wentelon’s state-of-the-art production facilities in China will provide technological support and competitive advantages to this new initiative.

Notice is hereby given that on April 22 and 23, 2024, the Company signed a series of agreements with the Company's main medium-term lenders to amend the existing loan relationships and that on April 22, 2024 the bondholders' meeting approved the proposed agreement to amend the rules of the bond loan.

Regarding certain bank loan relationships, the amending agreements provide for the extension of the original maturities by 24 months and the remodulation of the repayment profile in increasing instalments, with the maintenance of the current annual and interim maturities. The above-mentioned amending agreements - which go beyond the previous *standstill* regime - also provide for the redefinition of the financial covenants applicable to the related medium-term loan relationships in a manner consistent with the financial renegotiation described and the economic and financial profile of the Company's new business and financial plan.

The agreements do not provide for the signing of additional loans and specific forms of automatic commitment on the maintenance of any existing short-term loans.

The above-mentioned medium-term loan relationships – which are not backed by any collateral or guarantees – have also been amended in relation to a series of commitments and limitations already provided for originally, as usual in similar contracts. Further limits on the distribution of dividends and reserves have also been introduced, varying according to the level of consolidated financial leverage. Based on the data as of December 31, 2023, the Company cannot distribute dividends or reserves since the ratio between net financial position and EBITDA is higher than the new thresholds provided for this purpose by the aforementioned bank loans and bonds, respectively in the ratio of 3.5x and 3x.

Finally, pricing levels have been adjusted in relation to the trend in the aforementioned consolidated financial leverage.

In the context of the comprehensive renegotiation, a shareholder loan amounting to Euro 5 million was provided by the principal shareholder, Technologies S.A.P.A. of F.D.S. S.S. This loan carries an interest rate of 5% per annum with the capitalization of related financial charges. It is subordinated to the company's financial liabilities and is convertible into company capital and/or equity. This transaction qualifies as a minor significance related party transaction under the regulations set forth by Consob in resolution no. 17221 dated March 12, 2010, as amended and supplemented, and adheres to the Procedure for Transactions with Related Parties that the Company adopted on June 11, 2021.

As required by the Related Party Transaction (RPT) Procedure, the terms of the shareholder loan agreement were reviewed in advance by the Company’s Committee for Transactions with Related Parties. The committee rendered a reasoned non-binding opinion that was favorable, endorsing the Company's decision to enter the agreement based on the perceived benefits, convenience, and substantial fairness of its terms.

BUSINESS OUTLOOK

The initial months of 2024 provided good visibility on the Metering business which, thanks to the awarding of tenders over recent months and the advancement of the ongoing projects with leading customers, in addition to the solid fundamentals associated with the investments by the utilities, forecasts high single-digit growth this year.

The Heating & Ventilation business unit is expected to recover during the year, with the first quarter again set to decline by double-digit, with a slight single-digit reduction in Q2 compared to the previous year. Visibility for the second half of the year currently indicates that the final two quarters of the year may improve upon the first half of the year.

The consolidated EBITDA margin is expected to grow by between 100 and 200 basis points.
Planned investments are being closely controlled and shall focus in particular on research and development, in addition to the completion of the new headquarters, for between Euro 20-25 million. Net financial debt of between Euro 140 and 147 million is forecast, decreasing on 2023.

***

In compliance with the provisions of IAS 1, at the same time as authorising the disclosure of the separate financial statements, the Board of Directors of SIT S.p.A. proposes to the Shareholders' Meeting:

1. to use the extraordinary reserve of €24,726,475 to cover the loss for the year;
2. to use the IAS/IFRS 1st application reserve of €564,567 to cover the loss for the year;

3. to use the reserve for exchange differences of €161,178 to cover the loss for the year, since the conditions that required its establishment as provided for by Article 2426 no. 8-bis of the Italian Civil Code have ceased to exist;
4. to carry forward the residual loss of €3,866,613.

Padua, April 24, 2024

The Chairman of the Board of Directors

(Dott. Federico de' Stefani)

CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2023

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(Euro,000)	**Note**	**31/12/2023**	**31/12/2022**
Goodwill	1	70,946	87,946
Other intangible assets	1	50,781	55,276
Property, plants and equipment	2	105,270	106,103
Investments	3	657	630
Non-current financial assets	4	2,533	5,186
Deferred tax assets	5	18,874	10,492
Non-current assets		**249,061**	**265,633**
Inventories	6	83,315	91,352
Trade receivables	7	63,458	63,800
Other current assets	8	14,264	12,597
Tax receivables	9	3,752	2,280
Other current assets	4	6,630	6,269
Cash and Cash Equivalents	10	8,700	23,535
Current assets		**180,119**	**199,833**
Total assets		**429,181**	**465,466**
Share capital	11	96,162	96,162
Total Reserves	12	70,350	58,120
Net Profit		(23,388)	11,213
Minority interests net equity		0	0
Shareholders' Equity		**143,124**	**165,495**
Medium/long-term loans and borrowings	13	58,182	77,968
Other non-current financial liabilities and derivative financial instruments	14	51,434	53,553
Provisions for risks and charges	15	10,513	13,844
Post-employment benefit provision	16	5,096	5,093
Other non-current liabilities		6	4
Deferred tax liabilities	17	12,094	15,005
Non-current liabilities		**137,325**	**165,467**
Short-term bank loans	18	50,809	23,551
Other current financial liabilities and derivative financial instruments	19	8,596	5,235
Trade payables	20	66,915	81,400
Other current liabilities	21	20,768	23,113
Tax payables	22	1,645	1,205
Current liabilities		**148,733**	**134,504**
Total Liabilities		**286,057**	**299,971**
Total Shareholders' Equity and Liabilities		**429,181**	**465,466**

CONSOLIDATED STATEMENT OF INCOME

(Euro,000)	Note	2023	2022
Revenues from sales and services	**23**	**326,261**	**393,305**
Raw materials, ancillaries, consumables and goods	24	167,211	233,573
Change in inventories	24	8,578	(19,886)
Services	25	46,525	52,301
Personnel expense	26	80,716	80,182
Depreciation, amortization and write-downs	27	47,090	27,771
Provisions	28	1,015	8,722
Other charges (income)	29	345	85
EBIT		**(25,219)**	**10,557**
Investment income/(charges)		0	(166)
Financial income	30	942	9,263
Financial charges	31	(7,827)	(4,760)
Net exchange gains (losses)	32	804	(1,326)
Impairments on financial assets		0	0
Profit before taxes		**(31,300)**	**13,568**
Income taxes	33	7,912	(2,355)
Net profit for the year		**(23,388)**	**11,213**
Minority interest result		**0**	**0**
Group net profit		**(23,388)**	**11,213**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Euro,000)	**2023**	**2022**
Net profit	**(23,388)**	**11,213**
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	(2,634)	5,609
Income taxes	632	(1,346)
Total unrealised financial asset gains/(losses)	**(2,002)**	**4,263**
Translation of financial statements in currencies other than the Euro	2,013	2,928
Total of other comprehensive income statement items which may be subsequently reclassified to the profit/(loss) for the year, net of taxes	**11**	**7,191**
Other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes:		
Unrealised actuarial gains	(14)	582
Income taxes	3	(140)
Total unrealised actuarial gains/(losses)	**(11)**	**442**
Total of other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes	(11)	442
Total other comprehensive income/(expense) for the year, net of taxes	0	**7,633**
Total comprehensive income/(expense)	**(23,388)**	**18,846**
Total comprehensive income/(expense) for the year attributable to:		
Parent company shareholders	**(23,388)**	**18,846**
Minority shareholders	0	0
Basic earnings per share	**(0.9614)**	**0.4609**
Diluted earnings per share	**(0.9614)**	**0.1013**

CONSOLIDATED STATEMENT OF CASH FLOW

(Euro,000)	Note	2023	2022
Net profit		(23,388)	11,213
Amortisation & depreciation	1 - 2	46,896	27,652
Non-cash adjustments		4,991	9,669
Income taxes	33	(7,912)	2,356
Net financial charges/(income)	30 - 31	6,885	(4,518)
CASH FLOW FROM CURRENT ACTIVITIES (A)		**27,472**	**46,372**
Changes in assets and liabilities:			
Inventories		9,399	(19,730)
Trade receivables		951	(6,715)
Trade payables		(15,129)	(675)
Other assets and liabilities		(10,516)	1,185
Income taxes paid		(4,075)	(6,699)
CASH FLOW GENERATED (ABSORBED) FROM CHANGES IN WORKING CAPITAL (B)		**(19,370)**	**(32,634)**
CASH FLOW FROM OPERATING ACTIVITIES (A + B)		**8,102**	**13,738**
Investing activities:			
Investments in property, plant & equipment		(18,130)	(24,823)
Other changes in property, plant & equipment		419	335
Investments in intangible assets		(4,230)	(1,986)
Other changes in intangible assets		9	0
Investments in financial assets		(296)	(409)
Other cash flows from current financial assets		(797)	(3,450)
CASH FLOW FROM INVESTING ACTIVITIES (C)		**(23,025)**	**(30,333)**
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)		**(14,923)**	**(16,595)**
Financing activities:			
Interest paid		(7,108)	(3,275)
Repayment of non-current financial payables	18	(14,874)	(21,000)
Increase (decrease) current financial payables		15,909	2,756
Increase (decrease) other financial payables	18 - 34	(3,181)	(2,977)
New loans	18	10,181	25,000
Payment of dividends	12	0	(7,299)
Treasury shares	12	0	(599)
CASH FLOW FROM FINANCING ACTIVITIES (D)		**927**	**(7,394)**
Change in translation reserve	12	(839)	857
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)		**(14,835)**	**(23,132)**
Cash & cash equivalents at beginning of the year		**23,535**	**46,667**
Increase (decrease) in cash and cash equivalents		(14,835)	(23,132)
Cash & cash equivalents at end of the year		**8,700**	**23,535**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium reserve	Tresury shares reserve	Legal Reserve	Other reserves								net proft for the year	Group shareholders' equity	Minority interest capital & reserves	Total group & minority interest shareholders' equity
					Currency diffrences reserve	L.T.I. reserve	Cash flow hedge reserve	Share capital increse	Actuarial reserve	Extra. Reserve	Ris. Per Warrant	Retained earnings/accum. Losses				
December 31, 2021	**96,162**	**10,360**	**(6,134)**	**19,230**	**(7,255)**	**174**	**(45)**	**16,615**	**(656)**	**1,491**	**230**	**15,261**	**8,243**	**153,676**	**-**	**153,676**
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of the 2021 result	-	-	-	2	-	-	-	-	-	-	-	8,241	(8,243)	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Comprehensive profit 2022	**-**	**-**	**-**	**-**	**2,928**	**-**	**4,263**	**-**	**442**	**-**	**-**	**-**	**11,213**	**18,846**	**-**	**18,846**
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Assignment L.T.I. to employees	-	-	-	-	-	880	-	-	-	-	-	-	-	880	-	880
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend	-	-	-	-	-	-	-	-	-	-	-	(7,299)	-	(7,299)	-	(7,299)
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-	230	(230)	(8)	-	(8)	-	(8)
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of treasury shares	-	-	(599)	-	-	-	-	-	-	-	-	-	-	(599)	-	(599)
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
December 31, 2022	**96,162**	**10,360**	**(6,733)**	**19,232**	**(4,328)**	**1,053**	**4,219**	**16,615**	**(214)**	**1,721**	**-**	**16,196**	**11,213**	**165,495**	**-**	**165,495**
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of the 2022 result	-	-	-	-	-	-	-	-	-	23,005	-	(11,792)	(11,213)	0	-	0
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Comprehensive profit 2023	**-**	**-**	**-**	**-**	**2,013**	**-**	**(2,002)**	**-**	**(11)**	**-**	**-**	**-**	**(23,388)**	**(23,388)**	**-**	**(23,388)**
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Assignment L.T.I. to employees	-	-	-	-	-	1,019	-	-	-	-	-	-	-	1,019	-	1,019
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-	-	-	(3)	-	(3)	-	(3)
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
December 31, 2023	**96,162**	**10,360**	**(6,733)**	**19,232**	**(2,315)**	**2,073**	**2,217**	**16,615**	**(225)**	**24,726**	**-**	**4,401**	**(23,388)**	**143,124**	**-**	**143,124**

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 April 24, 2024 and authorised for publication on the website www.sitgroup.it by April 30, 2024. 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 transfer of assets in kind, acquisitions and sales.

BASIS OF PREPARATION

The consolidated financial statements of the SIT Group on December 31, 2023 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 statement of income which classifies costs and revenues by type, which is considered a better representation of the Group performance than a segment breakdown;
- the Consolidated statement of comprehensive income;
- the Consolidated statement of cash flows prepared in accordance with the indirect method;
- the Consolidated statement of changes in 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, 2023 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, 2023 are the same as those adopted for the consolidated financial statements at December 31, 2022.

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

Going Concern

During 2023, the Group recorded a 17,0% reduction in revenues compared to 2022. This trend is mainly attributable to the Heating & Ventilation division, which in 2023 suffered a 25,8% decrease in sales compared to the previous year. The performance of the Metering division was positive, with growth of 22,2% in 2023. In 2023, the significant reduction in incentives that had supported the market across Europe in recent years and the increased uncertainty about the evolution of the legislation on technological transition, as well as the reduction in the spending power of households as a result of the persistence of high inflation and the rise in interest rates, have, as a whole, negatively affected the Heating sector, in particular with reference to combustion appliances (gas boilers).

These final demand dynamics have manifested themselves in a sector in which the entire supply chain has shown an excess of stock due to the procurement policies implemented to cope with supply difficulties – in particular of electronics – during 2022.

Since the Heating & Ventilation division is a supplier of components to OEMs in the sector, the Group suffered the negative effects of the difficult market environment described above, which led to a significant decline in turnover compared to the previous year, which was higher than expected. This contraction, together with the financial impact of an out-of-court settlement reached with a North American customer for a dispute relating to the quality of certain products in the water heating segment, led to a situation of financial tension.

Despite new financing and the increase in the use of bank credit lines, in addition to the measures adopted during the year to contain costs and investments, the persistence of the negative economic situation in the Heating & Ventilation business highlighted the impossibility for the Parent Company to meet certain commitments to repay loans scheduled for the end of the year and the financial covenants contained therein. Faced with this prospect, the Parent Company promptly entered the necessary discussions with its lenders, which led to the signing on December 29, 2023 of an extension and standstill agreement with respect to the aforementioned commitments.

This agreement, functional to the start of negotiations for the definition of a plan for the rescheduling of the amortization plans of existing loans, extended to April 30, 2024 the repayment of the principal portions maturing on December 31, 2023, providing instead for the regular payment of interest; it also led to the waiver by the lenders of certain rights and precautionary actions to which they are entitled as a result of the extension in question and the failure to comply with contractual financial parameters as at December 31, 2023.

The agreement committed the Parent Company to certain periodic disclosure obligations relating to cash forecasts and the evolution of short-term debt, as well as a commitment not to incur financial debt beyond that existing at the date of signing, limiting short-term financial debt within a certain threshold.

The agreements also required the Parent Company to provide lenders by February 28, 2024 an update of the business plan, which was originally approved by the Board of Directors on September 15, 2023. This update has been subject to *independent business review* by an independent expert. The above-mentioned documents supported the further discussions that have begun in the meantime with the banks, and which resulted in the agreement signed on April 22 and 23, 2024, for the renegotiation of the financial profile of the debt and the consequent revision of the financial parameters, as the parameters provided for by the current contracts are not compatible with the Group's short- and medium-term financial prospects reflected in the updated business plan.

The above-mentioned updated business plan (hereinafter, the "Plan"), drawn up with reference to the Group and referring to years 2024–2027, was approved by the Board of Directors on February 29, 2024 and presents the Group's development guidelines in the changed context, which take into account the expected downsizing of the gas domestic heating market as a result of the ongoing technological transition. These guidelines are mainly based on the introduction and development of new products in growing sectors, such as heat pumps, controlled mechanical ventilation and hood ventilation, which exploit technologies and markets already covered by the Group but which require specific investments for product development. Similarly, growth is expected in product or market segments where combustion will remain prevalent (commercial applications, both methane and hydrogen); finally, the Plan reflects an expected recovery of the US market, which is currently shrinking, mainly due to macroeconomic conditions, in the gas fireplace segment and, as a result of the damage to the image resulting from the aforementioned dispute, in the water heating segment.

The development guidelines of the Metering segments, both Smart Gas Metering and Water Metering, are defined and based on the important investments that utilities in the sector are planning and making for the digitalization and modernization of distribution networks.

The updated Plan incorporates the main risk elements highlighted by a leading strategic consulting firm, which analysed the underlying strategic rationales and the main risk profiles inherent in the development of revenues of the Group's three business units, Heating & Ventilation, Smart Gas Metering and Water Metering. This analysis showed that the main risk elements are mainly concentrated in the medium-long term prospects relating to new applications and traditional applications, with particular reference to the Heating & Ventilation division, in view of the uncertainty associated with the progress of the technological transition.

The Directors point out that the Plan is based on a set of assumptions, which also include assumptions relating to future events that are not necessarily likely to occur in the expected time and manner.

Coming to shorter-term planning, the Plan, for 2024 and 2025, has been detailed in a monthly cash plan, to intercept the short- and medium-term economic and financial dynamics and highlight the related needs over this time horizon.

With regard to the instruments to ease the situation of financial tension highlighted in the preamble, with regard to loans included in the extension and standstill agreement, the aforementioned cash plan takes into account the renegotiation with the credit institutions of the repayment profile and the rescheduling of the final term that were defined with the agreements signed on April 22 and 23, 2024 (hereinafter, the "Agreements"). These Agreements provide for the extension of the original maturities by 24 months and the remodulation of the repayment profile in increasing instalments, with the maintenance of the current interim intervals and the start of repayment from the signing of the Agreements, without a moratorium period.

To further support the Group's financial situation, the above-mentioned cash plan records the positive impact, starting from the date of signing of the Agreements, deriving from a shareholder loan granted to the Parent Company by the majority shareholder, equal to Euro 5 million, interest-bearing with capitalization of the related financial charges, subordinated to bank debt.

The Agreements do not provide for the signing of further loans or specific forms of automatic commitment on the maintenance of any existing short-term loans.

Finally, the Agreements provide for the redefinition of the financial covenants, in line with the financial renegotiation described and the economic and financial profile of the Business Plan.

As highlighted above, the Plan was also subject to an *independent business review* (IBR) by an independent expert, who analysed the main economic and financial assumptions underlying the Plan, concluding that there was no unreasonableness. This conclusion is also supported by a sensitivity analysis of some assumptions regarding the evolution of revenues, margins and net working capital.

The Directors assessed the uncertainty associated with the achievement of the objectives set out in the Plan, including the targets for reducing net working capital. In view of the performance of the first months of the current year and the forecasts made, the actions that may be taken in the management of liquidity and considering the signing of the aforementioned Agreements with credit institutions, they believe that the Group will be able to fulfil its obligations in the foreseeable future and have therefore considered it appropriate to use the going concern assumption in the preparation of the consolidated financial statements at December 31, 2023.

IFRS accounting standards, amendments and interpretations applicable from January 1, 2023

The following accounting standards, IFRS amendments and interpretations have been applied for the first time by the Group as of January 1, 2023:

IFRS 17 – Insurance Contracts

Published on May 18, 2017, this standard is intended to replace IFRS 4 – Insurance Contracts and has been applied as of January 1, 2023. The objective of the new standard is to ensure that an entity provides relevant information that accurately represents the rights and obligations arising from the insurance contracts issued, The IASB developed the standard to eliminate inconsistencies and weaknesses in existing accounting policies by providing a single *principle-based* framework to account for all types of insurance contracts, including reinsurance contracts that an insurer holds.

The new standard also includes presentation and disclosure requirements to improve comparability between entities in this sector. The new standard measures an insurance contract on the basis of a General Model or a simplified version of it, called the Premium Allocation Approach ("PAA"),

The main features of the General Model are:

- estimates and assumptions of future cash flows are always the current ones;
- the measurement reflects the time value of money;
- the estimates foresee extensive use of information observable on the market;
- there is a current and explicit measurement of risk;
- the expected profit is deferred and aggregated into groups of insurance contracts at the time of initial recognition; and

- The expected profit is recognised over the period of the contract coverage, taking into account adjustments resulting from changes in the assumptions relating to the cash flows relating to each group of contracts.

The APP approach involves measuring the liability for the remaining coverage of a group of insurance contracts provided that, at the time of initial recognition, the entity expects that liability to reasonably represent an approximation of the General Model. Contracts with a coverage period of one year or less are automatically eligible for the PAA approach. The simplifications resulting from the application of the APP method do not apply to the measurement of liabilities for outstanding claims, which are measured with the General Model. However, you don't need to discount those cash flows if you expect the balance to be paid or collected to occur within one year from the date the claim occurred.

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

In addition, on December 9, 2021, the IASB published an amendment entitled *"Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information".* This amendment is a transitional option relating to comparative information on financial assets presented at the date of initial application of IFRS 17. The amendment has been applied as of January 1, 2023, together with the application of IFRS 17, to avoid temporary accounting mismatches between financial assets and liabilities of insurance contracts, and to improve the usefulness of comparative information for financial statement readers. The adoption of this standard and its amendment did not have any effect 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 entitled "Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction". The document clarifies how deferred taxes are to be accounted for on certain transactions that may generate assets and liabilities of the same amount, such as leasing and decommissioning obligations. The changes were effective January 1, 2023.

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

In data 12 Febbraio 2021 lo IASB ha pubblicato due emendamenti denominati “Disclosure of Accounting Policies—Amendments to IAS 1 and IFRS Practice Statement 2” e “Definition of Accounting Estimates—Amendments to IAS 8". Amendments to IAS 1 require an entity to disclose material information about the accounting policies applied by the Group. The amendments are aimed at improving the disclosure of the Group's accounting policies in order to provide more useful information to investors and other primary users of the financial statements, as well as to help companies distinguish changes in accounting estimates from changes in *accounting policies*. The changes were effective January 1, 2023.

Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules

On May 23, 2023, the IASB published an amendment called "Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules". The document introduces a temporary exception to the obligations to recognise and disclose deferred tax assets and liabilities relating to the Pillar Two Model Rules (the rule of which is in force in Italy as of December 31, 2023, but applicable from January 1, 2024) and provides for specific disclosure obligations for entities affected by the related International Tax Reform.

The document provides for the immediate application of the temporary exception, while the disclosure obligations are applicable only to annual financial statements started on or after January 1, 2023 but not to interim financial statements with a closing date prior to December 31, 2023; This Amendment does not apply to the Group.

Accounting standards, amendments and IFRS interpretations approved by the European Union as of December 31, 2023, not yet mandatory and not adopted in advance by the Group as of December 31, 2023

The following IFRS accounting standards, amendments and interpretations have been approved by the European Union but are not yet mandatory and have not been adopted in advance by the Group as of December 31, 2023:

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

On January 23, 2020, the IASB published an amendment called "Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current" and on October 31, 2022 it published an amendment called "Amendments to IAS 1 Presentation of Financial Statements: Non-Current Liabilities with Covenants". The purpose of these amendments is to clarify how to classify short-term or long-term debts and other liabilities. In addition, the amendments also improve the information that an entity must provide when its right to defer the extinguishment of a liability for at least twelve months is subject to compliance with certain parameters (i,e, covenants). The changes come into force from January 1, 2024; Early application is still permitted. The directors do not expect a material effect on the Group's consolidated financial statements from the adoption of this amendment.

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

On September 22, 2022, the IASB published an amendment called "Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback". The document requires the seller-lessee to assess the lease liability arising from a sale & leaseback transaction so as not to recognize a gain or loss that relates to the retained right of use. The changes will apply from January 1, 2024, but early enforcement is allowed. The directors do not expect a material effect on the Group's consolidated financial statements from the adoption of this amendment.

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

At the reference date of this document, the competent bodies of the European Union have not yet completed the approval process necessary for the adoption of the amendments and principles described below.

Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability

On August 15, 2023, the IASB published an amendment called "Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability". The document requires an entity to apply a methodology to be applied in a consistent manner in order to verify whether one currency can be converted into another and, when this is not possible, how to determine the exchange rate to be used and the disclosure to be provided in the notes to the financial statements. The change will apply from January 1, 2025, but an early application is allowed. The directors do not expect a material effect on the Group's consolidated financial statements from the adoption of this amendment.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements

The document requires an entity to provide additional information on reverse factoring arrangements that allow users of the financial statements to assess how financial arrangements with suppliers may affect the entity's liabilities and cash flows and to understand the effect of such arrangements on the entity's exposure to liquidity risk. The changes will apply from January 1, 2024, but an early application is allowed. The directors do not expect a material effect on the Group's consolidated financial statements from the adoption of this amendment.

IFRS 14 – Regulatory Deferral Accounts

On January, 30 2014, the IASB published IFRS 14 – Regulatory Deferral Accounts, which allows only those who adopt IFRS for the first time to continue to recognise amounts relating to activities subject to regulated tariffs ("Rate Regulation Activities") in accordance with the previous accounting standards adopted. Since the Group is not a first-time adopter, this principle does not apply.

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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.

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

Relevant information on the accounting principles and valuation criteria adopted for the preparation of the consolidated financial statements as at December 31, 2023 are set out below.

Basis of consolidation principals

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:

Entity	Country	City	Currency	Share capital (currency units)	% Share Owned
SIT S.p.A.	Italia	Padova	EUR	96,162,195	100
Metersit S.r.l.	Italia	Padova	EUR	1,129,681	100
SIT Controls BV	Olanda	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	Germania	Arnsberg	EUR	51,129	100
SIT Controls CR, S.r.o.	Rep, Ceca	Brno	CSK	1,500,000	100
SIT Manufacturing N.A. Sa de CV	Messico	Monterrey	MXN	172,046,704	100
SIT de Monterrey N.A. SA de CV	Messico	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	Cina	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	Portogallo	Lisbona	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	Tunisi	TND	200,000	100
Sit Metering S.r.l.	Italia	Padova	EUR	1,500,000	100
Metersit UK Ltd	Regno Unito	Manchester	GBP	150,000	100

Method of consolidation

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).

Currency	2023		2022	
	December 31, 2023	Average 2023	December 31, 2022	Average 2022
Mexican Peso	18.7231	19.1830	20.8560	21.1869
Argentinean Peso	892.9239	314.1127	188.5033	136.7767
Romanian Leu	4.9756	4.9467	4.9495	4.9313
US Dollar	1.1050	1.0813	1.0666	1.0530
Canadian Dollar	1,4642	1.4595	1.4440	1.3695
Czech Crown	24.7240	24.0043	24.1160	24.5659
Australian Dollar	1.6263	1.6288	1.5693	1.5167
Chinese Yuan	7.8509	7.6600	7.3582	7.0788
Tunisian Dinar	3.3936	3.3556	3.3221	3.2509
UK Sterling	0.8691	0.8698	0.8869	0.8528

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.

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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

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.

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 are capitalized under property, plant and equipment starting from the lease start date and measured at the fair value of the leased asset or, if lower, at the present value of the lease payments. A financial debt of the same amount is recognised as liabilities, the value of which is equal to the present value of future rents, discounted at the implied lease interest rate or at the marginal financing rate. This value is progressively reduced on the basis of the repayment plan of the capital portions included in the contractually stipulated rents.

The lease payments are divided between the principal and the interest portion, so that a constant interest rate is applied to the remaining balance of the debt (principal portion). Financial charges are charged to the income statement.

The assets are depreciated over the term of the lease contract.

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 are any indicators that an asset with definite useful life may be impaired, an entity shall consider internal and external information sources. Relating to internal sources, consideration is made of whether there have been significant changes in the use of the asset and whether the economic performance of the asset is different than expected. For external sources, consideration is taken of technological or market or regulation discontinuation which may reduce the value of the asset.

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

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

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

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

At each reporting date, an evaluation is made of any indicators of a recovery in the loss in value previously recorded and, where these indicators exist, an estimate is made of the recoverable value. The value of an asset previously written down, except for goodwill, may be restated only if there have been changes in the estimates used to determine the recoverable 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, 22	Increases	Disposals	Write-downs	Amortisation	Other movements	Translation differences	Balance at Dec. 31, 23
Goodwill	**87,946**	**-**	**-**	**(17,000)**	**-**	**-**	**-**	**70,946**
Development costs	4	331	-	-	(180)	573	-	727
Patent rights	9,588	409	(9)	-	(3,215)	143	-	6,924
Concessions, licences and trademarks	18,465	5	-	-	(1,668)	5	357	17,163
Other intangible assets	25,606	227	-	-	(4,021)	105	(0)	21,917
Intangible assets in progress and advances	1,614	3,258	-	-	-	(826)	3	4,050
Total other intangible assets	**55,276**	**4,230**	**(9)**	**-**	**(9,084)**	**-**	**360**	**50,781**
Total Goodwill and Other intangible assets	**143,222**	**4,230**	**(9)**	**(17,000)**	**(9,084)**	**-**	**360**	**121,727**

GOODWILL

At December 31, 2023, goodwill amounted to Euro 70,946 thousand.

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.
- Euro 17,000 thousand of write-downs as a result of impairment test on the Heating & Ventilation CGU carried out at June 30, 2023 during the preparation of the half-year financial report. As a result of the impairment test on the consolidated financial statements as at December 31, 2023, no further losses were recognized; please refer to the dedicated section for further details.

As a result of the above indicated write-down. Goodwill totalling Euro 70,946 thousand at June 30, 2023 was allocated to the Heating & Ventilation CGU for Euro 45,122 thousand, the Smart Gas Metering CGU for Euro 17,207 thousand, and the Water Metering CGU for Euro 8,617 thousand.

DEVELOPMENT COSTS

As of December 31, 2023, development costs amounted to Euro 727 thousand.

The item mainly consists of the capitalization of internal personnel costs by the company Metersit S.r.l., external consultancy and prototypes attributable to the Vision project in place with one of the company's main customers and concerning the design and supply of electronic gas meters with dual communication channels with additional functions.

In 2023 the costs for this project amounted to Euro 311 thousand, while Euro 573 thousand were part of fixed assets under construction in the previous year. In 2023, the first revenues relating to the project were realized, so that the amortization of Euro 177 thousand was carried out.

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, 2023, the residual value is Euro 3,524 thousand relating to the Heating & Ventilation sector and Euro 240 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, 2023, the residual value amounts to Euro 1,915 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 17,163 thousand is mainly attributable to the value of "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, 2023, the residual value is Euro 10,433 thousand relating to the Heating & Ventilation sector and Euro 1,964 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, 2023, the residual value amounts to Euro 1,427 thousand, amortised over 10 years.

Changes in the financial year are mainly related to amortisation.

OTHER INTANGIBLE ASSETS

This account, amounting to Euro 21,917 thousand, includes the residual value of the customer relationship identified, with reference to the Heating & Ventilation 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, 2023 amounted to Euro 15,179 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, 2023, the residual value is Euro 5,765 thousand and Euro 260 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.

INTANGIBLE ASSETS IN PROGRESS

Increases include development costs, which were capitalised during the year in relation to three new projects in the Smart Gas Metering segment for Euro 737 thousand and four new Heating & Ventilation projects for Euro 1,849 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.

Throughout 2023, the Heating market saw a significant slowdown in demand as a result of the absence of the sector incentives in place in 2022, in addition to the effects of inflation and the high interest rates on household spending capacity. This short-term dynamic is considered against the general backdrop of the energy transition toward electric heating appliances (e.g. heat pumps) in place of combustion appliances (gas boilers), which is a medium/long-term sector trend being monitored by the Company, both as an active participant in the public debate and in its relations with its technical and commercial partners. The Company in fact has at the same time taken into consideration the possible development of demand for its products and solutions and is investing in redefining its portfolio.

It should be noted that, during the preparation of periodic half-year report as at June 30, 2023, the Directors considered that the abrupt market slowdown and the related impact on the Group's economic performance, in a financial context conditioned by a high level of working capital (excess of inventory in the entire supply chain), constituted a so-called trigger event such as to make it necessary to carry put the impairment test on net invested capital as at June 30, 2023 of the two CGUs most affected by the phenomena mentioned: Heating & Ventilation and Smart Gas Metering.

The impairment test revealed the need to adjust the carrying amount of the goodwill of the Heating & Ventilation CGU to its recoverable amount by recording an impairment loss of Euro 17 million.

As at December 31, 2023, goodwill therefore amounted to Euro 70,946 thousand and was allocated to the Heating & Ventilation CGU for Euro 45,122 thousand, to the Smart Gas Metering CGU for Euro 17,207 thousand and to the Water Metering CGU for Euro 8,617 thousand.

During the preparation of the annual financial report as at December 31, 2023, the Directors subjected the aforementioned goodwill to impairment tests, the tests were submitted for approval by the Board of Directors on April 24, 2024 following an analysis by the Control, Risks & Sustainability Committee on April 22, 2024.

The cash flows supporting the impairment test are based on the 2024-2027 business plan drawn up by Management and approved by the Board of Directors on February 29, 2024, appropriately adjusted to take into account the requirements of IAS 36. This plan represents an update of the business plan approved on September 15, 2023.

The PAM 2024-2027 business and financial plan presents the revised Group guidelines within the changed environment, which takes account of the expected domestic gas heating market contraction as a result of the ongoing technological transition. These guidelines are mainly based on the introduction and development of new products in growth sectors, such as heat pumps, controlled mechanical ventilation, and range hood ventilation, which leverage existing Group technologies and markets that require specific investments for product development. Similarly, growth of product segments and markets where combustion shall remain prevalent is expected (commercial applications, both natural gas and hydrogen). Finally, the plan reflects the expected recovery of the US market, currently contracting in view of general economic conditions in the gas fireplace segment, and as a result of the damage to image caused by the above water heating segment dispute.

Metering development guidelines, both for Smart Gas Metering and Water Metering, are similarly defined and based on the significant investments that the sector utilities are scheduling and deploying for the digitalisation and modernisation of distribution networks.

The updated plan incorporates the main risk elements highlighted by a leading strategic consulting firm, which analysed the underlying strategic rationales and the main risk profiles inherent in the development of revenues.

In particular, the methodology adopted by the independent consultant involved was based on the definition of a Market risk and an Execution Risk, Market risk has broken down the main drivers underlying demand, including the risks associated with the so-called "Climate change", the impact of which has been analysed both for the main geographies of interest and for product segments. In addition, in the area of Market risk, was identified the impact related to the evolution of sector regulations – in the EU and in the main countries of interest to the Group – closely linked to the Climate Change risk.

The plan has been subject to an Independent Business Review ("IBR") as part of negotiations with the credit institutions referred to in the " Going Concern" section of these explanatory notes; this activity did not reveal any elements of unreasonableness regarding the main assumptions underlying the evolution of the revenues envisaged in the plan. In addition, in order to carry out the impairment test, the Company availed itself of the support of a leading independent accounting and auditing firm, which analysed the methodology used and the calculations carried out, issuing a favourable opinion on the results that emerged.

The Company's intent, both with reference to the IBR carried out on the plan and to the external support in the preparation of the impairment test, was to avail itself, where possible, of the support of independent third parties in the verification of the estimates made and the methodologies applied. The Directors, however, point out that the plan in question is based on a set of assumptions that also include assumptions relating to future events that are not necessarily likely to occur in the time and manner envisaged.

The parameters used to carry out the impairment tests on the Group's GCUs are shown below.

Heating & Ventilation CGU

The growth rate (g) is assumed to be 2.1%.

The Heating CGU’s WACC was estimated by assuming:

- Risk free rate: calculated as a weighted average, based on a half-year period, of the specific risk free rates of the individual countries in which SIT operates, using the CGU's projected budgeted revenues for the year 2024 in the relevant country as a weighting;
- Market equity risk premium: assumed to be 5.50% based on the latest findings of the independent consulting firm Kroll and the latest broker reports studies;
- Beta unlevered: calculated as the average value of a panel of listed companies deemed comparable to the CGU's business;
- Additional risk premium: in line with the impairment test carried out in the 2023 half-year report, it was deemed appropriate to include execution risk, confirming 1.5% as an additional premium;
- Reference rate for calculating the cost of debt: assumed to be equal to the average, on a half-year basis, of the Euribor interbank rate with a 10-year maturity;

- Estimated spread: calculated based on the average value of market credit spreads of the panel of comparable companies used to estimate the Beta;
- Financial structure: calculated based on the average value of the financial structures of the panel of comparable companies used to estimate the Beta.

The resulting discount rate (WACC) of 10.60% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk.

At the end of the Impairment process, the estimated recoverable value for the CGU, equal to Euro 210.4 million, is sufficient to guarantee *Headroom* with respect to the book values recorded in the financial statements as at 31.12.2023 (Euro 200.7 million) for Euro 9.7 million.

Considering the assumptions described above, as of the preparation date of the Financial Statements, the recoverable value of the net invested capital of the Heating & Ventilation CGU is higher than the net carrying amounts and therefore there are no indications that goodwill or other intangible assets may have suffered further impairment losses.

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 following table summarises this sensitivity:

			WACC	
		10.87%	**10.62%**	**10.37%**
	2.36%	8.6	15.0	21.9
g rate	**2.11%**	3.6	**9.7**	16.2
	1.86%	(1.1)	4.7	10.9

The break-even WACC, i.e. the discount rate for which the *headroom* is reduced to zero, is 11.0%.

It should also be noted that the percentage reduction in expected cash flows for each year of the plan, and in the terminal value, which, taking into account the other parameters used to carry out the test, would bring the Headroom to 0 is equal to 4.6%.

Smart Gas Metering CGU

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

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

- Risk free rate: calculated as a weighted average, based on a half-year period, of the specific risk free rates of the individual countries in which SIT operates, using the CGU's projected budgeted revenues for the year 2024 in the relevant country as a weighting;
- Market equity risk premium: assumed to be 5.50% based on the latest findings of the independent consulting firm Kroll and the latest broker reports studies;
- Beta unlevered: calculated as the average value of a panel of listed companies deemed comparable to the CGU's business;
- Additional risk premium: equal to 2.5%, consistent with previous Impairment exercises;
- Reference rate for calculating the cost of debt: assumed to be equal to the average, on a half-year basis, of the Euribor interbank rate with a 10-year maturity;
- Estimated spread: calculated based on the average value of market credit spreads of the panel of comparable companies used to estimate the Beta;
- Financial structure: calculated based on the average value of the financial structures of the panel of comparable companies used to estimate the Beta.

The resulting discount rate (WACC) of 11.5% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk.

As a result of the impairment process, the estimated recoverable value of Euro 50.7 million for the CGU is sufficient to ensure Headroom compared to the carrying amounts recorded in the financial statements at 31.12.2023 (Euro 45.1 million) for Euro 5.6 million.

Considering the assumptions described, at the date of preparation of the Financial Statements, the recoverable amount of the net invested capital of the Smart Gas Metering CGU is higher than the net carrying amounts and therefore there are no indications that goodwill or other intangible assets may have suffered impairment losses.

A sensitivity table is also showing the trend of the *Headroom* between *the Recoverable Amount* and the book value of the CIN as a function of the WACC and the g-rate.

		WACC		
		11.72%	**11.47%**	**11.22%**
	2.25%	5.3	6.8	8.3
g rate	**2.00%**	4.2	**5.6**	7.0
	1.75%	3.1	4.4	5.8

The break-even WACC, i.e. the discount rate for which the *headroom* is reduced to zero, is 12.6%.

It should also be noted that the percentage reduction in cash flows expected for each year of the plan, and in the terminal value, which, taking into account the other parameters used to carry out the test, would bring the Headroom to 0 is equal to 11.0%.

Water Metering CGU

The growth rate (g) is assumed to be 1.8%.

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

- Risk free rate: calculated as a weighted average, based on a half-year period, of the specific risk free rates of the individual countries in which SIT operates, using the CGU's projected budgeted revenues for the year 2024 in the relevant country as a weighting;
- Market equity risk premium: assumed to be 5.50% based on the latest findings of the independent consulting firm Kroll and the latest broker reports studies;
- Beta unlevered: calculated as the average value of a panel of listed companies deemed comparable to the CGU's business;
- Additional risk premium: equal to 1.5%, consistent with previous Impairment exercises;
- Reference rate for calculating the cost of debt: assumed to be equal to the average, on a half-year basis, of the Euribor interbank rate with a 10-year maturity;
- Estimated spread: calculated based on the average value of market credit spreads of the panel of comparable companies used to estimate the Beta;
- Financial structure: calculated based on the average value of the financial structures of the panel of comparable companies used to estimate the Beta.

The resulting discount rate (WACC) is 10.5% and reflects market valuation estimates, the cost of money and takes into account specific risk and industry at the reference date.

At the end of the impairment process, the estimated recoverable value for CGU, equal to Euro 36.0 million, is sufficient to guarantee *Headroom* with respect to the book values recorded in the financial statements as at 31.12.2023 (Euro 30.5 million) for Euro 5.5 million.

Considering the assumptions described, at the date of preparation of the Financial Statements, the recoverable amount of the net invested capital of the Water Metering CGU is higher than the net carrying amounts and therefore there are no indications that goodwill or other intangible assets may have suffered impairment losses.

A sensitivity table is also showing the trend of the *Headroom* between *the Recoverable Amount* and the book value of the CIN as a function of the WACC and the g-rate.

		WACC		
		10.75%	**10.50%**	**10.25%**
g rate	**2.09%**	5.0	6.0	6.9
	1.84%	4.6	**5.5**	6.4
	1.59%	4.2	5.1	6.0

The break-even WACC, i.e. the discount rate for which the *headroom* is reduced to zero, is 12.4%.

It should also be noted that the percentage reduction in expected cash flows for each year of the plan, and in the terminal value, which, taking into account the other parameters used to carry out the test, would bring the Headroom to 0 is equal to 15.3%.

Note 2: Property, plant and equipment

Changes in property, plant and equipment for the year 2023 are summarised in the table below:

(Euro,000)

	Historical cost at Dec. 31, 22	Accum. Deprec. at Dec. 31, 22	Balance at Dec. 31, 22	Of which "Right-of-use" IFRS 16	Historical cost at Dec. 31, 23	Accum. Deprec. at Dec. 31, 23	Balance at Dec. 31, 23	Of which "Right-of-use" IFRS 16
Land & buildings	57,233	(27,960)	29,273	9,731	56,070	(29,855)	26,215	8,127
Property, plant and equipment	154,370	(123,070)	31,299	-	160,159	(131,705)	28,453	-
Industrial & commercial equipment	107,675	(96,989)	10,686	1,253	110,679	(99,829)	10,850	1,323
Other assets	14,961	(9,925)	5,036	3,557	15,377	(10,516)	4,860	3,393
Assets in progress and advances	29,823	-	29,823	-	34,891	-	34,891	-
Total property, plant and equipment	**364,062**	**(257,944)**	**106,118**	**14,541**	**377,176**	**(271,906)**	**105,270**	**12,843**

The following tables outline the changes in the historic cost and accumulated depreciation in 2023 by category.

HISTORICAL COST

(Euro,000)

	Historical cost at Dec. 31, 22	Of which "Right-of-use" IFRS 16	Increases	Disposals	Other movements	Translation differences	Historical cost at Dec. 31, 23	Of which "Right-of-use" IFRS 16
Land & buildings	57,233	14,194	606	(1,070)	157	389	56,070	13,290
Property, plant and equipment	154,370	-	3,781	(1,108)	2,000	1,115	160,159	-
Industrial & commercial equipment	107,675	2,912	3,599	(3,980)	3,192	194	110,679	2,691
Other assets	14,961	7,238	1,381	(1,217)	170	82	15,377	7,172
Tangible Assets in progress and advances	29,823	-	10,549	-	(5,518)	38	34,891	-
Total Property, plant and equipment	**364,062**	**24,343**	**19,916**	**(7,375)**	**-**	**1,818**	**377,176**	**23,152**

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 the period 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, 2022 were in progress and which in 2023 became fixed assets to be depreciated.

ACCUMULATED DEPRECIATION

(Euro,000)

	Provision at Dec. 31, 22	Of which "Right-of-use" IFRS 16	Deprec.	Disposals	Translation differences	Balance at Dec. 31, 23	Of which "Right-of-use" IFRS 16
Acc, Depr, Land & buildings	(27,960)	(4,463)	(2,602)	997	(291)	(29,855)	(5,163)
Acc, Depr, Property, plant and equipment	(123,070)	-	(8,886)	1,108	(857)	(131,705)	-
Acc, Depr, Industrial & commercial equipment	(96,989)	(1,659)	(6,415)	3,757	(182)	(99,829)	(1,367)
Acc, Depr, Other assets	(9,925)	(3,681)	(1,665)	1,150	(77)	(10,516)	(3,779)
Tangible Assets in progress and advances	-	-	-	-	-	-	-
Total accumulated depreciation Property, plant and equipment	**(257,944)**	**(9,803)**	**(19,568)**	**7,012**	**(1,406)**	**(271,906)**	**(10,309)**

Property, plant and equipment were depreciated at December 31, 2023 at the following rates:

	Rate
Land & buildings	53.25%
Plant & machinery	82.23%
Industrial and commercial equipment	90.20%
Other assets	68.39%
Leasing	44.53%

WRITE-DOWNS

The account at December 31, 2023 amounts to 1,244 thousand Euro, of which 1,002 thousand Euro relates to the partial write-down of the building of the Parent Company's current headquarters in view of the planned move to the new headquarters under construction and 242 thousand Euro to the partial write-down of the *Right of use* relating to the lease of the production plant of the subsidiary Sit Controls B.V. as a consequence of the ongoing corporate reorganization process. For further information, please refer to the Directors' Report.

Note 3: Equity investments

The following table reports the movements in 2023 in the investments account.

(Euro,000)

Equity investments	Balance at 31/12/2022	Increases in the period	Decreases in the period	Other changes	Balance at 31/12/2023
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 (ex IMER)	1	-	-	-	1
Upsens srl	300	-	-	-	300
Hybitat srl	-	2	-	-	2
Aquametric Solutions SA	-	25	-	-	25
Conthidra S. L.	280	-	-	-	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 equity investments	**630**	**27**	**-**	**-**	**657**

In December 2023, the subsidiary Metersit S.r.l. subscribed 49.996% of the share capital of the company Aquametric Solutions SA, based in Lisbon and having as its object the design, production and sale of advanced water meters for domestic use. The incorporation of the company was completed on January 15, 2024.

The increase of Euro 2 thousand refers to the subscription of 20% of the share capital of Hybitat S.r.l. established on July 7, 2023.

Note 4: Current and non-current financial assets

The breakdown of financial assets at December 31, 2023 is as follows:

(Euro,000)	31-dic-23	31-dic-22
Guarantee deposits	335	325
Restricted deposit account - long term	1,000	1,500
Long-term participatory financial instruments	150	-
Long-term derivative financial instruments	1,049	3,361
Non-current financial assets	**2,533**	**5,186**
Short-term deposits	4,250	3,450
Restricted deposit account - short term	498	500
Short-term derivative financial instruments	1,883	2,319
Other current financial assets	**6,630**	**6,269**

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.

PARTICIPATORY FINANCIAL INSTRUMENTS

The item, equal to Euro 150 thousand, refers to the equity financial instruments issued by Hybitat S.r.l. and subscribed by the Company. Following the establishment of Hybitat S.r.l., the shareholders SIT S.p.A., and eNovia S.p.A. have committed to ensure that in the first 36 months from the date of establishment, the Board of Directors will offer up to 80,000 participatory financial instruments (SFP) for subscription to shareholders (in equal measure) at a price of 100 euro each. These financial instruments give shareholders an option right to subscribe to a capital increase with the aim of implementing the business plan and achieving the related milestones.

As of December 31, SIT had subscribed 1,500 SFP for a total value of Euro 150 thousand. It should be noted that SIT has committed (as well as its shareholder eNovia S.p.A.) to subscribe at least 29,000 SFP within 36 months from the date of incorporation (of which 12,000 SFP within 18 months and 17,000 SFP within the following 18 months).

DERIVATIVE FINANCIAL INSTRUMENTS (SHORT AND MEDIUM TO LONG TERM)

The value of derivative financial instruments as of December 31, 2023 amounted to a total of Euro 2,932 thousand and includes:

- 1,883 thousand euros relating to the current portion of IRS contracts on existing loans, of which 1,543 thousand euros relating to the 2021 SFA loan, 136 thousand euros relating to the Unicredit loan and 204 thousand euros to the current portion of the IRS contract on the loan entered into with Cassa Depositi e Prestiti S.p.A..
- 1,049 thousand euros relating to the non-current portion of IRS contracts on existing loans, of which 961 thousand euros relating to the 2021 SFA loan, 22 thousand euros relating to the Unicredit loan and 66 thousand euros to the current portion of the IRS contract on the loan entered into with Cassa Depositi e Prestiti S.p.A..

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 3,100 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.

Note n. 5: Deferred tax assets

Details of the temporary differences and the consequent deferred tax assets as at December 31, 2023 and December 31, 2022 are provided below, based on the breakdown by nature of the temporary differences:

(Euro,000)	Changes IRES	Changes IRAP	IRES tax effect	IRAP tax effect
Employee provisions	7,479	4,525	1,811	176
Other risk and charges provisions	3,121	1,944	820	76
Costs deductible in future years	2,268	-	680	-
Write-down of inventories	4,046	2,788	1,046	109
Deprec. suspended on revaluations	171	171	41	7
Tax losses	43,165	-	11,018	-
Non-deductible interest	1,228	-	295	-
Write-down of tangible fixed asset	1,002	1,002	241	39

Other & overseas	2,055	49	571	2
Inter-company transactions	6,740	6,740	1,618	263
Unrealised foreign exchange losses	259	-	62	-
Total	**71,533**	**17,220**	**18,202**	**672**

Balance as of 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**

The tax effect on IFRS16 leases is equal to 1,121 thousand euros of deferred assets and 1,026 thousand euros of deferred tax liabilities. Deferred tax assets were recognised on the basis of the directors' assessment that there is a probability that the Group's entities will be able to generate taxable income in future years sufficient for their recoverability over a time horizon of approximately 6 years.

Current assets

Note 6: Inventories

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

(Euro,000)	December 31, 2023	December 31, 2022
Raw materials, ancillary and consumables	49,700	52,549
Work-in-progress and semi-finished goods	18,235	17,204
Finished products and goods	15,362	20,938
Advances to suppliers	17	661
Inventories	**83,315**	**91,352**

The movements in the inventory obsolescence provision were as follows:

(Euro,000)	December 31, 2023
Obsolescence provision 31/12/2022	**3,744**
Utilisation in the period	(662)
Provision for the period	2,170
Exch, diff.	23
Obsolescence provision 31/12/2023	**5,274**

The provision reflects the reduced value of inventories due to obsolescence, slow movements 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)	December 31, 2023	December 31, 2022
Trade receivables	63,126	65,440
Receivables from companies of the Group	20	-
Trade receivables from holding company	1,053	609
Trade receivables from companies subject to control of holding company	-	18
Current trade receivables	**64,200**	**66,067**
Doubtful debt provision	(741)	(2,267)
Trade receivables	**63,459**	**63,800**

TRADE RECEIVABLES

They refer to the direct commercial relationships that the Group has with customers, net of non-recourse receivables assignment transactions of Euro 4,676 thousand carried out by the Group and referring to transactions carried out by the Parent Company with its customers and Euro 1,288 thousand to customers of the Romanian subsidiary.

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 with equity method.

DOUBTFUL DEBT PROVISION

The doubtful debt provision amounts to Euro 741 thousand, with the movements in 2023 reported in the following table:

(Euro,000)	December 31, 2023
Doubtful debt provision 31/12/2022	**(2,267)**
Utilisation in the period	1,812
Provision for the period	(285)
Exchage Rate effect	-
Doubtful debt provision 31/12/2023	**(741)**

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, 2023					
Trade receivables	54,325	4,942	2,028	1,832	63,126
December 31, 2022					
Trade receivables	55,323	4,982	2,144	2,991	65,440

Note 8: Other current assets

The account is broken down as follows:

(Euro,000)	December 31, 2023	December 31, 2022
Tax receivables	8,945	6,407
Advances	1,022	1,476
Prepayments and accrued income	1,325	1,228
Other receivables	1,296	1,194
Income tax receivables	1,519	2,204
Employee receivables	1	1
Social security institution receivables	156	87
Other current assets	**14,264**	**12,597**

TAX RECEIVABLES

The breakdown is as follows:

(Euro,000)	December 31, 2023	December 31, 2022
VAT receivables	3,936	4,165
Group VAT receivables	2,193	469
Withholding taxes	2,817	1,773
Total tax receivables	**8,945**	**6,407**

VAT RECEIVABLES

The VAT balance includes Euro 1,905 thousand relating to the subsidiary SIT Manufacturing N.A.S.A. de C.V. which, in force of the regulatory changes introduced by the local government in 2020, excluded the possibility of offsetting the VAT credit balance with the current tax liability. The subsidiary applied to the State for reimbursement and obtained partial compensation. The balance also includes 1,840 thousand euros, relating to the subsidiary JANZ.

GROUP VAT RECEIVABLES

In tax year 2020, SIT Technologies S.p.A., SIT S.p.A., SIT Immobiliare S.p.A. and Metersit S.r.l. 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. SIT Metering srl in 2022 also joined the Group VAT procedure. The amount of Euro 2,193 thousand concerns the net receivable of the companies SIT S.p.A., and Metersit S.r.l. from SIT Technologies S.p.A., respectively of Euro 680 thousand and Euro 1,513 thousand.

WITHHOLDING TAX RECEIVABLES

Withholding tax receivables of Euro 2,817 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 Italian Revenue Agency on the calculation of the economic contribution of intangible assets (the so-called optional Patent Box regime), during the year the Parent Company submitted supplementary returns for the tax periods covered by rulings, making use of the option to calibrate the use of losses carried forward and the ACE deduction, which resulted in a significant recovery of receivables for withholding taxes incurred abroad.

PREPAYMENTS AND ACCRUED INCOME

At December 31, 2023, accruals 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, 2023, this item consists primarily of:

- Euro 1,147 thousand relating to the tax credit accrued for research, development and technological innovation activities (Budget Law 2020 No. 160/2019), of which Euro 718 thousand pertaining to the Parent Company and Euro 429 thousand pertaining to the subsidiary Metersit S.r.l.;
- Euro 96 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 90 thousand pertaining to the Parent Company SIT S.p.A., and Euro 6 thousand pertaining to the subsidiary Metersit S.r.l.;
- Euro 223 thousand relating to the tax credit on new capital goods 4.0 (Law no. 160/2019 and Law no. 178/2020) held by the parent company SIT S.p.A..

Note 9: Tax receivables

The account concerns income tax receivables, as follows:

(Euro,000)	December 31, 2023	December 31, 2022
IRES receivables	1,537	563
IRAP receivables	678	671
Receivable from holding company for tax consolidation	592	829
Current tax receivables	946	217
Tax receivables	**3,752**	**2,280**

The amount of Euro 592 thousand refers to the IRES transferred to the parent company SIT Technologies S.p.A. by the subsidiaries SIT S.p.A., Metersit s.r.l. and SIT Metering 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)	December 31, 2023	December 31, 2022
Cash in hand and similar	21	18
Bank and postal deposits	8,680	23,517
Cash and cash equivalents	**8,700**	**23,535**

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, 2023 to Euro 96,162 thousand, comprising 25,110,209 shares without express nominal value. The classes of shares issued by the company are reported below.

Shares	No. shares	% of share capital	Listing
Ordinary Shares	25,110,209	100.0%	Euronext

It should be noted that 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

The composition of Reserves is as follows:

(Euro,000)	December 31, 2023	December 31, 2022
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	19,232
Treasury shares reserve	(6,733)	(6,733)
Cash flow hedge reserve	2,217	4,219
Actuarial reserve	(225)	(214)
Extraordinary reserve	24,726	1,721
Translation reserve	(2,315)	(4,328)
LTI reserve	2,073	1,053
Retained earnings/(accumulated losses)	4,401	16,196
Total profit reserves	**43,376**	**31,146**
Total reserves	**70,351**	**58,121**

SHARE PREMIUM RESERVE

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

CAPITAL PAYMENT RESERVE

The shareholders' capital payment reserve, amounting to Euro 16,615 thousand, did not change during the year.

LEGAL RESERVE

The legal reserve of Euro 19,232 thousand did not change during the year.

TREASURY SHARES RESERVE

The treasury shares reserve amount to Euro 6,733 thousand and did not change during the year. 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, 2023, 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, 2023, the item includes the fair value of the 3 new plans and the relative allocations in the year for Euro 2,073 thousand. For further details, reference should be made to Note 37.

CASH FLOW HEDGE RESERVE

The cash flow hedge reserve at December 31, 2022 is recorded as a positive value of Euro 4,219 thousand, net of the Euro 1,350 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, 2023 had a positive value of Euro 2,917 thousand, net of the tax effect of Euro 700 thousand.

ACTUARIAL RESERVE

At December 31, 2023, the actuarial reserve was negative for Euro 225 thousand and derives from the effects of discounting post-employment benefits.

EXTRAORDINARY RESERVE

The extraordinary reserve as of December 31, 2022 amounted to Euro 1,721 thousand; during the year it increased by Euro 23,005 thousand as a result of the allocation of the previous year's profit of Euro 11,213 thousand and the allocation of retained earnings (losses) of Euro 11,792 thousand.

RETAINED EARNINGS (ACCUMULATED LOSSES)

At December 31, 2023, the account is positive for Euro 4,401 thousand compared to Euro 16,196 thousand at December 31, 2022.

The difference is negative for Euro 11,795 thousand euros, of which Euro 11,792 thousand are allocated to extraordinary reserves and Euro 3 thousand are related to other movements.

Non-current liabilities

Note n. 13: Medium/long-term loans and borrowings

The breakdown of the account at December 31, 2023 is illustrated below:

(Euro,000)	31-dic-23	31-dic-22
Non-current loans	58,326	78,250
Non-current loans - ammortized cost	(144)	(282)
Medium/long-term loans and borrowings	**58,182**	**77,968**

As of December 31, 2023, non-current loans represent the value of the non-current financial debts signed by the Company with financial institutions.

During the 2023 financial year, due to the persistence of the negative economic situation in the Heating & Ventilation business, it became apparent that the Company was unable to meet certain commitments to repay loans scheduled for the end of the year and financial covenants. Against this prospect, the Company promptly entered into the necessary discussions with its lenders to reach an agreement on these commitments, signing an extension and standstill agreement on December 29, 2023.

This agreement extends to April 30, 2024 the repayment of the principal portions maturing on December 31, 2023, providing instead for the regular payment of interest. The Agreement also entails the waiver by the lenders to assert certain rights and precautionary actions due to them, as a result of the extension in question and the failure, to comply with the contractual financial parameters as of December 31, 2023.

The agreement commits the Company to certain periodic disclosure obligations relating to cash forecasts and the evolution of short-term debt, as well as prohibiting new financial debt beyond that existing at the date of signature and limiting short-term financial debt within a certain threshold.

The Company has also undertaken to provide lenders with an update of the business plan to be submitted to an independent business review by February 28, 2024, documents that have supported the further discussions that have begun in the meantime with the banking sector for the renegotiation of the financial profile of the debt and the consequent revision of the financial parameters as the parameters provided for by the current contracts are not compatible with the outlook short- and medium-term income and financial performance of the Group, The terms of the renegotiation completed on April 22 and 23, 2024 are set out in the " Going Concern" section of these explanatory notes.

The financing operations included in the extension and standstill agreement, the non-current portions of which are shown in the table above, also as a result of the agreement itself, are as follows:

1. for Euro 45,000 thousand to the 2021 Senior Financial Agreement (SFA 2021) that the Company signed on August 6, 2021 with a pool of banks, the main characteristics of which are:
    - original amount of Euro 90,000 thousand, with a maturity of 5 years maturing on June 30, 2026; repayment according to an amortization schedule in predetermined semi-annual installments starting 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 performance of the so-called Leverage ratio – an indicator consisting of the ratio between net financial position and EBITDA. During 2023, the average net interest income was 1.81%; the margin is also determined on the basis of a sustainability rating ("ESG") issued by the international agency EcoVadis;
  - The financial liability is measured at amortised cost.

  The loan agreement provides for the option of early repayment without penalties and the absence of collateral, As usual in similar transactions, it provides for a series of commitments by the Company such as the prohibition, except within the limits provided therein, to take on further debt and provide the related guarantees (negative pledge) as well as limits on the distribution of dividends and asset sales or business disposals. Financial covenants are envisaged, to be calculated at the level of the consolidated financial statements on a half-yearly basis: (i) the ratio between net financial position and EBITDA and (ii) the ratio between EBITDA and net financial expenses, all of which are to be calculated according to the definitions set out in the contract itself. The limit values of these covenants for the year ended December 31, 2023 are 3.00x and 5.0x, respectively, values that have not been complied with due to the economic and financial performance of the year but are subject to waivers pursuant to the extension and standstill agreement described above.

The nominal residual amount as of December 31, 2023 amounts to a total of 67,500 thousand euros, of which 45,000 thousand euros for the non-current portion and 22,500 thousand euros for the current portion. The amount remaining at amortised cost as of December 31, 2023 amounts to a total of 67,217 thousand euros, of which the non-current portion amounts to 44,856 thousand euros and the current portion amounts to 22,361 thousand euros.

1. 7,500 thousand euros to the loan signed on March 11, 2022 with Cassa Depositi e Prestiti S.p.A., the main characteristics of which are:

- original amount of Euro 15,000 thousand, due on 31/12/2026, repayment according to an amortization schedule in predetermined semi-annual installments starting from June 30, 2023;
- interest rate indexed to 6-month Euribor, plus a margin of 1.24%.

Financial covenants are envisaged, to be calculated at the level of the consolidated financial statements on a half-yearly basis: (i) the ratio between net financial position and EBITDA and (ii) the ratio between net financial position and shareholders' equity, all of which are to be calculated according to the definitions set out in the contract itself. The limit values of these covenants for the year ended December 31, 2023 are 3.00x and 1.5x, respectively. The ratio of net financial position to EBITDA, due to the economic and financial performance of the year, was not respected but subject to waiver pursuant to the extension and standstill agreement described above.

2. Euro 5,000 thousand to the loan signed on May 31, 2022 with Unicredit S.p.A., the main characteristics of which are:

- original amount of Euro 10,000 thousand, due on May 31, 2025, repayment according to an amortization schedule of 6 semi-annual installments, the first 5 of Euro 1,000 thousand starting from November 30, 2022, the last of Euro 5,000 thousand on May 31, 2025;

- interest rate indexed to the 6-month Euribor, plus a margin determined on the basis of a grid defined by the ratio of net financial position to EBITDA. During 2023, the average net interest income was 1.30%;

Financial covenants are envisaged, to be calculated at the level of the consolidated financial statements on an annual basis: (i) the ratio between net financial position and EBITDA and (ii) the ratio between EBITDA and net financial expense, all of which are to be calculated according to the definitions set out in the contract itself. The limit values of these covenants for the year ended December 31, 2023 are 3.00x and 5.0x, respectively. Also for this financing, the values of the covenants have not been complied with but subject to waiver pursuant to the extension and standstill agreement described above.

The following financing transactions, the non-current portions of which are shown in the table above, were not included in the extension and standstill agreement, while the payment of repayment instalments and financial charges continued as normal:

1. Euro 645 thousand to the loan signed on February 3, 2023 with Banca BPER S.p.A., the main characteristics of which are:
   - original amount of Euro 5,000 thousand, due on February 3, 2025, repayment according to an amortization schedule of 8 constant quarterly installments, starting from May 3, 2023;
   - interest rate indexed to 3-month Euribor, plus a margin of 1.25%;
   - There are no financial covenants.
2. Euro 181 thousand to a credit facility called "Revolving Credit Facility" granted on September 27, 2023 by Banca Monte dei Paschi di Siena S.p.A. to support specific investment initiatives, the main features of which are:
   - amount that can be used up to Euro 4,000 thousand in one or more instalments, with availability that can be reinstated with subsequent repayments; the final refund must be made by the deadline of October 1, 2025;
   - interest rate indexed to 6-month Euribor, plus a margin of 1.00%; there is a commission on the agreement of 0.25% quarterly;
   - There are no financial covenants.

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

A breakdown of this item at December 31, 2023 is provided below:

(Euro,000)	December 31, 2023	December 31, 2022
Other non-current financial liabilities	1,297	1,986
Bond loan – non-current portion	39,605	39,520
Derivates financial instruments (non-current portion)	-	-
Non-current financial lease payables - IFRS 16	10,532	12,047
Other non-current financial liabilities and derivative financial instruments	**51,434**	**53,553**

OTHER NON-CURRENT FINANCIAL LIABILITIES

The amount at December 31, 2023 includes Euro 1,275 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 22 thousand (of which Euro 15 thousand relating to SIT S.p.A., and Euro 7 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 contractual clauses, so-called financial covenants, to be calculated at the level of the consolidated financial statements on a half-yearly 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.

In view of the reduction in sales during the year and the consequent evolution of the Group's economic and financial dynamics, the prospective impossibility of complying with the contractual covenants of the transaction in question led the Company to sign, on December 29, 2023, also with the subscribers of the bond loan, an agreement to derogate and redefine the aforementioned financial parameters, which as of December 31, 2023 had been complied with.

As part of the agreement, the Company has undertaken to provide by February 28, 2024 an update of the business plan to be submitted for *independent business review*, documents that supported the aforementioned discussions with the banking sector for the renegotiation of the financial profile of the debt referred to in Note 13, and the revision of the financial parameters in line with the updated short- and medium-term income and financial outlook for the Group.

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, 2022	Provisions	Utilisations	Release	Dec. 31, 2023
Agents indemnity provision	154	-	-	-	154
Other risks provision	12,447	3,427	(6,701)	(225)	8,948
Product warranty provision	1,243	309	(142)	-	1,410
Total provisions for risks and charges	**13,844**	**3,737**	**(6,843)**	**(225)**	**10,513**

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

Below is a breakdown of the main items that make up the fund:

- Euro 2,255 thousand for the reorganization of the Dutch company Sit Controls B.V. aimed at the sale of the production business unit to the Parent Company SIT S.p.A., which will be completed during the 2024 financial year. The cost relates to the costs that the group will have to bear mainly for the exit of employees belonging to the production area, as well as the costs of training and *outplacement* agreed locally with the trade unions;

- Euro 2,479 thousand refers to the subsidiary Metersit S.r.l. and represents the best estimate of the disposal costs in the years to come of the batteries inserted in the meters sold up to the balance sheet date. The provision for the year, amounting to 281 thousand euros, takes into account the discounting effect of cash flows, using a pre-tax discount rate. In the same period, the fund decreased due to the use of Euro 18 thousand.
- Euro 735 thousand referred to the subsidiary Metersit S.r.l for the coverage of specific claims and risks relating to the reasonable estimate of potential penalties (Euro 42 thousand) accrued on the basis of contractual provisions due to delays in the supply of products to the company's main customers. The provision is increased by a provision of 154 thousand euros and a release of 109 thousand euros, the latter amount relating to a provision for which the period covered by the replacement under warranty has elapsed. During the year, the provision made for the previous year for a legal dispute was partially used for 4 thousand euros, while the remaining unused 86 thousand euros was released as there were no conditions that justified its maintenance.
- Euro 671 thousand to hedge the risks over ongoing disputes with the Parent Company’s customers, whose risk of loss is highly probable. The decrease during the year, amounting to 57 thousand euros, relates to specific complaints granted to customers for 47 thousand euros, as well as a release of the provision, equal to 10 thousand euros, for the loss of obligations to customers for potential indemnities provided for in the contract;
- Euro 1,133 thousand relating to the costs of the reclamation of a plot of land owned by the Company. During the year, 152 thousand euros were used for costs incurred for remediation activities and, at the same time, 434 thousand euros were set aside;
- Euro 1,149 thousand referring to an out-of-court settlement signed in early 2023 with a customer against the alleged defectiveness of a certain number of valves supplied by the Mexican subsidiary and installed on products sold on the American market. The original amount, equal to 7,462 thousand euros, was used during the first months of 2023 for a total of 6,405 thousand euros against the payment of the agreed compensation, as well as the payment of ancillary legal costs. The open amount refers to the portion of the provision recorded as a guarantee for any new disputes that may be made by end customers by January 2025, as provided for in the agreements signed with the counterparty.

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 represents the estimated future charges relating to the subsidiary Janz on meters sold up to the date of the financial statements. The value of the fund is in line with the previous year;
- Euro 965 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 167 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 periods to December 31, 2023 and to December 31, 2022 were as follows:

(Euro,000)	December 31, 2023	December 31, 2022
Net liabilities for employee benefits	4,628	4,649
Liabilities for retention or other	468	444
Net liabilities for employee defined benefits	**5,096**	**5,093**

The movements in post-employment benefits were as follows:

(Euro,000)	December 31, 2023	December 31, 2022
Post-em. ben. at beginning of year	4,649	5,337
Payments in the year	(291)	(252)
Current service cost	97	97
Interest cost	158	50
Actuarial gains	14	(582)
Post-em. ben. at end of year	**4,628**	**4,649**

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

Defined benefit plans	Dec 31, 23	Dec 31, 22
Annual discount rate	3.00%	3.63%
Annual inflation rate	2.00%	2.30%
Annual increase in post-employment benefit	3.00%	3.23%
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, 2023

(Euro,000)	Changes IRES	Changes IRAP	IRES tax effect	IRAP tax effect
Tax on business combinations	39,535	31,340	9,488	1,222
Accelerated depreciation	375	-	90	-
Finance Leases	837	837	201	33
Unrealised for, exchange gains/losses	91	-	22	-
Other	1,135	-	342	-
Derivative financial instruments	2,904	-	697	-
Total	**44,876**	**32,176**	**10,840**	**1,255**

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**

Current liabilities

Note 18: Short-term loans and borrowings

The breakdown is as follows:

(Euro,000)	Dec 31, 23	Dec 31, 22
Utilisation short-term lines	14,909	2,934
Current portion of loans	35,842	20,580
Current financial charges	58	37
Short-term loans and borrowings	**50,809**	**23,551**

CURRENT PORTION OF LOANS

This item includes the current portion of the 2021 Senior Financial Agreement loan for Euro 22,361 thousand, the current portion of the Unicredit loan for Euro 2,000 thousand and of Cassa Depositi e Prestiti loan for Euro 5,625 thousand.

These loans are represented in accordance with the extension and standstill agreements signed on December 29, 2023 and described in more detail in Note 13.

According to the original contractual provisions, the table represents the current portion of the loan to Banca BPER S.p.A. for Euro 2,522 thousand, as described in more detail in Note 13.

Finally, this item also includes the residual portion of Euro 3,333 thousand of the loan signed on June 16, 2023 with Banca Monte dei Paschi di Siena S.p.A., the main characteristics of which are:

- original amount of Euro 5,000 thousand, due on June 30, 2024, repayment according to an amortization schedule of 9 predetermined monthly installments, starting from October 31, 2023;
- interest rate indexed to 1-month Euribor, plus a margin of 0.80%.

CURRENT FINANCIAL CHARGES

This item represents accrued interest at December 31, 2023 on the 2021 Senior Financial Agreement loan for Euro 2 thousand, on the Unicredit loan for Euro 30 thousand, on the Banca BPER loan for Euro 26 thousand.

Note 19: Other current financial liabilities and derivative financial instruments

A breakdown follows:

(Euro,000)	December 31, 2023	December 31, 2022
Bond loan - current portion	69	34
Other current financial payables	2,849	799
Dividend payables	-	2
Factoring payables	2,681	718
Derivative financial instruments - current portion	20	823
Current financial lease payables - IFRS 16	2,977	2,859
Other current financial liabilities and derivative financial instruments	**8,596**	**5,235**

BOND LOAN - CURRENT PORTION

The account includes Euro 151 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 2,849 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 276 thousand;
- Euro 2,049 thousand relating to the security deposit relating to the sale of land owned by the Mexican subsidiary, paid in 2023 and finalized in the first months of 2024;
- Euro 45 thousand relating to the current portion of the Sace-Simest loans, as described in more detail in Note 14, amounting to Euro 45 thousand (of which Euro 30 thousand for SIT and Euro 15 thousand for the subsidiary Metersit S.r.l.).

DERIVATIVE FINANCIAL INSTRUMENTS - CURRENT PORTION

In 2023 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 sales	CNY	15,000,00	EUR	7,9510	7,8770			(13)
forward sales	GBP	500,000	EUR	0,8685	0,8715	(2)		
forward sales	USD	3,500,000	EUR	1,1054	1,1097	(5)		
Total						**(7)**	**-**	**(13)**

The currency contracts at December 31, 2022 were as follows:

(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)**	-	-

In 2022, the Company undertook hedging contracts against gas and electricity prices. These contracts also 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, 22	Drawdown	Acquisitions	Reimbursements/settlements	Reclassification	Fair Value Changes	Change in amortised cost	Dec 31, 23
Bank payables - non-current portion of loans	78,250	5,181			(25,105)			**58,326**
Bank payables - non-current portion amortised cost	(282)				138			**(144)**
Total bank payables - non-current portion loans	**77,968**	**5,181**		**-**	**(24,967)**	**-**	**-**	**58,182**
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	(480)				85			**(395)**
Derivative financial instruments - non-current portion	-							**-**
IFRS16	12,047	1,145			(2,660)			**10,532**
Payables to other lenders	1,986			(7)	(682)			**1,297**
Total other non-current financial liabilities and derivative financial instruments	**53,553**	**1,145**	**-**	**(7)**	**(3,257)**	**-**	**-**	**51,434**
Total non-current financial liabilities	**131,521**	**6,326**	**-**	**(7)**	**(28,224)**	**-**	**-**	**109,616**
Bank payables - current portion of loans	20,750	5,000		(14,874)	25,105			**35,981**
Bank payables - current portion amortised cost	(170)			169	(138)			**(139)**
Current account and accrued interest expense	2,971	14,967		(2,971)				**14,967**
Total bank payables - current portion of loans	**23,551**	**19,967**	**-**	**(17,676)**	**24,967**	**-**	**-**	**50,809**
Shareholder loan - current portion of loans	-							**-**
Bond loan - current portion	-							**-**
Bond loan - amortised cost current portion	(82)			85	(85)			**(82)**
Bond loan - accrued interest expense	116	151		(116)				**151**
Derivative financial instruments - current portion	823			(823)		20		**20**
Factoring payables	718	2,681		(718)				**2,681**
IFRS16	2,859	640		(3,182)	2,660			**2,977**
Payables to other lenders	800	2,028		(663)	684			**2,849**
Total other current financial liabilities and derivative financial instruments	**5,234**	**5,500**	**-**	**(5,417)**	**3,259**	**20**	**-**	**8,596**
Total current financial liabilities	**28,785**	**25,467**		**(23,093)**	**28,226**	**20**	**-**	**59,405**

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 PER 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, 2023, trade payables were broken down as follows:

(Euro,000)	Dec 31, 23	Dec 31, 22
Trade payables	66,915	81,400
Trade payables to holding company	-	-
Trade payables	**66,915**	**81,400**

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, 2023					
Trade payables	49,462	9,656	5,452	2,345	66,915
December 31, 2022					
Trade payables	65,243	11,006	4,105	1,045	81,400

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, which correspond to exchange gains of Euro 201 thousand.

Note 21: Other current liabilities

A breakdown follows:

(Euro,000)	Dec 31, 23	Dec 31, 22
Other payables	3,165	2,362
Customer advances	776	1,848
Current remuneration payables	2,134	2,295
Deferred remuneration payables	5,224	4,593
Payables to social security institutions	3,298	3,311
Result bonuses	1,225	2,591
Accrued expenses	1,922	1,861
Substitute tax payables	2,523	3,389
VAT payables	501	864
Other current liabilities	**20,768**	**23,113**

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 2023 salaries, paid in January 2024.

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 2023 bonuses, to be paid in 2024.

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: Tax payables

The amount of Euro 1,001 thousand mainly concerns the payable for direct income taxes of the foreign subsidiaries.

COMMENTS ON THE MAIN ITEMS OF THE CONSOLIDATED STATEMENT OF INCOME

Note 23: Revenue from sales and services

Revenue from sales and services breaks down as follows:

(Euro,000)	**2023**	**2022**
Revenues from product sales	325,410	392,284
Revenues from services	851	1,021
Revenues from sales and services	**326,261**	**393,305**

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

(Euro,000)	**2023**	**2022**
Heating & Ventilation	236,501	319,773
Smart Gas Metering	60,298	48,856
Water Metering	29,462	24,676
Total revenues from sales and services	**326,261**	**393,305**

Group revenues by region were as follows:

(Euro,000)	**2023**	**2022**
Italy	97,346	99,452
Foreign EU	151,359	169,396
Foreign Non-EU	77,557	124,457
Total revenues from sales and services	**326,261**	**393,305**

Note 24: Raw materials, ancillaries, consumables and goods

The breakdown of the account in 2023 and 2022 was as follows:

(Euro,000)		**2023**	**2022**
Purchases of ancillary materials		3,122	10,241
Purchases of raw materials, semi-finished & packaging		140,505	184,151
Finished products purchases		16,690	30,813
Purchases of consumable materials		34	55
Purchases of goods		234	89
Maintenance and repair materials		2,206	2,737
Other purchases		2,459	3,520
Duties on purchases		1,961	1,968
Raw materials, ancillaries, consumables and goods	**167,211**		**233,573**
Changes in inventories of raw materials, ancillaries, consumables and goods	3,624		(14,885)
Change in inventories of finished & semi-finished products and goods	4,954		(5,000)

Change in inventories	**8,578**	**(19,886)**
Total cost of raw materials, ancillaries, consumables and goods	**175,789**	**213,687**

Raw materials, ancillaries, consumables and goods, including changes in inventories, amounted to Euro 175,789 thousand, accounting for 53.9% of revenues, decreasing on 2022 (54.3%) due to the contraction in turnover during the year.

Note 25: Services

The composition of the account is as follows:

(Euro,000)	2023	2022
Rent, hire and leases	499	512
Outsourcing	7,744	10,103
Transport	7,142	12,010
Commissions	154	387
Legal, administrative and other	7,061	7,112
Insurance	1,048	1,055
Management services	631	622
Maintenance & repair expenses	4,619	4,710
Utilities	7,423	5,139
Personnel expense	2,015	2,409
Cleaning and security	1,484	1,502
Advertising, marketing, and sponsorship	663	734
Directors, statutory & independent auditor fees	2,368	2,337
Travel and accommodation	1,065	1,030
Bank charges & commissions	833	608
Other services	1,415	1,714
Listing charges	306	315
Royalties passive	55	-
Service costs	**46,525**	**52,301**

TRANSPORT

The cost of transport, amounting to Euro 7,142 thousand in 2023, decreased of Euro 4,868 thousand compared to the same period of the previous year and this has a twofold effect: on the one hand, for the management of the supply chain, aimed at optimizing and containing the volume of goods and components in stock, thus also obtaining a reduction in the costs of transport purchases. On the other hand, due to the lower turnover compared to the previous year, with the consequent reduction in the transport on sale.

OUTSOURCING

The cost of external processing amounted to Euro 7,744 thousand, also a sharp decrease compared to the previous year, recording a drop of Euro 2,359 thousand or -23.3%.

UTILITIES

The only significant increase in service costs is for utility costs as a result of increases in tariffs compared to the previous year. In fact, utilities recorded a cost for the year 2023 of Euro 7,423 thousand compared to Euro 5,139 thousand in the previous year.

Note 27: Personnel expense

Personnel expenses are shown below:

(Euro,000)

Personnel expense	2023	2022
Wages and salaries	54,584	54,974
Social security charges	13,505	13,458
Temporary personnel	6,023	7,288
Post-employment benefits	2,959	2,837
Other costs	3,645	1,625
Personnel expense	**80,716**	**80,182**

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

Employees	2023	2022
Executives	42	40
White-collar	713	600
Blue-collar	1,386	1,801
Temporary	220	276
Total employees	**2,361**	**2,717**

WAGES AND SALARIES

In 2023, the cost of wages and salaries amounted to Euro 54,584 thousand, with a decrease of Euro 390 thousand compared to the previous year. The change is mainly attributable to the combined effect of the following phenomena:

- lower provision for MBO (Management by Objectives) in line with the achievement of the Group's strategic objectives;
- capitalization of R&D (Research and Development) personnel costs for hours worked on development projects included in intangible assets in progress of Note 1;
- tabular increase in minimum wages for the adjustment of employment contracts to inflation;
- personnel costs for the redefinition of the organizational structure with the aim of retraining the base skills inside the company.

TEMPORARY PERSONNEL

The change in the cost of temporary work was 1,265 thousand euros, down compared to the same period of the previous year in order to ensure greater flexibility in production activities.

OTHER COSTS

Other Costs for 2023 amounted to Euro 3,645 thousand, with an increase of Euro 2,020 thousand if compared to the previous year. The change is mainly due to the allocation of the costs of the Dutch company's reorganization to other risk provisions. For further details, please refer to Note no. 15.

Note 27: Depreciation, amortisation and write-downs

The breakdown is as follows:

Depreciation, amortisation and write-downs	2023	2022
Amortisation of intangible assets	9,084	8,659
Depreciation of property, plant and equipment	16,350	15,865
Depreciation of operating leases - IFRS 16	3,218	3,129
Total amortisation & depreciation	**28,652**	**27,653**
Write-down of goodwill	17,000	-
Write-down of property, plant and equipment	1,244	-
Total write-downs of fixed assets	**18,244**	**-**
Write-down of current receivables	194	118
Total write-downs	**194**	**118**
Depreciation, amortisation and write-downs	**47,090**	**27,771**

For further details on depreciation, amortisation and write-downs, reference should be made to the notes 1 and 2 on tangible and intangible assets.

Note n. 28: Provisions

The voice is composed as follows:

(Euro,000)	2023	2022
Provision for disputes	1,128	8,949
Others	112	34
Uses/releases provisions	(224)	(261)
Provisions for risks	**1,015**	**8,722**

As of December 31, 2023, provisions amounted to Euro 1,015 thousand, net of uses and releases of Euro 224 thousand. The main movements of the exercise refer to:

- Euro 281 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 167 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 434 thousand of provisions for the costs of the reclamation of a plot of land owned by the Company, recorded in the Parent Company;

The decrease includes Euro 86 of releases from provision for risks and charges due to lower obligations to clients for potential contractual compensation in the subsidiary Metersit S.r.l.. The decreases include Euro 109 thousand attributable to Metersit S.r.l. in relation to expiration of the warranty replacement period.

Note 29: Other charges (income)

The account is broken down as follows:

(Euro,000)

Other charges (income)	**2023**	**2022**
Misc. recoveries	335	467
Prior year income	411	202
Gains on fixed assets	133	305
Grants	757	969
Other revenues	8	50
Other income	**1,644**	**1,993**
Misc. taxes & non-deductible costs	507	415
Losses on fixed assets	77	33
Associations	285	267
Prior year charges	113	137
Impairment on receivables	-	68
IMU Property tax	209	193
Misc. reimbursements	124	190
Other charges	674	775
Other charges	**1,989**	**2,078**
Other charges (income)	**345**	**85**

CONTRIBUTION

The item refers to tax credits accrued during the year, mainly referring to tax credits for research and development and technological innovation activities (Budget Law 2020 no. 160/2019 and art.1, c.45, law no. 234/2021), tax credits for energy and gas (Budget Law December 29, 2022 no. 197 and Decree Law March, 30 2023, n.34) and tax credit for new capital goods 4.0 (Law 160/2019 and Law n.178/2020).

Note 30: Financial income

At December 31, 2023, Financial income amount to Euro 942 thousand and are composed as follows:

(Euro,000)	2023	2022
Interest income on bank accounts	75	48
Other interest income	26	31
Profits on derivative financial instruments	842	436
Adjustment to fair value of financial liabilities	-	8,748
Financial income	**942**	**9,263**

PROFITS ON DERIVATIVE FINANCIAL INSTRUMENTS

As of December 31, 2023, the amount equal to Euro 842 thousand relates to the mark to market of the derivative contracts on foreign currencies, which do not comply with the company's formal hedging policy.

Note 31: Financial charges

Financial charges consist of:

(Euro,000)	2023	2022
Financial charges on hedging contract differences	-	335
Interest charges to holding company	-	-
Interest and other bank charges	3,852	1,743
Interest charges to third parties	688	385
Interest on bond loans	1,137	956
Other financial charges	1,532	-
Fair value of derivative financial instruments	144	850
Financial charges for operating leases - IFRS 16	474	491
Financial charges	**7,827**	**4,760**

INTEREST AND OTHER BANK CHARGES

The amount of Euro 3,852 thousand concerns interest on outstanding loans and other financial payables.

INTEREST ON BOND LOANS

The amount of Euro 1,137 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.

OTHER FINANCIAL CHARGES

At December 31, 2023, the item totalled Euro 1,532 thousand and concerns the differential recognised in the period for gas and energy tariff hedging contracts.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

At December 31, 2023, the item amounted to Euro 144 thousand, Euro 111 thousand of which refers to the fair value of outstanding derivatives on currencies and Euro 33 thousand to energy derivatives outstanding; in both cases, derivatives are not treated as hedging instruments. The same item at December 31, 2022 amounted to Euro 850 thousand, Euro 818 thousand of which referred to the fair value of outstanding derivatives on electricity and gas, which were not treated as hedging instruments.

IFRS 16 FINANCIAL CHARGES

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 32: Net exchange gains (losses)

At December 31, 2023, net foreign exchange gains amounted to Euro 804 thousand and are composed as follows:

(Euro,000)	2023	2022
Realised exchange gains	5,866	7,201
Realised exchange losses	(5,633)	(8,611)
Unrealised exchange gains	1,502	1,461
Unrealised exchange losses	(931)	(1,377)
Net exchange gains and losses	**804**	**(1,326)**

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

Net exchange gains and losses in 2023 amounted to a profit of Euro 804 thousand compared to a loss of Euro 1,326 thousand in the previous year due to the unfavourable trend in the exchange of invoicing to the Group's functional currency.

Note 33: Income taxes

The breakdown of Income taxes in 2023 and 2022 was as follows:

(Euro,000)	2023	2022	Delta
Current income taxes	2,309	5,044	(2,734)
Deferred tax charges	(2,323)	(3,484)	1,161
Deferred tax income	(8,019)	796	(8,815)
Income from tax consolidation	(129)	(452)	323
Taxes from previous year	-	23	(23)
Other	250	428	(178)
Income taxes	**(7,912)**	**2,355**	**(10,266)**

Compared to the comparative period, the tax item was affected by the negative taxable income achieved by some Group companies and this was mainly reflected in the significant change in deferred tax income.

Deferred tax assets were recognised on the basis of the Directors' assessment that there is a possibility that the Group entities will be able to realise taxable income in future years sufficient for them to be recoverable.

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

Pre-tax profit	**31/12/2023**	**31/12/2022**
Adjustments for items not subject to taxation	**(31,300)**	**13,567**
Theoretical IRES in Italy 24.0%	**7,512**	**(3,256)**
Tax effect non-deductible costs	(4,589)	(2,877)
Tax effect on higher deductible costs	3,425	1,036
Tax effect on non-assessable income	-	2,043
Adjustments for prior period taxes	194	258
Tax Receivables	5	-
Other	649	75
Difference the tax rate on foreign entities	609	861
IRAP	**(77)**	**(594)**
Prior year IRAP:	-	(51)
IRAP deferred tax charge	100	100
IRAP deferred tax income	84	51
Tax at effective rate	**7,912**	**(2,355)**
Effective tax rate	**25,28%**	**17.35%**

Note 34: Leasing contracts

The tables below summarise the effects on the Group financial statements at December 31, 2023 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, 23**
Operating lease contract charges	3,492
Contracts classified as short-term leases	8
Contracts classified as low-value assets	17
Total costs for services	**3,517**
Land & buildings	(1,534)
Industrial & commercial equipment	(550)
Other tangible assets	(1,134)
Total depreciation	**(3,218)**
Income from sub-leasing contracts	-
Sales and leaseback transaction	-
Total other charges/(income)	**-**
Interest charges on financial liabilities	(474)
Total financial charges	**(474)**

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

(Euro,000)	**31/12/2023**
Net investments accounted as ROU as at 1.1.2023	14,534
Increases in the year	1,785
Asset write-downs	(242)
Depreciation and amortisation of the year	(3,218)
Exch. diff.	(50)
Net investments accounted as ROU as at 31.12.2023	**12,809**
Payable for financial liabilities from ROU assets at 1.1.2023	14,905
Commitments in the year	1,785
Early settlements in the year	-
Cash outflows	(3,112)
Exch. diff.	(70)
Gross value of liabilities from ROU assets at 31.12.2023	**13,509**
Obligations for short-term lease contracts	-
Obligations for low-value asset contracts	24
Total obligations for lease contracts with recognition to costs of payments due	**24**

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

(Euro,000)	31/12/2023
Within the year	2,977
Between 1 and 5 years	7,585
Over 5 years	2,947
Total liabilities deriving from operating lease contracts	**13,509**

Note 35: Earnings per share

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

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

(Euro,000)

Profit (loss) attributed to the ordinary shareholders of the Parent Company	31-dic-23	31-dic-22
Profit (loss) attributed to the ordinary shareholders of the Parent Company	(23,388)	11,213
Dilution effect deriving from potential ordinary shares	-	(8,748)
Total profit/(loss) attributed to the ordinary shareholders of the Parent Company	**(23,388)**	**2,465**

Earnings per share	31-dic-23	31-dic-22
Weighted average number of ordinary shares, excluding treasury shares, to calculate basic earnings per share	24,327,666	24,327,666
Dilution effects for Warrants	-	-
Dilution effects for Performance Shares	-	-
Weighted average number of ordinary shares due to dilution effect	24,327,666	24,327,666
Basic earnings per share	**(0.9614)**	**0.4609**
Diluted earnings per share	**(0.9614)**	**0.1013**

Note 36: Share-based payments

At December 31, 2023, the company holds 800,409 treasury shares 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 this financial statements, a stock-option plan was in place which provides for payments to identified parties, based on the value of the share price and the expected prospective results. The table below shows the economic effects deriving from these instruments:

Costs deriving from share-based payment transactions	2023	2022
Costs from equity-settled share-based payment transactions	1,020	857
Costs from cash-settled share-based payment transactions	-	-
Total costs deriving from share-based payment transactions	**1,020**	**857**

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 Performance Shares Plan, the Restricted Shares Plan and the 2021-2024 Advisory Board, respectively, The Boards of Directors of July 8, 2022 and November 9, 2023 identified the beneficiaries of the second and third Performance Shares Plan, respectively.

The following tables show the number and valuation of options during the year, for each plan:

	2023	
2021-2025 Performance Shares Plan 1st Cycle	**No. options**	**Weighted average price**
Outstanding at January 1	153,047	7,26
Assigned during the year	-	-
Cancelled during the year	(21,105)	7,26
Exercised during the year	-	-
Change in the year	-	7,26
Expired during the year	-	-
Outstanding at December 31	**131,942**	**7,26**
Exercisable at December 31	**-**	**-**

	2023	
2021-2026 Performance Shares Plan 2nd Cycle	**No. options**	**Weighted average price**
Outstanding at January 1	156,215	4,41
Assigned during the year	-	-
Cancelled during the year	(10,990)	4,41
Exercised during the year	-	-
Change in the year	-	-
Expired during the year	-	-
Outstanding at December 31	**145,225**	**8,82**
Exercisable at December 31	**-**	**-**

	2023	
2023-2027 Performance Shares Plan 3rd Cycle	**No. options**	**Weighted average price**
Outstanding at January 1	-	-
Assigned during the year	169,594	1,71
Cancelled during the year	-	-
Exercised during the year	-	-
Change in the year	-	-
Expired during the year	-	-
Outstanding at December 31	**169,594**	**1,71**
Exercisable at December 31	**-**	**-**

	2023	
2021-2023 Restricted Shares Plan	**No. options**	**Weighted average price**
Outstanding at January 1	70,433	7,26
Assigned during the year	-	-
Cancelled during the year	(2,997)	7,26
Exercised during the year	-	-
Change in the year	-	7,26
Expired during the year	-	-
Outstanding at December 31	**67,436**	**7,26**
Exercisable at December 31	**-**	**-**

	2023	
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 following table lists the information with which the model used for the three current plans has been powered:

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%

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 (%)	5.00
Interest free risk rate (%)	(2.45)
Expected useful life of the options (in years)	2.6

2023-2026 Performance Shares Plan Assumptions for the measurement of the plan fair value 3rd Cycle	2023
Weighted fair value at the measurement date	1.71
Dividend yield (%)	0.00
Interest free risk rate (%)	(3.10)
Expected useful life of the options (in years)	2.42

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

Disclosures by operating segment

Income Statement

2023

(Euro,000)	Heating & Ventilation	Metering	Eliminations	Consolidated
Revenue from sales and services	240,156	89,927	(3,823)	326,261
Operating costs	272,020)	(83,281)	3,823	(351,479)
EBIT	(31,864)	6,645	(0)	(25,219)

2022

(Euro,000)	Heating & Ventilation	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

Balance Sheet

2023

(Euro,000)	Heating & Ventilation	Metering	Eliminations	Consolidated
Assets	323,010	114,040	(8,649)	428,401
Liabilities	222,443	71,070	(8,236)	285,277
Shareholders' Equity	100,567	42,971	(413)	143,124

2022

(Euro,000)	Heating & Ventilation	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

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.

Transactions with the parent company and other related parties

In addition to the intra-group transactions, SIT's main transactions involved the parent company, Technologies SAPA di F.D.S. S.S. and other related parties, such as SIT Technologies S.p.A., its subsidiary SIT Immobiliare S.p.A. and Hybitat S.r.l., a company over which SIT S.p.A., exercises considerable influence due to its commitment to subscribe to participatory financial instruments up to a maximum of Euro 2,900 thousand within the first 36 months of the establishment of the society itself. As of December 31, SIT had subscribed 1,500 SFPs for a total value of Euro 150 thousand.

At the balance sheet date, the balances of transactions with the parent company and other related parties are shown in the following table:

Dec 31, 23	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
Technologies SAPA di F.D.S. S.S.	24	-	-	-	-	-	18	-
Holding company	**24**	**-**	**-**	**-**	**-**	**-**	**18**	**-**
SIT Immobiliare S.p.A.	18	-	-	-	-	-	17	-
SIT Technologies S.p.A.	24	2	-	15	-	-	1,033	-
Hybitat S.r.l.	37				150		39	
Transactions with other related parties	**79**	**2**	-	**15**	**150**	**-**	**1,089**	**-**

The following table shows the transactions with related parties in the previous year and reflects the chain of control in place as of December 31, 2022:

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**	**-**

SIT's operating revenues from Technologies SAPA F.D.S. S.S. , SIT Immobiliare S.p.A., SIT Technologies S.p.A. and Hybitat S.r.l. refer to consultancy and assistance in the financial, administrative, tax and management control sectors provided by the Company under the service contract.

It should be noted that SIT, SIT Immobiliare S.p.A., SIT Technologies S.p.A. and Metersit S.r.l. have adhered for the three-year period 2022 – 2024 to the National Tax Consolidation procedure, an institution governed by Legislative Decree No. 344 of December 12, 2003 and in particular by Articles 117 to 129 of the T.U.I.R., with SIT Technologies S.p.A. as consolidator and the other companies as consolidated, as per the resolution of the respective administrative bodies. During the 2020 financial year, the subsidiary SIT Metering s.r.l. adhered to the National Tax Consolidation procedure for the three-year period 2023 – 2025 and in the 2021 financial year the parent company Technologies SAPA of F.D.S. S.S. also adhered to the three-year period 2021 – 2023, both as consolidated companies.

Finally, we would like to point out that since the 2020 fiscal year, SIT Technologies S.p.A., as parent company, SIT S.p.A., SIT Immobiliare S.p.A. and Metersit S.r.l., as subsidiaries, have adhered to the Group VAT settlement procedure, provided for by art, 73 last paragraph of Presidential Decree 633/1972 as resolved by the respective administrative bodies in 2019. During the 2021 financial year, the subsidiary SIT Metering s.r.l. also adhered to the group VAT procedure, while the parent company Technologies SAPA of F.D.S. S.S. adhered to the 2023 financial year.

As of December 31, 2023, the Company's credit balance with SIT Technologies S.p.A. amounted to Euro 679 thousand.

Information on remuneration of Directors, Statutory Auditors and Independent Auditors

The remuneration of the administrative and control bodies and the independent auditors for the activities carried out by the Group during the year is as follows:

(Euro,000)	2023	2022
Director fees	942	914
Statutory auditor fees	166	166
Total	**1,109**	**1,080**

The Group paid the independent auditors and its network a fee of Euro 540 thousand, divided as follows:

(Euro,000)	2023	2022
Fees received by Deloitte & Touche S.p.A. for audit services	385	305
Fees received by other Deloitte network companies for audit services for the overseas investees	128	158
Fees received by the Deloitte network for audit services	**513**	**463**

(Euro,000)	2023	2022
Fees received by Deloitte & Touche S.p.A. for verification services for the issue of a statement	27	25
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	**27**	**25**

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 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.

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, 2023, the following table outlines the type of instrument, its value at the reporting date and the fair value hierarchy utilised:

Transaction type	Value at Dec 31, 23	Valuation criterion	Level 1	Level 2	Level 3
Interest Rate Swap	2,931	*Fair Value*		2,931	
Forex Forward	(20)	*Fair Value*		(20)	
Commodity Swap	-	*Fair Value*		-	

During the 2023 financial year, there were no transfers between the three fair value levels indicated in IFRS 13.

A similar table is shown for the financial instruments recorded at fair value as at December 31, 2022:

(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 Swap	(818)	*Fair Value*		(818)	

For further details on the risks identified, please refer 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.

Agency	Grants received in accordance with Law 124/2017 Sec. 125	Title
Fondimpresa - Roma	41,643	Reimbursement of the fee to be paid by the fund of the plan Fondimpresa, with code
Fondirigenti - Roma	6,000	Reimbursement of the fee to be paid by the training plan marked by the FDIR code 33027
4.Manager - Roma	3,000	Contribution provided for by Article 9, paragraph of the CCNL for executives
Agenzia delle Dogane Stato Italiano	8,512	Legislative Decree 504/95 art.21 paragraph
Total	**59,155**	

Events subsequent to the end of the financial year

With reference to events occurring after the end of the year, reference should be made to the section "Significant events occurring after the end of the year".

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Padua, April 24, 2024

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 2023.

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.

The English version of the consolidated financial statements of SIT Group constitute a non-official version with regard to the provisions of the Commission Delegated Regulation (EU) 2019/815.

Padua, April, 24 2024

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 balance sheet as at December 31, 2023, 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 explanatory notes to the consolidated financial statements, including material accounting policy information.

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, 2023, 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 goodwill relating to Heating & Ventilation, Smart Gas Metering and Water Metering CGUs	
Description of the key audit matter	The consolidated financial statements as at December 31, 2023 include goodwill of Euro 70.9 million, allocated to the Heating & Ventilation cash generating unit ("CGU") for Euro 45.1 million, value that includes the write-down equal to Euro 17 million recorded during the year, based on the results of impairment test performed as at June 30, 2023, 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 tests related to the consolidated financial statements as at December 31, 2023 were approved by the Board of Directors on April 24, 2024 and, based on the results, no further losses has been identified compared to the write-down already recorded in the half-year report as at June 30, 2023 with reference to the Heating & Ventilation CGU. 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. 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, as well the impairment indicators identified during the year, that has brought to a write-down of Euro 17 millions, and the results of the Group operations, we have considered the impairment test of the goodwill allocated to the aforementioned CGUs a key audit matter of the Group's financial statements. The explanatory notes, with particular reference to Note 1 "Goodwill and Other intangible assets", provide information on goodwill, on impairment test and on sensitivity analysis prepared by the Directors related to the main test parameters.
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 tests; • examination of the methods used by the Directors to determine the value in use of the Heating & Ventilation, Smart Gas Metering and Smart

- Water Metering CGUs, analyzing the methods and assumptions used for the preparation 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 compared to the original plans to assess the nature of the deviations and the reliability of the business 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.

Going Concern assessment	
Description of the key audit matter	The consolidated financial statements as at December 31, 2023 show a loss of Euro 23.4 million, of which Euro 17 million related to write-down of CGU Heating & Ventilation goodwill, equity of Euro 143 million and net financial position of Euro 153.7 million. During 2023 the Group recorded a 17% reduction in revenues compared to 2022, with a significant negative effect on operations results. This trend is mainly attributable to Heating & Ventilation division, which has showed a revenues decrease of 25.8% compared to previous year. Despite new financing, the increase in the use of bank credit lines, in addition to the measures adopted during the year to contain costs and investments, the persistence of the negative economic situation in the Heating & Ventilation business highlighted the impossibility for the Parent Company SIT S.p.A. to meet certain commitments to repay loans scheduled for the end of the year and the related financial covenants. In this context, on December 29, 2023 the Parent Company signed with banks an extension and standstill agreement that supported also the preparation of a new business plan for the period 2024-2027 (the "Business Plan"), approved by the Board of Directors of Parent Company on February 29, 2024 and subjected to Independence Business Review by an independent expert, and supported the negotiation of an agreement for the restructuring of the repayment scheduling of the outstanding loans and the revision of the financial parameters. Such agreement was signed on April 22 and 23, 2024.

	In consideration of the relevance of the potential impact of the situation described above on the assessment of the going concern, we have considered this assessment a key audit matter of the Group's financial statements. The paragraph "Going Concern" in the explanatory notes provides information related to the considerations made by Directors on the appropriateness of the going concern assumption in the preparation of the consolidated financial statements as at 31 December 2023 considering the uncertainties connected with the situation described above.
Audit procedures performed	As part of our audit, among other things, we carried out the following procedures: • understanding of the analysis carried out by Directors on the the going concern assessment; • examination of the agreements with banks signed on April 22 and 23, 2024; • Examination of the Group business plan for the period 2024-2027 and of the monthly cash flows prepared by Directors based on the business plan for the years 2024-2025 and analysis of the related assumptions, supported also by the Indipendent Business Review performed by an indepdent expert appointed by the company; • Meetings and discussion with SIT S.p.A. Management and the Statutory Auditors on the relevant points of the going concern assessment performed by Directors; • Reading of the minutes of the corporate bodies of SIT S.p.A.; • Analysis of the subsequent events that may have an impact on the going concern assessment; • Examination of the adequacy of the disclosure reported in the Consolidated Financial Statements related to the going concern assumption.

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, 2023, 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, 2023 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, 2023, 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, 2023 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, 2023 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

Padova, Italy
April 30, 2024

As disclosed by the Directors on page 196, the accompanying consolidated financial statements of SIT S.p.A. constitute a non-official version which has not been prepared in accordance with the provisions of the Commission Delegated Regulation (EU) 2019/815. 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, 2023

FINANCIAL STATEMENTS

BALANCE SHEET

(in Euro)	Note	December 31, 23	December 31, 22
Goodwill	1	68,087,912	85,087,912
Other intangible assets	1	17,949,130	18,408,006
Property, plant and equipment	2	72,177,652	71,997,344
Investments	3	78,818,285	78,417,532
Non-current financial assets	4	28,565,187	30,727,466
Deferred tax assets	17	9,469,633	5,002,156
Non-current assets		**275,067,799**	**289,640,416**
Inventories	5	26,144,918	30,309,538
Trade receivables	6	56,800,524	72,029,009
Other current assets	7	5,419,226	4,787,350
Tax receivables	8	873,674	1,368,000
Other current assets	9	22,632,514	27,370,220
Cash and Cash Equivalents	10	2,791,705	12,325,856
Current assets		**114,662,561**	**148,189,973**
Total assets		**389,730,360**	**437,830,389**
Share capital	11	96,162,195	96,162,195
Total Reserves	12	69,111,020	55,702,827
Net Profit		(29,318,833)	14,385,360
Shareholders' Equity		**135,954,382**	**166,250,382**
Medium/long-term loans and borrowings	13	58,182,032	77,968,432
Other non-current financial liabilities and derivative financial instruments	14	44,911,690	45,495,851
Provisions for risks and charges	15	2,098,080	1,942,366
Post-employment benefit provision	16	4,121,519	4,328,215
Deferred tax liabilities	17	5,816,989	7,299,843
Non-current liabilities		**115,130,310**	**137,034,707**
Short-term loans and borrowings	18	46,134,530	21,439,262
Other current financial liabilities and derivative financial instruments	19	23,390,368	26,441,432
Trade payables	20	57,601,639	74,039,536
Other current liabilities	21	11,519,131	12,625,070
Current liabilities		**138,645,668**	**134,545,300**
Total Liabilities		**253,775,978**	**271,580,007**
Total Shareholders' Equity and Liabilities		**389,730,360**	**437,830,389**

STATEMENT OF INCOME

(in Euro)	Note	2023	2022
Revenues from sales and services	**22**	**234,556,593**	**288,244,269**
Raw materials, ancillaries, consumables and goods	23	148,554,731	187,952,659
Change in inventories	23	3,522,027	(5,103,516)
Service costs	24	34,524,285	35,654,547
Personnel expense	25	44,588,120	45,506,662
Depreciation, amortisation and write-downs	26	33,717,935	15,448,344
Provisions for risks	27	406,934	671,549
Other charges (income)	28	(295,407)	(59,451)
EBIT		**(30,462,032)**	**8,173,475**
Investment income/(charges)	29	-	2,224,713
Financial income	30	3,720,686	10,228,632
Financial charges	31	(7,921,630)	(4,603,607)
Net exchange gains (losses)	32	(56,013)	(763,518)
Impairments on financial assets		-	-
Profit before taxes		**(34,718,989)**	**15,259,695**
Income taxes	33	(5,400,157)	874,335
Net Profit		**(29,318,833)**	**14,385,360**

STATEMENT OF COMPREHENSIVE INCOME

(Euro)	**2023**	**2022**
Net Profit	**(29,318,833)**	**14,385,360**
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	(2,639,503)	5,614,482
Income taxes	633,481	(1,347,476)
Taxes (rate adjustment)	-	-
Total other comprehensive income statement items which may be subsequently reclassified to the profit/(loss) for the year, net of taxes	**(2,006,023)**	**4,267,006**
Other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes:		
Unrealised actuarial gains	12,839	466,133
Income taxes	(3,081)	(111,872)
Total other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes	**9,757**	**354,261**
Total other comprehensive income/(expense) for the year, net of taxes:	**(1,996,265)**	**4,621,267**
Total comprehensive income/(expense)	**(31,315,098)**	**19,006,627**

STATEMENT OF CASH FLOW

(Euro)	**Note**	**2023**	**2022**
Net profit		(29,318,833)	14,385,360
Amortisation, depreciation & write-downs	26	33,717,935	15,448,344
Non-cash adjustments		930,267	1,158,502
Income taxes	33	(5,400,157)	874,334
Net financial charges	30 - 31	4,200,945	(5,625,025)
(Dividends)	29	-	(2,224,713)
CASH FLOW FROM CURRENT ACTIVITIES (A)		**4,130,157**	**24,016,802**
Changes in assets and liabilities:			
Inventories	5	4,164,620	(5,727,913)
Trade receivables	6	15,228,485	(10,806,425)
Trade payables	20	(16,437,897)	9,690,344
Decrease/(increase) in accrued income and prepaid expenses		139,581	(91,565)
Increase/(decrease) in accrued liabilities and deferred income		64,486	284,071
Other changes in net working capital		(1,800,082)	400,654
Other assets and liabilities		(1,596,015)	593,160
Income taxes paid		(143,602)	(653,412)
CASH FLOW GENERATED (ABSORBED) FROM CHANGES IN WORKING CAPITAL (B)		**1,215,592**	**(6,904,246)**
CASH FLOW FROM OPERATING ACTIVITIES (A + B)		**5,345,749**	**17,112,555**
Investing activities:			
Investments in property, plant & equipment		(13,391,927)	(18,995,471)
Other changes in property, plant & equipment		1,025,694	2,172,535
Investments in intangible assets	1	(2,699,913)	(554,473)
Investments in financial assets		348,000	(299,980)
Other changes in financial assets		35	(5,253)
Investments in non-current financial assets		(797,087)	(2,304,478)
CASH FLOW FROM INVESTING ACTIVITIES (C)		**(15,515,198)**	**(19,987,121)**
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)		**(10,169,449)**	**(2,874,565)**
Financing activities:			
Interest paid		(4,472,015)	(2,193,845)
Repayment of non-current financial payables	13 - 14	(14,874,220)	(21,000,000)
Increase (decrease) in short-term bank payables		9,433,277	803,593
New loans	13 - 14	10,180,830	25,000,000
(Increase)/decrease in loans to subsidiaries		3,459,053	(8,718,568)
Change in current accounts with subsidiaries		(1,349,601)	(14,081,289)
(Increase)/decrease in other financial payables		(1,742,026)	(1,826,573)
Sale/(Acquisition) of treasury shares	12	-	(599,489)
Dividends received		-	11,661,112
Payment of dividends	12	-	(7,298,939)
CASH FLOW FROM FINANCING ACTIVITIES (D)		**635,298,08**	**(18,253,996)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)		**(9,534,151)**	**(21,128,561)**
Cash & cash equivalents at beginning of the year		**12,325,856**	**33,454,417**
Increase (decrease) in cash and cash equivalents		(9,534,151)	(21,128,561)
Cash & cash equivalents at end of the year		**2,791,705**	**12,325,856**

STATEMENT OF CHANGES IN EQUITY

(Euro)								DETTAGLIO ALTRE RISERVE						
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**	**L.T.I. reserve**	**Total other reserve**	**Net profit (loss)**	**Shareholders' Equity**
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**	**148,195**	**8,377,794**	**9,022,970**	**154,263,031**
Allocation of 2021 Result	-	-	2,055	-	-	(31,681)	657,757	-	-	8,394,839	-	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)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,267,006**	**354,261**	**-**	**-**	**4,621,267**	**14,385,360**	**19,006,627**
Warrant exercise	-	-	-	-	-	-	-	-	-	229,822,00	-	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**	**1,027,348**	**14,974,112**	**14,385,360**	**166,250,383**
Allocation of 2022 Result	-	-	-	-	-	(31,681)	(496,579)	-	-	14,913,620	-	14,913,620	(14,385,360)	-
Dividend Approval	-	-	-	-	-	-		-	-	-	-	0	-	0
2023 Result	-	-	-	-	-	-	-	-	-	-	-	-	(29,318,833)	(29,318,833)
Other comprehensive profits (losses):														
Cash flow hedges	-	-	-	-	-	-	-	(2,006,023)	-	-	-	(2,006,023)	-	(2,006,023)
Adjustment post-em. bens.	-	-	-	-	-	-	-	-	9,757	-	-	9,757	-	9,757
Comprehensive profit/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,006,023)**	**9,757**	**-**	**-**	**(1,996,265)**	**(29,318,833)**	**(31,315,098)**
Employee L.T.I. movements	-	-	-	-	-	-	-	-	-	0	1,019,097	1,019,097	-	1,019,097
December 31, 2023	**96,162,195**	**10,359,557**	**19,232,439**	**16,615,618**	**(6,732,904)**	**564,566**	**161,178**	**2,206,741**	**(69,097)**	**24,726,475**	**2,046,445**	**28,910,564**	**(29,318,833)**	**135,954,382**

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 April 24, 2024 and authorised for publication on the website www.sitgroup.it by April 30, 2024. 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.

BASIS OF PREPARATION

The SIT separate financial statements at December 31, 2023 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 statement of income 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;
- the statement of comprehensive income;
- the statement of cash flow drawn up according to the indirect method;
- the statement of changes in 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 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..

Going Concern

During 2023, the Group recorded a 17.0% reduction in revenues compared to 2022. In 2023, the significant reduction in incentives that had supported the market across Europe in recent years and the increased uncertainty about the evolution of the legislation on technological transition, as well as the reduction in the spending power of households as a result of the persistence of high inflation and the rise in interest rates, have, as a whole, negatively affected the Heating sector, in particular with reference to combustion appliances (gas boilers).

These final demand dynamics have manifested themselves in a sector in which the entire supply chain has shown an excess of stock due to the procurement policies implemented to cope with supply difficulties – in particular of electronics – during 2022.

Since the Heating & Ventilation division is a supplier of components to OEMs in the sector, the Group suffered the negative effects of the difficult market environment described above, which led to a significant decline in turnover compared to the previous year, which was higher than expected. This contraction, together with the financial impact of an out-of-court settlement reached with a North American customer for a dispute relating to the quality of certain products in the water heating segment, led to a situation of financial tension.

Despite new financing and the increase in the use of bank credit lines, in addition to the measures adopted during the year to contain costs and investments, the persistence of the negative economic situation in the Heating & Ventilation business highlighted the impossibility for the Company to meet certain commitments to repay loans scheduled for the end of the year and the financial covenants contained therein. Faced with this prospect, the Company promptly entered the necessary discussions with its lenders, which led to the signing on December 29, 2023 of an extension and standstill agreement with respect to the aforementioned commitments.

This agreement, functional to the start of negotiations for the definition of a plan for the rescheduling of the amortization plans of existing loans, extended to April 30, 2024 the repayment of the principal portions maturing on December 31, 2023, providing instead for the regular payment of interest; It also led to the waiver by the lenders of certain rights and precautionary actions to which they are entitled as a result of the extension in question and the failure to comply with contractual financial parameters as at December 31, 2023.

The agreement committed the Company to certain periodic disclosure obligations relating to cash forecasts and the evolution of short-term debt, as well as a commitment not to incur financial debt beyond that existing at the date of signing, limiting short-term financial debt within a certain threshold.

The agreements also required the Company to provide lenders by February 28, 2024 an update of the business plan, which was originally approved by the Board of Directors on September 15, 2023. This update has been subject to *independent business review* by an independent expert. The above-mentioned documents supported the further discussions that have begun in the meantime with the banks, and which resulted in the agreement signed on April 22 and 23, 2024, for the renegotiation of the financial profile of the debt and the consequent revision of the financial parameters, as the parameters provided for by the current contracts are not compatible with the Group's short- and medium-term financial prospects reflected in the updated business plan.

The above-mentioned updated business plan (hereinafter, the "Plan"), drawn up with reference to the Group and referring to the years 2024–2027, was approved by the Board of Directors on February 29, 2024 and presents the Group's development guidelines in the changed context, which take into account the expected downsizing of the gas domestic heating market as a result of the ongoing technological transition. These guidelines are mainly based on the introduction and development of new products in growing sectors, such as heat pumps, controlled mechanical ventilation and hood ventilation, which exploit technologies and markets already covered by the Group but which require specific investments for product development. Similarly, growth is expected in product or market segments where combustion will remain prevalent (commercial applications, both methane and hydrogen); finally, the Plan reflects an expected recovery of the US market, which is currently shrinking, mainly due to macroeconomic conditions, in the gas fireplace segment and, as a result of the damage to the image resulting from the aforementioned dispute, in the water heating segment.

The development guidelines of the Metering segments, both Smart Gas Metering and Water Metering, are defined and based on the important investments that utilities in the sector are planning and making for the digitalization and modernization of distribution networks.

The updated Plan incorporates the main risk elements highlighted by a leading strategic consulting firm, which analysed the underlying strategic rationales and the main risk profiles inherent in the development of revenues of the Group's three business units, Heating & Ventilation, Smart Gas Metering and Water Metering. This analysis showed that the main risk elements are mainly concentrated in the medium-long term prospects relating to new applications and traditional applications, with particular reference to the Heating & Ventilation division, in view of the uncertainty associated with the progress of the technological transition.

The Directors point out that the Plan is based on a set of assumptions, which also include assumptions relating to future events that are not necessarily likely to occur in the expected time and manner.

Coming to shorter-term planning, the Plan, for 2024 and 2025, has been detailed in a monthly cash plan, to intercept the short- and medium-term economic and financial dynamics and highlight the related needs over this time horizon.

With regard to the instruments to ease the situation of financial tension highlighted in the preamble, with regard to loans included in the extension and standstill agreement, the aforementioned cash plan takes into account the renegotiation with the credit institutions of the repayment profile and the rescheduling of the final term that were defined with the agreements signed on April 22 and 23, 2024 (hereinafter, the "Agreements"). These Agreements provide for the extension of the original maturities by 24 months and the remodulation of the repayment profile in increasing instalments, with the maintenance of the current interim intervals and the start of repayment from the signing of the Agreements, without a moratorium period.

To further support the Group's financial situation, the above-mentioned cash plan records the positive impact, starting from the date of signing of the Agreements, deriving from a shareholder loan granted to the Company by the majority shareholder, equal to Euro 5 million, interest-bearing with capitalization of the related financial charges, subordinated to bank debt.

The Agreements do not provide for the signing of further loans or specific forms of automatic commitment on the maintenance of any existing short-term loans.

Finally, the Agreements provide for the redefinition of the financial covenants, in line with the financial renegotiation described and the economic and financial profile of the Business Plan.

As highlighted above, the Plan was also subject to an *independent business review* (IBR) by an independent expert, who analysed the main economic and financial assumptions underlying the Plan, concluding that there was no unreasonableness. This conclusion is also supported by a sensitivity analysis of some assumptions regarding the evolution of revenues, margins and net working capital.

The Directors assessed the uncertainty associated with the achievement of the objectives set out in the Plan, including the targets for reducing net working capital. In view of the performance of the first months of the current year and the forecasts made, the actions that may be taken in the management of liquidity and considering the signing of the aforementioned Agreements with credit institutions, they believe that the Group will be able to fulfil its obligations in the foreseeable future and have therefore considered it appropriate to use the going concern assumption in the preparation of the consolidated financial statements at December 31, 2023.

IFRS accounting standards, amendments and interpretations applicable from January 1, 2023

The following accounting standards, IFRS amendments and interpretations have been applied for the first time by the Group as of January 1, 2023:

IFRS 17 – Insurance Contracts

Published on May 18, 2017, this standard is intended to replace IFRS 4 – Insurance Contracts and has been applied as of January 1, 2023. The objective of the new standard is to ensure that an entity provides relevant information that accurately represents the rights and obligations arising from the insurance contracts issued. The IASB developed the standard to eliminate inconsistencies and weaknesses in existing accounting policies by providing a single *principle-based* framework to account for all types of insurance contracts, including reinsurance contracts that an insurer holds.

The new standard also includes presentation and disclosure requirements to improve comparability between entities in this sector. The new standard measures an insurance contract on the basis of a General Model or a simplified version of it, called the Premium Allocation Approach ("PAA").

The main features of the General Model are:

- estimates and assumptions of future cash flows are always the current ones;
- the measurement reflects the time value of money;
- the estimates foresee extensive use of information observable on the market;
- there is a current and explicit measurement of risk;
- the expected profit is deferred and aggregated into groups of insurance contracts at the time of initial recognition; and
- The expected profit is recognised over the period of the contract coverage, taking into account adjustments resulting from changes in the assumptions relating to the cash flows relating to each group of contracts.

The APP approach involves measuring the liability for the remaining coverage of a group of insurance contracts provided that, at the time of initial recognition, the entity expects that liability to reasonably represent an approximation of the General Model. Contracts with a coverage period of one year or less are automatically eligible for the PAA approach. The simplifications resulting from the application of the APP method do not apply to the measurement of liabilities for outstanding claims, which are measured with the General Model. However, you don't need to discount those cash flows if you expect the balance to be paid or collected to occur within one year from the date the claim occurred.

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

In addition, on December 9, 2021, the IASB published an amendment entitled *"Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information".* This amendment is a transitional option relating to comparative information on financial assets presented at the date of initial application of IFRS 17. The amendment has been applied as of January 1, 2023, together with the application of IFRS 17, to avoid temporary accounting mismatches between financial assets and liabilities of insurance contracts, and to improve the usefulness of comparative information for financial statement readers. The adoption of this standard and its amendment did not have any effect 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 entitled "Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction". The document clarifies how deferred taxes are to be accounted for on certain transactions that may generate assets and liabilities of the same amount, such as leasing and decommissioning obligations. The changes were effective January 1, 2023.

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

On February 12, 2021, the IASB published two amendments called “Disclosure of Accounting Policies—Amendments to IAS 1 and IFRS Practice Statement 2” e “Definition of Accounting Estimates—Amendments to IAS 8". Amendments to IAS 1 require an entity to disclose material information about the accounting policies applied by the Group. The amendments are aimed at improving the disclosure of the Group's accounting policies in order to provide more useful information to investors and other primary users of the financial statements, as well as to help companies distinguish changes in accounting estimates from changes in *accounting policies*. The changes were effective January 1, 2023.

Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules

On May 23, 2023, the IASB published an amendment called "Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules". The document introduces a temporary exception to the obligations to recognise and disclose deferred tax assets and liabilities relating to the Pillar Two Model Rules (the rule of which is in force in Italy as of December 31, 2023, but applicable from January 1, 2024) and provides for specific disclosure obligations for entities affected by the related International Tax Reform.

The document provides for the immediate application of the temporary exception, while the disclosure obligations are applicable only to annual financial statements started on or after January 1, 2023 but not to interim financial statements with a closing date prior to December 31, 2023; This Amendment does not apply to the Group.

Accounting standards, amendments and IFRS interpretations approved by the European Union as of December 31, 2023, not yet mandatory and not adopted in advance by the Group as of December 31, 2023

The following IFRS accounting standards, amendments and interpretations have been approved by the European Union but are not yet mandatory and have not been adopted in advance by the Group as of December 31, 2023:

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

On January 23, 2020, the IASB published an amendment called "Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current" and on October 31, 2022 it published an amendment called "Amendments to IAS 1 Presentation of Financial Statements: Non-Current Liabilities with Covenants". The purpose of these amendments is to clarify how to classify short-term or long-term debts and other liabilities. In addition, the amendments also improve the information that an entity must provide when its right to defer the extinguishment of a liability for at least twelve months is subject to compliance with certain parameters (i.e. covenants). The changes come into force from January 1, 2024; Early application is still permitted. The directors do not expect a material effect on the Group's consolidated financial statements from the adoption of this amendment.

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

On September 22, 2022, the IASB published an amendment called "Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback". The document requires the seller-lessee to assess the lease liability arising from a sale & leaseback transaction so as not to recognize a gain or loss that relates to the retained right of use. The changes will apply from January 1, 2024, but early enforcement is allowed. The directors do not expect a material effect on the Group's consolidated financial statements from the adoption of this amendment.

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

At the reference date of this document, the competent bodies of the European Union have not yet completed the approval process necessary for the adoption of the amendments and principles described below.

Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability

On August 15, 2023, the IASB published an amendment called "Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability". The document requires an entity to apply a methodology to be applied in a consistent manner in order to verify whether one currency can be converted into another and, when this is not possible, how to determine the exchange rate to be used and the disclosure to be provided in the notes to the financial statements. The change will apply from January 1, 2025, but an early application is allowed. The directors do not expect a material effect on the Group's consolidated financial statements from the adoption of this amendment.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements

The document requires an entity to provide additional information on reverse factoring arrangements that allow users of the financial statements to assess how financial arrangements with suppliers may affect the entity's liabilities and cash flows and to understand the effect of such arrangements on the entity's exposure to liquidity risk. The changes will apply from January 1, 2024, but an early application is allowed. The directors do not expect a material effect on the Group's consolidated financial statements from the adoption of this amendment.

IFRS 14 – Regulatory Deferral Accounts

On January 30, 2014, the IASB published IFRS 14 – Regulatory Deferral Accounts, which allows only those who adopt IFRS for the first time to continue to recognise amounts relating to activities subject to regulated tariffs ("*Rate Regulation Activities*") in accordance with the previous accounting standards adopted. Since the Group is not a *first-time adopter*, this principle does not apply.

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.

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 17.

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 35.

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 separate financial statements at December 31, 2023 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".

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 are capitalized under property, plant and equipment starting from the lease start date and measured at the fair value of the leased asset or, if lower, at the present value of the lease payments. A financial debt of the same amount is recognised as liabilities, the value of which is equal to the present value of future rents, discounted at the implied lease interest rate or at the marginal financing rate. This value is progressively reduced on the basis of the repayment plan of the capital portions included in the contractually stipulated rents.

The lease payments are divided between the principal and the interest portion, so that a constant interest rate is applied to the remaining balance of the debt (principal portion). Financial charges are charged to the income statement.

The assets are depreciated over the term of the lease contract.

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 are any indicators that an asset with definite useful life may be impaired, an entity shall consider internal and external information sources. Relating to internal sources, consideration is made of whether there have been significant changes in the use of the asset and whether the economic performance of the asset is different than expected. For external sources, consideration is taken of technological or market or regulation discontinuation which may reduce the value of the asset.

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

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

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

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

Impairment losses incurred by operating assets are recorded in the income statement in the category of costs relating to those assets.

At each reporting date, an evaluation is made of any indicators of a recovery in the loss in value previously recorded and, where these indicators exist, an estimate is made of the recoverable value. The value of an asset previously written down, except for goodwill, may be restated only if there have been changes in the estimates used to determine the recoverable 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 35.

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, 22	Increases	Disposals	Amortisation	Other movements	Write-downs	Balance at Dec. 31, 23
Goodwill	85,087,912	-	-	-	-	(17,000,000)	68,087,912
Patent rights	5,900,268	110,751	-	(1,760,338)	5,950	-	4,256,631
Concessions, licences and trademarks	11,485,048	4,600	-	(1,013,813)	4,642	-	10,480,476
Other intangible assets	704,409	221,803	-	(384,638)	105,240	-	646,813
Intangible assets in progress and advances	318,282	2,362,759	-	-	(115,832)	-	2,565,209
Total other intangible assets	18,408,006	2,699,913	-	(3,158,789)	-	-	7,949,130
Total goodwill and other intangible assets	**103,495,918**	**2,699,913**	**-**	**(3,158,789)**	**-**	**(17,000,000)**	**86,037,042**

GOODWILL

These amount to Euro 68,088 thousand at December 31, 2023, it was recorded for Euro 85,088 thousand 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 Sensore S.r.l. and Estate S.p.A. in December 2014, as part of a corporate restructuring. During the year, a write-downs of Euro 17,000 thousand was also made in the separate financial statements, as a results of the impairment test on the Heating & Ventilation CGU carried out at June 30, 2023 during the preparation of the consolidated half-year financial report. As a result of the impairment test on the financial statements as at December 31, 2023, no further losses were recognized; please refer to the dedicated section for further details.

PATENTS AND INTELLECTUAL PROPERTY RIGHTS

These include the non-patented technical-productive and technological know-how concerning the Heating & Ventilation 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, 2023 was Euro 3,524 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 10,480 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, 2023 was Euro 10,433 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 mainly includes increases due the development costs which were capitalized during the year in relation to four new Heating & Ventilation projects for Euro 1,850 thousand not completed at December 31, 2023.

Development costs subject to capitalization are related to internal personnel costs, external consultancy and prototypes.

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 & Ventilation 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.

Throughout 2023, the Heating market saw a significant slowdown in demand as a result of the absence of the sector incentives in place in 2022, in addition to the effects of inflation and the high interest rates on household spending capacity. This short-term dynamic is considered against the general backdrop of the energy transition toward electric heating appliances (e.g. heat pumps) in place of combustion appliances (gas boilers), which is a medium/long-term sector trend being monitored by the Company, both as an active participant in the public debate and in its relations with its technical and commercial partners. The Company in fact has at the same time taken into consideration the possible development of demand for its products and solutions and is investing in redefining its portfolio.

It should be noted that, during the preparation of periodic half-year report as at June 30, 2023, the Directors considered that the abrupt market slowdown and the related impact on the Group's economic performance, in a financial context conditioned by a high level of working capital (excess of inventory in the entire supply chain), constituted a so-called trigger event such as to make it necessary to carry put the impairment test on net invested capital as at June 30, 2023 of the two CGUs most affected by the phenomena mentioned: Heating & Ventilation and Smart Gas Metering. The impairment test revealed the need to adjust the carrying amount of the goodwill of the Heating & Ventilation CGU to its recoverable amount by recording an impairment loss of Euro 17 million. This write-down was also included in the separate financial statements of SIT S.p.A. during the year.

As at December 31, 2023, goodwill therefore amounted to Euro 68,088 thousand.

During the preparation of the annual financial report at December 31, 2023, the Directors subjected the aforementioned goodwill to impairment test, the test was submitted for approval by the Board of Directors on April 24, 2024 following an analysis by the Control, Risks & Sustainability Committee on April 22, 2024.

The cash flows supporting the impairment test are based on the 2024-2027 business plan drawn up by Management and approved by the Board of Directors on February 29, 2024, appropriately adjusted to take into account the requirements of IAS 36. This plan represents an update of the business plan approved on September 15, 2023.

The 2024-2027 business plan presents the revised Group guidelines within the changed environment, which takes account of the expected domestic gas heating market contraction as a result of the ongoing technological transition. These guidelines are mainly based on the introduction and development of new products in growth sectors, such as heat pumps, controlled mechanical ventilation, and range hood ventilation, which leverage existing Group technologies and markets that require specific investments for product development. Similarly, growth of product segments and markets where combustion shall remain prevalent is expected (commercial applications, both natural gas and hydrogen). Finally, the plan reflects the expected recovery of the US market, currently contracting in view of general economic conditions in the gas fireplace segment, and as a result of the damage to image caused by the above water heating segment dispute.

The updated plan incorporates the main risk elements highlighted by a leading strategic consulting firm, which analysed the underlying strategic rationales and the main risk profiles inherent in the development of revenues. In particular, the methodology adopted by the independent consultant involved was based on the definition of a Market risk and an Execution Risk. Market risk has broken down the main drivers underlying demand, including the risks associated with the so-called "Climate change", the impact of which has been analyzed both for the main geographies of interest and for product segments. In addition, in the area of Market risk, was identified the impact related to the evolution of sector regulations – in the EU and in the main countries of interest to the Group – closely linked to the Climate Change risk.

The plan has been subject to an Independent Business Review ("IBR") as part of negotiations with the credit institutions referred to in the " Going Concern" section of these explanatory notes; This activity did not reveal any elements of unreasonableness regarding the main assumptions underlying the evolution of the revenues envisaged in the plan.

In addition, in order to carry out the impairment test, the Company availed itself of the support of a leading independent accounting and auditing firm, which analysed the methodology used and the calculations carried out, issuing a favourable opinion on the results that emerged.

The Company's intent, both with reference to the IBR carried out on the plan and to the external support in the preparation of the impairment test, was to avail itself, where possible, of the support of independent third parties in the verification of the estimates made and the methodologies applied. The Directors, however, point out that the plan in question is based on a set of assumptions that also include assumptions relating to future events that are not necessarily likely to occur in the time and manner envisaged.

The parameters used to carry out the impairment tests are shown below.

The growth rate (g) is assumed to be 2.1%.

The Heating CGU's WACC was estimated by assuming:

- Risk free rate: calculated as a weighted average, based on a half-year period, of the specific risk free rates of the individual countries in which SIT operates, using the CGU's projected budgeted revenues for the year 2024 in the relevant country as a weighting;
- Market equity risk premium: assumed to be 5.50% based on the latest findings of the independent consulting firm Kroll and the latest broker reports studies;
- Beta unlevered: calculated as the average value of a panel of listed companies deemed comparable to the CGU's business;
- Additional risk premium: in line with the impairment test carried out in the 2023 half-year report, it was deemed appropriate to include execution risk, confirming 1.5% as an additional premium;
- Reference rate for calculating the cost of debt: assumed to be equal to the average, on a half-year basis, of the Euribor interbank rate with a 10-year maturity;
- Estimated spread: calculated based on the average value of market credit spreads of the panel of comparable companies used to estimate the Beta;
- Financial structure: calculated based on the average value of the financial structures of the panel of comparable companies used to estimate the Beta.

The resulting discount rate (WACC) of 10.60% 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 recoverable amount estimated by the above process was also compared with the related book value of SIT S.p.A. as at December 31, 2023, equal to Euro 194.6 million. As a result of this comparison, it is obtained a *Headroom* of Euro 15.8 million.

The break-even WACC, i.e. the discount rate for which the *headroom* is reduced to zero, is 11,3%. A sensitivity table also shows the trend of the *Headroom* between *the Recoverable Amount* and the carrying amount of the CIN recorded in the separate financial statements of SIT S.p.A. as a function of the WACC and the *g-rate.*

		WACC		
		10,9%	10,6%	10,4%
	2,4%	14,7	21,1	28,0
g rate	2,1%	9,7	**15,8**	22,3
	1,9%	5,0	10,8	16,9

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.

It should also be noted that the percentage reduction in expected cash flows for each year of the plan, and in the terminal value, which, taking into account the other parameters used to carry out the test, would bring the Headroom to 0 is equal to 7,5%.

Note 2: Property, plant and equipment

The movements in property, plant and equipment in 2023 are summarised below:

(in Euro)	Historical cost at Dec. 31, 22	Accumulated depreciation at Dec. 31, 22	Balance at Dec. 31, 22	"Right-of-use" IFRS16 at Dec. 31, 22	Historical cost at Dec. 31, 23	Acc. Deprec. Dec 31, 23	Balance at Dec. 31, 23	Of which "Right-of-use" IFRS 16
Land & buildings	39,645,784	(19,927,089)	19,718,695	3,192,537	39,125,313	(21,062,519)	18,062,794	2,877,045
Plant and machinery	115,450,617	(99,251,129)	16,199,488	-	117,155,089	(103,561,306)	13,593,783	-
Industrial and commercial equipment	82,382,744	(75,409,717)	6,973,027	994,581	83,080,304	(76,937,281)	6,143,023	1,136,659
Other assets	10,781,516	(6,909,355)	3,872,160	3,226,061	10,535,759	(7,040,153)	3,495,606	2,820,781
Assets in progress and advances	25,233,974	-	25,233,974	-	30,882,447	-	30,882,447	-
Total property, plant and equipment	**273,494,635**	**(201,497,290)**	**71,997,344**	**7,413,179**	**280,778,911**	**(208,601,259)**	**72,177,652**	**6,834,485**

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 34.

The following tables outline the changes in the historic cost and accumulated depreciation in 2023 by category.

HISTORICAL COST

(in Euro)	Historical cost at Dec. 31, 22	Application IFRS 16	Historical cost Jan 1, 23	Increases	Disposals	Other movements	Devaluations	Historical cost at Dec. 31, 23	Of which "Right-of-use" IFRS 16
Land & buildings	34,693,004	4,952,780	39,645,784	405,361	(1,017,955)	92,123	(1,002,195)	39,125,313	4,341,441
Plant and machinery	115,450,617	-	115,450,617	2,726,882	(1,745,994)	723,585	-	117,155,089	-

Industrial and commercial equipment	79,963,027	2,419,717	82,382,744	2,706,957	(3,686,702)	1,677,304	-	83,080,304	2,192,768
Other assets	4,507,271	6,274,245	10,781,516	699,175	(1,038,613)	93,682	-	10,535,759	5,839,525
Assets in progress and advances	25,233,974	-	25,233,974	8,235,166	-	(2,586,693)	-	30,882,447	-
Total property, plant and equipment	**259,847,893**	**13,646,742**	**273,494,635**	**14,773,541**	**(7,489,264)**	**-**	**(1,002,195)**	**280,778,911**	**12,373,734**

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 665 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, 2022 were in progress and which in 2023 became fixed assets to be depreciated.

Devaluations of euro 1,002 thousand relate to the partial write-down of the land and buildings of the Company's current headquarters, in consideration of the planned transfer to the new headquarters under construction. This write-down was carried out on the basis of an appraisal report prepared by an independent expert.

“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, 22	Application IFRS 16	Provision at Jan 1, 23	Depreciation	Disposals	Balance at Dec. 31, 23	Of which “Right-of-use” IFRS 16
Acc. Depr. Land and buildings	(18,166,846)	(1,760,243)	(19,927,089)	(1,113,000)	979,765	(21,062,519)	(1,464,396)
Acc. Depr. Plant and machinery	(99,251,129)	-	(99,251,129)	(5,416,266)	1,106,089	(103,561,306)	-
Acc. Depr. Industrial and commercial equipment	(73,984,581)	(1,425,136)	(75,409,717)	(4,918,910)	3,391,346	(76,937,281)	(1,056,110)
Acc. Depr. Other assets	(3,861,171)	(3,048,184)	(6,909,355)	(1,108,775)	977,977	(7,040,153)	(3,018,744)

Total accumulated depreciation Property, plant and equipment	**(195,263,727)**	**(6,233,563)**	**(201,497,290)**	**(12,556,951)**	**6,455,177**	**(208,601,259)**	**(5,539,250)**

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	1,304,735	7,536,665
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**	**1,304,735**	**13,361,347**

The item relating to the revaluation of Law 2/2009 decreased during the year by euro 1,002 thousand as a result of the write-down as indicated above.

Property, plant and equipment were depreciated at December 31, 2023 at the following rates:

	Rate
Land & buildings	-55.05%
Plant and machinery	-88.40%
Industrial and commercial equipment	-93.81%
Other assets	-85.63%
Leasing	-44.77%

Note 3: Investments

The following table reports the movements in 2023 in investments.

	Balance at Dec 31, 22	Increases for the year	Decreases for the year	Other changes	Balance at Dec 31, 23
INVESTMENTS:					
IN SUBSIDIARIES					
SIT Gas Controls Pty Ltd (Australia)	1,266,397	5,383	-	-	1,271,779
SIT Controls U.S.A. Inc. (USA)	4,603,047	8,924	-	-	4,611,971
SIT Controls BV - (Netherlands)	35,574,048	49,084	-	-	35,623,132
SIT Controls Deutschland GmbH (Germany)	4,224	1,503	-	-	5,728
SIT Controls CR, sro (Czech Republic)	2,790	589	-	-	3,380
SIT Vostok O.O.O. - (Russia)	-	-	-	-	-
SIT Romania S.r.l. - (Romania)	2,694,414	151	-	-	2,694,564
SIT Manufacturing (SUZHOU) Co.Ltd (China)	2,621,891	21,517	-	-	2,643,408
Plast Alfin S.A.R.L. (Tunisia)	1,238,212	4,746	-	-	1,242,958
SIT Controls Tunisia S.U.A.R.L. (Tunisia)	68,235	2,394	-	-	70,629
MeteRSit S.r.l. (Italy)	-	-	-	-	-
SIT Metering S.r.l. (Italy)	29,994,297	304,461	-	-	30,298,758
Fondo svalutazione SIT Vostok O.O.O.	-	-	-	-	-

Total investments in subsidiaries	**78,067,555**	**398,753**	**-**	**-**	**78,466,307**
IN OTHER COMPANIES					
Consorzio CONAI	146	-	-	-	146
Società Garanzia Marche	129	-	-	-	129
Consorzio regionale garanzia	129	-	-	-	129
Confidi	77	-	-	-	77
Consorzio Vera Energia	-	-	-	-	-
Immobiliare Golf Montecchia	28,405	-	-	-	28,405
Fondazione ABO in liquidazione	6,000	-	-	-	6,000
Italmed Llc.	378,025	-	-	-	378,025
Cyrus Intersoft Inc.	365,677	-	-	-	365,677
Infracom S.p.A.	521,420	-	-	-	521,420
SAPI immobiliare	0	-	-	-	0
Immobiliare Polesana (ex IMER)	1,034	-	-	-	1,034
Upsens srl	299,980	-	-	-	299,980
Hybitat srl	-	2,000	-	-	2,000
Fondo sval. Fondazione ABO in liq.	(6,000)	-	-	-	(6,000)
Fondo svalutazione Italmed Llc.	(378,025)	-	-	-	(378,025)
Fondo svalutazione Cyrus Intersoft Inc.	(365,677)	-	-	-	(365,677)
Fondo svalutazione Infracom S.p.A.	(501,343)	-	-	-	(501,343)
Total investments in other companies	**349,977**	**2,000**	**-**	**-**	**351,977**
TOTAL INVESTMENTS	**78,417,532**	**400,753**	**-**	**-**	**78,818,285**

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 Hybitat S.r.l. (MI) established on July 7, 2023.

The figures for subsidiaries (result and net equity) refer wholly to the financial statements at December 31, 2023, 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)	61,489	248,300	2,783,412	2,783,412	100%	**1,271,779**
SIT Controls U.S.A. Inc. (USA)	Charlotte (USA)	1,719,457	25,895	1,790,045	1,790,045	100%	**4,611,971**
SIT Controls BV - (Netherlands)	Hoogeveen (Olanda)	46,000	(316,451)	38,651,444	38,651,444	100%	**35,623,132**
SIT Controls Deutschland GmbH (Germany)	Arnsbert (Germania)	51,129	215,792	1,466,684	73,334	5%	**5,728**
SIT Controls CR, sro (Czech Republic)	Brno (Rep. Ceca)	41,627	560,743	3,231,397	161,570	5%	**3,380**
SIT Romania Srl – Romania	Brasov (Romania)	1,868,709	1,087,237	14,257,722	12,137,599	85.13%	**2,694,564**
SIT Manufacturing (SUZHOU) Co.Ltd (China)	Suzhou (Cina)	2,662,193	854,697	2,293,624	2,293,624	100%	**2,643,408**
Plast Alfin S.A.R.L. (Tunisia)	Tunis (Tunisia)	10,454	67,103	932,070	885,467	95%	**1,242,958**
SIT Controls Tunisia S.U.A.R.L. (Tunisia)	Tunis (Tunisia)	61,303	2,802,549	3,442,853	3,442,853	100%	**70,629**
SIT Metering S.r.l. (Italy)	Italia	1,500,000	(961,015)	28,274,669	28,274,669	100%	**30,298,758**
Total							**78,466,307**

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, 2023 of Euro 1,050 thousand is allocated as follows and is unchanged compared to December 31, 2022:

	December 31, 23	December 31, 22
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, 2023, this account amounts to Euro 52 thousand.

In addition, in the financial statements at December 31, 2023, 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, 23
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**

IMPAIRMENT TEST

During the preparation of the annual financial report at December 31, 2023, it was deemed appropriate to carry out the impairment test on the investment in SIT Controls BV ("SIT Controls") as the company is involved in a transformation process that involves the sale of a series of assets to SIT S.p.A. as part of the reorganization of the Group's electronic production footprint.

At the reporting date, the company carries out production and distribution of certain types of products to the other companies of the SIT group (and on a residual basis to third parties) as well as acting as a *sub-holding*, as it holds a series of investments in group companies. As a result of the aforementioned reorganization project, SIT Controls will have a role as a purely distributive company. This transformation, the impact of which is substantiated in a reduction in the company's expected income flows, made it necessary to develop an impairment test in order to verify the stability of the carrying value of the investment held by SIT.

The impairment test was submitted for approval by the Board of Directors on April 24, 2024, following an analysis by the Control, Risk & Sustainability Committee on April 22, 2024.

The cash flows supporting the impairment test are based on the 2024-2027 business plan drawn up by Management and approved by the Board of Directors on February 29, 2024, appropriately adjusted to take into account the requirements of IAS 36 and considering the impacts resulting from the aforementioned reorganization.

The growth rate (g) is assumed to be 2.1%.

The Heating CGU's WACC was estimated by assuming:

- Risk free rate: calculated as a weighted average, based on a half-year period, of the specific risk free rates of the individual countries in which SIT operates, using the CGU's projected budgeted revenues for the year 2024 in the relevant country as a weighting;
- Market equity risk premium: assumed to be 5.50% based on the latest findings of the independent consulting firm Kroll and the latest broker reports studies;
- Beta unlevered: calculated as the average value of a panel of listed companies deemed comparable to the CGU's business;
- Additional risk premium: in line with the impairment test carried out in the 2023 half-year report, it was deemed appropriate to include execution risk, confirming 1.5% as an additional premium;
- Reference rate for calculating the cost of debt: assumed to be equal to the average, on a half-year basis, of the Euribor interbank rate with a 10-year maturity;
- Estimated spread: calculated based on the average value of market credit spreads of the panel of comparable companies used to estimate the Beta;
- Financial structure: calculated based on the average value of the financial structures of the panel of comparable companies used to estimate the Beta.

The resulting discount rate (WACC) of 10.60% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk.

At the end of the Impairment process, the estimated recoverable value for SIT Controls BV, equal to Euro 38,8 million, is sufficient to guarantee *Headroom* with respect to the book values recorded in the financial statements of SIT S.p.A. as at 31.12.2023 (Euro 35,6 million) for Euro 3,2 million.

A sensitivity table here below shows the trend of the *Headroom* between the *Recoverable Amount* and the carrying value of the investment as a function of the WACC and the g-rate.

		WACC		
		10,4%	**10,2%**	**9,9%**
	2,3%	3.153	3.297	3.450
g rate	**2,0%**	3.042	**3.178**	3.322
	1,8%	2.938	3.066	3.203

The break-even WACC, i.e. the discount rate for which the *Headroom* is reduced to zero, is 28,6%.

It should also be noted that the percentage reduction in cash flows expected for each year of the plan, and in the terminal value, which, taking into account the other parameters used to carry out the test, would bring the Headroom to 0 is equal to 65,0%.

Note 4: Non-current financial assets

The breakdown of non-current financial assets at December 31, 2023 is as follows:

(in Euro)	December 31, 2023	December 31, 2022
Guarantee deposits	175,903	175,937
Restricted deposit account	1,000,000	1,500,000
Receivables from subsidiaries	26,190,541	25,690,541
Derivative financial instruments	1,048,743	3,360,988
Participatory financial instruments	150,000	-
Non-current financial assets	**28,565,187**	**30,727,466**

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 2023 a further amount of Euro 500 thousand was released, in accordance with the contractual agreements.

At December 31, 2023, the residual amount was recognised as follows:

- Euro 1,000 thousand under non-current financial assets, as an escrow deposit for a maximum of 5 years;
- Euro 498 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 2022 this loan was extended and repayment is scheduled for a single instalment on conclusion (December 31, 2026). The loan provides for an interest rate parameterized to the 6-month Euribor with the addition of a margin of 130 bps. As of December 31, 2023, this rate is 5.23%.

DERIVATIVE FINANCIAL INSTRUMENTS

The item represents the mark-to-market at December 31, 2023 of the interest rate risk hedging derivative contracts entered into against the following bank loans: Senior Financial Agreement 2021 (SFA 2021), hedged for 71% of the residual nominal value of Euro 67,500 thousand; Unicredit loan hedged for 100% of the residual nominal value of Euro 7,000 thousand; Cassa Depositi e Prestiti loan hedged for 86% of the residual nominal value of Euro 13,125 thousand. Please refer to Note No. 13 for further information on the loan agreements.

PARTICIPATORY FINANCIAL INSTRUMENTS

The item, equal to Euro 150 thousand, refers to the equity financial instruments issued by Hybitat S.r.l. and subscribed by the Company. Following the establishment of Hybitat S.r.l., the shareholders Sit S.p.A. and eNovia S.p.A have committed to ensure that in the first 36 months from the date of establishment, the Board of Directors will offer up to 80,000 participatory financial instruments (SFP) for subscription to shareholders (in equal measure) at a price of 100 euro each. These financial instruments give shareholders an option right to subscribe to a capital increase with the aim of implementing the business plan and achieving the related milestones.
As of December 31, SIT had subscribed 1,500 SFP for a total value of Euro 150 thousand. It should be noted that SIT has committed (as well as its shareholder eNovia S.p.A.) to subscribe at least 29,000 SFP within 36 months from the date of incorporation (of which 12,000 SFP within 18 months and 17,000 SFP within the following 18 months).

Current assets

Note 5: Inventories

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

(in Euro)	December 31, 2023	December 31, 2022
Raw materials, ancillary and consumables	10,928,587	13,312,981
Work-in-progress and semi-finished goods	9,641,803	9,202,021

Finished products and goods	5,557,269	7,134,685
Advances to suppliers	17,258	659,851
Inventories	**26,144,917**	**30,309,538**

The movements in the inventory obsolescence provision were as follows:

	December 31, 2023
Obsolescence provision 31/12/2022	1,903,117
Utilisation in the year	-
Allocation in the year	606,444
Obsolescence provision 31/12/2023	**2,509,561**

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, 2023	December 31, 2022
Trade receivables	22,952,047	23,329,035
Trade receivables from holding company	17,517	23,692
Trade receivables - subsidiaries	34,317,169	49,154,525
Receivables from companies subject to control of holding company	0	16,717
Current trade receivables	**57,286,734**	**72,523,969**
Doubtful debt provision	486,210	494,960
Trade receivables	**56,800,524**	**72,029,009**

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 486 thousand, with the movements in 2023 reported in the following table:

	December 31, 2023
Doubtful debt provision 31/12/2022	494,960
Utilisation in the year	(8,750)
Allocation in the year	-
Doubtful debt provision 31/12/2023	**486,210**

The balance of receivables from customers is net of a without recourse receivable factoring transaction totalling approx. Euro 3,388 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 29 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)	767,037	(579,963)	187,074
SIT Controls U.S.A. Inc. (USA)	40,305	39,905	80,211
SIT Controls BV - (Netherlands)	4,817,331	(1,897,229)	2,920,102
SIT Controls Deutschland GmbH (Germany)	57,876	(21,032)	36,844
SIT Controls CR, sro (Czech Republic)	19,452	(973)	18,479
SIT Romania S.r.l. (Romania)	10,266,897	(4,539,367)	5,727,530
METERSIT Romania Srl (Romania)	-	-	-
SIT Manufacturing (SUZHOU) Co.Ltd (China)	6,219,409	(240,318)	5,979,092
Sit Manufacturing N.A. SA de CV (Mexico)	7,967,271	(5,276,893)	2,690,378
MeteRSit S.r.l. (Italy)	2,015,564	785,776	2,801,340
SIT Metering S.r.l. (Italy)	247,116	1,137,327	1,384,443
Plast Alfin S.A.R.L. (Tunisia)	366,397	131,343	497,740
SIT Controls Tunisia S.U.A.R.L. (Tunisia)	15,523,716	(4,443,836)	11,079,880
Janz - Contagem e Gestao De Fluidos, SA (Portogallo)	839,286	39,739	879,026
Metersit UK Limited (United Kingdom)	6,867	28,164	35,032
Total receivables from subsidiaries	**49,154,525**	**(14,837,357)**	**34,317,169**

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, 2023	December 31, 2022
Group VAT receivables	679,340	813,266
Withholding taxes	2,567,305	1,517,699
Income tax receivables	1,084,408	1,415,861

Advances	264,670	264,878
Prepayments and accrued income	569,720	709,301
Other receivables	167,265	32,880
Social security institution receivables	86,518	33,465
Other current assets	**5,419,226**	**4,787,350**

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. Since the 2022 fiscal year, the company SIT Metering S.r.l. has also joined the procedure and from the current financial year the company Technologies SAPA of FDS S.S. has also joined the procedure. The amount of Euro 679 thousand concerns the net receivable of the company from the parent company.

WITHHOLDING TAXES

Receivables for withholding taxes of Euro 2.567 thousand, mainly refer to withholding taxes on 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.

TAX RECEIVABLES

The item refers for Euro 718 thousand to the tax credit accrued for research, development and technological innovation activities (Budget Law 2020 No. 160/2019 and Law No. 234/2021, art. 1, c. 45), for Euro 90 thousand to the tax credit accrued for expenses incurred on investment in new capital goods and for Euro 223 thousand the tax credit for new capital goods 4.0 (Law No. 160/2019 and Law No. 178/2020) , for Euro 8 thousand the "Art-Bonus" tax credit (Law No. 106 of July 29, 2014) and for Euro 45 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, 2023, accruals and prepayments were composed as follows:

	Balance at December 31, 2023				Balance at December 31, 2022
	Within one year	Beyond one year	Duration beyond 5 years	Total	Total
Accrued financial income	7,409	-	-	7,409	194
Total accrued income	**7,409**	**-**	**-**	**7,409**	194
Prepaid financial charges	89,518	-	-	89,518	71,120
Prepayments on fees, rental & insurance premiums	322,919	1,026	-	323,945	396,855
Other prepayments	144,600	4,248	-	148,848	241,132
Total prepayments	**557,037**	**5,274**	**-**	**562,311**	**709,107**
Total accrued income and prepayments	**564,446**	**5,274**	**-**	**569,720**	**709,301**

Note 8: Income tax receivables

Income tax receivables were as follows:

(in Euro)	December 31, 2023	December 31, 2022
IRAP receivables	594,722	510,772
Tax consolidation receivables from parent company	278,952	857,228
Tax receivables	**873,674**	**1,368,000**

The item IRAP receivables is represented by the IRAP advance paid net of the tax payable for the year ended December 31, 2023.

The amount of Euro 279 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.

Note 9: Other current financial assets

A breakdown of other current financial assets follows:

(in Euro)	December 31, 2023	December 31, 2022
Short-term financial receivables from subsidiaries	17,148,284	22,246,984
Dividends from subsidiaries	-	-
Guarantee deposits	3,103,675	2,304,478
Restricted deposit account	497,889	500,000
Derivative financial instruments	1,882,665	2,318,758
Other current financial assets	**22,632,514**	**27,370,220**

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, 2023 is recognised on an accruals basis to the income statement for the year.

Company	credit line	utilisations	intercompany acc.
SIT Gas Controls Pty Ltd	1,229,785	245,957	
SIT Manufacturing (Suzhou) Co.Ltd.	1,910,609	1,910,609	
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		1,881,544
SIT Metering s.r.l.	1,000,000		1,071,999
SIT Manufacturing N.A. S.A. de C.V.	7,270,078	7,270,078	
MeterSit UK Ltd	460,273	402,739	
S.I.T. Controls U.S.A., Inc.	1,357,466		365,359
Total	**19,228,211**	**13,829,383**	**3,318,902**

GUARANTEE DEPOSITS

The amount relates for Euro 3,100 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 during the year 2022. This deposit constitutes the Company's commitment to maintain the orders to which these components refer in support of the supplier's activity in the current context of destocking of the production chain of the Heating & Ventilation sector.

ESCROW DEPOSITS

With regards to the amount of Euro 498 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 1,883 thousand, includes: Euro 1,543 thousand the current portion of the IRS contracts on the SFA 2021 loan, Euro 135 thousand concerning the Unicredit EIB loan and Euro 204 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 su SFA 2021	Euro	06/08/2021	30/06/2026	-0.07%	48,000,000	1,543,120
IRS su fin.Unicredit-BEI	Euro	06/06/2022	30/05/2025	1.44%	7,000,000	135,464
IRS su fin.CDP	Euro	30/06/2022	31/12/2026	1.41%	11,250,000	204,081
Total					**66,250,000**	**1,882,665**

Note 10: Cash and Cash Equivalents

(in Euro)	December 31, 2023	December 31, 2022
Cash in hand and similar	3,709	3,214
Bank and postal deposits	2,787,995	12,341,683
Cash and cash equivalents	**2,791,704**	**12,344,897**

Cash and cash equivalents relate to current accounts and cash in hand and similar at December 31, 2023.

Shareholders' Equity

Shareholders' equity at December 31, 2023 amounts to Euro 135,954,382, with a decrease of Euro 30,296,000 compared to the amount of Euro 166,250,382 at December 31, 2022. 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	100.00%	Euronext – Milan

Note n. 12: Reserves

The availability and distributability of shareholders' equity is outlined in the following table:

(in Euro)	Amount	Possibility of use	Quota available	Quota distributable	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)(3)	10,359,557	10,359,557				(a)
Capital payments reserve	16,615,618	(1)(2)(3)	16,615,618	16,615,618				(a)
TOTAL CAPITAL RESERVES								
Legal reserve	19,232,439	-2	19,232,439					(b)
Treasury shares reserve	(6,732,904)		-	-				(a)/(b)
First time application IAS/IFRS reserve	564,567	-2	564,567	-		94,308	II	(b)
Reserve for currency differences	161,178	(1)(2)	161,178	-				(b)
Cash Flow Hedge Reserve	2,206,741		-	-				(b)
Actuarial Reserve - Employee benefits	(69,097)		-69,097	-		-		
Extraordinary reserve	24,726,475	(1)(2)(3)	24,726,475	24,726,475				(b)
LTI Reserve	2,046,445		2,046,445					(b)
Retained earnings (accum. losses)	-				2,747,710			
Result 2023	(29,318,833)		(29,318,833)	(29,318,833)				
TOTAL	135,954,381		44,318,349	22,382,817				
NON-DISTRIBUTABLE AMOUNT				(2,528,755)			I	
RESIDUAL DISTRIBUTABLE AMOUNT				24,911,572				

(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, since the Company has capitalized development costs for an amount equal to Euro 1,849,547, net of amortization, until the amortization process is completed, dividends may be distributed only if sufficient available reserves remain to cover the amount of unamortized costs.
Furthermore, it should be noted that in accordance with Article 2426, first paragraph, number 11-bis, the profits deriving from the fair value measurement of derivative financial instruments not used or not necessary for hedging for an amount equal to Euro 679,208 are not distributable.
(II) The first time application IAS/IFRS reserve at December 31, 2023 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 216,453

SHARE PREMIUM RESERVE

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

CAPITAL PAYMENTS RESERVE

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

LEGAL RESERVE

The legal reserve of Euro 19,232,439 did not change during the year.

TREASURY SHARES RESERVE

The treasury shares reserve of Euro 6.732.904 did not change during the year. This reserve 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, 2023, the item includes the fair value component referring to the year 2023 of the 3 plans for Euro 2,046,445. For further details on these plans, reference should be made to Note 35.

CASH FLOW HEDGE RESERVE

The *cash flow hedge* at December 31, 2022 is recorded as a positive value of Euro 4,212,764, net of the Euro 1,330,346 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, 2023 had a positive value of Euro 2,206,741, net of the tax effect of Euro 696,866.

ACTUARIAL RESERVE

At December 31, 2023, the actuarial reserve amounts to Euro 69,097 and derives from the effects of discounting post-employment benefits.

EXTRAORDINARY RESERVE

The extraordinary reserve at December 31, 2023 amounts to Euro 24,726,475; during the year, it increased by Euro 14,913,620 due to the resolution of the Shareholders' Meeting of May 3, 2023 that approved the financial statements for the year ended December 31, 2022.

Non-current liabilities

Note 13: Non-current bank payables

The breakdown is as follows:

(in Euro)	December 31, 2023	December 31, 2022
Bank payables - non-current portion of loans	58,326,038	78,250,000
Bank payables - non-current portion amortised cost	(144,006)	(281,568)
Total bank payables - non-current portion loans	**58,182,032**	**77,968,432**

As of December 31, 2023, non-current loans represent the value of the non-current financial debts signed by the Company with financial institutions.

During the 2023 financial year, due to the persistence of the negative economic situation in the Heating & Ventilation business, it became apparent that the Company was unable to meet certain commitments to repay loans scheduled for the end of the year and financial covenants. Against this prospect, the Company promptly entered into the necessary discussions with its lenders to reach an agreement on these commitments, signing an extension and standstill agreement on December 29, 2023.

This agreement extends to April 30, 2024 the repayment of the principal portions maturing on December 31, 2023, providing instead for the regular payment of interest. The Agreement also entails the waiver by the lenders to assert certain rights and precautionary actions due to them, as a result of the extension in question and the failure, to comply with the contractual financial parameters as of December 31, 2023.

The agreement commits the Company to certain periodic disclosure obligations relating to cash forecasts and the evolution of short-term debt, as well as prohibiting new financial debt beyond that existing at the date of signature and limiting short-term financial debt within a certain threshold.

The Company has also undertaken to provide lenders with an update of the business plan to be submitted to an *independent business review* by February 28, 2024, documents that have supported the further discussions that have begun in the meantime with the banking sector for the renegotiation of the financial profile of the debt and the consequent revision of the financial parameters as the parameters provided for by the current contracts are not compatible with the outlook short- and medium-term income and financial performance of the Group. The terms of the renegotiation completed on April 22 and 23, 2024 are set out in the " Going Concern" section of these explanatory notes.

The financing operations included in the extension and standstill agreement, the non-current portions of which are shown in the table above, also as a result of the agreement itself, are as follows:

- for Euro 45,000 thousand to the 2021 Senior Financial Agreement (SFA 2021) that the Company signed on August 6, 2021 with a pool of banks, the main characteristics of which are:
  - original amount of Euro 90,000 thousand, with a maturity of 5 years maturing on June 30, 2026; repayment according to an amortization schedule in predetermined semi-annual installments starting 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 performance of the so-called Leverage ratio – an indicator consisting of the ratio between net financial position and EBITDA. During 2023, the average net interest income was 1.81%; the margin is also determined on the basis of a sustainability rating ("ESG") issued by the international agency EcoVadis;
  - The financial liability is measured at amortised cost.

  The loan agreement provides for the option of early repayment without penalties and the absence of collateral. As usual in similar transactions, it provides for a series of commitments by the Company such as the prohibition, except within the limits provided therein, to take on further debt and provide the related guarantees (negative pledge) as well as limits on the distribution of dividends and asset sales or business disposals. Financial covenants are envisaged, to be calculated at the level of the consolidated financial statements on a half-yearly basis: (i) the ratio between net financial position and EBITDA and (ii) the ratio between EBITDA and net financial expenses, all of which are to be calculated according to the definitions set out in the contract itself. The limit values of these covenants for the year ended December 31, 2023 are 3.00x and 5.0x, respectively, values that have not been complied with due to the economic and financial performance of the year but are subject to waivers pursuant to the extension and standstill agreement described above.

  The nominal residual amount as of December 31, 2023 amounts to a total of Euro 67,500 thousand, of which Euro 45,000 thousand for the non-current portion and 22,500 thousand euros for the current portion. The amount remaining at amortised cost as of December 31, 2023 amounts to a total of Euro 67,217 thousand, of which the non-current portion amounts to 44,856 thousand euros and the current portion amounts to Euro 22,361 thousand.

- for Euro 7,500 thousand to the loan signed on March 11, 2022 with Cassa Depositi e Prestiti S.p.A., the main characteristics of which are:

- original amount of Euro 15,000 thousand, due on December 31, 2026, repayment according to an amortization schedule in predetermined semi-annual installments starting from June 30, 2023;
- interest rate indexed to 6-month Euribor, plus a margin of 1.24%.

Financial covenants are envisaged, to be calculated at the level of the consolidated financial statements on a half-yearly basis: (i) the ratio between net financial position and EBITDA and (ii) the ratio between net financial position and shareholders' equity, all of which are to be calculated according to the definitions set out in the contract itself. The limit values of these covenants for the year ended at December 31, 2023 are 3.00x and 1.5x, respectively. The ratio of net financial position to EBITDA, due to the economic and financial performance of the year, was not respected but subject to waiver pursuant to the extension and standstill agreement described above.

- for Euro 5,000 thousand to the loan signed on May 31, 2022 with Unicredit S.p.A., the main characteristics of which are:
  - original amount of Euro 10,000 thousand, due on May 31, 2025, repayment according to an amortization schedule of 6 semi-annual installments, the first 5 of Euro 1,000 thousand starting from November 30, 2022, the last of Euro 5,000 thousand on May 31, 2025;
  - interest rate indexed to the 6-month Euribor, plus a margin determined on the basis of a grid defined by the ratio of net financial position to EBITDA. During 2023, the average net interest income was 1.30%;

  Financial covenants are envisaged, to be calculated at the level of the consolidated financial statements on an annual basis: (i) the ratio between net financial position and EBITDA and (ii) the ratio between EBITDA and net financial expense, all of which are to be calculated according to the definitions set out in the contract itself. The limit values of these covenants for the year ended at December 31, 2023 are 3.00x and 5.0x, respectively. Also for this financing, the values of the covenants have not been complied with but subject to waiver pursuant to the extension and standstill agreement described above.

The following financing transactions, the non-current portions of which are shown in the table above, were not included in the extension and standstill agreement, while the payment of repayment instalments and financial charges continued as normal:

- Euro 645 thousand to the loan signed on February 3, 2023 with Banca BPER S.p.A., the main characteristics of which are:
  - original amount of Euro 5,000 thousand, due on February 3, 2025, repayment according to an amortization schedule of 8 constant quarterly installments, starting from May 3, 2023;
  - interest rate indexed to 3-month Euribor, plus a margin of 1.25%;
  - there are no financial covenants.

- For Euro 181 thousand to a credit facility called "Revolving Credit Facility" granted on September 27, 2023 by Banca Monte dei Paschi di Siena S.p.A. to support specific investment initiatives, the main features of which are:
  - amount that can be used up to Euro 4,000 thousand in one or more instalments, with availability that can be reinstated with subsequent repayments; the final refund must be made by the deadline of October 1, 2025;
  - interest rate indexed to 6-month Euribor, plus a margin of 1.00%; there is a commission on the agreement of 0.25% quarterly;
  - there are no financial covenants.

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

A breakdown follows:

(Euro.000)	December 31, 2023	December 31, 2023
Other non-current payables	14,945	44,835
Non-current financial lease payables - IFRS 16	5,291,765	5,930,675
Bond loan	39,604,980	39,520,341
Other non-current financial liabilities and derivative financial instruments	**44,911,690**	**45,495,851**

OTHER NON-CURRENT FINANCIAL LIABILITIES

The account totalling Euro 15 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 34.

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.

In view of the reduction in sales during the year and the consequent evolution of the Group's economic and financial dynamics, the prospective impossibility of complying with the contractual covenants of the transaction in question led the Company to sign, on December 29, 2023, an agreement to waive and redefine the aforementioned financial parameters with the subscribers of the bond loan. As part of the agreement, the Company undertook to provide an update of the business plan by February 28, 2024 to be submitted for *independent business review*, documents that supported the aforementioned discussions with the banking sector for the renegotiation of the financial profile of the debt referred to in Note 13, and the revision of the financial parameters in line with the updated short- and medium-term income and financial outlook of the Group.

Note 15: Provisions for risks and charges

The changes to the account were as follows:

	December 31, 2022	Provisions	Utilisations/Releases	December 31, 2023
Agents indemnity provision	154,133	-	-	154,133
Product warranty provision	140,253	-	-	140,253
Other risks provision	1,647,979	434,000	(278,286)	1,803,693

Total provisions for risks and charges	**1,318,935**	**434,000**	**(278,286)**	**2,098,080**

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 671 thousand, which concerns the risks over ongoing disputes, whose risk of loss is probable. The decrease during the year, amounting to Euro 57 thousand, relates to specific complaints granted to customers for Euro 30 thousand, as well as a release of the provision, equal to Euro 27 thousand, for the loss of obligations to customers for potential indemnities provided for in the contract;

The future charges provision of Euro 1.133 thousand relates to the costs of the reclamation of a plot of land owned by the Company; the use in the year of Euro 152 thousand concerned the costs incurred for the reclamation activity; during the year, Euro 434 thousand was in addition allocated.

Note 16: Post-employment benefit provision

The movements in the account in the year to December 31, 2023 and to December 31, 2022 were as follows:

	December 31, 2023	December 31, 2022
Net liabilities for employee benefits	3,809,996	4,023,898
Liabilities for retention or other	311,523	304,317
Net liabilities for defined employee benefits	**4,121,519**	**4,328,215**

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

	December 31, 2023	December 31, 2022
Post-em. bens. at beginning of year	4,010,248	4,635,919
Payments in the year	(323,852)	(197,214)
Interest cost	134,439	43,499
Actuarial gains/(losses) recognised	(15,388)	(471,956)
Post-em. bens. at end of year	**3,805,446**	**4,010,248**

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

Defined benefit plans	December 31, 2023	December 31, 2022
Annual discount rate	3.00%	3.63%
Annual inflation rate	2.00%	2.30%
Annual increase in post-employment benefit	3.00%	3.23%
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, 2023 and at December 31, 2022 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, 2022				December 31, 2023			
	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	373,317	373,317	89,596	14,559	311,523	311,523	74,766	12,149
Other provisions for risks and charges	1,719,232	1,719,232	412,616	67,050	1,943,947	1,943,947	466,547	75,814
Write-down of inventories	1,903,117	1,903,117	456,748	74,222	2,509,561	2,509,561	602,295	97,873
Unrealised exchange losses	361,742	-	86,818	-	206,709	-	49,610	-
Deprec. suspended on prop. Revaluations	171,004	171,004	41,041	6,669	171,004	171,004	41,041	6,669
Impairment of property, plant and equipmen	-	-	-	-	1,002,195	1,002,195	240,527	39,086
Other	223,675	49,411	53,682	1,927	147,869	49,411	35,489	1,927

Deferred taxes concerning previous years tax losses	6,071,334	-	1,457,120	-	21,560,685	-	5,174,564	-
ACE	9,333,782	-	2,240,108	-	10,630,318	-	2,551,276	-
TOTAL DEFERRED TAX ASSETS	**20,157,204**	**4,216,081**	**4,837,729**	**164,427**	**38,483,811**	**5,987,641**	**9,236,115**	**233,518**
IMPOSTE DIFFERITE								
Accelerated depreciation	(375,842)	-	(90,202)	-	(375)	-	(90)	-
Revaluation land & buildings from merger	(3,152,204)	(3,152,204)	(756,529)	(122,936)	(3.142.148)	(3.142.148)	(754)	(123)
Reval. Investments for positive cancellation diff.	(52,500)	-	(12,600)	-	(53)	-	(13)	-
Valuation brands and Technologies for consolidation diff.	(16,476,312)	(16,476,312)	(3,954,315)	(642,576)	(13.956.579)	(13.956.579)	(3.349.579)	(544)
Unrealised exchange gains	(602,734)	-	(144,656)	-	(57)	-	(14)	-
Finance Leases	(880,579)	(880,579)	(211,339)	(34,343)	(837)	(837)	(201)	(33)
Derivative financial instruments	(5,543,110)	-	(1,330,346)	-	(2.903.607)	-	(697)	-
TOTAL DEFERRED TAXES	**(27,083,282)**	**(20,509,096)**	**(6,499,988)**	**(799,855)**	**(21,322,955)**	**(17,935,366)**	**(5,117,509)**	**(699,479)**
TAX: DEFERRED TAX ASSETS/(LIABILITIES) TO BALANCE SHEET TOTAL	**(6,926,078)**	**(16,293,015)**	**(1,662,259)**	**(635,428)**	**17,160,856**	**(11,947,725)**	**4,118,605**	**(465,961)**

The recognition of the deferred tax assets was made on the basis of the directors' assessment that there is a likelihood that the entity will be able to realise taxable income in future years sufficient for it to be recoverable over a period of approximately 6 years.

Current liabilities

Note 18: Short-term loans and borrowings

The breakdown is as follows:

(in Euro)	December 31, 2023	December 31, 2022
Utilisation short-term lines	10,234,662	822,298
Current portion of loans	35,841,511	20,579,520
Current financial charges	58,357	37,444
Short-term loans and borrowings	**46,134,530**	**21,439,262**

UTILISATION SHORT-TERM LINES

The item includes advances on commercial flows received from various banks totalling Euro 9.816 thousand, in addition to accrued and outstanding bank interest payable of Euro 419 thousand.

CURRENT PORTION OF BANK LOANS

This item includes the current portion of the 2021 Senior Financial Agreement loan for Euro 22,361 thousand, the current portion of the Unicredit loan for Euro 2,000 thousand and of Cassa Depositi e

Prestiti loan for Euro 5,625 thousand. These loans are represented in accordance with the extension and standstill agreements signed on December 29, 2023 and described in more detail in Note 13.

According to the original contractual provisions, the table represents the current portion of the loan to Banca BPER S.p.A. for Euro 2,522 thousand, as described in more detail in Note 13. Finally, this item also includes the residual portion of Euro 3,333 thousand of the loan signed on June 16, 2023 with Banca Monte dei Paschi di Siena S.p.A., the main characteristics of which are:

- original amount of Euro 5,000 thousand, due on June 30, 2024, repayment according to an amortization schedule of 9 predetermined monthly installments, starting from October 31, 2023;
- interest rate indexed to 1-month Euribor, plus a margin of 0.80%.

CURRENT FINANCIAL LIABILITIES

This item represents accrued interest at December 31, 2023 on the 2021 Senior Financial Agreement loan for Euro 2 thousand, on the Unicredit loan for Euro 30 thousand, on the Banca BPER loan for Euro 26 thousand.

Note 19: Other current financial liabilities and derivative financial instruments

A breakdown follows:

(in Euro)	December 31, 2023	December 31, 2022
Current financial payables – subsidiaries	20,715,131	23,204,379
Other current payables	98,912	63,780
Factoring payables	846,084	717,766
Derivative financial instruments (current portion)	20,070	823,165
Current financial lease payables - IFRS 16	1,710,171	1,630,716
Dividends	-	1,626
Other current financial liabilities and derivative financial instruments	**23,390,368**	**26,441,432**

CURRENT FINANCIAL PAYABLES - SUBSIDIARIES

The balances at December 31, 2023 and December 31, 2022 mainly 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; there is also a time deposit relationship with the subsidiary SIT Manufacturing N.A.S.A. de CV (Mexico).

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

	December 31, 2023	December 31, 2022
SIT Gas Controls Pty Ltd (Australia)	2,114	41,870
SIT Romania S.r.l. (Romania)	3,389,184	5,763,997
Plast Alfin s.a.r.l. (Tunisia)	266,001	-
SIT Controls BV (Netherlands)	8,903,220	9,846,558
SIT Controls Deutschland GmbH (Germany)	1,017,809	748,717
SIT Controls CR, sro (Czech Republic)	2,610,879	2,025,598
Sit Manufacturing N.A. SA de CV (Mexico)	2,088,820	-
MeteRSit S.r.l. (Italy)	1,725,609	4,777,639
Janz (Portogallo)	711,496	-
Total current financial payables - subsidiaries	**20,715,132**	**23,204,379**

OTHER CURRENT FINANCIAL PAYABLES

The item of Euro 99 thousand relates for Euro 30 thousand to the current portion of the Sace-Simest loans as better specified in Note 14, and for Euro 69 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, 2023 of Euro 20 thousand concerns exchange rate risk hedging contracts.

In 2023, 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, 2023 are summarised 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	15,000,000	EUR	7.9510	7.8770			(12,923)
forward purchases	GBP	500,000	EUR	0.8685	0.8715	(1,757)		
forward purchases	USD	3,500,000	EUR	1.1054	1.1097	(5,390)		
Total						**(7,147)**	**-**	**(12,923)**

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, 22	Drawdown	Acquisitions	Reimbursements/ settlements	Reclassification	Fair Value Changes	Change in amortised cost	Dec 31, 23
Bank payables - non-current portion of loans	78,250,000	5,180,830			(25,104,792)			58,326,038

Bank payables - non-current portion amortised cost	(281,568)				137,562			(144,006)
Total bank payables - non-current portion loans	**77,968,432**	**5,180,830**	**-**	**-**	**(24,967,230)**	**-**	**-**	**58,182,032**
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	(479,659)				84,639			(395,020)
Derivative financial instruments - non-current portion	-							-
IFRS16	5,930,675	822,101			(1,461,011)			5,291,765
Payables to other lenders	44,836	-			(29,891)			14,945
Total other non-current financial liabilities and derivative financial instruments	**45,495,852**	**822,101**	**-**	**-**	**(1,406,263)**	**-**	**-**	**44,911,690**
Total non-current financial liabilities	**123,464,284**	**6,002,931**	**-**	**-**	**-26,373,493**	**-**	**-**	**103,093,722**
Bank payables - current portion of loans	20,750,000	5,000,000		(14,874,220)	25,104,791			35,980,571
Bank payables - current portion amortised cost	(170,481)			168,983	(137,562)			(139,060)
Current account and accrued interest expense	859,742	10,293,019		(859,742)				10,293,019
Total bank payables - current portion of loans	**21,439,261**	**15,293,019**	**-**	**(15,564,979)**	**24,967,229**	**-**	**-**	**46,134,530**
Shareholder loan - current portion of loans	-							-
Bond loan - current portion	-							-
Bond loan - amortised cost current portion	(82,276)	-		84,826	(84,639)			(82,089)
Bond loan - accrued interest expense	116,167	151,111		(116,167)				151,111
Derivative financial instruments - current portion	823,165			(823,165)		20,070		20,070
Financial liabilities to subsidiaries	23,204,379	3,920,690		(6,409,938)				20,715,131
Factoring payables	717,766	846,084		(717,766)				846,084
IFRS16	1,630,716	457,270		(1,838,827)	1,461,011			1,710,170
Payables to other lenders	31,517			(31,517)	29,891			29,891
Total other current financial liabilities and derivative financial instruments	**26,441,434**	**5,375,155**	**-**	**(9,852,554)**	**1,406,263**	**20,070**	**-**	**23,390,368**
Total current financial liabilities	**47,880,695**	**20,668,174**	**-**	**(25,417,533)**	**26,373,492**	**20,070**	**-**	**69,524,898**

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 34.

Note 20: Trade payables

At December 31, 2023, trade payables were broken down as follows:

(in Euro)	December 31, 2023	December 31, 2022
Trade payables	43,315,454	49,711,275
Trade payables to subsidiaries	14,286,185	24,328,260
Trade payables	**57,601,639**	**74,039,536**

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 157 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 includes 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 15 thousand.

Trade payables to subsidiaries by individual subsidiary are presented below:

	December 31, 2023	December 31, 2022
SIT Gas Controls Pty Ltd (Australia)	48,387	6,561
SIT Controls U.S.A. Inc. (USA)	73,371	97,876
SIT Controls BV (Netherlands)	1,754,153	913,299
SIT Controls Deutschland GmbH (Germany)	332,005	455,410
SIT Controls CR, sro (Czech Republic)	465,647	414,743
SIT Romania S.r.l. (Romania)	5,153,242	14,142,877
Sit Manufacturing (SUZHOU) Co Ltd (China)	3,173,948	3,302,225
MeteRSit S.r.l. (Italy)	350,379	45,433
SIT Metering Srl (Italy)	162,716	157,981
Sit Manufacturing N.A. SA de CV (Mexico)	505,064	410,740
SIT Controls Tunisia SUARL. (Tunisia)	2,107,252	4,020,210
Plast Alfin S.A.R.L. (Tunisia)	147,643	360,906
Janz (Portogallo)	12,378	-
Total trade payables to subsidiaries	**14,286,185**	**24,328,260**

Note 21: Other current liabilities

A breakdown follows:

(in Euro)	December 31, 2023	December 31, 2022
Other payables	363,551	532,686
Customer advances	393,960	1,353,005
Current remuneration payables	1,561,290	1,619,745
Deferred remuneration payables	3,420,381	2,456,943
Payables to social security institutions	2,313,361	2,336,484
Retention fund, MBO and PDR	1,009,690	2,136,559
Accrued expenses	605,652	541,166

Substitute tax payables	1,851,246	1,648,482
Other current liabilities	**11,519,131**	**12,625,070**

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 2023 salaries, paid in January 2024.

DEFERRED REMUNERATION PAYABLES

Deferred remuneration refers to holidays and leave matured but not taken, including the relative contributions, as well as debts allocated against agreements for the voluntary termination of the employment relationship with certain employees.

PAYABLES TO SOCIAL SECURITY INSTITUTIONS

These include employee social security and pension deductions.

RESULT BONUSES

The account relates to the estimate of 2023 bonuses, principally to be paid in 2024.

SUBSTITUTE TAX PAYABLES

The account concerns payables for withholding taxes on wages and salaries accruing in 2023.

COMMENTS ON THE MAIN ITEMS OF THE INCOME STATEMENT

Note 22: Revenue from sales and services

Revenues from sales and services are comprised as follows:

(in Euro)	2023	2022
Revenues from product sales	20,651,871	260,305,362
Revenues from services	13,904,722	27,938,907
Revenues from sales and services	**234,556,593**	**288,244,269**

REVENUES FROM PRODUCT SALES

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

Category of activity	2023	2022
Mechanical controls	132,987,408	162,799,066
Electronic controls	32,702,676	25,906,743
Fans	28,435,317	42,474,807
Flue systems	19,858,887	18,897,127
Other products	6,667,582	10,227,619
Total	**220,651,871**	**260,305,362**

	2023	2022
Italy	36,127,893	51,516,415
European Union	68,911,491	84,295,760
Other countries	115,612,488	124,493,187
Total revenues	**220,651,871**	**260,305,361**

REVENUES FROM SERVICES

This account is comprised as follows:

	2023	2022
Provision of other services	5,727,053	5,679,122
Recovery of misc. expenses	1,835,692	2,174,058
Seconded personnel recharges	2,050,977	1,351,076
Royalties & TP Compensation	4,291,001	18,705,483
Commission income	0	29,167
Total revenue from services	**13,904,722**	**27,938,907**

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

The amount refers to royalties invoiced to the subsidiaries SIT Manufacturing Na. Sa. De CV for Euro 1,860 thousand, SIT Controls BV (Netherlands) for Euro 2,075 thousand e SIT Manufacturing (SUZHOU) Co Ltd (China) for Euro 357 thousand, against the use by these of technical-productive know-how of non-patented technology and the SIT brand, all owned by the Company.

Note 23: Raw materials, ancillaries, consumables and goods

The breakdown of the account in 2023 and 2022 was as follows:

(in Euro)	2023	2022
Purchases of ancillary materials	2,427,453	3,371,313
Purchases of raw materials, semi-finished & packaging	78,952,497	102,439,222
Finished products purchases	33,702,541	41,076,686
Purchases of goods	30,445,239	36,659,265
Maintenance and repair materials	1,133,583	1,488,145
Other purchases	1,525,875	2,330,010
Duties on purchases	367,544	588,017
Raw materials, ancillaries, consumables and goods	**148,554,732**	**187,952,658**
Changes in inventories of raw materials, ancillaries, consumables and goods	2,384,393	(3,367,083)
Change in inventories of finished & semi-finished products and goods	1,137,634	(1,736,433)
Change in inventories	**3,522,027**	**(5,103,516)**
Total cost of raw materials, ancillaries, consumables and goods	**152,076,759**	**182,849,142**

Raw materials, ancillaries, consumables and goods, including changes in inventories, amounted to Euro 152,077 thousand accounting for 65% of revenues, down compared to 2022 of Euro 30,772 thousand and against a revenue percentage of 63%.

Note 24: Service costs

The composition of the account is as follows:

(in Euro)	2023	2022
Rent, hire and leases	265,199	289,512
Outsourcing	6,030,237	8,129,871
Transport	3,147,320	4,375,852
Commissions	1,946,027	2,598,476
Legal, administrative and other	4,895,579	3,998,618
Insurance	793,696	810,082
Management services	221,142	261,789
Maintenance & repair expenses	3,512,306	3,764,846
Utilities	5,476,331	3,232,463
Personnel expense	1,029,623	1,468,493
Cleaning and security	763,175	794,825
Advertising, marketing, and sponsorship	295,124	364,111
Directors, statutory & independent auditor fees	1,830,766	1,697,618
Travel and accommodation	416,893	433,029
Bank charges & commissions	521,951	533,618
Other services	630,290	390,482

Listing charges	305,725	315,174
Royalties charges	2,442,902	2,195,689
Service costs	**34,524,286**	**35,654,548**

The item recorded a reduction in costs incurred of approximately Euro 1,100 thousand compared to 2022, also attributable to the effect of lower turnover compared to the previous year. The largest changes mainly concern the reduction in external processing (Euro – 2 million), transport costs (Euro – 1.2 million), and commissions (Euro – 0.6 million); among the increasing changes is the increase in the cost of utilities (Euro + 2.2 million), mainly due to the increase in the cost of electricity in 2023 in consideration of the coverage in place during the 2022 financial year.

Note 25: Personnel expenses

Personnel expenses are shown below:

(in Euro)	2023	2022
Wages and salaries	30,383,827	30,525,030
Social security charges	9,214,927	9,322,856
Temporary personnel	2,694,448	3,377,394
Post-employment benefits	2,267,379	2,215,496
Other costs	27,538	65,887
Personnel expense	**44,588,119**	**45,506,663**

The item shows an overall decrease of Euro 919 thousand, the change is mainly attributable to the combined effect of the following phenomena:

- a reduction in the use of temporary work (Euro 683 thousand);
- an increase in costs related to the consensual termination of the employment relationship with certain employees (euro + 2,463 thousand);
- a decrease in capitalized costs under intangible assets relating to development projects (Euro – 1,387 thousand);
- a tabular increase in minimum wages to adjust employment contracts to inflation.

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

Employees	2023	2022
Executives	30	28
White-collar	298	290
Blue-collar	397	428
Temporary	74	95
Total employees	**799**	**841**

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

Note 26: Depreciation, amortisation and write-downs

The breakdown is as follows:

(in Euro)	2023	2022
Amortisation of intangible assets	3,158,789	3,212,619
Depreciation of property, plant and equipment	10,698,887	10,463,651
Depreciation of operating lease IFRS 16	1,858,064	1,772,074
Total depreciation and amortisation	**15,715,740**	**15,448,344**
Write-down of current receivables	-	-
Write-down of non-current receivables	-	-
Write-down of intangible assets	18,002,195	-
Total write-downs	**18,002,195**	**-**
Depreciation, amortisation and write-downs	**33,717,935**	**15,448,344**

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

Note 27: Provisions for risks

The breakdown is as follows:

(in Euro)	2023	2022
Provision for disputes	434,000	725,549
Uses/releases provisions	(27,066)	(54,000)
Provisions for risks	**406,934**	**671,549**

Provisions amount to Euro 434 thousand and refer to environmental remediation of a portion of land owned by the Company.

The decreases amount to Euro 27 thousand and concern releases from the provision for risks and charges due to the lapse of obligations to clients for potential contractual compensation.

Note 28: Other charges (income)

The account is broken down as follows:

(in Euro)	2023	2022
Misc. recoveries	97,964	120,247
Prior year income	401,198	178,705
Gains on fixed assets	100,619	210,725
Grants	622,439	715,492
Other revenues	107,497	84,109

Other income	**1,329,717**	**1,309,278**
Misc. taxes & non-deductible costs	189,170	176,492
Losses on fixed assets	6,768	13,760
Associations	160,928	151,110
Prior year charges	91,884	121,490
Losses on receivables	-	67,768
IMU Property tax	208,805	193,373
Misc. reimbursements	20,075	38,095
Other charges	356,680	487,739
Other charges	**1,034,310**	**1,249,827**
Other charges (income)	**(295,407)**	**(59,451)**

CONTRIBUTIONS

The item refers to tax credits accrued during the year, mainly referring to tax credits for research and development and technological innovation activities (Budget Law 2020 no. 160/2019 and art.1, c.45, law no. 234/2021), tax credits for energy and gas (Budget Law December 29, 2022 no. 197 and Decree Law March 30, 2023, n.34) and tax credit for new capital goods 4.0 (Law 160/2019 and Law n.178/2020).

Note 29: Investment charges and (income)

The account concerns dividends approved by the subsidiaries; in particular, no dividends were approved and accounted for in 2023:

	2023	**2022**
Dividends from subsidiary: SIT Controls U.S.A. Inc. (USA)	-	1,899,516
Dividends from subsidiary: SIT Gas Controls Pty Ltd (Australia)	-	275,198
Dividends from subsidiary: SIT Controls Deutschland GmbH (Germany)	-	50,000
Total charges and (income) from investments	-	**2,224,713**

Note 30: Financial income

In 2023, this amounted to Euro 3,721 thousand and was broken down as follows:

	2023	**2022**
Interest income on bank accounts	49,763	25,475
Other interest income	22,751	30,670
Interest income from Group companies	2,806,357	987,913
Profits on derivative financial instruments	841,815	436,277
FV Warrant adjustment	-	8,748,297
Financial income	**3,720,686**	**10,228,632**

INTEREST INCOME FROM GROUP COMPANIES

They concern current loans in favour of SIT Metering S.r.l. (Italia), SIT Romania S.r.l. (Romania), SIT Manufacturing (Suzhou) Co. Ltd. (Cina), SIT Controls Tunisia S.u.a.r.l. (Tunisia), Plast Alfin S.A.R.L. (Tunisia), JANZ Contagem e Gestão de Fluídos SA (Portogallo), SIT Gas Controls Pty Ltd (Australia), SIT Manufacturing N.A. SA de CV (Messico) e Metersit UK Ltd. (United Kingdom) for a total of Euro 2.431 thousand; while including for Euro 376 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 item of Euro 842 thousand relates to the reversal of the mark-to-market recorded at December 31, 2022 for commodity and currency derivative contracts that expired during the year 2023; Euro 19 thousand relates to gains on commodity derivative contracts that arose and expired during the year 2023.

Note 31: Financial charges

Financial charges consist of:

(in Euro)	2023	2022
Financial charges on hedging contracts	-	335,411
Interest charges to holding company	47,899	-
Interest and other bank charges	3,496,974	1,734,140
Interest charges to third parties	595,817	430,429
Interest expenses on current accounts subsidiaries	817,678	143,330
Losses on other financial instruments	1,676,424	850,390
Financial charges for operating leases - IFRS 16	149,901	153,783
Interest on bond loans	1,136,937	956,124
Financial charges	**7,921,630**	**4,603,607**

FINANCIAL CHARGES ON HEDGING CONTRACT DIFFERENCES

During the 2023 financial year, no negative spreads accrued on interest rate risk hedging (IRS) contracts.

INTEREST AND OTHER BANK CHARGES

The amount of Euro 3,497 thousand consists of Euro 3,676 thousand for interest on the Senior Facility Agreement 2021 and for Euro 169 thousand as the portion of amortized cost pertaining to the year; Euro 343 thousand for interest on the Unicredit loan; Euro 646 thousand on the Cassa Depositi e Prestiti loan; Euro 204 thousand on the Bper Banca loan; Euro 114 thousand on the Banca Montepaschi loan; Euro 454 thousand on other loans and bank advances. The account in addition includes Euro 261 thousand of commissions. This item includes the positive spreads accrued during 2023, for a total of Euro 2,370 thousand, on interest rate risk hedging contracts (IRS) and in particular: Euro 1,954 thousand on the SFA 2021 loan, Euro 146 thousand on the Unicredit loan and Euro 270 on the Cassa Depositi e Prestiti loan.

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.

CHARGES ON DIFFERENT FINANCIAL INSTRUMENTS

The amount relates for Euro 1,532 to the differentials accrued on derivative contracts on commodities that do not comply with the formal hedging requirements set out in company policy, in particular for Euro 1,032 thousand on energy and Euro 500 thousand on gas; the item also includes Euro 124 thousand relating to the reversal of the mark-to-market recorded at December 31, 2022 for derivative contracts on currencies and Euro 20 thousand for the mark-to-market as of December 31, 2023, also for derivative contracts 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 34.

INTEREST ON BOND LOANS

The amount of Euro 1,137 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 32: Net exchange gains (losses)

Net exchange losses of Euro 56 thousand are comprised as follows:

(in Euro)	2023	2022
Realised exchange gains	2,002,890	3,483,221
Realised exchange losses	(1,891,475)	(4,407,918)
Unrealised exchange gains	218,740	601,106
Unrealised exchange losses	(386,168)	(439,927)
Net exchange gains and losses	**56,013**	**763,518**

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 33: Income taxes

The breakdown of Income taxes in 2023 and 2022 was as follows:

(in Euro)	2023	2022
Current income taxes	-	594,098
Deferred tax income	(849,373)	(923,478)
Deferred tax charges	(4,470,558)	925,256
Income from tax consolidation	(118,464)	-
Taxes from previous year	624	39,200
Other	37,615	239,259
Total income taxes	**(5,400,157)**	**874,335**

The change in "deferred tax assets" compared to the previous year is mainly affected by the negative taxable amount of the company and the ACE benefit.

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, 23	effective tax rate %	Dec 31, 22	effective tax rate %
Income before taxes	(34.718.990)	**24,00%**	15.259.694	**24,00%**
Adjustments for items not subject to taxation (exceptional components)	-		-	
Result before taxes adjusted	(34.718.990)	**24,00%**	15.259.694	**24,00%**
Theoretical IRES charge	(8.332.557)		3.662.327	
Lower taxes:				
- dividends from investments	-		(507.235)	
- super & hyper depreciation	(745.336)		(752.159)	
- IRES deduction IRAP portion on personnel expense	-		(72.640)	
- ACE benefit and 4% Post-employment benefit provisions	(312.293)		(279.826)	
- valuation financial instruments (warrants)	-		(2.099.591)	
- Plant & R&D grants	(137.231)		(165.123)	
- Other	(39.737)		-	
Higher taxes:	-		-	
- allocations to funds	-		-	
- goodwill write-down	4.080.000		-	
- other non-deductible costs	226.707		346.638	
Total income taxes (IRES)	**(5.260.447)**	**15,15%**	**132.391**	**0,87%**
Tax credit	-		-	
Taxes for previous financial years	(7.859)		(4.283)	
Foreign tax on royalties	37.615			
TOTAL INCOME TAXES (IRES)	(5.230.691**)**	**15,07%**	**367.367**	**2,41%**
IRAP	-		594.098	
Taxes for previous financial years	-		43.483	
IRAP deferred tax charge	(100.375)		(100.375)	
IRAP deferred tax income	(69.091)		(30.238)	
Total taxes recognised to the Income statement	**(5.400.157)**	**15,55%**	**874.335**	**5,73%**

Note 34: Leasing contracts

The tables below summarise the effects on the Company financial statements at December 31, 2023 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	**2023**
Operating lease contract charges	1,989
Contracts classified as short-term leases	0.3
Contracts classified as low-value assets	8
Total service costs	**1,997**
Land & buildings	(451)
Industrial & commercial equipment	(473)
Other tangible assets	(934)
Total depreciation	**(1,858)**
Income from sub-leasing contracts	-
Sales and leaseback transaction	-
Total other charges/(income)	-
Interest charges on financial liabilities	(150)
Total financial charges	**(150)**

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

(Euro.000)	**31/12/2023**
Net investments accounted as ROU as at 1.1.2023	7,413
Increases in the year	1,279
Early settlements in the year	-
Depreciation and amortisation of the year	(1,858)
Exch. diff.	-
Net investments from ROU assets at 31.12.2023	**6,834**
Payable for financial liabilities from ROU assets at 1.1.2023	7,561
Commitments in the year	1,279
Early settlements in the year	-
Cash outflows	(1,839)
Exch. diff.	-
Gross value of liabilities from ROU assets at 31.12.2023	**7,002**
Obligations for short-term lease contracts	-
Obligations for low-value asset contracts	2
Total obligations for lease contracts with recognition to costs of payments due	**2**

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

(Euro.000)	31/12/2023
Within the year	1,710
Between 1 and 5 years	3,983
Over 5 years	1,309
Total liabilities deriving from operating lease contracts	**7,002**

Note 35: Share-based payments

As of December 31, 2023, the company holds 800,409 treasury shares, with no new purchases during the 2023 financial year. Treasury shares are put at the service of the long-term incentive plan reserved for employees and/or collaborators of the company and/or subsidiaries 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	2023	2022
Costs from equity-settled share-based payment transactions	620,344	674,919
Total costs deriving from share-based payment transactions	**620,344**	**674,919**

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:

	2023	
2021-2023 Performance Shares Plan 1st Cycle	**No. options**	**Weighted average price**
Outstanding at January 1	153,047	7.26
Assigned during the year	-	-
Cancelled during the year	(21,105)	7.26
Exercised during the year	-	-
Change in the year	-	-
Expired during the year	-	-
Outstanding at December 31	**131,942**	**7.26**
Exercisable at December 31	**-**	**-**

	2023	
2022-2024 Performance Shares Plan 2nd Cycle	**No. options**	**Weighted average price**
Outstanding at January 1	156,215	4.41
Assigned during the year	-	-
Cancelled during the year	(10,990)	4.41
Exercised during the year	-	-
Change in the year	-	-
Expired during the year	-	-
Outstanding at December 31	**145,225**	**4.41**
Exercisable at December 31	**-**	**-**

	2023	
2023-2025 Performance Shares Plan 3rd Cycle	**No. options**	**Weighted average price**
Outstanding at January 1	-	-
Assigned during the year	169,594	1.71
Cancelled during the year	-	-

Exercised during the year	-	-
Change in the year	-	-
Expired during the year	-	-
Outstanding at December 31	**169,594**	**1.71**
Exercisable at December 31	**-**	**-**

(Euro.000)	**2023**	
2021-2023 Restricted Shares Plan	**No. options**	**Weighted average price**
Outstanding at January 1	70,433	7.26
Assigned during the year	-	-
Cancelled during the year	(2,997)	-
Exercised during the year	-	-
Change in the year	-	-
Expired during the year	-	-
Outstanding at December 31	**67,436**	**7.26**
Exercisable at December 31	**-**	**-**

(Euro.000)	**2023**	
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

2022-2024 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 (%)	0.25
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 and third cycle of the Performance Shares Plan:

2022-2024 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 (%)	0.25
Expected useful life of the options (in years)	2.6

2023-2025 Performance Shares Plan **Assumptions for the measurement of the plan fair value** **3rd Cycle**	**2023**
Weighted fair value at the measurement date	1.71
Dividend yield (%)	0
Interest free risk rate (%)	3.10
Expected useful life of the options (in years)	2.5

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

Information on transactions with related parties

At its meeting on June 11, 2021, the Board of Directors of SIT approved the update to the procedure for transactions with related parties, pursuant to art. 4 of the Consob Regulation containing provisions on transactions with related parties, adopted by Consob with resolution no. 17221 of March 12, 2010 as subsequently amended, most recently, 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.

Transactions with the parent company and other related parties

SIT's main transactions with related parties are those with the parent company Technologies SAPA of F.D.S. S.S., with the company SIT Technologies S.p.A. and the subsidiary SIT Immobiliare S.p.A., whose balances at the date of the financial statements are shown in the following table (in thousands of Euro):

Dec 31, 23	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
Technologies SAPA di F.D.S. S.S.	24	-	-	-	-	-	18	-
With holding company	**24**	**-**	**-**	**-**	**-**	**-**	**18**	**-**
SIT Immobiliare S.p.a.	18	-	-	-	-	-	17	-
SIT Technologies S.p.a.	24	2	-	15	-	-	1,033	-
Hybitat S.r.l	37				150		39	
Transactions with other related parties	**79**	**2**	-	**15**	**150**	**-**	**1,089**	**-**

The following table shows the transactions with related parties in the previous year:

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.	-	-	-	-	-	-	-	-
With 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**	**-**

SIT's operating revenues from Technologies SAPA, F.D.S. S.S., SIT Immobiliare S.p.A., SIT Technologies S.p.A. and Hybitat S.r.l. refer to consultancy and assistance in the financial, administrative, tax and management control sectors provided by the Company under a service contract.

Financial income for the previous year to SIT Technologies S.p.A. represents the change in the fair value of the SIT Warrants held by SIT 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 Statement of 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, 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. Since 2022, the subsidiary SIT Metering s.r.l. has also adhered to the group VAT procedure, while the parent company Technologies SAPA of F.D.S. S.S. has adhered to the 2023 financial year.

As of December 31, 2023, the Company's credit balance with the Parent Company SIT Technologies S.p.A. amounted to Euro 1,033 thousand.

Intra-group 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.

During 2023, the Company carried out the following transactions with subsidiaries and at the balance sheet date the balances shown in the following table (in thousands of Euro) are present:

Dec 31, 23	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
SIT Gas Controls Pty Ltd (Australia)	1,609	48	47	2	246	2	187	48
SIT Manufacturing (Suzhou) Co, Ltd (China)	12,853	2,951	72	0	1,911	0	5,979	3,174
SIT Controls CR, sro (Czech Republic)	18	837	0	76	0	2,611	18	466
SIT Controls Deutschland GmbH (Germany)	130	821	0	29	0	1,018	37	332
Sit Manufacturing N,A, SA de CV (Mexico)	11,274	3,138	550	66	7,270	2,089	2,690	505
SIT Controls BV - (Netherlands)	4,734	2,232	0	298	0	8,903	2,920	1,754
SIT Romania Srl (Romania)	31,823	51,567	206	32	0	3,389	5,728	5,153
MeteRSit Romania Srl (Romania)	0	0	0	0	0	0	0	0
SIT Controls U,S,A, Inc, (USA)	32	169	48	0	365	0	80	73
MeteRSit S,r,l, (Italy)	2,947	1	0	350	0	1,726	2,802	350
Plast Alfin S,a,r,l (Tunisia)	733	2,205	34	0	0	266	498	148
SIT Controls Tunisia S,u,a,r,l (Tunisia)	23,660	8,480	404	0	5,882	0	11,080	2,107
SIT Metering S,r,l (Italy)	18	163	1,366	0	27,263	0	1,384	163
JANZ - Contagem e Gestao de Fluidos, SA (Portugal)	785	0	56	12	0	711	879	12
Metersit UK (UK)	5	0	24	0	403	0	35	0
Subsidiaries	**90,622**	**72,612**	**2,806**	**866**	**43,339**	**20,715**	**34,317**	**14,286**

The following table shows the transactions for the 2022 financial year:

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
Verso imprese controllate	**114,692**	**85,096**	**3,213**	**143**	**42,197**	**17,440**	**49,155**	**24,332**

These transactions are settled at normal market conditions.

Remuneration of directors and statutory auditors and independent auditors

The remuneration of directors and statutory auditors for their activities during the year is as follows:

	2023	2022
Director fees	911,580	883,100
Statutory auditor fees	108,648	108,216
Total directors' and statutory auditors' fees	**1,020,228**	**991,316**

The Company paid the independent auditors a fee of 358 thousand euros, as well as reimbursement of expenses and supervisory fees, broken down as follows:

	2023	2022
Fees paid to the audit firm for audit services	305,839	229,093
Limited review of the consolidated non-financial report	32,676	31,052
Other verification services for the issue of a statement	19,900	18,670
Total	**358,415**	**278,815**

Guarantees, commitments and off-balance sheet contingent liabilities

The off-balance sheet commitments at December 31, 2023 were as follows.

	2023	2022
Other unsecured guarantees	73,293,728	66,278,063
Secured guarantees	-	-
Total guarantees	**73,293,728**	**66,278,063**

Other unsecured guarantees

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

	2023	2022
In the interest of subsidiaries	73,058,259	66,042,594
In own interest	235,469	235,469
Total other guarantees	**73,293,728**	**66,278,063**

With regard to the personal guarantees issued in the interest of subsidiaries, these are guarantees for 71,758 thousand euros issued in the interest of Metersit S.r.l., in favour of the latter's customers in the context of tenders for the installation of Smart Gas Meters, and for 1,300 thousand euros in guarantees in the interest of SIT Controls BV. With regard to the guarantees issued in favour of Metersit S.r.l., it should be noted that 8,259 thousand euros are co-bonds with the same subsidiary Metersit S.r.l.

The guarantees issued in the company's own interest mainly refer to the guarantee granted as a deposit following the signing of the lease agreement for the Rovigo property for Euro 54 thousand and the guarantee granted as a guarantee for the remediation 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.

Information on off-balance sheet agreements

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 recognized at fair value

The Group is exposed to financial risks related to the following cases:

- Market risks: (i) exchange rate risk deriving from operations in currencies other than the functional currency of the companies and the Group; (ii) interest rate risk arising from fluctuations in market interest rates; (iii) price risk deriving from changes in the market prices of certain raw materials used by the Group in its production processes;
- Credit risk deriving from commercial relationships with its customers;
- Liquidity risk related to the availability of financial resources and access to the credit market.

The SIT Group has in place corporate policies for exchange rate risk management, interest rate risk management and liquidity management approved by the Board of Directors.

The purpose of these policies is to regulate within a shared framework the management approach, objectives, roles, responsibilities and operational limits in financial risk management activities.

In line with the policies, the Group has centralized the management of the financial risks of its subsidiaries in the parent company SIT S.p.A., taking on the role of coordinating processes, operating mechanisms and related organizational procedures at the Group level.

Currency risk

The Group is subject to the risk deriving from exchange rate fluctuations as it operates in an international context in which transactions are conducted in currencies other than the functional currency of the individual investee companies and the functional currency of the Group. The Group's exposure to exchange rate risk therefore derives from the geographical distribution of the markets in which it sells its products, the location of its production sites and the use of sources of supply denominated in different currencies.

In order to reduce exchange rate risk, it is a general policy to offset, where possible, exposures of opposite signs with correlated risk profiles (so-called Natural hedging).

In the Group's operations, exposure to exchange rate risk normally arises annually at the time of defining the sales and purchase lists during the setting of the budget change.

The Group regularly assesses its exposure and manages the exchange rate risk on net exposure, including through the use of derivative financial instruments. Speculative activities are not permitted.

Notwithstanding the validity of the aforementioned policies and compliance with exchange rate risk management practices and procedures, sudden fluctuations in market rates could have negative effects on the Group's operations, results of operations, balance sheet and financial position, results of operations, and prospects.

During 2023, the Company recorded a reduction in sales of 18.6% compared to 2022, which also affected the structure of the foreign currency exposure, where there was a significant reduction in the share of revenues in USD, from 13.4% in 2022 to 7.2% in 2023. The change in the purchasing structure was less marked.

The following tables show the turnover in thousands of euros, at the average exchange rate for the year, respectively of revenues and purchase costs of raw materials, consumables and goods, broken down by currency.

Total revenues by currency:

(Euro,000)	2023	% Ricavi	2022	% Ricavi
EUR	202,842	86,5%	234,124	81,2%
USD	16,808	7,2%	38,736	13,4%
CNY	12,823	5,5%	11,636	4,0%
AUD	1,594	0,7%	2,858	1,0%
GBP	489	0,2%	890	0,3%
Total	**234,556**	**100%**	**288,244**	**100%**

Total purchase costs of raw materials, consumables and goods broken down by currency:

(Euro,000)	2023	% Acquisti	2022	% Acquisti
EUR	120,534	81,1%	151,928	80,8%
USD	27,929	18,8%	35,827	19,1%
AUD	47	0,0%	0	0,0%
CNY	24	0,0%	189	0,1%
CHF	22	0,0%	8	0,0%
GBP	0	0,0%	0	0,0%
Total	**148,556**	**100%**	**187,952**	**100%**

During the 2023 financial year, in line with company policies, the Company carried out financial hedging transactions mainly against net exposures in USD, AUD, GBP, CHF and CNY, while taking due account of the reduction in net exposure in USD.

Exchange rate risk hedging transactions outstanding at the date of the financial statements and their fair value at the same date are disclosed 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 using 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.

During 2023, in the face of the persistence of the inflation rate and the restrictive policies implemented by the main central banks, market interest rates have remained high compared to recent years. By way of example, the 6m Euribor rate recorded on December 31, 2021, December 31, 2022 and December 31, 2023 was -0.546%, 2.693% and 3.877% respectively.

In this market scenario, the implementation of the interest rate hedging policy was of particular importance and benefit. In fact, at the balance sheet date, the Company has outstanding term loans to banks and bonds for a nominal principal amount of Euro 134.2 million. These loans are currently covered by Interest Rate Swaps or fixed-rate interest for an amount of Euro 106.2 million, equivalent to 79.2% of the underlying value. The average fixed coverage rate is 1.49%.

Details of the hedging transactions outstanding at the date of the financial statements and their fair value at the same date are shown in Note 4 and 9 for the non-current and current portions respectively.

SENSITIVITY ANALYSIS

Assuming all other factors remain constant, a hypothetical increase of 100 basis points in the floating interest rate would have resulted in an increase in financial charges for SIT by EUR 587 thousand for the year 2023, considering the existing hedges during the period. Performing the same simulation for the previous year, and accounting for the then-existing hedges, would have led to an increase in financial charges of EUR 470 thousand.

Commodity risk

The SIT Group's production costs are significantly influenced by the prices of various raw materials, such as copper and aluminium. This impact arises from both the direct purchase of these materials and the fluctuations in costs associated with purchasing components and semi-finished goods containing substantial amounts of these materials.

To mitigate these risks, the SIT Group continuously monitors the market availability and price trends of raw materials. This proactive approach aims to promptly identify any shortages and take appropriate actions to ensure the necessary production capacity while maintaining competitive production costs. Additionally, the Group enters into hedging agreements to protect against raw material price fluctuations when deemed appropriate based on projections.

Compared to the previous year, 2023 saw a trend towards normalization in the main supply markets, characterized by improved availability, shorter delivery times, and reduced volatility in the costs of raw materials and components, although the overall scenario remained inflationary. The impact of energy costs was also lower than initially forecast, with a reversal in market trends and reference prices.

However, it is important to note that the inflationary pressures that persisted throughout 2023, along with various high geopolitical tensions on the international stage, maintained high risks of cost volatility across several product categories. These categories include electronic components, batteries, certain industrial metals such as steel, and packaging materials.

The shortage of electronic components, which had significantly impacted supply activities during the 2022 financial year, appears to have been nearly resolved in 2023. This improvement has allowed the implementation of purchasing policies through regular supply channels. However, the sector continues to experience very long delivery lead times.

Credit risk

The credit risk deriving from the normal operations of the Group's companies with commercial counterparties is managed and controlled as part of the procedures for awarding and monitoring the credit standing of customers with the aim of ensuring that sales are made to reliable and solvent customers. The credit management activity is coordinated by the Parent Company for all Group companies through reporting and periodic meetings and is based on the information available on the solvency of customers by considering historical data and associating exposure limits for each customer. In addition, the schedule of trade receivables is constantly monitored during the year to anticipate and promptly intervene on credit positions that present a higher degree of risk.

At the balance sheet date, there are no significant credit risk positions. For further details on the composition of trade receivables, please refer to Note 6.

Working capital

During 2023, the market slowdown in the Heating & Ventilation sector highlighted a risk related to working capital management, with particular reference to the management of inventories.

Following the strong post-pandemic market recovery, the Company has encountered several issues related to shortages of raw materials and components related to production. To mitigate this risk, while maintaining an adequate level of customer service in terms of production and delivery times, the Group has carried out a series of actions aimed at ensuring the effectiveness of its supply chain, with particular reference to the procurement of critical components such as electronics. This policy, which proved to be rewarding during 2022, entailed the emergence of a risk related to the increase in inventories, upon the occurrence of the significant drop in demand that occurred in 2023. The problem concerns in particular the Heating & Ventilation segment of the business and some stocks of Smart Gas Metering electronics.

Given this situation, the Company has initiated, in particular, appropriate policies for reducing the number of inventories in the second half of the year:

- concerning raw materials, the Company has applied a conservative approach towards suppliers, cancelling or postponing a part of non-critical supplies because of the slowdown in production;

- regarding finished products, stricter conditions have been applied to the customer regarding the management of orders in the portfolio, providing for the possibility of cancellation only with adequate notice consistent with production and delivery times.

These management policies have made it possible to reduce the level of stocks compared to the levels recorded during the year and are a harbinger of further improvement in the course of 2024. The inventory level as of December 31, 2023 was Euro 26.1 million, while it was Euro 33.8 million as of June 30, 2023 and was Euro 30.3 million as of December 31, 2022.

Liquidity risk

Liquidity risk may arise from the difficulty of finding the financial resources necessary to ensure the operations of the Company and the Group at the required economic conditions and within the required timeframe.

SIT has adopted a series of policies aimed at optimising the management of financial resources to reduce liquidity risk through:

- monitoring of prospective liquidity conditions with the support of internal business planning processes, obtaining credit lines adequate to current and prospective needs.

- maintaining an adequate level of available liquidity.

The Group's cash flows, financial requirements and temporary cash equivalents are closely monitored and managed centrally by the Company, which carries out the Group's treasury activities and financial coordination to ensure effective and efficient management of financial resources concerning changes in the macroeconomic conditions.

During 2023, the contraction in sales recorded in the Heating & Ventilation division, for the reasons better described in the Sales Analysis section, led to a reduction in self-financing, only partially mitigated by the reduction in trade working capital, while the cash flows for the period were affected by the payment of the out-of-court settlement relating to a dispute with a customer and disbursements for operating investments. This leads to a situation of financial tension.

During the year, new financing transactions were completed to support current operations and liquidity needs arising from operating activities: in particular, a loan was signed with BPER for a nominal amount of €5 million with a maturity of 24 months, and a loan with Monte dei Paschi di Siena for a nominal amount of €5 million with a duration of 12 months. Both loans are unsecured with a floating interest rate and spreads of 1.25% and 0.8% respectively.

In addition to these transactions, during the year the Group increased the use of bank credit lines for the disposal of working capital against existing loans as well as new loans granted by the banking system in the second half of the year.

However, despite these transactions and the measures adopted during the year to contain costs and investments, the persistence of the negative economic situation in the Heating & Ventilation segment has highlighted the impossibility for the Parent Company to meet certain commitments to repay loans provided for the current year and the financial covenants. Against this prospect, the Parent Company promptly entered into the necessary discussions with its lenders and signed an extension and standstill agreement on December 29, 2023.

The agreement in question provided for (i) the extension of the maturity date of the principal amounts due on December 31, 2023 to April 30, 2024; (ii) the regular payment as of December 31, 2023 of the amount due by way of interest with this instalment; (iii) the waiver by the lenders until April 30, 2024 to assert the termination, withdrawal or forfeiture of the benefit of the term deriving from the extension in question as well as the failure to comply with the contractual financial parameters as of December 31, 2023 and finally (iv) the commitment of the lenders not to initiate precautionary and/or executive actions or to create liens in their favour concerning the outstanding financial debt.

For the period of validity of the agreement, the Company has undertaken to (i) provide, at certain agreed deadlines, information relating to cash forecasts and the evolution of short-term debt; (ii) not to incur financial debt in addition to that existing at the date of signature as well as limiting short-term financial debt within a certain threshold; (iii) not to distribute dividends.

The Company has also undertaken to provide lenders by February 28, 2024 with an update of the business plan, approved by the Board of Directors on September 15, 2023 to be submitted to an independent business review, documents that have supported the further discussions in the meantime begun with the banking class for the renegotiation of the financial profile of the debt and the consequent revision of the financial parameters being the parameters provided for by the current contracts that are not compatible with the Group's short- and medium-term income and financial outlook, as reflected in the updated plan.

Concerning the future evolution of liquidity, monitored through the preparation of a monthly cash plan, the Company believes that in the 2024–2025-time horizon the financial requirements deriving from current operating activities and investing activities will be more concentrated in the first half of 2024, in particular due to the foreseeable trend in Heating & Ventilation sales, in line with recent quarters. The cost reduction actions, both variable and structural, implemented during the year will also be able to mitigate the financial impact of this trend and, in the meantime, the action to reduce working capital will continue, also thanks to the normalization of supply market conditions. The contribution of the Metering division is expected to be positive.

With regard to the instruments to ease the situation of financial tension highlighted in the preamble, the cash plan considers the signing on April 22 and 23, 2024 of the agreements ("Agreements") with the credit institutions for the renegotiation of the repayment profile and the rescheduling of the final term. In particular, the Agreements provide for the extension of the original maturities by 24 months and the remodulation of the repayment profile in increasing instalments with the maintenance of the current interim intervals and the start of repayment from the signing of the Agreements without any provision for a moratorium period.

To further support this, the plan has a positive impact, starting from the date of signing of the Agreements, deriving from a shareholder loan of Euro 5 million, interest-bearing, with a capitalisation of the related financial charges, subordinated and subordinated to the Company's bank debt.

The Agreements do not provide for the signing of additional loans or specific forms of automatic commitment on the maintenance of any existing short-term loans.

Finally, the agreements provide for the redefinition of the financial covenants consistent with the financial renegotiation described and the economic and financial profile of the business and financial plan.

After assessing the uncertainty profiles related to the achievement of the results envisaged in the approved business and financial plan and the targets for reducing net working capital, taking into account the performance of the first months of the current year and the forecasts contained in the updated business plan and the aforementioned cash plan, the financial commitments, as rescheduled in terms of repayment and debt service as a result of the Agreements, are considered, in terms of amount and time frame, to be consistent with the Group's current and prospective availability.

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, 2023, 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, 23	Valuation criterion	Level 1	Level 2	Level 3
Interest Rate Swap	2,931,409	*Fair Value*		2,931,409	
Forex Forward	(20,070)	*Fair Value*		(20,070)	
Commodity Swap	-	*Fair Value*		-	

During the 2023 financial year, there were no transfers between the three fair value levels indicated in IFRS 13.

A similar table is shown for the financial instruments recorded at *fair value* as at December 31, 2022:

(Euro thousands)

Transaction type	Value at Dec 31, 22	Valuation criterion	Level 1	Level 2	Level 3
Interest Rate Swap	5,555,857	*Fair Value*		5,555,857	
Forex Forward	118,971	*Fair Value*		118,971	
Commodity Swap	(818,247)	*Fair Value*		(818,247)	

For further details on the risks identified, please refer 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	Title
Fondimpresa - Roma	41,643	Reimbursement of the fee to be paid by the training plan identified by the code 352141
Fondirigenti – Roma	6,000	Reimbursement of the fee to be paid by the training plan marked by the FDIR code 33027
4.Manager – Roma	3,000	Contribution provided for by art.9 paragraph of the CCNL managers
Agenzia delle Dogane Stato Italiano	8,512	Legislative Decree 504/95 art.21 paragraph 13
Total	**59,155**	

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” of the Directors’ Report.

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For proposals to the Shareholders' Meeting regarding the allocation of the 2023 result, please refer to the specific paragraph of the Directors' Operations.

Padua, April 24, 2024

The Chairman of the Board of Directors

(Mr. Federico de’ Stefani)

DECLARATION ON THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971

Declaration on the Separate Financial Statements pursuant to Article 81-ter of Consob Regulation No. 11971 of May 14, 1999 and subsequent amendments and supplements

The undersigned Federico de' Stefani, Chairman and Chief Executive Officer, and Paul Fogolin, Executive Officer for Financial Reporting, of Sit S.p.A., declare, and also in consideration of Article 154-bis, paragraphs 3 and 4 of Legislative Decree No. 58 of February 24, 1998:

- The adequacy considering the company`s characteristics and
- The application of the administrative and accounting procedures for the compilation of the separate financial statements for the period January - December 2023.

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.

The English version of the financial statements of SIT S.p.A. constitute a non-official version with regard to the provisions of the Commission Delegated Regulation (EU) 2019/815.

Padua, April 24, 2024

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

INDEPENDENT AUDITORS' REPORT ON THE SEPARATE 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 FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of SIT S.p.A. (the "Company"), which comprise the balance sheet as at December 31, 2023, the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and explanatory notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2023, 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 & Ventilation CGU	
Description of the key audit matter	The financial statements as at December 31, 2023 include goodwill of Euro 68 million, allocated to the Heating & Ventilation cash generating unit ("CGU"), value that includes the write-down equal to Euro 17 million recorded during the year, based on the results of impairment test performed as at June 30, 2023 included in the consolidated half-yearly financial report. 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 related to the financial statements as at December 31, 2023 was approved by the Board of Directors on April 24, 2024 and, based on the result, no further losses has been identified compared to the write-down already recorded in the half-year report as at June 30, 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. 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 & Ventilation and the key variables of the impairment model, as well the impairment indicators identified during the year, that has brought to a write-down of Euro 17 millions, and the results of the Company, we have considered the impairment test of goodwill a key audit matter of the Company financial statements. The explanatory notes and, with particular reference to Note 1 "Goodwill and Other intangible assets" provide information on goodwill, on impairment test and on sensitivity analysis prepared by the Directors related to the main test parameters.
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 tests; • examination of the methods used by the Directors to determine the value in use of the *Heating & Ventilation* CGU, analyzing the methods and assumptions used for the preparation 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 compared to the original plans to assess the nature of the deviations and the reliability of the business 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 impairment test with respect to the provisions of IAS 36.

Going Concern assessment	
Description of the key audit matter	The financial statements as at December 31, 2023 show a loss of Euro 29.3 million, of which Euro 17 million related to write-down of CGU *Heating & Ventilation* goodwill, equity of Euro 136 million and net financial position of Euro 147,2 million. During 2023 the Group that includes SIT S.p.A. and its subsidiaries (the "Group") recorded a 17% reduction in revenues compared to 2022, with a significant negative effect on operations results. This trend is mainly attributable to Heating & Ventilation division, which has showed a revenues decrease of 25.8% compared to previous year. Despite new financing, the increase in the use of bank credit lines, in addition to the measures adopted during the year to contain costs and investments, the persistence of the negative economic situation in the *Heating & Ventilation* business highlighted the impossibility for the Company to meet certain commitments to repay loans scheduled for the end of the year and the related financial covenants. In this context, on December 29, 2023, the Company signed with banks an extension and standstill agreement that supported also the preparation of a new business plan for the period 2024-2027 (the "Business Plan"), approved by the Board of Directors on February 29, 2024 and subjected to Independence Business Review by an independent expert and supported the negotiation of an agreement for the restructuring of the repayment scheduling of the outstanding loans and the revision of the financial parameters. Such agreement was signed on April 22 and 23, 2024. In consideration of the relevance of the potential impact of the situation described above on the assessment of the going concern, we have considered this assessment a key audit matter of the Company financial statements.

	The paragraph “Going Concern” in the explanatory notes provides information related to the considerations made by Directors on the appropriateness of the going concern assumption in the preparation of the financial statements as at 31 December 2023 considering the uncertainties connected with the situation described above.
Audit procedures performed	As part of our audit, among other things, we carried out the following procedures: • understanding of the analysis carried out by Directors on the the going concern assessment; • examination of the agreements with banks signed on April 22 and 23, 2024; • Examination of the Group business plan for the period 2024-2027 and of the monthly cash flows prepared by Directors based on the business plan for the years 2024-2025 and analysis of the related assumptions, supported also by the Indipendent Business Review performed by an indepdent expert appointed by the company; • Meetings and discussion with SIT S.p.A. Management and the Statutory Auditors on the relevant points of the going concern assessment performed by Directors; • Reading of the minutes of the corporate bodies of Company; • Analysis of the subsequent events that may have an impact on the going concern assessment; • Examination of the adequacy of the disclosure reported in the Financial Statements related to the going concern assumption.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company’s financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, 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 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 Aprile 26, 2018 as auditors of the Company for the years from December 31, 2018 to December 31, 2026.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion on the compliance with the provisions of the Delegated Regulation (EU) 2019/815

The Directors of SIT S.p.A. are responsible for the application of the provisions of the European Commission Delegated Regulation (EU) 2019/815 with regard to the regulatory technical standards on the specification of the single electronic reporting format (ESEF – European Single Electronic Format) (hereinafter referred to as the "Delegated Regulation") to the financial statements as at December 31, 2023, 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 as at December 31, 2023 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, 2023, 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, 2023 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, 2023 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 30, 2034

As disclosed by the Directors on page 304, the accompanying financial statements of SIT S.p.A. constitute a non-official version which has not been prepared in accordance with the provisions of the Commission Delegated Regulation (EU) 2019/815. 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.
Headquarters in Padua - Via dell'Industria n. 31
Share capital € 96.162.195 i.v.
Registered in the Padua Business Register and tax code 04805520287
REA of Padua n. 419813

* * *

Report of the Board of Statutory Auditors to the Shareholders' Meeting Pursuant to art. 153 of Legislative Decree no. 58/1998 and art. 2429 Civil Code

Dear Shareholders,

This report, prepared pursuant to art. 153 of Legislative Decree no. 58/1998 (Consolidated Law on Finance, or TUF) and art. 2429 of the Italian Civil Code, reports on the supervisory activities carried out by the Board of Statutory Auditors of SIT S.p.A. (hereinafter also the "Company") during the financial year ended December 31, 2023, adhering to the "Rules of conduct of the Board of Statutory Auditors of listed companies" dictated by the National Council of Chartered Accountants and Accounting Experts, to Consob's recommendations on corporate controls and the activities of the Board of Statutory Auditors and to the indications of the Code of Auditors. Corporate Governance drawn up by the Corporate Governance Committee and adopted by the Company.
The Board of Statutory Auditors also carried out supervisory activities in its capacity as Internal Control and Auditing Committee.

The Board of Statutory Auditors, composed of Matteo Tiezzi (Chairman), Loredana Anna Conidi and Saverio Bozzolan (Standing Auditors) was appointed by the Shareholders' Meeting of May 3, 2023 and will end its mandate with the Shareholders' Meeting to approve the financial statements as at December 31, 2025. The appointment was made in accordance with the law and the Articles of Association, based on the lists submitted by the shareholders, also taking into account the provisions on gender balance within the Board.

At the time of acceptance of the appointment and subsequently during the appointment, the Board of Statutory Auditors verified that its members met the integrity and professional requirements set forth in Ministerial Decree no. 162 of March 30, 2000, that there were no grounds for forfeiture and ineligibility and that they met the independence requirements pursuant to art. 2399 of the Italian Civil Code and art. 148, paragraph 3, of Legislative Decree no. 58 of February 24, 1998 and referred to in the Corporate Governance Code.
All the members have also declared that they do not hold administrative and control positions equal to or greater than the limits established by the laws and regulations in force.

The auditing and statutory auditing of the accounts is entrusted to the auditing firm Deloitte & Touche S.p.A., which has been appointed as independent auditor for the financial years 2018 - 2026.

In carrying out its institutional activities, the Board of Statutory Auditors acknowledges that it has:

- supervised compliance with the Law and the Articles of Association;
- supervised compliance with disclosure requirements for regulated and inside information;
- participated in all the meetings of the Shareholders' Meeting, the meetings of the Board of Directors and the meetings of the Board Committees set up and operating within the Board of Directors and to have received information on an ongoing basis from the directors and the company's management on the activities carried out, on the general performance of the business and its foreseeable evolution, on the progress of the strategic projects undertaken, as well as on the most significant economic, equity and financial transactions carried out during the year;
- having taken note of the declarations made by the Directors and the assessments expressed by the Board of Directors and verified the correct application of the assessment procedures adopted to assess the independence of the members of the Board of Directors, in relation to which the Board of Statutory Auditors did not find any elements to be reported in this report;
- found the adequacy of the composition and functioning of the Board of Directors, with particular reference to the preparation of the Company's guidelines and strategic plan, the evaluation of the results being formed, the analysis of the Company's risk profile and the definition of the organisational structure;
- acquired knowledge and supervised, to the extent of its competence, the adequacy of the Company's organizational structure and compliance with the principles of proper administration, the adequacy of the administrative-accounting system and its reliability to correctly represent the management facts, through the collection of data and information from the heads of the main corporate functions and from the auditing firm;
- assessed and supervised the adequacy of the instructions given to the subsidiaries, pursuant to art. 114, paragraph 2, of Legislative Decree 58/1998;
- maintained contacts with the corresponding Boards of Statutory Auditors of the subsidiaries under Italian law for the purpose of the reciprocal exchange of relevant data and information; no critical issues emerged from this exchange of inforamtion;
- obtained information on the organisational and procedural activities carried out pursuant to Legislative Decree 231/2001, also through meetings with the Company's Supervisory Body, and exchanged information with the second and third level internal control functions, finding no elements to be reported in this report;
- supervised, in its capacity as Internal Control and Audit Committee pursuant to Article 19 of Legislative Decree 39/2010, in relation to *(i)* the financial reporting process, *(ii)* the effectiveness of the internal control and risk management system, *(iii)* the statutory audit of the financial statements and the consolidated financial statements and *(iv)* the independence of the person appointed to audit the statutory auditors;
- supervised compliance with the procedure for transactions with Related Parties adopted by the Company, not noting the execution of atypical and/or unusual intra-group transactions carried out with related parties and/or likely to have a significant impact on the Company's economic, equity and financial situation. No elements to be reported in this report were highlighted with regard to the adequacy and correspondence to the interest of the Company of transactions with Related Parties; the information on these transactions in the notes to the financial statements and in the management report was found to be adequate;

- ascertained that the Report on Corporate Governance and Ownership Structure has been prepared pursuant to Art. 123-bis of the TUF and it provides an analytical illustration of the concrete implementation of the corporate governance rules set out in the Corporate Governance Code to which the Company adheres; where necessary, in the limited cases in which the Company has decided to deviate from the provisions of this code, it has provided the satisfactory explanation;
- ascertained the contents of the Remuneration Report prepared pursuant to art. 123-ter of the TUF, which provides an analytical illustration of the effective implementation of remuneration policies. The Board of Statutory Auditors verified the application of the Company's remuneration policies with reference to, among others, the Chief Executive Officer and the Head of Internal Audit. The Board of Directors, at its meeting of April 24, 2024, verified the achievement of the targets relating to the MBO plan for the head of the Internal Audit function; on the same occasion, the Board verified the failure to achieve the targets relating to the MBO plan for the Chief Executive Officer and for the Executives with strategic responsibilities, who were therefore not assigned any short-term variable remuneration;
- periodically met with the independent auditors for the exchange of relevant information and data and to supervise the financial reporting process, its adequacy and integrity, as well as compliance with the legal provisions relating to the process of preparing the financial statements and its structure and structure;
- received from the independent auditors 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 independent auditors, *(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 items of the financial statements without highlighting critical issues regarding the appropriateness of the accounting principles adopted, *(iv)* does not raise doubts about the Company's ability to continue to operate as an operating entity, *(v)* does not report significant deficiencies in the internal control system in relation to the financial reporting process, *(vi)* it does not contain the reporting of cases of non-compliance with laws, regulations or statutory provisions, *(vii)* it does not contain reports of limitations to the audit activity or the existence of significant difficulties arising from the audit; this report did not reveal any critical issues considered significant and therefore worthy of being brought to your attention;
- with reference to the disclosure of non-financial information and information on diversity in the composition of the administrative, management and control bodies of large companies and groups (Legislative Decree 254 of December, 30 2016 and Implementing Regulation adopted by CONSOB with resolution no. 20267 of January 18, 2018):
    - examined the Company's organisational structure, which was deemed adequate to meet the obligation to prepare the Non-Financial Statement pursuant to Legislative Decree 254/2016;
    - received constant information on the activities carried out to define the non-financial information areas relevant to the SIT Group to be included in the Non-Financial Statement;
    - noted the adoption of policies by the Board of Directors that address sustainability issues;
    - met with the auditing firm Deloitte & Touche S.p.A., which has been appointed to certify compliance (limited review) of the Non-Financial Statement;

- received from the independent auditors the report on the consolidated non-financial statement, from which it appears that the same independent auditors did not receive any elements to suggest that the consolidated non-financial statement of the SIT Group relating to the year ended December 31, 2023 was not prepared, in all its significant aspects, in accordance with the requirements of articles 3 and 4 of Legislative Decree 254/2016 and the GRI standards.

On the basis of the information acquired, the Board of Statutory Auditors believes that the activity was carried out in compliance with the principles of proper administration and that both the organisational, administrative and accounting structure that guides the financial reporting process, and the internal control and risk management system are overall adequate to current business needs; the Board of Statutory Auditors also believes that the organisational structure to oversee non-financial reporting is adequate.

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

1. <u>Considerations on the most significant economic, financial and equity transactions carried out by the Company and their compliance with the law and the articles of association.</u>
   We have obtained from the directors, at least quarterly, information on the activities carried out and on the most significant economic, financial and equity transactions carried out by the Company and its subsidiaries as well as on the foreseeable evolution of preformance as well as the progress of the strategic projects launched and we can reasonably assure you that the actions resolved by the Company and carried out comply with the Law and the Articles of Association are not manifestly imprudent, risky or in contrast with the resolutions adopted by the Shareholders' Meeting or such as to compromise the integrity of the company's assets.
   The Board of Statutory Auditors has carefully followed the shareholder engagement activities through the analysis of the documents made available and through the recordings of the conference calls for presentation to the market, where available.

   The most significant transactions carried out during the year that the Board of Statutory Auditors deems necessary to highlight are described below:
   - in January 2023, SIT acquired a 10% minority stake in UpSens (a company belonging to the Optoi group), an SME specialising in the development of devices for monitoring environmental parameters with specific expertise in air quality;
   - in July 2023, SIT participated in the Hybitat joint venture for the development of a green hydrogen generation and long term storage system for residential use;
   - in October 2023, a partnership was launched with Panasonic Industry to launch a complete solution of fans for residential heat pumps;
   - in December 2023, the establishment of SIT MBT was announced, a new company dedicated to the design and production of fans for cooker hoods, induction hobs and pellet stoves; this company is 70% owned by SIT (which has contributed the business segment of SIT S.p.A. dedicated to ventilation and components for hoods and pellets) and 30% by Wentelon (supplier of ventilation motors) and managers with long time experience in the sector, founders of the innovative start-up Motors & Blowers Technology Srl (MBT);

- during 2023 JANZ, a SIT Group company operating in the Water Metering business unit, developed in a joint venture with GWF, a Swiss technology partner, the SmartIO, a new smart water meter based on patented ultrasonic technology for efficient water management for residential use;
- during 2023, Metersit, a Group company operating in Smart Gas Metering, developed the new generation of smart meters for Italgas Reti following the tender awarded in 2022;
- in April 2023, the SIT group changed its organizational structure with the aim of steering management more effectively to reference markets, focusing on the ability to anticipate new customer needs; the group's structure is now composed of three Business Units: Heating & Ventilation, Smart Gas Metering and Water Metering;
- with reference to investments, the Company has completed the structuring of the research and development laboratories in the new headquarters in Padua;
- with regard to sustainability, in 2023 SIT obtained:
    - the "Gold" rating by EcoVadis, an international rating agency that measures CSR performance;
    - certification on gender equality, pursuant to UNI/PdR 125:2022;
    - the certification of the system for measuring the Product Carbon Footprint of gas meters.

During 2023, the contraction in sales in the Heating & Ventilation business unit led to a reduction in operating cash flows. This reduction, also exacerbated by the cash outflow due to an out-of-court settlement for a dispute with a customer, led to a situation of financial tension. During the first half of the year, the company completed new financing transactions aimed at supporting current operations and liquidity needs arising from operating activities: in particular, a loan was signed with BPER for a nominal amount of euro 5 million and a loan with Monte dei Paschi di Siena for a nominal amount of euro 5 million.
However, the persistence of the negative economic situation in the Heating & Ventilation segment highlighted the Company's inability to meet some loan repayment commitments scheduled for 2023 as well as compliance with a financial covenant (ratio between net financial position and EBITDA).
In June, as represented in the Half-Year Financial Report, the Company obtained a waiver on the covenant as at June 30, 2023 by setting a new reference level and inserting a new monthly covenant relating to a certain minimum level of cash and cash equivalents at Group level, a covenant that has been complied with.

The Company therefore undertook to present a new business plan, with the aim of negotiating with the lenders new levels of covenants relating to the subsequent maturities of the loans, as the parameters provided for by the contracts in place at the time were no longer compatible with the Group's new short- and medium-term income and financial prospects.

The Company has therefore entered the necessary discussions with its lenders and signed an extension and standstill agreement on December 29, 2023.

As agreed, the Company provided lenders with an update of the business plan, approved by the Board of Directors, and submitted to an independent business review by a leading consulting firm.

As part of the discussions with the banking sector, the support of the majority shareholder Technologies S.A.P.A. of F.D.S. S.S. was requested, which was achieved through the disbursement of a shareholder loan for an amount of euro 5 million, interest-bearing, with capitalization of the related financial charges, subordinated to the Company's bank debt. In application of the RPT Procedure adopted by the Company and made available on the Company[1]'s website, on April 10, 2024 this transaction was submitted for evaluation by the Company's Committee for Transactions with Related Parties, which did not highlight any critical issues and assessed the Company's interest in underwriting the loan and the convenience and substantial fairness of the related conditions.

The signing of the renegotiation agreements with the credit institutions relating to the repayment profile and the rescheduling of the final term took place on April 22 and April 23, 2024 and was communicated to the market on April 24, 2024. These agreements provide for the extension of the original maturities by 24 months and the remodulation of the repayment profile in increasing instalments with the maintenance of the current interim intervals.

During discussions with the financial institutions, the executive directors, with the support of the management and also through the contribution of the financial advisor and legal advisors who assisted the Company, updated the Board of Directors on the results being formed, the expectations for results in the short and medium term, the methods for preparing the business plan and the progress of negotiations with the institutions Lenders.
The Board of Statutory Auditors discussed these issues in depth through constant dialogue with the Control, Risk and Sustainability Committee and through one-to-one meetings with the Chief Financial Officer.

2. <u>Indication of the possible existence of atypical and/or unusual transactions, including intra-group transactions or transactions with related parties.</u>
   Intra-group transactions or transactions with related parties comply with the law, the Articles of Association and the procedure on transactions with related parties adopted by the Company; they are not likely to give rise to doubts as to the correctness and completeness of the related financial statements, the existence of situations of conflict of interest and the protection of the company's assets.
   On the basis of the information made available to the Board of Statutory Auditors, the existence of atypical and/or unusual transactions has not emerged, as defined in note 2 of CONSOB Communication no. DEM/1025564 of 6/4/2001.

[1] https://www.sitcorporate.it/app/uploads/2022/02/SIT-Procedura-OPC_ApprovataCDA11.06.2021__.pdf

3. Assessment of the adequacy of the information provided in the directors' management report on atypical and/or unusual transactions, including intra-group transactions and transactions with related parties.
   In the specific explanatory notes accompanying both the separate and consolidated financial statements, the directors adequately reported and illustrated the main intra-group or related-party transactions, describing their characteristics.

4. Supervision of Statutory Auditing
   In accordance with the provisions of Article 19 of Legislative Decree no. 39/2010, the Board of Statutory Auditors carried out the required supervision of the operations of the independent auditors. In this regard, the Board of Statutory Auditors has met several times with the independent auditors Deloitte & Touche S.p.A., also pursuant to Art. 150 of the TUF, inter alia, with reference *to (i)* the examination of the Management Letter and the Additional Report pursuant to Article 11 of EU Regulation 537/2014, *(ii)* the auditing activity limited to the Company's Half-Year Report as at June 30, 2023, *(iii)* the planning of audit activities for the Financial Statements as at December 31, 2023, *(iv)* the progress of the audit of the Financial Statements as at December 31, 2023 and the results of the audit of the Financial Statements as at December 31, 2023. In these meetings, the independent auditors never highlighted facts deemed reprehensible or irregularities such as to require reporting pursuant to art. 155, paragraph 2 of the TUF.

5. Comments and proposals on the findings and disclosures contained in the independent auditors' report
   On April 30, 2024, the independent auditors released the Report on the Audit of the Financial Statements for the year ended December 31, 2023 and the Report on the Audit of the Company's consolidated financial statements for the year ended December 31, 2023, expressing *(i)* an opinion showing that the financial statements and 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 as at December 31, 2023, the economic result and cash flows for the year ended on that date in accordance with IAS/IFRS adopted by the European Union; *(ii)* a consistency opinion showing that the Directors' Reports accompanying the separate and consolidated financial statements as at December 31, 2023 and some specific information contained in the "Report on Corporate Governance and Ownership Structure" indicated in Article 123-bis, paragraph 4, of the TUF, whose responsibility falls on the Company's Directors, are drawn up in accordance with the law; *(iii)* a statement that you have nothing to report with respect to any material misstatement in the Directors' Reports, based on knowledge and understanding of the business and its context.

   On April 30, 2024 , the independent auditors submitted to the Board of Statutory Auditors, in its capacity as Internal Control and Audit Committee, the Additional Report required by Article 11 of European Regulation 537/2014. On the same date, as provided for by art. 19 of Legislative Decree 39/2010, the Board of Statutory Auditors examined the document and sent it to the Board of Directors together with its observations.

6. Indication of any filing of complaints pursuant to Article 2408 of the Italian Civil Code. of any initiatives undertaken and their outcomes
   During the year ended December 31, 2023, the Board of Statutory Auditors did not receive any complaints pursuant to art. 2408 of the Italian Civil Code.

7. Indication of the possible presentation of complaints, of any initiatives undertaken and of their results
   No complaints were received by the Board of Statutory Auditors.

8. Indication of the possible assignment of further engagements to the independent auditors and the related costs
   During the 2023 financial year, the Company conferred on Deloitte & Touche S.p.A. the following non-audit assignments, which are not among those prohibited by EU Regulation 537/2014: (i) certification activities for the recognition of the tax credit for research and development expenses and for technological innovation, against fees of € 15,900 with reference to the activity carried out in favor of the Company and for € 6,800 with reference to the activity carried out in favor of the subsidiary Metersit Srl; (ii) calculation of the financial covenants relating to the loan agreement entered into with a pool of banks led by BNL SpA, for fees of €4,000 per year. The permitted services other than the revision have been previously approved by the Board of Statutory Auditors, which has assessed their adequacy in the light of the criteria set out in EU Regulation 537/2014.
   The fees have been charged to the income statement and are reported as an annex to the financial statements as required by art. 149-duodecies of the Issuers' Regulation.
   It should also be noted that other foreign companies belonging to the SIT group have appointed companies belonging to the Deloitte & Touche network to provide auditing services.
   On April 30, 2024, the independent auditors issued the annual letter confirming independence, as required by Article 6(2)(a) of Regulation (EU) 537/2014, which does not reveal any situations that may compromise independence. The Board of Statutory Auditors has taken note of the Transparency Report prepared by the independent auditors pursuant to Article 13 of European Regulation 537/2014, published on its website[2].
   Taking into account the assignments conferred by SIT S.p.A. and the companies belonging to the Group to Deloitte & Touche and its network, the Board of Statutory Auditors does not consider that there are any critical aspects regarding the independence of Deloitte & Touche S.p.A.

9. Indication of the possible assignment of appointments to persons linked to the independent auditors and the related costs
   During the 2023 financial year, the Company did not appoint persons associated with the independent auditors.

[2] https://www2.deloitte.com/it/it/pages/audit/articles/relazione-trasparenza-italy-audit.html

10. Indication of the existence of opinions issued in accordance with the law during the year
During the year, the Board of Statutory Auditors issued, as required by current legislation, the Corporate Governance Code and the policies and procedures adopted by the Company, the following opinions: *(i)* opinion on the assignment to Deloitte & Touche for the certification for the recognition of the tax credit for research and development expenses and for technological innovation; *(ii)* opinion with reference to the derogation from remuneration policies.

11. Indication of the frequency and number of meetings of the Board of Directors and the Board of Statutory Auditors
During the year, the following meetings were held, in which the Board of Statutory Auditors took part in its collegiate composition:
    - n. 1 Shareholders' Meeting,
    - 13 meetings of the Board of Directors,
    - 11 meetings of the Control, Risk and Sustainability Committee,
    - 4 meetings of the Remuneration Committee,
    - 4 meetings of the Related Parties Committee.

    During the year, the Board of Statutory Auditors met 26 times.

12. Comments on compliance with the principles of good administration
The Board of Statutory Auditors has no comments to make on compliance with the principles of proper administration, which appear to have been consistently observed.

13. Comments on the adequacy of the organisational structure
The Board of Statutory Auditors recalls that in April 2023 the Company changed its organizational structure by defining three Business Units: Heating & Ventilation, Smart Gas Metering and Water Metering. The Board of Statutory Auditors has carried out supervisory activities on the adequacy of the organisational structure and has no comments to report on the Shareholders' Meeting.

14. Comments on the adequacy of the internal control system, in particular on the activities carried out by the internal control officers and highlighting any corrective actions taken and/or those still to be taken
The Board of Statutory Auditors monitored the adequacy of the Internal Control and Risk Management System, also proceeding with the assessment with joint meetings with the Control, Risk and Sustainability Committee, with meetings with the Head of the Internal Audit Function, also in order to receive information on the results of the audit activity. The Board of Statutory Auditors had a periodic exchange of information with the representatives of the Compliance, Risk Management and Internal Audit functions, as well as with the Supervisory Body with reference to the analysis and monitoring of the main corporate risks.
With particular reference to risks, during 2023 the risk assessment activity was systematically updated with the identification of new risks and the review of the company's exposure to them. Meetings were held with the company's management on how to identify the countermeasures adopted and the adoption of the same following the analysis of the results of the Risk Assessment activities conducted by the Company.

The Board of Statutory Auditors, pursuant to Legislative Decree no. 39/2010, carried out specific analyses on the activities and audits carried out by the Finance department, also with the support of the Internal Audit function with reference to financial reporting processes.

15. Observations on the adequacy of the administrative-accounting system and its reliability to correctly represent the management facts

The Board of Statutory Auditors monitored the adequacy of the internal control system and the administrative-accounting system, as well as the reliability of the latter to correctly represent the management facts, by obtaining information from the Manager in charge of preparing the Accounting and Corporate Documents as well as from the heads of the respective functions; and the examination of business documents. In particular, the Manager in charge of preparing the Accounting and Corporate Reports, with the help of the relevant corporate structures, conducted a monitoring plan that involved the key controls of the processes relevant to financial reporting. The results that emerged from the programme of activities carried out do not highlight critical aspects with regard to compliance with Law 262/2005.

The Board of Statutory Auditors paid attention *to (i)* the process of constant updating of the internal procedures relating to the main company cycles, as well as 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 economic, equity and financial data of companies established and regulated by the law of non-European Union countries that are of significant importance, pursuant to the combined provisions of Articles 36 and 39 of the Market Regulation; *(iii)* the finding that the information flows provided by the non-EU subsidiaries were adequate to carry out the control of the annual and interim accounts as required by Article 15 of the Market Regulation adopted by CONSOB resolution no. 20249 of December 28, 2017.

The Board of Statutory Auditors recalls that in the preparation of the Half-Year Financial Report at June 30, 2023, the Company's management identified a trigger event such as to make it necessary to carry out the impairment test on the net invested capital of the two Cash Generating Units most affected by the aforementioned phenomena: Heating & Ventilation and Smart Gas Metering. The result of the impairment process led to an impairment of euro 17 million in the invested capital of the Heating & Ventilation Business Unit, fully disclosed in the half-year Financial Report.

With regard to the preparation of the annual financial statements, the Board of Statutory Auditors acknowledges that the Board of Directors has approved, in accordance with the requirements of the Bank of Italy/CONSOB/ISVAP Joint Document of March 3, 2010, the compliance of the *impairment test* methodology with the requirements of IAS36.

To carry out the impairment test, the Company was supported by a leading independent consulting firm, which analysed the methodology used and the calculations carried out, issuing a favourable opinion on the results that emerged. The notes to the financial statements show both the assumptions used to carry out the test and the results of the evaluation process conducted.

The Board of Statutory Auditors has no comments on the *impairment test* procedure adopted.

16. Comments 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

    We have acquired knowledge and supervised, to the extent of our competence, the adequacy of the instructions given by the Company to the subsidiaries pursuant to Article 114, paragraph 2, of Legislative Decree no. 58/1998, inter alia, through: *(i)* the information acquired from the Chief Financial Officer and company representatives; *(ii)* the acquisition of information from the heads of the corporate functions; *(iii)* meetings and exchanges of information with the Boards of Statutory Auditors of the subsidiaries and *(iv)* meetings with the independent auditors.

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

17. Comments on any relevant aspects that emerged during the meetings held with the auditors pursuant to art. 150, paragraph 3, of Legislative Decree no. 58/1998

    During the periodic exchanges of data and information between the Board of Statutory Auditors and the company appointed to audit the accounts, pursuant to art. 150, paragraph 3, of Legislative Decree no. 58/1998, no aspects have emerged that should be highlighted in this report.

18. Indication of the Company's adherence to the Corporate Governance Code of the Corporate Governance Committee of listed companies

    The Company has adopted the Corporate Governance Code for listed companies promoted by Borsa Italiana; to the extent of its specific competence, the Board of Statutory Auditors has supervised the procedures for the concrete implementation of the corporate governance rules to which the Company has declared to comply; in particular, with reference to the Corporate Governance Code, the Board of Statutory Auditors has supervised *(i)* on the methods of implementation of the corporate governance rules, as reported in the Report on Corporate Governance and Ownership Structure, without making any remarks; *(ii)* the correct application of the assessment criteria and procedures adopted by the Board of Directors to assess the independence of its members.

19. Concluding assessments of the supervisory activity carried out as well as of any omissions, reprehensible facts or irregularities detected during the course of the same

    The supervisory activity of the Board of Statutory Auditors was carried out during the 2023 financial year on a normal basis and did not reveal any omissions, reprehensible facts or irregularities to be reported.

20. Indication of any proposals to be represented to the Shareholders' Meeting pursuant to art. 153, paragraph 2, of Legislative Decree 58/1998

    As a summary of the supervisory activities carried out during the year, the Board of Statutory Auditors has no proposals to formulate pursuant to art. 153, paragraph 2, of Legislative Decree no. 58/1998, with regard to the separate financial statements as at December 31, 2023 of SIT S.p.A., its approval and the matters within its competence.

Conclusions

The financial statements for the year ended December 31, 2023 of SIT S.p.A. and the consolidated financial statements of the SIT group as of the same date have been prepared in accordance with IAS/IFRS international accounting standards issued by the International Accounting Standard Board (IASB), in compliance with the provisions of Legislative Decree No. 38 of February 28, 2005 implementing Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002.

The Board of Statutory Auditors noted that in preparing the financial statements, the Directors assessed the uncertainty related to the achievement of the objectives set out in the Plan and, also following the agreements with the financial institutions, considered that the Company will be able to fulfil its obligations in the foreseeable future, therefore considering it appropriate to use the going concern assumption in the preparation of the financial statements as at December 31, 2023. The Board of Statutory Auditors finds no reasons preventing the continuation of the business continuity requirement.

The Board of Statutory Auditors has examined the criteria adopted in the preparation of the aforementioned financial statements, with particular reference to the content and structure, the scope of consolidation and the uniformity of the application of accounting standards, the existence of adequate information on the company's performance and on the assessments carried out to verify the impairment *test*.

Since we are not responsible for the substantive analytical control of the content of the financial statements, we have monitored the general approach given to the annual and consolidated financial statements, their general compliance with the law as regards their formation and structure, and in this regard we have no particular observations to report.
The independent auditors did not comment on the information provided.

To the best of our knowledge, the Directors, in preparing the financial statements, did not derogate from the provisions of the law pursuant to art. 2423, paragraph 4, of the Italian Civil Code.

We have verified that the financial statements and the management report correspond to the facts and information of which we are aware as a result of the performance of our duties and we have no comments on them.

The statutory financial statements of SIT S.p.A. and the consolidated financial statements of the SIT group are accompanied by the required report of the independent auditors, to which we refer.

For all of the above, the Board of Statutory Auditors finds no reasons preventing the approval of the financial statements as at December 31, 2023 and the proposals for resolutions to cover the loss formulated by the Board of Directors.

Modena, April 30, 2024

THE BOARD OF STATUTORY AUDITORS

Matteo Tiezzi

Loredana Anna Conidi

Saverio Bozzolan