Annual Report

2020

Saleri SIL
INDUSTRIE SALERI ITALO

2020 Annual Report

Saleri SIL

INDUSTRIE SALERI ITALO

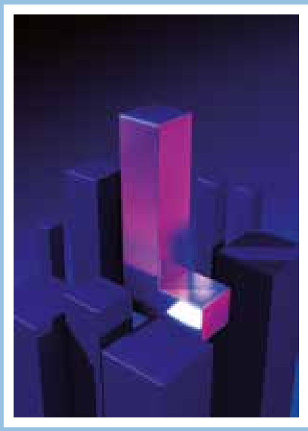
CREATIVE CONCEPT

**2020 has truly been a peculiar year, historic and difficult for the whole world.
Saleri has been able to face changes thanks to a great organization and concrete solidity: strong qualities obtained and built with a constant and daily commitment.**

This year's concept is focused on solidity, the common thread of the futuristic and colourful 3D illustrated tables which gather **SALERI**'s initials and tell its main values: the **Attention** for quality, the original **Solutions** as a result of continuous **Innovation** processes that allow to obtain **Excellent** results. And finally, to close with **Resilience**, a distinctive feature of the company that allowed Saleri to strengthen and obtain an important **Leadership** in the complex automotive market.
3D illustration is a creative, interesting and very advanced technique, which confirms Saleri's vision and attentive view of the Future.

ALL CREATIVE

SOLUTIONS



LEADERSHIP

RESILIENCE

ATTENTION

EXCELLENCE

INNOVATION

Index

SALERI

SOLUTIONS

In order to gain best efficiency, rapidity and optimal solutions, Saleri realise most of new products development in simulation environment, making use of constantly updated software.

In Saleri there's an entire pre-development department, where engineers and researchers – organized into dedicated and specific project teams – work side by side with customers, defining the technological features of those prototypes that will become the new generation cars components: a wide range of mechanical, electrical, variable and electromechanical water pumps.

Section

1

Consolidated non-financial statement for 2020

Letter to the Stakeholders

The first edition of the Non-Financial Statement (NFS) for 2018 regarded the holding company Industrie Saleri Italo S.p.A. ("**Saleri**"). The next year, in 2019, the scope of the report was extended to include all of the operating companies in the Saleri group (hereinafter, "**Saleri Group**", including, therefore, Saleri Shanghai Co. Ltd. and ABL Automazione S.r.l.). Pursuing the objective of providing our Stakeholders with the most complete overview of the activities of the Saleri Group in the area of sustainability, the 2020 edition sees the further inclusion of information regarding Saleri Mexico S.A. de C.V., which was incorporated in 2019. A particular feature of this gradual extension of the overview provided is that each reporting period has been characterised by a highly significant event: in 2018, there was the fire that destroyed one of the buildings at the headquarters in Lumezzane (BS); in 2019, we saw the incorporation of the first subsidiary on the other side of the Atlantic; and, in 2020, there was the Sars-Covid-19 global pandemic. This last year, in particular, has clearly and indisputably highlighted the close connection between industry, the environment and civil society, further strengthening the desire of the Saleri Group to make its contribution to the topic of sustainability.
During the pandemic, the Saleri Group has adopted the most effective measures to safeguard the health of its employees. Where possible, agile working has been – and continues to be - used. Operating procedures were revised with rules and protocols introduced in order to limit and, possibly, eliminate the risk of contagion, carrying out the frequent sanitisation of production areas and offices.
All personnel has been issued with personal protective equipment to enable activities to continue or to plan their restart in a safe manner. Production activities were suspended only under the strictest national and local lockdown measures. In Italy, the Group has accessed social safety nets.
Despite the challenging circumstances that characterised 2020, the Saleri Group managed to take a range of actions designed to consolidate its position of leadership on the market of manufacturers of water pumps and cooling systems for the automotive industry, thus sustaining the growth of the Group. In particular, the management team was strengthened in strategic divisions, the new SAP ERP system was implemented, new Lean Management techniques were introduced in support of production activities and, finally, production commenced at the new factory in Mexico while the construction site for the new Indian subsidiary was prepared.
In such a difficult but dynamic context, it was possible to achieve so many goals thanks to the undoubted resilience of the Saleri Group together with open dialogue with our Stakeholders.
Precisely in order to further this openness and greater involvement of our Stakeholders, this year, for the first time, the Materiality Matrix of the Saleri Group NFS has been drawn up using an on-line Survey. This tool, consisting of around ten questions has enabled Saleri to reach out to a significant sample of Stakeholders (Group employees, PC users, corporate bodies, banks, O:E/A:M customers, vendors, third party consultants) and to gather information in order to build the Materiality Matrix described in Section 2.1, which provides an immediate snapshot of Saleri's sustainability priorities.
Another new feature of the NFS 2020 is the integration of references to the Sustainable Development Goals (or SDGs) of the United Nations 2030 Agenda. This is a prelude to

finalisation of the Saleri Group "Sustainability Plan" that will be drawn up in 2021, while also appointing a Corporate Social Responsibility Manager and an ad hoc governance committee. Setting out the SDGs enables us to highlight the existing links between these goals and the GRI indicators described in this report.
Given the desire to offer customers products and processes with an ever decreasing environmental and social impact, the Technical Department and the Research & Innovation Department have, together with the Operations team, achieved increasing efficiencies over the years. In this sense, the adoption of Shop Floor Management techniques in 2020 led to the creation of the "Saleri Excellence Operation System" (SEOS): this is a management system designed to increase production performance that can be rolled out to all Saleri facilities around the world.
Finally, as a benefit to its customers and in combatting climate change, 2020 will also be remembered as the year in which Saleri officially made a commitment to supply its customers with carbon neutral products by 2039. This may seem a long-term objective but, in actual fact, it is just around the corner. As this is a Group objective, our commitment shall be considerable and global and will absolutely not be deferred.
Alongside the admirable adaptability of our human capital, a fundamental role in this process of growth has been played by the support provided by all Stakeholders. This is a tangible sign of the solidity of the relationships that we have managed to build up over time and, above all, of the strategic importance that the Saleri has earned in the business segment in which it operates.
Particular thanks much go to the Saleri family and the representatives of the Quaestio Italian Growth Fund: they represent a solid point of reference with which to construct the future of the Saleri Group through a climate of active collaboration and support.
Finally, last but certainly not least in order of importance, our specific, heartfelt thanks must go to all of the people of the Saleri Group. We thank them for proving themselves capable of dealing with a major reorganisation and for working hard to guarantee a successful future, also driven by a more sustainable, ethical vision.

Lumezzane, 13 May 2021

Basilio Saleri
President & CEO

Matteo Cosmi
Managing Director

Chapter

1

Methodological note

This is the Non-Financial Statement (hereinafter, also “NFS” or “Sustainability Report” or “Non-Financial Statement”) of the Saleri Group (hereinafter, also “Saleri”), prepared in accordance with Articles 3 and 4 of Legislative Decree 254/2016 (hereinafter, also "Decree”). It contains thorough, transparent information on environmental issues, social issues, personnel-related issues, respect for human rights and the fight against corruption.

The Statement has been prepared in compliance with Legislative Decree 254/2016, with reference to the “GRI Sustainability Reporting Standards” (2016), as published by the Global Reporting Initiative (GRI),as indexed in the table “Index of GRI contents”. The more recent 2018 versions of the specific standards GRI 403 (Occupational Health and Safety) and GRI 303 (Water and Effluents) have been adopted.

In line with one of the two options offered by Article 5 of Legislative Decree no 254/2016, the Non-Financial Statement has been integrated into the Directors’ Report.

The Non-Financial Statement is published annually. This frequency of publication was approved by the Industrie Saleri Italo S.p.A. Board of Directors on 13 May 2021.

The contents were finalised and the significant issues determined, also in relation to the areas required by the Decree, based on the principles set out by the GRI-101 (materiality, stakeholder inclusiveness, sustainability context, completeness, comparability, accuracy, timeliness, clarity, reliability and balance).

The reporting perimeter of the financial and economic information contained in this document is the same as for the Consolidated Annual Financial Report of Industrie Saleri Italo S.p.A. at 31 December 2020. The scope of the social and environmental information includes the companies consolidated line-by-line in the Consolidated Annual Financial Report: Saleri Shanghai Co. Ltd., Immobiliare Industriale S.r.l. and ABL Automazione S.r.l. (company acquired on 31 July 2019).

This year’s edition also includes information relating to subsidiary Saleri México, S.A. de C.V., a company with its registered office in Monterrey, Nuevo León, Mexico, incorporated at the end of 2019 and operational since September 2020.

The figures contained in this Non-Financial Statement refer to the period between 1 January and 31 December 2020. Where possible, the information presented in the DNF has been accompanied with comparative information for 2019. Any further limitations regarding the reporting perimeter have been duly disclosed in this document.

The Non-Financial Statement has been prepared based on a structured reporting process involving all business departments, managers in charge of relevant areas and those responsible for the figures and information subject to non-financial reporting. They were asked to contribute not only with the identification and assessment of significant projects for inclusion in the report but, also, with the collection, analysis and consolidation of data. In more detail, the figures and information included in the Statement were obtained from the business information system used for each entity’s financial and management reporting and by a non-financial reporting system set up to meet the requirements of Legislative Decree 254/2016 and the GRI Standards. In order to ensure the reliability of the figures and information included in the Statement, the use of estimates was limited insofar as possible and any estimates made have been highlighted in the document.

This document has been the subject of a limited assurance engagement (following the criteria indicated by Standard ISAE 3000 Revised) by Deloitte & Touche S.p.A. which has issued a separate report confirming that the information reported meets the requirements of Article 3(10) of Legislative Decree 254/2016.

The engagement was performed based on the procedures described in the “Report of the Independent Audit Firm”, included in this document. For any questions or information requests regarding the Report, please email the following address: **sustainability@saleri.it**.

[1] For further information, see Section 1 – Ownership and governance structure of the Consolidated Annual Financial Report of the Saleri Group at 31 December 2019, as published in the “Financial Statements” section of the site www.corporate.saleri.it.

Chapter

2

Materiality analysis

The Saleri Group has performed a materiality analysis in order to identify the major economic, social and environmental issues significant in their own right and which influence or could influence, substantively, the decisions and assessments of Stakeholders. The result of this analysis was the materiality matrix, the methodological instrument widely used in international best practice. It shows the issues defined as material for Saleri i.e. those assessed as of medium/high importance for both the Company (vertical axis) and for the stakeholders (horizontal axis). The issues for inclusion in the Sustainability Report were determined based on the results of the materiality analysis.
In order to make dialogue with internal and external Stakeholders ever more open and direct, Surveys have been used this year for the first time. The contributions received from each Stakeholder have been used to complete the NFS 2020 materiality matrix. The results offered by the materiality matrix represent a significant tool for use in establishing and developing sustainability priorities and continuing to generate shared value. The materiality analysis was used to identify the issues in relation to which concrete measures and appropriate initiatives designed to produce improvements are required. The issues identified are the result of analysis of the global context and the specific business segment with a key role in relation to business responsibility, as well as of dialogue with senior management and with the Stakeholders.
Furthermore, the analysis has been performed considering the ten principles of the United Nations Global Compact, as derived from: the Universal Declaration of Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights At work, the Rio Declaration on Environment and Development and the United Nations Convention Against Corruption.

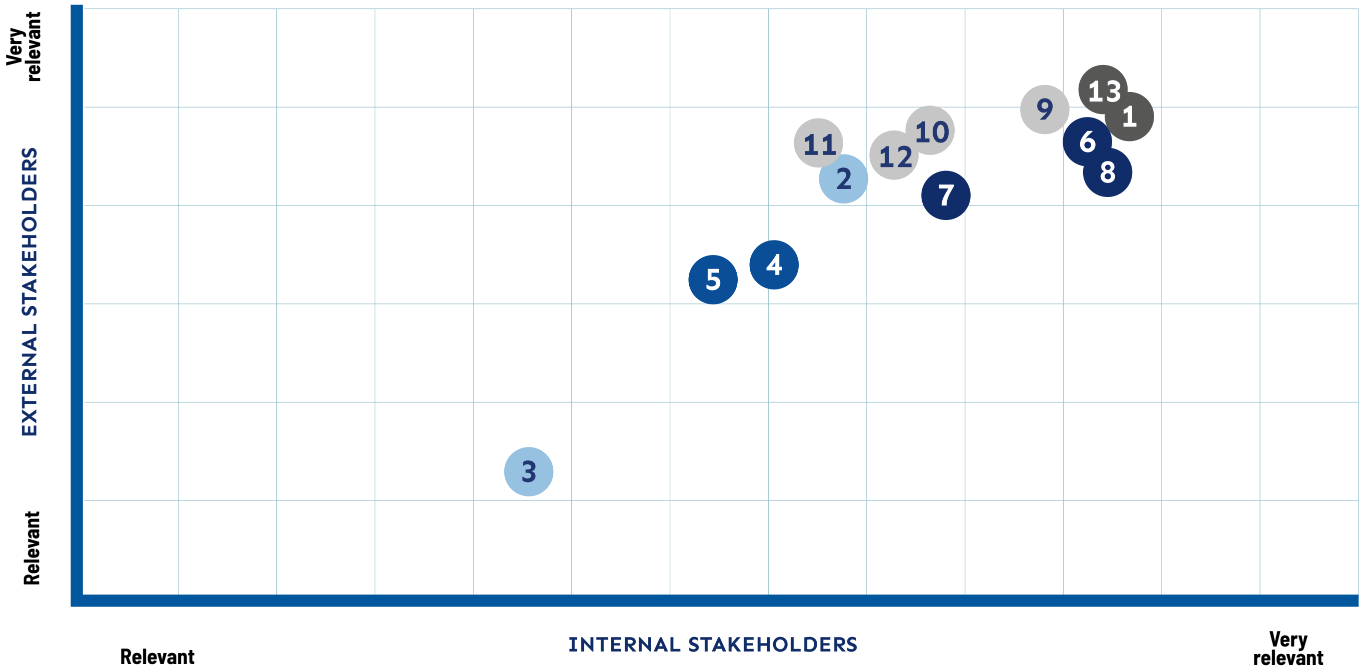
HUMAN RIGHTS	Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and
	Principle 2	make sure that they are not complicit, even indirectly, in human rights abuses.
LABOUR	Principle 3	Businesses should uphold the freedom of association of workers and the effective recognition of the right to collective bargaining.
	Principle 4	the elimination of all forms of forced and compulsory labour.
	Principle 5	the effective abolition of child labour; and
	Principle 6	the elimination of discrimination in respect of employment and occupation.
ENVIRONMENT	Principle 7	Businesses should support a precautionary approach to environmental challenges;
	Principle 8	undertake initiatives to promote greater environmental responsibility; and
	Principle 9	encourage the development and diffusion of environmentally friendly technologies.
ANTI-CORRUPTION	Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.

For the Saleri Group, key requisites in pursuit of its corporate objectives include dialogue and interaction with internal and external stakeholders, while fully aware that understanding their needs, interests and expectations makes it possible to generate shared value in the medium and long-term.

Based on its characteristics, activities and awareness of the role that it plays in the context in which it operates, the Saleri Group has identified the following key stakeholders: employees, banks and financial institutions, customers, local area and community, shareholders, suppliers, business network and public administration.

Stakeholder	Engagement modes
Employees	Company intranet Training courses Mailshots Internal events Company welfare Surveys
Banks/Financial institutions	Web site Meetings with financial institutions Surveys
Customers	Corporate web site Customer service Distribution network Telephone and e-mail contact After sales services Partnerships Participation in industry trade fairs Surveys
Local Area and Community	Company web site Sponsorships Events organisation Active participation in community life
Shareholders	Financial statements and reports Shareholders' meetings Company web site Ad hoc regular meetings Surveys
Suppliers/Vendors	Daily relations Setting and agreement of technical and qualitative standards Suppliers' portal Surveys
Rete imprese / Business network	Ad hoc regular meetings Creation and development of shared projects Participation in industry trade fairs
Public administration	Meetings with representatives of local institutions Events in local area

2.1. Materiality matrix



		INTERNAL	EXTERNAL
1	Product reliability and quality	4.23	4.57
2	Responsible procurement	3.76	4.30
3	Solidarity projects	3.26	3.17
4	Fight against climate change	3.65	3.96
5	Conservation of natural resources	3.56	3.91
6	Occupational Health and Safety	4.16	4.43
7	Diversity and equal opportunity	3.94	4.22
8	Training and skills development	4.18	4.35
9	Innovation and product sustainability	4.10	4.57
10	Appropriate risk management	3.90	4.43
11	Business integrity and regulatory compliance	3.74	4.43
12	Economic performance and sustainable development	3.85	4.39
13	Customer satisfaction	4.20	4.61

RESPONSIBILITY

- Towards people
- Social
- Towards customers
- Environmental
- Economic-business, Governance, Compliance and anti-corruption

2.2. Material topics

Through the combined application of the principles of materiality and stakeholder inclusiveness, we have drawn up a list of "material topics". The materiality analysis was updated in 2020, commencing from the list drawn up in prior year and opening the possibility of inclusion of new topics in the next NFS, by indicating them in the relevant section of the Survey sent to the stakeholders selected.
In order to measure the importance of each topic identified, the Group adopted a questionnaire-based method which enabled it to prioritise topics previously identified as material in 2019. For the first time, the date was collected through completion of an on-line questionnaire sent to all Saleri Group employees and to a sample of external stakeholders. The various questions in the questionnaire included a specific question designed to help construct the Materiality Matrix. Therefore, each participant in the survey was asked to rate the importance of each topic – with a score of between 1 (not very material) to 5 (highly material). The results from the questionnaires were averaged in order to obtain a final ranking of the material topics. Subsequently, the materiality threshold was set at a score of 3 in order to prioritise those topics emerging from the analysis performed.
The 13 material topics identified are set out below, as divided by macro area and approved by the Board of Directors:

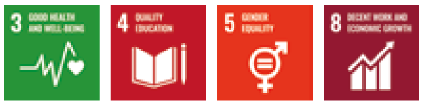
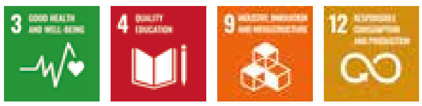
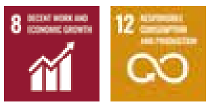
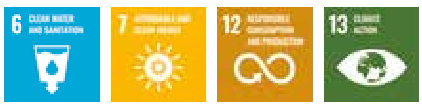
Macro area	Material topics
ECONOMIC RESPONSIBILITY, GOVERNANCE, COMPLIANCE AND ANTI-CORRUPTION	Economic performance and sustainable development Product innovation and sustainability Appropriate risk management Business integrity and regulatory compliance
RESPONSIBILITY TOWARDS PEOPLE	Occupational health and safety Diversity and equal opportunity Training and skills development
SOCIAL RESPONSIBILITY	Responsible procurement Solidarity projects
RESPONSIBILITY TOWARDS CUSTOMERS	Product quality and reliability Customer satisfaction
ENVIRONMENTAL RESPONSIBILITY	Combatting climate change Conservation of natural resources

2.3. Sustainable development goals: the contribution of the Saleri Group

In recent years, sustainability issues, the struggle against climate change, environmental protection, sustainable management of material resources and human rights have attracted ever increasing interest from institutions and Organisations all over the world. One of the main forward steps was made, during the 21st Conference of the Parties of the UNFCC ("COP21"), on 12 December 2015, when the 196 participating countries signed the Paris Agreement. This is a global agreement that sets out the commitment of nations to contribute towards reducing greenhouse gas emissions and keeping global warming at less than 2 °C more than pre-industrial levels. The climate agreement came into force in 2020 and represents another important step forward in establishing a global strategy to combat climate change and rising temperatures on Planet Earth.
In 2015, more than 150 international leaders also met at the United Nations to contribute towards global development, promote human

wellbeing and protect the environment, by approving a new policy on topics related to sustainable development: the 2030 Agenda. The key elements of the 2030 Agenda are the 17 Sustainable Development Goals (SDGs) which are valid for the period 2015-2030 and involve the public and private sectors in ensuring the achievement of common goals such as peace, security, justice, social inclusion and environmental responsibility. In 2016, by means of Decree Law no 256, European Directive 2014/95 on "Non-financial disclosure" was incorporated into Italian Law. It requires companies of public interest that meet certain criteria to publish information on their management of social and environmental issues, from 2017 onwards. Therefore, Organisations are increasingly called upon carefully to assess how specific situations develop and to monitor new challenges thrown up, in order to grasp opportunities and deal appropriately with the related risks.
In order to confirm its commitment to promoting a business model that incorporates economic, social and environmental responsibility into all Group affairs and activities, from next year, Saleri will loss a formal process to integrate a sustainability strategy into its business strategy. It will set itself qualitative and quantitative targets in relation to the SDGs and will establish a monitoring system to ensure that regular monitoring is carried out.

In light of the areas in which it operates, Saleri has identified the most important SDGs in terms of impact created on the ground and has paired these Goals with its own material topics and, specifically, with the GRI contents; the objective is to render more explicit the link between sustainable development and doing business. This has been done while considering the document "Linking the SDGs and the GRI Standards", a guide updated in September 2020 by the Global Reporting Initiative, which helps organisations link each of the 17 SDGs with the disclosure requirements of GRI Standards.
The following table sets out the link between the material topics, the GRI indicators reported and Sustainable Development Goals.

Area	Material Topic	GRI	SDGs
ECONOMIC/ BUSINESS RESPONSIBILITY, GOVERNANCE, COMPLIANCE AND ANTI-CORRUPTION	Economic Performance and Sustainable Development	201-1	
	Innovation and Product Sustainability		
	Risk Management		
	Business Integrity and Regulatory Compliance	205-3; 206-1	
RESPONSIBILITY TOWARDS PEOPLE	Occupational Health and Safety	403-1; 403-2; 403-3; 403-4; 403-5; 403-6; 403-7; 403-9	
	Diversity and Equal Opportunity	405-1; 406-1	
	Training and Skills Development	404-1	
SOCIAL RESPONSIBILITY	Responsible Procurement		
	Solidarity Projects		
RESPONSIBILITY TOWARDS CUSTOMERS	Product Quality and Reliability		
	Customer Satisfaction		
ENVIRONMENTAL RESPONSIBILITY	Combatting Climate Change	305-1; 305-2	
	Conservation of Natural Resources	302-1; 303-3; 306-2	

Chapter

3

The Saleri business

The Saleri Group is involved in the design, development and manufacture of water pumps and cooling systems for the automotive industry. Research and development, flexible technical solutions and constant updating of quality standards are the distinctive features of the method adopted by the Saleri Group and constitute the added value of every product.

The quality of the Saleri Group's products is confirmed by its collaboration with the most prestigious automobile manufacturers with which the Group enjoys long-term partnerships in pursuit of innovative research, flexibility and quality.

Over the years, Industrie Saleri Italo S.p.A. has established an important international industrial group. The Saleri Group companies, controlled by holding company Industrie Saleri Italo S.p.A., operate in a synergic manner in the automotive industry and in the design, development and manufacture of a vast range of cooling systems.

The Group operates through manufacturing and commercial companies in Italy, Mexico, China and Germany, all of them controlled by holding company Industrie Saleri Italo S.p.A.

Manufacturing activities are carried out by:
- holding company Industrie Saleri Italo S.p.A.
- Chinese subsidiary Saleri Shanghai Co. Ltd.
- Mexican subsidiary Saleri Mexico S.A. de C.V.
- Italian subsidiary ABL Automazione S.r.l.

Alongside the manufacturing companies, the Group includes German subsidiary Saleri GmbH which provides commercial support in Munich and subsidiary Immobiliare Industriale S.r.l. which manages an industrial property that has been leased to a company outside the Saleri Group. We note that Saleri GmbH and Immobiliare Industriale S.r.l. are excluded from the scope of consolidation as they are immaterial. In July 2019, a 100% interest in ABL Automazione S.r.l. was acquired through the investment in Hold.Co 1 S.r.l. (Industrie Saleri Italo S.p.A. 70% and Berfin S.r.l 30%); this company manufactures automatic assembly machines and lines and is an approved supplier, mainly in the automotive segment. In December 2020, Saleri India Private Ltd, a company based in Pune, State of Maharashtra, was incorporated and will operate on the Indian market.

For further details about the Group companies and their main activities, see Section 4.1 Corporate governance and activities.

The holding company has its registered office in Lumezzane (BS) which is also the site of the Group's main manufacturing facility. In Provaglio d'Iseo, still in the Brescia area, there is the new manufacturing facility which started operating in July 2018 and became fully operational in September 2018, in place of the Lumezzane factory that was damaged by fire earlier in 2018. The Lumezzane factory is owned by the Group while the ABL Automazione, Provaglio d'Iseo, Shanghai and Monterrey facilities are leased.

The size and main activities of Saleri's Italo S.p.A.'s factories are described below:

SALERI A
14,250 m²
LUMEZZANE
Production and Assembly (annual production capacity of around 3 million water pumps), warehouse, offices

SALERI B
3,000 m²
LUMEZZANE
Warehouse, Testing Area

SALERI E
8,600 m²
PROVAGLIO D'ISEO
Assembly (annual production capacity of around 1 million water pumps), warehouse, offices

In addition to the factories operated directly by holding company Saleri, the Group also includes other manufacturing facilities, one operated in Shanghai by subsidiary Saleri Shanghai Co Ltd and another operated in Monterrey by subsidiary Saleri Mexico de C.V. Details of their size and main activities are provided below:

ANTING TOWN JIADING DISTRICT (CHINA)
6,000 m²
Mechanical processing/machining, assembly (annual production capacity of around 1 million water pumps), Warehouse, Offices

OMA VYNMSA AERO INDUSTRIAL PARK (MEXICO)
3,000 m²
With a further 2,000m² available for possible future expansion.
Assembly – from January 2021

The facilities available to ABL Automazione S.r.l. are as follows:

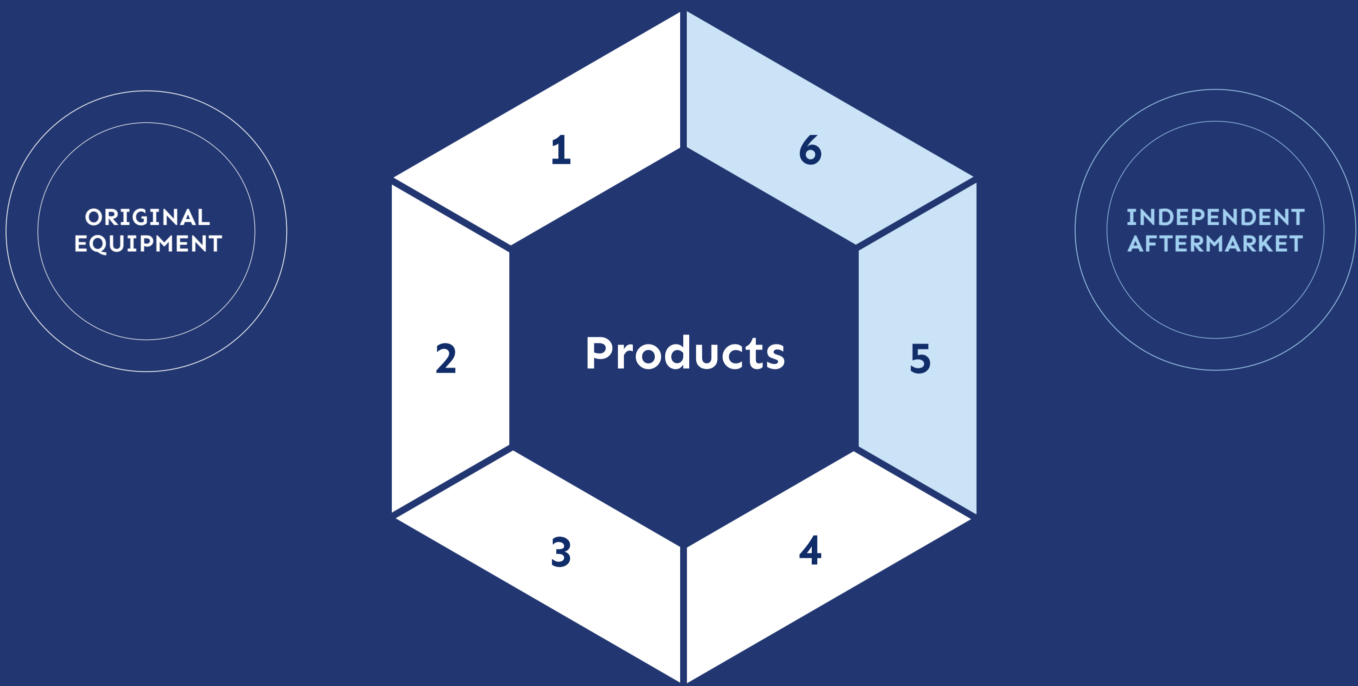
2 PRODUCTION SITES
1,900 m²
Production line assembly activities

1 WAREHOUSE
660 m²

OFFICES
600 m²
Head office and technical/operations offices on two floors

3.1. Products and markets served

Any system regulated by the circulation of a fluid requires the best Thermal Management solution. Over the years, Saleri has developed Thermal Management systems that guarantee ever more advanced cooling solutions, in line with growing market demands in terms of performance and environmental protection.
Saleri has established itself as a key supplier to the automotive industry thanks to decades-long collaboration on the design and development of cooling systems with the most prestigious brands in the European automotive industry. This guarantees long-term contracts (5-7 years), a clear idea of future revenues and significant entry barriers.
The business segments in which Saleri operates are divided into two broad categories: products destined for the Original Equipment segment (OEM and OES – Original Equipment Manufacturer and Original Equipment Spare parts) and products destined for the Independent Aftermarket (IAM). These main categories are described in more detail below.



1 - Mechanical water pumps
2 - Adjustable mechanical water pumps
3 - Electric pumps
4 - Electromechanical pumps
5 - Single water pumps
6 - Distribution kits

Products destined for the Original Equipment segment (OE)

Saleri's core business, it regards the design and manufacture of Water Pumps and more complex Cooling Systems for the OEM and OES segment. The products can be split further into the following categories:

1 Mechanical water pumps

These may only circulate the cooling fluid or they may act as multi-purpose components, incorporating a number of devices.

2 Adjustable mechanical water pumps

Cooling systems divided into several sub-groups based on their operating principle and which provide optimal support with temperature control strategy with the aim of reducing CO_2 production.

3 Electric pumps

Fully adjustable electric pumps for both the main circuit and for auxiliary circuits with various power and voltage levels which can regulate the flow of cooling fluid with great precision.

4 Electromechanical pumps

Pumps that combine electrical operation with mechanical operation as a result of their dual power supply (mechanical and electrical). EMPs (Electro-Mechanical Pumps) are highly adjustable, in terms of performance and power, because the electric drive makes it possible to control the rotor speed, ensuring a very wide range of use. For example, we can say that the EMP may be electrically driven for up to 95% of its life. The presence of an electric drive also means the pump can be kept active even when the internal combustion engine is switched off or in the start & stop phase. This prevents localised overheating and offers the possibility of removing auxiliary circuits with cooling pumps dedicated to post-run cooling. The option of having a single pump, with centralised control, also makes it possible to remove a series of components from the engine compartment (e.g. piping, connectors and auxiliary pumps) with a significant saving in terms of weight and volume. The mechanical drive uses the power generated by the internal combustion engine and ensures that the pump achieves a very high performance level. This second drive function is essential in ensuring the proper cooling of the system in the toughest conditions. In fact, the current voltage levels of vehicle electrical systems – between 12V and 48V – are insufficient to handle peak workloads.

Products destined for the Independent Aftermarket (IAM) segment

Production and/or sale of water pumps (SIL brand or private label) and Distribution Kits in the IAM circuit. Part of the production destined for the IAM segment is carried out at the Saleri Shanghai Co. Ltd factory in China. The types of product currently manufactured by Saleri are as follows:

5 Single water pumps

With a catalogue of more than 1,000 products, Saleri offers excellent coverage of the European automobile market. The products, distributed under the SIL brand, are manufactured to the same technological standards as the OE segment and offer quality equivalent to the original.

6 Distribution kits

Saleri offers a wide range of distribution kits with water pumps. The option of a kit reduces the risk of error when identifying the produces necessary for repair/replacement as it contains a full range of distribution components.

Development of prototypes and processes for original productions

Design, purchase or in-house production and, finally, sale of prototype tools for the mass production phase or of prototypes for OE customers.

Design and realisation of assembly lines

This activity is carried out by ABL Automazione S.r.l. which was acquired by the Saleri Group with effect from 31 July 2019. The company designs and assembles its assembly lines with full autonomy while it uses a network of selected engineering workshops – capable of guaranteeing the highest quality and rapid turnaround times – to produce specific parts. The mechanical engineering and manufacturing activities are carried out by a network of 12 specialist engineering workshops. The main technologies used in these sectors are the following systems: SCADA (supervisory control & data acquisition), DCS (distributed control system), PLC (programmable logic control), HMI (human machine interface) and PAC (programmable automation controller). Meanwhile, the most significant application sectors remain: Machine Manufacturing, Oil&Gas, Aerospace & Defence, Automotive & Transportation (leading sector, representing 20% of value of production) and Food & Beverage. Another fast growing market segment is semi-conductors. Therefore, ABL Automazione S.r.l. operates mainly in the industrial automation segment, especially 'Industry 4.0' where it produces automatic assembly lines and equipment.

Markets served

Saleri operates in the Automotive Suppliers market as a Tier 1 supplier in the Original Equipment segment - 85% of revenue – and in the Independent Aftermarket segment – 15% of revenue.
OEM/OES sector customers include engine manufacturers with factories situated mainly in Europe (Germany, Austria, Hungary, UK) as well as manufacturers served in China by subsidiary Saleri Shanghai Co. Ltd.

Europe is the largest global market for the design and realisation of automated assembly lines, also thanks to the importance of the automotive industry. North America is the second largest market worldwide while Asia Pacific is going through the advanced phase of the 'Industrial Revolution' and is showing strong demand for industrial automation for the automotive industry.

ORIGINAL EQUIPMENT
85%
OF REVENUE

INDEPENDENT AFTERMARKET
15%
OF REVENUE

3.2. Business model and sustainable value creation

Working in the Automotive industry requires great attention to environmental impacts, well in excess of basic legal requirements. For years, Saleri has worked daily to ensure that its products and processes have less and less impact on the environment. This is a constant commitment for continuous improvement.

The main features that enable Industrie Saleri Italo S.p.A. and the Group as a whole to generate value are described briefly below. They include:

1) dynamic, state-of-the-art technology,
2) talented people,
3) the pursuit of consistently high quality levels,
4) good management systems and
5) management capable of reading the market with an eye on the future.

1. Production Technology – Dynamism, flexibility, innovation

Saleri has implemented a highly automated production system based on principles of modularity and flexibility. This enables it to produce with the highest levels of quality and reliability, handling a large number of variations and ever increasing volume growth. The production structure at the factories can be adapted to small and large production runs with regard to both component production and assembly of finished products. The use of advanced technology together with the development of specific know-how permits the implementation of state-of-the-art solutions and enables the optimisation of the manufacturing process while, also, guaranteeing the best use of resources. It is with this objective in mind that Saleri has, for some time, adopted the lean manufacturing philosophy when designing and developing its production lines. This philosophy represents a streamlined, efficient production method geared towards the minimisation of waste, in terms of both time and manufacturing resources. It is rooted around four main pillars.

1 First pillar — The Customer pays for what it perceives as Value

The customer is undoubtedly one of the entities that justify the business's existence as it perceives a value provided by the business and recognises its economic worth accordingly.
Therefore, every effort is directed to the creation of value for the customer, not only in relation to primary activities (i.e. Supply Chain activities that "deliver" the product and/or service to the customer) but, also, to auxiliary activities i.e. those that enable the primary activities to be carried out.

2 Second pillar — Elimination of waste

All activities that create the value perceived by the customer are important; other activities must be considered as "waste" and, as taught by the Japanese philosophy, they must be fought against.
Activities that create value must take place without interruption, creating a genuine "continuous flow". Enemies of the flow include: waiting time due to batches and inventory, interruptions/stoppages caused by a lack of information and supplier inefficiency (also internal suppliers), returns and reworking, tooling and start-ups.

3 Third pillar — Problem Solving

Pillar number three is the business culture of Problem Solving. Inefficiencies are examined, the root causes are studied so that various alternative responses can be identified. Finally, standards are used to determine the alternatives that work.

4 Fourth pillar — Continuous Improvement

The improvement process (identification and reduction of waste, flow improvement and focus on value for the customer) must never come to an end, also because the primary objective (value for the customer) changes over time and requires adjustment and adaptation on an almost daily basis. The ideal perfection is the total elimination of waste so that all activities create value for the end customer. This is the point of reference for maintaining a systematic improvement process: it is a dynamic concept, not a static one, as value for the customer changes over time.

2. The value of Human Capital – Investment in human capital lies behind each and every innovation

Saleri is an organisation that values and exploits differences, creative capacity and emotional intelligence. Product quality, efficiency and the ability to respond to market demands are the result of a method. The method adopted by Saleri is founded on promoting the human factor. Technological evolution and product quality are the result of a "business process" that revolves around getting the most out of the human factor. This is all the truer in an age when knowledge is more easily accessible than in the past and the real challenge lies in ability to put ideas into practice effectively. Effectiveness depends on the method and the method depends on Saleri personnel, on the human qualities of each individual, working as part of a team, day after day.
Everyone who works for Saleri is party of an organism, not a component of a mechanism. Brescian identity, a G-Local mentality and team building are key to the growth of the business.

3. Quality - Guaranteeing performance

Performance with regard to the customer, the workers, the supply chain and the environment: the key values of the management system. Saleri has invested in growth and in the implementation of a system capable of responding to customer requests, as demanding as they may be.
Business know-how, accumulated over years of collaboration with car manufacturers, also enables us to design, manufacture and test cooling systems that satisfy even the greatest challenges thrown up by the market.

4. Management systems policy

In order to compete on the market in the short and long-term and to maintain the highest level of cooperation with customers, suppliers and employees, Saleri places great importance on values such as dynamism, flexibility and innovation.
With these objectives in mind, the organisation operates in accordance with the Quality, Environment and Safety management system standards set out by regulations ISO 9001, IATF 16949 and ISO 14001, based on the following guidelines:

- understand and satisfy clients' current and future needs;
- identify processes and parameters to be monitored constantly in order to pursue set objectives;
- perform periodic assessments in order to identify areas where the quality system can be made more effective;
- make the most of employee capabilities and contributions in a climate of collaboration and involvement;
- make each employee aware of his/her duties and responsibilities as part of a chain of production that connects the supplier to the customer and make them aware of their decisive role with regard to corporate image and customer satisfaction;
- prevent non-compliance rather than detect it;
- establish reciprocally beneficial relations with supplier selected based on their ability to offer quality products and open, constructive collaboration;
- take decisions based on certain data, as verified using professional methods and techniques;
- make a serious commitment to consider and restrict any harmful effects of the business on the environment;
- reduce the harmful impact of products on the environment and increase their longevity;
- use plants developed with the most advanced technologies;
- study methods and techniques that permit regular monitoring of the consumption of natural resources and energy, in order to ensure they are used in an optimal manner;
- constantly monitor the state of the management systems.

INDUSTRIE SALERI ITALO S.p.A. ITALY

Certificate

IATF 16949:2016

Quality management systems

Issue date	**20/09/2018**
Expiry date	**19/09/2021**

Certificate

ISO 9001:2015

Quality management systems

Issue date	**15/09/2018**
Expiry date	**09/12/2021**

Certificate

ISO 14001:2015

Environmental management systems

Issue date	**19/02/2021**
Expiry date	**18/02/2024**

SALERI SHANGHAI CO. LTD

Certificate	IATF 16949:2016
Quality management systems	
Issue date	**27/05/2018**
Expiry date	**26/05/2021**

Certificate	ISO 14001:2015
Environmental management systems	
Issue date	**28/09/2019**
Expiry date	**27/09/2022**

5. Management commitment

In order to achieve ambitious objectives, it is essential to establish full cooperation between management, employees and suppliers, while maintaining ongoing relations with the community and the local authorities. All parties should be involved in a reciprocal, transparent exchange of information and knowledge. While operating constantly in compliance with Italian and international laws and regulations, Saleri is determined to use its business potential in an active and responsible manner and is driven to improve the already good working conditions of its employees, thus increasing the potential human value of the business. Saleri management and personnel are all strongly committed to this company policy.

3.3. Relations with industrial associations

Saleri is fully aware of its role within the network of businesses with which it collaborates and in its economic environment. For this reason, Saleri believes it is of fundamental importance to foster and help create valuable intra-segmental relations that last over time. We highlight below some of the associations to which holding company Industrie Saleri S.p.A. currently belongs:

AIB

ASSOCIAZIONE INDUSTRIALE BRESCIANA

The Company is a member of the AIB which, in coordination with Confindustria Lombardia and, nationwide, with Confindustria, works to protect the interests of member manufacturing businesses, campaigning for business freedom, employment and the expectations of the industrial sector. The AIB has a mandate to represent its members in deals with all authorities, public administrations and entities, as well as with trades unions, economic, public, social and cultural organisations and in relation to public opinion.

ANFIA

ASSOCIAZIONE NAZIONALE FILIERA INDUSTRIA AUTOMOBILISTICA

The Company is a member of ANFIA, one of the largest trade associations affiliated to CONFINDUSTRIA. It aims to represent members' interests in dealings with public and private, national and international institutions and to study and resolve technical, economic, fiscal, legislative, statistical and quality issues regarding the automotive industry.

RETIMPRESA

WELSTEP NETWORK AGREEMENT

The Company also participates in the Welstep business network i.e. a network of 13 businesses whose objective is to form a critical mass and develop economies of scale so that they can jointly adopt business welfare plans. The agreement was born from an initiative by Retimpresa, Confederal Agency for business groupings and networks.

3.4. Economic value generated and distributed

€ million

	FY 2018	FY 2019	FY 2020
Economic Value Generated	**169.8**	**160.6**	**146.1**
Economic Value Distributed	**151.4**	**144**	**139.2**
▸ **Suppliers/Vendors**	122.7	111.4	111.3
▸ **Saleri Personnel**	25.3	31.1	27.2
▸ **Investors and Lenders**	2.5	1.8	1.6
▸ **Public Administration**	0.7	-0.5	-1
▸ **Donations**	0.3	0.3	0.1
Economic Value Retained	**18.4**	**16.6**	**6.9**

For further information see the Annual Financial Report.

Chapter

4

Corporate Governance, Risk Management and Compliance

4.1. Corporate Governance and Activities

The corporate governance model adopted by Saleri is based on the right combination of shareholders and management. The model was confirmed also following the changes to the share ownership structure that began in 2018 and continued in 2019 and 2020 with the Saleri family still maintaining the role of main shareholder.
The share ownership of Industrie Saleri Italo S.p.A. is shown in the following table.

31.12.2020		
Shareholders	**%**	**No. of Shares**
▸ **El.Fra Holding S.r.l.**	**55.99**	**1,750,809**
Basilio Saleri	60.00	1,050,485
Giovanna Maria Saleri	40.00	700,324
▸ **Quaestio Capital SGR S.p.A. per Quaestio Italian Growth Fund**	**26.60**	**831,654**
▸ **Luca Saleri**	**8.35**	**260,974**
▸ **Mariacristina Saleri**	**4.89**	**153,000**
▸ **Annacaterina Marella Saleri**	**3.67**	**114,767**
▸ **Industrie Saleri Italo S.p.A. (treasury shares)**	**0.51**	**15,799**
Total	**100.00**	**3,127,003**

The Group companies are listed below, together with a short description of their activities.

Industrie Saleri Italo S.p.A.

Industrial holding company - designs, manufactures and sells water pumps and cooling systems for the automotive market in the Original Equipment and Independent Aftermarket segments.

Saleri Shanghai Co. Ltd

Incorporated in 2008 (local shareholder owns 5% interest), manufactures and sells water pumps for the automotive industry, as destined for Asian manufacturers; also sells the holding company products destined for the Independent Aftermarket segment.

Immobiliare Industriale S.r.l.

Established in 2015 following the spin-off of the real estate assets of Italpresse Industrie S.p.A. (former subsidiary of Industrie Saleri Italo that was sold to third parties in 2015). In 2020, the company sold a property in Capriano del Colle (Brescia) that was let to Italpresse Industrie S.p.A. The Company still holds its investment in Immobiliare Industriale Deutschland GmbH (100% interest) which is in liquidation.

Saleri GmbH

Company that represents holding company Industrie Saleri Italo S.p.A. on the German market. The company is based on Munich, a strategic centre for the development of commercial and technical relations with some of the leading players on the German automobile market.

Hold.Co 1 S.r.l.

A company incorporated in 2019 as a vehicle for the acquisition of a controlling interest in ABL Automazione S.r.l., a company operating in the field of industrial automation and robotics and a long-standing supplier of plant and machinery to the Group. In 2020, as a normal part of the completion of the acquisition process, Hold.Co 1 S.r.l. carried out a reverse merger with ABL Automazione S.r.l..

ABL Automazione S.r.l.

A company incorporated in 1995 by its three founder owners. They had more than twenty years of experience in the field of industrial automation and this meant that, from the outset, the company was able to offer its services as a supplier of automated assembly lines and equipment. The company joined the Saleri Group on 31.07.2019 through Hold. Co 1 S.r.l. In 2020, the Company merged with Hold.Co 1 S.r.l..

Saleri Mexico, S.A. de C.V.

A company incorporated on 4 October 2019 with the objective of producing and marketing water pumps for the automotive industry, aiming at manufacturers operating in that industry with factories in Central America and North America.

Saleri India Private Ltd.

A company incorporated in December 2020 with its headquarters in Pune. It will carry out manufacturing and commercial activities in order to satisfy the needs of the OE automotive market in India and worldwide.

4.2. The organisation's governance structure

Industrie Saleri Italo S.p.A. has adopted a traditional administration and control model with the presence of:

- The Shareholders' General Meeting – sitting in Ordinary and Extraordinary Sessions and called upon to pass resolutions in accordance with the law and the Articles of Association;
- The Board of Statutory Auditors - required to supervise: (i) observance of the law and the articles of association, as well as respect for principles of good administration in conducting company business; (ii) the appropriateness of the organisational structure, the internal control and risk management system and the Company's accounting and administrative system; (iii) risk management and (iv) the audit of the financial statements and the independence of the auditors;
- The Board of Directors - appointed to manage the business. The administration and control model also includes the Supervisory Board which was established following the adoption of the Organisation, Management and Control Model in terms of Legislative Decree no 231/2001, as adopted by Industrie Saleri Italo S.p.A. in April 2018.

4.3. Membership of the Board of Directors and Honorary President

The current Board of Directors has nine members, including two executive directors and seven non-executive directors (five were appointed from the list presented by shareholders El.Fra Holding S.r.l., Luca Saleri, Mariacristina Saleri and Annacaterina Marella Saleri and four from the list presented by shareholder Quaestio Italian Growth Fund).

The following table contains details of the membership of the Board of Directors at 31/12/2020. For further details, see Section 1 of the Directors' Report on the Consolidated Financial Statements.

Membership of the Board of Directors at 31/12/2020

Member	Role	Age	Gender
Basilio Saleri	CHAIRMAN AND MANAGING DIRECTOR	66	
Matteo Cosmi	MANAGING DIRECTOR	43	
Sergio Bona	DIRECTOR	65	
Giorgio Garimberti	DIRECTOR	71	
Wilhelm Becker	DIRECTOR	73	
Alberto Bartoli	DIRECTOR	60	
Alessandro Potestà	DIRECTOR	52	
Massimo Colli	DIRECTOR	71	
Simona Heidempergher	DIRECTOR	52	

88.9% of the members of the Board of Directors are male and are more than 50 years of age.

4.4. Membership of the Board of Statutory Auditors

The Board of Statutory Auditors, as appointed by the Ordinary General Meeting of Industrie Saleri Italo S.p.A. on 24 May 2018 and in office until the General Meeting convened to approve the 2020 Financial Statements, has three members. The Chairman of the Board of Statutory Auditors was appointed from the list submitted by shareholder Quaestio Italian Growth Fund. The members of the Board of Statutory Auditors are as follows:

Francesco Facchini	CHAIRMAN
Andrea Gabola	STATUTORY AUDITOR
Roberta Lecchi	STATUTORY AUDITOR

4.5. External Auditors

The Ordinary Shareholders' General Meeting of Industrie Saleri italo S.p.A. held on 7 August 2020 reappointed Deloitte & Touche S.p.A. to audit the separate financial statements of Industrie Saleri Italo S.p.A. and the consolidated financial statements of the Saleri Group until the date of the General Meeting convened to approve the 2022 financial statements. On 31 July 2019, the Board of Directors of Industrie Saleri Italo S.p.A. approved the extension of said engagement to include the audit of the six-monthly separate financial statements of Industrie Saleri Italo S.p.A. and the consolidated financial statements of the Saleri Group.

	Deloitte & Touche S.p.A.

4.6. Supervisory Board and Internal Control System

The Supervisory Board was appointed by the Board of Directors of Industrie Saleri Italo S.p.A. in April 2018. It has been appointed for the period 2018-2021 and has one member from within the organisation and one external member, as follows:

Nicla Picchi	CHAIRMAN	(external member)
Serena Militello	MEMBER	(internal member, Head of Saleri's Legal Affairs and Compliance Department)

After Law 179/2017 – the "Whistleblowing Law" – came into force, the Company adopted a channel for use by whistleblowers in reporting improper conduct while offering the whistleblowers the safeguards and protection envisaged by the law. Such reports can be made by:

E-mail: **odv@saleri.it**
Ordinary mail: **Odv c/o Industrie Saleri Italo S.p.A.**
via Ruca n. 406, 25065 - Lumezzane (BS)

Moreover, as it understands the importance of strengthening its Internal Control System, since September 2018, Industrie Saleri Italo S.p.A. has been assisted by Protiviti S.r.l., a specialist partner, which has been entrusted with assessing the current situation and determining which corrective action is necessary to improve the Internal Control System.
In 2020, the holding company Board of Directors approved the third revision of the Organisation, Management and Control Model of Industrie Saleri Italo S.p.A. This update was necessary in order to reflect the procedures and protocols required to deal with the tax offences incorporated into Art. 25 (xv) of Legislative Decree 231/01 by means of Decree Law no 124 of 26 October 2019 (converted as amended into Law no 157 of 19 December 2019) and by Legislative Decree no 75 of 14 July 2020.
As a result of the ongoing health emergency and some internal reorganisation, the process of risk assessment and process mapping launched in 2019 by subsidiary ABL Automazione S.r.l. slowed down greatly and only returned to full pace in November 2020. An Organisation, Management and Control Model in terms of Legislative Decree 231/01 for ABL Automazione S.r.l. is now expected to be ready in the first half of 2021.
With regard to the other Group companies not directly subject to the requirements of Italian law, new anti-corruption guidelines were drawn up in December 2020. They will be issued and will become binding for each subsidiary.
Moreover, in order to standardise the key principles of business values throughout the Saleri Group, a Group Ethical Code has been adopted, published at **www.saleri.it** and issued to employees in their local language to ensure greater understanding.

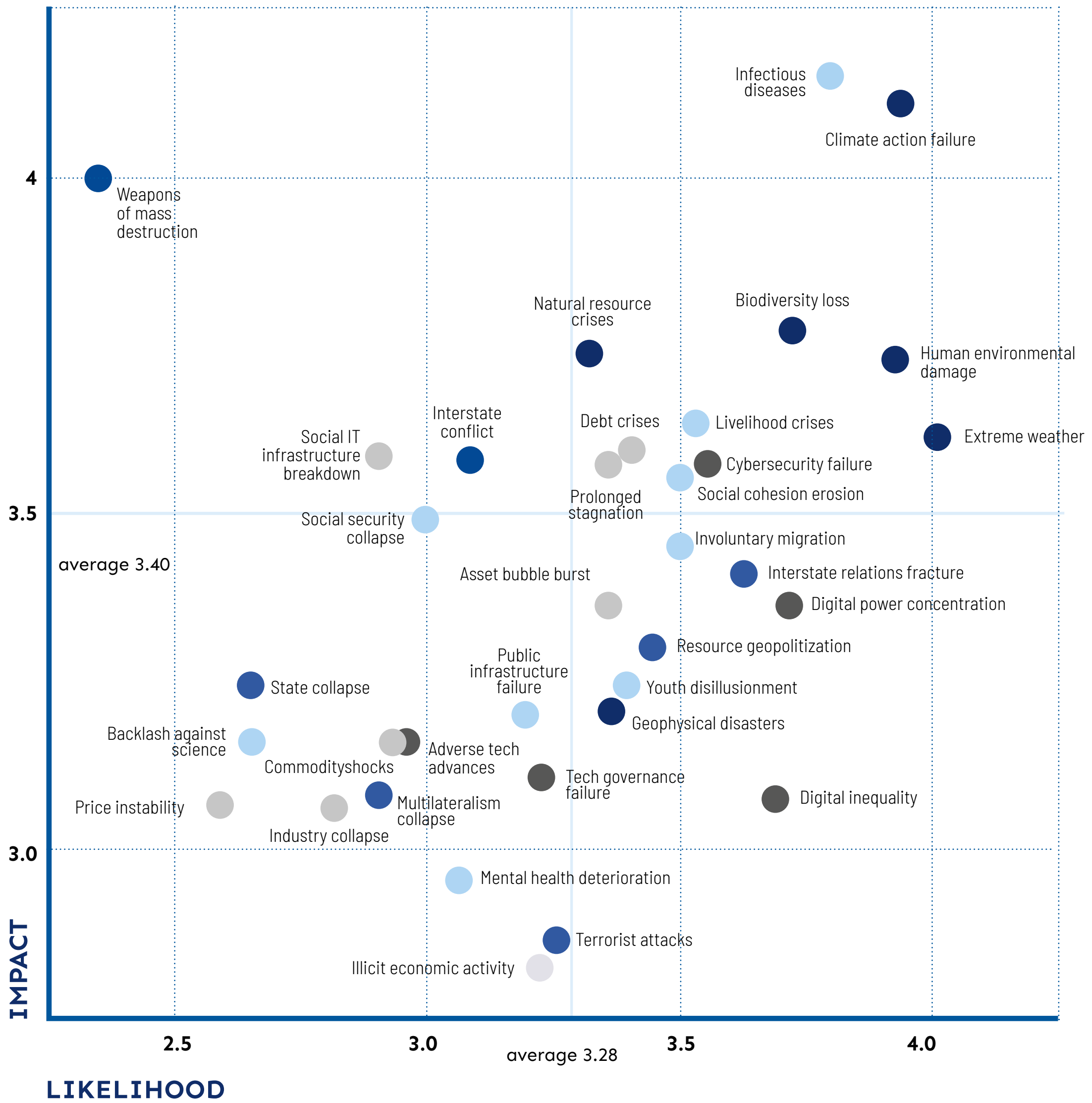
4.7. Risk Management

In recent years, the Saleri Group has gradually embraced the concepts of risk assessment and risk management.
In 2020, the Group further strengthened the risk assessment process in order to identify and assess risks. This has involved all of the Heads of Department of the company. Corporate governance bodies are also involved in the risk assessment process.
Moreover, in order to comply with the requirements of the Budget Law no 145/2018, published in the Official Gazette on 30 December 2018 in order to improve non-financial reporting and diversity reporting, the main risks and the risk management approach are described below.

Review of ESG risks - focus on climate change risk

The Saleri Group has performed an ESG (Environmental, Social and Governance) risk assessment taking account of the group perimeter.
The Global Risk Landscape 2021 matrix prepared by the World Economic Forum shows that, this year, the top three positions in the list of the Top10 risks are occupied by environmental risks. For this reason, our analysis commences with them
From a methodological perspective, we will analyse the three main risks likeliest to occur by macro-family (Environmental, Social-Geopolitical, Financial and Compliance) which, based on the matrix indicated above, are related to the core business of the Saleri Group.

Global Risks Landscape 2021[2]



Top risks by
LIKELIHOOD

1. Extreme weather
2. Climate action failure
3. Human environmental damage
4. Infectious diseases
5. Biodiversity loss
6. Digital power concentration
7. Digital inequality
8. Interstate relations fracture
9. Cybersecurity failure
10. Livelihood crises

Top risks by
IMPACT

1. Infectious diseases
2. Climate action failure
3. Weapons of mass destruction
4. Biodiversity loss
5. Natural resource crises
6. Human environmental damage
7. Livelihood crises
8. Extreme weather
9. Debt crises
10. IT infrastructure breakdown

CATEGORIES

- Economic
- Environmental
- Geopolitical
- Societal
- Technological

[2] *Global Risks Report 2021 - Reports - World Economic Forum (weforum.org)*

Environmental Risks

The Global Risk Landscape 2021 shows that climactic and environmental risks are again the most likely and most potentially impactful risks in 2021. Publications on risk analysis also highlight the fact that this is now the second year that environmental risks have dominated the league table of issues with the greatest potential impact for stakeholders in the manufacturing segment.

CO_2 reduction and optimising utilisation of resources have always been key drivers for the Saleri Group's R&D projects. In 2020, this trend was also confirmed by an increase in the number of customer projects ever more oriented towards engine types other than petrol and diesel. In this case, the Saleri Group's "Thermal management" know-how will, more than ever, focus on innovative, sustainable solutions.

For further details, see Section 8- Innovation in Saleri: Research and development.

In terms of its commitment to sustainability, we highlight immediately the fact that, as well as adopting an environmental policy in line with legislative requirements designed to protect the environment, the Saleri Group has also undertaken to adopt a Sustainability Plan in 2021, setting out concrete goals and actions in this area.

Extreme weather

For the fifth year running, the risk of having to deal with extreme weather events is among the most likely and most impactful risks. Notwithstanding, the attention paid by Governments and the markets to the issue, it appears that the measures adopted to date have been insufficient to prevent the forecast increase of more than 3 degrees Celsius in global temperatures by the end of the century. This is more than twice the limit recommended by experts to avoid the most devastating economic, social and environmental consequences. This would be a genuine "planetary emergency" including "the loss of life, social and geopolitical tension", as well as adverse economic effects.

Only a concrete, collective effort can remedy this risk. The Saleri Group has made a commitment to supply its customers with carbon neutral products by 2039 and, with this in mind, in 2021, it will launch a project to draw up a Sustainability Plan. The objective will be to set clear, precise objectives to reduce CO_2 emissions in the short/medium-term, also involving the supply chain.

Furthermore, the Saleri Group will maintain an open, transparent dialogue with its stakeholders both by taking part in important global initiatives in the automotive segment – including the completion of questionnaires on sustainability issues (CDP, Carbon Disclosure Program/ NQC, Ecovadis etc) and by guaranteeing the adoption of the measures necessary to maintain effective, resilient Business Continuity.

For the second consecutive year, Saleri has continued with its agile working project for employees with the aim of reducing the CO_2 emissions produced by road-based traffic. It also allocated the funds normally used to buy Christmas gifts for its customers to planting 370 trees in Kenya via the Treedom site, taking the total number of trees planted to 740. The trees planted by Saleri absorb around 143,000 Kg of CO_2 from the atmosphere, equal to the volume produced by 745 HGVs[3].

Climate action failure

Climate action failure is the second most likely and second most impactful risk according to the Global Risk Landscape 2021. Specifically, the results achieved in 2020 in terms of mitigation of the risk of climate change have been affected, in addition to the negationist approach of some countries, by the Covid-19 pandemic which has, on the one hand, attracted the efforts and the attention of all key players and, on the other hand, has worsened pollution from non-biodegradable waste, given the massive use of single use PPE (and more).

Failure to combat this risk increases the likelihood of natural events that are classified under four types (geophysical, meteorological, hydrological and climactic). It should, therefore, be borne in mind that the greater the territorial area of business operations – in terms of both infrastructures (Plants) and commercial operations (markets) – the greater the exposure to risk. The Saleri Group's commercial operations may be defined as worldwide so analysis of these factors leads to the conclusion that it is significantly exposed to the risk, especially in relation to its commercial operations.

Bearing this in mind, the Saleri Group is strongly determined and motivated to make its contribution to finding the best possible solutions to combat this risk, both by pursuing the highest goals in terms of reducing CO_2 emissions and safeguarding natural resources, and by conveying the need for a concrete commitment to its Supply Chain.

[3] Figures provided by Treedom S.r.l. https://www.treedom.net/it/organization/saleri-sil.

Human Environmental Damage

The risk of human environmental damage incorporates a series of additional, consequential risks (e.g. the loss of biodiversity, risks for human health, pollution of natural resources, etc). According to the Global Landscape2021, the likelihood of this risk has increased considerably compared to prior year.

Notwithstanding the numerous lockdown periods which, in some circumstances, had positive effects on the environmental ecosystem, the massive use of single-use personal protective devices has markedly increased pollution of natural resources, especially water.

An analysis of the causes of the problem would require further detail and would involve taking a stand immediately.

With regard to the Saleri Group, the planned adoption of a Sustainability Plan will undoubtedly involve mapping the Group's own carbon footprint and, secondly, that of its supply chain.

These steps are necessary in order to establish CO_2 reduction targets that will be accompanied by other, important initiatives involving all Saleri Group Stakeholders.

Like never before, the collaboration and trust built up over the years with our stakeholders are becoming essential to the proactive approach we intend should characterise the operations of the Saleri Group in 2021.

Social - Geopolitical Risks

Infection deseases

As long ago as 2006, the Global Risk Report warned the markets about the risk of a possible pandemic with serious consequences that would have been able to spread quickly thanks to international commercial and civil traffic and that would have had a major impact on mobility, tourism and business services, as well as on the entire manufacturing sector. As we are only too aware, this risk has materialised with the Coronavirus pandemic.

For the Saleri Group, the first entity affected was Chinese subsidiary Saleri Shanghai Co. Ltd. Subsequently, the Italian entities were affected i.e. holding company Industrie Saleri Italo S.p.A. of Lumezzane, the "Saleri E" production facility in Provaglio d'Iseo and ABL Automazione S.r.l., all of them based in the province of Brescia. Finally, the pandemic hit newly incorporated Mexican subsidiary Saleri Mexico S.A. de C.V., resulting in the suspension of construction work on the new plant in Apodaca, State of Nuevo León.

Like many other industrial businesses, the Saleri Group was wholly affected by the pandemic and it reacted swiftly by taking significant measures to contain the contagion, with the primary objective of safeguarding employee health. Personal protective devices were made available immediately and instructions for the proper conduct of personal relations were issued, while reducing to a minimum the physical presence of personnel through widespread work of agile working/working from home. Business travel was also suspended and third party visits were reduced to a minimum. These measures are still in force even now.

With specific reference to production activities, the Italian companies were affected by the restrictive measures introduced by the Italian government at the height of the pandemic. These measures ordered the suspension of the production activities of all businesses not included on the list of ATECO Codes authorised to continue their activities[4].

Therefore, the O.E. sector was badly affected while, as a permitted activity, the A.M. sector only suffered a minimal shutdown when the levels of contagion were at their peak. Indeed, the province of Brescia was hit hard by the health emergency and is still the subject of particular attention by the entities monitoring the pandemic.

The economic cost and the cost in terms of human lives were very severe and, although it is difficult to make any forecasts now – even short-term ones, it is fair to expect a slowdown on the market. Therefore, only with commitment and cooperation and by maintaining the highest standards of operational security for all Saleri Group workers and stakeholders will it be possible to come through the post-emergency shockwave that is expected to hit at some point during 2021.

[4] Prime Minister's Decree of 22 March with further measures for the containment and management of the COVID-19 epidemic emergency, applicable across the whole of Italy.

Livehood Crisis

The livelihood crisis is a concept that must be taken into account when considering the most likely risks in 2021.
As mentioned above, it is highly likely that the major impact the health emergency has head on society in terms of human life, in overburdening healthcare infrastructure and on the global economic and social system will be all to evident in 2021.
In this scenario of uncertainty, economic difficulty, production stoppages and government restrictions, the automotive sector in particular and all related segments have suffered a considerable impact: in Italy, in March 2020[5], new car registrations had already fallen by 85% with a slump of around 98% expected in the month of April. On a global scale, meanwhile, production figures for 2020 showed a reduction of around 11 million units in production of light vehicles. The total fell from 88.9 million units in 2019 to 77.9 million in 2020.
Another significant effect of this situation has regarded growing consumer preference for the electric vehicles segment which rose from 58% in 2019 to 71% in 2020. This trend has been perceived by the Saleri Group for some time and it has numerous products for alternative mobility systems in its catalogue and under development (e.g. electric or electromechanical water pumps) for leading automotive customers and for the AM. Customer sensitivity towards ecological forms of mobility is increasingly developed and attentive.
It is, therefore, foreseeable that the business world will be increasingly called upon to consider these new drivers; in the financial world, this has already been translated into new ESG indicators (environmental, social and governance aspects of business performance)[6].

Interstate conflict

IIn a global operating environment like the Saleri Group's, knowledge of geopolitical situations is a key aspect of business. Around 80% of Saleri's production regards automotive industry customers in Europe while 20% regards customers in other parts of the world.
It goes without saying that the serious pandemic that initiated in China, in 2020, followed by Europe and, then, the rest of the world led to a serious downturn and to tension on the automotive market. Moreover, the restrictive measures adopted by the various countries and the tension arising between governments in Europe and outside the EU exacerbated the difficulties faced by all businesses and the risk of suspension of normal routes of trade.
In response to the Covid-19 health emergency, in 2020, many national governments adopted protectionist policies, lockdowns, restrictions on international trade and self-supporting measures that have had and will have a major impact on the trade model in future years. Likewise, increases of around 20% in e-commerce and 30% in the use of technology in general[7] will raise the risk of a cyber-attack. These are risks that may be remote but which could have a very serious impact.
Renewed interstate tension and new political situations that have changed the borders of the EU could have further repercussions in terms of trade restrictions and protectionist policy with potentially serious impacts on the import market. It is highly probable that the automotive sector – in terms of both distribution of products and procurement – will be greatly affected by how these new geopolitical scenarios develop.

Financial

For a focus on these specific risks, see the detail contained in the relevant section of the Directors' Report.

[5] G.Barbieri, "The impact of Covid -19 on the Automotive Industry", Deloitte newsletter, 30.4.2020.
[6] C. Klint, abst. "Davos Agenda", "These are the top risks for business in the post-COVID world", www.weforum.org, 19.01.2021.
[7] C. Klint, art. mentioned.

Compliance risks

Ethical risks

In the course of its activities, holding company Industrie Saleri Italo S.p.A. applies and observes rigorous ethical and moral principles, conducting its business in full compliance with the law and market rules. On 10 April 2018, the Company duly adopted the Organisation and Management Model in terms of Legislative Decree no 231/2001, reorganising its activities and internal procedures in order to prevent the commission of offences under said Decree. The subsequent adoption of the Ethical Code, internal procedures to ensure compliance with the Code and the controls implemented guarantee a healthy, safe and efficient working environment for employees and an approach designed to ensure full respect for the external stakeholders. In December 2020, with the intention of sharing and standardising its own levels of compliance within the Saleri Group as a whole, the BoD of holding company Industrie Saleri Italo S.p.A. approved a new Group Ethical Code and anti-corruption guidelines. The Saleri Group does business with private customers, not belonging to organisations directly or indirectly controlled by governments or public sector bodies, and it does not take part in public tendering processes. This further reduces the risk of reputational and economic damage resulting from ethically unacceptable conduct.
As mentioned above, in completion of its risk management safeguards, a whistleblower channel has been set up for use in reporting improper or unlawful conduct by email: **odv@saleri.it** or traditional mail **ODV c/o Industrie Saleri Italo S.p.A. Via Ruca n. 406, 25065 Lumezzane (BS).**
Subsidiary ABL Automazione S.r.l. has also taken steps to draw up its own Organisation and Management Model in terms of Legislative Decree 231/01 and it will be ready during 2021.
The other Group companies not subject to Italian law are, in any case, called upon to comply with the guiding principles of Legislative Decree no. 231/01 and with the anti-corruption guidelines contained in the Group Ethical Code approved by the BoD of holding company Industrie Saleri Italo S.p.A. in December 2020.

Personal data protection/privacy risk

Since the GDPR (General Data Protection Regulation) came into force on 25 May 2018, holding company Industrie Saleri Italo S.p.A. has adopted the procedures necessary to comply with the new European data protection regulation.
As Data Controller, the Company has appointed Third Party Data Processors and an internal person to coordinate data protection-related issues. Moreover, although it does not fall within the scope of Article 37 of the GDPR, in order to offer a higher level of personal data protection and compliance, Industrie Saleri Italo S.p.A. has elected to appoint a DPO (Data Protection Officer).
In 2020, subsidiary ABL Automazione S.r.l. also consolidated its GDPR compliance structure while the other Group companies each comply with applicable domestic legislation designed to protect personal data.

Compliance with Legislative Decree 231/2001

In April 2018, holding company Industrie Saleri Italo S.p.A. adopted its Organisational, Management and Control Model in terms of Legislative Decree no 231/01 (OMC Model) and the related Ethical Code.

The text of the OMC Model was written after documenting the mapping of the internal decision making processes regarding actions that may be significant in terms of the aforementioned decree. Meanwhile, the Ethical Code contains the ethical principles shared and actively promoted within the Group by Industrie Saleri Italo S.p.A. and is available – also in English - in the Policies section of the company website www.saleri.it. In 2020, the holding company BoD approved a Group Ethical Code intended to promote and share the same values and principles of the "Saleri Way" with all members of the Saleri Group.

Saleri supports the distribution of the contents of the aforementioned documents not only through publication on the company intranet but, especially, through appropriate training provided to its employees and to all new starters. Moreover, in order to ensure that it is shared the whole way along the supply chain Industrie Saleri Italo S.p.A. includes a term of contract whereby it reserves the right to terminate all commercial relations if it becomes aware of any conduct incompatible with its ethical position.

Finally, as already stated, the Board of Directors has established the Supervisory Board whose tasks include monitoring, updating, responding to and promoting compliance with Legislative Decree no 231/01 et seq.

The Supervisory Board is also the recipient of information on improper or unlawful conduct reported in terms of Law 179/2017 on Whistleblowing.

In 2019, a compliance project for the adoption of a Management and Control Model in terms of Legislative Decree 231/01 and of an Ethical Code. This also regarded ABL Automazione S.r.l. which, following a major slowdown caused by the Covid-19 emergency and internal reorganisation, will complete its part of the adoption process in 2021.

In support of the handbook already issued to employees of Saleri Shanghai Co. Ltd and for other Group companies not included in the operating perimeter covered by Italian laws and regulations, the holding company BoD has approved anti-corruption guidelines and a new Group Ethical Code.

4.8. Governance of sustainability

The Saleri Group has long believed that social and environmental issues form an integral part of its strategy and, as such, should be dealt with by the Board of Directors.

Decisions taken in relation to sustainability issues are sent to the relevant departments so that they can be duly implemented. Specifically, the departments most involved in this process are: Human Resources, Health Safety & Environment, Administration, Finance & Controlling, ICT and Legal.

Fully aware of the growing importance of sustainability issues not only within the business but also in the industry segment and the economy as a whole, the Saleri Group intends to expand and consolidate the dedicated structure in the short to medium term.

At present, given its position in the hierarchical structure, the Board of Directors of Industrie Saleri Italo S.p.A. is the body responsible for approval of the most significant aspects of sustainability issues. However, less significant activities are also presented to the Board for ratification.

Chapter

5

Saleri and its collaborators

In order to manage potential strategic and operational risks, as well as legal and compliance risks, the Saleri Group has established systems and structured policies to handle areas such as staff selection and training, company welfare and industrial relations.

5.1. Saleri's people

The Saleri Group strives for excellence through constant improvements to its professionalism and the involvement of personnel on all levels. The employees and collaborators involved in business activities represent a valuable strategic resource and, for this reason, Saleri undertakes to guarantee respect for diversity and their rights, to foster their well-being and to promote their professional growth and development. At 31 December 2020, Industrie Saleri Italo S.p.A. had 452 employees (actual head count at 31/12) while there was an average of 454 employees during the year then ended. Meanwhile, at Group level, the number of employees rose by 3%, increasing from 573 to 591; 42 of these employees belong to ABL Automazione S.r.l..
The Group does not use any unusual forms of contract as it values the professional contribution of each individual and undertakes to build lasting relationships based on principles of loyalty, reciprocal trust and collaboration. Employees hired under permanent contracts account for the bulk of the workforce used by the Group companies (around 92% of all workers). This percentage increases to 98.5% if only holding company Industrie Saleri Italo S.p.A. is considered.
Moreover, around 95% of employees work full-time and 100% of part-time employees are female.

Contract type

GRI 102-8	2020				2019			
				%				%
Workers with permanent contracts	329	215	544	**92**	328	217	545	**95**
Workers with fixed-term contracts	20	27	47	**8**	15	13	28	**5**
Total	**349**	**242**	**591**	**100**	**343**	**230**	**573**	**100**[8]

Type of employment

GRI 102-8	2020				2019			
				%				%
Workers with part-time contracts	0	32	32	**5**	1	30	31	**5**
Workers with full-time contracts	349	210	559	**95**	342	200	542	**95**
Total	**349**	**242**	**591**	**100**	**343**	**230**	**573**	**100**

[8] The criterion used to calculate the total number of employees is to consider the number of employees at 31/12, excluding all those who have left, also those who left on 31/12/2020.

Contract type

GRI 102-8	2020				2019		
	Italy	China	Mexico	Total	Italy	China	Total
Workers with permanent contracts	487	54	3	**544**	494	51	**545**
Workers with fixed-term contracts	7	34	6	**47**	2	26	**28**
Total	**494**	**88**	**9**	**591**	**496**	**77**	**573**

In 2020, Industrie Saleri Italo S.p.A. turned to the labour market for additional operational personnel. In more detail, it used an average of 22 persons from employment agencies, split between the assembly and production processing departments; and 2 trainees, working in the offices. The relatively young average age of the Saleri Group's employees (37 years) is tangible proof of a strategy that favours the recruitment, training and internal growth of young people over the sourcing of skills on the market.
The underlying strategy behind Saleri's recruitment policy seeks to guarantee equal opportunities to all candidates. Saleri assesses candidates and encourages career advancement. It avoids all forms of discrimination based on gender, sexual preferences, age, ethnic origin, nationality, state of health and political or religious beliefs.

The availability of skilled, qualified resources and a strong sense of belonging represent key factors in ensuring Saleri maintains its competitive edge.
Offering workers a stable, lasting relationship is considered essential to the growth of the business, as well as an important source of motivation. During 2020, the Saleri Group hired 64 new employees – including 36 by Industrie Saleri Italo S.p.A. – most of them from the Lombardy area. Industrie Saleri Italo S.p.A. is greatly attached to its local area, has a young workforce and is expanding strongly.
The percentages of employee starters and leavers shown in the following tables were calculated on the respective total number of employees (by age range, gender and geographical area) at the reporting date.

Starters

GRI 401-1	2020				2019		
	Italy	China	Mexico	Total	Italy	China	Total
Men	26	4	4	**34**	28	6	**34**
%	8	13	100	**10**	9	19	**10**
Women	10	15	5	**30**	13	4	**17**
%	5	33	100	**13**	7	9	**7**
Total	**36**	**19**	**9**	**64**	**41**	**10**	**51**
%	**7**	**25**	**100**	**11**	**8**	**13**	**9**

Leavers

GRI 401-1	2020				2019		
	Italy	China	Mexico	Total	Italy	China	Total
▸ Men	27	1	-	**28**	13	6	**19**
%	9	3	0	**8**	4	19	**6**
▸ Women	11	7	-	**18**	6	6	**12**
%	6	16	0	**8**	3	13	**5**
Total	**38**	**8**	**-**	**46**	**19**	**12**	**31**
%	**8**	**10**	**0**	**8**	**4**	**16**	**5**

Starters

GRI 401-1	2020				2019			
	Age < 30 years	Age 30-50 years	Age > 50 years	Total	Age < 30 years	Age 30-50 years	Age > 50 years	Total
▸ Men	15	17	2	**34**	16	18	-	**34**
%	15	9	3	**10**	17	7		**10**
▸ Women	5	24	1	**30**	10	7	-	**17**
%	8	15	5	**12**	14	4		**7**
Total	**20**	**41**	**3**	**64**	**26**	**25**	**-**	**51**
%	**13**	**12**	**3**	**11**	**16**	**6**		**9**

Leavers

GRI 401-1	2020				2019			
	Age < 30 years	Age 30-50 years	Age > 50 years	Total	Age < 30 years	Age 30-50 years	Age > 50 years	Total
▸ Men	10	11	7	**28**	7	8	4	**19**
%	10	6	10	**8**	7	3		**6**
▸ Women	3	11	4	**18**	2	9	1	**12**
%	5	7	18	**7**	3	6		**5**
Total	**13**	**22**	**11**	**46**	**9**	**17**	**5**	**31**
%	**9**	**6**	**12**	**8**	**6**	**4**		**5**

5.2. Diversity and equal opportunities

Equal opportunities have always been guaranteed to Saleri's personnel. The Company pays great attention to the family-related needs of its workers, while also taking account of organisational and production requirements.

Workforce by employee category and gender

GRI 405-1	31.12.2020			31.12.2019		
Sen. Managers	0.2%	0.0%	**0.2%**	0.0%	0.0%	**0.0%**
Managers	2.7%	0.8%	**3.6%**	2.3%	0.2%	**2.4%**
White collars	27.4%	9.8%	**37.2%**	28.4%	9.9%	**38.4%**
Blue collars	28.8%	30.3%	**59.1%**	29.1%	30.0%	**59.2%**
Total	**59.1%**	**40.9%**	**100.0%**	**59.9%**	**40.1%**	**100.0%**

Workforce by employee category and age group

GRI 405-1	31.12.2020				31.12.2019			
	< 30	30-50	> 50	Total	< 30	30-50	> 50	Total
Sen. Managers	0.0%	0.2%	0.0%	**0.2%**	0.0%	0.0%	0.0%	**0.0%**
Managers	0.0%	2.5%	1.0%	**3.6%**	0.0%	1.6%	0.9%	**2.4%**
White collars	7.4%	24.0%	5.8%	**37.2%**	8.0%	24.6%	5.8%	**38.4%**
Blue collars	19.3%	31.3%	8.5%	**59.1%**	20.4%	28.3%	10.5%	**59.2%**
Total	**26.7%**	**58.0%**	**15.2%**	**100.0%**	**28.4%**	**54.5%**	**17.1%**	**100.0%**

In accordance with the law, Industrie Saleri Italo S.p.A. employs disabled personnel and personnel belonging to protected categories. It has a total of 9 such employees, all of them blue collar workers; at 31/12/2020, there were five male and four female employees from these categories.

The duties assigned to employees from these categories take account of their physical and mental condition which is constantly monitored. The development of disabled and protected category employees is encouraged and they are offered due safeguards.

5.3. Training and skills development

The Saleri Group has always paid great attention to getting the best from its employees while managing them properly, guaranteeing them a work environment capable of encouraging the growth and development of talent. Continuous training of employees is an issue of primary importance for Saleri.

As part of the Continuous Improvement Campaign 2020 called #YouMatter, the Group has successfully implemented the Shopfloor Management methodology. This new methodology produces an improvement in business performance, working on the development of personnel in terms of knowledge of their roles/responsibilities, problem solving skills, leadership in choosing priorities and dealing with exceptions. As the organisation grows, Shopfloor Management will lay a sustainable basis for the long-term path of Lean Transformation undertaken by Saleri in 2020. The project, initially launched in the production departments of the Italian factories of Industrie Saleri Italo S.p.A. and in the Operations Area as a whole, will then be rolled out to cover the other company offices and, later, the subsidiaries.

Participation at seminars, conferences and training courses relevant to employees' duties and professional activities are encouraged, also in online form.

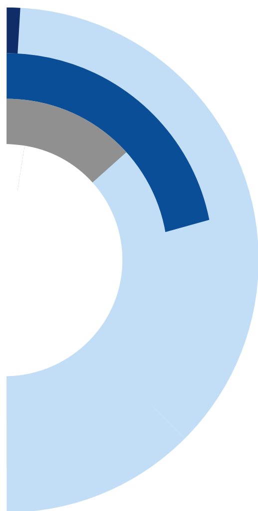
In 2020, a total of 2,955 hours of training was provided to Industrie Saleri personnel while, at Group level, a total of 4,072 hours were dedicated to training.

Training on business ethics is provided regularly and is classroom based. The same type of training is also provided for other mandatory topics such as the new GDPR. External training is provided by bodies with accreditation for the relevant subjects.

2020

GRI 401-1

	Hours men	Ave hours men	Hours women	Ave hours women	Total	Ave hour
MANAGERS	20	1	23	5	43	2
WHITE COLLARS	2,162	13	346	6	2,508	11
BLUE COLLARS	1,013	6	509	3	1,521	4
TOTAL	3,195	9	878	4	4,072	7



2019

GRI 401-1

	Hours men	Ave hours men		Hours women	Ave hours women		Total	Ave hour
MANAGERS	369	28	MANAGERS	87	87	MANAGERS	456	33
WHITE COLLARS	3,749	23	WHITE COLLARS	1,541	27	WHITE COLLARS	5,289	24
BLUE COLLARS	1,106	7	BLUE COLLARS	524	3	BLUE COLLARS	1,630	5
TOTAL	5,224	15	TOTAL	2,151	9	TOTAL	7,374	13

5.4. Parental leave

Both mothers and fathers have a right to parental leave. This is a period of absence from work that may be divided between the two parents and used in the first twelve years of the child's life in order to fulfil emotional and family needs.

In 2020, in the holding company, a total of 28 parents (27 women and 1 man) made use of parental leave as did one employee of subsidiary ABL Automazione S.r.l. All of them enjoyed full freedom of choice over the period and number of days/hours' leave to use. Upon completion of the parental leave period, all of these employees returned to the Company, in the same role as before and with the same salary. A proportionate reduction in salary only occurs if an employee starts to work part time rather than full time.

The Chinese and Mexican welfare systems also provide for parental leave. However, in 2020, no employees of Saleri Shanghai Co. Ltd asked for parental leave.

5.5. Benefits and welfare

Industrie Saleri Italo S.p.A. offers benefits in kind for employees regardless of the contract type. However, certain benefits such as medical insurance, life insurance and insurance against injury at and away from work are only provided to Senior Management.

In 2019, in order to improve the way it deals with Job&Family issues, the Company launched a pilot Smart working project that was rolled out to several categories of employee; the project was confirmed in 2020. Indeed, during 2020, the use of agile working enabled all employees not directly involved in production activities to perform their daily work remotely.

Industrie Saleri Italo S.p.A. has fully implemented the policies on Corporate Welfare contained in the Metal-mechanical segment collective labour agreement signed in 2017. As required by the collective agreement, Industrie Saleri Italo S.p.A. has paid the

welfare indemnities required and has enabled employees to join the Metasalute Fund, a healthcare fund for metal-mechanical workers – it is free for employees while the employer pays a contribution of 13€/month per employee.
On a welfare-related issue, the Company has established a canteen where all employees can enjoy meals prepared on the premises.
Industrie Saleri Italo S.p.A. is also a member of "Welstep", a network of businesses created in the Brescia area with the aim of ensuring that corporate welfare activities are handled in a uniform manner. At present, the network has 13 members and covers a total of 2,100 workers.
ABL Automazione S.r.l. is also subject to the Metal-mechanical segment collective labour agreement so it applies the same corporate welfare mechanisms. It also gives each employee luncheon vouchers for use in participating bars and restaurants.
In China and Mexico, each business is left to set up its own employee welfare system. At present, Saleri Shanghai Co. Ltd does not have a welfare plan.

5.6. Minimum notice for operational changes

As stated in its Ethical Code, Industrie Saleri Italo S.p.A. guarantees the right of its employees to join trade unions. It also recognises the role of the unions and workers' representatives created in accordance with the law and usual practice. The parties maintain relations founded on mutual respect and constructive debate.
There is ongoing, open dialogue with the Trade Unions and workers' representatives with the aim of seeking agreed solutions to respond to market requirements, while increasing competitiveness, flexibility and organisational efficiency.
There has also been intensive collective bargaining on various levels and it has led to important agreements with the unions on salaries and other conditions of employment.
Trade union membership in Industrie Saleri Italo S.p.A. is as follows: around 100 employees belong to Fiom-Cgil while around 60 employees belong to Fim-Cisl.
Relations between Management and the Trade Unions are based on transparency and reciprocal correctness. During the year, some 50 meetings were held between Industrie Saleri Italo S.p.A. Management and the Unions.
Just one ABL Automazione S.r.l. employee is a member of a trade union (CISL).
In China, the sole trade union, the ACFTU (All China Federation of Trade Unions)中华全国总工会, is present in Saleri Shanghai Co. Ltd.
Under the Mexican trade union system, the trade union is selected by the company. Saleri Mexico S.A. de C.v. has chosen the *Sindicato industrial de trabajadores de Nuevo León*.
On a Group level, regulations and remuneration vary depending on the national collective labour agreements and laws in the countries in which the Group operates.

Chapter

6

Workers' health and safety

Within its broader corporate strategy, the Saleri Group considers the protection of the Health and Safety of its workers and all those interacting or collaborating with its business activities to be a priority objective. The Company is committed to providing safe and secure working conditions in order to prevent work-related illness and injury. The health and safety management system regards all of Saleri's employees, irrespective of their contractual status. It also regards all of those working on Company premises who are given para-employee status (work experience students, trainees, etc). The system has been implemented:

- as a preliminary basis for future compliance with the requirements of Article 30 of Legislative Decree 81/2008 in order to provide an organisation and management model that avoids administrative liability for legal person.
- in order to guarantee the standardisation, distribution and sharing of preventive and protective practices so as to guarantee and improve worker protection.

All related documents and operating policies are available to employees on Company noticeboards and on the Company web site www.saleri.it or on the Zucchetti site.

With regard to the identification of risks and related investigations, the Company performs a "Risk Assessment" regarding the Employer's liability. For the purposes of this assessment, it consults with the internal Health and Safety Officer, as supported by an external consulting firm, in collaboration with the medical officers with responsibility for health and safety and consulting with Workers' Safety Representatives. In order to maintain a more detailed knowledge of and pay constant attention to business risks, the risk assessment takes account not only of the residual risk (i.e. the risk after the adoption of any prevention and protection measures) but, also, the absolute risk. The risk assessment also considers workplace facilities, whether made available by the organisation or by other parties, and risks to the health and safety of workers. Risks are identified and assessed in accordance with management system procedures. Based on the risk assessment, the Employer – in collaboration with the Health and Safety Officers, the medical officer and the Workers' Safety Representatives – identifies possible improvements, schedules them and appoints those responsible for implementing the improvements. These instructions are included in the Improvement Plan of the Risk Assessment Report. The measures identified may be operational procedural or technical and are managed as part of the Improvement Plan for the Health and Safety Environment, in accordance with agreed practice.

In 2019, ABL Automazione S.r.l. launched a process to overhaul its occupational health and safety management and this led to new appointments to the roles of: Employer with Health and Safety Responsibility, Health and Safety Officer ("RSPP") and Medical Officer. In 2020, the role of ABL Automazione S.r.l. RSPP was assigned to a third party consultant who operates under the supervision of the holding company RSPP while said company has the same Medical Officer as parent Industrie Saleri Italo S.p.A..

Occupational health and safety regulations in China require the appointment of an EHS Specialist when the number of employees exceeds 100. As a result of the Covid-19 health emergency, the recruitment of personnel originally planned by Saleri Shanghai Co. Ltd has been postponed and the 100 employee threshold has not been reached. In the meantime, the company will continue to operate in full compliance with applicable laws and regulations.

Saleri Mexico S.A. de C.V. has appointed a third party consultant, offering specialist services, as its Health and Safety Officer. Health monitoring is conducted in accordance with local law.

6.1. Health services

Industrie Saleri Italo S.p.A. has set up a specific organisation to guarantee the proper performance of activities designed to eliminate or minimise risk, to ensure a proper flow of information to the Employer for risk assessment purposes and, vice versa, a flow of information towards the employee so that he/she has all of the information needed to safeguard his/her interests. The professional figures included in the organisation in question are those indicated by Legislative Decree 81/08. The Health and Safety Officer reviews the organisation constantly to check that it is suitable and suggests any changes to the Employer. This subject is a key issue at the regular meetings in terms of Article 35 of Legislative Decree 81708, during which any requests for changes are considered and finalised.
The Employer has appointed a health training and monitoring officer, specifically in order to facilitate the effective implementation of the necessary measures in terms of health training and monitoring. Said officer is responsible for appointing a medical officer and signing an annual contract with them in order to guarantee a regular presence in the Company – around once a week.

The Employer, directly or through the risk prevention and protection service, convenes the "regular meeting" at least once a year, in accordance with Article 25 of Legislative Decree 81/08, and it is attended by a) the Employer or his/her representative for training and health monitoring (CHCO); b) the Health and Safety Officer; c) the medical officer, where appointed; d) workers' safety representatives. Employee participation and consultation is guaranteed by:

- meetings between Company management and workers' safety representatives over issues regarding health, safety and the environment (e.g. regular meeting in terms of Art. 35 of Legislative Decree 81/08);
- meetings between the Health and Safety Service and the Workers' Safety Representatives, as called by one of the two parties, in order to analyse Risk Assessment Reports, corrective measures and improvements and any issues that could arise in the course of the various risk prevention and protection activities;
- sharing/distribution of SGAS ("Environment and Safety Management System") documents.

6.2. Health and safety training for workers

The Saleri Group understands the key role played by its human resources. Therefore, it has implemented an employee training system involving many channels and levels. All employees are trained on occupational health and safety, compliance with business ethics and the processing of confidential information. The Group provides:

- introductory information to all those who start working for Saleri (students, work experience, trainees, newly-hired employees, irrespective of contract type and duration)
- general training required by law;
- specific training required by law;
- specific information if necessary because of (i) situations of particular risk or (ii) new substances

In addition to training strictly related to work activities, Saleri is also committed to preventative action to improve workers' health e.g. the distribution - through the medical officer and together with the Employer, the Health Training and Monitoring Officer and the Health and Safety Officer- of useful guidelines to encourage employees to stop smoking (or to cut down) or to avoid alcohol abuse.

6.3. Prevention and mitigation of the risk of professional illness

Industrie Saleri Italo S.p.A. and ABL Automazione S.r.l. have appointed a medical officer who guarantees his/her presence at the Company almost once a week to perform appropriate medical check-ups, any extraordinary medicals needed (on request by the employee or the medical officer), to establish the health monitoring plan and to review reports from health monitoring.
The medical officer has drawn up the health monitoring plan based on the list of duties, considering the results of the risk assessment and the comments of the Employer and the Health Training and Monitoring Officer. Every year, the Company signs an annual contract with a health centre and schedules appointments for workers based on the health monitoring plan. Any requests by the medical officer for additional clinical tests by specialists are accepted and satisfied in order to achieve better assessment of suitability for work.
The medical officer works with the Employer during the risk assessment phase in order to identify any situations that could represent a potential source of professional illness. Based on the health monitoring results, the medical officer may reach conclusions of use in directing and planning risk assessment activities.

6.4. Workplace injuries

No cases of professional illness arose in 2020 while there was one case of workplace injury. The workplace injury recorded was moderately serious and the initial prognosis was that the employee injured would not be absent from work for more than 30 days. The total number of workplace injuries does not include injuries suffered while travelling to and from work, although such injuries are recorded; in 2020, there was just one case of an injury to an employee travelling to and from work.
Furthermore, we note that the injury figures no not include injuries suffered by temporary workers supplied by employment agencies. If any such injuries had occurred, they would be recorded in order to review the circumstances and the causes and to determine what corrective and preventive action should be taken.
The results of the risk analysis show that the most probable risks are those regarding fire and those relating to logistics activities (handling and storage of goods). For this reason, in 2020, Industrie Saleri Italo S.p.A. identified a series of specific measures in these risk areas – some of them have already been implemented while others are scheduled for 2021.
The following matrix summarises data on injuries, excluding those during travel to/from work, with the respective frequency and severity rates.

Workplace injuries[9]

GRI 403-9	2020			2019		
Frequency rate	0.00	3.11	1.16	3.65	3.08	3.44
Fatality rate	0.00	0.00	0.00	0.00	0.00	0.00
Frequency rate for accidents with severe consequences	0.00	0.00	0.00	0.00	0.00	0.00

Details of employee injuries	2020			2019		
Workplace injuries	0	1	1	2	1	3
of which fatal	0	0	0	0	0	0
of which with severe consequences (excluding fatal ones)	0	0	0	0	0	0

The Sars-Cov-2 (COVID 19) pandemic required an extraordinary effort in terms of preventive and protective measures for workers at all facilities. A working team was created, including the Employer, the Health Training and Supervision Officer, the Managing Director, the Health and Safety Officer, the Medical Officer and the Workers' Safety Representative. The team established, launched and monitored all of the preventive and protective measures aimed at all workers. These measures have included access checks and dealing with positive cases (even if only suspected) with contact tracing within the organisation for both confirmed and suspected cases. All of the preventive and protective measures implemented have helped prevent any cases of contagion within the holding company.
Similarly, ABL Automazione S.r.l. also set up a working team which operated in the same manner as the Industrie Saleri Italo S.p.A. team, based on common guidelines. ABL Automazione S.r.l. has also had no cases of internal contagion.
Saleri Shanghai Co. Ltd. Was the first Saleri Group company to be affected by the health emergency. It dealt with it in struct compliance with Chinese government guidelines.
Saleri Mexico S.A. de C.v. was the last Group company in chronological order to have to deal with the emergency and the start of its production activities has been postponed as a result.
In 2020, each Group company faced the pandemic in strict compliance with local legislative requirements and with the support and coordination of the holding company.

[9] The frequency rate is calculated as follows: no of injuries/days of absence x 1,000,000.

Chapter

7

Saleri and the environment

7.1. Environmental risk management

As part of its routine activities, the Risk Protection and Protection Service constantly monitors compliance with environmental laws and regulations. The Service also allocates some time for more detailed and specific checks.

The effectiveness of the Company's compliance with environmental protection laws and regulations is assessed as required by the environment management system, performing the following annually:

- a test of compliance with the law;
- an environmental review;
- a review by management;
- a test of compliance with international standard ISO 14001:2015, performed by an independent certification body and drawing up an annual improvement plan.

In addition to the above checks, compliance with laws and regulations is continuously monitored during the year. Therefore, any non-compliance would be swiftly detected so that an appropriate response could be taken.

Environmental issues are also managed by means of a risk-based approach:

- External risks (environmental sustainability), regarding protection of the environment and the local territory, by reducing environmental impacts and limiting the use of natural and energy resources. These impacts are considered in relation to the entire product lifespan;
- Strategic risks, including collaboration with strategic providers of services involving a potential environmental risk (refuse collection, cleaning services, maintenance);
- Legal and compliance risks, regarding respect for legislative requirements (authorisations and compliance obligations) and requests by local institutions.

Industrie Saleri Italo S.p.A. and Saleri Shanghai Co. Ltd have adopted an environment management system consistent with international standard ISO 14001:2015 and which has been certified by independent body TÜV NORD Italia. The environmental policy which establishes the foundations of this management system also includes the criteria which Saleri intends to follow in other to minimise its environmental footprint from a sustainability perspective, with regard to the use of materials, energy, water and waste management.

7.2. Energy consumption

Industrie Saleri Italo S.p.A. and ABL Automazione S.r.l. use electricity and methane gas as sources of energy for the manufacture of their products, for their packaging and for production-related services. Methane gas is not used in the production process but only for heating and to produce hot water. Electricity is the sole energy source used in the production process. Electricity is the only energy source used by Saleri Shanghai Co. Ltd and Saleri Mexico S.A. de C.V.

Industrie Saleri Italo S.p.A. performed its first energy health check in 2015 and updated it on 30 September 2019. The energy health check considers all energy sources (electricity and methane gas).

Energy management effectiveness is measured as prescribed by the environment management system, performing an annual environmental analysis, a management review and drawing up an annual improvement plan.

Non-renewal energy consumed within the organisation (GJ)

GRI 302-1	2020	2019
METHANE GAS	8,086	7,759
ELECTRICITY	27,891	33,104
PETROL FOR COMPANY VEHICLE FLEET	691	394
DIESEL FOR COMPANY VEHICLE FLEET	1,581	1,449
TOTAL	37,969	42,707

Electricity consumption mainly depends on production requirements. The majority of Industrie Saleri Italo S.p.A.'s electricity consumption occurs at the Saleri A plant where the highest volume of pump production takes place.

Industrie Saleri Italo S.p.A. uses methane gas to power the thermal power plants used for civil purposes (heating, production of hot water, heating of the production premises). In particular:

- Saleri A and B have strip heaters mounted on the ceiling of production areas;
- Saleri E has convector heaters (in use since June 2018).

Overall consumption decreased slightly in 2020 and the trend recorded at each site was consistent with the reduction in production volumes because of the pandemic.

7.3. Emissions

Emissions management effectiveness, like energy management, is measured as prescribed by the environment management system, performing an annual environmental analysis, a review by management and drawing up an annual improvement plan. Emissions analyses are performed periodically, as required, and the results evaluated – for both fugitive emissions and channelled emissions. Periodically, the need to update communications and authorisation levels for significant and non-significant emissions is assessed. For the purposes of the calculation, the main types of emissions relating to the energy sources mentioned above are set out below. Specifically, we refer to Scope 1 and Scope 2 emissions as follows:

- Scope 1: direct emissions, associated with sources owned or controlled by the Company such as fuel used for heating and for the operational vehicles needed for business activities
- Scope 2: indirect emissions, resulting from the consumption of electricity purchased by the Company. In more detail, in accordance with GRI reporting standards, they are calculated with location and market based methodologies, using appropriate emission factors.

Total greenhouse gas emissions (in t CO_2)

GRI 305-1, 305-2	2020	2019
SCOPE 1		
METHANE GAS	413	396
PETROL FOR COMPANY VEHICLE FLEET	44	26
DIESEL FOR COMPANY VEHICLE FLEET	106	99
TOTAL SCOPE 1	562	520

GRI 305-1, 305-2	2020	2019
SCOPE 2		
ELECTRICITY - LOCATION BASED	2,822	3,505
ELECTRICITY MARKET BASED	3,727	4,587

Scope 1: emission factors DEFRA 2019 (hiips://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2020).
Scope 2 (location-based method): emission factors relating to the generation of national energy for the different operating countries expressed in CO_2 (source: Terna - international comparisons, 2018).
Scope 2 (market-based method): emission factors expressed in CO_2eq relating to the "residual mix" (European Residual Mix 2019, source: AIB 2020), where available. Otherwise, the same emission factors used for the location-based method were also used for the market-based method.

7.4. Environmental impact of water resources

Water consumption by the Saleri Group is monitored with water used in production processes and in the offices. Water is used in the production of items for sale (machine working processes and washing) and for production related services (testing area, cleaning processes, water for hygiene/health purposes – restrooms/toilets, changing room showers, heating, fire prevention water reserves, canteens). Water is also accumulated in reserves for use in case of fire.

Water is drawn solely from the public water system for all purposes. No other sources of water are used. The water is drawn manually except for reserve tanks which have an automatic filling system. This means that the appropriate amount of water is drawn to meet requirements as they arise, with a direct check by the individual drawing the water.
Water consumption is summarised as follows:

Source (megalitres)	2020		2019	
	All areas	Areas subject to water stress	All areas	Areas subject to water stress
▸ Surface water	-	-	-	-
of which Fresh water (≤1,000 mg/l of total dissolved solids)	-	-	-	-
of which other types of water (>1,000 mg/l of total dissolved solids)	-	-	-	-
▸ Underground water	-	-	-	-
of which Fresh water (≤1,000 mg/l of total dissolved solids)	-	-	-	-
of which other types of water (>1,000 mg/l of total dissolved solids)	-	-	-	-
▸ Sea water	-	-	-	-
of which Fresh water (≤1,000 mg/l of total dissolved solids)	-	-	-	-
of which other types of water (>1,000 mg/l of total dissolved solids)	-	-	-	-
▸ Produced water	-	-	-	-
of which Fresh water (≤1,000 mg/l of total dissolved solids)	-	-	-	-
of which other types of water (>1,000 mg/l of total dissolved solids)	-	-	-	-
▸ Third party water resources	13.15800	13.15800	15.0760	15.0760
▸ Fresh water (≤1.000 mg/l of total dissolved solids)	13.158	13.158	15.0760	15.0760
of which surface water	-	-	-	-
of which underground water	13.15800	13.15800	15.0760	15.0760
of which produced water	-	-	-	-
▸ Other types of water (>1.000 mg/l of total dissolved solids)	-	-	-	-
of which surface water	-	-	-	-
of which underground water	-	-	-	-
of which sea water	-	-	-	-
of which produced water	-	-	-	-
▸ Total water drawn	13.15800	13.15800	15.0760	15.0760

The water consumption of Saleri Mexico S.A. de C.V. has been considered from September 2020 (month in which the company commenced its activities).

The above figures are the final figures shown in the bills issued by the water company.
Water management effectiveness is evaluated as prescribed by the environment management system, performing an annual environmental review, a review by management and drawing up an annual improvement plan.

Overall consumption decreased in 2020. The decrease recorded by Saleri Shanghai Co. Ltd compensated for the increase recorded by the holding company. At Industrie Saleri Italo S.p.A.'s production facilities, water consumption was broadly in line with prior year notwithstanding a slight reduction due to periods of closure or slowdown of production activities because of the pandemic.

7.5. Environmental impact of waste

Activities at the Group's production facilities are carried out and controlled with the objective of optimising waste management with waste handed on to disposal companies for subsequent disposal or recycling.
In order to optimise waste management – recycling or disposal – the various departments at each factory separate the different types of waste (hazardous and non-hazardous) and check that it is handled without any danger or harm to health or the environment.
In Industrie Saleri Italo S.p.A., waste management is handled by the Waste Management Officer, in accordance with the internal management system.
Waste management has been performed using specific software (GRIF LIGHT) since the start of 2016.

Description of waste produced

With regard to separated waste management, following studies and simulations conducted in-house by the Prevention and Protection Service together with current and potential providers of waste disposal services, in light of market changes (lack of internal resources to manage separation, lack of space for storage of separated waste; plastic, although separated, does not produce value but involves a disposal cost), the decision that the only possible option at present to minimise the environmental impact of CER 15.01.06[10] was to entrust the activity to an authorised recycler with its own facility which sorts waste in order to recycle as much as possible. The sorting process performed by the recycling firm separates general waste (handed over in black bags) from recyclable plastic (plastic film is packaged and sent to a recycling plant to produce new plastic film while hard plastic is sent to a recycling plant to be transformed into plastic granules). This solution keeps CER 15.01.06 disposal costs low while minimising the environmental impact. The results are calculated and reported.
Collection points for each type of waste have been set up in the various divisions of each production facilities. The separated waste is then taken on by the Waste Management Officer for temporary storage before being transferred to recycling and disposal companies. The collection points and temporary storage areas are shown on the "Floor plan of temporary storage areas for waste and hazardous substances".
Since 2020, the Company has chosen a quantity based criterion for the manage and control of its temporary waste storage areas. This means that waste is sent for disposal at least six-monthly, in order to ensure that the quantitative limits laid down by law are respected.
Since 2015, the Company has used an external consultant for ADR transport as it has confirmed that the volume transferred and the number of operations carried out per year (figures relating to 2014) are below the applicable thresholds. The check was performed on 26/01/2015 and the appointment of the consultant was notified to the Competent Bodies on 28/01/2015. By the end of February each year, the annual report on the transportation of hazardous materials is prepared. The vehicles used for ADR transport are checked by the Waste Management Officer who also checks that the driver's special licence is valid.

Anomalous and emergency situations

Anomalous and emergency situations that may arise in relation to waste and the environment regard:
- spillage of hazardous substances/waste during movement resulting in production of waste consisting of contaminated absorbent materials;
- in case of fire, hazardous waste may be produced by the combustion of the materials present.

[10] CER 15.01.06: Packaging made of mixed materials.

Waste by type and disposal method (t)

GRI 306-2	2020			2019		
	HAZARDOUS	NON-HAZARDOUS	TOTAL	HAZARDOUS	NON-HAZARDOUS	TOTAL
Recycling	1.35	487.60	**488.95**	6.09	691.30	**697.39**
Disposal	294.49	80.87	**375.36**	603.75	73.19	**676.94**
Total	**295.83**	**568.47**	**864.30**	**609.84**	**764.49**	**1,374.33**

The waste of Saleri Mexico S.A. de C.V. has been considered from September 2020 (month in which the company commenced its activities).

The management of any spreads of hazardous materials, including waste, is covered by the internal emergency plan.
Proper methods for the handling and storage of hazardous materials, including waste, in order to avoid anomalous or emergency situations are set out in Guideline IAS 04 "Handling and storage of hazardous materials".
The effectiveness of the waste management system is measured as required by the management system for the environment – an annual environmental review is performed and reviewed by management and an annual improvement plan is drawn up.
The effectiveness of waste management is measured based on two indicators:
- volume of hazardous waste produced during the year;
- volume of non-hazardous waste produced during the year.

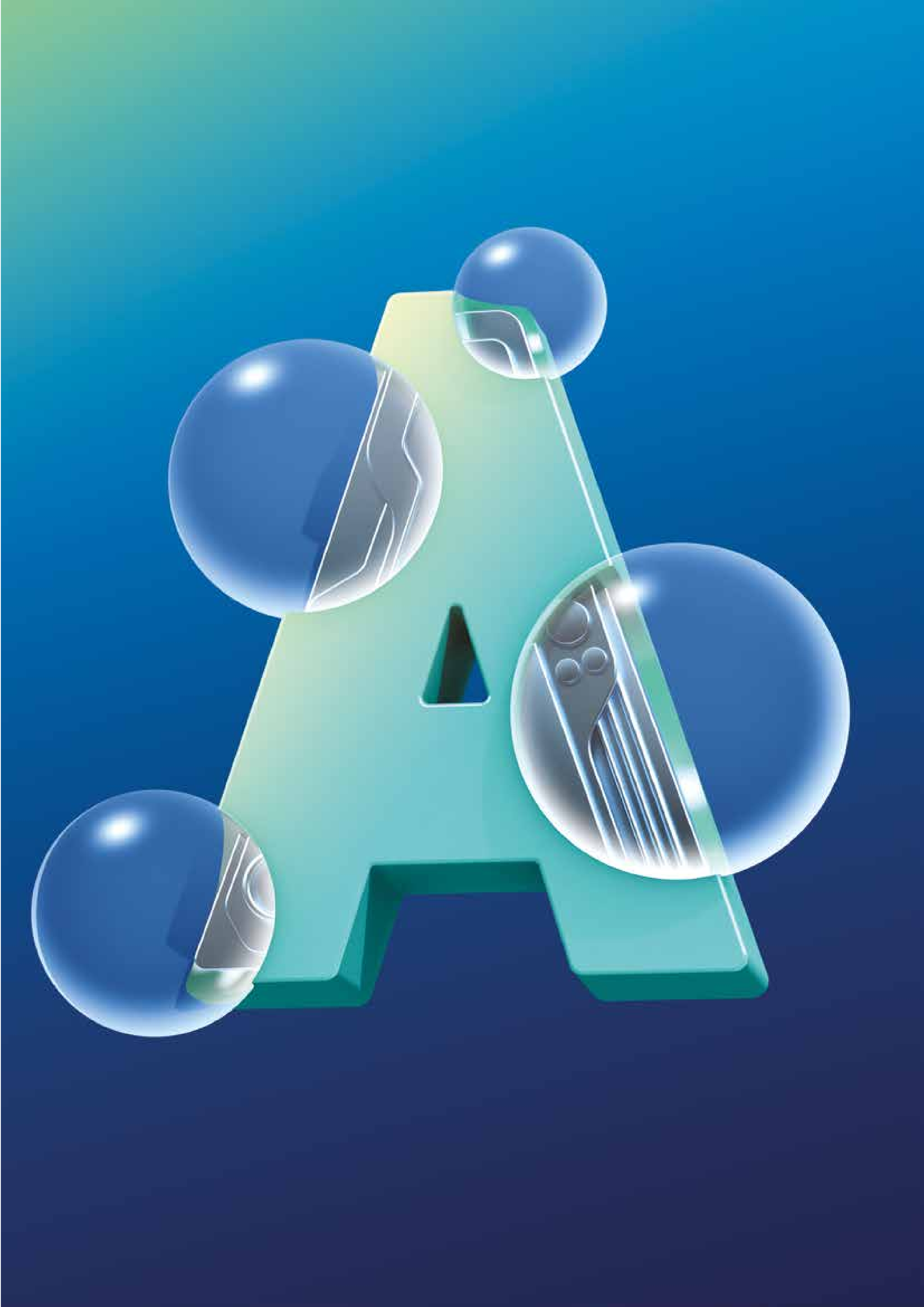
SALERI

ATTENTION

"Culture of attention"

In every phase of the productive process, attention is crucial for Saleri's work. We have been working for years to transfer this "culture of attention" to every person that operates in the company, at every level and in every department.
During the development path of a new product for example, we simulate and experiment – through a precise sequency of tests – the real product service conditions in extreme circumstances, in order to verify its strength and reliability.

INDUSTRIE SALERI ITALO



Chapter

8

Innovation in Saleri: research and development

The Saleri Group's R&D activities are driven by the mega-trends that are revolutionising transport systems. For some time, the focus has been on seeking the best Thermal Management solutions for the vehicles of the future.
The key trends regarding vehicle evolution are electrification, self-drive, reduction of emissions and environmental impact, connectivity and new models of access to mobility. R&D activities are focused on the development of new systems in order to:

- increase the technological content of existing products in order to improve the performance of cooling systems for internal combustion engines;
- anticipate the thermal management needs of components relating to electrification (battery packs and power modules);
- contribute towards a reduction in atmospheric emissions and fuel consumption by engines, responding to increasingly demanding anti-pollution regulations, now and in future;
- improve on competitors' patents, while maintaining system functions unchanged as well as the quality, duration and easy of assembly with automatic systems;
- improve process technologies through research into design simplifications that lead to production cost savings.

8.1. Organisation of the R&D department

Along with the manufacture and sale of the products described above, the Research and Development Department plays a key role in the supply chain and deals mainly with the development of prototypes and the design of processes for mass original productions.
Working in close cooperation with the R&D departments of client automobile manufacturers, the Saleri R&D Department plans, designs and tests prototypes and production process solutions (including moulds that are sold to customers as part of specific projects), typically for the production of water pumps and cooling systems for new generation engines.
Research and development – at process level, as well as at product level – is strategic in order to remain competitive and to reinforce the positioning of the Company. Therefore, it is carried out in close collaboration with leading European car manufacturers with which new and innovative solutions are co-designed with a view to mass production at a later stage.
Research and development begins with a review of requirements and thinking of new concepts (in-house pre-development). This phase involves intensive creativity and patenting activities. Clients are then offered customised versions of the concepts developed and, once the contract has been obtained, the product/process is developed together with the client, through all phases from prototyping to mass production.
The R&D Department is organised into structured development areas: Technical Division, Advanced Engineering (pre-development), Electronic Design, Electric Pump Design, OE Applications Design, CAE (Computer-Aided Engineering), Project Management and Testing. The activities may be summarised as follows:

- **Design**: New products are developed in a simulated environment, using advanced technology and software than ensure high levels of speed and reliability from the early stages of the process;
- **Prototyping and testing**: Development of test sequences to assess the performance and reliability of the water pumps in real, extreme conditions of use (test of characterisation, endurance, corrosion, thermal shock in a climactic chamber, acoustic, vibration analysis, etc.);
- **Simultaneous Engineering:** All development activities are performed by an inter-divisional team in collaboration with counterparts from customers and suppliers.

The work of the R&D Department has made it possible to register several important international patents that will protect the Group's intellectual property and know-how, ensuring that it maintains a

competitive advantage, with positive effects in terms of revenue and profit going forward.
The work of the R&D division is carried out by a team of more than 40 people in collaboration with three universities in Italy (University of Brescia, University of Padua and University of Bergamo).
The Group opens itself up on numerous occasions to offer opportunities to schools and universities. Many students from Brescia University do work placements with the Group as part of their research doctorates and degree dissertations. For many years, Saleri has also taken part in a School/Work Placement project with I.T.I.S. Beretta of Gardone Val Trompia, enabling students to do a range of different training at high school. Every year, Industrie Saleri Italo S.p.A. takes on about 110 high school students on short-term work placements. In 2020, these activities were not possible in the normal manner but the relationship between the Schools and the Company was maintained through on-line training sessions.
In collaboration with the University of Graz (Austria), Saleri is involved in the development of innovative cooling systems for applications in the truck segment. The project will be completed with the supply of components to be tested directly on an engine at the university. This activity lets the Company technicians play an active role in a prestigious engineering environment while providing training on cooling systems as a whole.

8.2. Eco-sustainable thermal management solutions

The primary objective of the entire Saleri R&D Department and, in particular, the Product Concept Department has always been to provide customers with the best cooling system solutions, anticipating their needs where possible.
In order to comply with ever more restrictive anti-pollution regulations, the "Thermal Management" question has become increasingly important in all segments of the automotive industry.
The need to find ever more efficient solutions, in order to provide clients with increasingly innovative products with a high technical content, drives the thought process of every person working in the R&D Department. This way of thinking combines perfectly with the need to create solutions ever more compliant with environmental regulations as the design of more efficient products means optimising thermal management and, thus, improving performance in terms of emissions. The idea of creating innovative, efficient solutions sits well alongside the aim of creating products increasingly geared towards eco-sustainability. The main projects include:

EMP - Electro Mechanical Pump

This water pump has dual drive – mechanical and electrical – and sees a single product offer the advantages of a mechanical pump combined with the benefits of an electric pump. It is highly adjustable, in terms of performance and power, with the electric drive making it possible to control the rotor speed, ensuring a very wide range of use. The presence of an electric drive also means the pump can be kept active even when the internal combustion engine is switched off or in the start & stop phase, thus avoiding localised overheating. The option of having a single pump, with centralised control leads to significant savings in terms of weight and volume. The mechanical drive uses the power generated by the internal combustion engine and ensures that the pump achieves a very high performance level. The fact that the pump can be controlled independently either mechanically or electrically enables optimal management of vehicle engine cooling and this has led to improvements in terms of energy efficiency, fuel consumption and CO_2 emissions. The strengths of this pump include the immediate switching between mechanical and electrical mode, energy savings during the vehicle warm-up phase and the possibility of a zero flow if no cooling is needed.
How many trees is it possible to save? Considering the fact that an average-sized car produces 3,900kg of CO_2 a year and a single tree only converts 15kg of CO_2 into oxygen every year, we would have to plant 260 trees to offset the emissions of one car over a year. Using an EMP, it is possible to save 5kg a year so we can save one tree a year by using three cars fitted with an EMP.

Research into Heavy Duty segment applications

A pure research project, in collaboration with the University of Graz (Austria), looking into the possibility of reducing CO_2 emissions also for fuel-intensive vehicles. The project believes in the potential reduction of losses by replacing mechanical pumps with electric drive hydraulic pumps. Tests performed on a 6 cylinder diesel engine showed a fuel saving. Further tests are in progress in order to demonstrate the importance of optimal thermal management in terms of fuel consumption.

Water Injection Pump

The Technical Division is developing a cooling system that injects nebulised water into the intake chamber in internal combustion engines. This helps reduce peak temperatures in the air-fuel mixture in the combustion chamber – these temperatures are the main cause of production of nitrogen oxides. As NOx emissions are reduced, so performance improves along with consumption levels. There are additional benefits in terms of fuel optimisation (reducing NOx emissions) and increased power generated from the same amount of fuel (reduction in fuel consumption and CO_2 emissions).

Dual pump

This is the combination of two electric water pumps in a single product. It offers numerous advantages, including: the possibility to manage two separate circuits with two different liquids using a single component, the chance to expand the field of operation of the pump by combining the two circuits through an adjustment valve and the possibility of synergies thanks to economies of scale.

Research into use of alternative fluids

A research project into the use of alternative fluids - viscous and dielectric oils – to cool components such as batteries and power modules. The use of fluids of this type, in direct contact with electronic devices, combines the benefits of electrical insulation with those of effective thermal management.

Chapter

9

Management of product quality and customer quality

Throughout Saleri's history, quality has been a starting point rather than an objective to be pursued. The Company has a Quality Department which, as well as performing normal control and prevention activities on processes and products, carries out constant monitoring to ensure that business processes are in line with the highest standards in terms of quality certification and on the origin of materials from areas affected by conflict or significant human rights violations.
Over the years, the Saleri Group has constantly pursued continuous progress in order to adapt to – and often anticipate – the growing demands and pressures of the automotive market which is ever more attentive to product quality and safety issues.

The surveillance activities carried out by the certification bodies confirm the organisation's ability to maintain product quality in line with international standards. In order to hold on to these certifications, the Company complies with the testing protocols of the bodies that carry out annual audits of the state of the Management System and business and production processes. These activities are completed by an internal audit plan duly applied to all business processes and to all departments, as well as to major suppliers.
In addition to the above, the Group regularly monitors all feedback received from customers by recording all complaints received.

9.1. Quality management policy

The decision to invest in quality is necessary in order to compete on a global market. It is all the more necessary for a business that designs, manufactures and sells components and products for which safety is essential. The focus on quality and safety is apparent from the earliest stages of the product life cycle and all modern methods are used in order to improve the products and avoid possible errors that could lead to very significant costs if they are not identified in time.
In 2020, the Quality Management System was constantly monitored in order to maintain the standards demanded by customers and by IATF 16949:2016 and ISO 9001:2015.
In July 2020, a supervisory audit of Industrie Saleri Italo S.p.A. carried out by the certification body revealed that the company was fully compliant with the standards requested.
A renewal audit will be performed in 2021 as the certificate is scheduled to expire in September 2021. 100% of Industrie Saleri Italo S.p.A. products are manufactured based on the standard described above and this also guarantees full compliance with product related health and safety requirements.

9.2. Customer complaints policy

The Saleri Group pays great attention to the handling of customer complaints, an issue key to the development of the business. The following is assessed in relation to every complaint filed by a customer, whether in relation to the production lines ("at 0km" complaints) or the network (complaints "from the field"):

- the grounds for the complaint;
- an analysis of any defects using all of the data available for each item launched on the market by Industrie Saleri Italo S.p.A;
- seek out the root cause with the highest Problem Solving approach standards;
- implementation of corrective measures designed to eliminate the causes and subsequent analysis of the effectiveness of these measures;
- use of the Lesson Learned to extend corrective measures effectively implemented through constant updating of process FMEA[11];
- feedback to customer through closure of complaint with presentation of 8D[12] on web site where the customer can assess the action taken and award a rating that also contributes to customer satisfaction.

The following table contains some details of the complaints made by customers and received in 2020 for both types of complaint recorded by the Industrie Saleri Italo S.p.A. and Saleri Shanghai Co. Ltd:

NO OF COMPLAINTS IN 2020

No of 0km complaints	No of complaints from the field
142	210

The Saleri Group systematically handles the analysis process for warranties with car manufacturers: it examines all components returned under warranty by customers and performs a detailed investigation into the causes of malfunction for each of them; where possible the components are tested in bays set up to reproduce the defect or show that there is no problem with the return and it can be classified as NTF (No Trouble Found).
The test results are used to determine the percentage of responsibility of Industrie Saleri Italo S.p.A. and the car manufacturer based on the terms of the Warranty Agreement. A Technical Factor is determined and used to establish the amount of the refund requested from Industrie Saleri Italo S.p.A. by the client car manufacturer.

[11] *Failure Mode and Effect Analysis.*
[12] *Eight disciplines problem solving.*

Chapter

10

Supply chain management

Saleri's objectives include the establishment of solid partnerships with its suppliers in pursuit of quality and the creation of an environment geared towards safety, innovation and technological development.
By creating strategic partnerships, both parties gain a competitive advantage and the cooperation enables them to resolve problems in a proactive manner, to boost know-how and, finally, to find innovative solutions in line with market requirements.

10.1. Supply chain management policy

The Group is aware that doing business responsibly requires a first person commitment to raising awareness of key issues along the entire supply chain. Numerous initiatives have been undertaken in order to guide suppliers towards a process of development of sustainability issues. These include the publication of related policies on the Company web site **www.saleri.it**. The "Policies" section of the website includes:

The environmental policy

The policy on Conflict Minerals

The Ethical Code

Guidelines for responsible trade

Respect for the principles set out in the above documents is an essential prerequisite for the establishment of any commercial relationship with Industrie Saleri Italo S.p.A. and this is stated in the Company's general terms of business. In the medium/long-term. Industrie Saleri Italo S.p.A. intends to involve its commercial partners even more actively by organising audits and having them complete self-assessment questionnaires on sustainability issues. All suppliers are selected after comprehensive screening of the production capability and product quality as performed by the Industrie Saleri Italo S.p.A. Supplier Quality Assurance team in compliance with the IATF16949 certification.
The above comments regard the holding company Industrie Saleri Italo S.p.A. and, with a view to Group growth going forward, they will soon be extended to the subsidiaries.

10.2. Description of the supply chain

The Industrie Saleri Italo S.p.A. Sourcing Department invests many of its human and technical resources in the consolidation of relations with the Company's long-standing vendors. It does so while seeking to expand its body of suppliers, looking to the market for potential new partners.
In short, the supplier management process provides for the gradual consolidation of existing supplier relations, the development and improvement of the quality system and the production processes of key and less key suppliers, market surveys and assessments of new vendors, all in order to extend the global vendor map towards Far Eastern and European countries.
The objectives provide, in general, for major development of supplier partnerships, an improvement in product technical/quality aspects and optimisation of negotiating, procurement and logistics processes. All matters regarding the identification of the supplier, ordering methods, price setting and lead time and planned and managed in accordance with the IATF certification.

The items purchased include raw materials and components:
- the raw materials purchased directly by the holding company are aluminium alloys;
- the components purchased are products made of aluminium alloys, steel, plastic, rubber and rare-earth elements.

Components are supplied in rough form, as semi-finished goods, finished goods and/or assembled items. The performance of the Group Sourcing division is measured based on KPIs determined based on the quality system; in more detail, the KPIs regard:
- optimisation of the number of vendors on the vendor list
- the number of audits performed during the year;
- the level of certification of the vendor list.

Vendor performance is subject to qualitative documents and the company vendor rating, which is currently under review given the introduction of the new SAP ERP.

10.3. Supplier assessment

The Saleri Group is aware of the fact that its environmental impact also depends on the impact generated by its suppliers to which it entrusts activities and engagements. Potential environmental impacts regard:

WASTE

ATMOSPHERIC EMISSIONS

NOISE POLLUTION

EFFLUENTS

Therefore, in its management system, the Saleri Group has established and outlined its practices in order to assess the environmental impacts of its suppliers and prevent impacts not compliant with laws, regulations and its environmental policy. Moreover, the Company is committed to spreading its environmental policy and its sustainability principles to its suppliers.
Based on the criteria established, Industrie Saleri Italo S.p.A. assigns different levels of criticality to its products and services and performs checks on supplier purchases regarding the products and services identified. Specifically, the organisation checks processes, products and services provided externally when they are considered critical i.e. when:

- the products and services of external suppliers are destined to be incorporated in the products and services of the organisation;
- a process or a part thereof is provided by an external vendor as a result of a decision by the organisation;
- a process supplied by an external vendor involves indirect environmental issues that could have an impact on the Company's environmental performance;
- a process supplied by an external vendor falls within the scope of application of Legislative Decree 81/08.

The procurement process provides for:

- the setting of requirements for products and services purchased;
- assessment, selection, rating, monitoring of performance and reassessment of vendors;
- testing to ensure that products and services purchased fulfil requirements.

All suppliers (and contractors) subject to this procedure are subject to assessment. In principle, the assessment involves rating the Supplier's organisation based on parameters including:

- ability to meet contractual requirements in terms of orders completed;
- technical, technological and professional capabilities as shown by machinery, plant, equipment and controls;
- professional capability, qualifications, certifications;
- ability to meet legal, technical safety and quality requirements e.g.:
  - presence of any licences or concessions specifically provided for by applicable law for the supply of goods or services in question (e.g. transportation or disposal of waste, transportation of chemical products subject to ADR rules, supply of safety cards, obligatory qualifications, etc.);
  - compliance with Legislative Decree 81/08 (appointments, safety plan, equipment compliant with regulations, working procedures, etc.) as regards contractors;
- ability to guarantee checks on environmental/safety issues, with particular regard to those directly connected with activities carried out on behalf of the Company.

In particular, during the assessment process (both initial and subsequent), the Supplier is assessed based on analysis of specific factors. These factors are set out in the Approved Suppliers and Contractors schedule – list and assessment – which lists the Suppliers identified and, for each of them, the assessment is performed awarding a score in each of the above fields (where relevant in each case).
The average score obtained determines the Supplier rating:

- Q = supplier approved (score $\geq$ 2,5)
- QR = supplier conditionally approved (1.5 < score < 2.5)
- QS = approval suspended (score $\leq$ 1.5)

Legislative compliance requirements must be satisfied in full, otherwise the Supplier is automatically suspended. The assessment is performed annually by the RSGAS ("Officer in charge of the Environment and Safety Management System").
Information may be gathered by obtaining and evaluating documentation, examining the Supplier's performance based on current and past experience, possible visits to Supplier premises (also in the form of an audit), etc.
Obviously, the result of the assessment determines whether the Supplier continues to be used. Generally speaking, the choice of Suppliers to operate within the business depends on criteria such as quality, compliance with environmental and safety requirements, assessment of technical capability, nature of goods/service, price/value for money.
There are no significant issues to report with regard to the suppliers which are of a good quality level in all sectors of interest.
All subsidiaries perform a qualitative and environmental assessment of their suppliers.

Chapter

11

Saleri and social issues

Industrie Saleri Italo S.p.A. has been operating since the 1940s and has also shown a strong attachment to its local area. The Company was founded by Italo Saleri and is now in its fourth generation of Saleri family ownership. The Company headquarters have been in the Lumezzane area since Industrie Saleri Italo S.p.A. was founded and the Company has always played an active role in improving the living standards and working conditions of the Val Gobbia area. It has contributed towards the economic development of the area which came to be known as the "Valley of Gold" in the 1980s.

The great many initiatives carried out for the local community have touched many different sectors: construction of sports facilities, support for cultural projects ("Felice Saleri" library), sponsorship of local sports groups/teams, establishment of a Day Centre for Disabled People, establishment of a supply chain which prioritises local businesses, where possible. More specifically, since 2018, the Company has been participating in the "Light of Reason" project which aims to deliver reading and multimedia materials to the homes of people with mobility problems.

Since 2015, Industrie Saleri Italo S.p.A., together with other companies in the Brescia area, has been a member of the "Welstep" business network which aims to support business welfare.

It is this commitment to the local community that enables Saleri to strengthen its links with scientific and educational institutions, with young people in general and to promote a culture of interest in issues regarding sport, education, solidarity and the environment. Industrie Saleri Italo S.p.A.'s commitment to social issues – and to the school-work experience project – is confirmed by the fact that Confindustria has awarded the Company the "BAQ 2019 - *Bollino per l'Alternanza di Qualità*".

For many years, Industrie Saleri Italo S.p.A. has been working with the ITIS Beretta di Gardone Val Trompia (BS) Technical School on a school-work experience project called "*Far Crescere per Crescere*". This project aims to raise the awareness of young people (more than 110 have now taken part) to the concept of genuine innovation, not only in relation to technical design and the product but involving all processes at every level.

In terms of its environmental impact on the local area, the Company has moved its headquarters from the centre of Lumezzane to the town's industrial area thus reducing its impact on road traffic.

Community Remuneration 2020 (€ 000s)

Sponsorship	**14**
Charity	**33.5**
Donations	**31**
Community Remuneration	**78.5**

Chapter
12
Appendix

12.1. Perimeter and impact of material topics

The following table lists the sustainability topics considered material for Saleri, together with the related GRI Sustainability Reporting Standards referred to in this document and the topics referred to by Legislative Decree 254/16.

Material topic	Correlation with GRI Standards	Boundary of impact	Type of impact
Economic performance and sustainable development	Economic performance	Saleri Group	Caused by the Saleri Group
Product innovation and sustainability	-	Saleri Group	Caused by the Saleri Group
Appropriate risk management	-	Saleri Group	Caused by the Saleri Group
Business integrity and regulatory compliance	Anti-corruption Anti-competitive practices	Saleri Group	Caused by the Saleri Group
Occupational health and safety	Occupational health and safety	Saleri Group employees	Caused by the Saleri Group
Diversity and equal opportunity	Diversity and equal opportunity Employment Non-discrimination	Saleri Group	Caused by the Saleri Group
Training and skills development	Training	Saleri Group	Caused by the Saleri Group
Responsible procurement	-	Saleri Group Suppliers	Caused by the Saleri Group
Product quality and reliability	-	Saleri Group Customers	Caused by the Saleri Group
Combatting climate change	Emissions	Saleri Group Suppliers	Caused by and contributed to by the Saleri Group
Conservation of natural resources	Energy Water Effluents and waste	Saleri Group	Caused by and contributed to by the Saleri Group
Solidarity projects	Social	Local community	Caused by the Saleri Group
Customer satisfaction	-	Saleri Group Customers	Caused by the Saleri Group

12.2. GRI index

This report refers to the following GRI disclosures:

GRI Standard	Disclosure	Page number	Notes
	GRI 102: GENERAL DISCLOSURES (2016)		
	ORGANISATION PROFILE		
102-1	Name of the organisation	18	
102-2	Activities, brands, products and services	20	
102-3	Location of headquarters	18	
102-4	Location of operations	24	
102-5	Ownership and legal form	29-30	
102-6	Markets served	24	
102-7	Scale of the organisation	24, 28, 29, 40	
102-8	Information on employees and other workers	40-43	
102-9	Supply chain	63-64	
102-10	Significant changes to the organisation and its supply chain	12	
102-11	Precautionary Principle or approach	33-39	
102-12	External initiatives	15-17, 65	
102-13	Membership of associations	27	
	STRATEGY		
102-14	Statement from senior decision-maker	10-11	
	ETHICS AND INTEGRITY		
102-16	Values, principles, standards and norms of behaviour	15-17, 25-26, 32-33	
	GOVERNANCE		
102-18	Governance structure	29-33	
102-19	Delegating authority	32-33	
102-20	Executive-level responsibility for economic, environmental, and social topics	32-33	
	STAKEHOLDER INVOLVEMENT		
102-40	List of stakeholder groups	14	
102-42	Identifying and selecting stakeholders	13-14	
102-43	Approach to stakeholder engagement	13-14, 16	
	REPORTING TOPICS		
102-45	Entities included in the consolidated financial statements	12	
102-46	Defining reporting content and topic boundaries	13-16	
102-47	List of material topics	15	
102-48	Restatements of information	12	
102-50	Reporting period	12	
102-51	Date of most recent report	12	
102-52	Reporting cycle	12	
102-53	Contact point for questions regarding the report	12	
102-54	Claims of reporting in accordance with the GRI standards	12	
102-55	GRI content index	67-71	
102-56	External assurance	72-74	

TOPIC SPECIFIC STANDARDS		Page number	Notes
GRI 200: ECONOMIC SERIES			
MATERIAL TOPIC: Economic performance and sustainable development			
GRI 201: Economic performance (2016)			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	26-26, 28	
103-3	Evaluation of the management approach	28	
201-1	Direct economic value generated and distributed	28	
MATERIAL TOPIC: Business integrity and regulatory compliance			
GRI 205: Anti-corruption			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	32-33	
103-3	Evaluation of the management approach	32-33	
205-3	Confirmed incidents of corruption and actions taken	No incidents of corruption were reported during the reporting period.	
GRI 206: Anti-competitive practices (2016)			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	32-33	
103-3	Evaluation of the management approach	32-33	
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	During the reporting period there were no reports and/or complaints about failure to comply with laws or regulations and legal actions for anti-competitive behaviour, violation of anti-trust and monopoly regulations , whether in or out of court.	
GRI 300: ENVIRONMENTAL SERIES			
MATERIAL TOPIC: Conservation of Natural Resources			
GRI 302: Energy (2016)			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	50-51	
103-3	Evaluation of the management approach	50-51	
302-1	Energy consumption within the organisation	50-51	

TOPIC SPECIFIC STANDARDS		Page number	Notes
GRI 303: Water and Effluents (2018)			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	52-53	
103-2	Evaluation of the management approach	52-53	
303-1	Interactions with water as a shared resource	52-53	
303-2	Management of water-discharge related impacts	52-53	
303-3	Water withdrawal	53	
MATERIAL TOPIC: Combatting Climate Change			
GRI 305: Emissions (2016)			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	51-52	
103-3	Evaluation of the management approach	51-52	
305-1	Direct greenhouse gas emissions (Scope 1)	52	
305-2	Energy indirect greenhouse gas emission (Scope 2)	52	
MATERIAL TOPIC: Conservation of Natural Resources			
GRI 306: Effluents and Waste (2016)			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	54-55	
103-3	Evaluation of the management approach	54-55	
306-2	Waste by type and disposal method	55	
GRI 400: SOCIAL SERIES			
MATERIAL TOPIC: Diversity and Equal Opportunity			
GRI 401: Employment (2016)			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	41-42	
103-3	Evaluation of the management approach	41-42	
401-1	New employee hires and employee turnover	41-42	

TOPIC SPECIFIC STANDARDS		Page number	Notes
MATERIAL TOPIC: Occupational Health and Safety			
GRI 403: Occupational health and safety (2018)			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	47-49	
103-3	Evaluation of the management approach	47-49	
403-1	Occupational health and safety management system	47-49	
403-2	Hazard identification, risk assessment and incident investigation	48	
403-3	Occupational health services	48	
403-4	Worker participation, consultation and communication on occupational health and safety	47-48	
403-5	Worker training on occupational health and safety	48	
403-6	Promotion of worker health	48	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	48	
403-9	Work-related injuries	49	
MATERIAL TOPIC: Training and skills development			
GRI 404: Training and Education (2016)			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	44	
103-3	Evaluation of the management approach	44	
404-1	Average hours of training per year per employee	44-45	
MATERIAL TOPIC: Diversity and equal opportunity			
GRI 405: Diversity and equal opportunity (2016)			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	43	
103-3	Evaluation of the management approach	43	
405-1	Diversity of governance bodies and employees	31, 43	
GRI 406: Non-discrimination (2016)			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	32-33	
103-3	Evaluation of the management approach	32-33	
406-1	Incidents of discrimination and corrective actions taken	No incidents of discrimination were reported during the reporting period.	

TOPIC SPECIFIC STANDARDS		Page number	Notes
MATERIAL TOPIC: Risk Management			
GRI: N/A			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	33	
103-3	Evaluation of the management approach	33	
MATERIAL TOPIC: Innovation and product sustainability			
GRI: N/A			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	58-59	
103-3	Evaluation of the management approach	58-59	
MATERIAL TOPIC: Product quality and reliability			
GRI: N/A			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	61-62	
103-3	Evaluation of the management approach	61-62	
MATERIAL TOPIC: Customer satisfaction			
GRI: N/A			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	61-62	
103-3	Evaluation of the management approach	61-62	
MATERIAL TOPIC: Responsible procurement			
GRI: N/A			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	63-64	
103-3	Evaluation of the management approach	63-64	
MATERIAL TOPIC: Solidarity projects			
GRI: N/A			
103-1	Explanation of the material topic and its boundary	15, 66	
103-2	The management approach and its components	65	
103-3	Evaluation of the management approach	65	

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INDEPENDENT AUDITOR'S REPORT
ON THE VOLUNTARY CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10 OF LEGISLATIVE DECREE No. 254 OF DECEMBER 30, 2016 AND ART. 5 OF CONSOB REGULATION N. 20267 OF JANUARY 2018

To the Board of Directors of
Industrie Saleri Italo S.p.A.

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter "Decree") and to article 5 of the CONSOB Regulation n. 20267/2018, we have carried out a limited assurance engagement on the consolidated and voluntary Non-Financial Statement of Industrie Saleri Italo S.p.A. and its subsidiaries (hereinafter "Saleri Group" or "Group") as of December 31, 2020 prepared on the basis of art 4 of the Decree, presented in the specific section of the Directors' Report and approved by the Board of Directors on May 13, 2021 (hereinafter "NFS").

Responsibility of the Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and the "*Global Reporting Initiative Sustainability Reporting Standards*" established in 2016 by GRI – *Global Reporting Initiative* (hereinafter "GRI Standards"), with reference to the selection of GRI Standards, which they have identified as reporting framework.

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Group and for identifying and managing the risks generated or undertaken by the Group.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the compliance with the provisions set out in the Decree.

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Auditor's Independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our auditing firm applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI *Standards*, with reference to the selection of GRI Standards. We conducted our work in accordance with the criteria established in the "*International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (hereinafter "ISAE 3000 Revised"), issued by the *International Auditing and Assurance Standards Board* (IAASB) for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of information included in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. Analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of art 3 of the Decree and taking into account the adopted reporting standard.

2. Analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree.

3. Comparison between the financial data and information included in the NFS with those included in the consolidated financial statements of the Saleri Group.

4. Understanding of the following matters:

    - business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree;
    - policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
    - main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

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Moreover, with reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point 5, letter a).

5. Understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

   In particular, we carried out interviews and discussions, in presence and remote meetings, with the management of Industrie Saleri S.p.A. and its subsidiaries Saleri Mexico S.A. de C.V. and Saleri Shanghai Co. Ltd, and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

   In addition, for material information, taking into consideration the Group's activities and characteristics:

   - at the parent company's and subsidiaries' level:

     a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;
     b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.

   - For the following companies, Industrie Saleri Italo S.p.A., Saleri Mexico S.A. de C.V. and Saleri Shanghai Co. Ltd, which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out remote meetings, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the Saleri Group as of December 31, 2020 is not prepared, in all material aspects, in accordance with articles 3 and 4 of the Decree and the GRI *Standards*, with reference to the selection of GRI *Standards*.

DELOITTE & TOUCHE S.p.A.

Signed by
Stefano Marnati
Partner

Milano, Italy
May 26, 2021

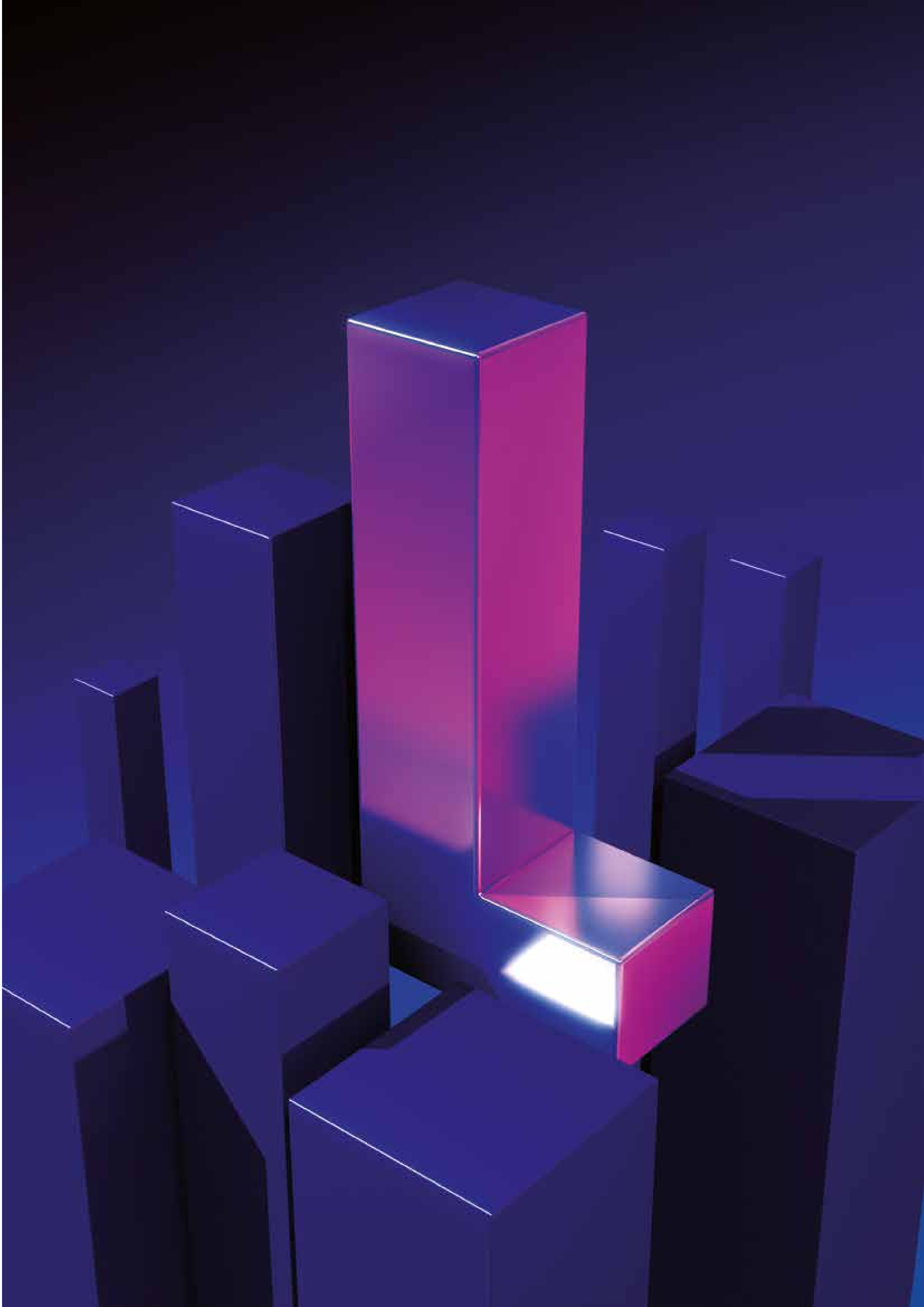
This report has been translated into the English language solely for the convenience of international readers.

SALERI

LEADERSHIP

We can define ourselves Leader in the design, development and production of water pumps and cooling systems solutions for the automotive sector. Our research and development work, the flexibility of our technical solutions and the continuous updating of our quality standards are the key features of the "Saleri method" and give all our products added value.

INDUSTRIE SALERI ITALO



Section

2

Directors' report on the Separate and Consolidated Financial Statements for 2020

Letter from the Chairman

Dear Shareholders,
We will remember 2020 as an unprecedented year with events that massively disrupted and forced radical changes to our way of life. My heartfelt thanks go out to all of those who, in various capacities, have contributed and are still contributing with their efforts to helping out the people affected and to facilitating a return to "normal".
In economic terms the contraction of the global economy caused by the pandemic has greatly conditioned the decisions and the results of the industrial world. In this scenario, it is important to recognise the ability to react shown by those individuals who made it possible to find the extraordinary solutions needed in order to safeguard against the sudden, unexpected changes that were happening. In response to the situation that had developed as a result of the COVID-19 emergency - first in China, then in Italy and Europe and, finally, on a global scale – the Saleri Group ("**Group**" or "**Saleri Group**") moved swiftly to introduce a series of measures intended, primarily, to safeguard the health and well-being of its personnel around the world. Where possible, agile working has been used on a massive scale and internal operating procedures have been revised with rules and protocols introduced in order to limit and the risk of contagion. A large investment has been made on issuing personnel with personal protective equipment and on the regular sanitisation of all business premises.
Compared to the sector as a whole, the results achieved in the second half of the year demonstrated the resilience of the Saleri Group, highlighting in full its commitment, strength and capacity to react.
Notwithstanding the macroeconomic environment, the Saleri Group's results for 2020 show consolidated revenues of € 146.1 million, 7.8% down on 2019 but much better than the performance of the sector as a whole which recorded a 16% decline in revenues. As a result, EBITDA has decreased compared to 2019 - from € 17.6 million to € 12.9 million (EBITDA Margin 2020 of 8.8%). EBIT amounts to € 1.5 million, after depreciation, amortisation and impairment adjustments of € 11.3 million. The adjusted net result for the year (after non-recurring, extraordinary expenses but before non-controlling interests) shows a profit of € 0.8 million.
Net Financial Indebtedness amounts to € 24.2 million and has decreased by € 16 million compared to prior year (a year on year decrease of 40%; over the last four years 2017-2020, it has decreased by €44.7 million or by 65%) confirming the trend of improvement in the key financial ratios for the fourth year running: the NFP/Consolidated Equity ratio stands at 0.5x (compared to 0.9x in 2019) while the NFP / EBITDA ratio stands at 1.88x and has decreased slightly compared to 2.28x in 2019.
Despite the economic situation, in 2020, the Group continued to focus on its core values such as "innovation". Investment continued on research and development, fixed assets and the digitalisation of the Group, for capex totalling € 7.9m (5.4% of revenues).
In terms of geographical expansion and with the objective of becoming an increasingly global partner to our Customers, the "from local to global" strategy was reinforced in 2020, with the Mexican plant ready for operations and the incorporation of a company in India. These new operations facilities will allow the Group to maintain a direct dialogue with its Customers in every country. Saleri Shanghai continues to consolidate its position on the Chinese OEM market. In 2021, it will treble the number of products sold and its revenues compared to 2019.
As regards vertical integration, the incorporation of ABL Automazione S.r.l. into the Group was completed in December 2020; said company produces automated assembly lines. In the second quarter of 2021, in order to strengthen the subsidiary's finances, quota capital increase of €0.9m was paid, taking the Group's investment to 100%.
During the year, in a critical period for the sector, the Group set out its product mission. From developer and manufacturer of car cooling products to developer and manufacturer of thermal management systems. The challenges and opportunities thrown up by the automotive industry which is a state of rapid transformation demand the design and manufacture

of solutions offering ever improving performance and that make their contribution towards reducing CO_2 emissions.
This commitment focuses on increasing integration with the vehicle and with the objectives of our Customers based on ever tougher sustainability requirements, through the development of new products for electrification. The triple digit growth in the number of products aimed at the electric segment is concrete evidence of our move in this direction.
Activities regarding the Lean Transformation project have continued in production areas with a view to improving performance through the implementation of specific Shop Floor Management strategies. The work done has led to the creation of SEOS (Saleri Excellence Operation System), an operations system striving for excellence that will be implemented at all Group facilities.
We do not intend to underestimate in the slightest what is going on in the world right now and are fully aware of how it will affect the markets where the Group operates. However, we can look ahead to the future with confidence. We trust in our business model and believe in our capacity for innovation and production excellence. We know that, more than ever, we can count on our core values and on our strengths. Particular thanks go to all of the people (employees and suppliers) who have worked so hard to deal with unprecedented situations and problems. We hope that the work will soon return to normal for a safe future and remain optimistic that this will enable the Saleri Group to continue along the path of growth it has mapped out.
This year, the Saleri Group again presents its "Non-Financial Statement", a detailed report describing the strategies adopted, the actions taken and the results achieved by the Group in its pursuit of sustainable economic growth, while reducing the environmental and social impacts of its activities.
Drawing on the experience gained, we intend to continue to grow in order to consolidate the Group's position in one of the world's most competitive manufacturing segments, creating work opportunities and value for the shareholders.
This Directors' Report has been prepared as an accompaniment to the Consolidated and Separate Financial Statements and presents details of the Group situation, the main risks to which the Group is exposed and the ways in which business development may be expected in the years ahead. Further information can be found in the Notes to the Consolidated Financial Statements and in the Notes to the Separate Financial Statements.
We present for your review and approval the Consolidated Financial Statements of the Group and the Separate Financial Statements of Industrie Saleri Italo S.p.A., comprising the Balance Sheet, the Income Statement, the Statement of Cash Flows and the Notes, as at 31 December 2020.

Lumezzane, 13 May 2021

Basilio Saleri

Note on Reporting Methodology

In order to make it easier to understand the economic and financial performance of the Saleri Group, we note the following with regard to the results reported in this Report:

- the Directors have identified certain Alternative Performance Indicators ("API[1]"). These indicators also help the Directors to identify operating trends and make decisions regarding investments, the allocation of resources and other operational issues. The Income Statement, Balance Sheet and Statement of Cash Flows are presented in reclassified, Management Accounts format. This is in order to make it possible to perform a comparison with indicators for the sector or with the information issued periodically by the Group to its Stakeholders.
- compared to the Italian GAAP-based classification, as reflected in the Notes to the Financial Statements and in other schedules included in the Financial Statements, reclassification adjustments have been made in order to provide the most appropriate representation of the performance of the Saleri Group;
- when the Directors' Report was prepared, certain account balances were disclosed differently in order to bring them more into line with Management Accounting purposes; the corresponding prior year figures were also restated accordingly.

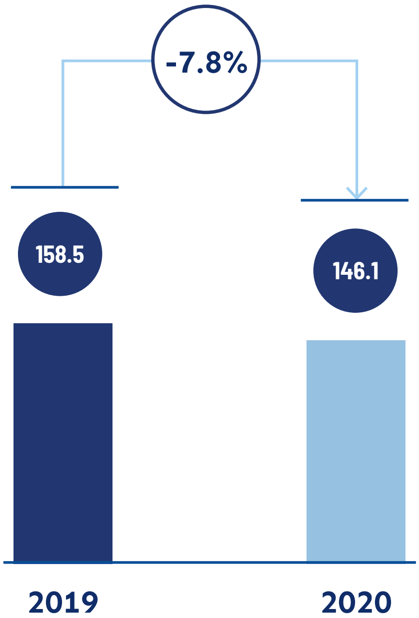
[1] The APIs have been chosen and set out in the Directors' Report because the Directors believe that:
- Net Financial Indebtedness, together with other performance indicators such as Capex/Revenues, Net Financial Indebtedness/Equity permit a better assessment of the solidity of the balance sheet structure and the ability to repay debt;
- Net Working Capital, Fixed Capital and Net Invested Capital permit a better assessment of capacity to meet short-term commercial commitments through current assets and of the consistency between the structure of temporary applications and sources of funds;
- EBITDA and EBIT, together with other profit indicators, can show changes in operating performance and provide useful information on the Group's capacity to sustain debt; these indicators are also widely used by analysts and directors to assess performance in the segment where the Group operates.

The following should be noted for a proper interpretation of the APIs:
- The APIs are determined solely based on the historical information of the Saleri Group and are not indicative of the Group's future performance;
- The APIs are not regulated by ITAGAAP or by IFRS;
- The APIs must not be considered as replacing the indicators provided for by ITA GAAP. The APIs shall be read together with financial information obtained from the financial statements;
- As the APIs are not defined by ITA GAAP, the methods used by the Group to calculate them might not be consistent with those adopted by other groups/companies and they might not be suitable for comparison;
- The APIs used by the Group and by the Company have been calculated on a consistent basis for all periods for which financial information is included in these Financial Statements.

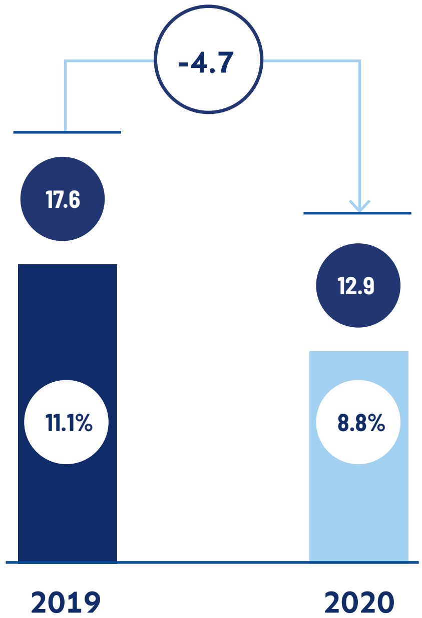
Chapter

1

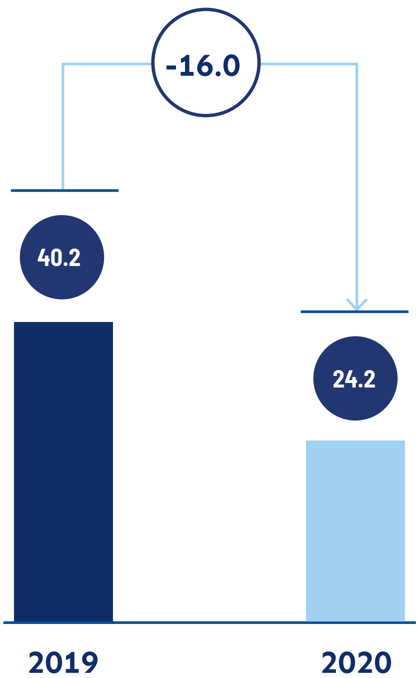
Financial Highlights



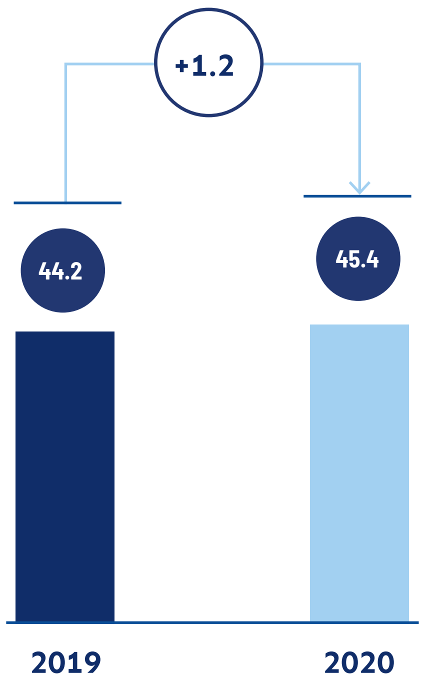
Revenues



EBIDTA ADJ



NFP



CONSOLIDATED EQUITY

Alternative performance indicators

Table 1.1a

€ million

CONSOLIDATED	FY 2019	FY 2020	△ 2020 - 2019
Income Statement			
EBIT	**4.7**	**1.5**	**-3.2**
EBIT %	3.0%	1.0%	-1.9%
Profit/(Loss) before taxation	**2.2**	**(5.4)**	**-7.6**
Profit /(Loss) before taxation %	1.4%	-3.7%	-5.1%
Adjusted net profit (before minority interests)	**2.8**	**0.8**	**-2.0**
Adjusted net profit (before minority interests) %	1.7%	0.6%	-1.2%
Balance Sheet			
Fixed assets	84.7	75.7	-9.0
Trade working capital	4.6	0.8	-3.8
Net invested capital	**84.5**	**69.6**	**-14.9**
NFP	40.2	24.2	-16.0
Consolidated Equity	**44.2**	**45.4**	**+1.2**
of which Equity of Minority Interests	**4.8**	**4.2**	**-0.6**
of which Equity of the Group	**39.4**	**41.3**	**+1.8**
Personnel and Capex			
Average no of employees	598 u	592 u	-6 U
Revenues per employee (Euro thousands)	265.2	246.8	-18.4
Net capex	15.5	7.9	-7.6
Net capex / Revenues	9.8%	5.4%	-4.4%
NFP / EBITDA	**2.3x**	**1.9x**	**-0.4x**
NFP / Consolidated Equity	**0.9x**	**0.5x**	**-0.4x**
ROI (EBIT / Net Invested Capital)	**5.6%**	**2.2%**	**-3.4%**
ROE (Adjusted Net Profit (before min int)/ Consolidated Equity)	**6.3%**	**1.8%**	**-4.5%**
Cash flows			
Cash flows absorbed/(generated) by Operating Activities	32.9	16.2	-16.7
Cash flows absorbed/(generated) by Investing Activities	(15.5)	(1.0)	+14.5
Cash flows from non-recurring Activities	(0.8)	(3.4)	
Cash flows absorbed/(generated) by Financing Activities	(11.7)	25.1	+36.8
Net Cash Flows	**4.8**	**36.9**	**+32.1**

Chapter

2

Corporate Governance

Board of Directors

Chairman and CEO	Basilio Saleri
Managing Director	Matteo Cosmi
Directors	Alberto Bartoli Wilhelm Becker Sergio Bona Massimo Colli Giorgio Garimberti Simona Heidempergher Alessandro Potestà

Board of Statutory Auditors

President	Francesco Facchini
Statutory Auditors	Andrea Gabola Roberta Lecchi

External Auditors

Deloitte & Touche S.p.A

Membership of the Board of Directors

The current Board of Directors has nine members, including two executive directors and seven non-executive directors (five were appointed from the list presented by shareholders El.Fra Holding S.r.l., Luca Saleri, Mariacristina Saleri and Annacaterina Marella Saleri and four from the list presented by shareholder Quaestio Italian Growth Fund). Sergio Saleri, the second oldest child of Italo Saleri, founder of Industrie Saleri Italo S.p.A., was Honorary President until his death on 6 July 2019.

CHAIRMAN AND CEO

Basilio Saleri

Appointed as CEO and Chairman of the Board of Directors in 2013. At present, he is also the Chairman and Managing Director of El.Fra Holding S.r.l., holding company of Industrie Saleri Italo S.p.A., and of Immobiliare Industriale S.r.l., subsidiary of Industrie Saleri Italo S.p.A.. He also sits on the Board of Directors of Saleri Shanghai Co., Ltd, the Chinese subsidiary of Industrie Saleri Italo S.p.A. and on the Board of Directors of Saleri Mexico S.A. de C.V.

MANAGING DIRECTOR

Matteo Cosmi

Appointed as CFO and Managing Director in May 2018 after acting as Temporary Manager with the roles of CFO and CRO since February 2017. In December 2019, he was appointed Managing Director of Industrie Saleri Italo. He also sits on the Board of Directors of Saleri Mexico S.A. de C.V. Was founder and director of Fingiaco, a financial advisory company specialising in Debt Advisory, M&A and performance improvement services.

DIRECTOR

Sergio Bona

Has a degree in Construction Engineering from Milan Polytechnic. He is also Managing Director of Sabim S.r.l. and Simpafin S.r.l., companies operating in the real estate segment.

DIRECTOR

Giorgio Garimberti

Has a degree in Mechanical Engineering from the University of Bologna. Joined VM Motori S.p.A. as Production and Factory Manager in 1987, becoming its General Manager a year later and acting as Managing Director from 2007 until 2017. Is currently a member of the FCA directors' committee.

DIRECTOR

Wilhelm Becker

Has a degree in Business and Economics. Began his carrier in with BMW in 1976, working in logistics. In 1987, he was appointed Global Material Planning Senior Vice President and, in 2000, he became the Strategic Head of the Group's small vehicles division, holding this role until 2007. He currently sits on the Boards of Directors of several important companies in the automotive industry as well as providing strategic consultancy services.

DIRECTOR

Alberto Bartoli

Managing Director of Gefran S.p.A. since 2018. An Italian Chartered Accountant with a degree in Business and Economics from the University of Parma. He joined Sabaf S.p.A. as CFO in 1994, becoming a Director for the period 1997 – 2017 and holding the position of Managing Director from 2012 until 2017. Also holds several honorary offices in various Associations.

DIRECTOR

Alessandro Potestà

Has a degree in Business and Economics from the University of Turin. Between 2008 and 2011, he filled management roles in the Investment and Corporate Development Divisions for the IFIL Group (now EXOR). Is currently Senior Portfolio Manager with Quaestio Capital Management SGR S.p.A..

DIRECTOR

Massimo Colli

An Italian Chartered Accountant and Registered Auditor with a degree in Business and Economics from the Luigi Bocconi Business University. He has 40 years of audit experience with Ernst&Young, specialising in listed companies in the banking and finance sector. Works as a lecturer at Luigi Bocconi Business University and at the Training Academy for the Order of Dottori Commercialisti ("Chartered Accountants") in Milan and is head of internal training courses in Ernst&Young for the audit of banks.

DIRECTOR

Simona Heidempergher

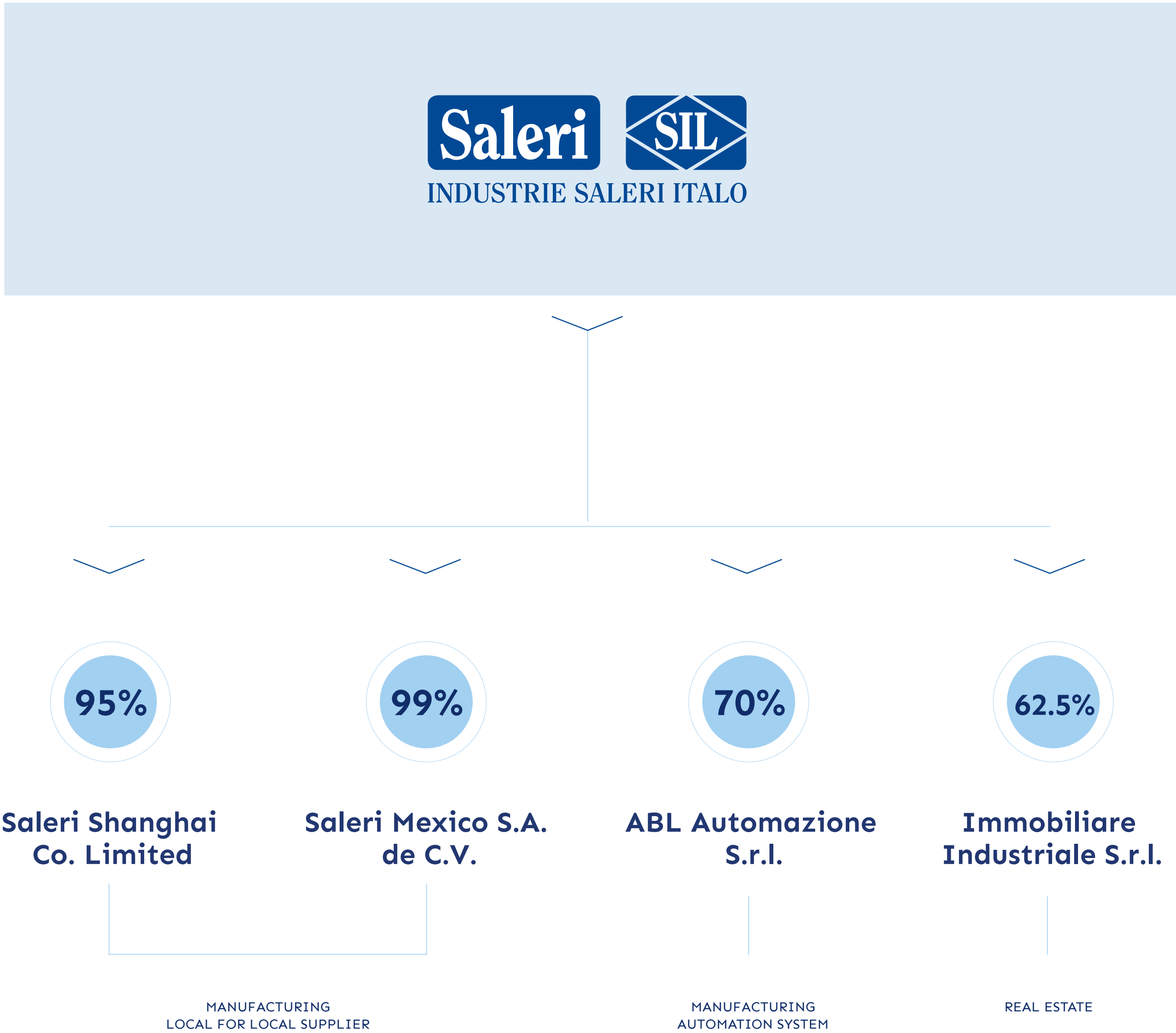
Has a degree in Economic and Social Studies from the Luigi Bocconi Business University. Holds the position of Chief Investment Officer with the Merifin Europe SA Group as well as sitting on the Boards of Directors of several listed companies with the role of independent director.

Chapter

3

Group Organisation Chart

The Group Organisation Chart at the reporting date is set out below:



Chapter

4

The Saleri Group and the Market

4.1. Products and markets served

Founded in 1942, Industrie Saleri Italo S.p.A. now heads an international group ("Saleri Group"), the leader in the development of Thermal Management solutions for the Automotive industry, through the design and production of mechanical, adjustable and electric water pumps. The Group operates mainly as a Tier 1 supplier in the Original Equipment segment for some of Europe's leading car manufacturers, in the premium brands segment. The Thermal Management systems are co-designed directly at customer premises, at every stage of the process: from product conception, through prototyping and onto mass production. Well-established relations between customer and supplier ensure long-lasting commercial relations.
Drawing on its expertise and on its position as an established manufacturer in the Original Equipment segment, the Saleri Group produces and sells water pumps and distribution kits for the Independent Aftermarket segment. Products in this range are equivalent to the original in terms of performance and the Original Equipment Manufacturer trademark guarantees a premium level positioning within the Aftermarket segment. The products are distributed, globally, on 65 markets, with the range comprising more than 1,000 different products.
The Group's main target market sector is that of Autoparts manufacturers in the Light Vehicles segment (cars and commercial vehicles up to 3.5 tonnes). Its destination markets are the OEM (Original Equipment Manufacturer) segment, the OES (Original Equipment Spare Parts) segment and the non-original spare parts segment (IAM or Independent Aftermarket).

Product range

Any system regulated by the circulation of a fluid requires the best Thermal Management solution. Over the years, the Saleri Group has developed Thermal Management systems that guarantee ever more advanced cooling solutions, in line with growing market demands in terms of performance and environmental protection.
At present, sales consist of:

Products destined for the Original Equipment (OE) segment

The Saleri Group's core business, it regards the design and manufacture of Water Pumps and more complex Cooling Systems for the OEM and OES segment. The products can be split further into the following categories:

Mechanical water pumps

These may only circulate the cooling fluid or they may act as multi-purpose components, incorporating a number of devices.

Adjustable mechanical water pumps

Cooling systems divided into several sub-groups based on their operating principle and which provide optimal support with temperature control strategy with the aim of reducing CO_2 production.

Electric pumps

Fully adjustable electric pumps for both the main circuit and for auxiliary circuits with various power and voltage levels which can regulate the flow of cooling fluid in a high precision manner.

Electromechanical pumps

Pumps that combine electrical operation with mechanical operation as a result of their dual power supply (mechanical and electrical). EMPs (Electro-Mechanical Pumps) are highly adjustable, in terms of performance and power, because the electric drive makes it possible to control the rotor speed, ensuring a very wide range of use. For example, we can say that the EMP may be electrically driven for up to 95% of its life. The presence of an electric drive also means the pump can be kept active even when the internal combustion engine is switched off or in the start & stop phase. This prevents localised overheating and offers the possibility of removing auxiliary circuits with cooling pumps dedicated to post-run cooling. The option of having a single pump, with centralised control, also makes it possible to remove a series of components from the engine compartment (e.g. piping, connectors and auxiliary pumps) with a significant saving in terms of weight and volume. The mechanical drive uses the power generated by the internal combustion engine and ensures that the pump achieves a very high performance level. This second drive function is essential in ensuring the proper cooling of the system in the toughest conditions. In fact, the current voltage levels of vehicle electrical systems – between 12V and 48V – are insufficient to handle peak workloads.

Products destined for the Independent Aftermarket (IAM) segment

Production and/or sale of water pumps (SIL brand or private label) and Distribution Kits in the IAM circuit. Part of the production destined for the IAM segment is carried out at the Saleri Shanghai factory in China. The types of product currently manufactured by the Saleri Group are as follows:

Water pumps

With a catalogue of more than 1,000 products, Saleri offers excellent coverage of the European automobile market.
The products, distributed under the SIL brand, are manufactured to the same technological standards as the OE segment and offer quality equivalent to the original.

Distribution kits

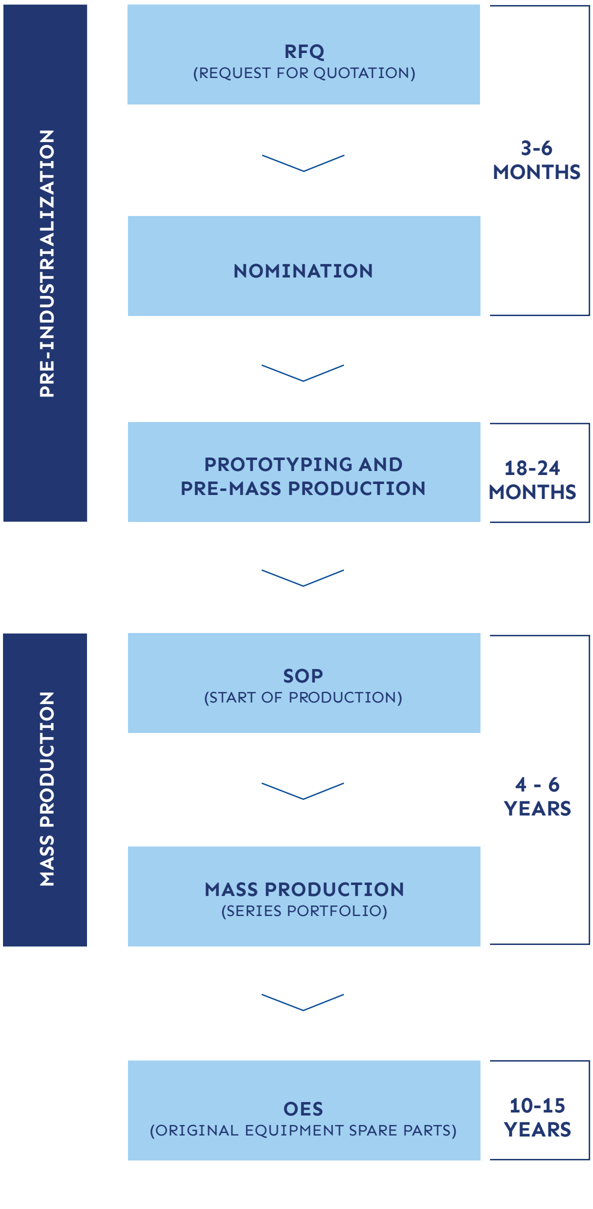
The Group offers a wide range of distribution kits with water pumps. The option of a kit reduces the risk of error when identifying the produces necessary for repair/replacement as it contains a full range of distribution parts.

Development of prototypes and processes for original productions

Design, purchase or in-house production and, finally, sale of prototype tools for the mass production phase or of prototypes for OE customers.

Process and product development cycle

In the OE segment, the Product Development and Launch Cycle is that of the contract business. The strengths of this model include significant entry barriers and a good idea of future revenues while its weaknesses include fairly long design, prototyping and testing phases that normally require significant expenses to be incurred in advance.



RFQ

Based on broad technical specifications, sometimes pre-developed in the co-design phase, the client manufacturer requests a quotation for the mass production of an application.

Nomination

Exclusive appointment to mass produce the application with long-term orders, price and discounts and recognition of costs for mass production preparatory phase.

Prototyping and pre-mass production phase

Intermediate phases are planned together with the car manufacturer - Milestones - until the Start of Production ("SOP"). Prototype tooling is produced during this phase together with Prototypes and Tooling needed for mass production. Production line testing takes place in a period between 6 and 12 months before the SOP.

Mass production

In line with forecasts for mass production of the application, based on customer orders.

OES ("Original Equipment Spare Parts")

The manufacturer must guarantee the supply of original spare parts to the official network of the OEM ("Original Equipment Manufacturer").

4.2. Macroeconomic situation

In order to obtain a proper assessment of the Saleri Group's performance in 2020, we present below an overview of the global macroeconomic situation, with particular reference to the markets on which the Group operates.

In 2019, international organisations had to deal with numerous macroeconomic uncertainties that caused growing political instability on a global scale. However, in 2020, geopolitical risks were forced into a secondary position on the agendas of governments and international organisations by the spread of the SARS-Cov-2 pandemic which caused a health crisis and an accompanying economic crisis on a global level.

At the beginning of 2021, the pandemic is not yet over and only the effective resolution of the health emergency – through mass vaccination campaigns around the world – will enable the global economy to return, once and for all, to a path of growth. In its WEO (World Economic Outlook), the IMF (International Monetary Fund) revised upwards its global economic growth forecasts for 2021 in light of the positive impact of the start of the vaccination rollout and the measures of support introduced by many countries at the end of 2020. These grounds for cautious optimism are countered by unknown factors regarding the effectiveness and speed of the vaccination campaign, as well as by new waves of infection and possible variants of the SARS-Cov-2 pandemic that have emerged globally in the first few months of 2021.

After growing by 2.8% in 2019, global real GDP has had to deal with the emergency triggered by the pandemic and its prospects for any growth at all have, inevitably, been affected. According to the World Economic Forum estimate of January 2021, global GDP fell by 3.5% in 2020, a 0.9pp improvement on the previous forecast in October, thanks to the economic recovery recorded during the second half of the year. The recovery varies greatly from one part of the world to another and is closely related to access to healthcare and to the efficiency of the government measures introduced. Although the recent approval of Covid vaccines has raised hopes of a rapid trend reversal in the battle against the pandemic, new variants continue to cause concern for a fully recovery of operating activities.

The World Economic Forum's January estimates forecast real GDP growth of 5.5% in 2021 and 4.22% in 2022. The 2021 forecast takes account of the latest news regarding variants of the virus and about progress with the vaccine rollout. The forecast growth has been revised upwards by 0.3pp compared to the previous forecast, with a positive outlook for the chances of completing the vaccination campaign by the end of the year and implementing the economic assistance measures approved by government bodies. In more detail, growth is likely to be stronger from the second quarter of 2021 onwards, as the vaccine rollout will have proceeded, reducing the spread of the virus and gradually contributing towards a normal flow of economic activity and people. Specifically, three factors must be monitored constantly when assessing these results:

- an effective vaccine rollout on a global scale, ensuring that most people have been vaccinated by the end of 2021 and the first quarter of 2022;
- a gradual reduction in the number of persons taken sick with the pandemic, leading to an increased flow of people and goods on a global scale;
- expansionary fiscal policy that sustains the economic recovery, through effective implementation of planned economic assistance.

Based on IMF forecasts, after recording negative real GDP growth of -7.2% in 2020 (against -8.3% estimated in October), the Eurozone is expected to grow by 4.2% in 2021 (vs a previous estimate of +5.2%). The increase in the number of infections towards the end of 2020 affected the first few months of the new year and 2021 growth forecasts for leading European countries were revised downwards accordingly. The economic measures introduced by the European Union under its Recovery Plan will enable member states to support their domestic economies and exports as soon as international trade returns to pre-Covid levels.

Among the major European countries, Germany (-5.4%) was the most successful in containing the GDP contraction in 2020 while France (-9.0%) and Spain (-11.1%) were hit by far more than the European average: sustainability of public debt will play a key role in guaranteeing an economic recovery for these countries. Real GDP growth is forecast for all leading European countries in 2021, albeit lower than the losses of prior year and lower than previous estimates: Germania (+3.5%, -0.7pp compared to the October estimate), France (+5.5%, -0.5pp compared to October), Spain (+5.9%, -1.3% compared to October). In Italy, IMF estimates of economic performance in 2020 have improved but the recovery forecast for 2021 has deteriorated. After negative GDP growth of less than expected (-9.2%, against -10.6% forecast in October), growth of 3.0% is now expected (around -2.2pp compared to the previous estimate). The Confindustria Research Unit notes that a recovery in new business investment in Italy will require fundamental measures geared towards improving businesses' financial position. The main uncertainty regards the United Kingdom (-10.0%) which will have to face up to 2021, as its first year outside the European Union following the signature of the Brexit Agreement on 30 December 2021. Growth of 4.5% is forecast for the United Kingdom in 2021. The IMF highlights the fact that the economic activity of the Eurozone and the United Kingdom will remain below end of 2019 levels until 2022: this trend is due to public health behaviour changes, infections, flexibility and adaptability, as well as to the reduced mobility of economic activity.

Despite the effects of the pandemic, the Chinese economy still managed to show GDP growth in 2020 (+2.3%). It was the only

economy not to go into recession, thanks to its effective containment of the initial outbreak of the pandemic in Wuhan in February 2020. In 2021, the real economy is expected to grow (+8.1%) by more than in 2019 thanks to significant industrial growth and support for expansionary policies guaranteed by the central bank.
In the USA, negative growth in 2020 amounted to -3.4% (against -4.3% per the October estimate) with the downturn contained thanks to the economic recovery recorded in the second half of the year. The growth forecast for 2021 (+5.1%) is guaranteed by the measures of support introduced at the end of 2020, together with the impact of the economic plan of the Biden administration. The US Central Bank has stated its desire to adopt expansionary monetary policies, including federal assistance to support businesses in difficulty and unemployed workers in order to sustain the economic recover.

Outlook for the Automotive industry

The key indicator for the Saleri Group's OE business (85% of consolidated revenues) Is the figure for production of engines for cars and commercial vehicles up to 3.5 tonnes (Light Vehicle Engines). The main destination sector regards engine manufacturers with factories in Europe.

Table 4.2a - Light Vehicles Engine Production (Global & Europe)

SCHEDULE A					
Vehicle Engines	**2019**	**2020**	**Δ % vs '19**	**2019**	**2020**
	Mln Units	Mln Units		% of Total	
"LV Engines" Production by Geographical Area					
China	24.7	23.6	-4.4%	27.8%	31.7%
Other Asian countries	23.9	18.9	-21.1%	26.9%	25.3%
Europe	22.5	17.5	-22.0%	25.3%	23.5%
North America and Mexico	14.4	11.9	-17.5%	16.2%	16.0%
Rest of the World	3.4	2.7	-22.1%	3.9%	3.6%
Total	**89.0**	**74.6**	**-16.2%**	**100.0%**	**100.0%**
'LV Engines' production by European Country					
Germany/Austria	6.3	4.8	-24.5%	28.3%	27.4%
Central Europe	5.7	4.9	-14.6%	25.3%	27.8%
France	3.2	2.3	-27.4%	14.2%	13.2%
United Kingdom	2.2	1.6	-25.3%	9.8%	9.4%
Spain	1.8	1.1	-36.6%	7.9%	6.4%
Italy	1.2	1.1	-13.0%	5.4%	6.0%
Russia	0.7	0.6	-8.9%	3.1%	3.7%
Turkey	0.6	0.4	-36.5%	2.7%	2.2%
Sweden	0.6	0.5	-14.4%	2.4%	2.7%
Other European countries	0.2	0.2	16.0%	0.9%	1.3%
Total	**22.5**	**17.5**	**-22.0%**	**100.0%**	**100.0%**

Source: IHS, March 2021

Global Performance in 2020

In 2020, global production of LV Engines totalled 74.6 million, a 16.2% decrease compared to 2019, almost entirely because of the pandemic which led to a general lockdown of production activities and the related manufacturing segment in the second quarter of 2020. Notwithstanding the significant global contraction that affected the automotive industry as a whole, engine production recovered steadily during the second half of the year, given that HIS production estimates for the full year 2020 showed degrowth of -31% in June and -23% in September.
The geographical area that best managed to contain the production degrowth was China (-1.1 million engines produced, or -4.4%): the Asian giant was the first country to deal with the pandemic in January and February and it managed to limit the length of its production lockdown period, also because it coincided with festivities for the Chinese New Year. As a result of the lower contraction recorded than in other countries, China increased its share of total global production from 27.8% to 31.7%. Meanwhile, there was a severe production contraction in other Asian countries (-5.0 million engines produced, or -21.1%) as they were adversely affected by the continuation of the pandemic and by adverse economic conditions. Europe also recorded a production decrease of around 5 million engines (-22.0% compared to 2019) with a further reduction in its share of total global production (now 23.5% compared to 25.3% in 2019). Finally, North America and Mexico have seen their engine production levels fall by around 2.5 million units produced in 2020 (-17.5%),while maintaining their share of total global production of around 16%.

Table 4.2b – Light Vehicles Engine Production Europe

SCHEDULE B					
Vehicle Engines	**2019**	**2020**	**△ % vs '19**	**2019**	**2020**
	Mln Units	Mln Units		% of Total	
'LV Engines' Production Europe by Manufacturer					
AUDI/VW	5.7	4.4	-21.9%	25.2%	25.2%
Stellantis	4.6	3.5	-23.5%	20.5%	20.1%
Renault-Nissan-Mitsubishi	3.4	2.4	-29.7%	15.0%	13.6%
BMW	2.0	1.7	-19.0%	9.1%	9.4%
Daimler	1.9	1.6	-15.4%	8.6%	9.3%
Other Manufacturers	1.6	1.3	-17.2%	7.2%	7.7%
Ford	1.8	1.3	-32.1%	8.2%	7.2%
Toyota	0.6	0.6	5.4%	2.7%	3.6%
Hyundai	0.5	0.4	-11.0%	2.1%	2.4%
General Motors	0.3	0.3	-14.1%	1.4%	1.5%
Total	**22.5**	**17.5**	**-22.0%**	**100.0%**	**100.0%**
'LV Engines' Production Europe by Propulsion System Design					
ICE - Gasoline/Petrol	12.9	8.7	-32.6%	57.6%	49.8%
ICE - Diesel	7.9	5.5	-30.0%	35.1%	31.5%
Hybrid (MHEV - HEV - PHEV)	1.3	2.7	105.8%	5.8%	15.4%
Electric (BEV)	0.3	0.6	77.2%	1.4%	3.3%
Total	**22.5**	**17.5**	**-22.0%**	**100.0%**	**100.0%**

Source: IHS, March 2021

Note:
ICE - Internal Combustion Engine; HYBRID - conventional ICE with an electric propulsion unit, including MHEV, mild hybrid electric vehicles (up to 20 kW) and ICE start-stop; Full Electric (BEV) – vehicles that use an electric propulsion system powered by rechargeable batteries

Looking at the production trend by engine propulsion system, there has been a significant reduction in diesel engine production in Europe and its market share has fallen steadily over the last three years, from 40% in 2018 to 35% in 2019 with a further decrease to 31.5% forecast in 2020. As a result of ever stricter emissions regulations and growth for alternative fuel applications, the diesel market is expected to decline further in 2021 with a further 5pp reduction in market share forecast on a European level (share of 26% forecast for 2021). Petrol applications remain predominant although their market share in Europe fell from 57.6% in 2019 to 49.8% in 2020.

The reduction in market share over the last year, widely anticipated based on market information, highlights a significant increase in alternative applications: the increase mainly regards hybrid applications which more than doubled their market share from 5.8% in 2019 to 15.4% in 2020. Electric applications also doubled their share of engine production in absolute terms, increasing from 1.4% in 2019 to 3.3% in 2020. Incentives for the purchase of new vehicles capable of sustaining the energy transition accelerated the adoption of cars with alternative engine types in 2020.

REASONS FOR TRENDS IN 2020

The reasons for the trends seen in 2020 can largely be traced to the global pandemic which triggered general lockdowns and the suspension of activity on the supply chain. The automotive industry was hit badly, especially in the second quarter of the year just ended. As already stated, the loss recorded in 2020 was partially reduced in the second half of the year thanks to a return to full production activity and the incentives provided by various government bodies.

The countries most affected by the crisis were Spain (engines produced down by 36.6% compared to 2019) and France (-27.4%). The United Kingdom (-25.3% compared to 2019) was also adversely affected by negotiations regarding the Brexit Agreement that were only concluded at the end of 2020; the customs effects on production will be reflected from 2021 onwards. The German market also felt the fall in engine production (-24.5% compared to prior year) while, amount other leading European countries, Italy has best contained the production degrowth (-13.0% compared to 2019). During 2020, the European market also saw contrasting trends in relation to production levels and sales levels with a fall in production because of destocking decisions made to reduce risk in light of the introduction of new production processes and applications. This reduction was partially amplified by the effects of the pandemic.

Table 4.2c – New Vehicle Registrations in European Countries

European Countries	DIESEL			PETROL			ALTERNATIVE FUEL			TOTAL		
	2019	2020	Var.%	2019	2020	Var.%	2019	2020	Var.%	2019	2020	Var.%
AUSTRIA	126,311	90,909	-28.0%	176,706	107,771	-39.0%	26,346	50,060	+90.0%	329,363	248,740	-24.5%
BELGIUM	172,646	141,963	-17.8%	338,760	223,499	-34.0%	38,597	66,029	+71.1%	550,003	431,491	-21.5%
CROATIA	23,319	12,885	-44.7%	38,390	19,803	-48.4%	2,313	3,571	+54.4%	64,022	36,259	-43.4%
CYPRUS	4,267	2,891	-32.2%	6,806	5,675	-16.6%	1,075	310	-71.2%	12,148	8,876	-26.9%
CZECH REP	69,253	60,267	-13.0%	173,885	131,145	-24.6%	11,299	18,509	+63.8%	254,437	209,921	-17.5%
DENMARK	60,023	45,110	-24.8%	146,299	111,242	-24.0%	19,276	42,194	+118.9%	225,598	198,546	-12.0%
ESTONIA	11,327	8,404	-25.8%	18,570	11,033	-40.6%	3,498	3,971	+13.5%	33,395	23,408	-29.9%
FINLAND	20,871	12,777	-38.8%	67,751	45,589	-32.7%	25,577	38,041	+48.7%	114,199	96,407	-15.6%
FRANCE	755,579	504,178	-33.3%	1,281,798	774,383	-39.6%	176,902	371,557	+110.0%	2,214,279	1,650,118	-25.5%
GERMANY	1,152,733	819,896	-28.9%	2,136,891	1,361,723	-36.3%	317,621	736,041	+131.7%	3,607,245	2,917,660	-19.1%
GREECE	30,356	22,251	-26.7%	74,339	43,060	-42.1%	9,414	15,666	+66.4%	114,109	80,977	-29.0%
HUNGARY	31,063	27,623	-11.1%	114,656	62,259	-45.7%	12,122	38,125	+214.5%	157,841	128,007	-18.9%
IRELAND	54,556	38,233	-29.9%	47,569	32,600	-31.5%	14,984	17,491	+16.7%	117,109	88,324	-24.6%
ITALY	763,100	452,061	-40.8%	852,799	522,694	-38.7%	301,216	406,866	+35.1%	1,917,115	1,381,621	-27.9%
LATVIA	6,776	4,787	-29.4%	10,589	7,802	-26.3%	1,684	2,097	+24.5%	19,049	14,686	-22.9%
LITHUANIA	8,229	6,946	-15.6%	34,433	24,453	-29.0%	3,526	8,827	+150.3%	46,188	40,226	-12.9%
LUXEMBOURG	23,022	16,628	-27.8%	27,839	19,603	-29.6%	4,147	8,958	+116.0%	55,008	45,189	-17.9%
NETHERLANDS	32,685	12,983	-60.3%	316,273	205,207	-35.1%	96,251	137,837	+43.2%	445,209	356,027	-20.0%
POLAND	110,610	80,933	-26.8%	391,909	267,993	-31.6%	52,738	79,189	+50.2%	555,257	428,115	-22.9%
PORTUGAL	89,417	47,741	-46.6%	110,125	64,232	-41.7%	24,257	33,444	+37.9%	223,799	145,417	-35.0%
ROMANIA	43,363	33,834	-22.0%	107,755	66,121	-38.6%	10,388	26,386	+154.0%	161,506	126,341	-21.8%
SLOVAKIA	25,504	19,082	-25.2%	70,998	47,263	-33.4%	5,066	9,960	+96.6%	101,568	76,305	-24.9%
SLOVENIA	22,310	17,823	-20.1%	48,090	32,282	-32.9%	2,791	3,589	+28.6%	73,191	53,694	-26.6%
SPAIN	350,771	235,890	-32.8%	756,132	423,579	-44.0%	151,348	191,742	+26.7%	1,258,251	851,211	-32.3%
SWEDEN	118,860	62,722	-47.2%	165,450	102,767	-37.9%	71,726	126,535	+76.4%	356,036	292,024	-18.0%
EUROPEAN UNION	**4,106,951**	**2,778,817**	**-32.3%**	**7,514,812**	**4,713,778**	**-37.3%**	**1,384,162**	**2,436,995**	**+76.1%**	**13,005,925**	**9,929,590**	**-23.7%**
EU (14)	**3,750,930**	**2,503,342**	**-33.3%**	**6,498,731**	**4,037,949**	**-37.9%**	**1,277,662**	**2,242,461**	**+75.5%**	**11,527,323**	**8,783,752**	**-23.8%**
EU (New Entrants)	**356,021**	**275,475**	**-22.6%**	**1,016,081**	**675,829**	**-33.5%**	**106,500**	**194,534**	**+82.7%**	**1,478,602**	**1,145,838**	**-22.5%**
ICELAND	3,510	1,803	-48.6%	4,980	2,140	-57.0%	3,237	5,425	+67.6%	11,727	9,368	-20.1%
NORWAY	22,823	12,162	-46.7%	22,355	11,305	-49.4%	97,203	117,945	+21.3%	142,381	141,412	-0.7%
SWITZERLAND	79,332	51,823	-34.7%	191,420	118,318	-38.2%	40,714	66,687	+63.8%	311,466	236,828	-24.0%
EFTA	**105,665**	**65,788**	**-37.7%**	**218,755**	**131,763**	**-39.8%**	**141,154**	**190,057**	**+34.6%**	**465,574**	**387,608**	**-16.7%**
UNITED KINGDOM	581,774	261,772	-55.0%	1,482,409	903,961	-39.0%	246,957	394,710	+59.8%	2,311,140	1,560,443	-32.5%
EU + EFTA + UK	**4,794,390**	**3,106,377**	**-35.2%**	**9,215,976**	**5,749,502**	**-37.6%**	**1,772,273**	**3,021,762**	**+70.5%**	**15,782,639**	**11,877,641**	**-24.7%**
EU14 + EFTA + UK	**4,438,369**	**2,830,902**	**-36.2%**	**8,199,895**	**5,073,673**	**-38.1%**	**1,665,773**	**2,827,228**	**+69.7%**	**14,304,037**	**10,731,803**	**-25.0%**

Source: ANFIA, February 2021

The 2019-2020 trend for light vehicle production figures produced by HIS, as compared with the registration figures issued by ANFIA, confirm the trends highlighted above. On a European Union level, diesel car registrations decreased significantly by 32.3% in 2020 compared to 2019 (some 1.3 million fewer cars registered than in 2019). The largest decrease was recorded in the Netherlands (-60.3%) as in prior year. The negative trend was confirmed in other leading car maker countries with decreases in line with the aforementioned average: Spain (-32.8%), Italy (-40.8%), France (-33.3%) and Germany (-28.9%). Meanwhile, the figure for the United Kingdom – no longer part of the European Union following the agreement signed on 30 December 2020 – has been badly affected by Brexit-related uncertainty (-55.0%). Petrol vehicle registrations have also been badly affected by the ongoing situation and have seen their market share decline: figures for the European Union show a 37.3% decrease compared to 2019 (around 2.8 million fewer vehicles registered). Even though petrol applications remain in first place among European vehicle registrations, the effects of the pandemic have hit all leading European countries with decreases in line with the aforementioned average: Spain (-44.0%), Italy (-38.7%), France (-39.6%) and Germany (-36.3%). The decreases seen for petrol and diesel applications have been partially countered by significant growth for vehicles with alternative fuel sources (hybrid and electric) which, according to figures for the European Union, amounts to +76.1% (around 1 million more cars registered than in 2019): this growth has been sustained by government incentives introduced, especially in the second half of the year, to sustain the automotive industry and accelerate the energy transition. Considering all of the various engine types, new vehicle registrations decreased by 23.7% in the European Union (around 3 million fewer cars registered than in 2019) while there was a 32.5% decrease in the United Kingdom (around 750 thousand fewer cars registered than in prior year). In Europe, the smallest decrease in the total number of cars registered occurred in the EFTA (Iceland, Norway and Switzerland) with a 16.7% decrease compared to 2019.

Semiconductor shortage 1st quarter 2021

In the last few months of 2020 and, especially, in the first quarter of 2021, the automotive industry was affected by a semiconductor shortage. This led to supply chain problems, especially for leading car makers.
Globally, the semi-conductor shortage was caused by two main factors:

- greater demand from end consumers for electronic equipment, as a result of the increasing restrictions introduced in response to the pandemic;
- a significant recovery in global demand for light vehicles, from the second quarter of 2020, also as a result of government incentives.

Based on HIS estimates, the pandemic is now causing only residual effects while the semiconductor shortage is having an impact on production volumes in the first quarter of 2021. In more detail, in Europe, light vehicle production in February and March led to an 8% reduction compared to estimates made in December 2020 while, in China, production is down by 5%. In both cases, production estimates are expected to rise from the second quarter of 2021 with a complete return to the previous estimates by the end of 2021.
In light of all of the initiatives taken to deal with the state of emergency triggered by the pandemic (as described in the Notes to the Financial Statements) and based on analysis performed by the Directors, we believe there is no significant uncertainty over the Company and the Group's ability to operate as a going concern. Therefore, this Directors' Report, the Consolidated Financial Statements and the Separate Financial Statements have been prepared on a going concern basis.

Expectations for 2021 and the longer term

As already stated, forecasts for 2021 reflect the fact that the ongoing Sars-CoV-2 pandemic will still have to be faced. Limited real economic growth is expected and results will depend on the end of the health and economic emergency so that all individuals can return to their former levels of consumption and income.
In the automotive industry, production forecasts envisage a global increase of 13% in terms of light vehicle engines. However, for a return to 2019 production levels, it will be necessary to wait until 2022 at least. The estimates for 2021 and the next few years are based on several assumptions:

▶	**Capacity of car manufacturers to return to pre-Covid production levels**
▶	**Review/revision of production processes and purchasing behaviour post-Covid**
▶	**Technological change for energy transition in the Automotive industry**
▶	**Lifestyle change due to more widespread adoption of agile working/working from home**
▶	**New methods of utilisation of public and private transport**

Forecasts for the Light Vehicles market are heavily influenced by the Sars-Cov-2 pandemic and by new behavioural and purchasing habits on the part of citizens; they are also affected by the new vision of "smart cities". Global production estimates for 2021 are for a 13% increase in production activity compared to 2020 with a 15% increase

expected in Europe. Therefore, production estimates for next year indicate a return to 95% of 2019 levels worldwide and to 90% in Europe. Worldwide, the forecasts show that production will return to pre-Covid levels within two years while, in Europe, production is only expected to return to pre-pandemic levels in 2024-2025
The global figures show growth of 14% for the period 2021-2025, driven mainly by the production increase expected on Asian markets. The application of new technologies will also lead to an increase in the rate of adoption of cars using alternative fuel sources (hybrid and electric). In particular, the trend regarding growth of hybrid and electric applications reflects the greater spread of green means of transport which will help reverse the emissions date trend – in recent years, emissions levels have increased constantly despite growing attention on the part of international bodies operating in the field.
It is the stated objective of the European Environment Agency (EEA) to achieve an average 15% reduction in emissions in the period 2025-2029 and a reduction of more than 30% after 2030.
Over the next ten years, the automobile market is expected to undergo a gradual revolution regarding the technology used. This will depend mainly on the purchasing behaviour of end customers. At present, they are reluctant to buy electric vehicles for a number of reasons including the high purchase cost and the lack of an extensive network of charging points across the country. According to the European Automobile Manufacturers' Association (ACEA), in Europe, there are currently around 200,000 charging points but only 28,586 of them are "fast" charging points i.e. with capacity of 22 kW or more. Moreover, the network of charging points is extremely patchy with 75% of all charging stations found in just four countries: Netherlands (50,824), Germany (40,517), France (30,367) and United Kingdom (28,538). Italy is in fifth place in this league table with 9,370 charging points but only 1,058 of these are "fast" and the remainder have capacity of less than 22 kW. The medium-term energy transition towards electric vehicles will only be possible with a major rollout of charging points throughout Europe, as sustained by incentives to facilitate the spread of the model and its adoption by end users.

4.3. Original Equipment Manufacturers (OEM) for the Automotive industry segment

The supply of products and services in the OEM segment is a vital part of and anticipator of trends in the global automobile industry. During 2020, the pandemic highlighted this situation due to the interruption of the supply chain.
In the competitive arena of the automotive industry, "Autoparts" suppliers, logistics companies and potential new entrants will have to monitor market trends and business models both reciprocally and synergically. The major issues emerging include decisions on the positioning and sizing of production footprints capable of creating a competitive edge due to differentiation in a standardised competitive environment where the process becomes more important than the product. The driving factors include competitiveness of internal capacity, decisions regarding economies of scale, internal demand characteristics and escalation of tariff barriers. For European production, there will be limited growth of sourcing from outside the EU while there will be an increase in relocation from Western Europe to Central and Eastern Europe and to North Africa. The Brexit Agreement that has been reached will undoubtedly lead to significant changes in the allocation of production, investment and inter-regional trade flows but it is still hard to predict these changes at present. In North America, the USMCA agreements between Mexico and the United States will facilitate a return to pre-Covid production levels in the near future, given the massive investments made in the area by Ford, General Motors, FCA and other important OEM Car-Makers. It is difficult to forecast the timing and extent of vehicle and autoparts exports that will come from China: volumes are fairly limited at present with most foreign OEMs continuing to prefer to use their installed capacity in China to serve the local market. Growth for export models will largely depend on tariff levels and on how long it takes international trade to recover after the pandemic. Exports are an area of great interest for Chinese OEMs, especially as a new market should internal demand contract. This is also considering the fact that the creation of joint venture brands between foreign companies operating in China and Chinese companies has not performed well so far.

Diesel

Historically, diesel engine production in Europe has recorded volumes well above the global average. In Europe, in 2020, diesel engines represented 32% of the total against 5% in North America. The main reasons lie in socio-economic factors such as the incidence of the price of fuel, urban density and driving style and habits. In the last three years, diesel powered vehicles have decreased by around 10pp as a percentage of total vehicles in Europe with a further 5pp decrease expected in 2021: this remains a crucial period for diesel engines whose future depends greatly on the speed of adoption of vehicles using alternative fuel sources (hybrid, electric).

Electric

The introduction and development of technology regarding electric propulsion systems will result in certain changes to the production model of autoparts suppliers. They will have to adapt rapidly by developing solutions that are as flexible and as modular as possible. The greatest success will be enjoyed by integrated solutions capable of guaranteeing more efficiency and benefits in terms of costs and weight. In fact, Thermal Management systems will have to serve the Powertrain and Power Electronics in an integrated and systematic fashion, shifting the creation of value from the propulsion system to other vehicle components. An increase in technical solution differentiation is also forecast because of the different regulations applicable in each country. New integrated solution embedders are now emerging although their product range should be restricted to auto industry segments with high volumes and high levels of standardisation i.e. global cars. For the upper market segments, conventional OEM-Tier1 relations should remain unchanged.

4.4. Independent After Market (IAM) for the Automotive industry

The Independent Aftermarket segment generates a Sell-Out Value of around € 800 billion a year and includes both spare parts and related services (installation, maintenance, distribution). The water pumps spare parts segment was worth around € 780 million in 2020 (Sell-In Value, from manufacturer to distributor).
In 2020, the European market accounted for around 30% of this market, or € 260 million, with 25% (€ 60 million) represented by water pumps sold via distribution kits. The distribution kit is a complete solution providing for the sale of the water pump, the belt tensioner and all of the tools needed to replace the product efficiently. Significant growth is expected in the next five years for the Distribution Kit market. In fact, in the next five years, the CAGR forecast for the Independent After Market is 2.5% but water pumps sold as part of distribution kits are expected to increase from their current 25% of the market to reach 55% of total European production. In order to expand the market on which the Saleri Group competes at present, the Group is planning investment aimed at conquering a new share of the Aftermarket segment which provide anti-cyclical again in 2020 compared to the Original Equipment segment.

The Saleri Group's current market is worth around € 200 million but, with distribution kit growth, the segment will more than double by 2025 to reach around € 500 million.
The main factors that will drive Independent Aftermarket developments are:

- **Greater number of cars on the roads in Europe;**
- **Presence of older vehicles will sustain demand for spare parts;**
- **Changing purchasing behaviour by end customers (mechanics) who will make increasing use of on-line channels;**
- **Big data and Analytics will enable predictive analysis of maintenance services, generating new value added services.**

SALERI

ECCELLENZA

"Excellence Operation System"

We aim to perfection in order to reach excellence: both in the production process and the business dynamics: this is our mantra. The key values, like respect for the customer, workers, supply chain and for the environment, guide us every day in the operativity of our business.
The company's know-how, developed thanks to years of cooperation with carmakers, allows to design, develop, produce and verify highly-specialized cooling systems solutions. A team work rewarded by always excellent results and international awards.

Chapter

5

Business Model and Strategic Approach

Competitive environment and changes in the Automotive industry

The competitive environment in which the Saleri Group operates is characterised by the presence of large players, also because of a major trend of business combinations in recent times.
In the OE segment, customers include the main engine makers of international car manufacturers. The main suppliers of standard autoparts and the suppliers of raw materials are large mass-market players. Meanwhile, for certain production activities and for non-standard component engineering, the Group uses a network of suppliers in the Brescia area.
In the Independent Aftermarket segment, customers include large wholesale and retail groups with a global presence. The Saleri Group's competitors include manufacturers belonging to large autoparts manufacturing groups – multi-product and multi-channel – and, to a lesser extent, manufacturers of water pumps only. The high level of contractual bargaining powers of its competitors means that the Group must focus its efforts on developing product and process solutions that anticipate mega-trends in the Automotive industry which, in short, regard a new model of eco-sustainable urban and extra-urban mobility.
The electrification of means of transport (both propulsion systems and auxiliary circuits) is bringing about changes to general vehicle design. Similarly, thermal management systems will have to be rethought in order to extend their function to include overall vehicle fluid management. Technical problems can be simulated but will only become fully apparent when production and utilisation reach mass levels.
In order to face up to these challenges, the Saleri Group has been working on pure research projects for some years, both autonomously and in collaboration with the R&D departments of leading car manufacturers, based on the "resident engineers" model. To date, the Saleri Group has developed a number of solutions based on electrically powered pumps and cooling systems for vehicles under production. Similarly, solutions for the hybrid and electric engines that will go into mass production in the years ahead have reached an advanced stage of design and industrialisation.

Strategic approach of the Saleri Group

Constant attention to research activities, the development of customised technical solutions and continuous improvement of quality standards are the distinguishing features that have enabled the Group to position itself among the European leaders in the strategic autoparts segment, becoming a key partner of some of Europe's leading car manufacturers.
The main factors that will guide the growth of the Saleri Group in the years ahead will be constant attention to sustainability policies, consolidated technological supremacy thanks to research and development carried out in collaboration with leading car makers and the adoption of new technologies to sustain the energy transition, as driven primarily by constant support for activities regarding electrification projects.
In more detail, the key points of the strategy for the development of the Group business model will pursue several fundamental objectives, including:

- Consolidation of the business culture, guided by careful attention to detail and the ethical approach of all our collaborators;
- Conduct of business activities along an increasingly sustainable path, directly combining our economic objectives with our goals of social responsibility;
- Development of new Thermal Management solutions, as current global leader in water pump production;
- Focus on the development of water pumps, through creation of a specific Business Unit dedicated to the development of new technologies;
- Consolidation of revenue growth, through positioning as 'global preferred supplier' for leading customers, while developing a 'local-to-local' sourcing strategy in the main automotive hubs (Mexico/ North America, China, India), with specific attention paid to strategic acquisitions designed to enable the Group to grow;
- Improvement in existing production performance at manufacturing facilities, through the creation of the 'Saleri Excellence Operation System' (SEOS) thanks to adoption of Shop Floor Management techniques.

Main actions planned and taken by Management

In the last few years, the organisation of the Saleri Group has been radically overhauled in order to face up to competitive challenges and pursue objectives agreed with the new equity investors. In particular, over the last year, the primary objective was to make the corporate structure more solid, so that it would be ready to deal with future challenges. Further progress was also made with actions already taken in the last two years:

- Reinforcement of the management team in strategic functions through the recruitment of highly capable individuals with specific skills and experience in the Operations, Quality and Finance areas;
- Implementation of the new SAP ERP system (go-live occurred on 07/01/2021);
- Mapping of business processes with the aim of optimising activities in the various business departments, while seeking greater integration;
- Introduction of new Lean Management techniques in support of the production phase;
- Opening of the new plant in Mexico with the first prototypes produced;
- *Scouting* and assessment of opportunities for inorganic growth that can help increase the revenue base;
- Establishment of the Strategic Management Committee to provide support to the CEO.

The main actions planned by management to develop the business in 2021 and in the next few years regard the realisation of the 'from local to global' concept:

- **New organisation of the R&D department called Research & Innovation, as divided by technology in order to focus on the technological development of products;**
- **Transition of the Mexican plant from the training phase to the proper start of mass production activities;**
- **Incorporation of legal entity and start-up of business in India;**
- **Consolidation of portfolio in China thanks to significant revenue growth from award of new contracts in the Original Equipment segment;**
- **Expansion of the commercial services offered in the Aftermarket segment;**
- **Reinforcement of the Saleri corporate structure with the establishment of new departments for the development of global procurement and communications activities;**
- **Alignment of all subsidiaries with Group standards;**
- **Identification of SDG priorities in order to design specific KPIs that will measure the increase in activities related to the sustainability plan.**

Chapter

6

Saleri around the World

6.1. Headquarters and location of the production facilities

Parent company Industrie Saleri Italo S.p.A. has its headquarters and main production facility in Lumezzane (BS). In Provaglio d'Iseo, still in the Brescia area, there is the new manufacturing facility which has been operational since the second half of 2018, in place of the factory that was damaged by fire.

A further, 6,000 sqm production facility in Shanghai is operated by subsidiary Saleri Shanghai Co., Ltd while the production facility of Saleri Mexico S.A. de C.V. opened in October 2020, covers 3,000 sqm and could be extended by 2,000 sqm in future.
The Lumezzane facilities are owned by the Group while the Provaglio d'Iseo, Shanghai and Monterrey facilities are leased.

SALERI MEXICO S.A. DE C.V.
Assembly, warehouse and offices; mass production commenced in January 2021

LUMEZZANE
Production and Assembly (production capacity of around 3 million water pumps), warehouse, offices

LUMEZZANE
Warehouse, Testing area

PROVAGLIO D'ISEO
Assembly (production capacity of around 1 million water pumps), warehouse, offices

ABL AUTOMAZIONE S.r.l.
Design and production of automated production lines, acquired in 2019

SALERI INDIA PVT LTD
incorporated in February 2021

SALERI SHANGHAI CO. LTD (CHINA)
Assembly (production capacity of around 1 million water pumps), warehouse, offices

6.2. Production technology

The Group has implemented a highly automated production system based on principles of modularity and flexibility. This enables it to produce with the highest levels of quality and reliability, handling a large number of variations and ever increasing volume growth. The production structure at the factories can be adapted to the small and large production runs with regard to both autoparts production and assembly of finished products.

The use of advanced technology together with the development of specific know-how permits the implementation of state-of-the-art solutions and enables the optimisation of the manufacturing process while, also, guaranteeing the best use of resources.
The Group is aiming to improve the production performance of its factories through the creation of the '*Saleri Excellence Operation System*' (SEOS) thanks to the adoption of *Shop Floor Management techniques*.

6.3. The manufacturing district of Lumezzane and the Brescia area

The origins and development of the Lumezzane district can be traced to the presence of natural resources in the area: water from the River Gobbia to generate hydropower and iron from the mines in Val Trompia.
The district now covers an area of around 800km2 and is characterised by the presence of more than 200 small businesses (87% of the businesses have sales of less than € 50 million) specialising in the processing of metal products (especially, aluminium, steel and brass).
The high degree of specialisation in metal processing makes Lumezzane the global centre of brass ingot production. Gnutti, Almag and Lucchini (the last of these is now called Acciaierie Venete) are some of the leading companies in the district that have managed to establish themselves on the world stage. There has also been significant growth in manufacturers of moulds which, as well as servicing local companies, have established themselves in the automotive market. The low level of concentration is due to production cycle fragmentation, to the significant division of labour and to intensive use of sub-contracting for production processes and procurement of autoparts.
Production diversification and flexibility, together with a strong vocation for production, process innovation and efficiency are the factors on which the Lumezzane district has, historically, constructed its competitive edge. This situation has enabled Lumezzane businesses to benefit from the high levels of productivity and quality associated with specialisation without sacrificing the objective of cost containment.
In any case, cost containment is achieved by encouraging competition among suppliers.
The high volume, high quality production capability has given Lumezzane a strong presence on international markets (on average, exports account for 70% of its revenues).

Chapter

7

Operating performance and commentary on results

7.1. Commentary on consolidated results

Table 7.1a

Saleri Group Income Statement	FY 2020		FY 2019	
	€ million	% of Revenues	€ million	% of Revenues
Revenues from Ordinary Operating Activities	144.7	99.0%	153.4	96.8%
Other Revenues	1.5	1.0%	5.1	3.2%
Net Revenues from Sales	**146.1**	**100.0%**	**158.5**	**100.0%**
Direct production costs	(89.5)	-61.3%	(93.6)	-59.0%
Operating costs	(18.3)	-12.5%	(20.4)	-12.9%
Labour costs	(25.5)	-17.4%	(26.9)	-17.0%
EBITDA	**12.9**	**8.8%**	**17.6**	**11.1%**
Depreciation & Amortisation	(8.1)	-5.5%	(11.7)	-7.4%
Allocations to Provisions	(3.3)	-2.3%	(1.2)	-0.7%
D&A and Provisions	**(11.4)**	**-7.8%**	**(12.9)**	**-8.2%**
Net Operating Profit	**1.5**	**1.0%**	**4.7**	**3.0%**
Financial Income (Expenses)	(1.6)	-1.1%	(1.7)	-1.1%
Extraordinary Income (Expenses)	(5.3)	-3.7%	(0.8)	-0.5%
Income (Expenses) from Investments	0.0	0.0%	0.0	0.0%
Profit (Loss) before taxation	**(5.4)**	**-3.7%**	**2.2**	**1.4%**
Taxation	1.0	0.7%	0.5	0.3%
Net Profit/(Loss) before Min Interests	**(4.4)**	**-3.0%**	**2.8**	**1.7%**
Profit(Loss) pertaining to Min Interests	0.7	0.5%	(0.6)	-0.4%
Net Profit (Loss)	**(3.7)**	**-2.5%**	**2.1**	**1.3%**

Note: see the introductory "Note on Reporting Methodology" for details of the principles adopted when preparing these schedules.

In 2020, the net revenues recorded by the Group amounted to € 146.1 million, down by 7.8% compared to prior year as a result of the lockdowns to combat the spread of Covid-19 introduced in all of the countries where the Group operates.
The Original Equipment sector, which accounts for 74% of Group revenues, ended 2020 with a 3.8% fall in revenues, less than the decrease recorded by the light vehicles market as a whole. Revenue decreases were also recorded in relation to the Aftermarket (-8.6%) and sales of Tools and Prototypes (-31%). Automation increased compared to 2019 (+77.5%) thanks to the first-time consolidation of ABL Automazione which operates in that sector and was acquired in 2019.
On a geographical level, in the automotive sector, Europe recorded a 15% decrease compared to 2019 while the Group's activities in the Far East ended the year with a 64% increase.
Direct costs totalled € 89.5 million in 2020 and increased to 61.3% of sales compared to 59% in prior year.
In 2020, Labour costs totalled € 25.5 million – down on prior year – and represented 17.4% of revenues (broadly in line with prior year – 17.0%). The decrease is due to social safety nets used by the Group after they were made available by government (CIGO furlough scheme). As at 31 December 2020, the Group had 591 employees compared to 573 at 31 December 2019, an increase of 3%; this total includes 42 employees of ABL Automazione S.r.l.. Operating costs amount to € 18.3 million or 12.5% of revenues, a 0.4pp decrease compared to prior year. Within this item, costs for internal projects capitalised as intangible assets totalled € 1.3 million, in line with 2019.
Adjusted EBITDA[2] for the year amounts to € 12.9 million against € 17.6 million in prior year and represents 8.8% of revenues (11.1% in 2019). The fall in EBITDA margin, caused by lower volumes as a result of the Covid-19 pandemic, has been mitigated by the measures taken by the Group, as described in more detail in the relevant section.
The adjusted net operating profit[3] amounts to € 1.5 million against € 4.7 million in 2019, after considering depreciation, amortisation and impairment adjustments to tangible and intangible assets of € 11.4 million (against depreciation, amortisation and impairment adjustments of € 12.9 million in 2019). The lower amount of depreciation and amortisation is due to an update of the estimate useful life of some of the Group's non-current assets.
Financial expenses are in line with prior year while there were net extraordinary expenses of € 5.3 million compared to € 0.8 million in prior year. These non-recurring expenses refer to the loss on disposal and other disposal related expenses regarding the sale of the property owned by Immobiliare industriale S.r.l., to chargebacks of exceptional warranty and transport costs relating to prior years, to expenses for the cancellation of plans, costs for the clean-up of the Saleri C site after the fire in 2018 and other expenses and out-of-period costs.
The adjusted net profit (before non-controlling interests[4] amounts to € 0.8 million (0.6% of revenues) compared to € 2.8 million in prior year (1.7% of revenues).

[2] The Group defines Adjusted EBITDA as net operating profit adjusted for the following income statement items: (i) net allocations to provisions; (ii) depreciation, amortisation and writedowns/revaluations and (iii) non-recurring income/(expenses); Adjusted EBITDA Margin is Adjusted EBITDA as a percentage of total revenues.
[3] The Group defines Adjusted net operating profit as net operating profit adjusted for non-recurring income/(expenses).
[4] The Group defines Adjusted net profit as Net profit adjusted for non-recurring income/(expenses) and non-recurring taxes.

Table 7.1b

Saleri Group Balance Sheet	FY 2020	FY 2019
Tangible and Intangible Assets	73.5	84.6
Non-current Financial Assets	2.2	0.0
Fixed Assets	**75.7**	**84.7**
Trade receivables	11.8	10.7
Trade payables	(37.9)	(37.3)
Inventory	26.8	31.2
Trade Working Capital	**0.8**	**4.6**
Current Assets	17.1	13.2
Current Liabilities	(15.2)	(11.0)
Provisions	(8.8)	(7.0)
Net Invested Capital	**69.6**	**84.5**
Loans & Lease Obligations	57.4	40.2
Short-term borrowing	8.0	8.3
Bonds issued	3.9	-
Cash and cash equivalents	(45.2)	(8.3)
Net Financial Position	**24.2**	**40.2**
Consolidated Equity	**45.4**	**44.2**
Sources of Finance	**69.6**	**84.5**

Fixed Assets have decreased by € 9 million compared to 31 December 2019 due to the sale of a property owned by Immobiliare Industriale S.r.l. The € 2.2 million increase in non-current financial assets relates to the investment in Saleri Mexico (non-consolidated), a company in its start-up phase which began to operate in the first quarter of 2021.
Inventories have decreased by € 4.4 million, mainly because of a € 1.7 million reduction in finished goods inventories and a € 3.4 million reduction in raw materials and work in progress. Work in progress inventories include € 2.7 million of work in progress of ABL AUtomazione S.r.l. (€ 2.5 million at 31 December 2019). Tooling inventories and advances to suppliers have increased by a total of around € 0.8 million.
Trade payables are in line with prior year, as a result of the commercial policy followed during the year.
Net Invested Capital amounted to € 69.6 million at 31 December 2020, a € 14.9 million decrease compared to 31 December 2019 (€ 84.5 million).
At 31 December 2020, Net Financial Indebtedness stood at € 24.2 million against € 40.2 million at 31 December 2019. Cash and cash equivalents increased from € 8.3 million at 31 December 2019 to € 45.2 million at 31 December 2020. The improvement of € 36.9 million over the year is mainly due to the following factors:
- positive effect of operating cash flows and, in particular, cash flows from working capital management, specifically inventory - € 3.6 million;
- cash absorbed for net investing activities - € 1.0 million;
- share capital increase of € 6 million;
- arrangement of a loan of € 24 million.

At 31 December 2020, Consolidated Shareholders' Equity amounts to € 45.4 million (of which € 4.2 million pertaining to Non-Controlling Interests). The increase of €1.2 million compared to prior year is mainly due to the aforementioned share capital increase of € 6 million, to prior year profits taken to retained earnings and to results for the year. No dividends were paid in 2020.
As a result of the above, the Adjusted Net Financial Indebtedness / Consolidated Equity ratio has improved considerably from 0.9x in 2019 to 0.5x in 2020.

Note: see the introductory "Note on Reporting Methodology" for details of the principles adopted when preparing these schedules.

Table 7.1c

Statement of Cash Flows	FY 2020	FY 2019
EBITDA	**12.9**	**17.6**
Change in Trade Receivables	(1.4)	(0.6)
Change in Trade Payables	0.6	1.2
Change in Inventory	4.4	(0.3)
Change in Trade Working Capital	**3.6**	**0.4**
Change in Other Assets and Liabilities	**(1.3)**	**14.3**
Taxes paid	1.0	0.5
Cash flows from operating activities (A)	**16.2**	**32.9**
Net capex on tangible and intangible assets	(7.9)	(15.5)
Sale of real estate asset	9.0	
Net financial investments	(2.1)	0.0
Cash flows from investing activities (B)	**(1.0)**	**(15.5)**
Other changes due to non-recurring events	(3.4)	(0.8)
Free cash Flow	**11.8**	**16.5**
Net change in Equity	5.6	(0.2)
Net Change in Third Party Sources of Finance/Debt	21.1	(9.8)
Net financial expenses paid	(1.6)	(1.7)
Cash flows from financing activities (C)	**25.1**	**(11.7)**
Net cash flows (A+B+C)	**36.9**	**4.8**
Cash and cash equivalents at start of period	8.3	3.5
Cash and cash equivalents at end of period	**45.2**	**8.3**

At the start of the period, cash and cash equivalents – the positive current account balances of the Saleri Group companies – amounted to € 8.3 million before increasing to € 45.2 million at 31 December 2020. The increase in net cash is the result of a range of factors, as described below.
Free cash flows amount to € 11.8 million, lower than in 2019 (€ 16.5 million). While EBITDA decreased (€4.8 million lower) and cash from working capital management improved by € 3.6 million, cash flows generated by changes in other current assets and liabilities were lower and there was a decrease in capex on tangible and intangible assets (€ 7.9 million in 2020 against € 15.5 million in 2019). Capex was mainly incurred for the implementation of production lines and development costs relating to new products, for improvements to the efficiency of production assets and for implementation of the new ERP system. In addition to the above, there were the effects of non-recurring events: € 3.4 million in 2020 and € 0.8 million in 2019.
Cash flows from financing activities (+25.1 million in 2020 against € -11.7 million in 2019) mainly relate to the arrangement of a loan of € 24 million for use in reinforcing innovative businesses, especially Thermal Management and vehicle electrification systems, in maximising production efficiency through digitalisation and in investing in the environmental sustainability of the business.
Consequently, net cash flows amount to € 36.9 million and, based on the above, the EBITDA conversion rate (free cash flow / EBITDA) amounts to 91% (it was 94% in 2019).

7.2. Performance of the Group companies

Industrie Saleri Italo S.p.A.

Founded in 1942 and based in Lumezzane (BS), Industrie Saleri Italo S.p.A.'s activities include the study, design, development, processing, assembly and sale of cooling systems for the automobile industry, as an OE (original equipment) manufacturer and for the Aftermarket.

Table 7.2a

Income Statement of Industrie Saleri Italo S.p.a	FY 2020		FY 2019	
	€ million	% of Revenues	€ million	% of Revenues
Revenues from Ordinary Operating Activities	124.3	98.7%	144.5	97.2%
Other Revenues	1.6	1.3%	4.2	2.8%
Net Revenues from Sales	**126.0**	**100.0%**	**148.7**	**100.0%**
Direct production costs	(80.4)	-63.8%	(91.5)	-61.5%
Operating costs	(14.5)	-11.5%	(17.4)	-11.7%
Labour costs	(21.6)	-17.1%	(25.3)	-17.0%
EBITDA	**9.6**	**7.6%**	**14.4**	**9.7%**
Depreciation & Amortisation	(6.7)	-5.3%	(10.6)	-7.1%
Allocations to Provisions	(2.9)	-2.3%	(1.1)	-0.8%
D&A and Provisions	**(9.6)**	**-7.6%**	**(11.7)**	**-7.9%**
Net Operating Profit	**(0.0)**	**-0.0%**	**2.7**	**1.8%**
Financial Income (Expenses)	(1.4)	-1.1%	(1.5)	-1.0%
Extraordinary Income (Expenses)	(3.3)	-2.6%	(0.8)	-0.5%
Income (Expenses) from Investments	(0.8)	-0.6%	(0.0)	-0.0%
Profit (Loss) before taxation	**(5.5)**	**-4.4%**	**0.4**	**0.3%**
Taxation	1.0	0.8%	0.4	0.3%
Profit (Loss) for the year	**(4.5)**	**-3.6%**	**0.8**	**0.6%**
Effect of finance lease method	(0.4)	-0.3%	0.1	0.1%
Profit (Loss) for the year - ITA GAAP	**(4.9)**	**-3.9%**	**0.9**	**0.6%**

The year 2020 ended with net revenues of € 126 million, a 15.3% decrease compared to € 148.7 million in 2019. Consequently, consumption of direct materials decreased by €11.1 million from € 91.5 million in 2019 to € 80.4 million in 2020. Labour costs also decreased by € 3.8 million while operating costs were down by € 3.0 million. EBITDA is down from € 14.4 million (9.7% of revenues) in 2019 to € 9.6 million (7.6% of revenues) in 2020. Depreciation, amortisation and impairment adjustments to tangible and intangible assets amount to € 9.6 million compared to € 11.7 million in prior year. The decrease is mainly due to changes to the useful lives of the company's main fixed assets such as production lines, equipment and new R&D costs capitalised. The change of useful life was supported by an independent appraisal and the income statement effect amounts to € 2 million.
Net financial expenses are broadly in line with prior year while extraordinary expenses have increased by € 2.5 million compared to € 0.8 million in prior year.

Taxes include deferred tax income of around € 2 million, as partially countered by deferred taxes of € 1 million. Extraordinary expenses, amounting to € 3.3 million in 2020 (0.8 € million in 2019) include prior year expenses for warranty claims, strategic consulting for acquisitions, restoration costs for the ex Saleri C property no longer rented to the Group, costs for agreements with personnel and other minor expenses also relating to 2019. Expenses regarding equity investments entirely relate to the impairment adjustment to the investment in ABL Automazione S.r.l.. The impairment adjustment followed the loss of €0.9 million reported by that company which reduced its quota capital to € 0.092 million. As a result, the Parent Company paid in additional capital of €0.9 million for future capital increases, as ratified by the Extraordinary General Meeting held on 11 May 2021.
During the reporting period, the Parent Company recorded a loss of € 1.2 million, excluding the impact of extraordinary items (otherwise the loss was € -4.9 million) whereas, in 2019, it recorded a profit of € 0.9 million.

Table 7.2c

Balance Sheet of Industrie Saleri Italo S.p.a	FY 2020	FY 2019
	€ million	€ million
Tangible and Intangible Assets	68.1	68.6
Non-current Financial Assets	29.5	8.4
Fixed Assets	**97.6**	**77.0**
Trade receivables	5.5	6.6
Trade payables	(33.6)	(37.2)
Inventory	20.9	26.7
Trade Working Capital	**(7.2)**	**(3.9)**
Current Assets	15.2	13.1
Current Liabilities	(11.0)	(8.1)
Provisions	(7.6)	(5.9)
Net Invested Capital	**86.9**	**72.2**
Loans & Lease Obligations	53.2	36.2
Self-Financing facilities	7.8	8.1
Current account overdrafts	(36.3)	(6.8)
Bonds issued	3.9	-
Cash and cash equivalents	(0.0)	(0.0)
Net Financial Position	**28.6**	**37.5**
Share capital	23.9	17.9
Equity reserves	33.8	11.1
Profit(Loss) for the year	(4.9)	0.9
Equity - ITA GAAP	**55.6**	**32.3**
Effect of finance lease method	2.7	2.4
Equity	**58.3**	**34.7**
Sources of Finance	**86.9**	**72.2**

Tangible and intangible assets did not change over the period as capex was in line with depreciation/amortisation charges.
The increase in investments mainly refers to the revaluation of Saleri Shanghai. Art. 110 of Decree Law no 104 of 2020, converted as amended by Law no 126 of 2020 (the "August Decree"), introduced the option of revaluing company assets in the financial statements for the reporting period after the period underway as at 31 December 2019 (2020, for companies with a 31 December annual reporting date).
The revaluation may be performed in respect of fixed assets, intangible assets, controlling investments and investments in associated companies included in the financial statements for the reporting period underway at 31 December 2019 and still in place at the end of the next reporting period, with the exclusion of real estate property and other assets whose production or trade constitutes the main business activity. The revaluation may also regard a single asset and it may be performed for statutory reporting purposes only or also for tax purposes.
As the substantive and legal requirements were met, in order to strengthen the Parent Company's balance sheet structure, the Board of Directors decided to revalue (for statutory reporting purposes only) the investment held in subsidiary Saleri Shanghai Co. Ltd., as reported in the company's Financial Statements at 31 December 2019 in the amount of € 2 million. Although not specifically required by law, the Board decided to commission an independent expert to appraise the value of the investment. Said expert applied the UDCF (Unlevered Discounted Cash Flow) method, considered appropriate in the circumstances, to determine the fair value of the investment; said method correlates the value of the economic capital of a business with its capacity to generate operating cash flows, for the remuneration of third party lenders and shareholders.
The method required a preliminary estimate of discounted operating cash flows in the explicit forecast period and of Terminal Value (TV) i.e. discounted cash flows for the subsequent period.
Operating cash flows, per the business plan made available by SIL, were discounted based on a WACC (Weighted Average Cost of Capital) of 12.60%.
The appraisal report indicated a value of Euro 25.797 million for the economic capital (Euro 24.507 million for the 95% interest in SIL) which was below the minimum value of the range obtained applying control methods using market multiples and comparable transactions.
The positioning below the minimum fork of values obtained with the control methods was justified considering the fact that these referred to large, listed companies; it seems reasonable that the valuation, compared to such companies, should take account of a liquidity discount.
While it constitutes an exception to ordinary statutory reporting requirements, the revaluation still has to be performed in compliance with the general principle under Article 2423 (1) of the Italian Civil Code requiring a true and fair representation of the balance sheet situation and prohibiting the creation of "fake" capital. With this in mind, after reviewing the appraisal report, the Board of Directors concluded that the valuation method applied fairly represents the economic value of the investment in Saleri Shanghai Co. Ltd and that the revalued amount recorded in the Financial Statements does not exceed its fair value, also considering its "production capacity" and "effective possibility of economic utilisation".
Net working capital has increased by € 3.3 million mainly because of a reduction in trade payables compared to prior year. Inventory has decreased by € 5.8 million thanks to more efficient management of production activities. The decrease in inventory includes € 4 million relating to raw materials and € 2.4 million to finished goods, as partially countered by an increase of € 1 million in payments on account for equipment for resale.
The net financial position has improved by € 8.9 million with net financial indebtedness reduced from € 37.5 million in 2019 to € 28.6 million in 2020. We recall that, during the period, the company arranged a six-year loan of € 24 million in order to reinforce its innovative businesses, especially Thermal Management and vehicle electrification systems, in support of the digitalisation of production activities and investment in the environmental sustainability of the business.
Shareholders' equity has increased by € 23.3 million as a result of the € 6 million capital increase previously described and the revaluation reserve relating to Saleri Shanghai, as partially countered by the loss for the year.

Table 7.2d

Statement of Cash Flows	FY 2020	FY 2019
EBITDA	**9.6**	**14.4**
Change in Trade Receivables	0.9	2.3
Change in Trade Payables	(3.6)	1.5
Change in Inventory	5.8	1.7
Change in Trade Working Capital	**3.0**	**5.5**
Change in Other Assets and Liabilities	**(0.4)**	**10.6**
Taxes paid	1.0	0.4
Cash flows from operating activities (A)	**13.2**	**31.0**
Net capex on tangible and intangible assets	(6.2)	(12.9)
Net financial investments	0.3	(0.6)
Cash flows from investing activities (B)	**(5.9)**	**(13.5)**
Other changes due to non-recurring events	(3.3)	(0.8)
Free cash Flow	**4.0**	**16.7**
Net change in Equity	6.0	(0.3)
Net Change in Third Party Sources of Finance/Debt	20.9	(10.6)
Net financial expenses paid	(1.4)	(1.5)
Cash flows from financing activities (C)	**25.5**	**(12.4)**
Net cash flows (A+B+C)	**29.4**	**4.3**
Cash and cash equivalents at start of period	6.8	2.5
Cash and cash equivalents at end of period	**36.3**	**6.8**

Operating cash flows for the period before investing activities amount to € 13.2 million compared to € 31.0 million in 2019. The difference is due to a € 4.8 million reduction in EBITDA and to the € -11 million difference in the change in other current assets and liabilities, as a result of the insurance pay-out received in prior year but regarding the fire in 2018.
Cash flows from investing activities amount to € 5.9 million compared to € 13.5 million in 2019. The reduction in investments / capex is due to the slowdown caused by the pandemic, as described earlier in this report.
Cash flows from financing activities mainly relate to the loan of € 24 million mentioned a few lines above.
So, cash flows from financing activities amount to € 29.4 million in 2020 compared to € 4.3 million in 2019. Cash and cash equivalents at the reporting date total € 36.3 million against € 6.8 million at 31 December 2019.

Treasury shares

In 2019, the Parent Company bought back 15,799 treasury shares (0.51% of total shares) for € 285,014. There were no movements on treasury shares in 2020.

Saleri Shanghai Co. LTD (China)

The Saleri Group operates on the Asian market through subsidiary Saleri Shanghai Co. Ltd (95% owned) which manufactures and distributes water pumps. The investment in Saleri Shanghai is an important part of the Group's development strategy. It also fulfils the requirement of the automotive components market to service key customers locally and reinforces the Group's position on the global market for cooling systems for the automotive industry.
The company is based in Shanghai and was incorporated in 2008.

In 2020, net revenues amounted to € 18.3 million (+64.7% compared to € 11.1 million in 2019) while a net profit of € 2.0 million (10.8% of revenues) was reported. In 2019, there was a net loss of € 0.043 million. In Balance Sheet terms, net invested capital mainly consists of production lines (€ 2.5 million) and net working capital (€ 4.2 million). The sources of finance include equity (€ 6.9 million) and the net financial position, comprising net cash of € 1 million.

Saleri Mexico S.A. de C.V.

This company was incorporated in 2019, is based In Monterrey, Mexico and is 99% owned. The objective of this greenfield business is to service the local market and North America as part of Group strategy to adopt a global vision. It also aims to cover all key geographical areas for the automotive industry from a production perspective.
After the Mexican plant received an official nomination by Volkswagen as a pilot project in February 2019, work commenced on setting up the assembly lines and on looking for a plant suited to the needs of the new subsidiary. The Group also drew on its many years of experience operating the production facility in Shanghai.
Activities since the nomination involved production tests in the first few months of 2020 while mass production commenced in January 2021. Sales and marketing activities have already led to the acquisition of new products that will enable the company to gain an increasing share of the market in the years ahead.

ABL Automazione S.r.l.

ABL Automazione S.r.l. was acquired by the Saleri Group with effect from 31 July 2019 (70% investment); the investment formed part of a broader strategy to acquire a high value added process that would have been difficult to recreate in-house. In this way, the Saleri Group acquired process know-how regarding one of the key phases of the production model of the business.
ABL Automazione's core business is the design and production of industrial automation plant and equipment. Its business consists of the production of automated assembly lines for manufacturing segments such as automotive (75% of revenue), Oil&Gas (assembly of hydraulic components) and earth moving equipment. The main standards required are the efficiency, flexibility and quality of the production systems. The company has always developed the market by drawing on its experience in the field of industrial automation with the aim of proposing itself as a uniquely qualified supplier of automated assembly lines and equipment.
The company is based in Gussago in the province of Brescia. In 2020, it recorded net revenues of € 8.1 million compared to € 13.3 million in 2019 and reported a net loss of € 1 million compared to a net profit of € 1.5 million in 2019. In 2020, given the nature of its business, the company was badly affected by the pandemic. Given the enforced shutdown of its activities and restrictions on travel and movement, the company focused on maintaining its customer relations. Relations that could be maintained remotely e.g. approval of designs were not subject to particular delays while any delays regarding shipment of samples for customer testing of assembly lines and the delivery date of equipment were managed in cooperation with the customers in order to minimise possible delays in project timetables. The macroeconomic situation and the general situation in Italy are different at the start of 2021 and it is possible to look forward with greater optimism, albeit with the caution and attention needed in the period we are living through. The Board of Directors, in agreement with the Saleri Group, has approved new strategies aimed at rebuilding revenues and profits. In April 2021, with this in mind and in order to strengthen further the company's operating capacity, Saleri paid € 0.9 million into a reserve for future capital increases.
In balance sheet terms, net invested capital mainly comprises goodwill (€ 1.9 million) and net working capital (€ 3.9 million), mainly represented by contract work in progress. The company's sources of finance include short and medium/long-term borrowing of € 3.0 million and cash and cash equivalents of € 0.7 million.

Immobiliare Industriale

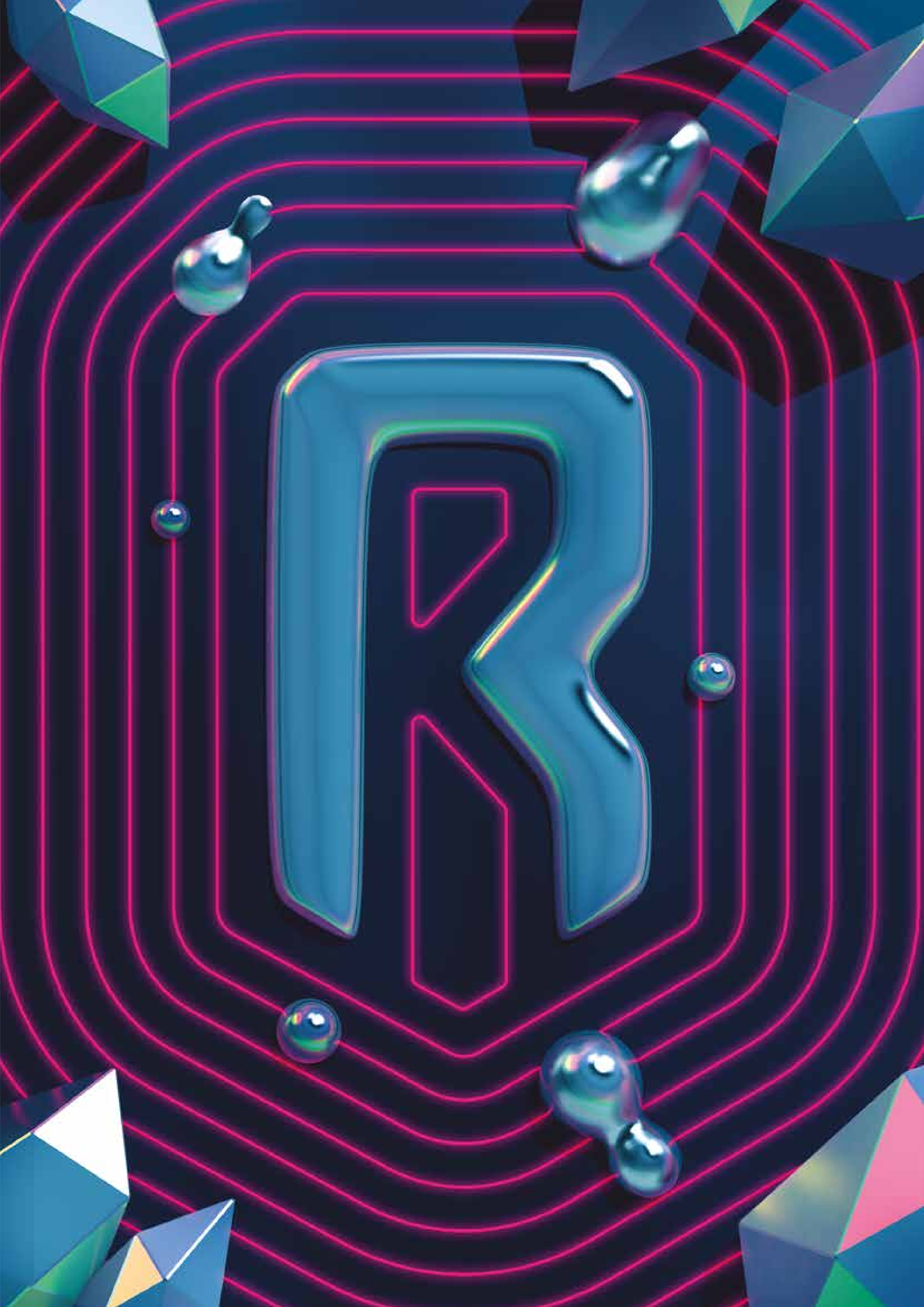
Since the spin-off of the real estate activities of Italpresse Industrie S.p.A. (February 2015), the Saleri Group has operated in the "Real Estate" segment through 62.5% owned subsidiary Immobiliare Industriale S.r.l.
The Company's activities involved renting out its real estate properties i.e. an industrial property in the Municipality of Capriano del Colle (BS). The building is used by Italpresse Industrie S.r.l. and Gauss Automazione S.r.l. (Norican Group) under a rental agreement signed on 14 February 2015 for a total period of 12 years. The building was sold for € 9 million in 2020, realising a loss on disposal of € 1.3 million. The company's revenues consist of rental income for the period of € 0.8 million in 2020 against € 0.9 million in 2019. Costs include the loss on disposal of € 1.9 million, resulting in a net loss of € 1.3 million compared to a net profit of € 0.3 million in 2019.
In 2021, the company was wholly acquired by the Saleri Group which thus took its percentage investment to 100%.

SALERI

RESILIENCE

Resilience is our attitude, our strength.
In fact, it is thanks to the human capital, to dedication and competence, that Saleri has been able to overcome all the challenges that we have faced during the previous years and especially in 2020.
An increasing consolidation of its attitude, its adaptive strength on the marked and between customers.

INDUSTRIE SALERI ITALO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Chapter

8

Research and development

Research and development – at process level, as well as at product level – is strategic in order to remain competitive and to reinforce the positioning of the Group. Therefore, it is carried out – almost entirely by the parent company - in close collaboration with leading European car manufacturers with which new and innovative solutions are co-designed with a view to mass production at a later stage.
Research and development begins with a review of requirements and thinking of new concepts (in-house pre-development). This phase involves intensive creativity and patenting activities. Clients are then offered customised versions of the concepts developed and, once the contract has been obtained, the product/process is developed together with the client, through all phases from prototyping to mass production.
The R&D Department is organised into structured development areas: Technical Division, Advanced Engineering (pre-development), Electronic Design, Electric Pump Design, OE Applications Design, CAE (Computer-Aided Engineering), Project Management and Testing.
The activities may be summarised as follows:

Design

New products are developed in a simulated environment, using advanced technology and software than ensure high levels of speed and reliability from the early stages of the process.

Prototyping and testing

Development of test sequences to assess the performance and reliability of the water pumps in real, extreme conditions of use (test of characterisation, endurance, corrosion, thermal shock in a climactic chamber, acoustic, vibration analysis, etc.).

Simultaneous Engineering

All development activities are performed by an inter-divisional team in collaboration with counterparts from customers and suppliers.

The work of the Research and Development Department has made it possible to deposit several important international patents that will protect the Group's intellectual property and know-how, ensuring that it maintains a competitive advantage, with positive effects in terms of revenue and profit in the years ahead.
The work of the Research and Development Department is carried out by a team of more than 40 people in collaboration with three universities in Italy (University of Brescia, University of Padua and University of Bergamo).
Saleri has developed and supported 2 research doctorates close to completion, 10 master's theses and various training activities in high schools. Every year, parent company Industrie Saleri Italo S.p.A. takes on around 110 high school students on work experience placements and holds around 15 round table debates on Technical and Strategic issues. In collaboration with the University of Graz, parent company Industrie Saleri Italo S.p.A. is involved in the development of innovative cooling systems for applications in the truck segment. The project will be completed with the supply of autoparts to be tested directly on an engine at the university.
This activity lets Industrie Saleri italo S.p.A. technicians play an active role in a prestigious engineering environment while providing training on cooling systems as a whole.

8.1. Ecosustainable Thermal Management Solutions

The primary objective of the entire Saleri R&D Department and, in particular, the Product Concept Department has always been to provide customers with the best cooling system solutions, anticipating their needs where possible.
In order to comply with ever more restrictive anti-pollution regulations, the "Thermal Management" question has become increasingly important in all segments of the Automotive industry.
The need to find ever more efficient solutions, in order to provide clients with increasingly innovative products with a high technical content, drives the thought process of every person working in the R&D Department.
This philosophy combines perfectly with the need to create solutions ever more compliant with environmental regulations as the design of efficient products leads to optimal thermal management while also improving performance in terms of emissions. The idea of creating innovative, efficient solutions sits well alongside the aim of creating products increasingly geared towards ecosustainability. The main projects include:

EMP - Electro Mechanical Pump

This water pump has dual drive – mechanical and electrical – and sees a single product offer the advantages of a mechanical pump combined with the benefits of an electric pump. It is highly adjustable, in terms of performance and power, with the electric drive making it possible to control the rotor speed, ensuring a very wide range of use. The presence of an electric drive also means the pump can be kept active even when the internal combustion engine is switched off or in the start & stop phase, thus avoiding localised overheating. The option of having a single pump, with centralised control leads to significant savings in terms of weight and volume. The mechanical drive uses the power generated by the internal combustion engine and ensures that the pump achieves a very high performance level. The fact that the pump can be controlled independently either mechanically or electrically enables optimal management of vehicle engine cooling and this has led to improvements in terms of energy efficiency, fuel consumption and CO_2 emissions. The strengths of this pump include the immediate switching between mechanical and electrical mode, energy savings during the vehicle warm-up phase and the possibility of a zero flow if no cooling is needed.

Research into applications for the Heavy Duty segment

A pure research project, in collaboration with the University of Graz, looking into the possibility of reducing CO_2 emissions also for fuel-intensive vehicles. The project believes in the potential reduction of losses by replacing mechanical pumps with electric drive hydraulic pumps. Tests performed on a 6 cylinder diesel engine showed a fuel saving. Further tests are in progress in order to demonstrate the importance of optimal thermal management in terms of fuel consumption.

Water Injection Pump

The Technical Division is developing a cooling system that injects nebulised water into the intake chamber in internal combustion engines. This helps reduce peak temperatures in the air-fuel mixture in the combustion chamber – these temperatures are the main cause of production of nitrogen oxides. As NOx are reduced, so performance improves along with consumption levels. There are additional benefits in terms of fuel optimisation (reducing NOx emissions) and increased power generated from the same amount of fuel (reduction in fuel consumption and CO_2 emissions).

Dual pump

This is the combination of two electric water pumps in a single product. This offers numerous advantages, including: the possibility to manage two separate circuits with two different liquids using a single component, the chance to expand the field of operation of the pump by combining the two circuits through an adjustment valve and the possibility of synergies thanks to economies of scale.

Research into use of alternative fluids

A research project into the use of alternative fluids - viscous and dielectric oils – to cool components such as batteries and power modules. The use of fluids of this type, in direct contact with electronic devices, combines the benefits of electrical insulation with those of effective thermal management.

Chapter

9

Human resources and organisation

Workforce

A detailed analysis of the Saleri Group workforce is provided below (reporting date figures):

Human capital

		2020	2019
No of employees	TOTAL	591	573
Difference	No	18	
Ave age of employees	YEARS	38	37

Breakdown by gender

MALE	2020	2019
Number	349	343
% of Total	59.1%	59.9%

FEMALE	2020	2019
Number	242	230
% of Total	40.9%	40.1%

Breakdown by type of contract

PERMANENT	2020	2019
Number	544	545
% of Total	92.0%	95.1%

FIXED TERM	2020	2019
Number	47	28
% of Total	8.0%	4.9%

Breakdown by utilisation

FULL TIME	2020	2019
Number	559	542
% of Total	94.6%	94.6%

PART TIME	2020	2019
Number	32	31
% of Total	5.4%	5.4%

Hours of training

	2020	2019
Hours of training delivered	TOTAL 4,072	TOTAL 7,374
Hours of training per employee (Hours of Training / Ave no of Employees)	6.9	12.9

	2020	2019
Hours of strike action for internal reasons	Nº 0	Nº 0

At the end of 2020, the Saleri Group had 591 employees (head count at 31/12/2020, including 452 employees of parent company Industrie Saleri Italo S.p.A.), an increase of 18 compared to 573 employees at 31 December 2019, a sign of the path of growth undertaken by the Group.

In terms of the types of contract used, 544 employees are hired under permanent contracts (92%) while 47 have fixed-term contracts (8%). Part-time employees represent 5.4% of the total (32 employees). These figures reflect the Group's commitment to establishing lasting employment relationships and creating relations of value for the Group as a whole.

The different professional profiles and the variety of skills present within the Saleri Group represent an important and distinguishing feature. The level of education of the workforce is in line with the requirements of the business and 59.3% of employees have an upper secondary school diploma or a degree; this percentage has increased constantly over the last three years, a sign that new employees are contributing towards the expansion of the Group from a managerial perspective. The professional growth and development of Saleri Group employees is sustained by a continuous training program. In 2020, some 4,072 hours of training were provided to Group employees.

The relatively low average age of the Group employees (38.0 years) is tangible proof of a strategy that prioritises the recruitment, training and internal development of younger people rather than sourcing skills on the labour market. Equal opportunities have always been guaranteed to Group personnel: currently, women represent 40.9% of the total workforce. The Group pays great attention to the family-related needs of its workers, while also taking account of organisational and production requirements.

No cases of professional illness arose in 2020 while there was one case of workplace injury. The total number of workplace injuries does not include injuries suffered while travelling to and from work which would have been recorded but did not occur during the year.

Chapter

10

Risks

The main risks identified by management regard the categories described below:

10.1. Risks regarding industry trends

The Saleri Group operates mainly in the automotive industry which is characterised by the following trends:

▶	**process of concentration of market players (both assemblers and suppliers of autoparts);**
▶	**fall in demand from mature markets accompanied by higher volumes in emerging countries – where terms of sale are somewhat different and the macroeconomic environment is unstable;**
▶	**toughening of competition with imposition of aggressive pricing policies;**
▶	**expected technological changes with means and effects not yet fully apparent.**

In order to deal with this situation, the Saleri Group seeks to consolidate and, where possible, strengthen its position of leadership by:

▶	**anticipating market needs and developing products through established collaborations with the Group's main customers;**
▶	**developing new technologies that can guide and orient the engineering decisions of leading customers;**
▶	**maintaining high quality and safety standards which differentiate the product through the deployment of resources and the implementation of production processes that would be unsustainable for competitors;**
▶	**making production processes more efficient.**

In light of these equally important risks, the Saleri Group has implemented a monitoring system that has been put in the hands of the Sales, Business Development, R&D, Strategic Marketing and Legal departments. The role of these departments is to monitor the market and market rules, designing and planning for the future development of the business. The risks represent genuine opportunities for the Group and they must be pursued by developing products that offer better and better performance in order to provide customers with an edge in terms of lower consumption and, consequently, lower emissions. The Group's historical customers are well aware of its capabilities and its resilience. They have confirmed their confidence in the Group by awarding it projects that will last until 2024 and beyond. In more detail, the flagship product – for which the mass production line was installed during the summer months with production starting towards the end of 2019 and mass production getting underway in the second half of 2020 (da aggiornare?) – will be the EMP (Electro Mechanical Pump), patented finalist at the international Automechanika Innovation Award 2018 in the OE products category. This product will permit greater temperature control, fully exploiting the potential of electrical operation while significant reducing the power absorbed by the engine, leading to energy savings in terms of consumption and emissions; this is of particular interest to car makers as they strive to observe the carbon dioxide emissions limits set by the European Union.
The Saleri Group is aware that the need to contain consumption levels and, consequently, emissions (also because of the expected reduction in hydrocarbon availability in the near future) will have a very major impact on the entire automotive industry, including on water pumps. Therefore, it is ready to launch a new generation of "hybrid" and "intelligent" water pumps that will be able to operate indifferently with mechanical or electrical drive. This awareness forms the basis for a commitment increasingly oriented towards sustainability.

10.2. Product liability risk

The Sectors in which the Group operates are particularly demanding in terms of product quality as any defects could result in product liability towards end customers or a market recall campaign resulting in additional costs. Therefore, the Group has implemented quantity control procedures in accordance with its quality certification.

10.3. Risks regarding the loss and recruitment of key resources and skills

The Group's success largely depends on the ability of its executive directors and other members of the management team to manage the Group and each business area in an effective manner. The loss of the services of an executive director, manager or other key resource as a result of organisational change and/or business restructuring without proper and timely replacement and reorganisation, as well as the inability to attract and retain new, skilled resources, could have a negative effect on the Group's business future, as well as on its operating results and/or financial situation. The current organisational structure provides for significant involvement of line management in the decision-making process and, therefore, they are considered key resources. If any of these individuals should leave the Group, it could cause temporary problems with management of certain activities.

For some years, the Group has had several initiatives to increase staff loyalty. These include the granting of employee benefits, non-competition agreements and loyalty incentive agreements with key personnel.

10.4. Risks regarding failure to protect product exclusivity on the markets where the group operates

Most of the Saleri Group's products and design solutions are patented. There is a risk that competitors may infringe this patent protection and/or that the markets where such patents are infringed will not adequately defend patent holder rights.

Commercial activities in countries where it is hard to enforce industrial patent rights exposes the Group to a greater risk in relation to the protection of its products. The Group has adopted structured processes to manage innovations and protect intellectual property. The Group also performs regular monitoring of the patent strategies adopted/to be adopted based on a cost/opportunity analysis.

10.5. Revenue concentration risk

The Saleri Group's products are destined mainly for the Premium automotive segment so it is inevitable that revenue is concentrated on a limited number of leading customers (BMW, Audi, Daimler GM). Customer relations are stable and long-established as cooling systems follow the path of development and production of the engine on which they are applied. There are significant entry barriers due to the high engineering content in the production process, the long development period (time to market in excess of 2 years) and the high initial investment to develop projects and processes. Compared to other sectors or segments of the same industry, revenue is relatively easy to forecast as contracts acquired tend to be long-term (in line with engine life cycles, generally 5-8 years).

Sales contracts with Premium automotive customers do not provide for guaranteed minimum volumes. However, historically, the variance between budget and actual contract orders has never exceeded 5% (duly taken into account by the parent company when making production and revenue forecasts).

The leading customers in the OE segment (BMW, Audi, Daimler, GM) have excellent credit ratings, as do Independent Aftermarket segment customers which belong to large international groups.

The risk is constantly monitored through preliminary customer assessment and checks on compliance with agreed terms of payment. Some time ago, in order to reduce the risk of saturation of the segments/markets where it operates, the Group launched a strategy of diversification into other geographical areas and is currently expanding its product range, also turning its attention to the mid-premium and truck sectors.

Analysis of trade receivable balances does not show any variation in credit quality; therefore, no significant changes to commercial credit protection policy have been implemented.

10.6. Interest rate risk

The Group constantly monitors the interest rate risk in relation to its sources of finance represented by bank borrowing at variable rates of interest linked to the Euribor rate. Given current interest rate trends and the average duration of its bank borrowing (3.2 years), the Group prefers variable rate borrowing. Exposure to the interest rate risk is regularly monitored at Group level, taking account of the overall net exposure through coordinated management of debt and available liquidity and the related maturities.

During the reporting period, although expected economic trends do not appear to suggest a sudden rise in interest rates, the Group decided to enter into hedging operations in relation to a portion of its borrowing. It did so by signing three Interest Rate Swap agreements with a total notional amount of € 24 million.
At 31 December 2020, these derivatives were accounted for without any income statement effect as they were arranged as hedges of the interest rate risk in relation to medium/long-term loans.

10.7. Exchange rate risk

The Consolidated Financial Statements of the Saleri Group and the Separate Financial Statements of parent company Industrie Saleri Italo S.p.A. are prepared in Euro.
The Saleri Group mainly operates in Euro on major international markets. Except for a few transactions carried out in Euro, the Chinese subsidiary operates in Chinese renminbi. We also note that Mexican subsidiary Saleri Mexico S.A. de C.V. was incorporated in 2019 but it only began to operate in 2021.
The international production and sales activities through companies incorporated in countries that use currencies other than the Euro mean that the Group is exposed to the risk of exchange rate fluctuation.

In the year ended 31 December 2020:

- some 9% of consolidated revenues was generated in currencies other than the Euro, the bulk of it regarding sales in Chinese Renmimbi;
- consolidated costs incurred in currencies other than the Euro represented around 10% of consolidated revenues, the bulk of them costs incurred in Chinese Renmimbi and, to a lesser extent, in US Dollars;

Although the incidence of transactions in currencies other than the Euro is not such as to produce a potentially significant effect on Group results, exchange rate trends are monitored constantly in relation to the operating activities of the non-Italian Group companies.

10.8. Risk of volatile raw material prices

Aluminium alloys and, to a small extent, rare earth metals (an essential component of permanent magnets for electric engines) represent a significant portion of the Group's purchase costs. The selling prices of the Saleri Group's products are negotiated and agreed with customers in specific nomination letters. In major transactions, there is a percentage adjustment to the selling price in case of raw material price fluctuation. Such adjustments are made monthly, quarterly or annually depending on the contractual agreement. This means that the Group can pass on to the customer during the year much of any price fluctuation and is not, therefore, exposed to the risk of raw material price volatility.

10.9. Liquidity risk

The liquidity risk is usually defined as the risk that a business might be unable to fulfil its payment commitments because of difficulty in raising funds (funding liquidity risk) or in liquidating assets on the market (asset liquidity risk). This leads to a negative impact on the result for the year if the entity is forced to incur additional costs to meet its commitments or, in extreme cases, finds itself in a situation of insolvency that puts at risk its ability to operate as a going concern.
In order to minimise the liquidity risk, the Group's Finance and Administration Management follows a prudent approach, constantly ensuring:

- the maintenance of an appropriate level of cash by systematically checking that short-term cash inflows (receipts from customers and any other receipts) are capable of covering its cash outflows (short-

term borrowing, supplier payments and other outgoings);
- the availability of appropriate sources of funds and credit facilities to ensure that payment commitments can be met

With a view to the continuous improvement of financial planning processes, we note that the Group has adopted management and control tools that ensure the risk is constantly monitored and, thus, mitigated. In particular:

- there is a plan to ensure the Group companies follow "best practices" on working capital management,. This will help improve turnover ratios while, in the medium-term, helping to reduce inventory;
- the sales invoicing cycle and customer collections process has been improved through appropriate monitoring;
- additional cash flow control and forecasting systems have been implemented to cope with the business generated by the Group.

10.10. Information technologies risk

Given the importance of the continuous operation of its IT systems, the Group has implemented specific measures such as redundancy, high-reliability systems and emergency procedures on which simulations are regularly performed in order to ensure their effectiveness also in relation to the GDPR on personal data protection and the increasing digitalisation of the production cycle (Industry 4.0).

10.11. Ethical risks

In the course of its activities, the Saleri Group applies and observes rigorous ethical and moral principles, conducting its business in full compliance with the law and market rules. Parent company Industrie Saleri Italo S.p.A. has duly adopted the Organisation and Management Model in terms of Legislative Decree no 231/2001, reorganising its activities and internal procedures in order to prevent the commission of offences under said Decree. The subsequent adoption of the Ethical Code, internal procedures to ensure compliance with the Code and the controls implemented guarantee a healthy, secure and efficient working environment for employees and an approach designed to ensure full respect for the external stakeholders.

However, the Group does business with private customers - not belonging to organisations directly or indirectly controlled by governments or public sector bodies - and does not take part in public tendering processes. This further reduces the risk of reputational and economic damage resulting from ethically unacceptable conduct.

10.12. Personal data protection/privacy risk

Since the GDPR (General Data Protection Regulation) came into force on 25 May 2018, parent company Industrie Saleri Italo has implemented the internal procedures necessary to comply with the requirements of the new EU regulation. In more detail, in its capacity as Controller, Industrie Saleri Italo S.p.A. has designated Third Party Processors and the DPO (Data Protection Officer), a figure which must be appointed in cases where the processing is performed by a public authority or by a public body, except for judicial authorities, by parties whose main activities consist of processing operation that require the regular, systematic monitoring of data subjects on a large-scale, by persons whose activities consist of the large-scale processing of particular categories of personal data (sensitive data) or of data relating to criminal convictions or offences.

Chapter

11

Relations with subsidiaries and associated companies

Intra-Group relations, whether commercial or financial, take place on an arm's length basis.
In 2020, there were no atypical and/or unusual transactions or transactions not forming part of ordinary business activities or such as to significantly influence the Company's income statement, balance sheet and financial position.
The following table shows the amounts relating to transactions with Group companies. Amounts are stated in thousands of Euro:

Table 17.1 – Intra-Group income statement relations

Revenue billed by	Cost incurred by	Revenue for goods and services	Interest income	Costs for goods and services	Interest expense	Revenues NOT consoilidated	Costs NOT consolidated
Industrie Saleri Italo S.p.A.	Saleri Shanghai Co. Ltd	1,568.7		1,568.7		-	-
Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	25.0		25.0		-	-
Industrie Saleri Italo S.p.A.	Abl Automazione S.r.l.	167.8	0.8	167.8	0.8	-	-
Industrie Saleri Italo S.p.A.	Saleri GMBH		0.9		0.9	0.9	0.9
Industrie Saleri Italo S.p.A.	Saleri Mexico S.A. de C.V.	389.0	20.3	389.0	20.3	409.3	409.3
Immobiliare Industriale S.r.l.	Industrie Saleri Italo S.p.A.		2.8		2.8	-	-
Saleri Shanghai Co. Ltd	Industrie Saleri Italo S.p.A.	4,482.8		4,482.8		-	-
Saleri GMBH	Industrie Saleri Italo S.p.A.	110.7		110.7		110.7	110.7
ABL Automazione S.r.l.	Industrie Saleri Italo S.p.A.	765.6		765.6		-	-
ABL Automazione S.r.l.	Saleri Mexico S.A. de C.V.	1,465.6		1,465.6		1,465.6	1,465.6
Total		**8,975.1**	**24.9**	**8,975.1**	**24.9**	**1,986.5**	**1,986.5**

Table 17.2 – Intra-Group financial relations

Company	Receivables	Payables	Of which Receivables NOT consolidated	Of which Payables NOT consolidated
Industrie Saleri Italo S.p.A.	3,268.8	4,324.1	1,503.7	57.8
El.Fra Holding S.r.l.	0.0	7.3	0.0	7.3
Saleri Shanghai Co. Ltd	855.9	1,591.9	0.0	0.0
Immobiliare Industriale S.r.l.	3,071.6	0.1	0.0	0.0
ABL Automazione S.r.l.	1,297.0	173.2	958.2	0.0
Saleri Mexico S.r.l.	2.3	2,351.7	2.3	2,351.7
Saleri GMBH	55.5	102.9	55.5	102.9
Total	**8,551.2**	**8,551.2**	**2,519.8**	**2,519.8**

Chapter

12

Business Outlook

The year 2021 began with expectations of a recovery in all manufacturing sectors. These expectations have been somewhat undermined by unforeseen shortages of semi-conductors and certain raw materials accompanied by price increases.
We also note that, on 12 April 2021, the Company acquired the remaining 37.5% of the quota capital of Immobiliare Industriale S.r.l. from the non-controlling quotaholder and became the sole owner.
At an Extraordinary General Meeting on 11 May 2021, subsidiary ABL Automazione S.r.l. rescheduled its losses and reconstituted its quota capital in the original amount of Euro 750,000. This recapitalisation was subscribed solely by Industrie Saleri Italo S.p.A. which this became the sole owner of the company.
Despite continuing uncertainty over how the pandemic will evolve, at the reporting date, the order backlog and saturation of production capacity make it possible to look forward with optimism to 2021 and the Group will aim to achieve its objectives. The order backlog for the year as a whole is stable and solid and OE revenues are showing signs of recovery to the pre-Covid levels of 2019.

Chapter

13

Corporate Information

	Registered office
▶	Industrie Saleri Italo S.p.A. Via Ruca 406, 25065 - Lumezzane (BS)
▶	Tel. +39 030 8250411
▶	Fax +39 030 8922536
▶	www.saleri.it

	Legal information
▶	Share capital approved and paid Euro 23,922,412.12 wholly paid
▶	Tax Number and registration number 03066870175
▶	VAT Number IT01589150984
▶	SDI Code: A4707H7
▶	Brescia R.E.A. No. 317605

Lumezzane (BS), 13 May 2021

THE BOARD OF DIRECTORS

Signed by **Basilio Saleri (Chairman)**

Signed by **Matteo Cosmi**

Signed by **Sergio Bona**

Signed by **Giorgio Garimberti**

Signed by **Wilhelm Becker**

Signed by **Alessandro Potestà**

Signed by **Alberto Bartoli**

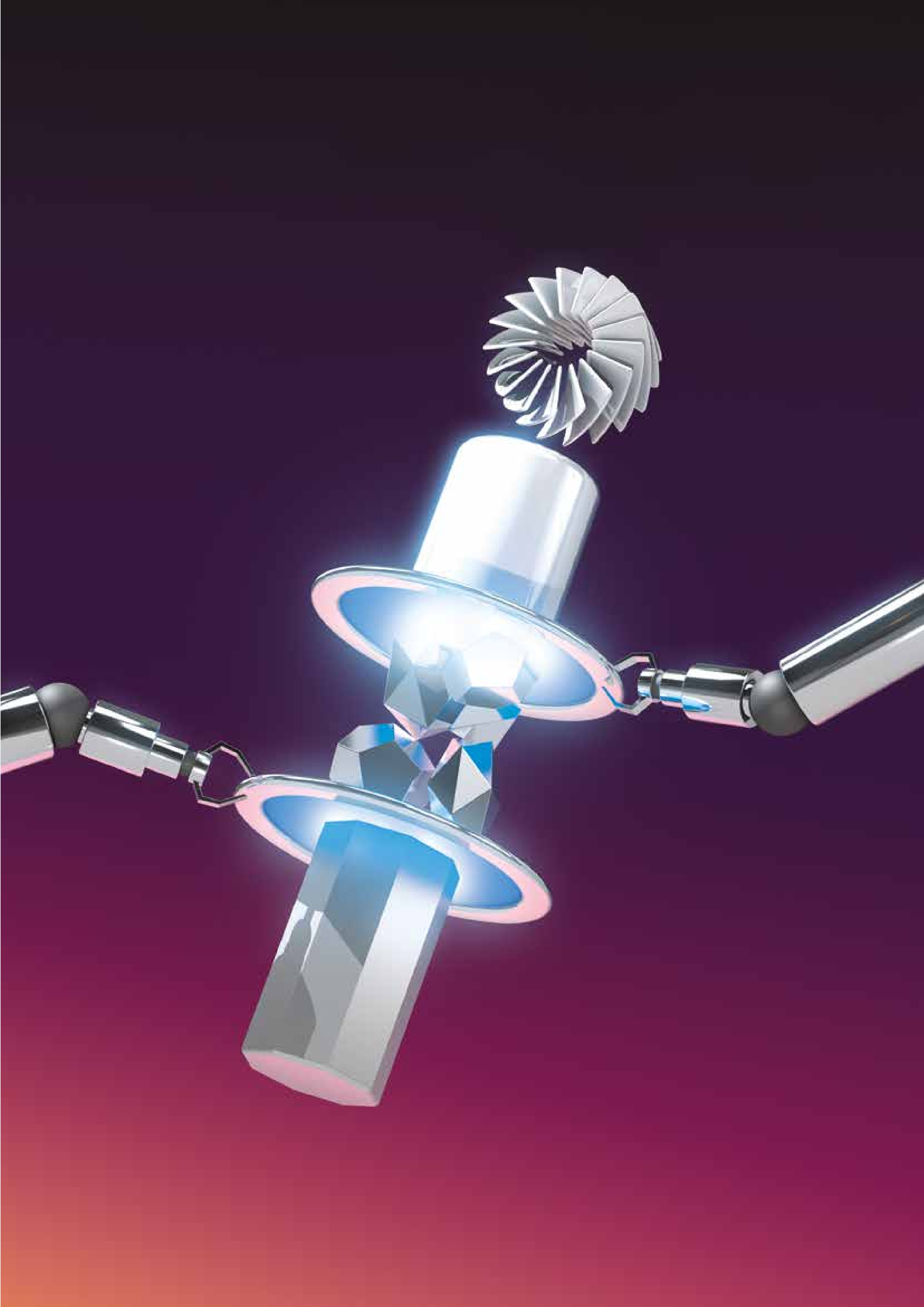
Signed by **Simona Heidempergher**

Signed by **Massimo Colli**

SALERI

INNOVATION

Innovation and look into the future are the cornerstones of Saleri's vision. We have never feared change, we have always faced it as an opportunity to evolve and progress. We work every day trying to anticipate the market scenarios to make sure we are ready and reactive. Our production is almost completely robotized and composed by various assembly-lines, a distinctive feature of quality and engagement to consolidate ourselves as reliable, innovative and technological partner.



Section

3

Consolidated Financial Statements at 31 December 2020

General information about the Company

General details

Name	INDUSTRIE SALERI ITALO S.P.A.
Registered office	VIA RUCA 406 25065 LUMEZZANE BS
Share capital	23.922.413
Is share capital wholly paid?	yes
Chamber of Commerce Code	Brescia
VAT Number	01589150984
Tax Number	03066870175
Business database/REA Number	BS-317605
Legal form	*Società per azioni* (Joint stock company)
Main business segment (ATECO)	293209 Manufacture of other parts and accessories for cars and their engines
Is company in liquidation	no
Does company have a single shareholder	no
Is company subject to management and coordination by another entity	no
Name of company or entity that provides management and coordination	
Does company belong to a group	yes
Name of holding company	El.fra Holding S.r.l.
Country of holding company	Italy
Register of cooperatives number	

Balance Sheet

ASSETS	31/12/2020	31/12/2019
A) Due from shareholders for unpaid capital	0	0
B) Non-current assets		
I - Intangible assets:		
1) start-up and expansion costs	0	0
2) development costs	1,286,971	1,461,286
3) patents and intellectual property rights	365,257	494,097
4) concessions, licences, trademarks and similar rights	0	0
5) goodwill	0	0
5-bis) consolidation difference	3,600,714	2,864,632
6) assets in progress and payments on account	5,266,759	3,058,816
7) other	2,134,516	3,358,914
Total	**12,654,217**	**11,237,745**
II - Fixed assets:		
1) land and buildings	19,308,268	30,606,970
2) plant and machinery	34,786,727	34,591,771
3) industrial and commercial equipment	4,862,067	4,741,086
4) other fixed assets	1,164,377	1,330,312
5) assets under construction and payments on account	739,448	2,111,767
Total	**60,860,887**	**73,381,906**
III - Financial assets:		
1) investments in:		
a) subsidiaries	2,146,006	35,439
b) associated companies	2,141,759	31,192
c) parent companies	0	0
d) entities subject to control of parent companies	0	0
d-bis) other entities	4,247	4,247
2) receivables:		
a) due from non-consolidated subsidiaries	0	0
due within a year	0	0
due after more than a year	0	0
b) due from associated companies	0	0
due within a year	0	0
due after more than a year	0	0
c) due from parent companies	0	0
due within a year	0	0
due after more than a year	0	0
d) due from entities controlled by parent companies	0	0
due within a year	0	0
due after more than a year	0	0
e) due from others	0	0
due within a year	0	0
due after more than a year	0	0
3) other securities	6,340	6,340
4) derivatives	0	13
Total	**2,152,346**	**41,792**
Total non-current assets (B)	**75,667,450**	**84,661,443**

ASSETS	31/12/2020	31/12/2019
C) Current assets		
I - Inventory:		
1) raw, ancillary and consumable materials	10,186,588	13,119,874
2) work in progress and semi-finished goods	2,439,374	3,233,937
3) contract work in progress	2,275,000	1,956,148
4) finished goods	10,854,205	12,778,157
5) payments on account	1,084,105	131,253
Total	**26,839,272**	**31,219,369**
II - Receivables:		
1) trade accounts	11,881,242	9,640,433
due within a year	11,881,242	9,640,433
due after more than a year	0	0
2) due from non-consolidated subsidiaries	2,454,618	834,389
due within a year	2,454,618	834,389
due after more than a year	0	0
3) due from associated companies	0	0
due within a year	0	0
due after more than a year	0	0
4) due from parent companies	7,290	0
due within a year	7,290	0
due after more than a year	0	0
5) due from entities controlled by parent companies	0	0
due within a year	0	0
due after more than a year	0	0
5-bis) tax receivables	1,688,066	1,714,957
due within a year	1,655,511	1,714,957
due after more than a year	32,555	0
5-ter) deferred tax assets	7,092,620	5,752,077
5-quater) due from others	2,546,678	4,841,751
due within a year	2,396,404	4,685,721
due after more than a year	150,274	156,030
Total	**25,670,514**	**22,783,607**
III - Current financial assets:		
1) investments in non-consolidated subsidiaries	0	0
2) investments in associated companies	0	0
3) investments in parent companies	0	0
3-bis) investments in entities controlled by parent companies	0	0
4) other investments	13,294	13,294
5) derivatives	0	0
6) other securities	570,213	566,233
Total	**583,507**	**579,527**
IV - Cash and cash equivalents:		
1) bank and post office accounts	44,734,919	7,952,094
2) cheques	0	0
3) cash and cash equivalents on hand	4,762	14,336
Total	**44,739,681**	**7,966,430**
Total current assets (C)	97,832,974	62,548,933
D) Prepaid expenses and accrued income	3,405,366	1,491,447
Total assets	**176,905,790**	**148,701,823**

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2020	31/12/2019
A) Shareholders' equity		
I - Share capital	**23,922,413**	**17,922,413**
II - Share premium reserve	**7,696,219**	**7,696,219**
III - Revaluation reserves	**2,832,678**	**2,832,678**
IV - Legal reserve	**1,179,976**	**1,134,850**
V - Statutory reserves	**0**	**0**
VI - Other reserves:	**4,323,655**	**3,591,099**
consolidation reserve	3,379,172	3,379,172
extraordinary reserve	857,395	0
merger surplus	0	0
merger deficit	0	0
reserve for translation of financial statements in foreign currency	(276,964)	(152,125)
other reserves	364,052	364,052
VII - Cash flow hedge reserve	**(323,421)**	**0**
VIII - Retained earnings (Accumulated losses)	**5,597,818**	**4,409,479**
IX - Profit (Loss) for the year	**(3,688,565)**	**2,139,554**
X - Negative reserve for treasury shares held	**(285,014)**	**(285,014)**
Total shareholders' equity - Group	**41,255,759**	**39,441,278**
Capital and reserves pertaining to non-controlling interests	4,899,679	4,159,643
Profit (Loss) for year pertaining to non-controlling interests	(735,590)	633,975
Total shareholders' equity - non-controlling interests	**4,164,089**	**4,793,618**
Total consolidated shareholders' equity	**45,419,848**	**44,234,896**
B) Provisions for risks and charges		
1) retirement benefits and similar obligations	0	0
2) taxation, including deferred tax	2,696,129	2,579,474
2-bis) consolidation provision for future risks and charges	0	0
3) derivatives	323,421	0
4) other	3,527,460	1,927,908
Total	**6,547,010**	**4,507,382**

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2020	31/12/2019
C) Employee severance indemnity ("TFR") provision	**2,244,787**	**2,498,523**
D) Payables		
1) bonds	3,930,586	0
due within a year	105,479	0
due after more than a year	3,825,107	0
2) convertible bonds	0	0
due within a year	0	0
due after more than a year	0	0
3) shareholder loans payable	417,000	525,000
due within a year	0	0
due after more than a year	417,000	525,000
4) bank borrowing	55,542,214	35,561,375
due within a year	16,501,178	15,475,568
due after more than a year	39,041,036	20,085,807
5) payables to other lenders	9,728,429	12,972,045
due within a year	3,454,956	6,170,308
due after more than a year	6,273,473	6,801,737
6) payments on account	6,056,010	2,609,486
due within a year	6,056,010	2,609,486
due after more than a year	0	0
7) trade payables	37,941,096	37,287,165
due within a year	37,941,096	37,287,165
due after more than a year	0	0
8) credit instruments	0	0
due within a year	0	0
due after more than a year	0	0
9) payables to non-consolidated subsidiaries	57,848	64,896
due within a year	57,848	64,896
due after more than a year	0	0
10) payables to associated companies	0	0
due within a year	0	0
due after more than a year	0	0
11) payables to parent companies	0	0
due within a year	0	0
due after more than a year	0	0
11-bis) payables to entities controlled by parent companies	0	0
due within a year	0	0
due after more than a year	0	0
12) tax payables	1,174,230	1,412,777
due within a year	1,174,230	1,412,777
due after more than a year	0	0
13) payables to social security and pensions institutions	1,105,697	1,742,251
due within a year	1,105,697	1,742,251
due after more than a year	0	0
14) other payables	6,219,446	4,523,044
due within a year	6,219,446	4,523,044
due after more than a year	0	0
Total	122,172,556	96,698,039
E) Accrued expenses and deferred income	521,589	762,983
Total liabilities and shareholders' equity	**176,905,790**	**148,701,823**

Income statement

INCOME STATEMENT	31/12/2020	31/12/2019
A) Value of production		
1) revenue from sales and services	141,793,283	155,189,329
2) change in inventory of work in progress, semi-finished and finished goods	(2,710,823)	(3,621,862)
3) change in contract work in progress	318,852	(3,351,863)
4) increase in non-current assets due to internal works	1,647,858	2,636,056
5) other revenue and income	2,605,181	7,728,823
operating grant income	95,664	12,195
other	2,509,517	7,716,628
Total	**143,654,351**	**158,580,483**
B) Cost of production		
6) raw, ancillary and consumable materials and goods for resale	69,987,844	76,176,211
7) services	31,570,940	35,052,430
8) use of third party assets - lease and rental costs	2,157,944	1,938,417
9) personnel:	27,054,977	29,272,745
a) wages and salaries	20,295,735	21,669,589
b) social contributions	5,439,820	6,333,063
c) employee severance indemnity ("TFR")	1,203,243	1,081,372
d) retirement benefits and similar obligations	0	0
e) other personnel costs	116,179	188,721
10) depreciation, amortisation and writedowns:	8,070,815	11,789,789
a) amortisation of intangible assets	2,479,695	1,914,496
b) depreciation of fixed assets	5,568,677	9,830,286
c) other writedowns of non-current assets	0	0
d) writedowns of current receivables and cash and cash equivalents	22,443	45,007
11) change in inventory of raw, ancillary and consumable materials and goods for resale	2,848,591	(1,981,983)
12) provisions for risks	0	0
13) other provisions	3,269,548	1,136,088
14) sundry operating expenses	2,510,635	1,298,698
Total	**147,471,294**	**154,682,395**
Difference between value and cost of production (A-B)	**(3,816,943)**	**3,898,088**
C) Financial income and expenses		
15) income from investments	0	22,900
from non-consolidated subsidiaries	0	22,900
from associated companies	0	0
from parent companies	0	0
from entities controlled by parent companies	0	0
other	0	0

INCOME STATEMENT	31/12/2020	31/12/2019
C) Financial income and expenses		
16) other financial income:		
a) from receivables classed as non-current assets	0	0
from non-consolidated subsidiaries	0	0
from associated companies	0	0
from parent companies	0	0
from entities controlled by parent companies	0	0
other	0	0
b) from securities classed as non-current assets other than equity investments	164	290
c) from securities classed as current assets other than equity investments	2,105	15,685
d) income other than the above	58,489	17,643
from non-consolidated subsidiaries	21,215	146
from associated companies	0	0
from parent companies	0	0
from entities controlled by parent companies	0	0
other	37,274	17,497
Total	**60,758**	**33,618**
17) interest and other financial expenses	1,624,148	1,716,657
to non-consolidated subsidiaries	0	0
to associated companies	0	0
to parent companies	0	0
to entities controlled by parent companies	0	0
other	1,624,148	1,716,657
17-bis) exchange gains and losses	(20,005)	(22,206)
exchange gains	0	0
exchange losses	20,005	22,206
TOTAL (15 + 16 - 17 + - 17 bis)	**(1,583,395)**	**(1,682,345)**
D) Adjustments to value of financial assets		
18) revaluations:	0	16,109
a) of investments	0	
b) of non-current financial assets other than equity investments	0	0
c) of securities classed as current assets other than equity investments	0	0
d) of derivatives	0	16,109
19) writedowns:	13	1,499
a) of investments	0	770
b) of non-current financial assets other than equity investments	0	0
c) of securities classed as current assets other than equity investments	0	0
d) of derivatives	13	729
TOTAL ADJUSTMENTS (18 - 19)	**(13)**	**14,610**
Total adjustments (18 - 19)	**(5,400,351)**	**2,230,353**
20) taxes on income for the year	976,196	543,176
a) current tax	(736,859)	(584,701)
b) prior year taxes	(6,168)	(368,402)
c)(i) deferred tax and utilisation of deferred tax assets	(1,097,947)	(621,519)
c)(ii) deferred tax income and use of deferred tax provisions	2,817,170	2,117,798
d) income and expenses from tax consolidation	0	0
21) PROFIT (LOSS) FOR THE YEAR	**(4,424,155)**	**2,773,529**
PROFIT (LOSS) FOR YEAR - NON-CONTROLLING INTERESTS	**(735,590)**	**633,975**
PROFIT (LOSS) FOR YEAR - GROUP	**(3,688,565)**	**2,139,554**

Statement of cash flows, indirect method

	31/12/20	31/12/19
A) cash flows from operating activities		
Profit (loss) for the year	**(4,424,155)**	**2,773,529**
Taxes on Income	(976,196)	(543,176)
Interest expenses/(income)	1,583,395	1,682,345
(Dividends)	0	0
(Gains)/Losses on asset disposals	(43,635)	(1,276)
1) Profit (loss) for the year before taxes on income, dividends and gains/losses on disposals	**(3,860,591)**	**3,911,422**
Adjustments for non-cash items with no impact on net working capital		
Allocations to provisions	5,012,886	2,898,077
Depreciation/Amortisation of non-current assets	8,048,372	11,744,782
Impairment writedowns	0	(476,977)
Adjustments to Value of Fin Assets and Liabilities	13	(15,380)
Other adjustments for non-cash items	157,499	(1,270,696)
Total adjustments for non-cash items with no impact on net working capital	**13,218,770**	**12,879,806**
2) Cash Flows before changes in NWC	**9,358,179**	**16,791,228**
Changes in net working capital		
Decrease / (Increase) in Inventory	3,851,502	(288,208)
Decrease / (Increase) in Trade Receivables	(2,240,809)	3,454,084
(Decrease) / Increase in Trade Payables	4,479,038	1,253,105
Decrease / (Increase) in Prepaid Exp & Acc Income	(1,913,919)	718,154
(Decrease) / Increase in Acc Exp & Def Inc	(241,394)	177,497
Other decreases/(Other increases) in net working capital	3,614,679	14,444,480
Change in net working capital	**7,549,097**	**19,759,112**
3) Cash Flows after changes in NWC	**16,907,276**	**36,550,340**
Interest received / (paid)	(1,583,395)	(1,468,055)
Taxes on income (paid)	976,196	(642,485)
Dividends received		0
(Use of provisions)	(3,138,475)	(2,534,030)
Other receipts/(payments)		
Total other adjustments	**(3,745,674)**	**(4,644,570)**
4) Cash Flows after other adjustments	**13,161,602**	**31,905,770**

	31/12/20	31/12/19
CASH FLOWS FROM OPERATING ACTIVITIES		
B) Cash flows from investing activities		
Capex on non-current assets		
-Fixed assets		
(Additions)	(3,786,647)	(8,131,906)
Disposals	10,697,152	237,010
-Intangible assets		
(Additions)	(3,919,011)	(4,267,275)
Disposals	0	0
-Financial assets	(2,110,567)	
(Additions)	0	(6,192)
Disposals		0
-Current financial assets		
(Additions)	(3,980)	0
Disposals	0	199,915
(Acquisition of business units net of cash and cash equivalents)	0	(2,351,645)
Sale of business units net of cash and cash equivalents		
CASH FLOWS FROM INVESTING ACTIVITIES	**876,947**	**(14,320,093)**
C) Cash flows from financing activities		
Debt		
-Increase (Decrease) in ST bank borrowing	(1,691,782)	(3,271,543)
-Loans arranged	24,092,733	525,000
-(Loans repaid)	(5,666,249)	(9,630,129)
Equity		
-Paid share capital increase	6,000,000	0
-(Share capital refunds)		
-Sale (Purchase) of treasury shares	0	(285,014)
-(Dividends and advances on dividends paid)		
Cash flows from financing activities	**22,734,702**	**(12,661,686)**
Increase (decrease) in cash and cash equivalents (A ± B ± C)	**36,773,251**	**4,923,991**
-Forex effect on cash and cash equivalents		
Cash and cash equivalents at start of period		
Bank and post office accounts	7,952,094	3,034,675
Cheques		
Cash and cash equivalents on hand	14,336	7,764
Total cash and cash equivalents at start of period	**7,966,430**	**3,042,439**
Of which not freely available		
Cash and cash equivalents at end of period		
Bank and post office accounts	44,734,919	7,952,094
Cheques	0	
Cash and cash equivalents on hand	4,762	14,336
Total cash and cash equivalents at end of period	**44,739,681**	**7,966,430**
Of which not freely available		
Acquisition or sale of subsidiaries		
Total consideration paid or received		2,500,000
Portion of consideration consisting of cash and cash equivalents		750,000
Cash and cash equivalents acquired or sold upon the acquisition/sale of subsidiaries		182,518
Carrying amount of assets/liabilities acquired or sold		(650,026)

INDUSTRIE SALERI ITALO S.p.A.
Via Ruca n. 406 – Lumezzane (BS)
Share capital Euro 23.922.413,12 – wholly paid
Tax number and Brescia Register of Companies no. 03066870175
VAT number 01589150984

Notes to the Consolidated Financial Statements at 31 december 2020

General information

The Consolidated Financial Statements at 31 December 2020, as prepared in accordance with Articles 25 et seq. of Legislative Decree 127/1991, reflect the line-by-line consolidation of the financial statements of Industrie Saleri Italo S.p.A. and its subsidiaries, as described in more detail in the "Scope of Consolidation" note.
They comprise the Balance Sheet, the Income Statement, the Statement of Cash Flows and the Notes – prepared in accordance with Article 38 of the aforementioned Legislative Decree – which constitute an integral part of the Consolidated Financial Statements.
Moreover, we note that the accounting policies and criteria used when preparing the Consolidated Financial Statements at 31 December 2020 take account of the changes to Italian GAAP introduced by Legislative Decree 139/2015 which implemented Directive 2013/34/EU. Italian Accounting Standards ("OIC") were amended as a result of Legislative Decree 139/2015.
The Consolidated Financial Statements are presented with prior year comparative figures. It should be noted that, where necessary, the prior year figures have been reclassified in order to produce a consistent comparison between the two periods but without altering the result for the period or Shareholders' Equity at 31 December 2020.
The Balance Sheet, Income Statement and Statement of Cash Flows amounts at 31/12/2019 reflect the amounts included in the prior year Consolidated Financial Statements, as approved by the Shareholders' General Meeting.
Unless otherwise stated, the amounts reported in these Notes are stated in Euro, given that the Euro is the currency in which the majority of the Group's transactions are carried out.

Foreword

Preparation of the Consolidated Financial Statements at 31 December 2020 was significantly affected by the pandemic caused by the Coronavirus called "Covid-19", which spread in Italy from the first few months of 2020 and involved lengthy lockdown period for most non-essential business activities with consequential effects for the productivity, profitability, finances, employment and markets of companies both in Italy and internationally.
The Saleri Group began to deal with the risk of the Covid-19 epidemic at the end of January following signs of alarm in China. In that country, in compliance with the orders of the local government, subsidiary Saleri Shanghai suspended its activities and postponed employees' return to work after the Chinese New Year Holidays. Production activities recommenced fully in April.
The Prime Minister's Decree ("DPCM ") of 22 March 2020 ordered the suspension of most non-essential business activities with resulting effects on the productivity, profitability, finances, employment and markets of businesses in Italy and internationally.
The suspension affected both the Parent Company and subsidiary ABL Automazione S.r.l. which continued to operate only as permitted by the aforementioned DPCM to guarantee the supply of goods and services to business sectors considered strategic to the national economy. They also facilitated agile working where possible and encouraged employees to use their annual leave. The Group duly complied with the legal requirements with the primary aim of safeguarding the health of its workers.
During the year, in addition to the emergency DPCMs that were issued from March 2020 onwards to introduce measures designed to combat the spread of the virus, a range of legislative provisions were introduced with measures of various types (financial, fiscal, statutory reporting, employment law, medical/health) to sustain and assist businesses during the health emergency and to regulate the

various compliance requirements related to their operations during the pandemic.

Decree Law no 18 of 2020 (the "Cura Italia" decree) – later amended by Decree Law no 183 of 2020 ("Milleproroghe" decree) containing urgent measures for businesses, workers and families in light of the Coronavirus (COVID-19) emergency – extended the deadline by which the 2020 Financial Statements have to be approved. Specifically, Article 106 of the Decree Law, as subsequently amended, establishes that, by way of derogation from the usual rules and from the articles of association, the Company's Ordinary General Meeting to approve the financial statements at 31 December 2020 may be convened within 180 days of the reporting date. The Parent Company has made use of this longer approval period permitted by law.

With regard to the financial statements at 31 December 2020, reference should also be made to the Explanatory Memorandum accompanying Decree Law no 23/2020 and to OIC interpretation document no 6 which permits exceptions from Article 2423-bis (1) (1) of the Italian Civil Code if the amounts reported in the financial statements at 31 December 2019 were measured on a going concern basis in application of Italian Accounting Standard OIC 11. The Group did not need to make use of this exception.

We underline, however that, given its importance, the health emergency is similar to a natural disaster with significant effects on the Income Statement for the reporting period which is not wholly comparable with prior year because of the temporary suspension of the production activities of the Parent Company, the subsidiaries and the main foreign customers.
The situation triggered by the pandemic and the resulting restrictions on the operations of the industry as a whole also required the Group to act swiftly to adopt the measures necessary to mitigate the risks that could have affected its ability to continue to operate as a going concern.

Based on its short-term forecast of treasury requirements, the Group duly signed up to initiatives launched with the Italian Government in order to (i) obtain a moratorium on debt repayments and to (ii) obtain new loans accompanied by Public Guarantees. Moreover, while awaiting a return to a full level of activity, the Group maintained close contact with its key customers and suppliers in order to (i) reschedule deliveries after these counterparties stated their interest in continuing the commercial relations and, for some customers, (ii) obtain important support for the supply chain.

In terms of measures to mitigate the risk of contagion, the Company has implemented and continues to implement all of the production facility sanitisation activities and the monitoring of all safety measures required by law, by Trade Union Agreements and by the guidelines issued by Business Associations.
Given the above and in consideration of all of the action taken to deal with the state of emergency caused by the pandemic and the expectations for 2021, the Directors do not believe there is any significant uncertainty over the Group and the Company's ability to operate as a going concern. Accordingly, the Consolidated Financial Statements at 31 December 2020 have been prepared on a going concern basis.

During the reporting period, subsidiary Hold.Co 1 S.r.l. was the subject of a reverse merger with subsidiary ABL Automazione S.r.l.. The merger agreement was signed on 04/12/2020 and registered with Brescia Register of Companies on 14/12/2020. The merger was effective for legal purposes from that date while it was effective for accounting and tax purposes from 01/01/2020.

Reference should also be made to the Directors' Report for further information on the above.

The Group's business activities

The Group headed by parent company Industrie Saleri Italo S.p.A., a company founded in 1942, is mainly involved in the design, manufacture and sale of engine cooling systems for the automobile industry and operates in both the original equipment and the aftermarket segments.

The Group's ability to provide a leading customer base in the automotive industry with a wide range of technologically advanced solutions has enabled the business to grow strongly in recent years. Long-term production contracts have consistently been acquired, guaranteeing a healthy workload for the years ahead.

Through subsidiary ABL Automazione S.r.l., the Group also carries out the design and realisation of industrial automation systems, specifically, automated equipment for hi-tech robotised assembly destined for the Automotive and Oil&Gas industries.

Through subsidiary Immobiliare Industriale S.r.l., the Group also operated to a minor extent in the real estate industry until 10 December 2020 when the only asset owned by the subsidiary was sold.

Reporting principles

The Consolidated Financial Statements have been prepared in accordance with Legislative Decree no 127/1991 which implemented in Italy EEC VII Directive on Consolidated reporting. Their preparation also took account of the financial reporting provisions of the Italian Civil Code, as amended by Legislative Decree no 6 of 17 January 2003 as subsequently amended, concerning the "Organic reform of corporate legislation" where applicable to Consolidated financial statements.
The Notes are intended to illustrate, analyse and, in some cases, interpret the amounts reported in the financial statements and contain the disclosures required by Article 38 and by other provisions of Legislative Decree no 127/1991. Such additional information considered necessary to present a true and fair view of the situation has been provided even if not specifically required by law.
Where statutory reporting requirements demand particular information on items and events not present or non-existent, rather than indicating their non-applicability to these Financial Statements, we have chosen to make no mention thereof in order to avoid increasing unnecessarily the information provided in these Notes.
The Group Statement of Cash Flows has been attached in order to complete the financial information provided by the Consolidated Financial Statements.
The Consolidated Financial Statements are also accompanied by a report of the Board of Director's on the Group's operating activities, in terms of Article 40 of Legislative Decree 127/91.
The scope of consolidation, the consolidation principles, the main accounting policies and details of each of the captions reported in the Consolidated Financial Statements are presented below.

The Financial Statements have been prepared in Euro. Roundings have been allocated as follows:

- Roundings of Balance Sheet assets and liabilities have been allocated to Shareholders' equity line item "VII Other reserves", even where said line item has a zero balance;
- Positive roundings of Income Statement items have been allocated to caption "A5 Other revenues and income";
- Negative roundings of Income Statement items have been allocated to caption "B14 Sundry operating expenses.

Consolidation criteria

The financial statements of companies included in the scope of consolidation that are used for consolidation purposes are those prepared as at 31 December 2020 by the respective Boards of Directors for approval by the shareholders. Such financial statements have been adjusted, where necessary, to eliminate tax items and to render them consistent with Group accounting principles which are in line with consolidated statutory reporting requirements, as interpreted by the accounting standards issued by Italian Accounting Standards Board ("OIC") and by the IASB (International Accounting Standards Board.

All of the subsidiaries included in the scope of consolidation are consolidated on a line-by-line basis, as follow:

a) assets, liabilities, revenues and costs are included in full, irrespective of the percentage investment held, while the portion of Shareholders' Equity and result for the year pertaining to non-controlling interests are disclosed separately;
b) the carrying amount of investments on consolidated companies is eliminated against the corresponding portion of equity while the assets and liabilities, revenues and costs are included on a line-by-line basis; the difference emerging, at the acquisition date, from the elimination of the carrying amount of an entity included in the scope of consolidation against the corresponding portion of shareholders' equity at present value is allocated, where possible, to the assets and liabilities of the entity in question. Any residual amount is treated as follows:
   - if positive, it is recorded under "consolidation differences" under "intangible assets" and amortised on a straight-line basis over its expected useful life (not more than 20 years);
   - if negative, it is recorded under Shareholders' Equity as a "consolidation reserve" or, where unfavourable results are forecast, under a caption called "consolidation provision for risks and charges";
c) all receivables and payables and transactions between consolidated entities are eliminated;
d) significant gains realised between consolidated entities and profits included in intangible assets coming from consolidated entities have been eliminated;
e) profits and losses from trade or financial transactions between Group companies, net of related deferred tax and/or deferred tax income, are eliminated; an exception to this rule regards positive intercompany margins realised and relating to assets recorded in inventory at the reporting date – such margins are not eliminated in terms of Article 31(2)(d);
f) any provisions made by foreign subsidiaries included in the scope of consolidation in order to take advantage of tax benefits otherwise not available have been eliminated from the Consolidated Financial Statements, net of the related tax effects, based on the tax rate in force at the date of preparation of the Consolidated Financial Statements;
g) income and expenses resulting from transactions between the same entities are eliminated;
h) profits included in tangible and intangible assets and resulting from purchases of goods and services produced within the Group on an arm's length basis are eliminated. The portion of intra-Group revenues relating to such goods and services is reclassified, net of the related "internal profits", under the caption "increases in non-current assets due to internal works ";
i) assets and liabilities expressed in currencies other than the Euro are translated at the reporting date exchange rate; revenues and costs

are translated at average rates for the period. The exchange rates used are those officially published. Exchange differences arising from the comparison between opening equity translated at the spot rates at the end of prior period and the difference between the result for the period, translated at average rates, and those obtained from the translation at reporting date rates are allocated directly to consolidated shareholders' equity under the caption "Reserve for translation differences". In detail:

- for balance sheet items, equity items and current assets, the Euro / Renmimbi reporting date exchange rate is Euro 1: Renmimbi 8.0225;
- for income statement items, the average rate for 2019 is Euro 1: Renmimbi 7.8747.

Scope of consolidation

The scope of consolidation at 31 December 2020 includes all of the Italian and foreign entities shown in the following table, in which the Company holds a majority of voting rights and, in any cases, the entities over which it exercises dominant influence.
The financial statements of the Companies in the scope of consolidation have been included on a line-by-line basis.
The companies not included in the scope of consolidation and those in which the percentage interest held is lower than 20% and which constitute non-current assets are valued under the cost method.
For consolidation purposes, the financial statements used are those of the individual companies, as approved or under approval by the respective General Meetings, as reclassified and adjusted to bring them into line with the accounting principles and valuation criteria adopted by the Group.

The scope of consolidation has not changed compared to 31 December 2019. As already stated in the foreword, during the year, the reverse merger of subsidiary Hold.Co 1 S.r.l. into subsidiary ABL Automazione S.r.l. was completed.

The companies included in the scope of consolidation on a line-by-line basis are listed below:

Parent company

NAME	REGISTERED OFFICE	SHARE CAPITAL
Industrie Saleri Italo S.p.A.	Via Ruca, 406 – Lumezzane (BS)	Euro 23,922,413.12

Direct Subsidiaries

NAME	REGISTERED OFFICE	SHARE CAPITAL	% INTEREST HELD
Saleri Shanghai Co.Ltd	Taifeng road 188/b,Anting Town Jiading district 201.814 Shanghai China	RMB 14,821,016	95.00%
Immobiliare Industriale S.r.l.	Via Ruca, 406 – Lumezzane (BS)	Euro 10,000	62.50%
ABL Automazione S.r.l.	Via Mandolossa, 102/B – Gussago (BS)	Euro 750,000	70.00%

The subsidiaries excluded from the scope of consolidation are listed below:

NAME	REGISTERED OFFICE	SHAREHOLDER	SHARE CAPITAL	PERCENTAGE HELD
Saleri GMBH	Spitzerstrasse, 14 – Munchen (Deutschland)	Industrie Saleri Italo S.p.A.	Euro 25,000	100.00%
Immobiliare Industriale Deutschland GMBH in liquidation	Siemenstrasse, 26 70825 – Korntal Munchingen (Deutschland)	Immobiliare Industriale S.r.l.	Euro 540,000	100.00%
Saleri México S.A. de C.V.	San Pedro Garza Garcia, Nuevo Leon México CP 66269 - Ave. San Patricio # 111	Industrie Saleri Italo S.p.A.	MXN 50,234,000	99.99%

Reasons for exclusion

Pursuant to Article 28(2)(a) of Legislative Decree 127/91, we note that the following companies have been excluded from the scope of consolidation as their financial statements are immaterial in relation to the provision of a true and fair representation of the Group's balance sheet and financial position:

- **Saleri Gmbh** – during the reporting period, the company – which, in prior years, essentially operated as a branch office on the German market – began to provide consulting activities to support the parent company in its dealings with customers based in Germany; despite the start of these activities, its financial statements remain immaterial;
- **Immobiliare Industriale Deutschland Gmbh in liquidation**, – controlled by Immobiliare Industriale S.r.l. – the company originally owned a property leased to third parties and is now at an advanced stage of liquidation as it has sold the only asset it held. At the date of these Notes, the last formal steps for the liquidation of the legal entity were still in progress. The liquidation process has not produced any significant effects on the company's financial statements;
- **Saleri México S.A. de C.V.** – this company was incorporated at the end of 2019. At the reporting date, it was still in its start-up phase, as it only commenced its operating activities during the last few months of 2020 when it hired its first employees. Mass production will commence in 2021 and the first revenue will be invoiced.

Accounting policies and measurement criteria

The accounting policies and valuation criteria adopted by the Company in preparing the attached Financial Statements are those required by the applicable legislation (Article 2423(2) of the Italian Civil Code), as well as by the accounting standards issued by the OIC – Italian Accounting Standards Board – and, where they are lacking, those issued by the IASB (International Accounting Standards Board).

The Financial Statements have been prepared clearly and provide a true and fair representation of the Group's balance sheet and financial situation and its result for the year.

Further information is provided in the notes on each caption.

The criteria used when preparing the Financial Statements at 31 December 2020 are those used in the separate financial statements of the parent company which prepares the consolidated financial statements. They are consistent with those used when preparing the prior year Consolidation Financial Statements, especially with regard to valuations and the consistent application of the same principles.

The amounts reported in the Financial Statements have been measured using the general prudence and accrual principles, on a going concern basis and taking account of the economic function of each asset and liability considered.

Prudence

Application of the prudence principle involved the separate measurement of each component item of the individual asset or liability captions, in order to avoid offsetting of losses that should be recognised and profits that should not as they have not been realised.

Accruals

In accordance with the accrual principle, the effect of transactions and other events has been accounted for and allocated to the period to which such transactions and events refer and not to those in which the related cash movements (collections and payments) take place.

Going concern issue

As described in more detail in the "Foreword" paragraph, the Group has prepared the 2020 Consolidated Financial Statements on a going concern basis.

Consistent application of accounting policies and valuation methods is essential to ensure the comparability of the financial statements from one reporting period to another.

Details of the most significant accounting policies and valuation criteria applied during the period are provided below.

Intangible assets

Intangible assets are recorded at purchase or production cost, including related expenses, and amortised on a straight-line basis. Start-up and expansion costs are reported under the relevant caption and amortised over their useful life which cannot exceed five years. Development costs are expensed in the Income Statement for the period in which they are incurred. This is except for expenses relating to projects designed to realise new products whose sale on a commercial basis – with margins sufficient to enable recovery of the expenses incurred – is realistically foreseeable. Development costs whose useful life cannot be reliably estimated are amortised over not more than five years. Development costs with a clear link to projects with an estimated useful life of 10 years are amortised over that period at a rate of 10% per annum. Until amortisation has been completed, dividends may only be distributed if there are sufficient residual available reserves to cover the development costs not yet amortised.
Leasehold improvements made during the period are amortised over the residual period of the related lease/rental agreement.
The consolidation difference (disclosed separately under Balance Sheet caption B.I.5 bis) emerges upon preparation of the Consolidated Financial Statements when the carrying amount of investments is eliminated for the first time against the corresponding portion of equity of the subsidiaries. Any excess that cannot be allocated to individual asses of the entities included in the consolidation is recorded under the caption "Consolidation difference", where requirements are met. This caption is amortised over a period of ten years as this period is felt best to represent its useful life and not to exceed the period of utilisation of the asset, taking account of the extent of the benefits expected and the synergies resulting from the business acquired.

Other items included in intangible assets but not specifically mentioned here are recorded in the Financial Statements at purchase cost and amortised on a straight-line basis over their estimated useful lives which cannot exceed five years.
Where required by the Italian Civil Code, the above items have been recognised with the agreement of the Board of Statutory Auditors.
Intangible assets whose fair value at the reporting date is permanently impaired compared to the amortised cost determined as above are adjusted to bring them into line with their fair value; the amount and reasons for any impairment adjustments made to intangible assets are disclosed, with specific reference to their involvement in the future generation of profits, their estimated useful life and, insofar as relevant, their market value. Details of differences with adjustments made in prior periods are also shown and their impact on the results for the period is highlighted.
During the reporting period, conditions requiring impairment adjustments to be made to intangible assets did not materialise.

Fixed assets

Fixed assets are recorded at purchase or production cost, adjusted for certain assets in application of specific monetary revaluation laws, as reported on a specific schedule. Cost includes related expenses and direct and indirect expenses insofar as reasonably attributable to the asset until the time the assets become available for use.
Fixed assets are systematically depreciated every year on a straight-line basis using rates determined based on the residual useful lives of the assets.

The depreciation rates used are unchanged compared to prior year and are in line with those established by the Finance Ministry Decree of 31/12/1988, as follows:

Category	Rate
Land and buildings	
Industrial buildings	3.00%
Plant and machinery	
General plant and machinery	5-10.00%
Specific plant and machinery	5-10.00%
Industrial and commercial equipment	
Equipment	25.00-12.50%
Prototype Equipment	50.00%
Other fixed assets	
Office furniture and equipment	12.00%
Electronic office equipment	20.00%
Motor vehicles	25.00%
Internal means of transport	20.00%
Assets costing not more than Euro 516.46	100.00%

On the basis of maintenance work carried out in the past and the resulting improvement in the efficiency of its plant and machinery and equipment, considering the fact that it confirmed that the actual useful life was longer than that initially estimated (10 years for machinery and 4 years for equipment) and, finally, given the independent appraisal prepared by a third party expert, the Parent Company decided it should change the following depreciation rates

- from 10% to 5% for machinery
- from 25% to 12.50% for equipment.

The new rates were felt to be more representative of the useful lives of the assets in question than those used until now.
Ordinary maintenance expenses are charged in full to the Income Statement. Incremental maintenance expenses are allocated to the relevant tangible asset and depreciated over the remaining useful life of that asset.
Fixed assets under construction are valued at cost including direct and indirect related expenses and disclosed under the asset caption reserved for them.
Fixed assets purchased under finance leases with a final purchase option are recognised as assets in the period in which the final purchase option is exercised.
Any assets subject to sale and purchase with a final return obligation are recorded in the Balance Sheet of the seller.
Fixed assets whose fair value at the reporting date is permanently impaired compared to the depreciated cost determined as above are adjusted to bring them into line with their fair value; the amount and reasons for any impairment adjustments made to fixed assets are disclosed, with specific reference to their involvement in the future generation of profits, their estimated useful life and, insofar as relevant, their market value. Details of differences with adjustments made in prior periods are also shown and their impact on the results for the period is highlighted.
During the reporting period, no indicators of impairment of any of the fixed assets included on the Balance Sheet were identified.

Financial assets

Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies classified as non-current assets are measured at purchase and/or subscription cost. Cost is adjusted for impairment if the subsidiaries/associated companies have incurred losses and sufficient profits to absorb said losses are not foreseeable in the immediate future. Investments recorded under non-current financial assets represent a permanent, strategic investment by the Company. Investments that are not considered long-term are classified as current assets.

Other investments and non-current securities

Securities constituting short-term investments have been measured at the lower of purchase or subscription cost and fair value.

Inventory, securities and current financial assets

Inventory, securities and current financial assets are recorded at the lower of purchase cost – including direct related expenses – and estimated realisable amount, based on market trends.

The cost calculation methods adopted are as follows:

- for raw and ancillary materials, purchase cost is determined applying the weighted average cost method;
- for finished goods and work in progress, production cost includes the purchase cost of raw materials and components determined as above plus the portion of direct and indirect production costs ("general production costs") reasonably attributable to them, also taking account of the percentage of completion of the production phase they have reached;
- for contract work-in-progress, in addition to purchase cost of raw materials and components determined as above, production cost also includes the portion of direct and indirect production costs that may reasonably be attributed to these items; cost is measured using the completed contract method;
- for some items such as prototypes and equipment ("tooling"), purchase cost is determined using the specific cost method;

Estimated realisable amount, based on market trends, is determined based on the current prices-costs and prices-revenues of inventory at the reporting date. If estimated realisable amount is lower than purchase or production cost, the inventory is written down accordingly by means of an allocation to the inventory provision.
The value of obsolete and slow moving inventory has been written down based on their possible future utilisation or realisation by means of an allocation to the inventory obsolescence provision.

Receivables

Receivables are classified as non-current assets or as current assets based on their destination/origin in relation to ordinary activities. They are reported at estimated realisable amount, after the provision for bad debts calculated in relation to the risk of bad debts resulting from a specific analysis of each balance and taking account of historical bad debt trends and the country risk; the amount recorded in the bad debt provision is considered reasonable in relation to expected bad debts. Where necessary, this amount is obtained by means of direct adjustment to specific receivables on a detailed basis.

Receivables due after more than 12 months are recorded using the amortised cost method, taking account of the time factor. The amortised cost method is not applied when the effective interest rate is not significantly different than the market interest rate or when the effects of application of the amortised cost method are immaterial compared to the method already adopted.

Receivables include invoices issued and invoices not yet issued but referring to transactions relating to the reporting period.

Receivables denominated in foreign currency are initially recognised at the spot exchange rate in force at the transaction date. At the reporting date, foreign currency receivables are restated at the reporting date spot rate. When realised, exchange gains and losses are recorded in the Income Statement. Any unrealised net exchange gain resulting from translation of foreign currency receivables is allocated to a non-distributable reserve until realised.

Receivables are derecognised from the Balance Sheet when the right to receive cash flows is extinguished and substantially all of the risks and rewards of title to the asset have been transferred or if the receivable is definitively considered non-recoverable after all necessary recovery procedures have been completed.

Any receivables from customers involved in insolvency proceedings or in a state of proven economic distress which render enforcement measures pointless are written off in full or to the extent that information obtained or the procedures in progress lead to the conclusion that they will prove uncollectable.

Current financial assets

This caption includes bonds and investments which the Directors have decided will not be held as long-term investments by the Company. They are carried at the lower of specific cost and fair value, as determined – for listed securities – based on the listed price at the reporting date of 31 December 2020.
Investments and securities are adjusted to bring them into line with their lower fair value on an individual basis, for each type of investment and not for the entire segment. When the reasons for an impairment adjustment cease to apply, the adjustment is reversed up to a maximum of the cost of the asset.

Cash and cash equivalents

This caption contains all cash and cash equivalents held by the Group, whether on hand or in bank accounts. They are reported at nominal amount.

Prepaid expenses and accrued income, accrued expenses and deferred income

Prepaid expenses and accrued income include income relating to the period but collectible in future periods and expenses incurred before the reporting date but relating to future periods. Accrued expenses and deferred income include expenses relating to the period but payable in future periods and income already received by the reporting date but relating to future periods.
They do not depend on the payment or collection date of the related expenses or income which are common to two or more reporting periods and are allocated based on time. The amount is determined by spreading the income or the expense (generally arising under contracts for a fixed period of time) in order to allocate the relevant portion to the reporting period and to defer or accrue the remaining portion.

Provisions for risks and charges

Provisions for risks and charges have been created to cover losses or liabilities of a determinate nature, which are certain or probable, but whose amount or due date could not be determined at the reporting date. Provisions for risks and charges also include the provision for "taxation, including deferred tax" which includes amounts relating to probable tax liabilities whose amount or due date is uncertain and which originate from tax assessments not yet finalised or ongoing tax disputes or similar circumstances. The provision "for taxation, including deferred tax" includes deferred tax liabilities determined based on taxable temporary differences.
These provisions were calculated in accordance with the prudence and accrual principles. No general provisions for risks without any economic justification have been created.
Allocations to provisions for risks and charges are recorded under the appropriate Income Statement cost headings (B, C or D) if possible. Whenever it is not possible to make a connection between the amount provided and one of the captions under the aforementioned categories, allocations to provisions for risks and charges are recorded under Income Statement captions B12 and B13.

Employee severance indemnity ("TFR") provision

The employee severance indemnity provision represents the Parent Company's effective commitment towards each employee, as determined in accordance with current legislation in each country and for the Italian companies, in particular, in accordance with the terms of Article 2120 of the Italian Civil Code, national collective labour agreements and supplementary local agreements. Therefore, the "Employee severance indemnity provision" includes indemnities accruing in favour of employees at the reporting date, net of advances paid and after deducting partial advances maturing and paid. For the Italian companies, following supplementary pension reform in 2006, amounts accruing from 1 January 2007 onwards may be maintained in the company or allocated to a supplementary pension fund, as the employee chooses.
This liability is subject to index-based revaluation.
Advance payments are treated separately and deducted from the provision to show the net liability. The portion of the provision relating to the reporting period is allocated to the Income Statement.
As required by rules on the Trattamento di Fine Rapporto contained in Law no 296 of 27 December 2006 and in subsequent Implementing Decrees issued in the first few months of 2007 (Pension Reform), the liability reported represents the actual amount payable to employees at 31 December 2006, as revalued based on indexes and updated for amounts accruing in the first half of 2007 and not paid into supplementary

pension funds. The balance also includes the TFR entitlement of persons hired in the second half of 2020 who have not yet stated their choice as to the destination of the TFR accruing, given the fact that this choice may be made within six months of the date of employment.

Payables

Payables falling due within a year are stated at nominal amount and include, where applicable, interest accruing and due at the reporting date.

Payables falling due after more than a year are recorded using the amortised cost method, taking account of the time factor. The amortised cost method is not applied when the effective interest rate is not significantly different than the market interest rate or when the effects of application of the amortised cost method are immaterial compared to the method already adopted.

Payables include invoices received and invoices yet to be received but for services relating to the reporting period.

Payables are derecognised from the Balance Sheet when the specific contractual obligation is extinguished.

Payables for employee holidays accruing and for deferred remuneration, including amounts due to social security and pensions institutions, are recorded based on the amount that would have been payable if the employment relationship had ended on the reporting date.

Derivative instruments

Derivative instruments are arranged solely in order to hedge underlying interest rate, exchange rate, price and credit risks. The instruments meet the requirements to be considered as simple hedges and are, therefore, measured using the simplified method.
Derivatives are classified as hedging instruments only when, at the start of the hedge, there is a close, documented relationship between the characteristics of the item hedged and those of the hedging instrument and that hedging relationship is formally documented.
A derivative instrument used to hedge the cash flows or the fair value of an asset follows the classification of the hedged asset, in current assets or non-current assets; a derivative instrument used to hedge the cash flows or the fair value of a liability, a binding commitment or a highly probable planned transaction is classified in current assets, as is a non-hedging financial instrument. If they have a negative fair value, these instruments are recorded as liabilities under provisions for risks.
When derivatives hedge the risk of the future cash flows from the hedged instrument (cash flow hedges), the effective portion of the gains or losses on the derivative instrument is suspended in Equity. The ineffective portion of the gains and losses of a hedge are recorded in the Income Statement. When the related transaction is realised, accumulated gains and losses – until then recorded in equity – are recorded in the Income Statement (as adjustments to the Income Statement items affected by the hedged flows). The Group has decided to apply hedge accounting for the hedging of changes in cash flows of financial liabilities as a result of interest rate fluctuation.
Therefore, changes in the fair value of derivative hedging instruments are recorded:

- in the Income Statement in captions D18 or D19 in case of a hedge of the fair value of an asset or liability reported in the financial statements or of changes in the fair value of the hedged items (if the change in the fair value of the hedged item is greater in absolute terms than the change in fair value of the hedging instrument, the difference is recorded in the Income Statement caption affected by the hedged item);
- in a specific Equity reserve (caption AVII "Cash flow hedge reserve") in case of a cash flow hedge in such a way as to counterbalance the hedged cash flows (the ineffective portion, as well as the change in the time value of options and forward contracts, is classified in captions D18 and D19).

Translation of amounts denominated in foreign currency

Receivables and payables originally expressed in foreign currency are translated into Euro at the historical rates on the date they arose. Exchange differences realised upon settlement of payables and collection of receivables in foreign currency are recorded in the Income Statement.

Foreign currency receivables outstanding at the reporting date have been translated into Euro at the reporting date exchange rate. Exchange gains and losses arising in this way have been recorded in the Income Statement under caption C.17-bis "Exchange gains/losses", while allocating an amount equal to any net gain arising to a non-distributable equity reserve until the time of realisation.

Revenue, income, costs and expenses

Revenue and expenses are recorded in the Income Statement on an accrual basis, while recognising prepaid expenses and accrued income, accrued expenses and deferred income, in accordance with the prudence principle.
Revenue and income, costs and expenses are recorded net of returns, discounts, allowances and bonuses, as well as any taxes directly related to the sale of products and the provision of services.
Revenue from the sale of products is recognised upon change of ownership which normally coincides with shipment or delivery. Revenue for services is recognised when the services have been rendered.
Revenue relating to contract work in progress is recognised upon the transfer of ownership/transfer of risks and rewards, which normally occurs upon delivery or despatch of the goods.
Income and expenses relating to sale and purchase transactions with a future return obligation, including the difference between forward price and spot price, are recognised on an accrual basis.
Gains on finance lease transactions are allocated over the period of the

finance lease agreement.
Financial income and revenue from services are recognised on an accrual basis.
Extraordinary or non-recurring income and expenses are recorded under the Income Statement captions deemed appropriate based on the type of transaction. Any residual amounts are recorded under “Other revenues and income” and “Other operating expenses”.

Taxes on income for the period

Current taxes, deferred taxes and deferred tax income are calculated applying tax rules in the countries where the consolidated companies are based.
Current taxes are determined based on a realistic estimate of the expense payable in application of current tax legislation; the related liability is stated net of payments on account, withholding taxes suffered and tax credits under the caption “Tax payables”; any net receivable is recorded under “Tax receivables”.
Deferred taxes are calculated in the financial statements of the individual consolidated entities based on temporary differences between the amount attributed to assets and liabilities for statutory reporting purposes and the amount attributed to the same assets and liabilities for tax purposes; they are also recorded in the consolidated financial statements in relation to differences generated by consolidation adjustments. Deferred tax assets, including the benefit of tax loss carry-forwards, are recognised under the relevant current assets caption. The tax benefit of tax loss carry-forwards is recognised when it is reasonably certain that it will be realised.
Once again in 2020, the consolidated taxation arrangement elected for by Industrie Saleri Italo S.p.A. together with subsidiaries Immobiliare Industriale S.r.l. and ABL Automazione S.r.l. was in operation.
The related rules, as contained in Articles 117-129 of Legislative Decree 917/86, as subsequently amended and integrated, involve the determination for corporate income tax (IRES) purposes of an overall amount of taxable income consisting of the sum of the income and/or losses of the parent company and the participating subsidiaries. This leads to a single tax payment or to a single tax receivable that may be collected or carried forward by the parent company. The parent company also carries forward any consolidated tax loss.

Finance leases

In accordance with Italian Accounting Standard OIC 17, the “finance lease method” has been used to account for leases in the consolidated financial statements, broadly in line with the rules laid down by IAS 17. Therefore, the related fixed assets have been capitalised and are reported net of accumulated depreciation. The outstanding principal payable is reported as a liability. Interest expense and depreciation have been recorded in the Income Statement in place of the finance lease instalments.

Use of estimates

Preparation of the Consolidated Financial Statements requires the use of estimates and assumptions that affect the value of assets and liabilities at the reporting date. Inevitably, the actual results that will subsequently materialise may differ from these estimates.
In particular, estimates are used to determine the useful life of fixed assets and to record the related depreciation, to make provisions for bad debts and for inventory obsolescence, to make writedowns, to provide for employee benefits and to provide for taxation and other items. Estimates and assumptions are revised periodically and the effects of every change are reflected in the Income Statement for the period in which the estimate is revised.

Changes to accounting policies and measurement criteria

We note that in these Financial Statements no changes have been made to accounting policies and valuation criteria compared to prior year. This is except for foreign currency assets and liabilities which have been measured in accordance with the new requirements of Article 2426 (8-bis) of the Italian Civil Code.

Exceptions in terms of article 2423(4) of the Italian civil code

No exceptions in terms of Article 2423(4) of the Italian Civil Code were made when preparing the Financial Statements.

Comparability of account balances

The amounts reported in these financial statements are all suitable for comparison in terms of Article 2423-ter of the Italian Civil Code.

Notes to the Balance Sheet

Non-current assets

Intangible assets

Movements	Start-up and expansion costs	Development costs	Patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Consolidation differences	Assets in progress and payments on account	Other	Total
Historical cost	110,920	2,756,964	1,489,042	-	2,989,181	3,058,816	5,807,790	16,212,713
Previous revaluations	-	-	-	-	-	-	-	-
Accumulated amortisation	(110,920)	(1,295,678)	(994,945)	-	(124,549)	-	(2,448,876)	(4,974,968)
Previous writedowns	-	-	-	-	-	-	-	-
Opening amount	**-**	**1,461,286**	**494,097**	**-**	**2,864,632**	**3,058,816**	**3,358,914**	**11,237,745**
Additions during the year	-	-	81,019	-	1,150,000	2,626,970	61,022	3,919,011
Change in scope of consolidation (cost)	-	-	-	-	-	-	-	-
Change in scope of consolidation (Accum. Amort'n)	-	-	-	-	-	-	-	-
Reclassifications	-	345,384	65,676	-	-	(411,060)	-	-
Movements to other caption during period	-	-	-	-	-	-	-	-
Disposals (historical cost)	-	(230,640)	(650,323)	-	-	(7,967)	(1,170)	(890,100)
Disposals (Accum. Amort'n)	-	230,640	650,323	-	-	-	-	880,963
Revaluations during year	-	-	-	-	-	-	-	-
Amortisation for the year	-	(519,699)	(275,462)	-	(413,918)	-	(1,270,616)	(2,479,695)
Writedowns for the year	-	-	-	-	-	-	-	-
Other Changes	-	-	(73)	-	-	-	(13,634)	(13,707)
Total changes	**-**	**(174,315)**	**(128,840)**	**-**	**736,082**	**2,207,943**	**(1,224,398)**	**1,416,472**
Historical cost	110,920	2,871,708	985,341	-	4,139,181	5,266,759	5,854,008	19,227,917
Revaluations	-	-	-	-	-	-	-	-
Accumulated amortisation	(110,920)	(1,584,737)	(620,084)	-	(538,467)	-	(3,719,492)	(6,573,700)
Writedowns	-	-	-	-	-	-	-	-
Net carrying amount at 31/12/2020	**-**	**1,286,971**	**365,257**	**-**	**3,600,714**	**5,266,759**	**2,134,516**	**12,654,217**

The amounts are after consolidation adjustments for intercompany transactions.

Start-up and expansion costs

The fully amortised amount (Euro 22,184 at 31 December 2018) entirely refers to deferred expenses relating to the spin-off operation in 2015 whereby subsidiary Immobiliare Industriale S.r.l. was established.

Development costs

The amount of Euro 1,286,971 (Euro 1,461,286 at 31 December 2019), net of accumulated amortisation of Euro 1,584,737, refers to development costs wholly incurred by the Parent Company.
Once again in 2020, the Parent Company carried out intensive research and development activities into technological innovation. Further details are provided in the Directors' Report.
With regard to development activities alone, in 2020, the Parent Company incurred personnel costs totalling Euro 1,936,790. Based on a careful analysis of available information on the number of hours spent on development projects already assigned (i.e. projects for which a final contract has been signed) or under assignment (projects which the Company reasonably believes will be confirmed by a contract) by customers, the Directors concluded that they could capitalise the lower amount of Euro 1,281,089. This amount refers solely to costs for projects in relation to which the development phase has not yet been completed so they have been recorded under the caption Intangible assets in progress.

The following table contains the disclosures required by Article 2427(3) in relation to development costs.

Description	Opening balance	Increases	Decreases	Closing balance
Development costs	1,461,286	345,384	519,699	1,286,971
Total	**1,461,286**	**345,384**	**519,699**	**1,286,971**

Costs capitalised up to 2019 whose useful life could not be reliably estimated are amortised over not more than five years; this period is normally shorter than the mass production period of the related items. Development costs with a clear connection to projects with an estimated useful life of 10 years are amortised over that period at 10% per annum.

Decreases amounting to Euro 519,699 refer entirely to amortisation for the period.
During the reporting period, historical cost and accumulated amortisation were decreased in relation to development costs that became fully amortised in prior year (Euro 230,640).

Patents and intellectual property rights

This item amounts to Euro 365,257 (Euro 494,097 at 31 December 2019) after accumulated amortisation of Euro 620,084. It includes:
- Patents of Euro 7,856;
- Software of Euro 357,401.

Increases of Euro 81,019 mainly refer to new software purchased by the Parent Company (Euro 75,960) while the remainder (Euro 5.059) relates to subsidiary ABL Automazione S.r.l.

Consolidation difference

The consolidation difference of Euro 3,600,714 (2,864,632 at 31 December 2019) is net of amortisation of Euro 538,467 and arose upon the elimination of the carrying amount of the investment in ABL Automazione S.r.l. against the corresponding portion of Equity at the acquisition date. The difference is not attributable to any individual assets of the entity and is being amortised over ten years. Said period is felt best to reflect its useful life and does not exceed the period in which the asset will be used, taking account of the expected benefits and synergies expected from the business acquired.
During the reporting period, the balance increased by Euro 1,150,000 as a result of the price adjustment paid by parent Hold.Co 1 S.r.l. (later the subject of a reverse merger into ABL Automazione S.r.l.) in relation to the acquisition of the investment in ABL Automazione S.r.l. which took place in 2019.
The Parent Company has performed an impairment test in order to check the recoverability of the consolidation difference recognised in the Consolidated Financial Statements. The impairment test was performed using forecast information from the Business Plan 2021-2024 prepared by Management and approved by the Board of Directors and did not highlight the presence of any impairment.

Intangible assets in progress and payments on account

This balance amounts to Euro 5,266,759 (Euro 3,058,816 at 31 December 2019) and consists of payments on account relating to the Parent Company (Euro 5,216,198) and subsidiary ABL Automazione S.r.l. (Euro 50,561). In more detail, the balance includes:

- Euro 2,330,237 of internal development costs incurred in relation to development projects in progress. The costs now recorded under this caption will be reclassified to the relevant asset category as described above – once their suitability for capitalisation has been confirmed – and they will be amortised from the date of completion of the development phase, considering the estimated residual useful life of the project to which they refer; the balance increased by Euro 1,281,089 during the year. Development costs with a clear connection to projects with an estimated useful life of 10 years are amortised over that period at a rate of 10% per annum;
- Euro 2,936,522 of capex on new business software that has not yet completed its testing and release phase; the increase in such costs for the period was Euro 1,345,881.

During the reporting period, no projects completed the development stage and were thus reclassified and capitalised under "Development costs".

Other intangible assets

This caption amounts to Euro 2,134,516 (Euro 3,358,914 at 31 December 2019) after accumulated amortisation of Euro 3,719,492. The balance has recorded a net increase of Euro 61,022.
The balance and changes thereon are detailed below:

Industrie Saleri Italo S.p.A.
This item, amounting to Euro 1,685,801 (Euro 2,467,958 at 31 December 2019) entirely refers to leasehold improvements.
Additions for the period amount to Euro 12,558 and refer to leasehold improvements.

Saleri Shanghai Co.
This item, amounting to Euro 439,840 (Euro 890,956 at 31 December 2019), refers to:

- Euro 121,029 of leasehold improvements, including additions during the period of Euro 5,280;
- Euro 318,811 of deferred expenses, including additions for the period of Euro 34,278.

ABL Automazione S.r.l.
This item, amounting to Euro 10,668, consists entirely of additions during the period to leasehold improvements.

Fixed assets

Movements	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other fixed assets	Assets under construction and payments on account	Total
Historical cost	30,320,879	78,129,853	32,911,361	6,067,574	2,111,767	149,541,434
Previous revaluations	10,098,051	-	-	-	-	10,098,051
Accumulated depreciation	(8,251,472)	(43,538,082)	(28,170,275)	(4,737,262)	-	(84,697,091)
Previous writedowns	(1,560,488)	-	-	-	-	(1,560,488)
Opening amount	**30,606,970**	**34,591,771**	**4,741,086**	**1,330,312**	**2,111,767**	**73,381,906**
Additions during the year	1,732	1,196,461	1,402,673	368,529	817,252	3,786,647
Change in scope of consolidation (cost)	-	-	-	-	-	-
Change in scope of consolidation (Accum. Depre'n)	-	-	-	-	-	-
Reclassifications	10,768	1,672,706	243,941	18,397	(1,945,812)	-
Movements to other caption during period	-	-	-	-	-	-
Disposals (historical cost)	(13,816,021)	(191,052)	(453,043)	(261,729)	(238,470)	(14,960,315)
Disposals (Accum. Depr'n)	3,466,635	170,595	417,343	252,225	-	4,306,798
Revaluations during year	-	-	-	-	-	-
Amortisation for the year	(961,816)	(2,589,416)	(1,477,340)	(540,105)	-	(5,568,677)
Writedowns for the year	-	-	-	-	-	-
Other Changes	-	(64,338)	(12,593)	(3,252)	(5,289)	(85,472)
Total changes	**(11,298,702)**	**194,956**	**120,981**	**(165,935)**	**(1,372,319)**	**(12,521,019)**
Historical cost	20,112,723	80,743,630	34,092,339	6,189,519	739,448	141,877,659
Revaluations	6,502,686	-	-	-	-	6,502,686
Accumulated depreciation	(5,746,653)	(45,956,903)	(29,230,272)	(5,025,142)	-	(85,958,970)
Writedowns	(1,560,488)	-	-	-	-	(1,560,488)
Net carrying amount at 31/12/2020	**19,308,268**	**34,786,727**	**4,862,067**	**1,164,377**	**739,448**	**60,860,887**

In 2018, the Group identified potential indicators of impairment of certain fixed assets. Therefore, in accordance with Italian Accounting Standard OIC 9, it made further writedowns in terms of Articles 2426(1) and (3) of the Italian Civil Code and created an impairment provision totalling Euro 1,560,488. These impairment adjustments have been maintained unchanged in 2020 as there are no new factors requiring changes to the conclusions reached at the time.

"Other changes" mainly refers to impairment adjustments made in prior years and, to a residual extent, to the difference generated on the opening balances of Saleri Shanghai Co. Ltd., as measured at the balance sheet exchange rate used for 2020.
Amounts are stated net of consolidation adjustments regarding intercompany transactions.

In accordance with the law, the following table shows the fixed assets reported in the Financial Statements of Group companies at 31 December 2020 that have been subject to monetary revaluations and exceptions to statutory valuation methods.

Description	Revaluation under Decree Law no.185/2007	Total Revaluations
Land and Buildings	6,502,686	6,502,686
Total	**6,502,686**	**6,502,686**

Land and Buildings

This caption amounts to Euro 19,308,268 (Euro 30,606,970 at 31 December 2019) and is stated net of accumulated depreciation of Euro 5,746,653 (Euro 8,251,472 at 31 December 2019).
The balance and the main changes thereon are detailed below:

Industrie Saleri Italo S.p.A.

The balance amounts to Euro 19,308,268 (Euro 19,965,392 at 31 December 2019) after accumulated depreciation of Euro 5,704,164.
During the reporting period, the balance increased by Euro 12,500 (of which Euro 10,768 reclassified from "Assets under construction and payments on account") for work on the creation of a safety exit.
As stated above, the Company has not made any impairment provisions on top of the amount provided in 2018 as it believes the existing provision reflects the effective impairment of land and buildings.
In compliance with Italian Accounting Standard OIC 16, the value of the land on which the buildings are situated has been reported separately.

Immobiliare Industriale S.r.l.

On 10 December 2020, the Company sold to third parties its only proprietary asset, a real estate complex in the Municipality of Capriano del Colle (BS). The carrying amount at 31 December 2019 was Euro 10,641,558 (net of Accumulated Depreciation of Euro 3,174,443). A loss of Euro 1,349,386 was realised on the disposal.

Decreases in the balance entirely refer to the above disposal transaction.

Plant and machinery

La voce pari ad Euro 34.786.727 (Euro 34.591.771 alla fine dell'esercizio
This balance, amounting to Euro 34,786,727 (against Euro 34,591,771 at 31 December 2019), is stated net of accumulated depreciation of Euro 45,956,903 (Euro 43,538,082 at 31 December 2019). It includes plant and machinery of Euro 12,593,473 (Euro 13,552,626 at 31 December 2019) held under finance leases and reported in accordance with IAS 17.
The balance and the main changes thereon are detailed below:

Industrie Saleri Italo S.p.A.

The balance amounts to Euro 34,343,827 (Euro 34,010,145 at 31 December 2019) after accumulated depreciation of Euro 44,896,002 (Euro 42,460,095 at 31 December 2019)
Additions for the period totalled Euro 2,937,215
Additions mainly refer to maintenance capex incurred to ensure machinery is kept updated and fully efficient, as well as to new workstations needed to handle the contracts acquired by the Company. Some of the additions, a total of Euro 1,514,900, refer to reclassifications from Assets under construction in relation to payments on account previously made for projects completed during the year.
Decreases for the period amount to Euro 17,335 and almost entirely refer to the net carrying amount of assets sold to third parties or scrapped.
As stated in the Foreword, after an independent appraisal of the residual useful life of "Plant and Machinery", the Company amended the residual life and the depreciation rates applied to that category of fixed assets.

Saleri Shanghai Co.Ltd

The balance amounts to Euro 1,4363,932 (Euro 1,442,470 at 31 December 2019) after accumulated depreciation of Euro 949,286 (Euro 762,243 at 31 December 2019).
Increases for the period totalled Euro 157,806 due to reclassifications from "Assets under construction and payments on account" while decreases totalled Euro 3,122 as a result of the disposal or sale of machinery no longer used in the production process.

ABL Automazione S.r.l.

Plant and machinery amounts to Euro 16,921 (Euro 19,291 at 31 December 2019) net of accumulated depreciation of Euro 285,219 (Euro 321,312 at 31 December 2019).
During the reporting period, the company disposed of some fully depreciated machinery (historical cost Euro 38,464).

Industrial and Commercial Equipment

This caption amounts to Euro 4,862,067 (Euro 4,741,086 at 31 December 2019) and is stated net of accumulated depreciation of Euro 29,230,272 (Euro 28,170,275 at 31 December 2019).
The balance and the main changes during the period may be detailed as follows:

Industrie Saleri Italo S.p.A.
The balance amounts to Euro 4,142,335 (Euro 4,080,263 at 31 December 2019) after accumulated depreciation of Euro 28,131,844.
Additions for the period amount to Euro 1,477,544, including Euro 137,939 reclassified from "Assets under Construction and Payments on Account".
As in the case of "Plant and Machinery", additions to "Industrial and Commercial Equipment" mainly refer to purchases of new equipment needed to carry out the contracts acquired by the Company. The costs incurred have been sustained as part of the plan of capex necessary to install the additional production capacity needed to cope with the new, long-term production contracts acquired by the Original Equipment division.
Decreases for the period amount to Euro 35,700 and almost entirely refer to the net carrying amount of assets sold to third parties or scrapped.
As stated in the Foreword, after an independent appraisal of the residual useful life of "Industrial and Commercial Equipment", the Company amended the residual life and the depreciation rates applied to that category of fixed assets.

Saleri Shanghai Co.Ltd
The balance amounts to Euro 597,689 (Euro 660,823 at 31 December 2019) after accumulated depreciation of Euro 1,186,169 (Euro 966,557 at 31 December 2019).
Increases for the period totalled Euro 169,070 (of which Euro 106,002 of reclassifications from "Assets under construction and payments on account").

ABL Automazione S.r.l.
All of ABL Automazione S.r.l.'s equipment has been depreciated in full.

Other fixed assets

This caption amounts to Euro 1,164,377 (Euro 1,330,312 at 31 December 2019) and is stated net of accumulated depreciation of Euro 5,025,142 (Euro 4,737,262 at 31 December 2019). It includes cars held under finance leases of Euro 251,489 (Euro 198,103 at 31 December 2019) as a result of application of IAS 17.
The balance and the main changes during the period may be detailed as follows:

Industrie Saleri Italo S.p.A.
The balance amounts to Euro 1,071,649 (Euro 1,208,439 at 31 December 2019) after accumulated depreciation of Euro 4,594,707 (Euro 4,353,415 at 31 December 2019) and refers to:

- Furniture and fittings of Euro 399,318 (Euro 353,353 at 31 December 2019); additions for the period totalled Euro 133,865 almost entirely in respect of costs for new fittings in production areas; additions also include a small amount (Euro 5,505) of office furniture and fittings after certain items with a carrying amount of zero were disposed of (original historical cost Euro 10,329);
- Electronic office equipment of Euro 411,475 (Euro 620,675 at 31 December 2019); additions for the period totalled Euro 82,403, mainly for purchases of laptop PCs given the greater number of people working from home; during the period certain electronic equipment with a carrying amount of zero was disposed of (original historical cost Euro 82,909);
- Cars and vehicles of Euro 260,856 (Euro 234,411 at 31 December 2019); additions for the period totalled Euro 144,909 in relation to new finance lease agreements; during the period, cars owned by the company were disposed of (original historical cost Euro 165,614).

Saleri Shanghai Co.Ltd
The balance amounts to Euro 42,166 (Euro 63,402 at 31 December 2019) after accumulated depreciation of Euro 150,359 (Euro 123,868 at 31 December 2019).
During the year, there were increases of Euro 9,192 for purchases of electronic equipment and decreases of Euro 288.

ABL Automazione S.r.l.
The balance amounts to Euro 50,562 (Euro 58,471 at 31 December 2019) after accumulated depreciation of Euro 280,076 (Euro 259,979 at 31 December 2019).
Increases of Euro 12,188 regard purchases of new PCs.

Assets under construction and payments on account

Assets under construction and payments on account totalled Euro 739,448 (Euro 2,111,767 at 31 December 2019).
The balance and the main changes during the year may be detailed as follows:

Industrie Saleri Italo S.p.A.

The balance amounts to Euro 752,925 (Euro 1,901,691 at 31 December 2019) and refers to payments made on account during the period towards additions to fixed assets.
During the period, Euro 1,682,004 was reclassified to the relevant tangible asset categories following the completion of the related capex. Decreases for the period totalled Euro 125,038 mainly referred to the reversal of payments on account received in prior years in relation to equipment to be resold.
Increases for the period totalling Euro 658,276 regard payments made on account in relation to new production lines and equipment to cope with the new long-term production contracts acquired by the Original Equipment division.

Saleri Shanghai Co.Ltd
The balance amounts to Euro 19,071 (Euro 210,076 at 31 December 2019). The balance increased by Euro 191,525 over the period, mainly because of additional payments on account for purchases of moulds.
During the period, Euro 263,808 was reclassified to the relevant tangible asset categories following the completion of the related capex.

The additional decrease of Euro 113,432 refers to the allocation of certain payments on account to other balance sheet captions not included in Fixed assets.

Financial assets

Total financial assets	Euro
Historical cost	61,643
Previous revaluations	-
Previous writedowns	(19,851)
Opening amount	**41,792**
Acquisitions during the period	-
Reclassifications from another caption	-
Reclassifications to another caption	-
Disposals	(13)
Revaluations during the period	-
Writedowns during the period	-
Other changes	2,110,567
Amount at 31/12/2020	**2,152,346**

Investments

Investments in	Subsidiaries	Associated companies	Parent companies	Other companies	Total
Historical cost	31,192	-	-	4,247	35,439
Previous revaluations	-	-	-	-	-
Previous writedowns	-	-	-	-	-
Opening amount	**31,192**	**-**	**-**	**4,247**	**35,439**
Acquisitions during the period	-	-	-	-	-
Reclassifications from another caption	-	-	-	-	-
Reclassifications to another caption	-	-	-	-	-
Disposals	-	-	-	-	-
Revaluations during the period	-	-	-	-	-
Writedowns during the period	-	-	-	-	-
Other changes	2,110,567	-	-	-	2,110,567
Amount at 31/12/2020	**2,141,759**	**-**	**-**	**4,247**	**2,146,006**

The amount of Euro 2,110,567 shown under "Other Changes" refers to subsidiary Saleri México S.A. de C.V. which is not included in the scope of consolidation. In more detail, it includes:

- Euro 1,358,932 of additional capital paid-in in 2020;
- Euro 734,880 of loans made to the subsidiary and converted into equity on 30 December 2020;
- Euro 16,755 of ancillary expenses related to the incorporation and recapitalisation of the subsidiary.

Investments in subsidiaries

"Investments in subsidiaries" refers to the following investments not included in the scope of consolidation:

Name	Location	Share Capital - Euro
Saleri Gmbh	Spitzerstrasse,14 Munich - Germany	25,000
Immobiliare Industriale Deutschland Gmbh in liquidation	Siemenstrasse, 26 70825 – Korntal Munchingen (Germany)	-
Saleri Mexico S.A. de C.V.	San Pedro Garza Garcia, Nuevo Leon México CP 66269 - Ave. San Patricio # 111	1,467,712

The following table presents a comparison between Book Equity pertaining to the Group and the carrying amount of the investments:

Name	% Interest	Equity	Profit (Loss) for prior year	Share of equity	Carrying amount	Difference
Saleri Gmbh	100.00%	26,085	5,237	26,085	25,000	1,085
Saleri Mexico S.A. de C.V.	99.99%	1,467,712	(561,606)	1,467,565	2,116,759	(649,194)
			Total	**1,493,650**	**2,141,759**	**(648,109)**

For subsidiary Saleri Gmbh, it should be noted that the figures shown are as at 31.12.2020 – reporting date of the latest, approved financial statements.

With regard to subsidiary Immobiliare Industriale Deutschland Gmbh in liquidation, as already reported in the Notes to the Consolidated Financial Statements at 31 December 2019, we note that the subsidiary has refunded part of its share capital in the form of an advance on the liquidation proceeds; the refund already received was greater than the carrying amount of the investment. Therefore, the value of the investment was written down to zero while the surplus refunded was recognised as financial income in prior year. We also note that, at the date of these Notes, the liquidation procedure had not yet been completed but it is reasonable to believe that its completion will not lead to any further, significant refunds.

With regard to subsidiary Saleri México S.A. de C.V., we note that:

- the figures for this subsidiary are from the accounts as at 31.12.2020;
- although the cost of the investment is greater than the corresponding portion of Shareholders' Equity, no adjustment has been made as the difference is not felt to reflect any permanent impairment of value, considering the fact that the subsidiary was still in its start-up phase at the reporting phase and only began to operate during the last few months of 2020 when it hired its first employees. Mass production will commence in 2021 and the subsidiary will invoice its first revenues.

Other securities

Other securities	Total
Historical cost	19,961
Previous revaluations	0
Previous writedowns	(13,621)
Opening amount	**6,340**
Acquisitions during the period	0
Reclassifications from other captions	0
Reclassifications to other captions	0
Disposals	0
Revaluations during the period	0
Writedowns during the period	0
Other changes	0
Amount at 31/12/2020	**6,340**

The amount of Euro 6,340 has not changed compared to prior year.

Derivative instruments

Derivative Instruments - Assets	Total
Historical cost	6,243
Previous revaluations	0
Previous writedowns	(6,230)
Opening amount	**13**
Acquisitions during the period	0
Reclassifications from other captions	0
Reclassifications to other captions	0
Disposals	(13)
Revaluations during the period	0
Writedowns during the period	0
Amount at 31/12/2020	**0**

This caption entirely refers to the parent company. It includes the reporting date measurement (as confirmed with the respective banks) of the positive fair value of the derivative instruments in place at that date. These derivatives have been arranged to hedge the interest rate risk in relation to medium/long-term loans and finance lease agreements at 31 December 2020.
The amount of Euro 13 reported at 31 December 2019 was derecognised in 2020 after the hedging agreement expired.

Current assets

Inventory

Description	Opening amount	Change in year	31/12/20
Raw, ancillary & consumable materials	13,119,874	(2,933,286)	10,186,588
WIP and semi-finished goods	3,233,937	(794,563)	2,439,374
Contract WIP	1,956,148	318,852	2,275,000
Finished goods and products	12,778,157	(1,923,952)	10,854,205
Payments on account	131,253	952,852	1,084,105
Total	**31,219,369**	**(4,380,097)**	**26,839,272**

At 31 December 2020, inventory totalled Euro 26,839,272 and mainly referred to parent company Industrie Saleri Italo S.p.A. (around 78%), to subsidiary Saleri Shanghai Co. Ltd (around 12%) and to subsidiary ABL Automazione S.r.l. (around 10%). The contract work in progress entirely relates to subsidiary ABL Automazione S.r.l.
The amounts are stated net of consolidation adjustments for intercompany transactions.

The decrease of Euro 4,380,087 (-14% approx..) compared to 31 December 2019 mainly regards the inventory of the parent company (down by Euro 5,692,212, -21% approx..) as countered by an increase for subsidiary Saleri Shanghai (up by Euro 1,097,230, +51% approx.) and by a small increase for subsidiary ABL Automazione S.r.l. (up by Euro 219,885, +9% approx.).
We note that the significant decrease in inventory recorded by the

parent company at 31 December 2020 was due to the policy aimed at reducing inventory and to the lower level of raw material purchases because of the reduction in production activity as a result of the Covid-19 emergency.
The inventory balance reported above is stated net of the Inventory provision totalling Euro 1,141,468 recorded to take account of obsolete and slow moving items and to report carrying amount at the lower of cost and realisable amount.
During 2020, the provision was increased by Euro 528,594 while there as a decrease of Euro 406,324 due to the reversal of amounts previously allocated that were no longer required.

The following table shows movements on the inventory provision.

Inventory provision	Opening amount	Increases	Decreases	31/12/20
1. Raw, ancillary and consumable materials	(674,977)	(251,985)	226,824	(700,138)
2. WIP and semi-finished goods	(133,086)	(80,383)	78,414	(135,055)
3. Contract WIP	-	-	-	-
4. Finished goods	(211,135)	(196,226)	101,086	(306,275)
5. Payments on account	-	-	-	-
Total	**(1,019,198)**	**(528,594)**	**406,324**	**(1,141,468)**

Receivables

There are no receivables relating to transactions that involve a forward return obligation for the purchaser.

Description	31/12/19	Change	31/12/20
Trade receivables	9,640,433	2,240,809	11,881,242
Receivables from non-consolidated subsidiaries	834,389	1,620,229	2,454,618
Receivables from associated companies	-	-	-
Receivables from parent companies	-	7,290	7,290
Receivables from entities controlled by parent companies	-	-	-
Tax receivables	1,714,957	(26,891)	1,688,066
Deferred tax assets	5,752,077	1,340,543	7,092,620
Receivables from others	4,841,751	(2,295,073)	2,546,678
Total	**22,783,607**	**2,886,907**	**25,670,514**

The overall change in receivables is analysed in more detail in the relevant sections.
The amounts are after consolidation adjustments for intercompany transactions.

Breakdown by residual duration

Description	31/12/20	Current	Non-current	Due after > 5 years
Trade receivables	11,881,242	11,848,687	32,555	-
Receivables from non-consolidated subsidiaries	2,454,618	2,454,618	-	-
Receivables from associated companies	-	-	-	-
Receivables from parent companies	7,290	7,290	-	-
Receivables from entities controlled by parent companies	-	-	-	-
Tax receivables	1,688,066	1,688,066	-	-
Deferred tax assets	7,092,620	-	-	-
Receivables from others	2,546,678	2,396,404	150,274	-
Total	**25,670,514**	**18,395,065**	**182,829**	**-**

Trade receivables

At 31 December 2020, trade receivables amounted to Euro 11,881,242 and referred to parent company Industrie Saleri Italo S.p.A. (39% of the total), subsidiary Saleri Shanghai Co. Ltd (38% of the total) and subsidiary ABL Automazione S.r.l. (23% of the total).
The increase of Euro 2,240,809 compared to 31 December 2019 mainly relates to subsidiary Saleri Shanghai (increase of Euro 3,660,031), as partially offset by the decrease for the parent company (down by Euro 1,482,674).
Trade receivables from the Group's long-term contract work – as carried out by subsidiary ABL Automazione S.r.l. – are not subject to a specific due date as they mainly relate to the state of progress of the contract (e.g. final testing at the customer premises). The split between receivables due within a year and after more than a year is performed based on considerations regarding foreseeable progress with contracts in progress, as based on the best information available at the date in question.
The Provision was increased by Euro 13,743 during the period.
Trade receivables are stated net of a provision for bad debts created to take account of collection issues. The provision has increased by Euro 13,743 and is considered reasonable compared to expected losses on receivables, also in light of ongoing disputes and litigation.

Changes in the provision during the reporting period are shown below:

Description	31/12/19	Change in scope of consolidation	Allocated	Utilised	31/12/20
Provision for bad debts	(112,816)	-	(13,743)	-	(126,559)

Receivables from non-consolidated subsidiaries

Receivables from subsidiaries amount to Euro 2,454,618, against Euro 834,389 at 31 December 2019. They entirely refer to receivables from Saleri Gmbh and Saleri México S.A. de C.V.
In more detail:

- The receivables from Saleri Gmbh, totalling Euro 102,908 (Euro 51,686 at 31 December 2019), include:
  - Euro 101,022 for a short-term loan granted to the subsidiary, inclusive of interest accruing;
  - Euro 1,886 for sundry advances.
- The receivables from Saleri México S.A. de C.V. totalling Euro 2,351,710 (Euro 228,063 at 31 December 2019), include:
  - Euro 305,460 for a short-term loan granted by the parent company to the subsidiary, inclusive of interest accruing;
  - Euro 1,594,807 of trade receivables;
  - Euro 9,673 of receivables under contracts for the secondment of personnel signed in 2020;
  - Euro 441,770 of financial receivables.

Receivables from parent companies

The receivables from parent companies amount to Euro 7,290 and entirely refer to advances made.

Tax receivables

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	ABL Automazione S.r.l.	Consolidated
W/holding taxes suffered	24	-	-	17	41
IRES receivables	117,644	-	-	-	117,644
IRAP receivables	161,927	9,407	-	27,317	198,651
VAT receivables	1,091,956	31,755	-	94,660	1,218,371
Other tax receivables	50,415	-	102,603	341	153,359
Total	**1,421,966**	**41,162**	**102,603**	**122,335**	**1,688,066**

The balance of Euro 1,688,066 (Euro 1,714,957 at 31 December 2019) is analysed as follows:

Industrie Saleri Italo S.p.A.
IRES Receivables", amounting to Euro 117,644 (Euro 558,509 at 31 December 2019), include the IRES receivable for 2020.
The receivable of Euro 438,269 present at 31 December 2019 and representing the refund request filed, as consolidating entity, in relation to the non-deduction of IRAP in relation to personnel costs was collected in full in 2020.
"IRAP Receivables", amounting to Euro 161,927, refer to the IRAP credit for the year.
"VAT Receivables", amounting to Euro 1,091,956 (Euro 179,297 at 31 December 2019), mainly refer to the VAT balance resulting from the December 2020 VAT return (Euro 1,057,822). The balance also includes foreign VAT receivables relating to EU countries where the Company has operated directly or for which a refund has been requested.
"Other tax receivables", amounting to Euro 50,415 (Euro 16,144 at 31 December 2019), almost entirely refers to the R&D tax credit (Euro 48,832, of which Euro 32,555 due after more than a year).

Immobiliare Industriale S.r.l.
"IRAP Receivables", amounting to Euro 9,407, refers to the IRAP balance for 2020 net of payments made on account.
"VAT Receivables", amounting to Euro 31,755, refers to the VAT balance resulting from the December 2020 VAT return.

Saleri Shanghai Co.Ltd
"Other tax receivables", amounting to Euro 102,603, refer to income tax receivables for amounts deducted at source.

ABL Automazione S.r.l.
Tax receivables refer almost entirely to the "VAT Receivable" per the December 2020 VAT return (Euro 94,660) and the "IRAP receivable" relating to the IRAP balance for 2020 (Euro 27,317).

Deferred Tax Assets

Deferred tax assets amount to Euro 7,092,620 (Euro 5,752,077 at 31 December 2019) and mainly comprise the amounts recognised in the financial statements of the parent company and the Italian subsidiaries. in relation to temporary differences, in accordance with current tax legislation, as well as in relation to tax losses and to the carry forward of interest expenses deductible in future periods. These deferred tax assets were calculated using an IRES rate of 24%. A small portion (Euro 317,577) of deferred tax assets were recognised in relation to consolidation adjustments.

We highlight the recognition of deferred tax assets relating to losses of Euro 3,941,442 – losses for the period of Euro 1,479,535 and prior year losses of Euro 2,461,907. The deferred tax assets on tax losses relate to the parent company (Euro 3,376,112), subsidiary ABL Automazione S.r.l. (Euro 177,965) and subsidiary Immobiliare Industriale S.r.l. (Euro 387,365). The Directors concluded that it was reasonable to recognise these deductible temporary differences, also on the basis of the Company's Business Plans 2021-2024, as it was reasonably certain that in the periods in which the temporary difference reverse, there will be taxable income of not less than the amount of the differences reversing.

Other receivables

The amount of Euro 2,546,678 at 31 December 2020 (Euro 4,841,751 at 31 December 2019) almost entirely refers to the parent company and includes:

Receivables due within a year:

- Euro 75,097 of costs advanced, mainly to customers;
- Euro 1,314,283 of Advances to Suppliers for services not yet completed;
- Euro 447,000 regarding a receivable from litigation with a former customer that has been concluded with a definitive decision in the Company's favour;
- Euro 100,026 of DR balances with certain suppliers of goods and services;
- Euro 49,396 of sundry receivables, after a bad debt provision of Euro 83,707 that was increased during the year by Euro 8,700.

Receivables due after more than a year:

- Euro 149,206 almost entirely relating to guarantee deposits paid mainly in respect of lease and rental agreements.

The significant decrease compared to prior year is mainly due to collection of all of the residual amount receivable by the parent company from insurance companies in compensation of the fire damage suffered on 11 January 2018 (Euro 882,500) and to costs paid in advance in 2019 but relating to subsequent periods. The relevant portion of these costs – which total Euro 1,600,000 – has been recorded in 2020 while recording prepaid expenses for the remainder.

Current financial assets

Investments in other entities

The amount of Euro 13,294 entirely relates to the parent company. It did not change over the period and includes minority investments in other entities.

Other securities

The amount of Euro 570,213 (Euro 566,233 at 31 December 2019) refers to securities held by subsidiary ABL Automazione S.r.l. and is detailed as follows:

Description	31/12/19	Change in scope of consolidation	Increases	Decreases	31/12/20
Bonds	495,021	-	3,980	-	499,001
Equities	71,212	-	-	-	71,212
Total before impairment provision	**566,233**	**-**	**3,980**	**-**	**570,213**
Impairment provision	-	-	-	-	-
Total	**566,233**	**-**	**3,980**	**-**	**570,213**

Cash and cash equivalents

This balance includes cash on hand of Euro 4,762 plus bank current account balances of Euro 44,734,919.

Description	31/12/19	Change	31/12/20
Bank and post office accounts	7,952,094	36,782,825	44,734,919
Cash and cash equivalents on hand	14,336	(9,574)	4,762
Total	**7,966,430**	**36,773,251**	**44,739,681**

This balance may be detailed as follows:

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	ABL Automazione S.r.l.	Consolidated
Bank and post office accounts	36,258,427	5,754,384	2,504,814	217,294	44,734,919
Cash and cash equivalents on hand	60	-	3,406	1,296	4,762
Total	**36,258,487**	**5,754,384**	**2,508,220**	**218,590**	**44,739,681**

The change for the period is due to the cash flow management strategy adopted by Group management. It has been affected by the loan with a SACE guarantee arranged by the parent company on 4 December 2020 with the proceeds received on 10 December 2020.

Prepaid expenses and Accrued income

Description	31/12/19	Change	31/12/20
Prepaid expenses:			
Contributions to customers	788,188	1,908,955	2,697,143
Insurance policies	28,803	55,728	84,531
Other costs	674,456	(50,764)	623,692
Total	**1,491,447**	**1,913,919**	**3,405,366**

This item, amounting to Euro 3,405,366 at 31 December 2020 (Euro 1,491,447 at 31 December 2019) almost entirely refers to the prepaid expenses of parent company Industrie Saleri Italo S.p.A.

Prepaid contributions to customers refers to contributions charged or for which a payment commitment has already been signed with the customer and which relate to future periods.
Other prepaid expenses mainly refer to maintenance contracts and subscription instalments.

Shareholders' equity

Movements on Group Consolidated Shareholders' Equity

	Opening amount	Allocation of prior year net profit		Other changes			Profit for year	Amount at 31/12/2020
		Allocation to dividends	Other allocations	Increases	Decreases	Reclassif.		
Share capital	17,922,413	-	-	6,000,000	-	-		23,922,413
Share premium reserve	7,696,219	-		-	-	-		7,696,219
Revaluation reserves	2,832,678	-	-	-	-	-		2,832,678
Legal reserve	1,134,850	-	45,126	-	-	-		1,179,976
Statutory reserves	-	-	-	-	-	-		-
Other reserves								
Consolidation reserve	3,379,172	-	-	-		-		3,379,172
Extraordinary reserve	-	-	857,395	-		-		857,395
Reserve for translation of foreign currency financial statements	(152,125)	-	-		(124,839)	-		(276,964)
Sundry other reserves	364,052	-	-	-	-	-		364,052
Total other reserves	3,591,099	-	857,395	-	(124,839)	-		4,323,655
Cash flow hedge reserve	-	-	-	-	(323,421)	-		(323,421)
Retained earnings (Accumulated losses)	4,409,479	-	1,237,033		(48,694)	-		5,597,818
Profit (Loss) for the year	2,139,554	-	(2,139,554)	-	-	-	(3,688,565)	(3,688,565)
Negative reserve for treasury shares held	(285,014)	-			-	-	-	(285,014)
Total shareholders' equity - Group	**39,441,278**	**-**	**0**	**6,000,000**	**(173,533)**	**-**	**(3,688,565)**	**41,255,759**
Capital and reserves of non-controlling interests	4,159,643		633,975	106,061	-	-	-	4,899,679
Profit (Loss) for year pertaining to non-controlling interests	633,975		(633,975)	-	-	-	(735,590)	(735,590)
Total shareholders' equity - non-controlling interests	**4,793,618**	**-**	**-**	**106,061**	**-**	**-**	**(735,590)**	**4,164,089**
Total consolidated shareholders' equity	**44,234,896**	**-**	**0**	**6,106,061**	**(173,533)**	**-**	**(4,424,155)**	**45,419,848**

Share capital

Share Capital, wholly subscribed and paid at 31 December 2020, amounts to Euro 23,922,413.23 (Euro 17,922,413.12 at 31 December 2019) and is represented by 3,127,003 shares.

The Extraordinary Shareholders' Meeting of 30 April 2020 approved a Share Capital increase of Euro 6,000,000 from Euro 17,922,413.12 to Euro 23,922,413.12.

The Share Capital increase was wholly subscribed by shareholder Quaestio Capital SGR S.p.A., as manager and on behalf of the Quaestio Italian Growth Fund. It was paid in two instalments as follows:

- Euro 2,000,000.00 on 4 May 2020;
- Euro 4,000,000.00 on 12 June 2020.

Share premium reserve

This reserve was created in 2018 and amounts to Euro 7,696,219. The amount was paid in the form of a share premium by shareholder Quaestio Capital SGR S.p.A., as manager of and on behalf of the Quaestio Italian Growth Fund, following the share capital increase ("Aucap B") approved by the Shareholders' General Meeting of 5 April 2018. The reserve did not change during the reporting period.

Revaluation reserves

This balance refers to monetary revaluations carried out in application of the following revaluation laws:

- Law no. 413/91 - Euro 84,651
- Decree Law no. 185/08 - Euro 2,748,027.

Legal reserve

At 31 December 2020, this reserve amounted to Euro 1,179,976 and increased by Euro 45,126 during the period. The increase was due to allocation of the net profit for 2019 in accordance with the General Meeting resolution of 7 August 2020. Taking account of the Share Capital increases carried out in 2018 and in the first half of 2020, the reserve has not yet reached the limit permitted by Article 2430 of the Italian Civil Code.

Consolidation reserve

This caption shows a balance of Euro 3,379,172 at 31 December 2020 and is unchanged on prior year. The consolidation difference emerging upon preparation of the Consolidated Financial Statements due to elimination of the carrying amount of the investments included in the scope of consolidation in 2020 against the corresponding portions of Equity of those subsidiaries has been recognised under the asset caption "Consolidation difference".

Extraordinary reserve

This reserve amounts to Euro 857,395 at 31 December 2020 and consists entirely of the increase made during the reporting period. The increase was due to allocation of the net profit for 2019 in accordance with the General Meeting resolution of 7 August 2020.

Reserve for translation of financial statements in foreign currency

This caption shows a negative balance of Euro 276,964 at 31 December 2020 in relation to the translation of the foreign currency financial statements of subsidiary Saleri Shanghai Co.Ltd.

Sundry other reserves

This item, amounting to Euro 364,052, did not change during the period.

Cash flow hedge reserve

This reserve has a negative balance of Euro 323,421 at 31 December 2020 and refers entirely to increases during the period for the new hedging contracts signed by the Parent Company in relation to the loan with a SACE guarantee arranged in 2020 in the amount of Euro 24,000,000, as described in more detail in the Note on Bank Borrowing. As described in the introduction, the Group has decided to apply hedge accounting in relation to the hedging of changes in cash flows for financial liabilities as a result of interest rate fluctuation. Therefore, this caption includes changes in the Fair Value of the effective portion of cash flow hedging instruments.

Retained earnings (Accumulated losses)

This caption showed retained earnings of Euro 5,597,818 at 31 December 2020 against Euro 4,409,479 at 31 December 2019. Movements during the year were as follows:

- increase of Euro 1,237,033 due to allocation of the Group's net profit for 2019;
- decrease of Euro 48,694 due to consolidation adjustments mainly generated by application of IAS 17 and alignment to Group accounting policies.

Negative reserve for treasury shares held

At 31 December 2020, this caption had a negative balance of Euro 285,014. It was created following the purchase – authorised by the General Meeting of 24 June 2019 – of 15,799 treasury shares at a total cost of Euro 285,014. There were no movements on the reserve during the period.

Reconciliation between the net profit/(loss) and shareholders' equity of the consolidating entity and the corresponding amounts per the Consolidated Financial Statements

	2020		2019	
Amounts in thousands of Euro	**Equity**	**of which result for year**	**Equity**	**of which result for year**
Equity and result for the year of the Parent Company	**55,587,407**	**(4,885,685)**	**32,344,163**	**902,521**
▸ Elimination of carrying amount of investments against pro-quota amount of equity	(20,651,240)	759,925	540,944	0
▸ Pro-quota results of investee companies	347,997	347,997	1,813,193	1,813,193
▸ Gains on disposals after depreciation allocated to non-current assets and to consolidation difference at the date of acquisition of the investee companies	3,600,714	(413,918)	2,864,632	(124,549)
▸ Reveral of treasury shares	(602,466)	(83,722)	(520,009)	(375,459)
▸ Elimination of effects of transactions between consolidated companies	2,973,347	586,838	2,398,358	(76,152)
▸ Alignment of accounting policies	0	0	0	0
Equity and result for the year - Group	**41,255,759**	**(3,688,565)**	**39,441,281**	**2,139,554**
▸ **Equity and result for the year - non-controlling interests**	**4,164,089**	**(735,590)**	**4,793,618**	**633,975**
Equity and result for the year - consolidated	**45,419,848**	**(4,424,155)**	**44,234,899**	**2,773,529**

Provisions for risks and charges

Description	Provision for taxation, including deferred tax	Provision for derivative instruments	Other provisions	Total provisions for risks and charges
Opening amount	**2,579,474**	**-**	**1,927,908**	**4,507,382**
Changes during the year				
Change in scope of consolidation	-	-	-	-
Allocated	132,164	323,421	3,281,048	3,736,633
Utilised	(15,509)	-	(1,681,496)	(1,697,005)
Other changes	-	-	-	-
Total changes	116,655	323,421	1,599,552	2,039,628
Amount at 31/12/2020	**2,696,129**	**323,421**	**3,527,460**	**6,547,010**

The "Provision for taxation, including deferred tax", amounting to Euro 2,696,129, includes taxes resulting from application of IAS 17 and deferred taxes recorded by the parent company in relation to the revaluation of properties performed in 2008 in terms of Decree Law no 185/08 which was not deductible for tax purposes.

The provision "Liabilities for derivatives" includes the reporting date measurement of the negative fair value of derivative instruments in place at that date. These derivative instruments have been entered into as hedges of the interest rate risk regarding medium/long-term loan agreements and finance lease agreements in place at 31 December 2020. At 31 December 2020, there were derivative instruments with a negative fair value of Euro 323,421.

"Other provisions", amounting to Euro 3,527,460, refer to:

- Euro 246,412 of prudent provisions made for sundry litigation in progress or threatened which, at the date of approval of the financial statements, had not yet been settled. At 31 December 2019, these provisions totalled Euro 642,908. Provisions totalling Euro 396,496 were utilised during the period mainly in order to restate deferred tax assets to take account of the adjustments to tax losses emerging following the issue of a Tax Inspection Report by the Italian Tax Authorities (Euro 349,423); in fact, on 31 July 2020, the Parent Company signed the formal consultation document acknowledging the fact that the Company had made IPEC filings adjusting its tax losses for 2015 and 2016. Utilisation of the provision also relates to VAT and IRAP adjustments (Euro 47,073) that emerged in relation to the same Tax Inspection Report;
- Euro 2,900,000 of product warranty provisions. During the period, utilisation of the provision totalled Euro 1,100,000 while increases totalled Euro 2,900,000; the provision is reasonable in relation to the estimated costs that the Group could be called upon to sustain to fulfil its contractual warranty commitments, taking account of historical costs and any complaints already received;
- Euro 11,500 of provisions for future expenses in relation to damage that occurred during the period to a property owned by subsidiary Immobiliare Industriale S.r.l..;
- Euro 369,548 of provisions made by subsidiary ABL Automazione S.r.l. for completion costs in relation to contracts invoiced during the period.

Employee severance indemnity ("TFR") provision

The TFR provision has been calculated, for the parent company and subsidiary ABL Automazione S.r.l. in accordance with Article 2120 of the Italian Civil Code, taking account of legislative requirements and the specific provisions of employment contracts and professional agreements. It includes annual accruals and revaluations performed based on ISTAT coefficients.
It represents the effective liability accruing in favour of employees in accordance with the law and applicable labour agreements, considering all forms of continuous remuneration.
The provision represents the total of the individual indemnities accruing in favour of employees at the reporting date. It is stated net of payments made on account and amounts paid to social security and pensions institutions and pension funds, in accordance with current legislation. It represents the companies' liability towards employees at the reporting date.
The following table provides details of the creation and utilisation of the provision (Art. 2427(4) of the Italian Civil Code).

Description	Employee Severance Indemnity - "TFR"
Opening amount	**2,498,523**
Changes during the year	
Change in scope of consolidation	-
Allocated	1,203,243
Utilised	(1,456,979)
Other changes	-
Total changes	(253,736)
Amount at 31/12/2020	**2,244,787**

Payables

There are no payables relating to transactions involving a future return obligation for the buyer.

Description	31/12/19	Change	31/12/20
Bonds	-	3,930,586	3,930,586
Convertible bonds	-	-	-
Shareholders' loans payable	525,000	(108,000)	417,000
Bank borrowing	35,561,375	19,980,839	55,542,214
Payables to other lenders	12,972,045	(3,243,616)	9,728,429
Payments on account	2,609,486	3,446,524	6,056,010
Trade payables	37,287,165	653,931	37,941,096
Payables in form of credit instruments	-	-	-
Payables to non-consolidated subsidiaries	64,896	(7,048)	57,848
Payables to associated companies	-	-	-
Payables to parent companies	-	-	-
Payables to companies controlled by parent companies	-	-	-
Tax payables	1,412,777	(238,547)	1,174,230
Payables to social security and pensions institutions	1,742,251	(636,554)	1,105,697
Other payables	4,523,044	1,696,402	6,219,446
Total	**96,698,039**	**25,474,517**	**122,172,556**

Breakdown by residual duration

Description	31/12/20	Current	Non-current	Of which due after > 5 years
Bonds	3,930,586	105,479	3,825,107	-
Convertible bonds	-	-	-	-
Shareholders' loans payable	417,000	-	417,000	-
Bank borrowing	55,542,214	16,501,178	39,041,036	4,493,045
Payables to other lenders	9,728,429	3,454,956	6,273,473	-
Payments on account	6,056,010	6,056,010	-	-
Trade payables	37,941,096	37,941,096	-	-
Payables in form of credit instruments	-	-	-	-
Payables to non-consolidated subsidiaries	57,848	57,848	-	-
Payables to associated companies	-	-	-	-
Payables to parent companies	-	-	-	-
Payables to companies controlled by parent companies	-	-	-	-
Tax payables	1,174,230	1,174,230	-	-
Payables to social security and pensions institutions	1,105,697	1,105,697	-	-
Other payables	6,219,446	6,219,446	-	-
Total	**122,172,556**	**72,615,940**	**49,556,616**	**4,493,045**

Bonds

On 1 July 2020, the Parent Company issued a bond with a value of Euro 3,825,107, called the "Saleri Supplier Value Chain Bond 2020-2022", by converting trade payables into bonds. The bond, as subscribed by several of the Company's suppliers, has a lifespan from 1 July 2020 until 30 June 2022 and is subject to interest at a fixed rate of 5.50%. The Company looked into the effect of using the amortised cost method to measure this debt and, given the limited time period and the absence of any bond placement costs, it concluded that the effects of using the amortised cost method would be immaterial. The amount of Euro 3,90,586 reported under the caption includes interest accruing at 31 December 2020.

Loans payable to shareholders

Loans payable to shareholders (Euro 417,000) entirely refer to subsidiary ABL Automazione S.r.l. and regard loans from shareholder Berfin S.r.l.. The loan is repayable in monthly instalments until the final maturity date of 1 December 2024. During the period, shareholder Berfin S.r.l. converted part of the loan into an additional capital payment (Euro 108,000).

The loan agreement does not contain any subordination clauses.

Bank borrowing

Description	31/12/19	31/12/20	Change
a) Bank borrowing due within a year	**15,475,568**	**16,501,178**	**1,025,610**
Lines of credit	-	-	-
Current account overdrafts	241,409	1,267,784	1,026,375
Loans	10,167,684	9,151,637	(1,016,047)
Advances on receivables	5,066,475	6,081,757	1,015,282
Other payables	-	-	-
b) Bank borrowing due after more than a year	**20,085,807**	**39,041,036**	**18,955,229**
Loans	20,085,807	39,041,036	18,955,229
Advances on receivables	-		-
Other payables	-		-
Total bank borrowing	**35,561,375**	**55,542,214**	**19,980,839**

The following bank borrowings – as also analysed by maturity date – are secured on the assets of the companies included in the scope of consolidation:

Description	Due within a year	Due after between 1 year and 5 years	Due after more than 5 years	Total	Owner of mortgaged asset
BPM Loan	98,352	624,018	-	722,370	Industrie Saleri Italo S.p.A.
MPM Loan	177,390	1,125,500	-	1,302,890	Industrie Saleri Italo S.p.A.
ICCREA Loan	90,615	691,337	-	781,952	Industrie Saleri Italo S.p.A.
Total	**366,357**	**2,440,855**	**0**	**2,807,212**	

For secured bank borrowing, reference should be made to the detailed notes below for each consolidated company. The amount of the guarantees shown in the table represents the value of the guarantees in relation to the outstanding debt at the reporting date.

The IICREA loan reported at 31 December 2019 which was secured by a mortgage on a property owned by Immobiliare Industriale S.r.l. was repaid on 10 December 2020 and the mortgage cancelled following the sale of to third parties of the asset owned by the subsidiary.

The total amount of Euro 55,542,214 against Euro 35,561,375 at 31 December 2019 is detailed as follows:

Industrie Saleri Italo S.p.A.

Description	31/12/19	31/12/20	Change
a) Bank borrowing due within a year	**13,008,659**	**13,391,076**	**382,417**
Lines of credit	0	0	0
Current account overdrafts	239,160	1,159,399	920,239
Loans	7,912,224	6,449,920	(1,462,304)
Advances on receivables	4,857,275	5,781,757	924,482
Other payables			-
b) Bank borrowing due after more than a year	**18,846,246**	**38,359,797**	**19,513,551**
Loans	18,846,246	38,359,797	19,513,551
Advances on receivables			
Other payables			
Total bank borrowing	**31,854,905**	**51,750,873**	**19,895,968**

Bank Borrowing amounts to Euro 51,750,873 and has increased by Euro 19,895,968 compared to 31 December 2019. Bank borrowing due within a year amounts to Euro 13,391,076 and has increased by Euro 382,417 compared to 31 December 2019. In 2020, as a result of the Covid-19 emergency and as provided by the Liquidity Decree, the Parent Company reached an agreement with the Banks for a moratorium suspending payment of loan instalments totalling Euro 2,370,738 falling due in 2020. On 04/12/2020, it signed an agreement for a loan of Euro 24,000,000 secured by a SACE guarantee. These measures (together with the injection of capital by the Shareholders) made it possible to maintain the Company's financial equilibrium which had been put to the test by the effects of the ongoing emergency.

Loans payable at 31 December 2020 (both current and non-current) amount to Euro 44,809,718, against Euro 26,758,470 at 31 December 2019, and are analysed as follows (amounts at amortised cost):

- Secured loan with an outstanding amount of Euro 722,370 and original principal of Euro 2,000,000. The loan is repayable in 84 monthly instalments in arrears between 31/12/2017 and 31/12/2024; interest is index linked to the Euribor 3 month rate;
- Secured loan with an outstanding amount of Euro 1,302,891 and original principal of Euro 5,000,000. The loan is repayable in 84 monthly instalments in arrears between 31/12/2017 and 31/12/2024; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 346,936 and original principal of Euro 750,000. The loan is repayable over 60 months between 31/12/2017 and 31/12/2022; interest is index-linked to the Euribor 3 month rate;
- Secured syndicated loan with an outstanding amount of Euro 781,952, original principal of Euro 2,000,000. The loan is repayable over 84 months between 31/12/2017 and 31/12/2024; interest is index-linked to the Euribor 3 month rate;
- Unsecured syndicated loan with an outstanding amount of Euro 317,465, original principal of Euro 2,000,000. The loan is repayable in 9 six-monthly instalments in arrears between 31/12/2017 and 31/05/2022; interest is index-linked to the Euribor 6 month rate;
- Unsecured loan with an outstanding amount of Euro 1,775,218 and original principal of Euro 5,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 248,749 and original principal of Euro 1,500,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 297,948 and original principal of Euro 1,000,000. The loan is repayable in 70

monthly instalments in arrears between 31/12/2017 and 10/01/2024; interest is index linked to the Euribor 3 month rate;

- Unsecured loan with an outstanding amount of Euro 475,387 and original principal of Euro 1,000,000. The loan is repayable in 70 monthly instalments in arrears between 31/12/2017 and 10/01/2024; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 605,586 and original principal of Euro 2,000,000. The loan is repayable in 72 monthly instalments in arrears between 31/12/2017 and 01/01/2024; interest is index linked to the Euribor 1 month rate;
- Unsecured loan with an outstanding amount of Euro 2,220,813 and original principal of Euro 4,000,000. The loan is repayable in 72 monthly instalments in arrears between 31/12/2017 and 01/01/2024; interest is index linked to the Euribor 1 month rate;
- Unsecured loan with an outstanding amount of Euro 490,207 and original principal of Euro 2,000,000. The loan is repayable in 71 monthly instalments in arrears between 31/12/2017 and 31/12/2023; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 2,674,180 and original principal of Euro 7,000,000. The loan is repayable in 71 monthly instalments in arrears between 31/12/2017 and 30/11/2023; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 776,072 and original principal of Euro 1,500,000. The loan is repayable in 71 monthly instalments in arrears between 31/12/2017 and 30/11/2023; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 579,223 and original principal of Euro 2,000,000. The loan is repayable in 71 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 1,083,147 and original principal of Euro 4,000,000. The loan is repayable in 67 monthly instalments in arrears between 31/12/2017 and 31/07/2023; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 942,730 and original principal of Euro 1,700,000. The loan is repayable in 59 monthly instalments in arrears between 31/12/2017 and 30/11/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 300,948 and original principal of Euro 459,510. The loan is repayable in 54 monthly instalments in arrears between 01/06/2018 and 30/11/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 1,374,995 and original principal of Euro 2,500,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 1,293,0376 and original principal of Euro 2,109,713. The loan is repayable in 65 monthly instalments in arrears between 19/06/2018 and 01/12/2023; interest is index linked to the Euribor 1 month rate;
- Unsecured loan with an outstanding amount of Euro 1,881,813 and original principal of Euro 3,500,000. The loan is repayable in 66 monthly instalments in arrears between 31/12/2017 and 31/10/2023; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 281,262 and original principal of Euro 500,000. The loan is repayable in 69 monthly instalments in arrears between 31/12/2017 and 31/12/2023; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 255,648 and original principal of Euro 1,000,000. The loan is repayable in 36 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 233,333 and original principal of Euro 400,000. The loan is repayable in 57 monthly instalments in arrears between 31/12/2017 and 30/11/2022; interest is index linked to the Euribor 3 month rate.
- Loan secured by a SACE guarantee with an outstanding amount of Euro 23,592,733 and original principal of Euro 24,000,000. The loan is repayable in 16 quarterly instalments in arrears between 31/12/2022 and 30/09/2026; interest is linked to the Euribor 3 month rate. The loan requires compliance with covenants based on the Group Consolidated Financial Statements from the year ended 31 December 2021 onwards.

With regard to the loan agreements listed above (with the sole exclusion of the SACE Loan, as described above) for which the banks require compliance with two covenants measured based on the Financial Statements, we note that the Company has duly reached a formal agreement with the lenders that they will not take any action in relation to said covenants and have granted the waiver requested by the Company.

As stated previously, the Company duly adhered to Government initiatives in order to obtain a moratorium in relation to repayment of its bank borrowing. Reference should be made to the Directors' Report for further, more detailed information about the availability of credit facilities to meet working capital funding requirements and any extraordinary liquidity requirements.

Immobiliare Industriale S.r.l.

Bank borrowings (Euro 136 against Euro 94 at 31 December 2019) entirely refer to expenses for the period not yet charged at 31 December 2020.

Saleri Shanghai Co.Ltd

Bank borrowing amounting to Euro 1,049,179, against Euro 1,536,688 at 31 December 2019, entirely consists of unsecured loans resulting from the consolidation of short-term borrowing.

ABL Automazione S.r.l.

Description	31/12/19	31/12/20	Change
a) Bank borrowing due within a year	**694,095**	**2,060,787**	**1,366,692**
Lines of credit	0	0	0
Current account overdrafts	2,155	108,249	106,094
Loans	482,740	1,652,538	1,169,798
Advances on receivables	209,200	300,000	90,800
Other payables			
b) Bank borrowing due after more than a year	**250,593**	**681,239**	**430,646**
Loans	250,593	681,239	430,646
Advances on receivables			
Other payables			
Total bank borrowing	**944,688**	**2,742,026**	**1,797,338**

Bank borrowing in the form of medium/long-term loans is analysed as follows:

- loan with an outstanding amount of Euro 140,000 and original principal of Euro 420,000. The loan was repayable in 36 months between 31/10/2017 and 31/10/2020. As a result of the moratorium granted to the Company during the year with the postponement of repayments due in 2020 and of some of those due in 2021, the final maturity date has been extended until 31/10/2022. Repayment of the outstanding amount has been agreed in two annual instalments in arrears, subject to interest index linked to the Euribor 6 month rate;
- loan with an outstanding amount of Euro 93,333 and original principal of Euro 280,000. The loan was repayable in 36 months between 31/10/2017 and 31/10/2020. As a result of the moratorium granted to the Company during the year with the postponement of repayments due in 2020 and of some of those due in 2021, the final maturity date has been extended until 30/04/2022. Repayment of the outstanding amount has been agreed in two six-monthly instalments in arrears, subject to interest index linked to the the Euribor 6 month rate;
- loan with an outstanding amount of Euro 375,444 and original principal of Euro 500,000. The loan was repayable in 15 months between 16/03/2020 and 16/06/2021. As a result of the moratorium granted to the Company during the year with the postponement of repayments due in 2020 and of some of those due in 2021, the final maturity date has been extended until 16/03/2022. Repayment of the outstanding amount has been agreed in three quarter instalments in arrears, subject to interest at a fixed rate of 0.95;
- loan with an outstanding amount of Euro 500,000 and original principal of Euro 500,000. The loan is repayable in 60 months between 05/06/2020 and 05/06/2025; repayment has been agreed in 60 quarterly instalments in arrears, subject to interest index linked to the Euribor 3 month rate;
- loan granted to former parent company Hold.Co 1 S.r.l. and taken on by the Company following the reverse merger; outstanding amount of Euro 1,225,000 and original principal of the same amount. The repayment plan provides for five monthly instalments of interest only, index linked to the Euribor 3 month rate, and a bullet repayment of the principal on 30/04/2021.

Payables to Other Lenders

This caption amounts to Euro 9,728,429 (Euro 12,972,045 at 31 December 2019) and consists almost entirely of payables towards leasing companies and factoring companies.
The slight decrease compared to 31 December 2019 mainly relates to payables to Factoring companies because of less use of Recourse Factoring in 2020.

Payments on account

This item amounts to Euro 6,056,010 (Euro 2,609,486 at 31 December 2019) and refers exclusively to the parent company and to subsidiary ABL Automazione S.r.l. as follows:

- Euro 255,086 of payments on account from customers towards the supply of equipment (Tooling);
- Euro 2,100,924 of payments on account from customers towards the supply of machinery;
- Euro 3,700,000 of payments on account from customers of the Parent Company which, in order to provide adequate support to their supply chain, have agreed to make significant advance payments towards future purchases; these payments on account are secured by guarantees on the machinery of the Parent Company.

Trade Payables

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	ABL Automazione S.r.l.	Consolidated
Trade payables	32,410,275	39,644	3,601,431	1,889,746	37,941,096
Total	**32,410,275**	**39,644**	**3,601,431**	**1,889,746**	**37,941,096**

Trade payables amount to Euro 37,941,096 against Euro 37,287,165 at 31 December 2019. They include liabilities for purchases of goods and services based on agreed contractual terms and conditions. The balance has not varied significantly compared to prior year (increase of Euro 653,931).

Payables to non-consolidated subsidiaries

The amount of Euro 57,848 (against Euro 64,896 at 31 December 2019) entirely relates to the parent company and is payable to subsidiaries Saleri Gmbh and Saleri México S.A. de C.V.
In more detail:

- the payables to Saleri Gmbh amount to Euro 62,595 (zero at 31 December 2019) and comprise amounts payable under the service agreement;
- the payables to Saleri Mexico S.A. de C.V. amount to Euro 2,301 and exclusively refer to payment of the corresponding portion of the subsidiary's capital as per the deed of incorporation of 4 October 2019.

Tax Payables

Tax payables amount to Euro 1,174,230 against Euro 1,412,777 at 31 December 2019. They are detailed as follows:

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	ABL Automazione S.r.l.	Consolidated
Taxes withheld at source from employees	726,181	-	-	78,899	805,080
Taxes withheld at source from freelance professionals	30,827	27,525	-	9,956	68,308
Other tax payables	-	-	300,842	-	300,842
Total	**757,008**	**27,525**	**300,842**	**88,855**	**1,174,230**

Payables to Social Security and Pensions Institutions

Payables to Social Security and Pensions Institutions amount to Euro 1,105,697 against Euro 1,742,251 at 31 December 2019. They are detailed as follows:

Description	Industrie Saleri Italo S.p.A.	ABL Automazione S.r.l.	Consolidated
Payables to INPS	373,013	147,074	520,087
Payables to INAIL	-	-	-
Payables to other social security and pensions institutions	585,610	-	585,610
Total	**958,623**	**147,074**	**1,105,697**

Payables to social security and pensions institutions represent the contributions payable by the companies. They have been duly paid by the legal due date.
"Other payables to social security and pensions institutions" includes amounts relating to contributions allocated on payroll accruals.
The significant decrease in this item compared to prior year is mainly due to relief on payroll contributions received and used by the parent company in relation to the month of December.

Payables to Others

Payables to others amount to Euro 6,219,446 against Euro 4,523,044 at 31 December 2019. They are detailed as follows:

Description	Industrie Saleri Italo S.p.A.	Saleri Shanghai Co. Ltd	ABL Automazione S.r.l.	Consolidated
Payables to employees	3,200,362	-	330,264	3,530,626
Payables to directors and statutory auditors	68,415	-	38,848	107,263
Other	1,473,635	2,559	1,105,355	2,581,557
Total	**4,742,412**	**2,559**	**1,474,467**	**6,219,446**

"Payables to employees" refers to salaries for the month of December and to other deferred remuneration accruing at the reporting date.
The parent company's "Payables to Others" includes payables to treasury and pension funds for TFR entitlement accruing but not yet paid (Euro 225,515) and CR balances with certain customers (Euro 883,380).

Accrued expenses and deferred income

Accrued expenses and deferred income amount to Euro 521,589 against Euro 762,983 at 31 December 2019. They mainly comprise the parent company's deferred income in relation to contributions from customers.

Notes to the income statement

Value of production

As already mentioned, the results reported in the Income Statement were greatly affected by the Covid-19 emergency with the result that they are not entirely suitable for comparison with prior year figures.

Therefore, reference should be made to the Directors' Report for more detailed analysis of changes compared to prior year and for comments on the effect of Covid-19 on Income Statement balances.

Revenues from sales and services

This item amounts to Euro 141,793,283 against Euro 155,189,329 in 2019. It mainly refers to the Parent Company and subsidiary Saleri Shanghai and regards the production and sale of cooling pumps. It also includes a minor amount of sales of machinery and revenue for services rendered by subsidiary ABL Automazione S.r.l. and rental income of subsidiary Immobiliare Industriale S.r.l..

Description	2019	Change	2020
Revenue from sales	155,189,329	(13,396,046)	141,793,283
Total	**155,189,329**	**(13,396,046)**	**141,793,283**

Revenue from the sale of goods is stated after returns, discounts and bonuses agreed and granted to customers and warranty chargebacks. Revenue from sales also includes chargebacks such as contributions debited to customers for the development of new products and the construction of related equipment, as well as a small amount of incidental selling expenses (shipping and packaging).

The overall decrease of Euro 13,396,046 in revenue from sales (-9% approx..) is mainly due to a reduction in the third party sales of the parent company and subsidiary ABL Automazione S.r.l. due to the suspension of production activities followed by a slow recovery because of the cancellation and postponement of orders by customers. This decrease has been partially offset by an increase in sales for subsidiary Saleri Shanghai which began a gradual recovery once it came out of the lockdown period.

Breakdown of revenue from sales and services by business category

Description	2020
Production and Sale of Water Pumps, Equipment and Prototypes	134,441,465
Contract work on Machinery and services and maintenance	6,940,853
Rental income	410,965
Total	**141,793,283**

Breakdown of sales by geographical area

Geographical Area	2019	Change	2020
Italy	20,745,723	(9,344,274)	11,401,449
Other countries	134,443,606	(4,051,772)	130,391,834
Total	**155,189,329**	**(13,396,046)**	**141,793,283**

Increase in fixed assets due to internal works

The amount of Euro 1,647,858 refers to development costs (Euro 1,281,089) and assets built in-house (Euro 366,769).
Development costs capitalised in 2020 entirely relate to the parent company and refer entirely to the cost of personnel directly employed in development projects for contracts whose award had been confirmed at 31 December 2020 but which had not yet gone into mass production. See the Note on Development Costs and Intangible Assets in Progress for further information.

Assets built in-house entirely refers to machinery produced by subsidiary ABL Automazione S.r.l. and sold to the parent company during the period.
In 2019, increases in fixed assets due to internal works (Euro 2,636,056) related to the capitalisation of development costs (Euro 1,314,276) and to assets built in-house by the Group (Euro 1,321,780).

Other revenue and income

Other revenue totals Euro 2,605,181 against Euro 7,728,823 in 2019. It almost entirely consists of other revenue of the parent company and includes:

- Euro 1,185,308 of contributions received from customers towards the purchase of equipment;
- Euro 568,080 of chargebacks to suppliers of costs incurred that are not attributable to the Group
- Euro 226,786 of chargebacks for equipment realised in-house;
- Euro 92,152 of project cancellation costs charged to customers;
- Euro 121,058 of unaccrued prior year income, mainly relating to amounts provided in error in prior years and collections of receivables that had been written off;
- Euro 89,139 of payroll subsidies and R&D tax credits already described in the relevant note;
- Euro 86,125 of gains on fixed asset disposals.

The significant decrease compared to prior year mainly regards project cancellation costs charged to customers which totalled Euro 2,171,892 in 2019 and the lower level of chargebacks for equipment realised in-house.

Reference should be made to the Directors' Report for a more detailed breakdown of Revenue from Sales and Value of Production, in general.

Cost of production

The following table contains details of cost of production for 2019 and 2020.

Description	2019	2020	Change	% Chg.
Raw, ancillary and consumable materials and goods for resale	76,176,211	69,987,844	(6,188,367)	-8.12%
Services	35,052,430	31,570,940	(3,481,490)	-9.93%
Use of third party assets - Lease and rental costs	1,938,417	2,157,944	219,527	11.33%
Personnel:				
a) wages and salaries	21,669,589	20,295,735	(1,373,854)	-6.34%
b) social contributions	6,333,063	5,439,820	(893,243)	-14.10%
c) employee severance indemnity - TFR	1,081,372	1,203,243	121,871	11.27%
d) retirement benefits and similar obligations		-	-	0.00%
e) other personnel costs	188,721	116,179	(72,542)	-38.44%
Depreciation, amortisation and writedowns:				
a) intangible assets	1,914,496	2,479,695	565,199	29.52%
b) fixed assets	9,830,286	5,568,677	(4,261,609)	-43.35%
c) other writedowns of non-current assets	-	-	-	
d) writedowns of current receivabes	45,007	22,443	(22,564)	
Changes in inventory of raw, ancillary and consumable materials and goods	(1,981,983)	2,848,591	4,830,574	-243.72%
Provisions for risks			-	
Other provisions	1,136,088	3,269,548	2,133,460	187.79%
Sundry operating expenses	1,298,698	2,510,635	1,211,937	93.32%
Rounding			-	
Total	**154,682,395**	**147,471,294**	**(7,211,101)**	

The following paragraphs contain details of the main cost categories and the most significant changes compared to prior year.

Costs for raw, ancillary and consumable materials and goods

Costs for raw, ancillary and consumable materials and goods are reported in the Income Statement net of adjustments for returns, discounts, bonuses and allowances. They total Euro 69,987,844 for 2020 against Euro 76,176,211 in 2019.

Purchase costs mainly relate to raw materials (aluminium) and pump components (bearings and shafts, thermostats, pulleys, plates, covers, etc.), purchases of finished pumps (IAM) and consumable materials. The composition of the balance has not changed significantly compared to prior year while the decrease in purchases of components compared to 2019 is the result of lower procurement because of the lockdown and to shortages of certain raw materials needed for certain components essential to the supply chain.

Description	Industrie Saleri Italo S.p.A.	Saleri Shanghai Co. Ltd	ABL Automazione S.r.l.	Consolidated
Raw, ancillary and consumable materials and goods for resale	54.671.737	11.103.927	4.212.180	69.987.844
Total	**54.671.737**	**11.103.927**	**4.212.180**	**69.987.844**

Reference should be made to the Directors' Report for further information on this cost category and on the change compared to prior year.

Costs for services

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	ABL Automazione S.r.l.	Consolidated
Costs for Services	29,022,052	317,927	781,765	1,449,196	31,570,940
Total	**29,022,052**	**317,927**	**781,765**	**1,449,196**	**31,570,940**

Costs for services amount to Euro 31,570,940 against Euro 35,052,430 in 2019. They mainly comprise the Parent Company's costs for services (around 92% of the total), as detailed in the table below:

Description	2019	2020	Change
Industrial services	21,367,534	18,451,835	(2,915,699)
Consulting	1,191,928	1,457,916	265,988
General expenses	8,446,569	7,068,406	(1,378,163)
Other services	2,537,528	2,043,895	(493,633)
Total	**33,543,559**	**29,022,052**	**(4,521,507)**

Industrial services mainly refer to outsourced services including die-casting and other casting, machining, other processing and treatments regarding certain stages of the production process. The balance has decreased significantly compared to prior year as a result of the temporary suspension of the production process in the OE segment.

Consulting costs include accounting, management and tax consulting but also sales and marketing advice and services in relation to patents, quality control and the environment. The overall increase of Euro 265,988 mainly regards costs for technical consulting (up by Euro 40,681), marketing consulting (down by Euro 21,137), tax and management consulting (up by Euro 307,321) and sales consulting (down by Euro 32,006).

General Expenses include costs for Freight, Utilities, Maintenance and other costs relating to the Group's activities. The overall decrease of Euro 1,389,638 is mainly due to costs for utilities (down by Euro 289,031), freight costs (down by Euro 536,072) and directors' fees (down by Euro 221,978).

Other services is a catch-all caption. The decrease compared to prior year is mainly due to reductions in business travel and trade fair costs, costs for security services and costs for training courses.

Use of third party assets – lease and rental costs

This item amounts to Euro 2,157,944 against Euro 1,938,417 in 2019. It is analysed as follows:

Description	Industrie Saleri Italo S.p.A.	Saleri Shanghai Co. Ltd	ABL Automazione S.r.l.	Consolidated
Use of third party assets	1,298,629	634,943	224,372	2,157,944
Total	**1,298,629**	**634,943**	**224,372**	**2,157,944**

The balance mainly includes hire and rental expenses.

Personnel costs

This item comprises all employee related expenses including merit based increases, promotions, seniority increases, accrued holiday pay and provisions required by law and collective labour agreements.

Personnel costs amount to Euro 27,054,977 against Euro 29,272,745 in 2019 and are analysed below:

Description	Industrie Saleri Italo S.p.A.	Saleri Shanghai Co. Ltd	ABL Automazione S.r.l.	Consolidated
▶ **Personnel costs**				
a) wages and salaries	17,194,325	1,186,522	1,914,888	20,295,735
b) social contributions	4,575,807	322,668	541,345	5,439,820
c) employee severance indemnity - TFR	1,058,756	-	144,487	1,203,243
d) retirement benefits and similar obligations		-	-	-
e) other personnel costs	88,625	19,154	8,400	116,179
Total	**22,917,513**	**1,528,344**	**2,609,120**	**27,054,977**

The total cost has decreased by around Euro 2,217,768 mainly as a result of use of the "cassa integrazione" furlough scheme by the Parent Company and subsidiary ABL Automazione S.r.l. in the period March to June 2020; the overall decrease was despite an increase in the average number of Group employees.

Amortisation of intangible assets

Amortisation of intangible assets (Euro 2,479,695 against Euro 1,914,496 in 2019) has already been commented upon in the Note on intangible assets.

Depreciation of fixed assets

Depreciation of fixed assets (Euro 5,568,6776 against Euro 9,830,286 in 2019) has already been commented upon in the Note on fixed assets. We note, however, that it has been calculated based on the useful life of fixed assets and their use in the production process. As described in the Note on Fixed assets, following an independent appraisal report, the remaining useful lives of certain assets belonging to the "Plant and machinery" and "Industrial and commercial equipment" categories have been revised.

Other writedowns of non-current assets

As already described in the note on Non-Current Assets, in 2020, the Group did not make any further writedowns of non-current assets as it believed the amount provided in prior years was sufficient.

Writedowns of current receivables

During the year, writedowns of current receivables totalled Euro 22,443.

Other provisions

This item, amounting to Euro 3,269,548, includes allocations to the product warranty provision (Euro 2,900,000) and completion costs of contracts already invoiced (Euro 369,548). In 2019, the amount allocated was Euro 1,136,088.

Sundry operating expenses

Sundry operating expenses amount to Euro 2,510,635 against Euro 1,298,698 in 2019 and are detailed as follows:

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	ABL Automazione S.r.l.	Consolidated
Sundry operating expenses	803,682	1,420,903	245,592	40,458	2,510,635
Total	**803,682**	**1,420,903**	**245,592**	**40,458**	**2,510,635**

The increase compared to prior year (Euro 1,211,937) mainly refers to subsidiary Immobiliare Industriale S.r.l. as a result of the loss realised on the sale of the only asset owned by it.

Financial income and expenses

Income from securities included in current assets that are not equity investments

The amount of Euro 2,105 refers to income on securities included in the current assets of subsidiary ABL Automazione S.r.l..

Sundry income

This caption totals Euro 37,274 for 2020 and mainly refers to the parent company.

Interest and other financial expenses

Interest and other financial expenses amount to Euro 1,624,148 against Euro 1,716,657 in 2019 and are analysed as follows:

Description	Amount
Bonds	105,478
Bank borrowing	1,191,497
Other	327,173
Total	**1,624,148**

Exchange gains and losses

Net exchange losses of Euro 20,005, compared to exchange losses of Euro 22,206 in 2019, mainly refer to the exchange differences of the parent company and subsidiary Saleri Shanghai Co.Ltd.

Writedown of investments

There were no writedowns of non-controlling investments in 2020.

Writedowns of derivative instruments

The amount of Euro 13 refers to the negative fair value measurement of derivative instruments in place at the reporting date, in accordance with OIC 32, in relation to contracts entered into in prior years. Note that, during the reporting period, the Group entered into hedging derivatives to which it decided to apply hedge account as the necessary requirements were met.

Taxes on income – current, deferred and deferred tax income

Descrizione	2019	Change	2020
Current taxes	584,701	152,158	736,859
Prior year taxes	**368,402**	**(362,234)**	**6,168**
Deferred Taxes and Utilisation of Deferred Tax Assets	621,519	476,428	1,097,947
Deferred Tax Income and Use of Deferred Tax Provisions	(2,117,798)	(699,372)	(2,817,170)
Income and expenses from tax consolidation	-	-	
Total	**(543,176)**	**(433,020)**	**(976,196)**

“Deferred Taxes and Utilisation of Deferred Tax Assets” mainly refers to the parent company (Euro 912,800) and, to a minor extent, to consolidation adjustments.

“Deferred Tax Income and Use of Deferred Tax Provisions” mainly refers to the parent company (Euro 2,037,982), to subsidiary ABL Automazione S.r.l. (Euro 388,613) and to subsidiary Immobiliare Industriale S.r.l. (Euro 390,575).

Other information

Off-balance sheet commitments, guarantees and contingent liabilities

Pursuant to Article 2427(9) of the Italian Civil Code, we disclose the following off-balance sheet commitments, guarantees and contingent liabilities:

Guarantees

Guarantees amount to Euro 4,181,247, including Euro 2,953,495 of secured guarantees. They refer to:

- Euro 1,227,752 of guarantees given by the Parent Company on behalf of other entities (ex-subsidiary Italacciai S.r.l.) in favour lenders; the maximum amount of the guarantees given is around Euro 1,580,000 for this category;
- Euro 2,953,495 of mortgages on assets owned by the Parent Company as security for loans and financing granted to it by banks and financial institutions. The amount is measured taking account of the outstanding debt at 31/12/2020.

As stated in the Note on "Payments on Account", the Parent Company has received significant advance payments totalling Euro 3,700,000 from several customers towards future sales. The amount of the advances is covered by guarantees for the same amount on machinery owned by the Parent Company.

Related party transactions

We note that the Group companies routinely enter into commercial and financial transactions with one another. As already highlighted in the "Consolidation Methods" paragraph, receivables and payables, revenue and expenses between companies in the scope of consolidation have been eliminated. All intercompany transactions have been entered into on an arm's length basis.

The following table shows amounts relating to transactions with non-consolidated subsidiaries and other related parties.

	Parent companies	Non-consolidated subsidiaries	Other related parties
Revenue		1,854,588	
Costs		110,654	229,500
Financial income/ expenses		21,215	
Financial receivables	7,290	848,252	5,333
Trade receivables		1,606,366	
Financial payables		2,302	
Trade payables		55,546	12,000

Fees

As required by law, the following table contains details of the total fees of the Directors, the members of the Board of Statutory Auditors and the External Auditor for performance of their duties.

Description	Consolidated
Directors' Fees	1,359,586
Board of Statutory Auditors' Fees	71,873
External auditor's fees - Annual audit	76,715
External auditor's fees - Other services	128,408
Total	**1,636,582**

Employment details

The following table shows the average number of employees – by employee category – of the companies consolidated line-by-line.

Workforce	2019	Change	2020
White collars - Managers	221	5	226
Blue collars - Intermediates	343	22	365
Total	**564**	**27**	**591**

The change mainly refers to the parent company. See the Directors' Report for further information on personnel.

Summary of public finance in terms of art. 1(125) to (129) of Law no. 124/2017

Article 1 (125) to (129) of Law no 124 of 4 August 2017 (Annual law for the market and competition) introduced new disclosure requirements on public finance received and approved.

These amounts are reported on a "cash basis". During 2020, the Group received the following grants and contributions included in the definition governed by Law 124 of 4 August 2017:

Paying Entity	Amount received	Measure Title
Simest	72,827.44	Measures rgearding the participation of Italian companies in public/private companies abroad - interest contribution
Ministry of Economy and Finance	28,297.00	Sanitisation Tax Credit
INPS	534,911.50	Relief from INPS contributions on payroll costs

Disclosures regarding financial instruments

The following table contains information on transactions to hedge the interest rate risk in relation to loans and finance leases in place at 31 December 2020:

Description	Fair value 31/12/2020	Fair value 31/12/2019	Change in Income Statement	Nature	Amount
Interest rate swaps	(323,421)	-	(323,421)	Hedge	24,000,000
Options	0	13	(13)	Hedge	345,312

Significant events after the reporting period

Pursuant to Article 2427(22-iv) of the Italian Civil Code, we highlight the continuation of the adverse events relating to the Covid-19 pandemic, as already mentioned in the introduction to these Notes and described in more detail in the Directors' Report.

We note the following with regard to investments in subsidiaries:

- on 12 February 2021, the Parent Company acquired an investment in Saleri India Private Limited, a company incorporated on 4 December 2020. At the reporting date, capital payments of Euro 1,002,837 had been made to said company. The percentage interest held is 99.98%;
- on 12 April 2021, the Parent Company acquired a further 37.5% equity interest in Immobiliare Industriale S.r.l. and became the Sole Quotaholder;
- on 11 May 2021, an Extraordinary Meeting of the quotaholders of subsidiary ABL Automazione S.r.l. resolved to reschedule the company's losses (which had fully eroded quotaholders' equity) and to restore the company's quota capital to Euro 750,000. The non-controlling quotaholders opted not to participate in the recapitalisation and it was subscribed in full by the Parent Company which became the Sole Quotaholder of the subsidiary as a result of the payment made.

Lumezzane (BS), 13 May 20211

THE BOARD OF DIRECTORS

Signed by **Basilio Saleri (Chairman)**

Signed by **Matteo Cosmi**

Signed by **Sergio Bona**

Signed by **Giorgio Garimberti**

Signed by **Wilhelm Becker**

Signed by **Alessandro Potestà**

Signed by **Alberto Bartoli**

Signed by **Simona Heidempergher**

Signed by **Massimo Colli**

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Industrie Saleri Italo S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Industrie Saleri Italo S.p.A. and its subsidiaries (the "Saleri Group"), which comprise the consolidated balance sheet as at December 31, 2020, the consolidated statement of income and statement of cash flows for the year then ended and the explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Italian law governing financial statements.

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 Industrie Saleri Italo 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.

Emphasis of matter

We draw attention to the "Fixed assets" paragraph of the Notes to the Financial Statements which includes information on the change of depreciation rates for the captions "Plant and machinery" and "Industrial and commercial equipment", on the basis of a revaluation performed by an third party expert. Our opinion has not been qualified in relation to this matter.

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2

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance the Italian law governing financial statements 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.

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- 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10

The Directors of Industrie Saleri Italo S.p.A. are responsible for the preparation of the report on operations of Saleri Group as at December 31, 2020, including its consistency with the related consolidated financial statements and its 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 with the consolidated financial statements of Saleri Group as at December 31, 2020 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the report on operations is consistent with the consolidated financial statements of Saleri Group as at December 31, 2020 and is prepared in accordance with the law.

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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
Stefano Marnati
Partner

Brescia, Italy
May 26, 2021

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

Section

4

Separate Financial Statements at 31 December 2020

General information about the Company

General details

Name	Industrie Saleri Italo S.p.A.
Registered office	Via Ruca 406 25065 Lumezzane (Bs)
Share capital	23.922.413
Is share capital wholly paid?	yes
Chamber of Commerce Code	Brescia
VAT Number	01589150984
Tax Number	03066870175
Business database/REA Number	BS-317605
Legal form	*Società per azioni* (Joint stock company)
Main business segment (ATECO)	293209 Manufacture of other parts and accessories for cars and their engines
Is company in liquidation	no
Does company have a single shareholder	no
Is company subject to management and coordination by another entity	no
Name of company or entity that provides management and coordination	
Does company belong to a group	yes
Name of holding company	El.fra Holding S.r.l.
Country of holding company	Italy
Register of cooperatives number	

Balance Sheet

	31/12/2020	31/12/2019
BALANCE SHEET		
ASSETS		
A) Due from shareholders for unpaid capital		
B) Non-current assets		
I - Intangible assets:		
1) Start-up and expansion costs	-	-
2) Development costs	1,286,971	1,461,286
3) Patents and intellectual property rights	324,930	440,706
4) Concessions, licences, trademarks and similar rights	-	-
5) Goodwill	-	-
6) Assets under construction and payments on account	5,216,198	3,058,816
7) Other	1,685,801	2,467,958
Total Intangible Assets	**8,513,900**	**7,428,766**
II - Fixed assets		
1) Land and buildings	19,308,268	19,965,392
2) Plant and machinery	21,750,354	20,457,519
3) Industrial and commercial equipment	4,142,335	4,080,263
4) Other fixed assets	820,160	1,010,336
5) Assets under construction and payments on account	752,925	1,901,691
Total Fixed assets	**46,774,042**	**47,415,201**
III) Financial assets:		
1) Investments in:		
a) subsidiaries	32,420,678	8,356,498
b) associated companies	-	-
c) parent companies	-	-
d) entities subject to control of parent companies	-	-
d-bis) Other entities	4,247	4,247
Total investments	**32,424,925**	**8,360,745**
2) Receivables:	-	-
a) from subsidiaries	-	-
b) from associated companies	-	-
c) from parent companies	-	-
d) from entities subject to control of parent companies	-	-
d-bis) from others	-	-
Total Receivables	**0**	**0**
3) Other Securities	6,340	6,340
4) Derivatives		13
Total Financial Assets	**32,431,265**	**8,367,098**
Total non-current assets (B)	**87,719,207**	**63,211,065**

	31/12/2020	31/12/2019
BALANCE SHEET		
ASSETS		
C) Current assets		
I) Inventory:		
1) Raw, ancillary and consumable materials	8,473,611	11,766,582
2) Work in progress and semi-finished goods	2,371,122	3,060,179
3) Contract work in progress		
4) Finished goods	9,079,058	11,781,049
5) Payments on account	994,993	63,169
Total Inventory	**20,918,784**	**26,670,979**
II) Receivables:		
1) Trade accounts		
due within a year	4,672,984	6,155,658
due after more than a year		
Total trade receivables	**4,672,984**	**6,155,658**
2) due from subsidiaries		
due within a year	3,261,549	1,683,753
due after more than a year		
Total receivables due from subsidiaries	**3,261,549**	**1,683,753**
3) due from associated companies		
due within a year		
due after more than a year		
Total receivables due from associated companies		
4) due from parent companies		
due within a year	7,290	
due after more than a year		
Total receivables due from parent companies	**7,290**	
5) due from entities controlled by parent companies		
due within a year		
due after more than a year		
Total receivables due from entities controlled by parent companies		
5-bis) Tax receivables		
due within a year	1,389,411	924,180
due after more than a year	32,555	
Total tax receivables	**1,421,966**	**924,180**
5-ter)Deferred tax assets		
due within a year		
due after more than a year	5,936,835	5,176,585
Total deferred tax assets	**5,936,835**	**5,176,585**
5-quater) due from others		
due within a year	1,985,802	4,459,013
due after more than a year	149,206	155,075
Total receivables due from others	**2,135,008**	**4,614,088**
Total Receivables	**17,435,632**	**18,554,264**

	31/12/2020	31/12/2019
BALANCE SHEET		
ASSETS		
III - Current financial assets		
1) Investments in subsidiaries		
2) Investments in associated companies		
3) Investments in parent companies		
3-bis) Investments in entities controlled by parent companies		
4) Other investments	13,294	13,294
5) Derivatives		
6) Other securities		
Total current financial assets	**13,294**	**13,294**
IV)Cash and cash equivalents:		
1) Bank and post office accounts	36,258,427	7,051,175
2) Cheques		
3) Cash and cash equivalents on hand	60	7,355
Total IV)	36,258,487	7,058,530
Total current assets	**74,626,197**	**52,297,067**
D) Prepaid expenses and accrued income	**4,053,990**	**2,458,666**
Total assets	**166,399,394**	**117,966,798**

	31/12/2020	31/12/2019
BALANCE SHEET		
LIABILITIES AND EQUITY		
A) Shareholders' equity		
I) - Share capital	**23,922,413**	**17,922,413**
II) - Share premium reserve	**7,696,219**	**7,696,219**
III) - Revaluation reserve	**27,061,472**	**4,609,122**
IV) - Legal reserve	**1,179,976**	**1,134,850**
V) - Statutory reserves		
VI) - Other reserves, disclosed separately	**1,221,447**	**364,052**
Extraordinary reserve	857,395	
Additional paid-in capital		
Payments to cover losses		
Reserve for merger surplus		
Sundry other reserves	364,052	364,052
VII) - Cash flow hedge reserve	**(323,421)**	
VIII) - Retained earnings (Accumulated losses)		
IX) - Profit (Loss) for the year	**(4,885,685)**	**902,521**
X) - Negative reserve for treasury shares held	**(285,014)**	**(285,014)**
Total shareholders' equity	**55,587,407**	**32,344,163**
B) PROVISIONS FOR RISKS AND CHARGES		
1) Retirement benefits and similar obligations	-	-
2) Taxation, including deferred tax	1,635,891	1,651,400
3) Derivatives	323,421	
4) Other	3,146,412	1,742,908
TOTAL PROVISIONS FOR RISKS AND CHARGES	**5,105,724**	**3,394,308**
C) EMPLOYEE SEVERANCE INDEMNITY /TFR PROVISION	**1,437,180**	**1,554,684**
D) PAYABLES		
1) Bonds		
due within a year	105,479	
due after more than a year	3,825,107	
Total bonds	**3,930,586**	
2) Convertible bonds		
due within a year		
due after more than a year		
Total convertible bonds		
3) Shareholder loans payable		
due within a year		
due after more than a year		
Total shareholder loans payable		
4) Bank borrowing		
due within a year	13,391,076	13,008,659
due after more than a year	38,359,797	18,846,246
Total bank borrowing	**51,750,873**	**31,854,905**

	31/12/2020	31/12/2019
BALANCE SHEET		
LIABILITIES AND EQUITY		
5) Payables to other lenders		
due within a year	922,798	3,539,360
due after more than a year		
Total payables to other lenders	**922,798**	**3,539,360**
6) Payments on account		
due within a year	3,955,086	685,103
due after more than a year		
Total payments on account	**3,955,086**	**685,103**
7) Trade payables		
due within a year	32,410,272	33,401,797
due after more than a year		
Total trade payables	**32,410,272**	**33,401,797**
8) Credit instruments		
due within a year		
due after more than a year		
Total credit instruments		
9) Payables to subsidiaries		
due within a year	4,324,124	3,856,741
due after more than a year		
Total payables to subsidiaries	**4,324,124**	**3,856,741**
10) Payables to associated companies		
due within a year		
due after more than a year		
Total payables to associated companies		
11) Payables to parent companies		
due within a year		
due after more than a year		
Total payables to parent companies		
11-bis) Payables to entities controlled by parent companies		
due within a year		
due after more than a year		
Total payables to entities controlled by parent companies		
12)Tax payables		
due within a year	757,008	963,230
due after more than a year		
Total tax payables	**757,008**	**963,230**
13)Payables to social security and pensions institutions		
due within a year	958,623	1,543,341
due after more than a year		
Total payables to social security and pensions institutions	**958,623**	**1,543,341**
14) Other payables		
due within a year	4,742,412	4,079,003
due after more than a year		
Total other payables	**4,742,412**	**4,079,003**
Total payables	**103,751,782**	**79,923,480**
E) Accrued expenses and deferred income	**517,301**	**750,163**
Total liabilities and equity	**166,399,394**	**117,966,798**

Income Statement

	31/12/2020	31/12/2019
INCOME STATEMENT		
A) Value of production		
1) revenue from sales and services	121,445,070	142,061,709
2) change in inventories of wip, semi-finished and finished goods	(3,372,548)	(3,317,505)
3) change in contract work in progress		
4) increases in non-current assets due to capitalisation of internal works	1,281,089	1,314,276
5) other revenue and income		
Operating grant income	89,139	12,195
Other	3,429,334	7,844,319
Total other revenue and income	**3,518,473**	**7,856,514**
Total value of production	**122,872,084**	**147,914,994**
B) Cost of production		
6) raw, ancillary and consumable materials and goods	59,215,224	74,323,594
7) services	29,097,511	33,555,034
8) use of third party assets – lease and rental costs	3,037,564	4,495,866
9) personnel		
a) wages and salaries	17,194,325	19,757,421
b) social contributions	4,574,807	5,628,113
c) employee severance indemnity / TFR	1,058,756	1,009,762
d) retirement benefits and similar obligations		
e) other personnel costs	89,625	113,999
Total personnel costs	**22,917,513**	**26,509,295**
10) depreciation, amortisation and writedowns		
a) amortisation of intangible assets	1,571,827	1,544,190
b) depreciation of fixed assets	4,078,038	5,938,176
c) other writedowns of non-current assets		
d) writedowns of current receivables and cash and cash equivalents	8,700	45,007
Total depreciation, amortisation and writedowns	**5,658,565**	**7,527,373**
11) changes in inventory of raw, ancillary and consumable materials and goods for resale	3,292,971	(2,155,718)
12) provisions for risks		
13) other provisions	2,900,000	1,100,000
14) sundry operating expenses	803,682	807,095
Total cost of production	**126,923,030**	**146,162,539**
Difference between value and cost of production (A - B)	**(4,050,946)**	**1,752,455**

	31/12/2020	31/12/2019
INCOME STATEMENT		
C) Financial income and expenses		
15) income from investments		
- in subsidiaries		
- in associated companies		
- in parent companies		
- in entities controlled by parent companies		
Other		
Total income from investments		
16) other financial income		
a) from receivables classed as non-current assets		
- from subsidiaries		
- from associated companies		
- from parent companies		
- from entities controlled by parent companies		
- from other entities		
b) from securities classed as non-current assets other than equity investments	164	290
c) from securities classed as current assets other than equity investments		
d) income other than the above		
- from subsidiaries	22,044	150
- from associated companies		
- from parent companies		
- from entities controlled by parent companies		
- from other entities	30,916	16,249
Total income other than the above	**52,960**	**16,399**
Total other financial income	**53,124**	**16,689**
17) interest and other financial expenses		
- to subsidiaries	2,825	
- to associated companies		
- to parent companies		
- to entities controlled by parent companies		
other	1,232,043	1,264,012
Total interest and other financial expenses	**1,234,868**	**1,264,012**
17-bis) exchange gains and losses	(19,727)	(9,400)
Total financial income and expenses (15 + 16 - 17 + - 17-bis)	**(1,201,471)**	**(1,256,723)**
D) Adjustments to value of financial assets and liabilities		
18) revaluations		
a) of equity investments		
b) of non-current financial assets other than equity investments		
c) of securities classed as current assets other than equity investments		
d) of derivatives		16,109
18) revaluations		16,109

	31/12/2020	31/12/2019
INCOME STATEMENT		
19) writedowns		
a) of equity investments	750,737	770
b) of non-current financial assets other than equity investments		
c) of securities classed as current assets other than equity investments		
d) of derivatives	13	729
Total writedowns	**750,750**	**1,499**
TOTAL ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS		
Profit before taxation (A - B + - C + - D)	**(6,003,167)**	**510,342**
20) Taxes on income for the year – current, deferred and deferred tax income		
a) Current taxes	2,450	207,554
b) Deferred taxes	5,250	368,402
c) Deferred tax income	(1,125,182)	(861,642)
d) Income (Expenses) from participation on tax consolidation		106,493
Total taxes on income for the year – current, deferred and deferred tax income	**(1,117,482)**	**(392,179)**
21) Profit (Loss) for the year	**(4,885,685)**	**902,521**

Statement of cash flows, indirect method

	31/12/2020	31/12/2019
A) Cash flows from operating activities		
Profit (loss) for the year	**(4,885,685)**	**902,521**
Taxes on income	(1,117,482)	(392,179)
Interest expenses/(income)	1,201,471	1,256,723
(Dividends)		
(Gains)/Losses on asset disposals	(43,635)	(1,276)
1) Profit (Loss) for the year before taxes on income, interest, dividends and gains/losses on disposal	**(4,845,331)**	**1,765,789**
Adjustments for non-cash items with no impact on net working capital		
Allocations to provisions	4,487,351	2,641,467
Depreciation/Amortisation of non-current assets	5,649,865	7,482,366
Impairment writedowns	750,737	(476,977)
Adjustments to value of financial assets and liabilities	13	(15,380)
Other adjustments for non-cash items	2,036,463	(702,961)
Total adjustments for non-cash items with no impact on net working capital	**12,924,429**	**8,928,515**
2) Cash flows before changes in NWC	**8,079,098**	**10,694,304**
Changes in net working capital		
Decrease / (Increase) in Inventory	5,629,925	1,877,820
Decrease / (Increase) in Trade Receivables	1,473,973	5,866,123
(Decrease) / Increase in Trade Payables	991,523	368,585
Decrease / (Increase) in Prepaid Expenses and Accrued Income	(1,595,323)	1,046,603
(Decrease) / Increase in Accrued Expenses and Deferred Income	(232,863)	164,677
Δ in Financial Receivables	0	(983,082)
Δ in Tax Receivables	525,224	1,617,124
Δ in Sundry Receivables	2,479,080	10,394,653
Decrease / (Increase) in Sundry Receivables	3,004,304	11,028,695
Δ in Other Payables	2,815,689	2,475,894
Δ in Tax Payables	(206,222)	(18,291)
Δ in Payables to Social Security and Pensions Institutions	(584,718)	135,474
(Decrease) / Increase in Sundry Payables	2,024,749	2,593,077
Other decreases/(Other increases) in net working capital	5,029,053	13,621,772
Change in net working capital	**9,313,242**	**22,208,410**
3) Cash flows after changes in NWC	**17,392,340**	**32,902,714**
Interest received / (paid)	(1,201,471)	(1,029,611)
Taxes on income (paid)	(681,287)	(497,976)
Dividends received		
(Use of Provisions for Risks and Charges)		(1,425,494)
(Use of employee severance indemnity /TFR provision)	(1,176,260)	(1,036,926)
(Use of provisions)		
Other receipts/(payments)		
Total other adjustments	**(3,059,018)**	**(3,990,007)**
4) Cash Flows after other adjustments	**14,333,322**	**28,912,707**

	31/12/2020	31/12/2019
CASH FLOWS FROM OPERATING ACTIVITIES		
B) Cash flows from investing activities		
Capex on non-current assets		
- Fixed assets		
(Additions)	(5,306,172)	(9,106,822)
Disposals	1,912,928	157,279
- Intangible assets		
(Additions)	(3,075,987)	(3,519,317)
Disposals	419,027	0
- Financial assets		
(Additions)	(2,362,567)	(567,391)
Disposals	0	
- Current financial assets		
(Additions)		
Disposals		1,000
(Acquisition of business units net of cash and cash equivalents)		
Sale of business units net of cash and cash equivalents		
Cash flows from investing activities	**(8,412,771)**	**(13,035,251)**
C) Cash flows from financing activities		
Debt		
-Increase (Decrease) in short-term bank borrowing	(771,634)	(2,712,060)
-Loans arranged	23,592,733	
-(Loans repaid)	(5,541,693)	(7,947,234)
Equity		
-Paid share capital increase	6,000,000	
-(Share capital refunds)		
-Sale (Purchase) of treasury shares		(285,014)
-(Dividends and advances on dividends paid)		
Cash flows from financing activities	**23,279,406**	**(10,944,308)**
Increase (decrease) in cash and cash equivalents (A ± B ± C)	**29,199,957**	**4,933,148**
-Forex effect on cash and cash equivalents		
Cash and cash equivalents at start of period		
Bank and post office accounts	7,051,175	2,120,162
Cheques		
Cash and cash equivalents on hand	7,355	5,220
Total cash and cash equivalents at start of period	**7,058,530**	**2,125,382**
Of which not freely available		
Cash and cash equivalents at end of period		
Bank and post office accounts	36,258,427	7,051,175
Cheques		
Cash and cash equivalents on hand	60	7,355
Total cash and cash equivalents at end of period	**36,258,487**	**7,058,530**
Of which not freely available		

Notes to the Financial Statements, opening section

Dear Shareholders,
These financial statements, as submitted for your review and approval, report a net loss for the year of Euro 4,885,685.
As described in more detail in the "Structure and content of the financial statements" section, the financial statements provide a true and fair representation of the Company's balance sheet and financial position and of its result for the year.
These Notes form an integral part of the Financial Statements at 31 December 2020. They have been prepared in accordance with Article 2427 of the Italian Civil Code and contain all of the information of use in providing an accurate interpretation of the Financial Statements.

Introduction

The reporting period ended 31 December 2020 was significantly affected by the pandemic caused by the Coronavirus called "Covid-19", which spread in Italy from the first few months of 2020 and involved several lockdown periods and the suspension of most non -essential business activities with consequential effects for the productivity, profitability, finances, employment and markets of companies both in Italy and internationally.
The suspension of business activities affected the Original Equipment segment of Industrie Saleri Italo S.p.A. which continued to operate only as permitted by the aforementioned DPCM to guarantee the supply of goods and services to business sectors considered strategic to the national economy i.e. the business segments indicated by ATECO code 45.2 (Repair and maintenance of motor vehicles) and 45.2 (Sale of spare parts or accessories for motor vehicles). The Company also facilitated agile working where possible and encouraged employees to use their annual leave. The Company duly complied with all legal requirements with the primary aim of safeguarding the health of its workers.
During the year, in addition to the emergency DPCMs that were issued from March 2020 onwards to introduce measures designed to combat the spread of the virus, a range of legislative provisions were introduced with measures of various types (financial, fiscal, statutory reporting, employment law, medical/health) to sustain and assist businesses during the health emergency and to regulate the various compliance requirements related to their operations during the pandemic.
We underline, however, that, given its importance, the health emergency is similar to a natural disaster with significant effects on the Income Statement for the reporting period which is not wholly comparable with prior year because of the temporary suspension of the production activities of the Company and its main foreign customers.
The situation triggered by the pandemic and the resulting restrictions on the operations of the industry as a whole also required the Company to act swiftly to adopt the measures necessary to mitigate the risks that could have affected its ability to continue to operate as a going concern.
The most significant measures adopted, also based on Trade Union agreements and guidelines from Business Associations, include:

- the establishment of a set of internal procedures and protocols to be followed in all areas of the business, together with specific access regulations. These have been distributed over internal communications channels in order to reach those affected as effectively as possible;
- intensification of ordinary plant cleaning activities, specific sanitisation of premises, widespread availability of sanitising products;
- timely activation of agile working methods (working from home) when the epidemic was at its peak and, on a flexible basis, at other times; in some business departments, this method of working is still in operation;
- mapping of production and office premises with measurement of space in order to guarantee required social distancing; this has also involved reorganising workstations where necessary.

Based on its short-term forecast of treasury requirements, the Company duly signed up to initiatives launched by the Italian Government in order to (i) obtain a moratorium on debt repayments and (ii) obtain new loans accompanied by Public Guarantees..
Moreover, in anticipation of a return to full activities, the Company has maintained close contact with leading customers and suppliers in order to (i) reschedule deliveries after said customers and suppliers confirmed their interest in continuing with business relations and, for some customers, (ii) obtain important support for the supply chain.
In terms of measures to mitigate the risk of contagion, the Company has implemented and continues to implement all of the production facility sanitisation activities and the monitoring of all safety measures required by law, by Trade Union Agreements and by the guidelines issued by Business Associations.
Given the above and in consideration of all of the action taken to deal with the state of emergency caused by the pandemic and the expectations for 2021, the Directors do not believe there is any significant uncertainty over the Company's ability to operate as a going

concern. Accordingly, the Financial Statements at 31 December 2020 have been prepared on a going concern basis.
Reference should also be made to the Directors' Report for further information on the above.

Business activities

Industrie Saleri Italo S.p.A., a company founded in 1942, is active in the design, manufacture and sale of engine cooling systems for the automobile industry and operates in both the original equipment (OEM) and the aftermarket (IAM) segments.
The Company's ability to provide a leading customer base with a wide range of technologically advanced solutions has enabled the business to grow strongly in recent years. Long-term production contracts have consistently been acquired, guaranteeing a healthy workload for the years ahead.
The Directors' Report contains further information on the activities of the Company and its subsidiaries.

Structure and content of the Financial Statements

The financial statements for the year ended 31 December 2020 comprise the Balance Sheet, the Income Statement, the Statement of Cash Flows and these Notes. They reflect the contents of the properly maintained accounting records and have been prepared in accordance with the requirements of Articles 2423 and 2423 – bis of the Italian Civil Code, as well as with the accounting standards and accounting recommendations issued by the Italian Accounting Standards Board ("Organismo Italiano di Contabilità" -O.I.C.).
The structure and content of the financial statements are consistent with the requirements of Articles 2424 and 2425 of the Italian Civil Code and with the terms of Article 2423-ter. Meanwhile the Notes are consistent with the requirements of Articles 2427 and 2427-bis and all other relevant provisions.
The entire document has been prepared in order to present a true and fair view of the Company's balance sheet and financial position and of its result for the year. Where necessary, additional information has been provided in order to provide a full understanding.

Exceptions

((See Art. 2423(5) of the Italian Civil Code)
There were no exceptional circumstances requiring the use of exceptions in terms of Article 2423 (5) of the Italian Civil Code.

Comparability of amounts reported

The amounts reported in these financial statements are all suitable for comparison in terms of Article 2423-ter of the Italian Civil Code.

Principles followed when preparing the Financial Statements

Pursuant to Article 2423-bis of the Italian Civil Code, the following principles were followed when preparing the financial statements:

- Each amount was measured based on the prudence principle and on a going concern basis, while taking account of the substance of the transaction or the contract;
- Only those gains or profits actually realised during the reporting period were included;
- Income and expenses relating to the period were included, irrespective of their collection or payment date;
- Risks and losses relating to the period were taken into account even if they came to light after the reporting date;
- Different items included in the various financial statement captions were measured separately.

The Financial Statements, together with these Notes, have been prepared to the nearest Euro.

Financial Statements Format adopted by the Company

We note the following with regard to the format of the Financial Statements:

- The format of the Balance Sheet and Income Statement is as required, respectively by Article 2424 and 2425 of the Italian Civil Code. Line items indicated by Arab numerals and by small letters per Articles 2424 and 2425 of the Italian Civil Code but which are not reported had zero balances in both the current and the previous reporting period;
- The Statement of Cash Flows, as introduced by Article 2425-ter of the Italian Civil Code, has been prepared using the indirect method and its format is consistent with that recommended by Italian Accounting Standard OIC 10 (revised in 2016).

The Notes to the Financial Statements contain obligatory tables and/or those important in providing a proper understanding of the information in the Financial Statements, as envisaged by the Italian Civil Code or prepared in accordance with specific legal requirements.
In accordance with Article 2423-ter, the prior year comparative amount is reported for each line item.
Reference should be made to the relevant section for information on the Company's economic and financial performance and on its related party transactions.

Audit

The Financial Statements at 31 December 2020, as submitted for your approval, have been audited by Deloitte & Touche S.p.A. on the basis of the engagement conferred upon them by the Shareholders' General Meeting of 23 November 2017 until approval of the Financial Statements at 31 December 2020. Deloitte & Touche S.p.A.'s audit work regards the following:

- Separate financial statements;
- Consolidated financial statements;
- Periodical checks to ensure accounting records are properly maintained;
- Other certification activities.

The fees agreed for the audit of the Company's financial statements at

31 December 2020 amount to Euro 53,500, excluding VAT and any out of pocket expenses.

Accounting policies and measurement criteria adopted

The accounting policies and measurement criteria required by Article 2426 of the Italian Civil Code were applied when preparing the Financial Statements.
The measurement criteria required by Article 2426 of the Italian Civil Code have been maintained unchanged compared to those adopted in prior year.

Intangible assets

Intangible assets are individually identifiable assets, controlled by the Company and generally consisting of legally protected rights or of assets capable of producing future economic benefits. These assets have been recorded at purchase or internal production cost, including direct related expenses.
The amounts are reported net of accumulated amortisation, calculated on a straight-line basis at the rates indicated below, while taking account of the remaining useful lives of the assets.
No dividends were distributed during the reporting period. Therefore, the Company complied with the requirements of Article 2426(5) of the Italian Civil Code (it is not possible to distribute dividends in excess of the amount of available reserves sufficient to cover the amount of unamortised costs).
If there are indicators of impairment, intangible assets undergo an impairment test as described below under "Impairment of assets"; any impairment writedowns – except those relating to start-up and expansion costs, development costs and goodwill - may be reversed subsequently if the reasons for the writedown cease to apply. During the reporting period, there were no circumstances requiring any impairment adjustments to be made to intangible assets while the reasons that had led to impairment adjustments to certain intangible assets now amortised in full ceased to apply.

Patents and intellectual property rights: costs incurred to obtain legal protected rights are capitalised. This includes user licences which are amortised over their expected useful lives which cannot, in any case, exceed the period fixed by law or by the contract.

Development costs: in cases where the useful life cannot be reliably estimated, these costs are amortised over a period of not more than five years. Development costs with a clear link to projects with an estimated useful life of 10 years are amortised over that period at a rate of 10% per annum. Until they have been fully amortised, it is only possible to distribute dividends if there are sufficient available reserves to cover the amount of the unamortised costs.

Assets in progress and payments on account: advances to suppliers towards the purchase of intangible assets are initially recognised on the date when the obligation to pay such amounts arises. Intangible assets in progress includes costs incurred to realise an asset; these costs continued to be classified as assets in progress until title to the right has been acquired or the project has been completed. At that point, the amounts are reclassified to the relevant intangible asset captions.

Other intangible assets: leasehold improvements are amortised over the shorter of the future useful life of the expenses incurred and the residual lease period, taking account of any renewal period if it depends on the lessee.

Fixed assets

Fixed assets are recognised at purchase cost, internal production cost or contribution value. Cost includes related expenses, as well as any direct expenses needed to make the asset available for use; it is stated net of any capital grant income.
Ordinary maintenance costs are expenses in full in the Income Statement in the period in which they are incurred.
Fixed assets are stated net of accumulated depreciation, as calculated on a straight-line basis at the rates indicated below which have been determined based on the remaining useful lives of the assets. The depreciation rates applied are as follows:

Asset category		Depreciation rate
Buildings	▶	3%
Plant and machinery	▶	5%
Industrial and commercial equipment	▶	12.5%
Prototype equipment	▶	50%
Other fixed assets:		
- Furniture and fittings	▶	12%
- Electronic office equipment	▶	20%
- Cars and motorcycles	▶	25%
- Internal means of transport	▶	20%

On the basis of maintenance work carried out in the past and the resulting improvement in the efficiency of its plant and machinery and equipment, considering the fact that it confirmed that the actual useful life was longer than that initially estimated (10 years for machinery and 4 years for equipment) and, finally, given the independent appraisal prepared by a third party expert, the Company decided it should change the following depreciation rates

- from 10% to 5% for machinery
- from 25% to 12.50% for equipment

The new rates were felt to be more representative of the useful lives of

the assets in question than those used until now.
Therefore, without affecting depreciation calculated up to 31 December 2019 at the former rate, the depreciation charge for 2020 was calculated as follows:

- applying the new rate for assets that were purchased and came into use in 2020;
- for assets that were purchased and came into use in 2019 or earlier, by applying to each asset category and year of capitalisation different rates determined in such a way as to depreciate the net carrying amount at 31/12/2019 over the residual useful life from the date on which they were capitalised and came into use. This change was only applied to assets with a residual value at 31 December 2019.

Depreciation calculated in this manner was recorded under Income Statement caption b10) depreciation, amortisation and writedowns.
It should be noted that, in relation to assets purchased prior to 2020, calculation of depreciation at the new rate rather than by maintaining the rate used until 31 December 2019 produced a positive income statement effect of Euro 2,398,639.
It should be recalled that, since 2019, the depreciation of new fixed assets has been calculated based on the effective number of days' use.
If there are indicators of impairment, fixed assets undergo an impairment test as described below under "Impairment of assets"; any impairment writedowns may be reversed subsequently if the reasons for the writedown cease to apply.
Cost may be revalued in application of revaluation laws; in any case, revalued amount shall not exceed market value. No discretionary or voluntary revaluations have been performed and the valuations performed do not exceed the value in use or market value of the tangible asset in question, as determined on an objective basis.
Fixed assets destined for sale are classified under a specific current assets caption as the conditions set out by Italian Accounting Standard OIC no. 16 have been met.

Impairment of assets

Art. 2426 (1)(3) of the Italian Civil Code requires the adjustment of any non-current assets whose value has been impaired at the reporting date compared to its net carrying amount.
Italian Accounting Standard OIC 9 defines impairment as a reduction of value that renders the recoverable amount of an asset, as determined on a long-term basis, lower than its net carrying amount.
The recoverability of the amounts recorded is tested by comparing their net carrying amount with the greater of fair value less costs to sell and the value in use of the asset as OIC 9 defines recoverable amount as the greater of the fair value of an asset or a cash generating unit less costs to sell and its value in use.
Value in use is generally determined by discounting cash flows expected from use of the asset or the cash generating unit, taking account of the expected disposal value at the end of its useful life.
Cash generating units have been identified, in a manner consistent with the organisational and business structure, as assets that generate independent cash inflows due to continuing use.
During the reporting period, impairment adjustments were recorded in relation to certain assets as there were indicators of impairment of fixed assets recorded in the Balance Sheet, as described in more detail in the Note on "Land and Buildings".

Assets held under finance leases

Fixed assets held under finance leases are reported in accordance with Italian GAAP. This involves recording the lease instalments as period costs over the duration of the finance lease while recording a prepaid expense for advance instalments and recognising the asset at the amount of the final purchase option in the period when said option is exercised.
During the lease period, the final purchase option and the outstanding commitment for finance lease instalments are disclosed under Commitments. A later section of the Notes contains details of the effect of applying IAS 17 to account for finance leases in place at the reporting date and for those that have ended but which still produce an effect under the finance lease accounting method.

Non-current financial assets

Non-current financial assets consisting of investments in subsidiaries and associated companies are measured at cost, inclusive of related expenses. Their carrying amount is determined based on acquisition or subscription price or on the value attributed to contributed assets.
Cost determined as above is adjusted for any impairment. If the reasons for any impairment adjustment cease to apply, the value of the investment is restored up to not more than the acquisition cost.
The amount so determined is not greater than the amount that would have been determined applying the criteria required by Article 2426(4) of the Italian Civil Code.
Investments not determined to form part of the Company's long-term portfolio are classified under current financial assets.
Investments in other entities and/or associated companies have been recognised at acquisition cost, as adjusted for any impairment based on the losses reported by the investee companies; in such cases, they are reported at less than their acquisition cost.
Securities are reported using the amortised cost method, as required by Italian Accounting Standard OIC 20.
Any receivables classed as non-current financial assets are reported using the amortised cost method, taking account of the time factor and estimated realisable amount.
The amortised cost method is not applied when the effective interest rate is not significantly different to the market interest rate or when the effects of application of the method are insignificant compared to the method adopted.

Inventory, securities and current financial assets

Inventory, securities and current financial assets have been recorded at the lower of purchase cost –including direct related expenses – and estimated realisable value based on market trends.
The purchase cost of raw and ancillary materials is determined using the weighted average cost method.
For finished goods and WIP, production cost includes the purchase cost of raw materials and components – determined as above – and the portion of direct and indirect production costs ("general production costs") that is reasonably attributable, also taking account of the state of completion of the relevant production phase.
The purchase cost of certain items e.g. prototypes and tooling is determined based on the specific cost method.
Estimated realisable value, as based on market trends, is determined based on the current purchase prices and selling prices of the inventory at the reporting date. If estimated realisable value is lower than purchase or production cost, the inventory is written down to that lower amount by means of a specific inventory provision.
The value of obsolete and slow moving items has been written down based on its prospects of future use or realisation by means of a specific inventory provision.

Receivables

Receivables due within a year are reported at estimated realisable amount by creating a specific provision for bad debts. Every year, an amount representing the risk of non-collection of the receivables reported in the Financial Statements is allocated to the provision, as determined based on general economic conditions, the business sector and the location of the debtor.
Receivables due after more than a year are recorded at the amortised cost method, taking account of the time factor. The amortised cost method is not applied when the effective interest rate is not significantly different to the market rate of interest or when the effects of application of the amortised cost method are insignificant compared to the method adopted.
Receivables include invoices issued and those yet to be issued for services relating to the reporting period.
Foreign currency receivables are initially recorded by applying the spot exchange rate at the transaction date. At the reporting date, foreign currency receivables are restated at the spot rate in force at that date. Realised exchange gains and losses are recorded in the Income Statement. Any unrealised net gain resulting from the translation of amounts denominated in foreign currency is allocated to a reserve not distributable until realisation.
Receivables are derecognised from the Balance Sheet when the right to receive cash flows is extinguished and substantially all of the risks and rewards of title to the asset have been transferred or if the receivable is definitively considered non-recoverable after all necessary recovery procedures have been completed.
Any receivables from customers involved in insolvency proceedings or in a state of proven economic distress which render enforcement measures pointless are written off in full or to the extent that information obtained or the procedures in progress lead to the conclusion that they will prove uncollectable.

Cash and cash equivalents

This caption contains all cash and cash equivalents held by the Company, whether on hand or in bank accounts. They are reported at nominal amount.

Prepaid expenses and accrued income, accrued expenses and deferred income

Prepaid expenses and accrued income include income relating to the period but collectible in future periods and costs incurred by the reporting date but relating to subsequent periods. Accrued expenses and deferred income include expenses relating to the period but payable to subsequent periods and income received by the reporting date but relating to subsequent periods.
They do not depend on the payment or collection date of the related expenses or income which are common to two or more reporting periods and are allocated based on time. The amount is determined by spreading the income or the expense (generally arising under contracts for a fixed period of time) in order to allocate the relevant portion to the reporting period and to defer or accrue the remaining portion.

Provisions for risks and charges

Provisions for risks and charges have been recorded to cover losses or liabilities of a determinate nature, which are certain or probably, but whose amount or due date could not be determined at the reporting date.
Provisions for risks and charges also include the provision for "taxation, including deferred tax" which includes amounts relating to probable tax liabilities whose amount or due date is uncertain and which originate from tax assessments not yet finalised or ongoing tax disputes or similar circumstances. The provision "for taxation, including deferred tax" includes deferred tax liabilities determined based on taxable temporary differences.
These provisions were calculated in accordance with the prudence and accrual principles. No general provisions for risks without any economic justification have been created.
Allocations to provisions for risks and charges are recorded under the appropriate Income Statement cost headings (B, C or D) if possible. Whenever it is not possible to make a connection between the amount provided and one of the captions under the aforementioned categories, allocations to provisions for risks and charges are recorded under Income Statement captions B12 and B13.

Employee Severance Indemnity / "TFR" provision

The employee severance indemnity provision represents the Company's effective liability towards each employee, as determined in accordance with current legislation in each country and for the Italian companies, in particular, in accordance with the terms of Article 2120 of the Italian Civil Code, national collective labour agreements and supplementary local agreements. Therefore, the "Employee severance indemnity provision" includes indemnities accruing in favour of employees at the reporting date, net of advances paid and after deducting partial advances maturing and paid. Following supplementary pension reform in 2006, amounts accruing from 1 January 2007 onwards may be maintained in the company or allocated to a supplementary pension fund, as the employee chooses.
This liability is subject to index-linked revaluation.
Advance payments are treated separately and deducted from the provision to show the net liability. The portion of the provision relating to the reporting period is allocated to the Income Statement.
As required by rules on the *Trattamento di Fine Rapporto* contained in Law no 296 of 27 December 2006 and in subsequent Implementing Decrees issued in the first few months of 2007 (Pension Reform), the liability reported represents the actual amount payable to employees at 31 December 2006, as revalued based on indexes and updated for amounts accruing in the first half of 2007 and not paid into supplementary pension funds. The balance also includes the TFR entitlement of persons hired in the second half of 2020 who have not yet stated their choice as to the destination of the TFR accruing, given the fact that this choice may be made within six months of the date of employment.

Payables

Payables falling due within a year are stated at nominal amount and include, where applicable, interest accruing and due at the reporting date.
Payables falling due after more than a year are recorded using the amortised cost method, taking account of the time factor. The amortised cost method is not applied when the effective interest rate is not significantly different than the market interest rate or when the effects of application of the amortised cost method are immaterial compared to the method already adopted.
Foreign currency payables are initially recorded at the spot exchange rate in force on the transaction date.
Payables for employee holidays accruing and for deferred remuneration, including amounts due to social security and pensions institutions, are recorded based on the amount that would have been payable if the employment relationship had ended on the reporting date.
Payables are derecognised from the Balance Sheet when the specific contractual obligation is extinguished.

Derivative instruments

Derivative instruments are arranged solely in order to hedge underlying interest rate, exchange rate, price and credit risks. The instruments meet the requirements to be considered as simple hedges and are, therefore, measured using the simplified method.
Derivatives are classified as hedging instruments only when, at the start of the hedge, there is a close, documented relationship between the characteristics of the item hedged and those of the hedging instrument and that hedging relationship is formally documented.
A derivative instrument used to hedge the cash flows or the fair value of an asset follows the classification of the hedged asset, in current assets or non-current assets; a derivative instrument used to hedge the cash flows or the fair value of a liability, a binding commitment or a highly probable planned transaction is classified in current assets, as is a non-hedging financial instrument. If they have a negative fair value, these instruments are recorded as liabilities under provisions for risks.
When derivatives hedge the risk of the future cash flows from the hedged instrument (cash flow hedges), the effective portion of the gains or losses on the derivative instrument is suspended in Equity. The ineffective portion of the gains and losses of a hedge are recorded in the Income Statement. When the related transaction is realised, accumulated gains and losses – until then recorded in equity – are recorded in the Income Statement (as adjustments to the Income Statement items affected by the hedged flows). The Company has decided to apply hedge accounting for the hedging of changes in cash flows of financial liabilities as a result of interest rate fluctuation.
Therefore, changes in the fair value of derivative hedging instruments are recorded:

- in the Income Statement in captions D18 or D19 in case of a hedge of the fair value of an asset or liability reported in the financial statements or of changes in the fair value of the hedged items (if the change in the fair value of the hedged item is greater in absolute terms than the change in fair value of the hedging instrument, the difference is recorded in the Income Statement caption affected by the hedged item);
- in a specific Equity reserve (caption AVII "Cash flow hedge reserve") in case of a cash flow hedge in such a way as to counterbalance the hedged cash flows (the ineffective portion, as well as the change in the time value of options and forward contracts, is classified in captions D18 and D19).

Translation of amounts denominated in foreign currency

Receivables and payables originally expressed in foreign currency are translated into Euro at the historical rates on the date they arose. Exchange differences realised upon settlement of payables and collection of receivables in foreign currency are recorded in the Income Statement.
Foreign currency receivables outstanding at the reporting date have been translated into Euro at the reporting date exchange rate.

Exchange gains and losses arising in this way have been recorded in the Income Statement under caption C.17-bis "Exchange gains/ losses", while allocating an amount equal to any net gain arising to a non-distributable equity reserve until the time of realisation.

Revenue, income, costs and expenses

Revenue and income are recorded net of returns, discounts and allowances, as well as any taxes directly related to the sale of products and the provision of services.
In more detail:

- Revenue for services is recognised when the service has been provided and in accordance with the related contracts. Revenue relating to contract work in progress is recognised based on the percentage of completion of works;
- Revenue from the sale of products is recognised upon change of ownership which normally coincides with shipment or delivery;
- Costs are accounted for in accordance with the accrual principle;
- Allocations to provisions for risks and charges are recorded based on their nature, where possible, in the relevant Income Statement categories;
- Financial income and expenses are recorded in accordance with the accrual principle;
- Extraordinary or non-recurring income and expenses are recorded under the Income Statement captions deemed appropriate based on the type of transaction. Any residual amounts are recorded under "Other revenues and income" and "Other operating expenses".

Dividends

Dividends are accounted for on an accrual basis when the right to collection emerges, in terms of Italian Accounting Standard OIC 21.

Taxes on Income

Taxes on income are recorded based on an estimate of taxable income in compliance with tax laws and regulations in force at the reporting date, while taking account of applicable exemptions and tax credits due. The Company has adhered, as consolidating entity, to the consolidated taxation arrangement in terms of Articles 117 to 129 of Presidential Decree 917/86. The Company determines a single tax base for the Group of companies participating in the tax consolidation. In this way, it benefits from the possibility of offsetting taxable income and tax losses in a single tax return. Each company participating in the tax consolidation transfers its taxable income or tax loss to the consolidating entity. The consolidating entity records a receivable from participating companies for IRES payable (the participating companies each record a liability towards the consolidating entity). In contrast, in the case of companies that contribute tax losses, the consolidating entity records a payable equal to the IRES on the portion of the loss actually offset at Group level (the participating company records a receivable from the consolidating entity).
Where necessary, deferred tax assets and liabilities are recorded on temporary differences between the statutory result for the period and taxable income. Pursuant to Article 2427(1)(14) of the Italian Civil Code, the Notes include a table containing a description of the temporary differences that led to the recognition of deferred tax assets and liabilities. Said table states the tax rate applied, changes compared to prior year, amounts credited or debited to the Income Statement or to Equity, items excluded from the computation and the reasons for their exclusion.

Notes to the Financial Statements, Assets

Notes to the balance sheet

Assets

Non-current assets

Intangible assets

Intangible assets represent expenses that produce long-term benefits. They amount to Euro 8,513,900 (Euro 7,428,766 at 31 December 2019) and are stated net of accumulated amortisation (Euro 1,571,826).

Details of intangible assets and movements thereon during the year are shown in the following table.

Asset category	Opening Amount	Increases	Decreases	Closing Amount
Start-up and expansion costs		0	0	
Development costs	1,461,286	345,384	519,699	1,286,971
Patents and intellectual property rights	440,706	141,636	257,412	324,930
Concessions, licences, trademarks and similar rights				
Goodwill				
Assets in progress and payments on account	3,058,816	2,576,409	419,027	5,216,198
Other intangible assets	2,467,958	12,558	794,715	1,685,801
Rounding				
Total	**7,428,766**	**3,075,987**	**1,990,853**	**8,513,900**

Movements on intangible assets

The following table shows movements on intangible assets (Article 2427(2) of the Italian Civil Code).

	Start-up and expansion costs	Development costs	Patents and intellectual property rights	Concession, licences, trademarks and similar rights	Goodwill	Assets in progress and payments on account	Other intangible assets	Total intangible assets
Opening amount								
Cost		2,756,964	1,372,538			3,058,816	4,497,468	11,685,786
Revaluations								0
Amortisation (Accumulated Amortisation)		1,295,678	931,832				2,029,510	4,257,020
Writedowns								0
Net carrying amount		**1,461,286**	**440,706**			**3,058,816**	**2,467,958**	**7,428,766**
Changes during the year								
Increases due to additions			75,960			2,576,409	12,558	2,664,927
Reclassifications (of net carrying amount)		345,384	65,676			(411,060)		0
Decreases due to disposals (of net carrying amount)						7,967		7,967
Revaluations performed during the year								0
Amortisation for the year		519,699	257,412				794,715	1,571,826
Writedowns performed during the year								0
Other changes								0
Total changes	**0**	**(174,315)**	**(115,776)**			**2,157,382**	**(782,157)**	**1,085,134**
Closing amount								
Cost		2,871,709	863,851			5,216,198	4,510,027	13,461,785
Revaluations								0
Amortisation (Accumulated Amortisation)		1,584,738	538,921				2,824,226	4,947,885
Writedowns								0
Net carrying amount		**1,286,971**	**324,930**			**5,216,198**	**1,685,801**	**8,513,900**

Development costs

In 2020, the Company carried out intensive research and development activities into technological innovation. Further details are provided in the Directors' Report.

With regard to development activities alone, in 2020, the Company incurred personnel costs totalling Euro 1,936,790. Based on a careful analysis of available information on the number of hours spent on development projects already assigned (i.e. projects for which a final contract has been signed) or under assignment (projects which the Company reasonably believes will be confirmed by a contract) by customers, the Directors concluded that they could capitalise the lower amount of Euro 1,281,089. This amount refers solely to costs for projects in relation to which the development phase has not yet been completed so they have been recorded under the caption Intangible assets in progress.

The following table contains the disclosures required by Article 2427(3) in relation to development costs.

	Opening amount	Increases	Decreases	Closing amount
Development costs	1,461,286	345,384	519,699	1,286,971
Total	**1,461,286**	**345,384**	**519,699**	**1,286,971**

Costs capitalised up to 2019 whose useful life could not be reliably estimated are amortised over not more than five years; this period is normally shorter than the mass production period of the related items. Development costs with a clear connection to projects with an estimated useful life of 10 years are amortised over that period at 10% per annum. Decreases amounting to Euro 519,699 refer entirely to amortisation for the period.
During the reporting period, historical cost and accumulated amortisation were decreased in relation to development costs that became fully amortised in prior year (Euro 230,640).

Tax credit for Research and Development

We note the following for the purposes of the tax credit in terms of Art. 3 of Decree Law 145/2013, subsequently Art.1 (35) of Decree Law 190/2014 and later renewed by Article 1(15) and (16) of Law no 232 of 11 December 2016 (2017 Budget Law), as subsequently amended by Law 145/2018 (2019 Budget Law), by Art. 1 of Law 160/2019 (2020 Budget Law) and, finally, by Art. 1(1064) of Law 178/2020 (2021 Budget Law):

Activities

In 2020, the Company carried out research, development and technological innovation activities with a view to the realisation of new electronic, electro-mechanical, mechanical and hydraulic solutions for application in future production. The objective is to be able to offer the market products with unique characteristics in terms of innovation in the industry. Such innovations would represent substantial technological progress compared to the existing stare of the art. These activities are the subject of a precise strategy designed to protect intellectual property. The activities have been carried out by the Company's Technical Team with assistance from Universities and third party Technology Partners. Some of the results, which represent substantial technological advancement compared to the state of the art in the industry as a whole, have already moved on to the trial phase while others will do in the next reporting period.
All research and development activities have been organised based on a systematic approach, providing for the following stages:

- Industrial Research, involving focused research and critical investigations to develop understanding in order to research, design and improve technical/functional specifications, as well as performance. This stage has included performance of feasibility studies – Research and Design.
- Experimental Development, which has led to the creation of initial prototypes and intensive experimentation thereof,
- Testing, designed to valid the products and process technologies

Certain macro-activities have been performed on a consequential basis, others on a contextual basis. The activities also included apparent overlaps due to the need to commence independent activities and/or to generate technological loops.

Costs

The costs incurred and expensed in the 2020 Income Statement amount to Euro 522,262.36. In accordance with Article 1 of Law 160/2019, which provides for a different calculation approach due to changes to the tax relief regarding the type of admissible expenditure, these costs include:

- costs for employees – also with fixed-term contracts – working on research, development and technological innovation activities - Euro 362,267.20.
  These costs are included under personnel costs in Income Statement caption B9 - in more detail B9a (wages and salaries), B9b (social contributions) and B9c (employee severance indemnity) – as determined based on the hours worked by Company personnel;
- costs of Euro 38,815.00 for the purchase of specialist third party services for use in carrying out research and development and for activities regarding technological innovation. These costs are included in Income Statement caption B7.
  With regard to research and development activities, we highlight the amount of Euro 25,000.00 for specialist services provided by Universities situated in Italy; such costs are included in the calculation of the tax credit at 150 per cent of their actual amount for a total of Euro 37,500.00. This means that, for tax credit computation purposes, expenses considered for purchase of third party services amount to Euro 51,315.00;
- costs of Euro 108,680.16 for materials used in prototyping and in intensive experimentation of samples. This cost is included in Income Statement caption B6 costs for raw, ancillary and consumable materials.

The tax credit

Considering the costs incurred and the different approach to the computation of relevant expenditure under Law 160/2019, the amount of the tax credit resulting from research, development and technological innovation and design activities in 2020 is Euro 48,831.78:

- the amount is included in the 2020 Income Statement under caption A5 Other revenue and income;
- the amount is included in the Balance Sheet at 31 December 2020 under caption C5 Bis Tax Receivables (1/3 Current, 2/3 non-current).

Impact

For the Company, an extraordinary and constant commitment to research, development and technological innovation is an important lever for growth on a global market.
In accordance with the confidentiality of the contents and the innovative characteristics of the activities carried out and, on the basis of the above, the Company keeps relevant supporting documentation for the activities performed at its headquarters.

Patents and intellectual property rights

The net balance amounts to Euro 324,930 (Euro 440,706 at 31 December 2019) and includes:

- Patents of Euro 2,928;
- Software of Euro 322,002.

Increases of Euro 75,960 entirely refer to new software purchases.
During the period, historical cost and accumulated amortisation were reduced in relation to software that became fully amortised in prior year (Euro 650,323).
This intangible asset category is amortised on a straight-line basis:

- over 5 years for management software;
- over 3 years for all other software.

Intangible assets in progress and payments on account

This item amounts to Euro 5,216,198 (Euro 3,058,816 at 31 December 2019).
The balance includes:

- Euro 2,330,237 of internal development costs incurred in relation to development projects in progress. The costs now recorded under this caption will be reclassified to the relevant asset category as described above – once their suitability for capitalisation has been confirmed – and they will be amortised from the date of completion of the development phase, considering the estimated residual useful life of the project to which they refer; the balance increased by Euro 1,281,089 during the year. Development costs with a clear connection to projects with an estimated useful life of 10 years are amortised over that period at a rate of 10% per annum;
- Euro 2,885,961 of capex on new management software that has not yet completed its testing and release phase; the increase in such costs for the period was Euro 1,295,320.

During the period, the development phase was completed for several projects so the related costs totalling Euro 345,384 were reclassified and capitalised under "Development Costs". The additional amount of Euro 65,676, reported under reclassifications, refers to Software completed during the year in respect of which payments on account were made in prior year.

Other intangible assets

The net balance amounts to Euro 1,685,801 (Euro 2,467,958 at 31 December 2019) after accumulated amortisation of Euro 2,824,226.
Additions of Euro 12,558 refer to leasehold improvements.
Other intangible assets of Euro 1,685,801, after accumulated amortisation, entirely consist of leasehold improvements.

Fixed assets

Movements on fixed assets

Fixed assets include land, buildings, industrial and commercial equipment, fixed assets under construction and other fixed assets. They amount to Euro 46,774,042 (Euro 47,415,201 at 31 December 2019) after accumulated depreciation (Euro 60.638,683).

The following table contains details of the items included in the net carrying amount of Fixed assets in the Financial Statements (Art. 2427(2) of the Italian Civil Code).

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other fixed assets	Assets under construction and payments on account	Total fixed assets
Opening amount						
Cost	20,057,735	41,613,334	31,249,057	5,189,866	1,901,691	100,011,683
Revaluations	6,502,686					6,502,686
Depreciation (Accumulated Depreciation)	5,034,541	21,155,815	27,168,794	4,179,530		57,538,680
Writedowns	1,560,488					1,560,488
Net carrying amount	**19,965,392**	**20,457,519**	**4,080,263**	**1,010,336**	**1,901,691**	**47,415,201**
Changes during year						
Increases due to additions	1,732	1,422,315	1,339,605	202,240	658,276	3,624,168
Reclassifications (of net carrying amount)	10,768	1,514,900	137,939	18,397	(1,682,004)	0
Decreases due to disposals (of net carrying amount)		17,335	35,700	9,216	125,038	187,289
Revaluations performed during the year						0
Depreciation for the year	669,624	1,627,045	1,379,772	401,597		4,078,038
Writedowns performed during the year						0
Other changes						0
Total changes	**(657,124)**	**1,292,835**	**62,072**	**(190,176)**	**(1,148,766)**	**(641,159)**
Closing amount						
Cost	20,070,234	44,376,326	32,274,179	4,996,863	752,925	102,470,527
Revaluations	6,502,686					6,502,686
Depreciation (Accumulated Depreciation)	5,704,164	22,625,972	28,131,844	4,176,703		60,638,683
Writedowns	1,560,488					1,560,488
Net carrying amount	**19,308,268**	**21,750,354**	**4,142,335**	**820,160**	**752,925**	**46,774,042**

In 2018, the Company identified potential indicators of impairment of certain fixed assets. Therefore, in accordance with Italian Accounting Standard OIC 9, it made further writedowns in terms of Articles 2426(1) and (3) of the Italian Civil Code and created an impairment provision totalling Euro 1,560,488. These impairment adjustments have been maintained unchanged in 2020 as there are no new factors requiring changes to the conclusions reached at the time.

Land and buildings

This caption amounts to Euro 19,308,268 (Euro 19,965,392 at 31 December 2019) and is stated net of accumulated depreciation of Euro 5,704,164. During the reporting period, the balance increased by Euro 12,500 (of which Euro 10,768 reclassified from "Assets under construction and payments on account") for work on the creation of a safety exit.
As stated above, the Company has not made any impairment provisions on top of the amount provided in 2018 as it believes the existing provision reflects the effective impairment of land and buildings.

Plant and machinery

The balance amounts to Euro 21,750,354 (Euro 20,457,519 at 31 December 2019) after accumulated depreciation of Euro 22,625,972.
Increases of Euro 2,937,215 were recorded during the reporting period, including Euro 1,514,900 reclassified from Assets under construction and payments on account and relating to payments previously made on account towards projects completed during the period.
Additions mainly refer to maintenance capex incurred to ensure machinery is kept updated and fully efficient, as well as to new workstations needed to handle the contracts acquired by the Company.
As stated in the Foreword, after an independent appraisal of the residual useful life of "Plant and Machinery", the Company amended the residual life and the depreciation rates applied to that category of fixed assets.

Industrial and commercial equipment

The balance amounts to Euro 4,142,335 (Euro 4,080,263 at 31 December 2019) after accumulated depreciation of Euro 28,131,844.
Additions for the period amount to Euro 1,477,544, including Euro 137,939 reclassified from "Assets under Construction and Payments on Account".
As in the case of "Plant and Machinery", additions to "Industrial and Commercial Equipment" mainly refer to purchases of new equipment needed to carry out the contracts acquired by the Company. The costs incurred have been sustained as part of the plan of capex necessary to install the additional production capacity needed to cope with the new, long-term production contracts acquired by the Original Equipment division.
As stated in the Foreword, after an independent appraisal of the residual useful life of "Industrial and Commercial Equipment", the Company amended the residual life and the depreciation rates applied to that category of fixed assets.

Other fixed assets

The following table contains a detailed breakdown of "Other fixed assets". It shows movements on each of the component asset categories.

	Furniture and fittings	Electronic office equipment	Cars and motorcycles	Motor vehicles	Sundry other assets	Total other fixed assets
Historical cost	1,208,893	3,518,004		462,969		5,189,866
Prior year revaluations						0
Opening accumulated depreciation	855,540	2,897,329		426,661		4,179,530
Prior year writedowns						0
Net carrying amount	**353,353**	**620,675**		**36,308**		**1,010,336**
Increases – additions	133,865	64,006		4,369		202,240
Transfers to other captions						0
Transfers from other captions		18,397				18,397
Disposals/Decreases for year: historical cost	(10,329)	(82,909)		(165,614)		(258,852)
Disposals/Decreases for year: accumulated depreciation	(10,329)	(77,612)		(161,695)		(249,636)
Revaluations during year						0
Depreciation for year	87,900	286,306		27,391		401,597
Writedowns during year						0
Interest capitalised during year						0
Closing amount	**399,318**	**411,475**	**0**	**9,367**	**0**	**820,160**

The balance amounts to Euro 820,160 (Euro 1,010,336 at 31 December 2019) after accumulated depreciation of Euro 4,176,703 and refers to:

- Furniture and fittings of Euro 399,318 (Euro 353,353 at 31 December 2019); additions for the period totalled Euro 133,865 almost entirely in respect of costs for new fittings in production areas; additions also include a small amount (Euro 5,505) of office furniture and fittings after certain items with a carrying amount of zero were disposed of (original historical cost Euro 10,329);
- Electronic office equipment of Euro 411,475 (Euro 620,675 at 31 December 2019); additions for the period totalled Euro 82,403, mainly for purchases of laptop PCs given the greater number of people working from home; during the period certain electronic equipment with a carrying amount of zero was disposed of (original historical cost Euro 82,909);
- Cars and vehicles of Euro 9,367 (Euro 36,308 at 31 December 2019); additions for the period totalled Euro 4,369 due to payment of the final purchase option on a leased car; during the period, cars owned by the company were disposed of (original historical cost).

Assets under construction and payments on account

The balance amounts to Euro 752,925 (Euro 1,901,691 at 31 December 2019) and refers to payments made on account during the period towards additions to fixed assets.

During the period, Euro 1,682,004 was reclassified to the relevant tangible asset categories following the completion of the related capex. Decreases for the period totalled Euro 125,038 mainly referred to the reversal of payments on account received in prior years in relation to equipment to be resold.

Increases for the period totalling Euro 658,276 regard payments made on account in relation to new production lines and equipment to cope with the multy-year production orders obtained in the OE division.

Revalued fixed assets at the reporting date

As required by law, the following table contains details of the fixed assets reported in the Company's Financial Statements at 31 December 2020 which have been the subject of monetary revaluations and exceptions to statutory valuation criteria.

Description	Revaluation under Decree Law no. n. 185/2008	Total revaluations
Land and buildings	6,502,686	6,502,686
Total	**6,502,686**	**6,502,686**

The Company made use of the possibility offered by Decree Law no 185/2008 to revalue some of the fixed assets reported in its Financial Statements at 31/12/2008.

The revaluation was performed in 2008 and led, in the Financial Statements for that year, to an increase of Euro 6,502,696 in "Land and Buildings" and an increase in Shareholders' Equity of Euro 4,460,842, as recorded under the caption "Revaluation reserves ex Decree Law no 185/2008" net of deferred tax of Euro 2,041,844. The revaluation was performed for statutory reporting purposes only without payment of any substitute tax.

Finance leases

The following table contains the disclosures required by Article 2427(22) of the Italian Civil Code on finance leases whereby the majority of the risks and rewards relating to the leased assets are transferred to the Company.

	Amount
Total amount of assets held under finance leases at the reporting date	12,844,962
Notional depreciation charge for the year	1,016,760
Notional adjustments and reversals for the year	
Present value of lease instalments not yet due at reporting date	8,347,198
Financial expenses for the year based on effective interest method	230,886

Financial assets

Movements on equity investments, other securities and derivatives

The investments classed as non-current financial assets represent long-term, strategic investments by the Company. At 31 December 2020, they amounted to Euro 32,424,925 (Euro 8,360,745 at 31 December 2019).

The following table contains a breakdown of the net carrying amount of financial assets as reported in the Financial Statements (Art. 2427(2) of the Italian Civil Code).

	Investments in subsidiaries	Investments in associated companies	Investments in parent companies	Investments in entities controlled by parent companies	Investments in other entities	Total Investments	Other securities	Derivatives
Opening amount								
Cost	8,356,498	-	-	-	4,247	8,360,745	19,960	13
Revaluations		-	-	-		0		
Writedowns		-	-	-		0	13,620	
Net carrying amount	**8,356,498**	**-**	**-**	**-**	**4,247**	**8,360,745**	**6,340**	**13**
Changes during the year								
Increases due to additions		-	-	-		0		
Reclassifications (of net carrying amount)		-	-	-		0		
Decreases due to disposals (of net carrying amount)		-	-	-		0		13
Revaluations performed during year	22,452,350	-	-	-		22,452,350		
Writedowns performed during year	750,737	-	-	-		750,737		
Other changes	2,362,567	-	-	-		2,362,567		
Total Changes	**24,064,180**	**-**	**-**	**-**	**0**	**24,064,180**	**0**	**(13)**
Closing amount								
Cost	32,420,678	-	-	-	4,247	32,424,925	19,960	
Revaluations		-	-	-		0		
Writedowns	0	-	-	-		0	13,620	
Net carrying amount	**32,420,678**	**-**	**-**	**-**	**4,247**	**32,424,925**	**6,340**	

"Investments in subsidiaries" totalling Euro 32,420,678 includes:

- Subsidiary Immobiliare Industriale S.r.l. - Euro 5,714,156;
- Subsidiary Saleri Shanghai Co. Ltd - Euro 24,500,000;
- Subsidiary ABL Automazione S.r.l. – Euro 64,763 (after impairment provision of Euro 750,737);
- Subsidiary Saleri GmbH - Euro 25,000;
- Subsidiary Saleri México SA de CV - Euro 2,116,759.

The amount of Euro 2,362,567 under "Other Changes" includes:

- Euro 252,000 for the payment made on 22 June 2020 in respect of the Company's share of the quota capital increase by subsidiary Hold.Co 1 S.r.l. (now the subject of a reverse merger with ABL Automazione S.r.l.);
- Euro 1,358,932 for additional capital payments made to subsidiary Saleri Mexico SA in 2020;
- Euro 734,880 of loans made to subsidiary Saleri Mexico SA in 2020 and converted into capital on 30 December 2020;
- Euro 16,755 of costs relating to the incorporation and recapitalisation of subsidiary Saleri Mexico SA.

The amount of Euro 22,452,350 recorded under "Revaluations during the period" refers entirely to the revaluation of the investment in Saleri Shanghai Co. Ltd in terms of Art. 110 of Decree Law 104/2020, converted as amended by Law no 126 of 2020.

The revaluation, which is not subject to substitute tax, led to the

recognition of an equity reserve of the same amount.
The Directors' Report accompanying the Financial Statements describes the criteria used for the revaluation and includes a declaration that the revalued carrying amount does not exceed the fair value of the investment based on said valuation criteria.
The amount of Euro 750,737 refers to the writedown of subsidiary ABL Automazione S.r.l., in order to bring its carrying amount into line with the relevant portion of equity.

Immobiliare Industriale S.r.l.

The Company owns 62.50% of the subsidiary.
The investment amounts to Euro 5,714,156 and did not change during the period. In 2016, pursuant to Article 1(556) to (563) of Law no 232 of 11 December 2016, the Company revalued the investment by Euro 4,899,578 in order to bring its carrying amount into line with the corresponding portion of the subsidiary's Equity as per an expert appraisal.
See the Note on "Significant events after the reporting period" for further information about this investment.

Saleri Shanghai Co. Ltd.

The Company owns 95.00% of the subsidiary.
The investment amounts to Euro 24,500,000 and has increased by Euro 22,452,350 compared to prior year, following the revaluation carried out during the period (Art. 110 of Decree Law 104/2020, converted as amended by Law no. 126 of 2020). The increase is entirely due to the effect of the revaluation for which an independent expert appraisal determined the Fair Value of the investment, on a going concern basis, using the UDCF ("Unlevered Discounted Cash Flow") method; this was backed up by control methods utilising (i) transaction multiples and (ii) market multiples.
The expert appraisal determined that the value of the investment at the date of measurement was Euro 24,500,000. The value of the investment was increased by Euro 22,452,350 with a contra-entry made to the relevant reserve in the Company's Shareholders' Equity.
The Directors' Report accompanying the Financial Statements provides more detailed information on the criteria used for revaluation purposes. It also contains a declaration that the revalued carrying amount of the investment does not exceed its value based on said criteria.

ABL Automazione S.r.l.

The Company owns 70.00% of the subsidiary.
The investment in ABL Automazione S.r.l., formerly wholly owned by Hold.Co 1 S.r.l., (a company in which Industrie Saleri Italo S.p.A. held a 70% stake), was "acquired" on 14 December 2020 as a result of the reverse merger between Hold.Co 1 S.r.l. and ABL Automazione S.r.l..
This merger formed part of the broader reorganisation and optimisation of relations between Industrie Saleri Italo S.p.A. and ABL Automazione S.r.l..
The acquisition of ABL Automazione S.r.l., through Hold.Co 1 S.r.l., initially sought to achieve:

- greater collaboration between ABL Automazione S.r.l. and Industrie Saleri Italo S.p.A. in relation to the product industrialisation process;
- increased sharing and cooperation on R&D;
- cost synergies through the introduction of best operating practices;
- a clearer corporate identity thanks to the integration of ABL Automazione S.r.l. into a well-known group like Industrie Saleri Italo S.p.A..

In this context and bearing in mind the reasons for the acquisition described above, the merger fulfilled further specific and immediate objectives

- simplification of corporate structure and governance;
- reduction of administrative, management and organisational costs through concentration of related functions.

Given the fact that Hold.Co 1 S.r.l was merely a holding company whose balance sheet was somewhat simpler than that of its subsidiary ABL Automazione S.r.l., a reverse merger was considered more efficient and more appropriate in the circumstances.
As already stated, during the period, the Company paid its portion of a quota capital increase by subsidiary Hold.co 1 S.r.l. (now ABL Automazione S.r.l.) i.e. Euro 252,000.
At 31 December 2020, the investment amounted to Euro 64,763, after the impairment provision of Euro 750,737 recorded to bring its carrying amount into line with the relevant portion of the subsidiary's equity.

Saleri GmBH

The Company holds 100.00% of the subsidiary.
The carrying amount of the investment is Euro 25,000. The investment in the company did not change during the period. In 2019, Saleri Gmbh started providing consulting services to assist the Parent Company in dealings with customers based in Germany.

Saleri México S.A. de C.V.

The Company owns 99.00% of the subsidiary.
The value of the investment is Euro 2,116,759 and, as already stated, this includes additional capital paid in during the period.
At the reporting date, the Company was still in its start-up phase. It commenced its operating activities in the last few months of 2020 when it hired its first employees. Mass production will commence in 2021 and the subsidiary will invoice its first revenues. Bearing this in mind, although the carrying amount of the investment is greater than the corresponding portion of Shareholders' Equity, the Company does not believe that any impairment adjustment is needed.

Details of non-current investments in subsidiaries

Investments in subsidiaries are recorded at purchase or subscription cost. If the carrying amount of an investment is greater than the corresponding portion of equity held, an appropriate writedown is made.

Pursuant to Article 2427(5) of the Italian Civil Code, the following table contains details of the direct or indirect investments in subsidiaries, as included in Non-current financial assets.

Name	Location	Tax number (Italian companies)	Capital in Euro	Profit (Loss) for last reporting period in Euro	Equity in Euro	Investment held in Euro	% investment held	Carrying amount
Immobiliare Industriale S.r.l.	Lumezzane (BS)	03697930984	10,000.00 I.V.	(1,339,465)	9,219,875	5,762,422	62.50%	5,714,156
Saleri Shanghai Co., Ltd	China		1,870,892	1,932,178	6,911,908	6,566,313	95.00%	24,500,000
Saleri GmBH	Germania		25.000	5,237	26,085	26,085	100.00%	25,000
ABL Automazione S.r.l.	Gussago (BS)	03309390171	750,000.00 I.V.	(990,755)	92,517	64,762	70.00%	64,763
Saleri Mexico S.A. de C.V.	Mexico		2,325	(561,606)	1,467,712	1,467,565	99.99%	2,116,759
Total								**32,420,678**

The amounts shown in the table refer to the financial statements approved by the respective Boards of Directors of the companies.

Other Securities

The amount of Euro 6,340 did not change during the period.

Derivative instruments

The balance of Euro 13 at 31 December 2019 was practically eliminated during 2020.

The caption includes the reporting date measurement of the positive fair value of the derivative instruments in place at that date. These derivatives have been arranged to hedge the interest rate risk in relation to medium/long-term loans and finance lease agreements at 31 December 2020.

Current assets

Inventory

In terms of Article 2427(4) of the Italian Civil Code, inventory is analysed as follows.

Item	Opening amount	Change during year	Closing amount
1) Raw, ancillary and consumable materials	11,766,582	(3,292,971)	8,473,611
2) WIP and semi-finished goods	3,060,179	(689,057)	2,371,122
3) Contract work in progress		0	
4) Finished goods	11,781,049	(2,701,991)	9,079,058
5) Payments on account	63,169	931,824	994,993
Total	**26,670,979**	**(5,752,195)**	**20,918,784**

This balance represents the value of the physical inventory held at Company and third party warehouses at 31 December 2020 and goods in transit.
We note that the significant decrease in inventory at 31 December 2020 was due to the policy aimed at reducing inventory and to the lower level of raw material purchases because of the reduction in production activity as a result of the Covid-19 emergency.

The amount of Euro 20,918,784 (Euro 26,670.979 at 31 December 2019) is stated net of the obsolescence provision of Euro 981,468 created following an analysis of obsolete/slow moving inventory and inventory with below cost selling prices.
In 2020, the provision was increased by Euro 528,594 while Euro 406,324 was reversed from the provision.

The following table shows movements on the inventory provision:

	31/12/2020			
Inventory provision	**Opening amount**	**Increases**	**Decreases**	**Closing amount**
1. Raw, ancillary and consumable materials	(514,977)	(251,985)	226,824	(540,138)
2. WIP and semi-finished goods	(133,086)	(80,383)	78,414	(135,055)
3. Contract work in progress	0			0
4. Finished goods	(211,135)	(196,226)	101,086	(306,275)
5. Payments on account	0			0
Total	**(859,198)**	**(528,594)**	**406,324**	**(981,468)**

Receivables classed as current assets

Changes in and maturity of receivables classed as current assets

The following table contains a breakdown of receivables classed as current assets, together with changes compared to prior year and the due date of the receivables (Art. 2427 (4) and (6) of the Italian Civil Code).

	Opening amount	Change during year	Closing amount	Amount due within a year	Amount due after more than a year	Of which due after more than five years
Trade receivables	6,155,658	(1,482,674)	4,672,984	4,672,984		
Receivables from subsidiaries	1,683,753	1,577,796	3,261,549	3,261,549		
Receivables from associated companies						
Receivables from parent companies		7,290	7,290	7,290		
Receivables from entities controlled by parent companies						
Tax receivables	924,180	497,786	1,421,966	1,389,411	32,555	
Deferred tax assets	5,176,585	760,250	5,936,835			
Receivables from others	4,614,088	(2,479,080)	2,135,008	1,985,802	149,206	
Total receivables classed as current assets	**18,554,264**	**(1,118,632)**	**17,435,632**	**11,317,036**	**181,761**	**0**

Breakdown of receivables classed as current assets by geographical area

Receivables classed as current assets may be broken down as follows in terms of the geographical business area of debtors (Art. 2427 (6) of the Italian Civil Code):

	Europe	Italy	Rest of World	Total
Trade receivables		4,672,984		4,672,984
Receivables from subsidiaries	102,908	173,248	2,985,393	3,261,549
Receivables from associated companies				
Receivables from parent companies		7,290		7,290
Receivables from entities controlled by parent companies				
Tax receivables		1,421,966		1,421,966
Deferred tax assets		5,936,835		5,936,835
Receivables from others	991,455	1,143,553		2,135,008
Total	**1,094,363**	**13,355,876**	**2,985,393**	**17,435,632**

Trade receivables

The amount of Euro 4,672,984 (Euro 6,155,658 at 31 December 2019) entirely consists of trade receivables. The balance is stated net of the provision for bad debts of Euro 102,815 and fairly represents the estimated realisable amount.

The overall decrease of Euro 1,482,674 is mainly due to the lower level of sales revenue recorded in 2020.

Provision for bad debts

Trade receivables are stated net of a provision for bad debts created to take account of collection issues. The provision amounts to Euro 102,816 and has not changed compared to prior year.

Description	Opening amount	Utilised	Allocated	Closing amount
Provision for bad debts	(102,816)			(102,816)

Receivables from subsidiaries

	31 December 2019	31 December 2020	Change
Immobiliare Industriale S.r.l.	180,512	65	(180,447)
Saleri Shanghai Co. Ltd	911,638	1,591,928	680,290
Saleri GmBH	51,686	102,908	51,222
Hold.Co 1 S.r.l.	20,003		(20,003)
ABL Automazione S.r.l.	291,851	173,183	(118,668)
Saleri Mexico S.a. de C.V.	228,063	1,393,465	1,165,402
Total	**1,683,753**	**3,261,549**	**1,577,796**

Receivables totalling Euro 65 due from Immobiliare Industriale S.r.l. (Euro 180,512 at 31 December 2019) entirely consist of advances paid.
Receivables totalling Euro 1,591,928 from Saleri Shanghai Co. Ltd (Euro 911,638 at 31 December 2019) refer to:

- Euro 788,640 of trade receivables;
- Euro 803,288 of receivables under the service agreement and the Royalties agreement.

Receivables totalling Euro 102,908 from Saleri Gmbh (Euro 51,686 at 31 December 2019) refer to:

- Euro 101,022 for the short-term loan granted to the subsidiary, including interest accruing;
- Euro 1,886 for sundry advances.

The receivables from Hold.Co 1 S.r.l. that were present at 31 December 2019 entirely related to a short-term loan granted to the subsidiary, including interest accruing. After the reverse merger with ABL Automazione S.r.l., they were transferred to that company.

Receivables totalling Euro 173,183 from ABL Automazione S.r.l. (Euro 291,851 at 31 December 2019) refer to:

- Euro 90,833 for the short-term loan originally granted to Hold.Co 1 S.r.l., including interest accruing;
- Euro 70,105 of trade receivables;
- Euro 12,245 of receivables under contracts for the secondment of personnel signed in 2020.

Receivables totalling Euro 1,393,465 from Saleri México S.A. de C.V. (Euro 228,063 at 31 December 2019) refer to:

- Euro 305,460 for a short-term loan granted to the subsidiary, including interest accruing;
- Euro 636,562 of trade receivables;
- Euro 9,673 of receivables under contracts for the secondment of personnel signed in 2020;
- Euro 441,770 of financial receivables.

Receivables from parent companies

At 31 December 2019, receivables due from parent company El.Fra Holding S.r.l amounted to Euro 7,290 and entirely consisted of advances paid.

Tax receivables

	31 December 2019	31 December 2020	Change
Withholding taxes suffered	0	24	24
IRES receivables	558,509	117,644	(440,865)
IRAP receivables	170,230	161,927	(8,303)
VAT receivables	179,297	1,091,956	912,659
Other tax receivables	16,144	50,415	34,271
Total	**924,180**	**1,421,966**	**497,786**

"IRES receivables", amounting to Euro 117,644 (Euro 558,509 at 31 December 2019), represent the IRES receivable for 2020.
The receivable of Euro 438,269 present at 31 December 2019 regarded the refund request filed, as consolidating entity, in relation to the non-deduction of IRAP in relation to personnel costs. This receivable was collected in full in 2020.
"IRAP Receivables", amounting to Euro 161,927, refer to the IRAP credit balance for 2020.

"VAT Receivables", amounting to Euro 1,091,956 (Euro 179,297 at 31 December 2019), mainly refer to the VAT balance resulting from the December 2020 VAT return (Euro 1,057,822). The amount includes foreign VAT receivables relating to EU countries where the Company has operated directly or for which a refund application has been made.
"Other tax receivables", amounting to Euro 50,415 (Euro 16,144 at 31 December 2019), almost entirely relates to the R&D tax credit of Euro 48,832, of which Euro 32,555 is due after more than a year.

Deferred tax assets

For further details of this balance, see the Note on deferred taxes.

Other receivables

Other receivables amounts to Euro 2,135,008 and has decreased by Euro 2,479,080 compared to 31 December 2019 when it stood at Euro 4,614,088. The decrease compared to prior year is mainly due to collection of all of the residual amount receivable from insurance companies in compensation of the fire damage suffered on 11 January 2018 (Euro 882,500) and to costs paid in advance in 2019 but relating to subsequent periods. The relevant portion of these costs – which total Euro 1,600,000 – has been recorded in 2020 while recording prepaid expenses for the remainder.
The amount of Euro 1,985,802 due within a year includes:

- Euro 75,097 of costs advanced, mainly to suppliers;
- Euro 1,314,283 of Advances to Suppliers for services not yet completed;
- Euro 447,000 regarding a receivable from litigation with a former customer that has been concluded with a definitive decision in the Company's favour;
- Euro 100,026 of DR balances with certain suppliers of goods and services;
- Euro 49,396 of sundry receivables, after a provision for doubtful debts of Euro 83,707, as increased by Euro 8,700 during the period.

The amount of Euro 149,206 due after more than a year entirely consists of guarantee deposits paid, mainly in relation to lease and rental agreements.

Current financial assets

Investments in other entities

The balance of Euro 13,294 did not change during the period and refers to non-controlling interests in other entities.

Cash and cash equivalents

The balance detailed below represents cash and cash equivalents at the reporting date and changes during the reporting period (Art. 2427 (4) of the Italian Civil Code).

	Opening amount	Change during year	Closing amount
1) Bank and post office accounts	7,051,175	29,207,252	36,258,427
2) Cheques		0	
3) Cash and cash equivalents on hand	7,355	(7,295)	60
Total	**7,058,530**	**29,199,957**	**36,258,487**

The change for the period is due to the cash flow management strategy adopted by Company management. It has been affected by the loan with a SACE guarantee arranged by the Company on 4 December 2020 with the proceeds received on 10 December 2020.

Prepaid expenses and accrued income

The balance and changes compared to prior year are analysed as follows (Article 2427(7) of the Italian Civil Code):

	Opening amount	Change during year	Closing amount
Accrued income		0	
Prepaid expenses	2,458,666	1,595,324	4,053,990
Total prepaid expenses and accrued income	**2,458,666**	**1,595,324**	**4,053,990**

	31 December 2019	31 December 2020	Change
Prepaid expenses:	2,458,666	4,053,990	1,595,324
- lease instalments	1,023,635	707,437	(316,198)
- contributions to customers	788,188	2,697,143	1,908,955
- insurance premiums	11,058	69,740	58,682
- other	635,785	579,670	(56,115)
Accrued income	0	0	0
Total	**2,458,666**	**4,053,990**	**1,595,324**

Prepaid lease instalments almost entirely refer to initial advance payments made at the outset of individual lease agreements and taken to the Income Statement in subsequent periods over the period of the lease. The balance also includes a small amount relating to instalments paid in advance in the month of December.

Prepaid contributions to customers refers to contributions charged or for which a payment commitment has already been signed with the customer and which relate to future periods.
Other prepaid expenses mainly refer to maintenance contracts and subscription instalments.

Notes to the Financial Statements, Liabilities and Equity

Shareholders' Equity

Changes in Shareholders' Equity

At 31 December 2020, Shareholders' Equity amounted to Euro 55,587,407 and movements during the year then ended were as follows (Art. 2427(4) of the Italian Civil Code).

	Opening amount	Allocation of prior year net profit or loss		Other changes			Result for year	Closing amount
		Allocation to dividends	Other allocations	Increases	Decreases	Reclassifications (of carrying amount)		
Share capital	17,922,413	0		6,000,000				23,922,413
Share premium reserve	7,696,219	0						7,696,219
Revaluation reserves	4,609,122	0		22,452,350				27,061,472
Legal reserve	1,134,850	0	45,126					1,179,976
Statutory reserves								
Other reserves								
Extraordinary reserve		0	857,395					857,395
Reserve for exceptions in terms of Art 2423 of the Italian Civil Code								
Reserve for shares or quotas of parent company								
Reserve for revaluation of investments								
Payments for share capital increases		0						
Payments for future capital increases								
Additional paid-in capital								
Payments to cover losses								
Reserve for reduction of share capital								
Merger surplus reserve								
Reserve for unrealised exchange gains								
Reserve for earnings adjustments in progress								
Sundry other reserves	364,052	0						364,052
Total other reserves	364,052	0	857,395	0	0	0	0	1,221,447
Cash flow hedge reserve		0			323,421			(323,421)
Retained earnings (Accumulated losses)		0	0					
Profit (Loss) for the year	902,521	0	(902,521)				(4,885,685)	(4,885,685)
Loss rescheduled during year								
Negative Reserve for Treasury Shares	(285,014)	0						(285,014)
Total shareholders' equity	**32,344,163**	**0**	**0**	**28,452,350**	**323,421**	**0**	**(4,885,685)**	**55,587,407**

Availability and utilisation of Shareholders' Equity

The following table contains further details of the reserves that make up Shareholders' Equity. It shows their origin or nature, their possible utilisation and availability for distribution and their actual utilisation in prior years (Art. 2427(7) of the Italian Civil Code):

Legend for "Origin / nature" column: C = Capital reserve; E = Earnings reserve.

					Summary of utilisation in last three years	
	Amount	Origin / nature	Possible utilisation	Amount available	To cover losses	For other reasons
Share capital	23,922,413					
Share premium reserve	7,696,219	C	A,B,C	7,696,219		
Revaluation reserves	27,061,472	U	A,B,C	27,061,472		
Legal reserve	1,179,976	U	B	1,179,976		
Statutory reserves						
Other reserves						
Extraordinary reserve	857,395					
Reserve for exceptions in terms of Art 2423 of the Italian Civil Code						
Reserve for shares or quotas of parent company						
Reserve for revaluation of investments						
Payments for share capital increases						
Payments for future capital increases						
Additional paid-in capital						
Payments to cover losses						
Reserve for reduction of share capital						
Merger surplus reserve						
Reserve for unrealised exchange gains						
Reserve for earnings adjustments in progress						
Sundry other reserves	364,052	U	A,B	364,052		
Total other reserves	1,221,447	0	0	364,052	0	0
Cash flow hedge reserve	(323,421)					
Retained earnings						
Negative reserve for treasury shares held	(285,014)					
Total	**60,473,092**	**0**	**0**	**36,301,719**	**0**	**0**
Amount not distributable	-	-	-	10,749,650	-	-
Residual amount distributable	-	-	-	25,552,069	-	-

Legend:
A: for share capital increase
B: to cover losses
C: for distribution to shareholders
D: for other statutory requirements
E: other

Origin, possible use and availability for distribution of sundry other reserves

	Amount	Origin/nature	Possible utilisation
Reserves in terms of Art. 15 of Decree Law 429/1982	220,011	U	A,B
Other reserves	144,041	U	A,B
Total	**364,052**	-	-

Legend:
A: for share capital increase
B: to cover losses
C: for distribution to shareholders
D: for other statutory requirements
E: other

Share capital

Share Capital, wholly subscribed and paid at 31 December 2020, amounts to Euro 23,922,413.23 (Euro 17,922,413.12 at 31 December 2019) and is represented by 3,127,003 shares.
The Extraordinary Shareholders' Meeting of 30 April 2020 approved a Share Capital increase of Euro 6,000,000 from Euro 17,922,413.12 to Euro 23,922,413.12.
The Share Capital increase was wholly subscribed by shareholder Quaestio Capital SGR S.p.A., as manager and on behalf of the Quaestio Italian Growth Fund. It was paid in two instalments as follows:

- Euro 2,000,000.00 on 4 May 2020;
- Euro 4,000,000.00 on 12 June 2020.

Share premium reserve

This reserve was created in 2018 and amounts to Euro 7,696,219. The amount was paid in the form of a share premium by shareholder Quaestio Capital SGR S.p.A., as manager of and on behalf of the Quaestio Italian Growth Fund, following the share capital increase ("**Aucap B**") approved by the Shareholders' General Meeting of 5 April 2018.
The reserve did not change during the reporting period.

Revaluation reserves

The balance of Euro 27,061,472 relates to revaluations carried out under the following revaluation laws:

- Law no. 413/91 - Euro 84,651;
- Decree Law no. 185/08 - Euro 212,842;
- Law no. 232/2016 - Euro 4,311,629;
- Law no. 126/2020 - Euro 22,452,350.

The amount of Euro 22,452,350 entirely refers to the reserve recorded as a result of the revaluation of the investment in Saleri Shanghai Co. Ltd, as carried out in terms of Art. 110 of Decree Law 104/2020, converted as amended by Law no 126 of 2020. For the purposes of the revaluation, an independent expert appraisal determined the Fair Value, on a going concern basis, by applying the UDCF ("Unlevered Discounted Cash Flow") method, backed up by reasonableness checks performed using the (i) transaction multiples and (ii) market multiples control methods.
The independent appraisal determined that the value of the investment at the date of appraisal was Euro 24,500,000. The carrying amount of the investment was stepped up by Euro 22,452,350 and the revaluation reserve in the Company's Equity was recognised accordingly.
The Directors' Report accompanying the Financial Statements provides more detailed information on the criteria used for revaluation purposes. It also contains a declaration that the revalued carrying amount of the investment does not exceed its value based on said criteria.

Legal reserve

At 31 December 2020, this reserve amounted to Euro 1,179,976 and increased by Euro 45,126 during the period. The increase was due to allocation of the net profit for 2019 in accordance with the General Meeting resolution of 7 August 2020.
Taking account of the Share Capital increases carried out in 2018 and in the first half of 2020, the reserve has not yet reached the limit permitted by Article 2430 of the Italian Civil Code.

Extraordinary reserve

This reserve amounts to Euro 857,395 at 31 December 2020 and consists entirely of the increase made during the reporting period. The increase was due to allocation of the net profit for 2019 in accordance with the General Meeting resolution of 7 August 2020.

Sundry other reserves

This item did not change during the period.

Cash flow hedge reserve

This reserve has a negative balance of Euro 323,421 at 31 December 2020 and refers entirely to increases during the period for the new hedging contracts signed by the Company in relation to the loan with a SACE guarantee arranged in 2020 in the amount of Euro 24,000,000, as described in more detail in the Note on Bank Borrowing.
As described in the introduction, the Group has decided to apply hedge accounting in relation to the hedging of changes in cash flows for financial liabilities as a result of interest rate fluctuation. Therefore, this caption includes changes in the Fair Value of the effective portion of cash flow hedging instruments.

Retained earnings (accumulated losses)

At 31 December 2020, there were no reserves for retained earnings (accumulated losses).

Negative reserve for treasury shares held

At 31 December 2020, this caption had a negative balance of Euro 285,014. It was created following the purchase – authorised by the General Meeting of 24 June 2019 – of 15,799 treasury shares at a total cost of Euro 285,014. The price has been paid in full.

Provisions for risks and charges

The following table contains a breakdown of Provisions for risks and charges and details of movements thereon during the year (Art. 2427 (4) of the Italian Civil Code).

	Provision for retirement benefits and similar obligations	Provision for taxation, including deferred tax	Derivatives	Other provisions	Total provisions for risks and charges
Opening amount		**1,651,400**		**1,742,908**	**3,394,308**
Changes during year					
Allocated during year		(15,509)	323,421	2,900,000	3,207,912
Utilised during year				1,496,496	1,496,496
Other changes					0
Total changes		**(15,509)**	**323,421**	**1,403,504**	**1,711,416**
Closing amount		**1,635,891**	**323,421**	**3,146,412**	**5,105,724**

The "Provision for taxation, including deferred tax", amounting to Euro 1,635,891, relates to the deferred taxes provided in relation to the revaluation of properties performed in 2008 in terms of Decree Law no 185/08 which was not deductible for tax purposes. During the reporting period, deferred taxes relating to depreciation of the revalued property but not deductible for tax purposes were reversed. The section of these Notes on deferred taxes provides further information on the deferred tax provision.
The provision "Liabilities for derivatives" includes the reporting date measurement of the negative fair value of derivative instruments in place at that date. These derivative instruments have been entered into as hedges of the interest rate risk regarding medium/long-term loan agreements and finance lease agreements in place at 31 December 2020. At 31 December 2020, there were derivative instruments with a negative fair value of Euro 323,421.
"Other provisions", amounting to Euro 3,146,412 (Euro 1,742,908 at 31 December 2019), refer to:

- Euro 246,412 of prudent provisions made for sundry litigation in progress or threatened which, at the date of approval of the financial statements, had not yet been settled. At 31 December 2019, these provisions totalled Euro 642,908. Provisions totalling Euro 396,496 were utilised during the period mainly in order to restate deferred tax assets to take account of the adjustments to tax losses emerging following the issue of a Tax Inspection Report by the Italian Tax Authorities (Euro 349,423); in fact, on 31 July 2020, the Parent Company signed the formal consultation document acknowledging the fact that the Company had made IPEC filings adjusting its tax losses for 2015 and 2016. Utilisation of the provision also relates to VAT and IRAP adjustments (Euro 47,073) that emerged in relation to the same Tax Inspection Report;
- Euro 2,900,000 of product warranty provisions. During the period, utilisation of the provision totalled Euro 1,100,000 while increases totalled Euro 2,900,000; the provision is reasonable in relation to the estimated costs that the Company could be called upon to sustain to fulfil its contractual warranty commitments, taking account of historical costs and any complaints already received.

Employee severance indemnity ("TFR") provision

The TFR provision has been calculated in accordance with Article 2120 of the Italian Civil Code, taking account of legislative requirements and the specific provisions of employment contracts and professional agreements. It includes annual accruals and revaluations performed based on ISTAT coefficients.
It represents the effective liability accruing in favour of employees in accordance with the law and applicable labour agreements, considering all forms of continuous remuneration.
The provision represents the total of the individual indemnities accruing in favour of employees at the reporting date. It is stated net of payments made on account and amounts paid to social security and pensions institutions and pension funds, in accordance with current legislation. It represents the Company's liability towards employees at the reporting date.
The following table provides details of the creation and utilisation of the provision (Art. 2427(4) of the Italian Civil Code).

	Employee severance indemnity ("TFR") provision
Opening amount	**1,554,684**
Changes during year	
Allocated during year	1,058,756
Utilised during year	1,176,260
Other changes	0
Total changes	**(117,504)**
Closing amount	**1,437,180**

The amount utilised during the period (Euro 1,176,260) mainly refers to payments to treasury funds (Euro 847,181).

Payables

Changes in and maturity of payables

The following table contains a breakdown of payables, changes in each line item and information by maturity date (Art. 2427(4) of the Italian Civil Code).

	Opening amount	Change during year	Closing amount	Amount due within a year	Amount due after more than a year	Of which due after more than 5 years
Bonds		3,930,586	3,930,586	105,479	3,825,107	
Convertible bonds		0				
Shareholder loans payable		0				
Bank borrowing	31,854,905	19,895,968	51,750,873	13,391,076	38,359,797	4,493,045
Payables to other lenders	3,539,360	(2,616,562)	922,798	922,798		
Payments on account	685,103	3,269,983	3,955,086	3,955,086		
Trade payables	33,401,797	(991,525)	32,410,272	32,410,272		
Credit instruments		0				
Payables to subsidiaries	3,856,741	467,383	4,324,124	4,324,124		
Payables to associated companies		0				
Payables to parent companies		0				
Payables to entities controlled by parent companies		0				
Tax payables	963,230	(206,222)	757,008	757,008		
Payables to social security and pensions institutions	1,543,341	(584,718)	958,623	958,623		
Other payables	4,079,003	663,409	4,742,412	4,742,412		
Total	**79,923,480**	**23,828,302**	**103,751,782**	**61,566,878**	**42,184,904**	**4,493,045**

Bonds

On 1 July 2020, the Company issued a bond with a value of Euro 3,825,107, called the "Saleri Supplier Value Chain Bond 2020-2022", by converting trade payables into bonds. The bond, as subscribed by several of the Company's suppliers, has a lifespan from 1 July 2020 until 30 June 2022 and is subject to interest at a fixed rate of 5.50%. The Company looked into the effect of using the amortised cost method to measure this debt and, given the limited time period and the absence of any bond placement costs, it concluded that the effects of using the amortised cost method would be immaterial. The amount of Euro 3,930,586 reported under the caption includes interest accruing at 31 December 2020.

Bank borrowing

Descrizione	31 December 2019	31 December 2020	Change
a) Bank borrowing due within a year	13,008,659	13,391,076	382,417
Lines of credit	0	0	0
Current account overdrafts	239,160	1,159,399	920,239
Loans	7,912,224	6,449,921	(1,462,304)
Advances on receivables	4,857,275	5,781,757	924,482
Other payables			
b) Bank borrowing due after more than a year	18,846,246	38,359,797	19,513,551
Loans	18,846,246	38,359,797	19,513,551
Advances on receivables			0
Other payables			
Total bank borrowing	**31,854,905**	**51,750,873**	**19,895,968**

Bank Borrowing amounts to Euro 51,750,873 and has increased by Euro 19,895,968 compared to 31 December 2019. Bank borrowing due within a year amounts to Euro 13,391,076 and has increased by Euro 382,417 compared to 31 December 2019. Non-current bank borrowing stands at Euro 38,359,797 and has increased by Euro 19,513,551 compared to 31 December 2019. In 2020, as a result of the Covid-19 emergency and as provided by the Liquidity Decree, the Parent Company reached an agreement with the Banks for a moratorium suspending payment of loan instalments totalling Euro 2,370,738 falling due in 2020. On 04/12/2020, it signed an agreement for a loan of Euro 24,000,000 secured by a SACE guarantee. These measures (together with the injection of capital by the Shareholders) made it possible to maintain the Company's financial equilibrium which had been put to the test by the effects of the ongoing emergency.

Loans payable at 31 December 2020 (both current and non-current) amount to Euro 44,809,718, against Euro 26,758,470 at 31 December 2019, and are analysed as follows (amounts at amortised cost):

- Secured loan with an outstanding amount of Euro 722,370 and original principal of Euro 2,000,000. The loan is repayable in 84 monthly instalments in arrears between 31/12/2017 and 31/12/2024; interest is index linked to the Euribor 3 month rate;
- Secured loan with an outstanding amount of Euro 1,302,891 and original principal of Euro 5,000,000. The loan is repayable in 84 monthly instalments in arrears between 31/12/2017 and 31/12/2024; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 346,936 and original principal of Euro 750,000. The loan is repayable over 60 months between 31/12/2017 and 31/12/2022; interest is index-linked to the Euribor 3 month rate;
- Secured syndicated loan with an outstanding amount of Euro 781,952, original principal of Euro 2,000,000. The loan is repayable over 84 months between 31/12/2017 and 31/12/2024; interest is index-linked to the Euribor 3 month rate;
- Unsecured syndicated loan with an outstanding amount of Euro 317,464, original principal of Euro 2,000,000. The loan is repayable in 9 six-monthly instalments in arrears between 31/12/2017 and 31/05/2022; interest is index-linked to the Euribor 6 month rate;
- Unsecured loan with an outstanding amount of Euro 1,775,218 and original principal of Euro 5,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 248,749 and original principal of Euro 1,500,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 297,948 and original principal of Euro 1,000,000. The loan is repayable in 70 monthly

instalments in arrears between 31/12/2017 and 10/01/2024; interest is index linked to the Euribor 3 month rate;

- Unsecured loan with an outstanding amount of Euro 475,387 and original principal of Euro 1,000,000. The loan is repayable in 70 monthly instalments in arrears between 31/12/2017 and 10/01/2024; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 605,586 and original principal of Euro 2,000,000. The loan is repayable in 72 monthly instalments in arrears between 31/12/2017 and 01/01/2024; interest is index linked to the Euribor 1 month rate;
- Unsecured loan with an outstanding amount of Euro 2,220,813 and original principal of Euro 4,000,000. The loan is repayable in 72 monthly instalments in arrears between 31/12/2017 and 01/01/2024; interest is index linked to the Euribor 1 month rate;
- Unsecured loan with an outstanding amount of Euro 490,207 and original principal of Euro 2,000,000. The loan is repayable in 71 monthly instalments in arrears between 31/12/2017 and 31/12/2023; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 2,674,180 and original principal of Euro 7,000,000. The loan is repayable in 71 monthly instalments in arrears between 31/12/2017 and 30/11/2023; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 776,072 and original principal of Euro 1,500,000. The loan is repayable in 71 monthly instalments in arrears between 31/12/2017 and 30/11/2023; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 579,223 and original principal of Euro 2,000,000. The loan is repayable in 71 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 1,083,147 and original principal of Euro 4,000,000. The loan is repayable in 67 monthly instalments in arrears between 31/12/2017 and 31/07/2023; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 942,730 and original principal of Euro 1,700,000. The loan is repayable in 59 monthly instalments in arrears between 31/12/2017 and 30/11/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 276,024 and original principal of Euro 459,510. The loan is repayable in 54 monthly instalments in arrears between 01/06/2018 and 30/11/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 1,374,995 and original principal of Euro 2,500,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 1,293,037 and original principal of Euro 2,109,713. The loan is repayable in 65 monthly instalments in arrears between 19/06/2018 and 01/12/2023; interest is index linked to the Euribor 1 month rate;
- Unsecured loan with an outstanding amount of Euro 1,881,813 and original principal of Euro 3,500,000. The loan is repayable in 66 monthly instalments in arrears between 31/12/2017 and 31/10/2023; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 281,262 and original principal of Euro 500,000. The loan is repayable in 69 monthly instalments in arrears between 31/12/2017 and 31/12/2023; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 255,648 and original principal of Euro 1,000,000. The loan is repayable in 36 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 213,333 and original principal of Euro 400,000. The loan is repayable in 57 monthly instalments in arrears between 31/12/2017 and 30/11/2022; interest is index linked to the Euribor 3 month rate.
- Loan secured by a SACE guarantee with an outstanding amount of Euro 23,592,733 and original principal of Euro 24,000,000. The loan is repayable in 16 quarterly instalments in arrears between 31/12/2022 and 30/09/2026; interest is linked to the Euribor 3 month rate. The loan requires compliance with covenants based on the Group Consolidated Financial Statements from the year ended 31 December 2021 onwards.

With regard to the loan agreements listed above (with the sole exclusion of the SACE Loan, as described above) for which the banks require compliance with two covenants measured based on the Financial Statements, we note that the Company has duly reached a formal agreement with the lenders that they will not take any action in relation to said covenants and have granted the waiver requested by the Company.
As stated previously, the Company duly adhered to Government initiatives in order to obtain a moratorium in relation to repayment of its bank borrowing.
Reference should be made to the Directors' Report for further, more detailed information about the availability of credit facilities to meet working capital funding requirements and any extraordinary liquidity requirements.

Payables to other lenders

This caption amounts to Euro 922,798 (Euro 3,539,360 at 31 December 2019) and mainly refers to payables towards leasing companies for overdue instalments and payables to factoring companies.
The slight decrease compared to 31 December 2019 mainly relates to payables to Factoring companies because of less use of Recourse Factoring in 2020.

Payments on account

This item amounts to Euro 3,955,086 (Euro 685,103 at 31 December 2019) and refers to:

- Euro 255,086 of payments on account from customers towards the supply of equipment (Tooling);
- Euro 3,700,000 of payments on account from customers which, in order to provide adequate support to their supply chain, have agreed to make significant advance payments towards future purchases; these payments on account are secured by guarantees on machinery owned by the Company.

Trade payables

Trade payables amount to Euro 32,410,272 (Euro 33,401,797 at 31 December 2019). They include liabilities at 31 December 2019 towards suppliers of goods and services, based on the agreed contractual terms and conditions.

Payables to subsidiaries

	31 December 2019	31 December 2020	Change
SALERI SHANGHAI CO., LTD	2,778,050	855,866	(1,922,184)
IMMOBILIARE INDUSTRIALE S.R.L.		3,071,635	3,071,635
SALERI GMBH	62,595	55,546	(7,049)
ABL AUTOMAZIONE S.R.L.	1,013,795	338,776	(675,019)
SALERI MEXICO S.A. de C.V.	2,301	2,301	0
Total payables to subsidiaries	**3,856,741**	**4,324,124**	**467,383**

Payables to Saleri Shanghai Co. Ltd, totalling Euro 855,866 (Euro 2,778,050 at 31 December 2019, entirely consist of trade payables.
Payables to Immobiliare Industriale S.r.l. totalling Euro 3,071,635, entirely refer to the upstream loan agreed on 23 December 2020, inclusive of interest accruing.
Payables to Saleri Gmbh, totalling Euro 55,546 (Euro 62,595 at 31 December 2019), entirely refer to the service agreement in place.
Payables to ABL Automazione S.r.l., totalling Euro 338,776 (Euro 1,013,795 at 31 December 2019), entirely consist of trade payables.
Payables to Saleri Mexico S.A. de C.V., totalling Euro 2,301 (unchanged on prior year), exclusively refer to payment of the corresponding portion of that company's capital as per the deed of incorporation of 4 October 2019.

Tax payables

	31 December 2019	31 December 2020	Change
IRAP payable			0
IRES payable			0
Tax withheld at source from employees	925,367	726,181	(199,186)
Tax withheld at source from freelance professionals/ collaborators	11,039	30,827	19,788
Substitute tax payable			0
VAT payable	26,824		(26,824)
Other taxes payable	0	0	0
Total	**963,230**	**757,008**	**(206,222)**

Payables for taxes withheld at source from employees and professionals/collaborators represent the deductions made at source by the Company which have been duly paid over to the authorities on their legal due dates.

Payables to social security and pensions institutions

	31 December 2019	31 December 2020	Change
Payable to INPS	985,388	373,013	(612,375)
Payable to INAIL	17,892		(17,892)
Other payables to social security and pensions institutions	540,061	585,610	45,549
Total	**1,543,341**	**958,623**	**(584,718)**

Payables to social security and pensions institutions represent the contributions payable by the companies. They have been duly paid by the legal due date. The significant decrease in this item compared to prior year is mainly due to relief on payroll contributions received and used by the parent company in relation to the month of December. Other payables include social security and pension contributions recorded in relation to accrued employee holiday pay.

Other payables

	31 December 2019	31 December 2020	Change
a) Other payables due within a year	4,079,003	4,742,412	663,409
Payables to employees	2,806,975	3,200,362	393,387
Payables to directors and statutory auditors	64,972	68,415	3,443
Other payables	1,207,056	1,473,635	266,579
b) Other payables due after more than a year			
Total Other payables	**4,079,003**	**4,742,412**	**663,409**

Payables to employees refer to December salaries and other deferred remuneration accruing at the reporting date.
Other payables includes payables to treasury funds and supplementary pension funds for TFR entitlement accruing but not yet paid (Euro 222,5156) and CR balances with several customers (Euro 883,380) .

Breakdown of payables by geographical area

The following table contains a breakdown of payables by the geographical area of business of the creditors.

	Europe	Italy	Rest of World	Total
Bonds		3,930,586		3,930,586
Convertible bonds				
Shareholder loans payable				
Bank borrowing		51,750,873		51,750,873
Payables to other lenders		922,798		922,798
Payments on account	3,904,686	50,400		3,955,086
Trade payables	6,520,360	25,738,239	151,673	32,410,272
Credit instruments				
Payables to subsidiaries	55,546	3,410,411	858,167	4,324,124
Payables to associated companies				
Payables to parent companies		0		
Payables to entities controlled by parent companies				
Tax payables		757,008		757,008
Payables to social security and pensions institutions		958,623		958,623
Other payables		4,742,412		4,742,412
Total payables	**10,480,592**	**92,261,350**	**1,009,840**	**103,751,782**

Payables secured on company assets

The following table contains details of payables secured on company assets (Article 2427 (6) of the Italian Civil Code):

	Payables secured on company assets				Unsecured payables	Total
	Payables secured by mortgages	Payables secured by pledges	Payables secured by liens	Total secured payables		
Bonds				0	3,930,586	3,930,586
Convertible bonds						
Shareholder loans payable						
Bank borrowing	2,807,212			2,807,212	48,943,661	51,750,873
Payables to other lenders				0	922,798	922,798
Payments on account			3,700,000	3,700,000	255,086	3,955,086
Trade payables				0	32,410,272	32,410,272
Credit instruments						
Payables to subsidiaries				0	4,324,124	4,324,124
Payables to associated companies						
Payables to parent companies				0	0	
Payables to entities controlled by parent companies						
Tax payables				0	757,008	757,008
Payables to social security and pensions institutions				0	958,623	958,623
Other payables				0	4,742,412	4,742,412
Total payables	**2,807,212**	**0**	**3,700,000**	**6,507,212**	**97,244,570**	**103,751,782**

Reference should be made to the Note on Bank Borrowing for further information on payables secured by mortgages. We note the following with regard to the mortgage loans:

- the amount of the mortgages shown in the table refers to the amount of the guarantee equal to the outstanding liability at the reporting date;
- mortgages totalling Euro 2,807,2028 apply to the Company's property.

The mortgage of Euro 3,049,935 on the properties of subsidiary Immobiliare Industrial S.r.l. at 31 December 2019 was cancelled on 10 December 2020. Advances from customers of Euro 3,700,000 recorded under "Payments on account" are secured by guarantees/liens on machinery.

Accrued expenses and deferred income

Details of this item and movements thereon during the year are provided below (Art. 2427(7) of the Italian Civil Code).

	Opening amount	Change	Closing amount
Accrued expenses		0	
Deferred income	750,163	232,862	517,301
Total accrued expenses and deferred income	**750,163**	**232,862**	**517,301**

	31/12/2019	31/12/2020	Change
Deferred income:	750,163	517,301	232,862
- lease instalments			0
- other	750,163	517,301	232,862
Accrued expenses	0	0	0
Total	**750,163**	**517,301**	**232,862**

Other deferred income entirely refers to contributions from customers.

Notes to the Financial Statements, Income Statement

As already mentioned, the results reported in the Income Statement were greatly affected by the Covid-19 emergency with the result that they are not entirely suitable for comparison with prior year figures.
Therefore, reference should be made to the Directors' Report for more detailed analysis of changes compared to prior year and for comments on the effect of Covid-19 on Income Statement balances.

Value of production

The following table contains a breakdown of value of production and details of changes in the various component items compared to prior year:

	2019	2020	Change	% Chg
Revenue from sales and services	142,061,709	121,445,070	(20,616,639)	(15)
Change in inventory of WIP, semi-finished and finished goods	(3,317,505)	(3,372,548)	(55,043)	2
Change in contract work in progress			0	0
Increase in non-current assets due to capitalisation of internal works	1,314,276	1,281,089	(33,187)	(3)
Other revenues and income	7,856,514	3,518,473	(4,338,041)	(55)
Total Value of Production	**147,914,994**	**122,872,084**	**(25,042,910)**	

Revenue from the sale of goods is stated after returns, discounts and bonuses agreed and granted to customers and warranty chargebacks. "Other revenues and income" mainly refers to intercompany charges for service agreements and secondment of personnel, insurance pay-outs, contributions debited to customers for the development of new products and the construction of related equipment, as well as a project cancellation charges.

Breakdown of revenue from sales and services by business category

In accordance with Article 2427(10) of the Italian Civil Code, we provide a breakdown of revenue from sales and services by business category.

Descrizione	2020
Manufacture and Sale of Water Pumps, Equipment and Prototypes	121,445,070
Total	**121,445,070**

Breakdown of revenue from sales and services by geographical area

In accordance with Article 2427(10) of the Italian Civil Code, we provide a breakdown of revenue from sales and services by geographical area.

	2020
Italy	8,685,088
Other countries	112,759,982
Total	**121,445,070**

The breakdown of revenue by geographical area shows that the Company makes the vast majority of its sales on other EU and non-EU markets. The penchant for exports and the percentage of sales made in other countries, primarily to German car manufacturers, has remained broadly in line with prior year (903), albeit with a more diversified customer portfolio. It will remain very high in the years ahead in light of the long-term production contracts already acquired.

Increases in non-current assets due to capitalisation of internal works

During the period, the Company capitalised development costs of Euro 1,281,089. The costs capitalised entirely refer to the cost of personnel directly employed in development projects for contracts whose award had been confirmed at 31 December 2020 but which had not yet gone into mass production. See the Notes on Development Costs and Intangible Assets in Progress for further information.

Other revenue and income

"Other revenue and income", amounting to Euro 3,518,473 (against Euro 7,856,514 in 2019), includes:

- Euro 1,185,308 of contributions received from customers towards the purchase of equipment;
- Euro 1,063,309 of royalties, intercompany services and chargebacks for seconded personnel;
- Euro 568,080 of chargebacks to suppliers of costs incurred that are not attributable to the Company;
- Euro 226,786 of chargebacks for equipment realised in-house;
- Euro 92,152 of project cancellation costs charged to customers;
- Euro 121,058 of unaccrued prior year income, mainly relating to amounts provided in error in prior years and collections of receivables that had been written off;
- Euro 89,139 of payroll subsidies and R&D tax credits already described in the relevant note;
- Euro 86,125 of gains on fixed asset disposals.

The significant decrease compared to prior year mainly regards project cancellation costs charged to customers which totalled Euro 2,171,892 in 2019 and the lower level of chargebacks for equipment realised in-house. Reference should be made to the Directors' Report for further details on the breakdown of Revenue from Sales and, more generally, on Value of Production.

Cost of production

The following table contains a breakdown of "Cost of production" and details of changes compared to prior year.

	2019	2020	Change	% Chg
Raw, ancillary and consumable materials and goods	74,323,594	59,215,224	(15,108,370)	(20)
Services	33,555,034	29,097,511	(4,457,523)	(13)
Use of third party assets – lease and rental costs	4,495,866	3,037,564	(1,458,302)	(32)
Personnel costs:				
a) wages and salaries	19,757,421	17,194,325	(2,563,096)	(13)
b) social contributions	5,628,113	4,574,807	(1,053,306)	(19)
c) employee severance indemnity / "TFR"	1,009,762	1,058,756	48,994	5
d) retirement benefits and similar obligations			0	0
e) other personnel costs	113,999	89,625	(24,374)	(21)
Depreciation, amortisation and writedowns:				
a) amortisation of intangible assets	1,544,190	1,571,827	27,637	2
b) depreciation of fixed assets	5,938,176	4,078,038	(1,860,138)	(31)
c) other writedowns of non-current assets			0	0
d) writedowns of current receivables	45,007	8,700	(36,307)	(81)
Changes in inventory of raw, ancillary and consumable materials and goods	(2,155,718)	3,292,971	5,448,689	(253)
Provisions for risks			0	0
Other provisions	1,100,000	2,900,000	1,800,000	164
Sundry operating expenses	807,095	803,682	(3,413)	(0)
Rounding				
Total	**146,162,539**	**126,923,030**	**(19,239,509)**	

See the Directors' Report for details of all cost categories and of changes compared to prior year.

Costs for raw, ancillary and consumable materials and goods for resale

These costs are reported in the Income Statement net of adjustments for returns, discounts, allowances and bonuses. They amount to Euro 59,214,224 for 2020 against Euro 74,323,594 in 2019.
Purchase costs mainly relate to raw materials (aluminium) and pump components (bearings and shafts, thermostats, pulleys, plates, covers, etc.), purchases of finished pumps (IAM) and consumable materials. The composition of the balance has not changed significantly compared to prior year except for a decrease in in purchases of finished pumps and components because of lower procurement because of the lockdown which caused customers to postpone orders.

Costs for services

This caption amounts to Euro 29,097,511 against Euro 33,555,034 in 2019 and refers to a series of costs for services. The following table shows the main types of service:

	2019	2020	Change
Industrial services	21,367,534	18,451,835	(2,915,699)
Consulting	1,191,928	1,533,375	341,447
General Expenses	8,458,044	7,068,406	(1,389,638)
Other services	2,537,528	2,043,895	(493,633)
Total Costs for Services	**33,555,034**	**29,097,511**	**(4,457,523)**

Industrial services mainly refer to outsourced services including die-casting and other casting, machining, other processing and treatments regarding certain stages of the production process. The balance has decreased significantly compared to prior year as a result of the temporary suspension of the production process in the OE segment.
Consulting costs include accounting, management and tax consulting but also sales and marketing advice and services in relation to patents, quality control and the environment. The overall increase of Euro 341,447 mainly regards costs for technical consulting (up by Euro 40,681), marketing consulting (down by Euro 21,137), tax and management consulting (up by Euro 307,321), intercompany charges (up by Euro 50,647) and sales consulting (down by Euro 32,006).
General Expenses include costs for Freight, Utilities, Maintenance and other costs relating to the Company's activities. The overall decrease of Euro 1,389,638 is mainly due to costs for utilities (down by Euro 289,031), freight costs (down by Euro 536,072) and directors' fees (down by Euro 221,978).
Other services is a catch-all caption. The decrease compared to prior year is mainly due to reductions in business travel and trade fair costs, costs for security services and costs for training courses.

Use of third party assets - Lease and rental costs

This item mainly refers to finance lease costs and, to a minor, extent operating lease costs, hire charges and other rental costs. It amounts to Euro 3,037,564 against Euro 4,495,866 in 2019.
The decrease totalling Euro 1,458,302 compared to prior year is mainly due to the moratorium on repayments granted by the Leasing Companies, resulting in a reduction in finance lease costs for the period with an Income Statement effect of Euro 1,378,054. Another minor factor was the decrease due to the natural expiry of several contracts.
Property rental costs have also decreased (Euro 189,244) compared to prior year when the Company was party to rental contracts for both the new Saleri E building in Provaglio d'Iseo and the Saleri C building; the latter was only suspended from March 2019.

Personnel costs

This item, amounting to Euro 22,917,513 (against Euro 26,509,295 in 2019), comprises all employee related expenses including merit based increases, promotions, seniority increases, accrued holiday pay and provisions required by law and collective labour agreements. The total cost has decreased by around Euro 3,591,782 mainly as a result of use of the "cassa integrazione" furlough scheme in the period March to June 2020. See the later section of these Notes for details of the workforce in 2020.

Amortisation of intangible assets

Amortisation of intangible assets (Euro 1,571,827 against Euro 1,544,190 in 2019) has already been commented upon in the Note on intangible assets.

Depreciation of fixed assets

Depreciation of fixed assets (Euro 4,078,038 against Euro 5,938,176 in 2019) has already been commented upon in the Note on fixed assets. We note, however, that it has been calculated based on the useful life of fixed assets and their use in the production process. As described earlier, with effect from 2019, depreciation of new fixed assets is calculated based on the effective number of days' utilisation. As described in the Note on Fixed assets, following an independent appraisal, the remaining useful lives of certain assets belonging to the "Plant and machinery" and "Industrial and commercial equipment" categories have been revised.

Other writedowns of non-current assets

As already described in the note on Non-Current Assets, in 2020, the Company did not make any further writedowns of non-current assets as it believed the amount provided in prior year was sufficient.

Writedowns of current receivables

During the year, writedowns of current receivables totalled Euro 8,700.

Other provisions

This item, amounting to Euro 2,900,000, refers to allocations to the product warranty provision. In 2019, the amount allocated was Euro 1,100,000.

Sundry operating expenses

Sundry operating expenses, amounting to Euro 803,6825, mainly refers to unaccrued prior year expenses, membership fees and sundry taxes. The balance remains almost unchanged compared to prior year when it totalled Euro 807,095.

Income from subsidiaries

The amount of Euro 22,044 refers to interest income on loans to subsidiaries:

- ABL Automazione S.r.l. - Euro 829;
- Saleri Gmbh - Euro 927;
- Saleri Mexico - Euro 20,288.

Breakdown of sundry income

The following table provides a breakdown of line item "C.16.d) Income other than the above ".

	Subsidiaries	Associated companies	Parent companies	Entities controlled by parent companies	Other	Total
Bank and post office interest	-	-	-	-	1,373	1,373
Other income	-	-	-	-	29,543	29,543
Total	**-**	**-**	**-**	**-**	**30,916**	**30,916**

Breakdown of interest and other financial expenses by type of debt

In accordance with Article 2427 (12) of the Italian Civil Code, the following table contains details of interest and other financial expenses relating to bonds, bank borrowing and other debt.

	Interest and other financial expenses
Bonds	105,478
Bank borrowing	1,056,243
Other debt	73,147
Total	**1,234,868**

The amount of Euro 73,147 includes Euro 2,825 of interest expenses on the loan from subsidiary Immobiliare Industriale S.r.l.. The remaining interest and financial expenses on other debt almost entirely consists of customer discounts.

Adjustments to value of financial assets and liabilities

The following table contains details of "Adjustments to value of financial assets and liabilities" and of differences compared to prior year "

	2019	Change	2020
18) Revaluations			
d) of derivatives	16,109	(16,109)	
19) Writedowns			
a) of equity investments	770	749,967	750,737
b) of non-current financial assets other than equity investments		0	
c) of current securities other than equity investments		0	
d) of derivatives	729	(716)	13
of financial assets from cash pooling			
Total	**14,610**	**(765,360)**	**(750,750)**

The amount of Euro 750,737 refers to the writedown of the investment in subsidiary ABL Automazione S.r.l..

Taxes on income – current, deferred and deferred tax income

Taxes on income for the year

The following table contains a breakdown of "Taxes on income for the year":

	2019	Change	% Chg	2020
Current taxes	207,554	(205,104)	(99)	2,450
Prior year taxation	368,402	(363,152)	(99)	5,250
Deferred taxes and deferred tax income	(861,642)	(263,540)	31	(1,125,182)
Income (Expense) from participation in tax consolidation / fiscal transparency	106,493	(106,493)	(100)	
Total	**(392,179)**	**(725,303)**		**(1,117,482)**

Deferred taxation (Art. 2427(14) of the Italian Civil Code)

Deferred taxes have been calculated taking account of the amount of all temporary differences generated by applying tax laws and regulations and applying the tax rates in force when the differences emerged.
The following table contains details of the temporary differences that led to the recognition of deferred tax assets and liabilities. It shows the relevant amount, the tax rate applied, the tax effect, the amounts credited or debited to the income statement and the items excluded from the calculation; details are provided for current year and prior year. The table also shows the amount of deferred tax assets recognised in relation to tax losses for the year and for prior years.
"Prior Year" amounts refer to 31 December 2020.

	Prior year		Change		Current year	
	IRES	IRAP	IRES	IRAP	IRES	IRAP
DEFERRED TAX ASSETS	Amount of temporary differences					
Interest expenses not deducted and GOI excess	5,287,975		(1,823,787)	0	3,464,188	
Allocation to provisions for risks and charges	1,100,000		1,800,000	0	2,900,000	
Allocation to inventory obsolescence provision	859,198		122,270	0	981,468	
Writedown of non-current assets	1,560,488		0	0	1,560,488	
Other changes in deferred tax assets	985,408		778,123	0	1,763,531	
Total deductible temporary differences	9,793,069	0	876,606	0	10,669,675	0
Tax losses	11,776,031		2,291,101	0	14,067,132	
IRES and IRAP rates	24.00%	3.90%	0.00%	0.00%	24.00%	3.90%
Deferred tax assets	5,176,585		760,250	0	5,936,835	
DEFERRED TAXES	Amount of temporary differences					
Depreciation of assets revalued under Decree Law no. 185/2008	5,918,997		(55,589)	0	5,863,408	
Total taxable temporary differences	5,918,997	0	(55,589)	0	5,863,408	0
IRES and IRAP rates	24.00%	3.90%	0.00%	0.00%	24.00%	3.90%
Deferred tax liabilities	1,420,559	230,841	(13,341)	(2,168)	1,407,218	228,673
Rounding						
Deferred tax assets (liabilities) net for IRES and IRAP	3,756,026	(230,841)	773,591	2,168	4,529,617	(228,673)
Total deferred tax assets (liabilities) net			0	0		
- allocated to Income Statement			1,125,182			
- allocated to Equity			351,591			

We highlight the recognition of deferred tax assets of Euro 3,376,112 in relation to tax losses. This includes Euro 930,857 relating to losses for the period and Euro 2,445,255 in relation to prior year tax losses.
The Directors concluded that it was appropriate to recognise the deferred tax assets, as described in more detail in the above table, also on the basis of the contents of the Business Plan 2021-2024, given the fact that it is reasonably certain that, in future periods, there will be taxable income of not less than the amount of the differences reversing.
As already stated, in the Note on "Provisions for risks and charges", during the period, deferred tax assets on tax losses were reduced by Euro 349,423 after the Company made IPEC filings adjusting its tax losses for 2015 and 2016 in acceptance of the Report of Findings issued by the Italian Tax Authorities.
Finally, the Company has decided not to recognise any deferred taxes (the amount would have been immaterial in light of the application of the participation exemption regime to any disposal) on the difference between the value of the investment in Saleri Shanghai Co. Ltd for statutory reporting and tax purposes, following the revaluation (for statutory reporting purposes only) described in more detail above.
This was also in light of the fact that there is no intention to dispose of the investment in the short-term.

Tax reconciliation - IRES

The following table contains a reconciliation between the tax expense reported in the Financial Statements and the theoretical tax expense, with the information required by Italian Accounting Standard OIC 25.

	Financial statements	Taxes
Profit before taxation (A - B + - C + - D)	(6,003,167)	
Theoretical tax expense %		
Temporary differences taxable in later periods:		
- gains on asset disposals in instalments		
- other		
Total	0	0
Temporary differences deductible in later periods:		
- allocation to provision for bad debts	8,700	
- allocation to provision for risks	2,900,000	
- writedown of non-current assets		
- writedown of inventory	528,595	
- directors' emoluments not paid		
- other allocations to provisions for risks		
Total	3,437,295	0
Reversal of prior year temporary differences:		
- utilisation of provision for bad debts		
- utilisation of provision for risks	1,100,000	
- revaluation of non-current assets		
- portion of gains in instalments		
- directors' emoluments paid		
- portion of entertainment expenses		
- other items	406,325	
Total	1,506,325	0
Differences that will not reverse in later periods / Permanent differences::		
- IMU – local property tax	35,175	
- motor vehicle expenses	261,250	
- unaccrued prior year expenses	379,904	
- telephone expenses	15,055	
- fines and penalties	13,054	
- non-deductible costs	48,488	
- non-deductible D&A	528,169	
- writedown of investments	750,737	
- donations	65,471	
- other increases	210,774	
- super-depreciation	(1,863,398)	
- portion of interest expenses not deductible in prior year		
- exempt gains		
- other decreases	(251,056)	
Total	193,623	0
Taxable income for IRES	(3,878,574)	0
Increase in IRES –Current taxes		
Current IRES for the year		

Tax reconciliation - IRAP

The following table contains a reconciliation between the tax expense reported in the Financial Statements and the theoretical tax expense, with the information required by Italian Accounting Standard OIC 25.

	Financial statements	Taxes
Taxable base for IRAP	21,775,267	0
Costs not deductible for IRAP purposes:		
-interest element of lease instalments	230,886	
- IMU – local property tax	70,351	
- costs for freelance / occasional personnel		
- directors' fees	874,456	
- inventory writedown		
- non-deductible costs and unaccrued prior year expenses	403,517	
- other items	56,179	
Revenue not considered for IRAP purposes		
- utilisation of provisions	1,189,039	
Total	22,221,617	0
Theoretical tax expense %		
Deductions:		
- INAIL	182,063	
- Social security /pension contributions	3,813,548	
- Expenses for apprentices, R&D personnel	2,517,006	
- other personnel related deductions	15,596,278	
Total	22,108,895	0
Temporary differences taxable in later periods:		
- other items		
Total	0	0
- Non-deductible amortisation of trademarks and goodwill		
- other items		
Total	0	0
Reversal of prior year temporary differences:		
- gains on disposal in instalments		
- entertainment expenses		
- other items		
Total	0	0
Additional deduction	8,000	
Taxable income for IRAP	104,723	
Current IRAP for the year		2,450

Notes to the Financial Statements, other information

Employment details

In accordance with Article 2427 (15) of the Italian Civil Code, the following table contains details of the Company's employees at 31/12/2020.

	Average Number in 2019	Average Number in 2020
Senior managers		
Managers	13	13
White collars	159	164
Blue collars	268	280
Other employees		
Total Employees	**440**	**457**

Fees, advances and loans granted to directors and statutory auditors and commitments made on their behalf

The following table contains details of the fees, advances and loans granted to the Directors and to members of the Board of Statutory Auditors, as well as details of commitments made on their behalf in the year ended 31 December 2019, as required by Article 2427(16) of the Italian Civil Code.

	Directors	Statutory Auditors
Fees	874,455	36,513
Advances		
Loans	5,333	
Commitments made on their behalf as a result of guarantees given		

Fees of the external auditor or audit firm

Pursuant to Article 2427(16 bis) of the Italian Civil Code, the following table contains details of fees for services rendered. Fees for compulsory audit services are shown separately from fees for other services.

	Amount
Audit of the annual financial statements	53,500
Other audit services	73,808
Tax advisory services	
Other non-audit services	
Total fees of the external auditor or audit firm	**127,308**

Categories of shares issued by the Company

As required by Article 2427(17) of the Italian Civil Code, the following table contains details of the shares that make up share capital. It shows the number and nominal amount of the shares subscribed during the year.

	Opening number of shares	Opening nominal amount of shares	Number of shares subscribed during the year	Nominal amount of shares subscribed during the year	Closing number of shares	Closing nominal amount of shares
Category A	2,279,550	13,065,263			2,279,550	13,065,263
Category B	831,648	4,766,598			831,648	4,766,598
Category C			6	6,000,000	6	6,000,000
Ordinary Shares	15,799	90,552			15,799	90,552
Total	**3,126,997**	**17,922,413**	**6**	**6,000,000**	**3,127,003**	**23,922,413**

Off-balance sheet commitments, guarantees and contingent liabilities

Pursuant to Article 2427(9) of the Italian Civil Code, the following table shows the total amount of off-Balance Sheet commitments, guarantees and contingent liabilities. It shows the nature of the secured guarantees given, commitments regarding retirement benefits and similar obligations and commitments made towards subsidiaries, associated companies and entities controlled by parent companies.

	Amount
Commitments	7,998,220
retirement benefits and similar obligations	
towards subsidiaries	
towards associated companies	
towards parent companies	
towards entities controlled by parent companies	
Guarantees	6,079,674
of which secured	2,953,495
Contingent liabilities	

The commitments shown in the table refer to finance lease agreements and represent the outstanding liability at the reporting date.
At 31 December 2020, guarantees referred to the following:

- around Euro 1,040,927 of guarantees issued by the Company on behalf of subsidiary Saleri Shanghai in favour of some of its lenders. The amount disclosed is equal to the exposure of the subsidiary (as translated into Euro at the reporting date exchange rate if necessary) towards the beneficiaries of the guarantees at the reporting date. Compared to 31 December 2019, the total amount of guarantees has decreased by Euro 483,630; the maximum amount of the guarantees issued is around Euro 2,160,000 for this category;
- Euro 857,500 of guarantees issued by the Company on behalf of subsidiary ABL Automazione S.r.l. in favour of its lender;
- around Euro 1,227,752 of guarantees issued by the Company on behalf of other entities (former subsidiary Italacciai S.r.l.) in favour of some of their lenders. The maximum amount of the guarantees issued is around Euro 1,580,000 for this category;
- around Euro2,953,495 of mortgages attaching to assets owned by the Company as security for loans granted to it by banks and financial institutions. The amount has been measured based on outstanding debt at 31/12/2020.

As disclosed in the Note on "Payments on Account", the Company has received Euro 3,700,000 of payments on account from several customers against future purchases by them. These payments on account are secured by guarantees on machinery owned by the Company.
On 17 July 2020, the Company also undertook to underwrite any payments not made by subsidiary ABL Automazione S.r.l. (which took on the debt of Hold.Co 1 S.r.l. as a result of the reverse merger) to the former quotaholders of that company and regarding the price adjustment finalised in respect of the acquisition. As at 31 December 2020, the amount payable by the subsidiary was 1,100,000. It should be noted that this debt is not overdue and is contractually due for payment by the end of 2021.

Related party transactions

Pursuant to Article 2427(22-bis) of the Italian Civil Code, we note that the following related party transactions took place during the year; all of them were conducted on an arm's length basis:

	Parent companies	Subsidiaries	Associated companies	Other related parties
Ricavi		2,150,413		
Costi		4,729,600		
Proventi/oneri finanziari		19,219		
Crediti finanziari	7,290	939,084		5,333
Crediti commerciali		2,322,465		
Debiti finanziari		3,073,937		
Debiti commerciali		1,250,187		

Significant events after the reporting period

Pursuant to Article 2427(22-iv) of the Italian Civil Code, we highlight the continuation of the adverse events relating to the Covid-19 pandemic, as already mentioned in the introduction to these Notes and described in more detail in the Directors' Report.

We also highlight the following:

- on 12 February 2021, the Company acquired an investment in Saleri India Private Limited, a company incorporated on 4 December 2020. At the reporting date, capital payments of Euro 1,002,837 had been made to said company. The percentage interest held is 99.98%;
- on 12 April 2021, the Company acquired a further 37.5% equity interest in Immobiliare Industriale S.r.l. and became the Sole Quotaholder;
- on 11 May 2021, an Extraordinary Meeting of the quotaholders of subsidiary ABL Automazione S.r.l. resolved to reschedule the company's losses (which had fully eroded quotaholders' equity) and to restore the company's quota capital to Euro 750,000. The non-controlling quotaholders opted not to participate in the recapitalisation and it was subscribed in full by Industrie Saleri Italo S.p.A. which became the Sole Quotaholder of the subsidiary as a result of the payment made.

Summary of public finance in terms of art. 1(125) to (129) of Law no. 124/2017

Article 1 (125) to (129) of Law no 124 of 4 August 2017 (Annual law for the market and competition) introduced new disclosure requirements on public finance received and approved.

These amounts are reported on a "cash basis". During 2020, the Company received the following grants and contributions included in the definition governed by Law 124 of 4 August 2017 :

Paying Body	Benefit Received	Description
Simest	72,827,44	Measures regarding investment by Italian entities in foreign public/private enterprises – interest grant
Ministry of Economy and Finance	28,297,00	Sanitisation Tax Credit
Inps	534,911,50	Relief from INPS payroll contributions

Disclosures regarding derivative instruments in terms of Article 2427-bis of the Italian Civil Code

The following table presents the detailed information required by Article 2427-bis(1)(1) of the Italian Civil Code.

	Fair value 31/12/2020	Fair value 31/12/2019	Change through Income Statement	Change through equity	Nature	Amount
Interest rate swaps	(343,421)			(323,421)	Copertura	24,000,000
Options	0	13	(13)		Copertura	345,312

Significant effects of exchange rate fluctuation

In accordance with Article 2427(6-bis) of the Italian Civil Code, we note that there have been no significant exchange rate fluctuations between the reporting date and the date on which these Financial Statements were issued.

Equity investments involving unlimited liability

Pursuant to Article 2361(2) of the Italian Civil Code, we note that the Company does not hold any equity investments that involve unlimited liability.

Proposed allocation of profits or coverage of losses

Allocation of loss for the year

Dear Shareholders,
All matters not specifically commented upon in these Notes are clearly and accurately set out in the Financial Statements presented for your review. The Financial Statements have been prepared with as much detail as possible.
We assure you that the amounts reported in the Financial Statements presented for your review and approval were obtained from the properly maintained accounting records and invite you to approve the Financial Statements – comprising the Balance Sheet, Income Statement, Statement of Cash Flows and Notes – as well as the proposed allocation of result for the year, as follows:

	Amount
▸ Retained earnings (Accumulated Losses)	(4,885,685)
Total	**(4,885,685)**

Lumezzane (BS), 13 May 2021

THE BOARD OF DIRECTORS

Signed by **Basilio Saleri (Presidente)**

Signed by **Matteo Cosmi**

Signed by **Sergio Bona**

Signed by **Giorgio Garimberti**

Signed by **Wilhelm Becker**

Signed by **Alessandro Potestà**

Signed by **Alberto Bartoli**

Signed by **Simona Heidempergher**

Signed by **Massimo Colli**

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Industrie Saleri Italo S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Industrie Saleri Italo S.p.A. (the "Company"), which comprise the balance sheet as at December 31, 2020, the statement of income and statement of cash flows for the year then ended and the explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with the Italian law governing financial statements.

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.

Emphasis of matter

Revaluation Law no. 126/2020

We draw attention to the "Financial assets" paragraph of the Notes to the Financial Statements and "Performance of the Group companies – Industrie Saleri Italo S.p.A." of the Directors' Report, which provide information on the revaluation of the investment in Saleri Shanghai Co. Ltd., performed by the Company as at December 31, 2020, in accordance with Revaluation Law no. 126/2020 and to the related effects on the value in investments and Shareholders' Equity. Our opinion has not been qualified in relation to this matter.

Deloitte.

Change in depreciation rates of Fixed assets

We draw attention to the “Fixed assets” paragraph of the Notes to the Financial Statements which includes information on the change of depreciation rates for the captions “Plant and machinery” and “Industrial and commercial equipment”, on the basis of a revaluation performed by a third party expert. Our opinion has not been qualified in relation to this matter.

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 the Italian law governing financial statements, 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 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 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.

Deloitte.

- 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e) of Legislative Decree 39/10

The Directors of Industrie Saleri Italo S.p.A. are responsible for the preparation of the report on operations of Industrie Saleri Italo S.p.A. as at December 31, 2020, including its consistency with the related financial statements and its 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 with the financial statements of Industrie Saleri Italo S.p.A. as at December 31, 2020 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the report on operations is consistent with the financial statements of Industrie Saleri Italo S.p.A. as at December 31, 2020 and is 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
Stefano Marnati
Partner

Brescia, Italy
May 26, 2021

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

REPORT OF THE BOARD OF STATUTORY AUDITORS

TO THE SHAREHOLDERS' GENERAL MEETING

IN TERMS OF ART. 2429 (2) OF THE ITALIAN CIVIL CODE

To the General Meeting of the Shareholders of Industrie Saleri Italo S.p.A.

During the year ended 31 December 2020, we performed our work in accordance with legal requirements and the guidelines for Boards of Statutory Auditors issued by the Italian Accounting Profession ("*il Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*").

Supervisory activities in terms of Articles 2403 et seq. of the Italian Civil Code

We supervised compliance with the law and the articles of association and respect for principles of good business management.

We attended Shareholders' General Meetings and Board of Directors' Meetings. Based on the information available, we did not identify any breaches of the law or the articles of association, nor any transactions that were manifestly imprudent, risky, involved a potential conflict of interests or were such as to compromise the corporate assets.

We obtained information about the work performed by the external auditors. On this basis, no significant data and information in need of disclosure in this report came to light.

During the meetings held, we obtained information about the general operating performance and the outlook for the future. We also acquired information on the most significant transactions – in terms of size or nature – carried out by the company and, based on the information acquired, we have no particular comments to make.

Within the scope of our responsibility, we have gained an understanding of and supervised the adequacy and operation of the Company's organisational structure. This also involved gathering information from the managers in charge of the various departments and we have no particular comments to make in this regard.

We assessed and supervised the appropriateness of the administrative and accounting system, as well as its reliability in accurately reporting operations. This involved gathering information from the managers in charge of the various departments and from the external auditors, as well as reviewing Company documents. We have no particular comments to make in this regard.

We have received no reports in terms of Article 2408 of the Italian Civil Code.

During the year, the Board of Statutory Auditors did not issue any opinions provided for by law.

During our supervisory activities, as described above, no further significant matters in need of mention in this Report came to light.

Observations regarding the financial statements

We have reviewed the financial statements for the year ended 31 December 2020 and report as follows thereon.

The Board of Directors has made use of the possibility of approving the financial statements within 180 days of the reporting date.

The financial statements were approved by the Board of Directors on 13 May 2021 and made available to the Board of Statutory Auditors. The Board of Statutory Auditors has received letters from all of the Shareholders waiving the need for compliance with the deadline under Article 2429 of the Italian Civil Code for filing of the financial statements and the reports of the Board of Statutory Auditors and the External Auditors at the registered office, as well as waiving the right to make any complaints against parties obliged to respect that deadline i.e. the Board of Statutory Auditors and the External Auditors; said parties are warranted against all liability or consequences arising from failure to respect the said deadline.

As we are not required to perform detailed checks on the contents of the financial statements, we have checked the general approach followed in preparing the financial statements and their general compliance with statutory reporting requirements in terms of their preparation and structure. We have no particular comments to make in this regard.

We have checked compliance with statutory requirements on preparation of the Directors' Report and have no particular comments to make in this regard.

As far as we are aware, when preparing the financial statements, the Directors did not deviate from statutory requirements in terms of Article 2423(5) of the Italian Civil Code.

Pursuant to Article 2426(5) of the Italian Civil Code, we have expressed our consent to the capitalisation of additional development costs of Euro 345,384, bringing the total of such costs capitalised to a net amount of Euro 1,286,971.

We have confirmed that the financial statements reflect the facts and information of which we gained knowledge in the course of our work and have no comments to make in this regard.

For certification of the fact that the financial statements for the year ended 31 December 2020 provide a true and fair view of the balance sheet and financial situation and of the result for the year, in accordance with Italian statutory reporting requirements, reference should be made to the report issued today by Deloitte & Touche S.p.A., as legally appointed to audit the financial statements. The Board of Statutory Auditors draws the Shareholders attention to the emphases of matter contained in said report.

The Board of Statutory Auditors has checked the criteria followed by the Directors for the revaluation of the investment held in Saleri Shanghai Co. Ltd in terms of Art. 110 of Decree

Law no 104/2020; the revaluation increased the value of the investment by Euro 22,452,350. The Directors determined the revalued amount by drawing their own conclusions from the appraisal performed by an independent expert who determined the economic value of the investment by using the Unlevered Discounted Cash Flow method (based on the Business Plan 2021-2026) and by using the comparable transactions and market multiples methods as control methods. Given the aforementioned expert appraisal which sets out the valuation criteria, the amounts that formed the basis for the revaluation and the Business Plan 2021 – 2026 which has also been approved by the Board of Directors of the subsidiary, the Board of Statutory Auditors confirms that the revaluation does not exceed the limits indicated in Art. 11(2) of Law no 342/2000, as referred to by Art. 110(7) of Decree Law no 104/2020.

The Board of Statutory Auditors draws the Shareholders' attention to the contents of the Notes to the Financial Statements and of the Directors' Report on the going concern issue and the business outlook.

Observations and proposals regarding approval of the financial statements

Also considering the results of the work done by the external auditors, as set out in their report on the financial statements, we recommend the Shareholders' General Meeting to approve the financial statements for the year ended 31 December 2020, as prepared by the Directors.

The Board of Statutory Auditors does not have any observations to make in terms of the proposal made by the Directors in the Notes to the Financial Statements to take the net loss for the year to accumulated losses.

Lumezzane (BS), 26 May 2021

The Board of Statutory Auditors

Signed by Francesco Facchini (Chairman)

Signed by Roberta Lecchi (Statutory auditor)

Signed by Andrea Gabola (Statutory auditor)

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