

Annual Financial Report 2021

Investor Relator

Marco Paredi

Tel: +39.035.4232840 - Fax: +39.035.3844606

email: ir@tesmec.com

Tesmec S.p.A.

Registered Office: Piazza Sant' Ambrogio, 16 – 20123 Milan

Fully paid-up share capital as at 31 December 2021 Euro 15,702,162

Milan Register of Companies no. 314026

Tax and VAT code: 10227100152

Website: www.tesmec.com

Switchboard: +39.035.4232911

ESEF (European Single Electronic Format) requirements

This report has not been prepared in accordance with the EU Delegated Regulation 2019/815 (ESEF Regulation), implementing the Transparency Directive. The Annual Report in ESEF format (only in Italian language) is published in the specific section of the Company's website (www.tesmec.com, Financial reports) and is available to the public through the system eMarket-Storage, at www.emarketstorage.com, through publication on the website of Borsa Italiana S.p.A.

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NOTICE OF CALL

TESMEC S.P.A.

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 Share capital Euro 15,702,162
 Website: www.tesmec.com

CALL OF THE ORDINARY SHAREHOLDERS' MEETING

The persons legitimately entitled to attend and exercise voting rights are convened to the ordinary Shareholders' Meeting of Tesmec S.p.A. ("**Tesmec**" or "**Company**") at Notary Practice SNPZ Notai a Milano, in Milan, Piazza della Repubblica, 28, on 21 April 2022 at 10:30 on single call, to discuss and deliberate on the following:

AGENDA

1. **Approval of the financial statements as at 31 December 2021 and presentation of the Tesmec Group's consolidated financial statements and relevant reports, including the consolidated non-financial statement; allocation of result for the period; related and consequent resolutions.**
 - 1.1 **Approval of the financial statements as at 31 December 2021 and the Board of Directors' report on operations;**
 - 1.2 **Allocation of profit or loss for the period.**
2. **Resolutions regarding the report on the policy of remuneration and compensation paid pursuant to Article 123-ter of Legislative Decree 58/1998 and Article 84-quater of CONSOB Regulation no. 11971/1999; related and consequent resolutions.**
 - 2.1 **Binding vote on the remuneration policy relating to 2022 illustrated in the first section of the report;**
 - 2.2 **Consultation on the second section of the report regarding the fees paid in 2021 or relating to them.**
3. **Proposal of authorisation to purchase and dispose of treasury shares, subject to the withdrawal of the resolution passed by the Shareholder's Meeting of 22 April 2021; related and consequent resolutions.**
4. **Appointment of the Board of Directors; related and consequent resolutions;**
 - 4.1 **determination of the number of members of the Board of Directors;**
 - 4.2 **determination of their term in office;**
 - 4.3 **appointment of the Board of Directors;**
 - 4.4 **appointment of the Chairperson of the Board of Directors;**
 - 4.5 **determination of Directors' compensation;**
5. **Appointment of the Board of Statutory Auditors; related and consequent resolutions;**
 - 5.1 **appointment of three standing auditors and two alternate Auditors;**
 - 5.2 **appointment of the Chairperson of the Board of Statutory Auditors;**
 - 5.3 **determination of the compensation of the Board of Statutory Auditors.**

Additional information regarding the COVID-19 (Coronavirus) health emergency

In compliance with what is permitted by Article 106, paragraph of the "Cura Italia" (Heal Italy) Decree, as subsequently extended, in respect of the fundamental principles for the protection of health, Shareholders cannot physically take part in the Shareholders' Meeting and they may attend exclusively through the designated representative pursuant to Article 135-undecies of the Consolidated Law on Finance (T.U.F.), in compliance with the legal provisions and the legislation in force, as better specified below in this call notice in the paragraph "Participation in the Shareholders' Meeting and conferral of the proxy to the designated representative".

It is specified that the information contained in this notice - and, in particular, the date, the place and/or the time of the Shareholders' Meeting, the terms for the exercise by the Shareholders of their rights, the methods of participation to the Shareholders' Meeting and/or the procedures with whom it will be held - may be subject to changes, updates or clarifications in consideration of the current emergency situation resulting from COVID-19 and the consequent measures adopted from time to time by the competent Authorities, as well as in order to ensure rigorous compliance with the fundamental principles of protecting the safety and health of the Shareholders, employees, representatives and consultants of the Company. Any changes, updates or clarifications to the information contained in this notice of call will be promptly made available on the Company's website (www.tesmec.com) and in the other ways required by law.

Information in the share capital at the date of the call notice

The share capital of Tesmec totals Euro 15,702,162.00 represented by 606,460,200 ordinary shares with no nominal value. The shares are registered, indivisible, freely transferable and, pursuant to Article 9 of the Articles of Association, each share gives the right to one vote in the ordinary and extraordinary Shareholders' Meetings of the Company. At the time of this notice of call, the Company holds 4,711,879 treasury share.

Right to attend and vote at the Shareholders' Meeting

Pursuant to the law, those who have the right to vote may attend the Shareholder's Meeting. The right to attend and vote in the Shareholders' Meeting - which, as better specified below in this call notice in the paragraph "Participation in the Shareholders' Meeting and conferral of the proxy to the Designated Representative", may take place exclusively through the designated representative - is certified by a notification to the Company, issued by the intermediary, in favour of the person who has the right to vote, on the basis of the evidence at the end of the accounting day of the seventh day of open market before the date scheduled for the Shareholders' Meeting in single call ("record date"), coinciding with Friday, 8 April 2022. Therefore, those who are the holders of the shares only after the record date mentioned above will be not entitled to attend and vote at the Shareholders' Meeting. The notification of the above intermediary must reach the Company by the end of the third open market day prior to the date set for the Shareholders' Meeting (i.e. Thursday, 14 April 2022). The right to attend and vote in any event is unaffected if the notification is received by the Company after the said deadline provided that it is received by the start of the proceedings of the Shareholders' Meeting forming the object of this call.

The directors, statutory auditors, representatives of the independent auditors, the notary, the Designated Representative and the other subjects allowed to participate in the Shareholders' Meeting pursuant to the law and the Articles of Association, other than those who are entitled to vote, may take part in the Shareholders' Meeting also, or exclusively, through the use of remote connection systems that guarantee the identification of the participants and their participation, in observance of the applicable provisions in force, according to the methods communicated by the Company to the aforementioned subjects.

In consideration of the method in which the Shareholders' Meeting will be held, it shall be considered traditionally called and held at the offices of Notary Practice SNPZ Notai a Milano, in Milan, Piazza della Repubblica, 28.

There are no procedures for postal votes or by electronic means.

Participation in the Shareholders' Meeting and conferral of proxy to the Designated Representative

Taking into account the measures taken to deal with the exceptional emergency situation resulting from the COVID-19 epidemic, pursuant to the provisions of the "Cura Italia" (Heal Italy) Decree, the Shareholders' Meeting will be attended by those entitled to vote without access to the Shareholders' Meeting venues. In fact, the Company chose to avail itself of the right set forth in Article 106, paragraph 4, of the "Cura Italia" (Heal Italy) Decree, as subsequently extended, which enables companies with listed shares to set forth, in the call notice, that the Shareholders' Meeting can only be attended through the designated representative pursuant to Article 135-*undecies* of the Consolidated Law on Finance (T.U.F.). Consequently, the Company assigned an engagement to Computershare S.p.A. – with registered office in Via Lorenzo Mascheroni no. 19, 20145 - Milan (MI) – to represent the Shareholders pursuant to Article 135-*undecies* of the Consolidated Law on Finance (T.U.F.) and the provisions of the "Cura Italia" (Heal Italy) Decree (the "**Designated Representative**"). All those with the right to attend and vote who intend to take part in the Shareholders' Meeting must therefore confer, as per mandatory requirements, the appropriate proxy to the Designated Representative.

Conferral of proxies to the Designated Representative pursuant to Article 135-undecies of the Consolidated Law on Finance (T.U.F.)

The proxy pursuant to Article 135-*undecies* of the Consolidated Law on Finance (T.U.F.) may be conferred, at no expense for the delegating party (with the exception of any postage expenses), through the specific form, prepared by said Designated Representative in agreement with the Company, and made available, with the associated instructions for compilation and transmission, on the Company's website at the address www.tesmec.com (Governance / Shareholders' Meetings section) in the section dedicated to this Shareholders' Meeting as well as at the Company's registered office and/or administrative office.

The proxy form to be notified to the Designated Representative with the relevant voting instructions together with an identity document and any documentation proving signing powers must be sent by following the instructions on the form itself and on the Company website before the second open market day before the Shareholders' Meeting (i.e. by Tuesday **19 April 2022**) and the conferral of the proxy may be revoked within the aforementioned deadline and using the same methods.

The proxy thereby granted is effective only for those draft resolutions in relation to which voting instructions are given.

Conferral of proxies and sub-proxies to the Designated Representative pursuant to Article 135-undecies of the Consolidated Law on Finance (T.U.F.)

It should also be noted that, pursuant to the “Cura Italia” (Heal Italy) Decree, as subsequently extended, the Designated Representative, in derogation of Article 135-undecies, paragraph 4, of the Consolidated Law on Finance (T.U.F.), may also be assigned ordinary proxies or sub-proxies in accordance with Article 135-novies of the Consolidated Law on Finance (T.U.F.), by following the instructions indicated in the form available on the Company's website at the address www.tesmec.com (Governance / Shareholders' Meetings section) in the section dedicated to this Shareholders' Meeting as well as at the Company's registered office and/or administrative office.

Those who do not avail themselves of the proxy right pursuant to Article 135-undecies of the Consolidated Law on Finance (T.U.F.), alternatively, can confer ordinary proxies or sub-proxies pursuant to Article 135-novies of the Consolidated Law on Finance (T.U.F.), with the associated written voting instructions, exclusively by using the appropriate proxy/sub-proxy form to be notified to the Designated Representative with the associated voting instructions, together with an identity document and any documentation proving signing powers by following the instructions on the form itself and on the Company website before 12.00 on Wednesday **20 April 2022**, notwithstanding that the Designated Representative may accept the proxies and/or instructions even after the aforementioned deadline and before the opening of Shareholders' Meeting proceedings), and the conferral of the proxy may be revoked within the aforementioned deadline and according to the same methods.

The proxy thereby granted is effective only for those draft resolutions in relation to which voting instructions are given.

For any clarifications regarding the conferral of the proxy to the Designated Representative (and, in particular, regarding the compilation of the proxy form and the voting instructions and their transmission), as well as for requesting the proxy form, the Designated Representative will be available for clarifications or information at the number +39 011 092 3200 or via e-mail at the address sedeto@computershare.it.

The Company reserves the right to supplement and/or modify the instructions reported above, in consideration of any needs that arise as a result of the current epidemiological emergency (COVID-19) and its developments which are unforeseeable at present.

Right to pose questions before the Shareholders' Meeting

Pursuant to Article 127-ter of the TUF, those who hold voting rights at the Shareholders' Meeting can submit questions on the items on the agenda within the end of the record date (i.e. by Friday 8 April 2022). The questions must submitted - taking into account the ongoing emergency - by sending them accompanied by the certification released by the intermediary proving their capacity as shareholders, to the e-mail address tesmecspa@pec.it, with the indication, in the subject of the email, of the words "Shareholders' Meeting 2022 - Questions on items on the agenda pursuant to art. 127-ter Legislative Decree 24 February 1998 n. 58". The ownership of the right to vote can also be attested after the submission of the questions provided within the third day following the record date (ie by Monday 11 April 2022) by indicating the communication issued by the intermediary to the Company.

Questions received within the indicated deadlines will be answered by 12 noon on Tuesday 19 April 2022, and also by publication in the specific section of the Company's website.

The Company can provide a unified response to questions with the same content. An answer is not due, not even during the Shareholders' Meeting, to the questions asked before it when the answer has been published in accordance with the law. The Company will not answer questions that do not comply with the methods, terms and conditions indicated above.

Additions to the agenda and submission of new draft resolutions

Pursuant to Article 126-bis of the Consolidated Law on Finance (T.U.F.), the Shareholders who, including jointly, represent at least one fortieth of the share capital with voting rights can request, within ten days from the publication of this notice, additions to the agenda, specifying in the request the further arguments or the new draft resolutions proposed on items already on the agenda. The request must be submitted in writing by the proposing Shareholders by e-mail to the address tesmecspa@pec.it, accompanied by the relevant communication issued by the intermediary proving the ownership of the above-mentioned fraction of share capital. Within the above-mentioned term of ten days and using the same methods, any proposing Shareholder must deliver to the Board of Directors a report that outlines the reason for the draft resolutions on new items that they propose be discussed or the reason for the additional draft resolutions submitted on items already on the agenda. No addition to the agenda is allowed for those arguments on which the Shareholders' Meeting resolves, in accordance with the law, upon proposals made by the directors or on the basis of a project or report prepared by them, other than those indicated under Article 125-ter, paragraph 1, of the Consolidated Law on Finance (T.U.F.)

For any addition to the agenda or the submission of additional draft resolutions on items already on the agenda of the Shareholders' Meeting, a notice is given through the same modalities used for the publication of this notice, at least fifteen days before the date scheduled for the Shareholders' Meeting (i.e. by Wednesday 6 April 2022). On the same date, the Company provides the public, according to the methods set out in Article 125-ter, paragraph 1, of the Consolidated Law on Finance (T.U.F.), with the additional draft resolutions on the items already on the agenda, the reports presented by Shareholders, as well as any assessments by the Board of Directors.

The right to make individual draft resolutions

Due to the fact that attendance at the Shareholders' Meeting is envisaged exclusively through the Appointed Representative pursuant to Article 135-undecies of the Consolidated Law on Finance (T.U.F.), those who have the right to vote can, pursuant to Article 126-bis, paragraph 1, third sentence, of the Consolidated Law on Finance (T.U.F.), no later than Wednesday 6 April 2022, individually submit draft resolutions on the items on the agenda, by sending them by certified email to tesmecspa@pec.it, indicating in the subject line of the email the wording "2022 Shareholders' Meeting - Individual draft resolutions".

The draft resolutions must contain the text of the resolution and be accompanied by information on the identity of the person submitting and the percentage of the share capital held at the date of submission, as well as the notice sent by the intermediary to the Company.

The validly submitted draft resolutions - if admissible pursuant to the applicable regulations - will be made available to the public by the Company on its website www.tesmec.com in the section dedicated to this Shareholders' Meeting, as well as by the other applicable methods pursuant to the laws and regulations in force.

The deadline for submitting such draft resolutions, set at the same time as the deadline for the publication of the requests for integration and of the draft resolutions pursuant to Article 126-bis, paragraph 1, first sentence, of the Consolidated Law on Finance (T.U.F.), allows those interested in submitting individual draft resolutions to consider what has been published by the Company in relation to the items on the agenda and, at the same time, allows the Appointed Representative to integrate the forms for the granting of proxies pursuant to Article 135-undecies and Article 135-novies of the Consolidated Law on Finance (T.U.F.), so that those entitled to vote may consider in good time all the requests and draft resolutions submitted for the purpose of issuing voting instructions.

In case of draft resolutions on the items on the agenda alternative to those formulated by the Board of Directors, the draft resolution of the Board of Directors shall be put to the vote first (unless it is withdrawn) and, only if it is rejected, the Shareholders' draft resolutions shall be put to the vote. These draft resolutions, even in the absence of a draft resolution from the Board of Directors, will be submitted to the Shareholders' Meeting starting with the draft resolution submitted by the Shareholders representing the largest percentage of the share capital. Only if the draft resolution put to the vote is rejected will the next draft resolution be put to the vote in order of the share capital represented. For the purposes of the relevant publication, as well as in relation to the running of the Shareholders' Meeting, the Company reserves the right to check the relevance of the draft resolutions to the items on the agenda, their completeness, their compliance with applicable regulations and the legitimacy of those submitting them.

Submission of lists for the appointment of Directors and Statutory Auditors

Members of the Board of Directors and of the Board of Statutory Auditors shall be appointed based on lists submitted by shareholders pursuant to Articles 14 and 22, respectively, of the Articles of Association (to which reference is made). Only shareholders who, on the date the list is submitted, hold alone or with others shares with voting rights that in total represent at least 4.5% of the subscribed and paid-in capital with the right to vote at Ordinary Shareholders' Meetings for Company offices may submit a list. Each shareholder may submit (or submit with others) and vote for, including via an intermediary or trust company, no more than one list. A candidate may appear in only one list or such candidate will be ineligible.

Lists must be filed at the Company's headquarters or sent to the Company by e-mail to: tesmecspa@pec.it (Attn: Mr Marco Paredi), at least 25 (twenty-five) days before the date set for the Meeting, i.e., by Sunday 27 March 2022, to be understood as extended to Monday 28 March 2022, the first day following a non-holiday day. For a detailed explanation of the procedures and deadlines for submitting lists, see Articles 14 and 22 of the Articles of Association.

The Company shall make the lists available to the public on the "Shareholders' Meetings" section of the website www.tesmec.com and in the manner required by current law without delay and, in any event, at least 21 (twenty-one) days before the date set for the Shareholders' Meeting, i.e., Thursday 31 March 2022.

Specifically in regard to the appointment of the Board of Statutory Auditors, in the event that, upon expiry of the term indicated for the filing of the lists for the appointment of the Board of Statutory Auditors (i.e. by Sunday 27 March 2022, to be understood as extended to Monday 28 March 2022, the first day following a non-holiday) only one list has been submitted, or only lists submitted by shareholders who, based on the information provided and the documents filed in accordance with the above, are related pursuant to Article 144-*quinquies* of the Issuers' Regulation, the Company shall give notice thereof without delay and shareholders will be able to submit lists of candidates for appointment as statutory auditors until the third day after that date (i.e., by Wednesday 30 March 2022). In that event: (i) the minimum ownership percentage necessary to submit lists shall be 2.25% of the subscribed and paid-in capital with the right to vote at Ordinary Shareholders' Meetings for Company offices; (ii) the documents evidencing that ownership interest at the time the list is submitted must be filed by Thursday 31 March 2022 in the manner set forth in Article 22 of the Articles of Association.

Articles 14 and 22 of the Articles of Association require the Board of Directors and the Board of Statutory Auditors be elected in accordance with the *pro tempore* law on gender balance and applicable laws and regulations. A quota equal to at least two-fifth of the elected Directors and Statutory Auditors is reserved for the least represented gender. Therefore, i) under Article 14 of the Articles of Association, shareholders who intend to submit a list for the election of the Board of Directors containing three or more candidates must include a number of candidates belonging to the least represented gender that is at least two-fifth of the candidates (with any rounding to the next higher number); and ii) under Article 22 of the Articles of Association, shareholders who intend to submit a list for the election of the Board of Statutory Auditors containing three or more candidates must include in the standing statutory auditors section a number of candidates belonging to the least represented gender that is at least two-fifth of the candidates (with any rounding to the next higher number) and, if the alternate statutory auditors section indicates two candidates, one of each gender.

For any matters not expressly set forth in this notice of call, see the Board of Directors' Report on the points on the agenda for the Shareholders' Meeting, which is available at the relevant section of the website www.tesmec.com ("*Shareholders' Meetings*" section).

Lists for which all of the instructions above have not been followed will be treated as if they had not been submitted. Shareholders who intend to submit a list may contact Tesmec's Investor Relator, Mr Marco Paredi, in advance to obtain the necessary administrative details.

Documents

The documents relating to the items on the agenda of the Shareholders' Meeting, including therein the reports containing the draft resolutions on the same, will be made available to the public within the terms provided by law through the filing at the administrative office in Grassobbio (BG), Via Zanica 17/O of the Company and on the website of Borsa Italiana S.p.A., in the centralised storage mechanism eMarketStorage which can be consulted at the address www.emarketstorage.it, and will also be available on the Company's website www.tesmec.com, "*Shareholders' Meetings*" section, in accordance with the terms of the legislation in force, with the Shareholders and the parties legitimately entitled to vote able to obtain a copy of them. As a result of the restrictions issued by the competent Authorities, notification is provided to the Shareholders that access to the Company's registered office and/or administrative office may be allowed with the methods and terms to be defined.

The Articles of Association are available on the website of the Company www.tesmec.com.

Grassobbio, 11 March 2022

Tesmec S.p.A.

COMPOSITION OF THE CORPORATE BODIES

Board of Directors (in office until the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2021)

Chairman and Chief Executive Officer	Ambrogio Caccia Dominioni
Vice Chairman	Gianluca Bolelli
Directors	Caterina Caccia Dominioni Lucia Caccia Dominioni Paola Durante (*) Simone Andrea Crolla (*) Emanuela Teresa Basso Petrino (*) Guido Luigi Traversa (*)

(*) Independent Directors

Board of Statutory Auditors (in office until the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2021)

Chairman	Simone Cavalli
Statutory Auditors	Stefano Chirico Alessandra De Beni
Alternate Auditors	Attilio Marcozzi Stefania Rusconi

Members of the Control and Risk, Sustainability and Related Party Transactions Committee (in office until the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2021)

Chairman	Emanuela Teresa Basso Petrino
Members	Simone Andrea Crolla Guido Luigi Traversa

Members of the Remuneration and Appointments Committee (in office until the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2021)

Chairman	Simone Andrea Crolla
Members	Emanuela Teresa Basso Petrino Caterina Caccia Dominioni

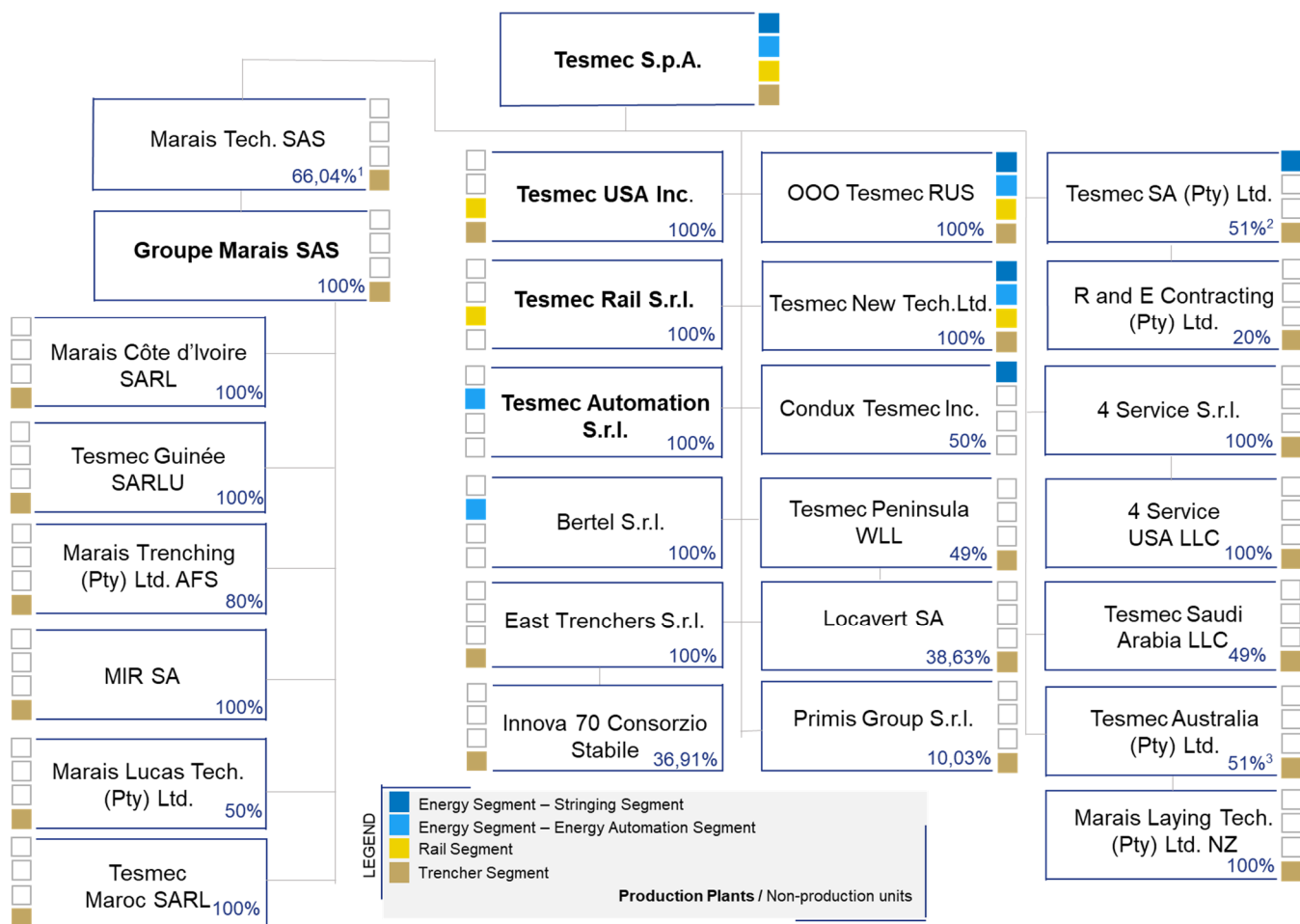
Lead Independent Director Paola Durante

Director in charge of the internal control and risk management system Caterina Caccia Dominioni

Manager responsible for preparing the Company's financial statements Marco Paredi

Independent Auditors Deloitte & Touche S.p.A.

GROUP STRUCTURE



⁽¹⁾ The remaining 33.96% is held by Simest S.p.A. Since Tesmec has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the shareholding in Marais Technologies SAS is consolidated on a 100% basis.

⁽²⁾ The remaining 49% is held by Simest S.p.A. Since Tesmec has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the shareholding in Tesmec SA is consolidated on an 100% basis.

⁽³⁾ The remaining 49% is held by Simest S.p.A. Since Tesmec has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the shareholding in Tesmec Australia (Pty) Ltd. is consolidated on a 100% basis.

REPORT ON OPERATIONS

1. Introduction

The Parent Company Tesmec S.p.A. (hereinafter "Parent Company" or "Tescmec") is a legal entity organised in accordance with the legal system of the Italian Republic. The ordinary shares of Tesmec are listed on the MTA (screen-based share market) STAR Segment of the Milan Stock Exchange. The registered office of the Tesmec Group (hereinafter "Group" or "Tescmec Group") is in Milan, Piazza S. Ambrogio 16.

The Tesmec Group is a leader in the design, production and marketing of special products and integrated solutions for the construction, maintenance and streamlining of infrastructures relating to the transmission of electrical power and data and material transport.

Founded in Italy in 1951 and managed by the Chairman and Chief Executive Officer Ambrogio Caccia Dominioni, the Group, as from its listing on the Stock Exchange on 1 July 2010, has pursued the stated objective of diversification of the types of products in order to offer a complete range of integrated solutions grouped into three main areas of business: Energy, Trencher and Rail. The structure has more than 900 employees and has production plants located in Grassobbio (Bergamo), Endine Gaiano (Bergamo), Sirono (Lecco) and Monopoli (Bari) in Italy, Alvarado (Texas) in the USA and Durtal in France. Furthermore, after the reorganisation of the Automation segment, Tesmec Automation has 3 additional operating units available in Fidenza, Padua and Patrica (Frosinone). The Group has a global commercial structure, with a direct presence on different continents, through foreign companies and sales offices in the USA, South Africa, Russia, Qatar, China, France, Australia, New Zealand, Ivory Coast and Saudi Arabia.

Through the different types of product, the Group is able to offer:

Energy segment

- machines and integrated systems for overhead and underground stringing of power lines and fibre optic cables;
- integrated solutions for the streamlining, management and monitoring of low, medium and high voltage power lines (smart grid solutions).

Trencher segment

- high-efficiency crawler trenching machines for excavation with a set section for the construction of infrastructures for the transmission of data, raw materials and gaseous and liquid products in the various segments: energy, farming, chemical and public utilities;
- crawler trenching machines for works on surface mines and earth moving works (Rock Hawg);
- rental of the trenching machines;
- specialised consultancy and excavation services on customer request;
- multi-purpose site machinery (Gallmac);
- this segment also includes the excavation services for power lines and fibre optic cables that constitute the core business of Marais Group.

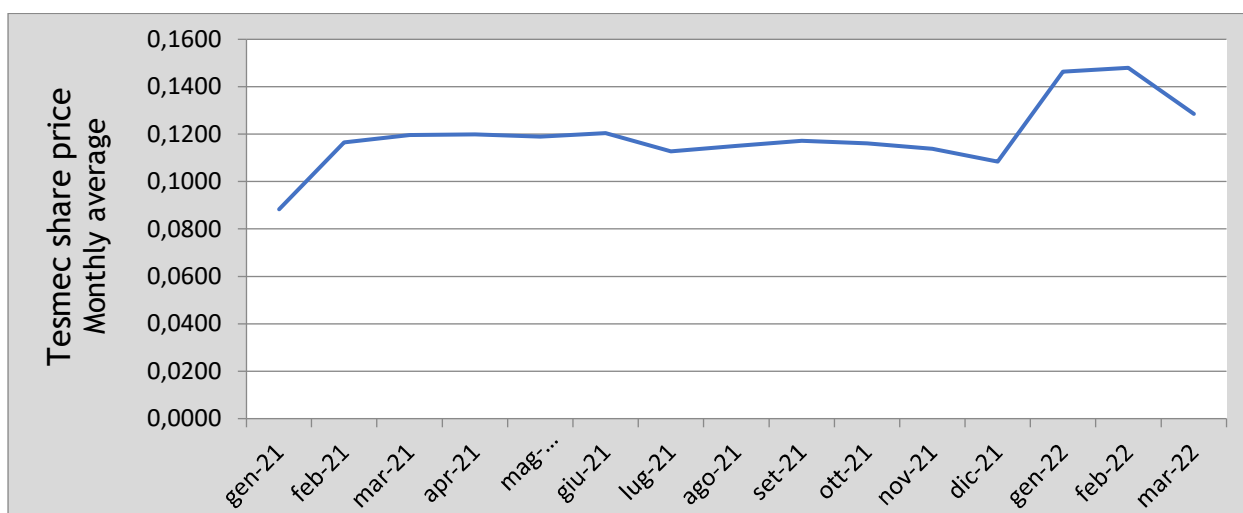
Rail segment

- machines and integrated systems for the installation, maintenance and diagnostics of the railway catenary wire system, plus customised machines for special operations on the line.

The know-how achieved in the development of specific technologies and innovative solutions and the presence of a team of highly-skilled engineers and technicians allow the Tesmec Group to directly manage the entire production chain: from the design, production and marketing, or rental of machinery to the supply of know-how relating to the use of systems and optimisation of work, to all pre- and post-sales services related to machinery and the increase in site efficiency.

2. Tesmec on the Stock Exchange Market

As at 31 December 2021, the reference price of the Tesmec share was equal to Euro 0.1070 per share while market capitalisation as at 31 December 2021 amounted to Euro 64.9 million. As at the date of this report, the reference price is Euro 0.1418 per share and the capitalisation is approximately Euro 86.0 million. The following chart shows the listing price trend of the shares of the Parent Company from 1 January 2021 to March 2022. Although the book value of consolidated shareholders' equity is higher than the market capitalization at the balance sheet date, it is believed that this circumstance does not represent an impairment indicator of the assets owned by the Group, but is related to the volatility of market prices. Moreover, the graph shows a growing trend which, after the balance sheet date, positions the capitalization above the accounting parity.



Reference price as at 31 December 2021	0.1070
Reference price as at 11 March 2022	0.1418
Maximum price (27 January 2022) ⁽¹⁾	0.1878
Minimum Price (4 January 2021) ⁽¹⁾	0.0798

(1) Intended as minimum and maximum prices recorded during the negotiations of the day, hence not coinciding with the official and reference prices at the same date

3. Macroeconomic scenario

In 2021, thanks to the containment of the pandemic made possible by the spread of vaccination, the recovery in global demand was swift and stronger than expected, driven above all by the clear recovery in demand for goods. In contrast to a prolonged weakness in the emerging economies, confirming their weaker cyclical condition respect to advanced countries, signs emerged of a return to stronger recovery in the United States and other advanced countries at the end of last year. According to the projections released in December by the OECD, the world economy will grow by 5.6% in 2021, slowing to 4.5% this year. The outlook is still uneven across countries: in the advanced economies, GDP will resume the pre-pandemic trend next year while, in the emerging economies, the recovery will remain more fragile, especially in the poorer ones. However, the resurgence of the pandemic and the persistent bottlenecks on the supply side are creating downside risks to growth. Since the start of November, COVID-19 infections have begun to rise again across the globe, although more sharply in Europe and in the United States, where the number of hospitalizations and deaths also rose. The latter have increased less steeply than in the previous waves of the epidemic, mainly thanks to the vaccination campaigns. Demand-side pressures have been disruptive in transport and in international logistics, already hampered by the closure of important ports in China, in order to combat the pandemic, which has led to heavy congestion and longer shipping times on the main routes from Asia to western countries. This has been matched by a marked increase in sea freight rates, just as costs have also risen for air transport. In China in particular, where the Government follows a strict containment policy to counter the spread of the virus, the emergence of new outbreaks has led to further interruptions in global supply chains. These general factors have been accompanied by some sectoral specificities: the marked acceleration in the digitalization process brought about by the pandemic triggered a rapid increase in the demand for electronic devices for remote working and training and for entertainment. These developments have translated into strong growth in demand for semiconductors, a fundamental component not only for electrical equipment but also for some durable goods, such as cars and household appliances. In the case of semiconductors, for which expanding production capacity takes a relatively long time, the resulting scarcity led to a rise in prices and delays in production in many sectors. These imbalances have resulted in longer delivery times for suppliers, slowing down production and increasing backlogs in orders in manufacturing. These problems have been particularly intense in the advanced economies, whose industries are further downstream in international supply chains. Inflation has risen further almost everywhere, mainly as a result of the increases in the prices of energy products and intermediate inputs. Inflation began to rise again in the United States, reaching 7% in December, the highest level since the early 1980s. Inflation rose in both the UK (5.4% in December) and in Japan (0.6% in November) and in some of the emerging countries as well: in Brazil and in Russia, the twelve-month growth in consumer prices was at 10.1% and 8.4% respectively in December. Among other factors, this was the result of price rises for energy products. The price of natural gas remains high in Europe, driven by a number of factors. Tensions with Russia, which have worsened,

and the high demand for electricity have significantly reduced inventories. Based on futures prices, the rises observed in the second half of last year are likely to subside only partly in 2022. At the start of January, oil prices showed definite signs of recovery and futures contracts signal an increase in prices in early 2022, followed by a decrease in the second half of the year.

In the euro area, GDP instead decelerated sharply at the turn of the year, owing to the rise in the number of COVID cases and the ongoing tensions in the supply chains that are holding back production in manufacturing. The Eurosystem staff projections released in December indicate that GDP will grow by 5.1% in 2021, and by 4.2% and 2.9% in the following two years respectively. Inflation has reached its highest level since monetary union began (5.0% in December), because of the exceptional increases in the energy component, especially gas prices, which in Europe are also affected by geopolitical factors. According to the projections, inflation will reach 3.2% in 2022 and will then fall to 1.8% per cent in 2023 and 2024. The single currency has continued to depreciate against the dollar, owing to expectations of a less expansionary monetary policy in the United States. The Governing Council of the ECB, in fact, observed that the conduct of monetary policy would maintain flexibility and optionality as regards the monetary outlook, at the same time emphasizing the need to maintain an accommodative stance. At the end of October, the Council of the EU approved the national plans of Estonia, Finland and Romania under the Recovery and Resilience Facility (the main instrument of the Next Generation EU programme), which have now been added to the list of 19 other countries whose plans had already been approved. Between the end of November and the end of December, France, Greece and Italy submitted requests to the Commission for the disbursement of the first tranche of the resources under their individual plans (€ 7.4 billion, € 3.6 billion and € 21 billion respectively).

Financial market trends have reflected fears concerning the rise in COVID cases around the world, uncertainty regarding the severity of the new Omicron variant and its effects on the economic recovery, and expectations on the monetary policy stance. Market volatility and investors' risk aversion have increased. The negative impact on equity markets of the initial reports on the spread of the Omicron variant was significant, with an immediate fall of more than 2% in the United States and of 4% in the euro area, albeit a temporary one. Prices subsequently rose to around those recorded in mid-October.

Growth in Italy remained high in the third quarter of 2021, driven by the increase in household consumption. GDP subsequently slowed: based on the Bank of Italy's models, it grew by around half a percentage point in the fourth quarter. The growth in value added weakened in both industry and the service sector, affected by the resurgence of the pandemic, in addition to persistent procurement problems for firms. For 2021 as a whole, GDP growth is expected to stand at 6.3%. Foreign sales of goods decreased slightly, though less than world trade, owing to a slowdown in euro-area markets and to a contraction in those outside the euro area. Imports grew further, reflecting purchases of goods for investment and inventory purposes, in a context of recovering domestic demand. However, the current account surplus remains large despite the worsening of the energy balance. Inflation has risen to high levels (4.2% in December), driven by energy prices, for which the change on the previous year was almost 30%. Firms expect further increases in their selling prices in connection with supply chain tensions and rising energy prices, though so far the increases in production costs have passed through to retail prices to an only modest degree. In the autumn, growth in lending to non-financial corporations continued to be weak: bank loans declined across all firm size classes, while the amount of liquidity held by firms in their deposit and current accounts rose slightly. Instead, the positive developments in the labour market continued into the fourth quarter and employment dynamics continue to benefit from the moderate number of layoff, which, despite the gradual lifting of the freeze on dismissals, remained below pre-pandemic levels. The available preliminary data for 2021 point to a significant improvement in general government net borrowing compared with 2020. For the three years 2022-24, the budgetary package approved by Parliament in December raises the deficit by 1.3% per cent of GDP on average per year compared with the current legislation scenario. In December, the Government passed Decree Law 209/2021 ('Tax Decree-bis'), raising expenditure in 2021 for investments in the railway network and in the purchase of vaccines and pharmaceuticals for the prevention and treatment of COVID-19. At the end of November, the European Commission acknowledged the efforts made by Italy to increase investment to support the recovery and to strengthen the growth potential of the economy. At the end of last year, following the achievement of the targets and milestones for 2021, the Government requested that the Commission release the first tranche of funds under the Recovery and Resilience Facility (€ 21 billion in grants and loans, net of the reimbursement of a portion of prefinancing obtained in August 2021).

In terms of projections, according to the Bank of Italy's scenario, after weaker growth in the final part of 2021 which is expected to continue in the early months of this year, it is estimated that GDP will return to steady growth from the spring, in concomitance with the anticipated improvement in the outlook for public health, regaining pre-pandemic levels sometime in mid-2022. The expansion in activity should then continue at a robust pace, though less markedly compared with the strong recovery that followed the reopenings in mid-2021. GDP growth in Italy is estimated at 3.8% on average in 2022, 2.5% in 2023 and 1.7% in 2024. A considerable support for growth should come from the stimulus measures financed by the national budget and by European funds, especially those envisaged in the National Recovery and Resilience Plan (NRRP), on the assumption that they are carried out effectively and without significant delays. Foreign sales will continue to expand, thanks to the improvement in world trade and to competitiveness gains; services also look set to benefit from the recovery in international tourism flow. Consumer prices are projected to rise by 3.5% on average this year, 1.6% in 2023, and 1.7% in 2024. The growth

projections are subject to multiple risks, mostly on the downside. Growth in prices could be higher than projected if energy prices remain at high levels for longer than assumed and if tensions around supply were to lead to more persistent increases in the prices of intermediate goods. In the short term, the uncertainty surrounding the forecasting scenario is linked to the public health situation and to tensions on the supply side. In the medium term, the projections are still conditioned by the full implementation of the spending programmes in the budget and the complete and timely realization of the interventions under the NRRP. Last, this scenario is based on the assumption that new COVID-19 cases peak will have negative effects on mobility and consumption patterns in the short term, without translating into a severe tightening of restrictions. The spread of the epidemic is expected to lose momentum from the spring onwards.

4. Significant events occurred in the period and change in the corporate structure

The significant events occurred during the period are reported below:

- on 10 April 2021, the “Tesmec S.p.A. 6% 2014-2021” bond loan was repaid for the entire amount of Euro 15 million;
- on 21 April 2021, the Board of Directors of Simest S.p.A. extended until 22 December 2023 the deadline for the repurchase by Tesmec S.p.A. of the investment held by Simest in Marais Technologies S.A.S.;
- on 22 April 2021, the Ordinary Shareholders' Meeting of Tesmec S.p.A. met electronically in a single call and approved the Financial Statements as at 31 December 2020 and the allocation of the Net Profit. During the Shareholders' Meeting, the Consolidated Financial Statements as at 31 December 2020 of the Tesmec Group and the related reports were presented, including the Consolidated Non-Financial Statement. The Shareholders' Meeting also approved the resolutions regarding the report on the remuneration policy and remuneration paid pursuant to article 123-ter of Italian Legislative Decree no. 58/1998 and article 84-quater of Consob Regulation no. 11971/1999 and authorised the purchase and disposal of treasury shares;
- on 31 May 2021, Cerved Rating Agency, the Italian rating agency specialised in assessing creditworthiness of non-financial companies, communicated the Company's “B1.2” solicited rating. The evaluation confirms the solvency of the Tesmec Group and its qualification as “investment grade” and is the result of an in-depth analysis process that combines rigorous quantitative models to forecast credit risk and accurate qualitative analyses by the Agency, which also considers the Company's competitive position in the industry;
- on 1 June 2021, the subsidiary Tesmec Automation S.r.l. signed a framework agreement with Terna Rete Italia S.p.A. for a total of Euro 12 million (Euro 8 million plus Euro 4 million in options), which will become binding upon the positive outcome of the examination of the prototype. The Contract refers to the supply of AT station automation systems on SAS (ASAT-3) platform.
- on 24 June 2021, the parent company Tesmec S.p.A. acquired 49% of the share capital of Tesmec Saudi Arabia LLC, a company already operating in the trenchers rental business. The effects and methods of the acquisition were described in the next paragraph *4.1 Effects of the acquisition of 49% of the capital of Tesmec Saudi Arabia LLC*.
- on 20 July 2021, the parent company Tesmec S.p.A. signed a loan agreement with Intesa San Paolo S.p.A. of Euro 5 million. This loan has a duration of 6 years and expires on 30 June 2027. The floating interest rate was changed to fixed with an IRS contract signed on 20 July 2021 and is equal to 1.32%;
- on 29 July 2021, the parent company Tesmec S.p.A. signed a syndicated loan agreement of Euro 20 million with three banks: CdP (Cassa Depositi e Prestiti S.p.A.), Finlombarda S.p.A. and Banca del Mezzogiorno - Mediocredito Centrale S.p.A. This loan has a duration of 5 years, expiring on 2 August 2026, and bears a fixed annual interest rate of 2.75%, with a pre-amortisation period of one year;
- on 22 October 2021, the parent company Tesmec S.p.A. announced that, compared to the guidance for the year 2021, last communicated to the market relating to the expected consolidated turnover of approximately Euro 220 million, the Group expected a turnover lower than the aforementioned guidance. The change recorded, as better illustrated later in the report, is mainly attributable to the performance of the Group in the Trencher sector, with particular reference to the American market, which had already shown a significant delay compared to forecasts during the interim reports, in the context of modified guidelines of the infrastructural investment policy of the new presidency

and the Australian market, where the severe restrictive measures connected to the pandemic crisis adopted in the second half of the year by the local authorities determined further delays in the recovery of the reference market. Despite the described context, however, a positive growth outlook for 2022 is confirmed for both the American and Australian markets;

- on 9 November 2021, the parent company Tesmec S.p.A. presented a pilot project in Gandino, in the province of Bergamo, on connectivity and advanced digitalisation towards a smart city model, with the start of work to install an ultra-wideband fibre optic network with performance of up to 10 Gbps between the Planetel fibre optic network node in Lefte and the industrial area comprising the historic Torri Lana S.r.l. company;
- on 12 November 2021, Tesmec S.p.A. also celebrated the 70th anniversary of its foundation in Monopoli, with a two-day event focusing on technologies for a safe, efficient and sustainable railway infrastructure;
- on December 17, 2021, the subsidiary Tesmec USA Inc. signed a loan agreement for USD 10 million with the credit institution Worldbusiness Capital, Inc .. This loan has a duration of 20 years with maturity on December 1, 2041 and with an annual fixed rate of 4.69%;
- on 20 December 2021, the subsidiary Tesmec Rail S.r.l. was awarded a contract in the Czech Republic by the company ELZEL Elektrizace železnic Praha with a value of approximately Euro 13 million and acquired a contract in Israel from the company Linom Ltd. with a total value of approximately Euro 2 million. The two contracts are of strategic importance for the Group because they confirm its international development in the rail segment, in the laying of the catenary wire system in particular, in Countries that give priority to quality and innovative technologies.

4.1 Effects of the acquisition of 49% of the capital of Tesmec Saudi Arabia LLC

As described above, on 24 June 2021 the parent company Tesmec S.p.A. acquired 49% of the share capital of Tesmec Saudi Arabia LLC for a price of Euro 2,019 thousand, the remaining 51% was acquired by a third-party local operator, the company SAS Machineries. The purpose of the transaction is to directly oversee the area and increase Tesmec's presence in the Middle Eastern market.

The equity investment in Tesmec Saudi Arabia LLC is an equity investment in an associated company and is therefore recognised in the financial statements in accordance with the equity method. The differential arising between the shareholders' equity of the associated company and the acquisition price amounts to Euro 2,462 thousand and is provisionally allocated to Goodwill, which remains implicitly recorded in the value of the equity investment. Any adjustments arising from the completion of the purchase price allocation will be included in the Tesmec Group's consolidated financial statements as soon as this process is completed within 12 months of the acquisition date, as permitted by IFRS 3.

The assets and liabilities of Tesmec Saudi Arabia, measured at fair value, are broken down below:

<i>(Euro in thousands)</i>	Values of the acquired company
NON-CURRENT ASSETS	
Property, plant and equipment	3,262
TOTAL NON-CURRENT ASSETS	3,262
CURRENT ASSETS	
Inventories	1,812
Trade receivables	1,228
Other current assets	98
Cash and cash equivalents	170
TOTAL CURRENT ASSETS	3,308
TOTAL ASSETS	6,570
SHAREHOLDERS' EQUITY	
Share capital	45
Reserves / (deficit)	(950)

TOTAL SHAREHOLDERS' EQUITY	(905)
NON-CURRENT LIABILITIES	
Employee benefit liability	101
TOTAL NON-CURRENT LIABILITIES	101
CURRENT LIABILITIES	
Interest-bearing financial payables (current portion)	2,006
Trade payables	5,368
TOTAL CURRENT LIABILITIES	7,374
TOTAL LIABILITIES	6,570
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	6,570

The difference between the total consideration of the acquisition and the net value of the acquired assets and liabilities measured at fair value on the basis of the provisional data available at the date of acquisition was recognised as follows:

	Goodwill calculation
<i>(Euro in thousands)</i>	
Total consideration of the acquisition	2,019
Acquired shareholders' equity	(443)
Goodwill	2,462

This Goodwill is still included in the value of the equity investment in Tesmec Saudi Arabia, measured in the financial statements using the equity method, and will be subject to impairment testing for the purpose of preparing the present financial statements as at 31 December 2021.

5. Overview of the financial results and Group performance

The consolidated financial statements of Tesmec have been prepared in accordance with the International Financial Reporting Standards (hereinafter the "IFRS" or the "International Accounting Standards"), endorsed by the European Commission, in effect as at 31 December 2021. The following table shows a summary of the profit and loss indicators achieved in 2021 and in 2020 and the main financial position indicators as at 31 December 2021 and as at 31 December 2020.

OVERVIEW OF RESULTS		
31 December 2020	Key income statement data (Euro in millions)	31 December 2021
170.7	Operating Revenues	194.3
21.0	EBITDA	28.1
(0.9)	Operating Income	5.7
(6.8)	Group Net Profit	1.2
878	Number of employees	934
31 December 2020	Key financial position data (Euro in millions)	31 December 2021
173.8	Net Invested Capital	193.7
69.4	Shareholders' Equity	72.6
104.4	Group net financial indebtedness	121.0
27.5	Net investments in property, plant and equipment, intangible assets and rights of use	22.9

5.1 Alternative performance measures

In this section, a number of Alternative Performance Measures not envisaged by IFRS (*non-GAAP measures*) and used by the directors in order to allow a better assessment of the Group's operating performance are illustrated. The Alternative Performance Measures are constructed exclusively from the Group's historical accounting data and are determined in accordance with the provisions of the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 as per CONSOB Communication no. 92543 of 3 December 2015.

The Alternative Performance Measures shown below are not audited and should not be interpreted as indicators of the Group's future performance:

- EBITDA: it is represented by the operating income including amortisation/depreciation and can be directly inferred from the consolidated income statement.
- Net working capital: it is calculated as current assets net of current liabilities excluding financial assets and financial liabilities and can be directly inferred from the consolidated income statement.
- Net invested capital: it is calculated as net working capital plus fixed assets and other long-term assets less non-current liabilities and can be directly inferred from the consolidated income statement.
- Group net financial indebtedness: this is a good indicator of the Tesmec Group's financial structure. It is calculated as the sum of cash and cash equivalents, current financial assets, non-current financial liabilities (including right-of-use liabilities) and fair value of hedging instruments.
- Net financial indebtedness pursuant to ESMA 32-382-1138 communication: it corresponds to the Group's net financial indebtedness as defined above and also includes trade payables and other non-current payables, which have a significant implicit or explicit financing component (e.g. trade payables with a maturity of more than 12 months), and any other non-interest-bearing loans (as defined in the "Guidelines on disclosure requirements under the Prospectus Regulation" published by ESMA on 4 March 2021 with the "ESMA32- 382-1138" document and incorporated by CONSOB in its communication 5/21 of 29 April 2021).

5.2 General performance

In 2021, the Group achieved total revenues of Euro 194,286 thousand compared to Euro 170,655 thousand in 2020, recording an increase of 13.8%. Revenues do not appear to be in line with the 2021 guidance targets due to the slowdown in activities with particular reference to the Trencher segment which suffered from the protracted delays generated by external factors relating to the American and Australian markets, as well as the procurement of materials, due to the rigidity that emerged worldwide in the supply chain, to deliveries with impacts on both purchases and shipments to customers, due to the tension and related delays affecting the logistics of long-haul shipments - typical of the Trencher segment - in occasion of the restart intervals following the pandemic waves of the COVID variants that occurred in the period with different intensity depending on the geographical areas of reference. In terms of margins, in addition to the impacts of increasing costs of the supply chain (increase in the cost of raw materials) and of logistics (increase in shipping costs), a significant effect was determined by the increase in electricity costs; moreover, in different periods of the year depending on the reference area, sudden worsening of the emergency status from Covid-19 were recorded in correspondence with the different variants of the virus, which delayed the recovery in those areas that had already experienced slowdowns during the year and the previous one, such as the United States of America and Australia.

5.3 Performance by segment

- **Energy**
With regard to the Energy segment, revenues amounted to Euro 51,118 thousand, increasing by 16.7% compared to the figure of Euro 43,812 thousand as at 31 December 2020. In particular, the Stringing Equipment Segment achieved revenues of Euro 34,140 thousand, compared to Euro 30,291 thousand as at 31 December 2020, with an increase in turnover due to the recovery of production activities, compared to the pandemic situation in 2020, and in compliance with the objectives set out in the plan. The Energy-Automation segment achieved revenues of Euro 16,978 thousand, compared to Euro 13,521 thousand as at 31 December 2020. This segment also shows a recovery driven by investments in compliance with the Plan's targets.
- **Trencher**
Revenues of the Trencher segment amounted to Euro 110,283 thousand, increasing by 9.8% compared to Euro 100,444 thousand as at 31 December 2020. This result is essentially attributable to the delay with respect to the original guidance for 2021 and although the figure is an improvement compared to 2020, the sector has been heavily impacted by the delays due to critical issues on the supply chain and in particular to the performance in the USA and

Australia, whose recovery was further delayed by the worsening of the spread of the pandemic in the last quarter of 2021.

- **Rail**

The Rail Segment recorded revenues of Euro 32,885 thousand, increasing by 24.6% compared to Euro 26,399 thousand as at 31 December 2020 and also in this case substantially in line with the plan. This segment was the one least affected in the previous year by the lockdown period and during the period it launched higher value-added projects related to diagnostic products and energy transition.

5.4 Management performance of the main subsidiary and associated companies and Joint Venture

The information on the operations of the main subsidiary and associated companies and joint venture in the reference period is shown. In order to provide a clearer picture of the production volume of the individual subsidiaries, the following turnover values are reported at the aggregate level, also including inter-company transactions:

Associated companies:

- Tesmec USA Inc., a company that is 100% owned by Tesmec S.p.A., is based in Alvarado (Texas) and operates in the Trencher segment and in the stringing equipment/rail segment. During the 2021 financial period, it generated revenues of Euro 26,233 thousand. The presence in the United States is completed through the subsidiary 4 Service USA, Inc., also based in Alvarado (Texas) and operating in the trencher rental business together with 4 Service S.r.l. company wholly owned by Tesmec S.p.A., based in Milan. The two trencher rental companies, during the year 2021, generated revenues from third parties for Euro 16,055 thousand.
- Tesmec Rail S.r.l., a 100% subsidiary of Tesmec S.p.A., with registered office in Monopoli (BA), operates in the Rail sector. During the 2021 financial period, it generated revenues of Euro 32,093 thousand.
- Tesmec SA (Pty) LTD, with registered office in Johannesburg (South Africa), is 51% owned by Tesmec S.p.A. and 49% owned by Simest S.p.A. (with option to repurchase this interest for Tesmec S.p.A.). During the financial period, the company generated revenues of Euro 6,807 thousand.
- Marais Technologies SAS, with registered office in Durtal (France), company 66.04% owned by Tesmec S.p.A. and 33.96% by Simest S.p.A. as at 31 December 2020, (with option to repurchase this interest for Tesmec as at 31 March 2023). The French company, acquired on 8 April 2015, is the holding of an international group leader in the construction of machines for infrastructures and in services for telecommunications, electricity and gas. In the 2021 financial period, the Group generated consolidated revenues of Euro 55,979 thousand.
- Tesmec Automation S.r.l., a company 100% owned by Tesmec S.p.A., with registered office in Grassobbio (BG), specialised in the design and sale of integrated fault detectors and measurement sensors and devices for medium voltage power lines. During the 2021 financial period, it recorded revenues of Euro 16,750 thousand.

Joint Venture:

- Condux Tesmec Inc, a joint venture that is 50% owned by Tesmec S.p.A. and 50% by American shareholder Condux, based in Mankato (USA), has been active since June 2009 in selling products for the North American stringing equipment market. The company has been consolidated using the equity method and during the 2021 financial period generated revenues totalling Euro 11,280 thousand;
- Tesmec Peninsula WLL, Joint Venture held by Tesmec S.p.A. 49% based in Doha (Qatar), is active in the business of renting and selling trenchers in the Middle East market. The company is consolidated using the equity method and generated revenues for a total of Euro 897 thousand in the year 2021;
- Tesmec Saudi Arabia LLC, Joint Venture held by Tesmec S.p.A. 49% based in Ryad (Saudi Arabia), is active in the trencher rental business in the Arabian peninsula market. The company is consolidated using the equity method and generated revenues for a total of Euro 2,609 thousand in the year 2021.

6. Income statement and balance sheet situation as at 31 December 2021

6.1 Consolidated income statement

The Group closed the financial period as at 31 December 2021 with a positive operating income of Euro 5,687 thousand (negative and totalling Euro 863 thousand in 2020) and with a net profit of Euro 1,195 thousand compared to a net loss of Euro 6,828 thousand as at 31 December 2020. The following table shows the trend of major economic indicators as at 31 December 2021 compared to 31 December 2020.

<i>(Euro in thousands)</i>	Financial period ended 31 December			
	2021	% of revenues	2020	% of revenues
Revenues from sales and services	194,286	100.0%	170,655	100.0%
Cost of raw materials and consumables	(78,565)	-40.4%	(77,418)	-45.4%
Costs for services	(37,738)	-19.4%	(30,156)	-17.7%
Payroll costs	(56,011)	-28.8%	(48,519)	-28.4%
Other operating costs/revenues, net	(3,256)	-1.7%	131	0.1%
Amortisation and depreciation	(22,447)	-11.6%	(21,842)	-12.8%
Development costs capitalised	8,065	4.2%	5,787	3.4%
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method	1,353	0.7%	499	0.3%
Total operating costs	(188,599)	-97.1%	(171,518)	-100.5%
Operating income	5,687	2.9%	(863)	-0.5%
Financial expenses	(6,961)	-3.6%	(5,857)	-3.4%
Financial income	774	0.4%	1,169	0.7%
Foreign exchange gains/losses	3,227	1.7%	(3,616)	-2.1%
Portion of losses/(gains) from the valuation of equity investments using the equity method	(25)	0.0%	129	0.1%
Pre-tax profit/(loss)	2,702	1.4%	(9,038)	-5.3%
Income tax	(1,493)	-0.8%	2,227	1.3%
Net profit/(loss) for the period	1,209	0.6%	(6,811)	-4.0%
Profit/(loss) attributable to non-controlling interests	14	0.0%	17	0.0%
Group profit/(loss)	1,195	0.6%	(6,828)	-4.0%

Revenues

Total revenues as at 31 December 2021 increased by 13.8% compared to those recorded in the previous financial period.

<i>(Euro in thousands)</i>	Financial period ended 31 December				
	2021	% of revenues	2020	% of revenues	2021 vs 2020
Sales of products	127,391	65.6%	134,957	79.1%	(7,566)
Services rendered	53,100	27.3%	38,986	22.8%	14,114
Changes in work in progress	13,795	7.1%	-3,288	-1.9%	17,083
Total revenues from sales and services	194,286	100.0%	170,655	100.0%	23,631

a) Revenues by geographic area

The Group's turnover is mainly produced abroad by 74.9%, in particular in non-EU countries. The revenue analysis by area is indicated below, compared with the 2021 financial period and the 2020 financial period, which indicates the growth of the BRIC and Others markets (New Zealand, in particular) partially balanced by the downtrends recorded in the North and Central American markets. It is emphasised that the segmentation by geographic area is determined by the country where the customer is located, regardless of where project activities/sales are organised.

<i>(Euro in thousands)</i>	Financial period ended 31 December			
	2021	% of revenues	2020	% of revenues
Italy	48,851	25.1%	32,701	19.2%
Europe	49,534	25.5%	57,326	33.6%
Middle East	13,547	7.0%	9,699	5.7%
Africa	12,039	6.2%	11,786	6.9%
North and Central America	30,954	15.9%	32,752	19.2%
BRIC and Others	39,361	20.3%	26,391	15.5%
Total revenues	194,286	100.0%	170,655	100.0%

Operating costs net of depreciation and amortisation

<i>(Euro in thousands)</i>	Financial period ended 31 December			
	2021	2020	2021 vs 2020	% change
Cost of raw materials and consumables	(78,565)	(77,418)	(1,147)	1.5%
Costs for services	(37,738)	(30,156)	(7,582)	25.1%
Payroll costs	(56,011)	(48,519)	(7,492)	15.4%
Other operating costs/revenues, net	(3,256)	131	(3,387)	-2,585.5%
Development costs capitalised	8,065	5,787	2,278	39.4%
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method	1,353	499	854	171.1%
Total operating costs net of depreciation and amortisation	(166,152)	(149,676)	(16,476)	11.0%

The table shows an increase in operating costs of Euro 16,476 thousand (11.0%) slightly lower than the increase in sales (13.8%).

In particular, the operating costs of 2021 were negatively affected by various external factors. As for raw materials, the scarce availability of materials and the increase in costs, especially in the second half of the year, led to an increase in procurement costs. Furthermore, also in 2021 operating costs were affected by the continuation of the pandemic crisis with different methods and timing in the various countries where the Group operates.

Also in terms of transport costs and times, there were also significant increases, with increasing difficulties for inventory management, as well as for ensuring an adequate level of service to customers.

The increase in the cost of energy and shipping costs was only partially offset by a mechanism for increasing sales prices, with the inevitable negative impact on the objective of increasing the Group's margins.

Other operating costs/revenues, net includes the positive effect of the tax credit for significant research and development expenses incurred by the Group in Italy and France during the financial period for the expansion of the offer in the new sectors for automation, maintenance of existing power lines and service activities, which were combined with the renewal of the Trencher product range. In particular, with reference to the tax credit on Research and Development activities in Italy, this is recorded on the basis of the provisions of the 2017 Budget Law (Italian Law no. 232/16) which changed the regulations of the tax benefit, introduced by the "Destination Italy" Decree (Italian Law Decree no. 145/2013) as amended by Italian 2015 Stability Law (Italian Law no. 190/2014). The overall value of the benefit deriving from the tax credit for the entire Tesmec Group both in Italy and in France amounted to Euro 2,059 thousand for 2021 whereas it amounted to Euro 1,860 thousand for 2020, also in relation to the change in regulations with regard to calculation methods. The benefit was recorded in "other operating costs/revenues, net".

EBITDA

In terms of margins, EBITDA amounts to Euro 28,134 thousand, which represents 14.5% of the sales for the period, compared to 12.3% recorded in 2020. This result was achieved, not only by a careful cost containment policy, but also thanks to the performance of the Energy and Rail segments, which reached their year-end targets margins envisaged in the plan thus limiting, albeit only partially, the effect on Group EBITDA of the slowdown in the Trencher segment.

	Financial period ended 31 December				
	2021	% of revenues	2020	% of revenues	2021 vs 2020
<i>(Euro in thousands)</i>					
Operating income	5,687	2.9%	(863)	-0.5%	6,550
+ Amortisation and depreciation	22,447	11.6%	21,842	12.8%	605
EBITDA	28,134	14.5%	20,979	12.3%	7,155

Financial Management

	Financial period ended 31 December	
	2021	2020
<i>(Euro in thousands)</i>		
Net financial income/expenses	(6,267)	(4,526)
Realised foreign exchange gains/losses	(54)	(2,602)
Unrealised foreign exchange gains/losses	3,281	(1,014)
Fair value adjustment of derivative instruments	80	(162)
Portion of losses/(gains) from the valuation of equity investments using the equity method	(25)	129
Total net financial income/expenses	(2,985)	(8,175)

The net financial management increased compared to the same period in the previous financial period by Euro 5,190 thousand, with the following changes reported:

- improvement of Euro 6,843 thousand due to the different exchange rate trend in the two periods of reference that resulted in the recording of net profits totalling Euro 3,277 thousand (Euro -154 thousand realised and Euro 3,281 thousand unrealised) against a net loss of Euro 3,616 thousand in the 2021 financial period;
- improvement in the fair value adjustment of derivative financial instruments of Euro 242 thousand;
- worsening of Euro 1,741 thousand attributable to the partial write-down of some medium / long-term financial receivables from certain commercial counterparties in the Trencher sector operating in countries in the Africa area whose positions had been the subject of the definition of financially onerous payment plans that they were not fully or partially complied with during the year, also in connection with the operational and financial difficulties of the counterparties themselves due to the pandemic. In this regard, actions are underway aimed at recovering existing receivables, including through the stipulation of specific supply guarantees with leading institutions, as well as - more generally - monitoring the Group's exposure to this type of counterparty.

Net result

	Financial period ended 31 December	
	2021	2020
<i>(Euro in thousands)</i>		
Net profit/(loss)	1,209	(6,811)
% Effect on revenues	0.62%	-3.99%
Profit/(loss) attributable to non-controlling interests	14	17
Group net profit/(net loss)	1,195	(6,828)
% Effect on revenues	0.62%	-4.00%

The profit for the period amounted to Euro 1,209 thousand (negative and totalling Euro 6,811 thousand in 2020) after deducting negative taxes totalling Euro 1,493 thousand (positive and totalling Euro 2,227 thousand in 2019). Net of the portion attributable to non-controlling interests, the net result is Euro 1,195 thousand.

Profitability ratios

Ratio	Composition	Financial period ended 31 December	
		2021	2020
Return on sales (R.O.S.)	Operating income/Net revenues	2.9%	-0.5%
Return on investment (R.O.I.)	Operating income/Invested capital	2.9%	-0.5%
Return on equity (R.O.E.)	Net income/Shareholders' equity	1.6%	-9.8%
Invested capital turnover	Net revenues/Net invested capital	1.00	0.98
Working capital turnover	Net revenues/Net working capital	2.50	2.66
Debt ratio/EBITDA	Net financial position/EBITDA	4.31	4.97
Debt ratio	Net financial position/Shareholders' equity	1.67	1.50

The table above summarises the main trends that characterised the financial statements of the Group as at 31 December 2021 compared to 31 December 2020.

6.2 Income Statement by segment

Revenues by segment

The tables below show the income statement figures as at 31 December 2021 compared to those as at 31 December 2020, broken down into the three operating segments.

(Euro in thousands)	Financial period ended 31 December				
	2021	% of revenues	2020	% of revenues	2021 vs 2020
Energy	51,118	26.3%	43,812	25.7%	7,306
Trencher	110,283	56.8%	100,444	58.9%	9,839
Rail	32,885	16.9%	26,399	15.5%	6,486
Total revenues	194,286	100.0%	170,655	100.0%	23,631

For a detailed breakdown of revenues by segment, reference is made to what is described in paragraph 5.2 *Performance by segment*.

Operating costs by segment

(Euro in thousands)	Financial period ended 31 December				
	2021	% of revenues	2020	% of revenues	2021 vs 2020
Energy	48,557	95.0%	44,465	101.5%	4,092
Trencher	110,127	99.9%	100,416	100.0%	9,711
Rail	29,915	91.0%	26,637	100.9%	3,278
Total operating costs	188,599	97.1%	171,518	100.5%	17,081

Operating costs, including depreciation and amortisation, were up 10.0% compared to the prior period in a less than proportional way compared to the sales trend (13.8%), for the reasons already set out in paragraph 6.2 above.

The tables below show the EBITDA as at 31 December 2021 compared to that as at 31 December 2020, broken down into the three operating segments:

(Euro in thousands)	Financial period ended 31 December				
	2021	% of revenues	2020	% of revenues	2021 vs 2020
Energy	7,835	15.3%	5,246	12.0%	2,589
Trencher	13,415	12.2%	12,513	12.5%	902

Rail	6,884	20.9%	3,220	12.2%	3,664
EBITDA	28,134	14.5%	20,979	12.3%	7,155

Margins increased in absolute terms by Euro 7,155 thousand (from Euro 20,979 thousand in 2020 to Euro 28,134 thousand in 2021) by increasing in percentage terms to 14.5% in 2021 from 12.3% in 2020. This result, in addition to a general overview of cost savings, is also due to the combined effect of trends that can be explained better segment by segment:

- Energy: the margin as a percentage of revenues increased to 15.3% in 2021 compared to 12.0% in 2020 due to the positive contribution of the Energy-Automation segment that achieved revenues of Euro 16,978 thousand, an improvement of 25.6% compared to Euro 13,521 thousand as at 31 December 2020.
- Trencher: the margin, in percentage terms on revenues fell to 12.2% in 2021, compared to 12.5% recorded in 2020. The performance was not in line with expectations due to continued delays caused by external factors relating to the procurement of materials, logistics difficulties that caused delays in deliveries and the exponential increase in the cost of electricity and raw materials; as well as the sudden worsening of the emergency status in the last quarter, which delayed the implementation of government recovery plans in the countries of reference for the segment such as the United States and Australia..
- Rail: the margin as a percentage of revenue rises to 20.9% in 2021 from 12.2% in 2020, thanks to the launch of higher value-added projects related to diagnostic products and energy transition.

Operating Income

<i>(Euro in thousands)</i>	Financial period ended 31 December				
	2021	% of revenues	2020	% of revenues	2021 vs 2020
Stringing Equipment	2,561	5.0%	(653)	-1.5%	3,214
Trencher	156	0.1%	28	0.0%	128
Rail	2,970	9.0%	(238)	-0.9%	3,208
Total operating income	5,687	2.9%	(863)	-0.5%	6,550

The operating income as at 31 December 2021 stood at Euro 5,687 thousand (2.9% of revenues) up compared to negative Euro 863 thousand (-0.5% of revenues) achieved as at 31 December 2020.

6.3 Balance sheet and financial profile

The financial position of the Group as at 31 December 2021 compared to 31 December 2020 is briefly shown in the table below.

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
USES		
Net working capital	76,536	64,256
Fixed assets	102,946	99,530
Other long-term assets and liabilities	14,172	10,032
Net invested capital	193,654	173,818
SOURCES		
Group net financial indebtedness	121,012	104,370
Shareholders' equity	72,642	69,448
Total sources of funding	193,654	173,818

A) Net working capital

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Trade receivables	54,392	60,415
Work in progress contracts	15,691	11,216
Inventories	81,293	74,386
Trade payables	(55,966)	(61,385)
Other current assets/(liabilities)	(18,874)	(20,376)
Net working capital	76,536	64,256

Net working capital of Euro 76,539 thousand increased by Euro 12,280 thousand compared to 31 December 2020. This trend is mainly due to the increase in the item "Inventories" of Euro 6,907 thousand (equal to 9.3%), which reflects both a greater use of supplies and a general increase in the prices of raw materials and components, as well as a delay in supplies with a consequent delay in deliveries.

B) Fixed assets

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Intangible assets	23,896	22,487
Property, plant and equipment	47,607	49,831
Rights of use	23,352	22,825
Equity investments in associates	8,088	4,384
Other equity investments	3	3
Fixed assets	102,946	99,530

Total *fixed assets* recorded a net increase of Euro 3,416 thousand compared to 31 December 2020 mainly due to the disposal of some trenching machines in the fleet no longer intended for rental activities partially offset by the increase in the item "Equity investments in associates" of Euro 3,704 thousand due to the acquisition of 49% of the share capital of Tesmec Saudi Arabia LLC of Euro 2,462 thousand.

C) Other medium to long-term assets and liabilities

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Financial receivables and other non-current financial assets	6,831	5,197
Non-current trade receivables	1,761	1,302
Other non-current assets	1,266	-
Deferred tax assets	15,839	16,446
Employee benefit liability	(4,564)	(4,660)
Other long-term liabilities	(254)	(625)
Deferred tax liabilities	(6,707)	(7,628)
Other long-term assets and liabilities	14,172	10,032

Medium to long-term assets and liabilities increased by Euro 4,140 thousand from Euro 10,032 thousand as at 31 December 2020 to Euro 14,172 thousand as at 31 December 2021. This change is mainly generated by the increase in non-current financial receivables of Euro 1,634 thousand and by the decrease in deferred tax assets of Euro 921 thousand.

D) Net financial indebtedness

	Financial period ended 31 December			
	2021	<i>of which with related parties and group</i>	2020	<i>of which with related parties and group</i>
<i>(Euro in thousands)</i>				
Cash and cash equivalents	(50,189)		(70,426)	
Current financial assets	(16,777)	(9,270)	(13,777)	(3,691)
Current financial liabilities	59,220	2,620	85,799	2,788
Current financial liabilities from rights of use	6,484		5,218	
Current portion of derivative financial instruments	50		1	
Current financial indebtedness	(1,212)	(6,650)	6,815	(903)
Non-current financial liabilities	104,166	3,263	80,530	3,263
Non-current financial liabilities from rights of use	18,009		16,855	
Non-current portion of derivative financial instruments	49		170	
Trade payables and other payables (non-current)	254		625	
Non-current financial indebtedness	122,478	3,263	98,180	3,263
Net financial indebtedness pursuant to ESMA 32-382-1138 Communication	121,266	(3,387)	104,995	2,360
Trade payables and other payables (non-current)	(254)		(625)	
Group net financial indebtedness	121,012	(3,387)	104,370	2,360

The net financial indebtedness as at 31 December 2021 increased by Euro 16,642 thousand compared to the end of 2020 (15.9%). The net financial indebtedness prior to the application of IFRS 16, as at 31 December 2021, is equal to Euro 96,519 thousand with an increase of Euro 14,222 thousand compared to the end of 2020.

The table below shows the breakdown of the changes:

- decrease in current financial indebtedness of Euro 8,027 thousand due to the:
 - decrease in cash and cash equivalents and current financial assets of Euro 17,237 thousand following the repayment of the "Tescmec S.p.A. 6% 2014-2021" bond for the entire amount of Euro 15 million and as a result of investments made during the period;
 - decrease in current financial liabilities of Euro 26,579 thousand mainly due to the restatement to non-current financial liabilities of the portions classified as current at the end of 2020 due to failure to comply with certain financial parameters and as a result of the redemption of the bond described above;
- increase in medium/long-term financial indebtedness of Euro 24,298 thousand relating to new loans taken out during the financial period and to the reclassification to the long term of the portions classified as short term at the end of 2020, following the actual receipt of waivers.

The existing loan agreements and bond issues contractually provide for the annual calculation of the financial covenants based on net financial indebtedness calculated on the consolidated financial statements as at 31 December and prior to the application of IFRS 16.

At the consolidated financial statement date, it is noted that a covenant relating to the bond loan has not been respected. In relation to this non-compliance, the only contractual consequence is the step-up of the applicable interest rate which, however, had already been applied in previous years.

With regard to the recent ESMA 32-382-1138 guidelines, which required the disclosure within the Net Financial Indebtedness of trade payables and other non-current payables that have a significant implicit or explicit financing component and any other non-interest-bearing loans, the amount of Euro 254 thousand corresponds to the consideration still to be paid for the lease of the AMG business unit started in 2019.

With regard to reverse factoring, the Group assesses, for each supplier, the deferral conditions obtained from financial counterparties on these liabilities and, depending on the substance of the liabilities, records them as trade payables or reclassifies them as financial payables. This assessment is required to understand the substance of the deferral agreements

and necessarily involves a subjective assessment of the elements to be considered for the purposes of whether or not the corresponding payable is included in the Group's financial liabilities. Pursuant to the aforementioned ESMA guidelines, it is noted that the amounts relating to "indirect factoring" (reverse factoring) not included in the debt declaration as the deferral is part of the normal practice of the Group amount to Euro 3,402 thousand.

E) Shareholders' Equity

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Share capital	15,702	15,702
Reserves	55,670	60,513
Profit/(loss) for the period	1,195	(6,828)
Non-controlling interests	75	61
Shareholders' equity	72,642	69,448

The share capital amounts to Euro 15,702 thousand, fully paid up, and comprises 606,460,200 shares with no indication of their nominal value.

Reconciliation between the shareholders' equity values and the result for the period of the Parent Company with the corresponding consolidated values:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	Shareholders' Equity	Net result
Amounts resulting from the financial statements of Tesmec S.p.A.	87,974	(752)
<i>Consolidation adjustments</i>		
a) Equity investments evaluated using the equity method	3,369	1,328
b) Difference between book value and assets of consolidated equity investments	(19,968)	-
c) Results from consolidated equity investments	2,448	2,448
d) Translation reserve	3,886	-
e) Elimination of dividends distributed by Companies of the Group	(556)	(556)
f) Elimination of intra-group items	(4,586)	(1,273)
<i>Net effect of consolidation adjustments</i>	<i>(15,406)</i>	<i>1,947</i>
Amounts attributable to the Group	72,567	1,195

F) Investments

Investments include capitalisations relevant to development projects (Euro 8,065 thousand) that refer to strategic activities as a result of which Tesmec manages to maintain its technological leadership position on traditional markets and increase the range of offered products and services (railway market, new generation trenchers, management of the electric system) plucking up the high level of internationalisation of its sales network.

7. Regulatory framework of reference

The Group, producer and distributor of machinery and integrated systems for stringing equipment, trencher and rail segment is subject, in the various countries where it operates, to several law and regulatory provisions, as well as national or international technical standards, applicable to companies operating in the same segment. The provisions on the protection of the environment take on particular importance.

The enactment of further regulatory provisions applicable to the Group or to its products or changes to the laws and regulations currently in force in areas where the Group operates, even internationally, could force the Tesmec Group to adopt stricter standards or influence its freedom of action in its areas of activity.

These factors could result in adjustment costs of production structures or of product characteristics, or even limit the operations of the Group with a subsequent negative effect on its activity and on its economic and financial situation.

Therefore, any change to the standards or regulatory criteria currently in force, as well as the occurrence of exceptional or unforeseeable circumstances, could force the Group to incur extraordinary expenses in environmental matters. These

expenses could be significant and thus have adverse effects on the activity and the economic and financial situation of the Group. For more details on the subject of safety, environment and work, reference is made to the relevant paragraph.

8. Main risks and uncertainties to which the Tesmec Group is exposed

In this paragraph, we outline the risk factors and uncertainties that may significantly affect the activity of the Tesmec Group. In particular, some information tending to illustrate the aims and policies of the Group on the management of the main financial, operational and legal/regulatory risks are set out below. This description is valid for the Tesmec Group, even if the risk management policy is decided by the Parent Company.

Tesmec implemented a mechanism for constantly monitoring these risks in order to prevent their potential negative effects and take the actions necessary to contain them. Tesmec's risk management activity aims to promptly identify the risks in the company's core business, define suitable measures for their prevention and mitigation and safeguard operating effectiveness. The importance of risk control in achieving the Group's objectives makes it of primary importance to define a preliminary analysis system that is adequately structured in order to strive for a high level of operating performance. Responsibility for risk management and control activities lies with the Chief Executive Officer, who is responsible for coordinating risk identification activities and monitoring their correct management. The Board of Directors of Tesmec S.p.A. also appointed the Director in charge of the Internal Control and Risk Management System, who is responsible for identifying and managing business risks.

Within its scope of operations, the Group is exposed, to a greater or lesser extent, to certain types of risk that are managed as follows. In the coming years, the Group will consider integrating its analyses - and consequently its disclosure - with respect to the impact generated and suffered by the Group in the Climate Change area, also on the basis of the development of the relevant regulations.

Financial Risks

Risk associated with the performance of the business and the financial situation

2021 was a year characterized by a still uncertain macroeconomic context, with the impact of the fourth wave of the pandemic at the end of the year. The results recorded in 2021 are however an improvement compared to those of 2020, even if they are not yet aligned with the Group's targets, in a market context characterized by factors of complexity such as increases in energy prices and in general in energy prices. supply, not immediately recoverable due to the increase in sales prices, the difficulties linked to the delays in the supply chain, as well as the further uncertainties of the political scenario, which worsened after the end of the year due to the onset of the Russian-Ukrainian conflict.

In addition, during the year the pandemic situation caused by COVID-19, although it did not prevent the Group from continuing its operational activities, nevertheless resulted in a context of high uncertainty which impacted on order intake. The possible introduction of further forms of restriction to deal with a further spread of COVID-19 cannot exclude the Group from the possibility of slowdowns in the very short term without, however, affecting the overall forecasts relating to the Business Plan approved by Board of Directors meeting on 11 March 2022. The objectives of the Plan are based on the assumption that the pandemic situation does not involve the adoption of new restrictive measures similar to those imposed in the first part of 2020 nor a significant worsening of the international macroeconomic scenario.

Moreover, it is noted that the Business Plan is based on assumptions characterized by considerable uncertainties. On the one hand, the Plan was prepared taking into consideration some hypothetical assumptions of a general nature and concerning future events that substantially depend on variables that cannot be controlled by the Company and the Group, relating to the spread of the COVID-19 pandemic, to the cost trend energy and procurement costs in general, the possible persistence of the rigidities that have recently manifested themselves in the supply chain and logistics, the prospective evolution of the markets and sectors in which the Group operates and the trend of the macroeconomic scenario, which will not necessarily occur or which could only occur in part, or in an extent, manner and / or at different times from those envisaged. In this context, it is noted that, although the plan was drawn up without specifically taking into account the effects of the Russian-Ukrainian conflict, the Group is not exposed to significant reductions in activities related to the possible continuation of the interruption of operations with these markets (limited contribution to consolidated turnover in the last period of around 2%). On the other hand, the economic-financial projections hypothesized in the Plan were also defined on the basis of hypothetical assumptions relating to compliance with the clauses of financial contracts which entail limits on the use of financial resources (including covenants) and on the prospective evolution of the business, which are discretionary in nature and refer to future events, uncertain and in part independent of the will of the Directors and Management.

Therefore, due to the uncertainty connected to the realization of any future event, both as regards the materialization of the event, and as regards the extent and timing of its manifestation, also in consideration of the uncertainties connected to the assumptions regarding the pandemic from COVID-19, there could be deviations, even significant ones between actual values and values estimated in the Plan, as well as delays in the execution of the Plan itself, with possible negative effects on the activity, on the equity and financial situation, on the economic results and on the perspectives of the Group itself.

In this context, however, the Group believes that it has sufficient resources to meet the needs of the foreseeable future.

Note that, as at 31 December 2021, a financial covenant relating to the Net Financial Position/EBITDA ratio towards a credit institution, corresponding to a financial indebtedness of Euro 750 thousand representing approximately 0.6% of the Group's net financial indebtedness, has not been met. This non-compliance resulted in the short-term recognition of the residual medium- and long-term portion for a total of Euro 250 thousand.

Exchange rate risk

The Tesmec Group carries out a significant part of its activities in countries other than the Eurozone and, therefore, revenues and costs of part of the activities of the Tesmec Group are denominated in currencies other than the Euro.

The main transaction currencies used for the Group's sales are the Euro and the US dollar, although other currencies such as the Australian dollar, South African rand, Chinese renminbi and Russian rouble are also used. The Group also prepares its consolidated financial statements in Euro, although some subsidiaries prepare their financial statements and accounting documents in currencies other than the Euro.

Due to these circumstances, the Tesmec Group is exposed to the following risks related to variations in exchange rates:

- i) the economic exchange rate risk, i.e. the risk that revenues and costs denominated in currencies other than the Euro take on different values with respect to the time at which the price conditions were defined;
- ii) the translational exchange rate risk, deriving from the fact that the Parent Company, even though it prepares its financial statements in Euro, holds controlling interests in companies that prepare their financial statements in different currencies and, consequently, carries out conversions of assets and liabilities expressed in currencies other than the Euro;
- iii) the transactional exchange rate risk, deriving from the fact that the Group carries out investment, conversion, deposit and/or financing transactions in currencies other than the reporting currency.

The fluctuation in currency markets has had, historically, a significant impact on the Group's results. In relation to the policies adopted for the management of exchange rate risks, the forward sale of foreign currency is adopted as the only hedging instrument. However, this hedging is carried out only for part of the total exposure in that the timing of the inflow of the receipts is difficult to predict at the level of the individual sales invoice.

Forward sale instruments for fixing the exchange rate at the moment of the order are mainly used for covering the risk of the US dollar exposure deriving from the marketing in the US or Middle Eastern countries of machines produced in Italy. Moreover, for part of the sales in US dollars, the Group uses the production of the American factory with costs in US dollars by creating in this way a sort of natural hedging of the currency exposure.

Despite the adoption of the above strategies aimed at reducing the risks arising from fluctuation of exchange rates, the Group cannot exclude that future changes thereof may affect the results of the Group.

Liquidity/cash flow variation risks

Financial requirements and related risks (mainly interest rate risks, liquidity and exchange rate risks) are managed by the Group based on guidelines defined by the Group General Management and approved by the Chief Executive Officer of the Parent Company.

The main purpose of these guidelines is to guarantee the presence of a liability structure always in equilibrium with the structure of the balance sheet assets, in order to keep a very sound balance sheet structure.

Forms of financing most commonly used are represented by:

- medium/long-term loans with multi-year redemption plan to cover the investments in fixed assets and to finance expenses related to several development projects;
- short-term loans, advances on export, transfers of trade receivables, and reverse factoring agreements to finance the working capital.

The Group uses various external sources of financing, obtaining both short and medium-long term loans and is therefore subject to the cost of money and to the volatility of interest rates, with a special reference to contracts that provide for variable interest rates, which, therefore, do not make it possible to predict the exact amount of the interest payable during the duration

of the loan. The average cost of indebtedness is benchmarked to the trend of the 1/3-month Euribor rates for short-term loans and the 3/6-month Euribor rates for medium to long-term loans. When taking out loans at variable rates, mainly in relation to medium-term loans, the Tesmec Group considers managing the risk of interest rate fluctuations through hedging transactions (in particular, through swaps, collars and caps), with a view to minimising any losses related to interest rate fluctuations. However, it is not possible to ensure that the hedging transactions entered into by the Group are suitable to fully neutralise the risk related to interest rate fluctuations, or that no losses will result from such transactions.

As mentioned above, existing loans envisage compliance with certain covenants, both income based and asset based, which are checked periodically throughout the entire duration of the related loans, thus exposing the Group to the risk of non-compliance with these parameters.

Credit risk

With reference to the credit risk, the same is closely related to the sale of products on the market. In particular, the extent of the risk depends on both technical and commercial factors and the purchaser's solvency.

From a commercial viewpoint, the Group is not exposed to high credit risk insofar as it has been operating for years in markets where payment on delivery or letter of credit issued by a prime international bank are usually used as payment methods. For customers located in the European region, the Group mainly uses factoring without recourse. The provisions for doubtful accounts are considered to be a good indication of the extent of the overall credit risk.

Operational risks

Risks related to the Group's international business

The Tesmec Group earns its revenues mainly abroad. The Group carries out its production in 6 industrial plants (4 of which are located in Italy, 1 in France and 1 in the United States) and carries out its commercial business in about 135 countries worldwide. In particular, the Tesmec Group operates in several countries in Europe, the Middle East, Africa, North and Central America as well as the BRIC area (Brazil Russia India China). Moreover, the Group not only has a strong international presence but intends to continue to expand its business geographically, exploring opportunities in markets that it believes can help improve its risk profile. When deciding whether to undertake initiatives or maintain its strategic presence in foreign markets, the Group assesses political, economic, legal, operational, financial and security risks and development opportunities.

The Group is exposed to risks typical of countries with unstable economic and political systems, including (i) social, economic and political instability; (ii) boycotts, sanctions and embargoes that could be imposed by the international community against the countries in which the Group operates; (iii) significant recession, inflation and depreciation of the local currency; (iv) internal social conflicts that result in acts of sabotage, attacks, violence and similar events; (v) various kinds of restrictions on the establishment of foreign subsidiaries or on the acquisition of assets or on the repatriation of funds; (vi) significant increase in customs duties and tariffs or, in general, in applicable taxes. The occurrence of the events subject to the above-mentioned risks could have significant negative impacts on the Group's operating results, financial position and cash flows.

Moreover, demand for the Group's products is related to the cycle of investments in infrastructure (in particular power lines, data transmission systems, aqueducts, gas pipelines, oil pipelines and railway catenary wire system) in the various countries in which it operates. The annual amount of investments in infrastructures is related to the general macroeconomic scenario. Therefore, strong changes in the macroeconomic scenario in the Countries where the Group is present or other events that are able to adversely affect the level of infrastructure investments, such as changes in laws and regulations or unfavourable changes in government policies, can have an adverse effect on the Group's operating results, financial position and cash flows.

Risks related to operations through the awarding of tenders

The Group, in relation to the activities carried out in the Rail Segment and in the Energy Segment, is exposed to risks deriving from the amount, frequency, requirements and technical-economic conditions of the call for tenders for contracts issued by the public administration, by public law bodies and other contractors, as well as the possible failure to award them and/or the failure or delay in awarding the related work orders. Moreover, these sectors are structurally characterised by a limited number of customers, given that the Rail Segment is usually related to the existence, in each country, of a single national player managing the network and that, in the Energy-Automation Segment of the Energy Segment, the customers commissioning the work are the main owners of the individual national power networks or the main utility companies.

The limited number of customers commissioning work from the Group in these segments, as well as the fact that most of them are public entities, exposes the Group to the risk that these customers' investment programmes may be changed due to regulatory updates or emergency situations, resulting in possible changes in framework agreements with Group companies.

Risks related to the possible impairment of work in progress

In some multi-year tender contracts entered into by the Group in the Rail Segment, the consideration is determined during the tender process following a detailed and accurate budgeting exercise, both with reference to the supply of machines and to the maintenance service, further supplemented by risk assessments to cover any areas of uncertainty, carried out with the aim of mitigating any higher costs and contingencies (costs estimated in relation to operational risks). The correct determination of the consideration offered in such contracts is fundamental to the Group's profitability as it is required to bear the full amount of all costs for completing work orders, unless there are additional requests from the customer.

However, the costs and, consequently, the profit margins that the Group makes on multi-year work orders can vary, even significantly, from the estimates made during the tender process. As a result of this increase in work order operating costs, the Group may incur a reduction in or loss of estimated profits with reference to the individual work order.

The Group periodically monitors the costs related to the completion of work orders and the resulting profitability in order to minimise the risk of contingencies and to identify, where necessary, the need to enter into negotiations with customers for the signing of specific agreements supplementary to the tender contracts aimed at recognising increases in the consideration originally agreed upon.

Risks of supply and fluctuations in purchase prices

The Group, while maintaining the management and organization of the most important phases of its business model internally, turns to suppliers for the purchase of semi-finished products and finished components necessary for the manufacture of its products. The manufacture of some of the Group's main products requires skilled labor, semi-finished products, finished products, components and high quality raw materials. The Group is therefore exposed to the risk of encountering difficulties in finding the supplies necessary for carrying out its activities, as well as to the risk associated with fluctuations in their prices.

In particular, in carrying out its production activities, the Group mainly uses semi-finished products in steel and aluminum and semi-finished products in nylon. The price of the raw materials of these semi-finished products - and, in particular, of steel - can be volatile due to numerous factors beyond the control of the Group and difficult to predict. Furthermore, for the supply of some components, the Group turns to high-end suppliers, for which it is not a strategic customer.

The Tesmec Group has put in place a procurement policy aimed at diversifying the suppliers of components that have peculiarities for the volumes purchased or for the high added value. The Group's price risk is mitigated through the presence of multiple suppliers, as well as by the inherent heterogeneity of raw materials and components used in the production of Tesmec machines. Furthermore, in consideration of the nature of semi-finished products and the importance of the technological content of the purchased components, the price of the raw materials of the same only partially affects the purchase costs. However, in consideration of the current market context, characterized by incremental trends in the cost of energy and more generally in the procurement costs of raw materials, by rigidity in the global supply chain, by difficulties of the global logistics sector in meeting the demands of the reference markets, especially for long-range shipments, from the persistence of the pandemic crisis, albeit with forms and methods that often have less impact on economic activities, as well as, lastly, from the onset - after the end of the year - of the Russian conflict - Ukrainian with possible effects not only on commercial relations with these markets but in theory with impacts on the global macroeconomic scenario, the Group cannot exclude that future changes in prices and scenarios in the procurement markets may negatively affect the results.

Risks related to the legal and regulatory framework

Risks related to disputes

Any unfavourable outcome of disputes in which the Group is involved or the occurrence of new disputes (also regardless of the outcome), could have a possibly significant reputational impact on the Group, with possible significant negative effects on the operating results, financial position and cash flows of the Company and of the Group.

The estimate of charges that might reasonably be expected to occur as well as the extent of provisions are based on information available at the date of approval of the financial statements, but involve significant elements of uncertainty, not least because of the many variables linked to legal proceedings. Where it is possible to reliably estimate the amount of the possible loss and this is considered probable, provisions are made in the financial statements to an extent deemed appropriate in the

circumstances, also with the support of specific opinions provided by the Group's consultants and in accordance with the international accounting standards applicable from time to time.

At the end of the reporting period, different types of legal and arbitration proceedings involving the Company and the Group's subsidiaries were pending, and two tax audits were in progress. For a description of the main cases, please refer to Note 45 Legal and tax disputes in the explanatory notes to the consolidated financial statements.

Risks related to environmental issues

Climate change is a topic of particular attention for every industrial sector, including the one in which Tesmec operates, whose greenhouse gas emissions are mainly linked to the direct consumption of the organization, mainly deriving from the production plants. But not only that, the company's attention is also paid to the product, with the aim of measuring and increasing the share of technological solutions with a lower environmental impact.

To date, the Company's commitments on the subject are formalized through the preparation of internal policies, the adoption of management systems, the use of energy from renewable sources and attention to the production of products with a lower environmental impact.

In addition, during 2021, Tesmec identified the guidelines to be included in a medium / long-term sustainability plan, which identify the Company's main commitments on the environmental front and, specifically, in relation to climate change. The trends linked to the energy transition - decarbonisation, electrification and digitalisation - are elements that are guiding the formulation of corporate strategies and their future implementation.

Furthermore, in 2021, based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), a Gap analysis was carried out with respect to the practices implemented by the Group. For more details, see paragraph 17.6 Responsible management of environmental impacts.

9. Human Resources, Training and Industrial Relations

9.1 The employee as a person and the strategy

At a time of turbulence, we overcame the danger of dealing with it using the logic of the past. We have moved from 2020 with the slogan "everything will be fine" to a return to normality and to the need to value past experiences. The opportunities that technology offers us both in terms of rationalising the activities carried out and in connection with the relational potentials with a distortion of the activities carried out with which we relate among companies and within companies.

Smart Working enabled us to find greater awareness of efficiency and to enable people to make their own contribution to a business system and an organisational and technological model that is motivating, effective, functional and capable of meeting expectations. The opportunity to use these sharing modes, ensuring the effective circulation of information by highlighting the potential for involvement.

Through involvement, sustainability or actions to enhance the value of people or the strengthening of welfare actions, or the association of PNRR and ESG containers, require actions, rules and the adoption of innovative organisational and management principles that, in order to achieve them, will require investment but, above all, metabolising both in action and in those who work, regardless of their roles.

Tesmec has experimented in recent years with the "smart" working method based more on individuals and interactions between them than on processes and tools, on the use of software operations. Smart working emphasises collaboration and an orientation towards involvement and listening, including:

- new, more decentralised ways of organising work (use of working groups such as Speed evolution for future, assumption of responsibility and operational autonomy);
- Feedback flexibility;
- ways of working through direct and non-formalised communication systems;
- involvement-oriented organisation.

The key to success remains the willingness to change. Tesmec approached this year with three main values:

- **Resilience**: a real process that must be favoured by management and cultivated by the various teams to overcome difficulties, seize opportunities and not succumb to the situation.

- **Sustainability:** social sustainability, as a guarantee and respect for internal and external stakeholders + environmental sustainability, as a choice for practices with a low impact on the environment, has a positive impact on costs. Process efficiency, as well as the adoption of energy efficiency measures, can lead to important monetary savings.
- **Solidarity:** sensitive to a policy of sustainable development and social responsibility.

Tesmec is aware that the pandemic has swept away any further illusions: nothing is and will ever be the same again. Human resilience needs to be strengthened to face the crisis in opportunity. At Tesmec, we have learned to think along four guidelines:

- Self: Taking care of oneself to fall into the pause trap.
- Team: Supporting the number one resource, the team, in times of crisis.
- Business: Getting the business up and running quickly in this historic moment.
- Future: Predicting opportunities and risks, describing plausible scenarios and creating prototypes for products/services.

Scope of application: 4 PILLAR

- People: it means changing people's mindsets. Managerial Leadership. Relations with managers, teams and leadership. Interactions with customers and suppliers.
- Place: Rethinking workplaces and work-life balance through Smart Working and Activity Base Work Space.
- Platforms: Digital technologies supporting a new way of collaborating and communicating. Investing in systems that enable the sharing of data and information (apps, software). Using Technology to promote Work-life Balance (more flexible working hours, Smart Working, more services for employees).
- Process: Streamlining of processes with focus on value generation. From control to measurement of results as a value of assumption of responsibility

9.2 Industrial relations and social dialogue

The dialogue and relationship with trade union organisations and worker representatives has a fundamental importance in the management of companies of the Group and is governed by a system of relations structured in ongoing, regular meetings, both linked to the supplementary labor contracts and the prospects for development and growth of the Group.

During 2021, Tesmec concluded an effective activity of industrial relations with trade unions to create conditions of competitiveness and productivity to strengthen the global Tesmec system, to pursue and achieve improvements in productivity, efficiency and company well-being by reconciling the reasons of the companies and the persons who work for them, by strengthening the Flexible Benefit system, supporting and reconciling Work-life Balance and supporting families (Welfare Care). New forms of incoming flexibility and the new Smart Working policy moving from an emergency logic to a structural one.

A new evaluation process was tested for the definition of new roles and a system to enhance the value of human resources, as well as various forms of economic incentives that provide for the involvement of everyone in the company's actions with support for new ideas (bottom up), improvement actions and proposals for new solutions, ideas in the field of safety, profit and sustainability.

9.3 Human Resources

The model of involvement of the organisational structure by developing bottom up activities proved to have a positive effect by finding more involvement in every development, growth, internal communications and moments of confrontation with Management.

The organisational configuration has become increasingly consolidated:

- the three Business Units (Energy, Railways and Trencher) transferring full responsibility for results to the business and equipped with all decision-making and operational levers;
- a group of companies and branches present in different countries where Tesmec operates that report directly to the three Business Units, ensuring commercial development and growth. In 2021, we strengthened with an investment plan on the organisation by adding a new CEO in Tesmec USA giving impetus to the restart for a three-year plan;
- a Staff structure with the role of controlling and guiding the Group's strategic guidelines;

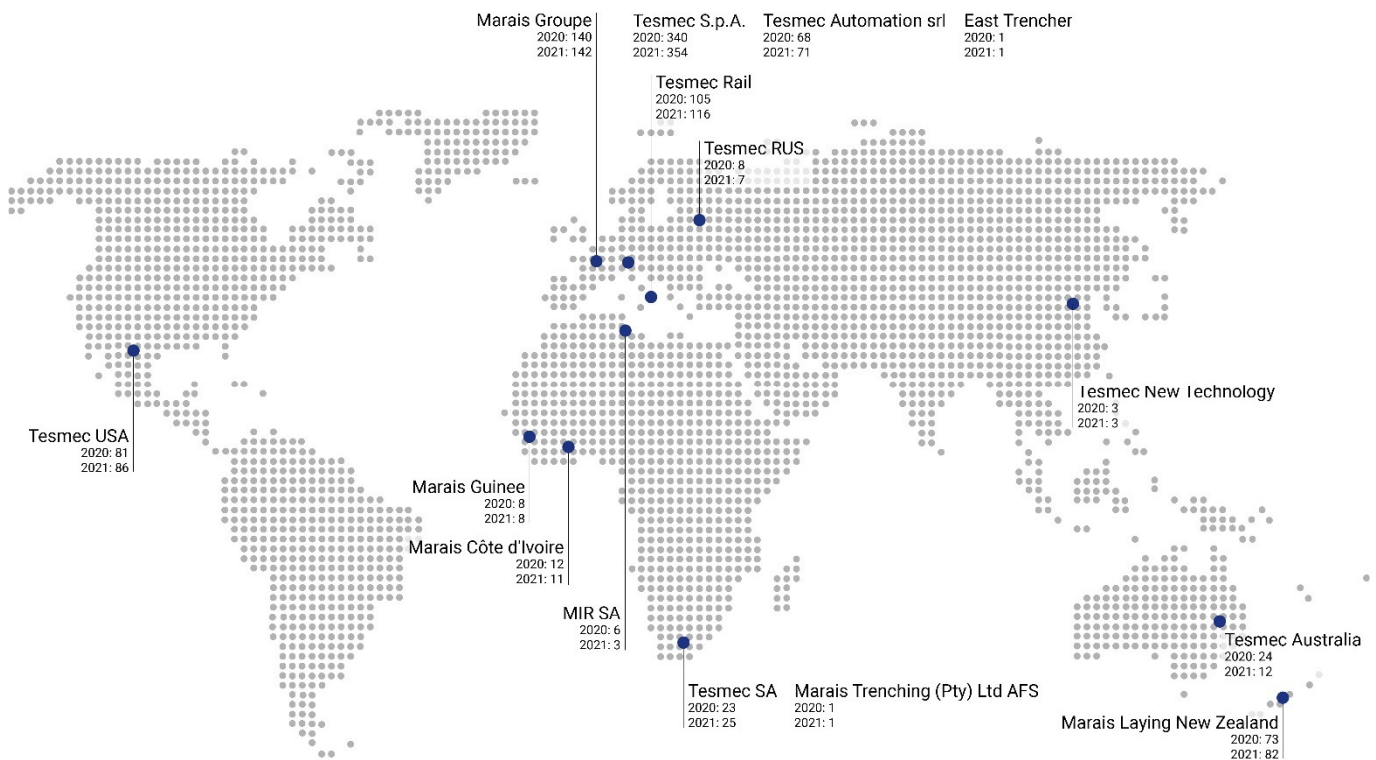
In 2021, the Tesmec Group tried to guarantee a level of business continuity and growth, trying to reinvest in human capital both through a strong replacement action and with new professional profiles required by technological evolution and change. Process innovation was further strengthened also through the Go-Live of Tesmec S.p.A. and the Roll-Out of Tesmec Rail S.r.l. of the new Dynamic D365 application that will see the completion of the Roll-Out activity for all other Group companies in 2022. The project of the new HR management system was also started through the INFO platform, which will see in the coming

years the optimisation of processes, making them unique as a source of use and internal communication between all Group companies.

New measurement parameters were created for performance indicators for strategic figures, relating and orienting them towards sustainability and ESG issues, as well as increasing management engagement with a view to strengthening short-term incentives for profitability indicators divided by Company and Business Unit. If the target is reached in the middle of the year, an advance of 30% of the MBO value will be paid.

During the 2021 financial period, the Group's employment increased by 43 resources, bringing the figure to 929 for the year 2021, where there is a strong skill mismatch, i.e. a mismatch between demand and supply of labor on the market that arises from a mismatch in skills and creates difficulties in staffing. In 2021, Tesmec worked to realign demand and supply of skills in the market to meet new needs and acquire new skills in a context of continuous change in terms of technological developments trying to operate in terms of attracting and retaining resources through Continuous Training, implementation of Digital Transformation and an enhancement of Teamworking and Networking.

The following changes occurred in the average workforce employed by the Group in 2021 compared to 2020:



In 2021, the growth in Human Resources was 4.85% overall and an average of 43 resources, mainly related to international investments and the implementation of new technologies in the Rail and Energy segment.

9.4 Employer branding and relations with the territory and the various institutions

During 2021, Partnerships with technical schools, I.T.S. (post-diploma specialisation) and polytechnics in Bari, Cassino, Padua and Milan increased through a Recruitment and Employer Branding Programme with the aim of promoting knowledge and dissemination of the Group's new technologies among students in order to feed the pool of candidates in line with the profiles sought. In addition to the various initiatives to link up with Universities, both participation in Tesmec 2021 Career Days and round tables through the Politecnico di Milano:

- round table in class with companies for electrical engineering students;
- working for innovation: round table with companies on Industry 4.0 and IoT projects - for students of the territorial pole of Cremona.

Work orientation for employees' children

Four meetings of "Coach With Us", the initiative organised by Club DIPER in collaboration with Tesmec S.p.A. and Confindustria Bergamo to give the children of Tesmec Employees the opportunity to undertake an experience of orientation to the world of work, were held during September and early October 2021.

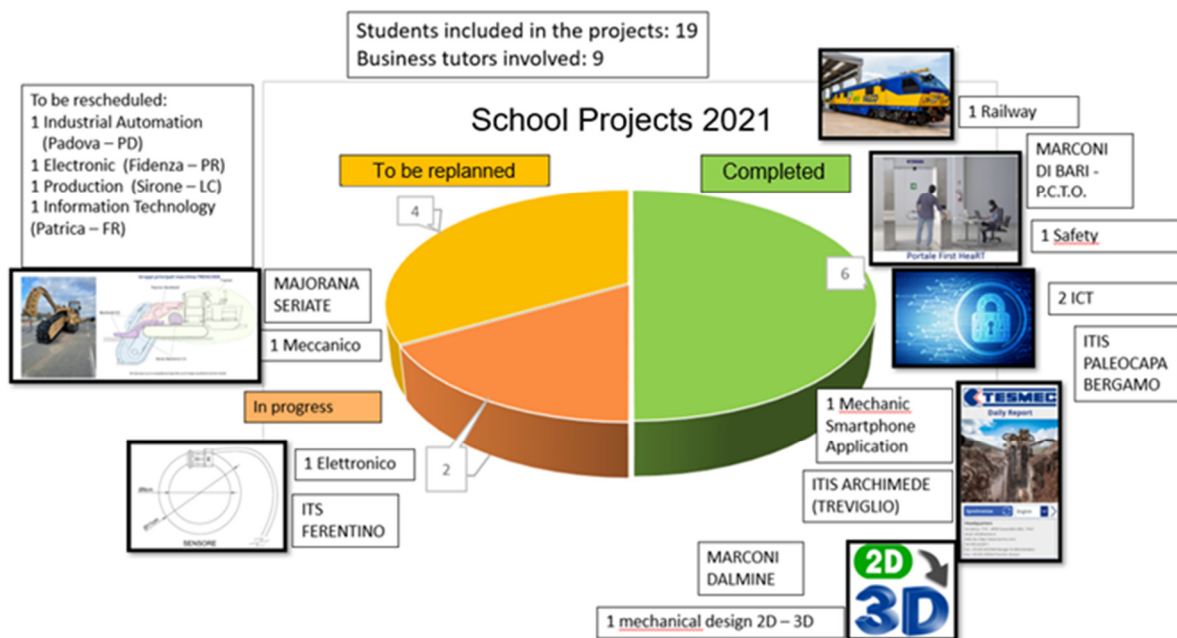
The aim of the programme was to get the young people to work on the following topics, for example: who will be the protagonist of their own future, their professional development in the company, possible career opportunities. Furthermore, during the third meeting there was a testimony from two Tesmec Group employees, both of whom had been with Tesmec for no more than a year, in which they told their company story and the studies they had undertaken before starting work at Tesmec.

The first three meetings were held remotely on Teams, while the fourth meeting was held in person at the headquarters of Tesmec S.p.A. - Grassobbio (BG). Following the visit to the company departments accompanied by Dante Mariani RSPP Tesmec Group, which was considered very interesting, the young people got involved by simulating real job interviews.

M2A project

In order to create a growing synergy between the world of work and the school world, Tesmec consolidated and strengthened its relations with schools and in 2021 activated the project: M2A Mechatronics-Mechanics and Automation national network.

The projects that were implemented in 2021 by the Group's offices were:



We will resume implementation of the remaining projects presented in 2022 in Tesmec's National offices.

In continuity with the project developed in the 2019-2020 school years by the collaboration between UnionCamere, Federmeccanica and our M2A Network, a new project is proposed for the 2021-2024 three-year period for the certification of skills not only at the end of the schooling, but also during the three-year specialisation period.

9.5 Wellness Project: the Tesmec Welfare Plan

The employee experience encompasses everything that a worker observes and perceives during their entire work experience with a specific company. The quality of this experience is influenced by elements such as work spaces and flexibility in managing time and objectives, interactions with colleagues and managers, work-life balance (i.e. the ideal balance between work and personal life, which is different for each worker), the provision of technological tools to make work more efficient and simpler and, obviously, remuneration and the presence of benefits.

Tesmec places employees at the centre of its strategies for growth and development, promoting their well-being and fostering the ideal of work-life balance.

Moreover, the company Welfare Plan, which makes a wide range of goods and services available to employees and their families through the Edenred platform, was further strengthened in 2021. In particular:

- the platform was enriched with new services and tools, expanding among other things the network of online spendability of Digital Ticket Compliments;
- employees entitled to company performance bonuses and MBO bonuses were given the opportunity to convert a portion of these bonuses into welfare credit, with the possibility of further increases if the option right is exercised.

In 2021, all the insurance coverage activated during the emergency phase was maintained, specifically insurance for COVID-19, coverage against pandemic syndromes with a specific quarantine indemnity and policy for death from disease, with a further increase in the insured capital.

In 2021, the adoption of the WHP (Work and Health Programme) project, as part of a strategy to enhance human resources and their well-being, is of particular importance.

The WHP model, recommended by the WHO, oversees the prevention of behavioural risk factors through organisational changes that facilitate the adoption of healthy lifestyles.

The Programme addresses factors not traditionally associated with occupational risk, the approach recommends its implementation according to the Comprehensive Workplace Health Total Worker Health.

Subsequently, all best practices in the priority thematic areas should be completed.

Tesmec proposed the following good practices, partly implemented in 2021 and partly planned for 2022:

- raising awareness among employees about balanced eating through dedicated webinars and distribution of organic kits to employees;
- promoting physical activity: display of promotional posters in the company and agreements concerning subscriptions to gyms, swimming pools or sports centres and/or the purchase of sports clothing/equipment;
- Launch of the Virtuoso App in Italian and foreign companies: App promoting physical exercise to all employees with special competitions (1 every two months) and special prizes for the winners.

Sports initiatives

Tesmec wellness webinars (2021-2022): Webinars on wellness were launched in cooperation with the external body Welfood and a number of employees, who made their teaching available. The titles of the courses are:

- conscious breathing
- nutrition and the immune system
- flower compositions
- care for posture
- cooking courses
- masters of one's own time
- coping with stress
- super mums and super dads: time management

9.6 2021 Sustainable initiatives:

The emergency and post-Covid 2021 situation has led to global socio-economic spillovers and consequences. This has also increased inequalities in local communities and Tesmec, thanks to its network on the ground, has launched several actions to support these difficulties:

- food collection (Italian companies): with the aim of fostering sustainable development for community growth, promoting policies to combat food waste and supporting poverty;
- bosco della memoria: on 18 March 2021 Bergamo commemorated the National Day for the victims of COVID-19 by planting the first tree in the Bosco della Memoria. Tesmec wanted to make its contribution to share memory and hope in a common living space;
- "Bergamo Network_Noì Aderiamo" project in collaboration with Patronato San Vincenzo: support with voluntary work by employees, with payment of surpluses in the canteen (project already activated), as well as training activities for staff reinstatement.

- “Corri per Theodora” project from 2 August to 26 September 2021: Tesmec has chosen to support Theodora's mission because it shares its fundamental values, such as caring and listening. For Tesmec, caring for and listening to our stakeholders, our customers, our employees; for Theodora, caring for and listening to children in hospital, their families and hospital personnel, within a common vision of inclusion and integration.
- toy collection: in the run-up to Christmas 2021, a toy collection was organised at all the Italian offices of the Tesmec group, in collaboration with the Banco di Solidarietà, which promotes policies in support of poverty; the collection was donated to the children of families in need; part of the proceeds from the books was donated to the Scampia association - Albero delle Storie.

9.7 Year 2022: Relaunch

The creation of value for the organisation is achieved through the regeneration of resources, starting with people. It will be necessary to give more weight to people's potential and, for this reason, we will have to focus on the development of soft skills (as well as hard skills) and on wellbeing.

It will be the year in which we will have to deal with the phenomenon of Great Resignation and the difficulty of finding skilled labor as well as the possible increase in labor costs due to labor shortages and rising inflation. For this reason, Tesmec will have to plan digital and infrastructural investments, redesigning work by investing in continuous training programmes and attracting talent to consolidate flexibility by motivating and retaining them.

It will be necessary to combine flexibility with new ways of smart communication and collaboration, so that adaptability to the economic context and the development of personalised practices to increase workforce engagement can be achieved.

It will be necessary to strengthen policies related to the relationship between schools and universities and companies through work-related learning, training, more joint work, as well as greater attention to the strengthening of internal skills and the quality of human relations to guide the professionalism of young people.

10. Related party transactions

The Tesmec Group has related party transactions especially with respect to entities controlled by persons who mainly perform management functions with regard to real-estate transactions (rental of premises serving as means to production) in Tesmec S.p.A., and also for commercial activities. Commercial relations were exercised with regard to the two JV companies (Condux Tesmec and Tesmec Peninsula) with which transactions are regulated by special supply contracts at market conditions and agreed with the partner.

During the 2020 financial period, no significant related-party transaction was carried out. For the additional information required by Consob communication no. 6064293 of 28 July 2006 on related party transactions, please refer to the paragraph "Related party transactions" in the Explanatory Notes.

11. Parent Company management performance

The management performance of the Parent Company substantially reflects the performance previously commented at the consolidated level considering its weight on the total consolidated financial statements of the Group. For these reasons, the most important figures relating to the financial statements of the Parent Company are stated below, referring to the comments on management made at consolidated financial statement level.

Income statement

The income statement of the Parent Company in 2021 compared with that of the prior financial period is summarised below:

<i>(Euro in thousands)</i>	Financial period ended 31 December			
	2021	% of revenues	2020	% of revenues
Revenues from sales and services	91,110	100.0%	88,818	100.0%
Cost of raw materials and consumables	(47,897)	-52.6%	(49,558)	-55.8%
Costs for services	(17,869)	-19.6%	(13,317)	-15.0%
Payroll costs	(21,049)	-23.1%	(18,064)	-20.3%

Other operating costs/revenues, net	(907)	-1.0%	(346)	-0.4%
Amortisation and depreciation	(6,410)	-7.0%	(6,240)	-7.0%
Development costs capitalised	2,613	2.9%	1,779	2.0%
Total operating costs	(91,519)	-100.4%	(85,746)	-96.5%
Operating income	(409)	-0.4%	3,072	3.5%
Financial expenses	(10,154)	-11.1%	(7,092)	-8.0%
Financial income	9,586	10.5%	2,947	3.3%
Pre-tax profit/(loss)	(977)	-1.1%	(1,073)	-1.2%
Income tax	225	0.2%	618	0.7%
Net profit/(loss) for the period	(752)	-0.8%	(455)	-0.5%

Revenues from the *sale of goods* refer to income deriving from the transfer of stringing machines and equipment and trenchers, these revenues increased by 2,6%.

Other operating costs/revenues, net include the positive effect of the tax credit for significant research and development expenses incurred by the Parent Company Tesmec S.p.A. for the expansion of the offer in the new sectors for automation, maintenance of existing power lines and service activities, which were combined with the renewal of the product range in all of Trencher's business areas. The total value of the income tax credit amounted to Euro 820 thousand for the 2021 financial period and to Euro 522 thousand for the 2020 financial period.

The table below illustrates the performance of EBITDA that decreased by 35,6% compared to the previous financial period:

<i>(Euro in thousands)</i>	Financial period ended 31 December				
	2021	% of revenues	2020	% of revenues	2021 vs 2020
Operating income	(409)	-0.4%	3,072	3.5%	(3,481)
+ Amortisation and depreciation	6,410	7.0%	6,240	7.0%	170
EBITDA	6,001	6.6%	9,312	10.5%	(3,311)

Operating Income

The operating income of a negative Euro 409 thousand in 2021, decreased by Euro 3,481 thousand compared to 2020 as a result of the contraction in margins related to the difficulties in the supply and logistics markets and the increase in certain overhead costs, such as energy supplies, which experienced a sharp price increase in the last period of the year.

Net result

The result for the period amounted to a negative Euro 752 thousand (negative and totalling Euro 455 thousand in 2020) after deducting income for taxes totalling Euro 225 thousand (income of Euro 618 thousand in 2020).

Balance sheet and financial profile

The financial position of the Company as at 31 December 2021 compared to 31 December 2020 is summarised in the table below.

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
USES		
Net working capital	30,685	25,709
Fixed assets	98,072	96,798
Other long-term assets and liabilities	4,763	5,160
Net invested capital	133,520	127,667
SOURCES		
Net financial indebtedness	45,546	38,964
Shareholders' equity	87,974	88,703
Total sources of funding	133,520	127,667

Details for a better understanding of changes in the two items are given below:

Working capital

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Trade receivables	31,156	31,215
Inventories	38,796	35,132
Trade payables	(34,604)	(36,217)
Other current assets/(liabilities)	(4,663)	(4,421)
Net working capital	30,685	25,709

The Working capital compared to revenues increased to 33.7% reported in 2021 from 28.9% in 2020. This result was affected by the increase in "Inventories" of Euro 3,664 thousand and the increase in trade payables of Euro 1,613 thousand.

Fixed assets

	Financial period ended 31 December	
	2021	2020
Intangible assets	8,141	7,739
Property, plant and equipment	7,609	7,071
Rights of use	11,200	13,238
Equity investments in subsidiaries	67,009	67,009
Equity investments in associates	4,110	1,738
Other equity investments	3	3
Fixed assets	98,072	96,798

Total fixed assets recorded a net increase of Euro 1,274 thousand mainly due to the increase in "Equity investments in subsidiaries" of Euro 2,372 thousand due to the acquisition of 49% of the capital of Tesmec Saudi Arabia LLC.

Net financial indebtedness

<i>(Euro in thousands)</i>	31 December			
	2021	<i>of which with related parties and group</i>	2020	<i>of which with related parties and group</i>
Cash and cash equivalents	(21,000)		(49,887)	
Current financial assets	(66,250)	(64,194)	(52,949)	(48,286)
Current financial liabilities	40,526	1,090	63,702	1,257
Current financial liabilities from rights of use	2,547		2,690	
Current portion of derivative financial instruments	50		-	
Current financial indebtedness	(44,127)	(63,104)	(36,444)	(47,029)
Non-current financial liabilities	80,695	3,263	64,329	3,263
Non-current financial liabilities from rights of use	8,929		10,909	
Non-current portion of derivative financial instruments	49		170	
Non-current financial indebtedness	89,673	3,263	75,408	3,263
Net financial indebtedness pursuant to ESMA 32-382-1138 Communication	45,546	(59,841)	38,964	(43,766)

Net indebtedness stood at Euro 45,546 thousand as at 31 December 2021 from Euro 38,964 thousand as at 31 December 2020. The increase of Euro 6,582 thousand is mainly due to the decrease in cash and cash equivalents of Euro 28,887 thousand.

Shareholders' Equity

For comments regarding Shareholders' equity, refer to what is already described at consolidated level.

12. Corporate governance and code of conduct on corporate governance

The Tesmec Group conforms to the Code of Corporate Governance (approved in January 2020) with additions and adjustments resulting from the characteristics of the Group. The companies that adopt the Corporate Governance Code apply it from the first financial period starting after 31 December 2020, informing the market of it in the report on corporate governance to be published in 2022.

The "Report on corporate governance and ownership structure" contains a general description of the corporate governance system adopted by the Group and shows the information on ownership structure and compliance with the codes of conduct on corporate governance, including the main governance practices applied and the characteristics of the risk management system and of the internal audit in relation to the process of financial reporting. This Report is enclosed with the financial statements and subject to the same disclosure deadlines as the financial statements themselves, and is available on the website www.tesmec.com, in the Investors-Governance-Report section.

For information on the corporate offices held by the Company's Directors, please refer to the *Report on Corporate Governance and Ownership Structures*. For the members of the Board of Statutory Auditors, the complete and updated list of the corporate offices is published by CONSOB on its website, pursuant to Article 144-*quinquiesdecies* of the Issuers' Regulations.

13. Places where the Company operates

The places in which Tesmec S.p.A. carries on its activity are listed below:

- Milan (MI): Piazza Sant'Ambrogio 16 (Registered office);
- Grassobio (BG): Via Zanica 17/O (administrative offices and factory);
- Endine Gaiano (BG): Via Pertegalli 2 (factory);
- Sirone (LC): Via Don Brambilla 26/28 (factory).

14. Significant events occurred after the reporting period

The following significant events occurred after the reporting period:

- on February 24, 2022, with the beginning of the Russian-Ukrainian conflict, Tesmec took steps to activate all the necessary actions in order to mitigate the impact of this conflict and slowed down its activities on Russian territory. This circumstance has led to further tensions and uncertainties on the markets, exacerbating the increase in the prices of the energy component and raw materials. In relation to the emerging uncertainties on operations in Russia, it is specified that Tesmec, over the years, has developed a commercial presence and service offering through the subsidiary OOO Tesmec RUS. In this regard, the Group has invested and developed specific solutions and technologies for the area but with a limited contribution to the consolidated turnover in the last period (around 2%). Nevertheless, the Tesmec management team is constantly monitoring the situation in order to be able to carry out assessments in full compliance with EU and international rules (with respect to which there are no reports in particular with subjects subject to sanctions) and estimates possible impacts in the very short term, due to the currency trend and the execution of some orders in progress without, however, this having a significant impact for the Group on the result for the year 2022 and on the lines of the 2022-2024 Plan (the value of the net assets attributable to the operations in Russia amount to a total of approximately negative 1 million euros, including, however, an exposure of intra-group receivables due from the subsidiary OOO Tesmec RUS of approximately 2.9 million euros);
- in March 2022, the Boards of Directors of the subsidiaries 4Service USA LLC, 4Service Italia S.r.l. and Tesmec Rail S.r.l. proposed the distribution of dividends based on the 2021 results. These proposals will be approved by the respective Shareholders' Meetings and dividends will be distributed during the first half of 2022.

15. Business outlook

The first months of the 2022 financial period were characterised by the continuation of the critical situation in the procurement, freight and energy markets. The start of the Russian-Ukrainian conflict brought further tension and uncertainty to the markets, exacerbating the increase in energy and commodity prices. Despite the considerable level of uncertainty both in the macroeconomic scenario and in the supply flows of goods and services, the Group confirms its guidelines for the 2020-2023 Plan, also supported by the status of activities in the first quarter 2022, and will present the Outlook for the 2022 financial period in May, coinciding with the presentation of the first quarter results. In fact, Tesmec is active in sectors that will benefit from new investments and development policies aimed at strengthening the key infrastructures of the main countries: the Group's business is concentrated in strategic sectors that are extremely lively and have significant growth prospects.

Huge investments are planned in the Trencher segment to strengthen telecommunications networks and digitalisation in addition to strong development in the mining sector. The Rail segment is benefiting from a significant increase in investments to reduce traffic congestion of road vehicles and increase sustainable mobility, as well as for the maintenance of lines with the aim of ensuring the safety of rail transport. In the Energy segment, the transition to the use of renewable energy sources is confirmed, with the power lines being adapted to the new requirements. In relation to the emerging uncertainties regarding operations in Russia, note that Tesmec, over the years, has developed a commercial presence and service offering through a local company.

The Group invested and developed specific solutions and technologies for the territory but with a limited contribution to consolidated turnover in the last period (around 2%). Nevertheless, Tesmec's management team is constantly monitoring the situation in order to be able to make assessments in full compliance with EU and international rules and estimates possible impacts in the very short term, due to the currency trend and to the execution of some orders in progress without, however, determining a significant impact for the Group on the 2022 result and on the 2020-2023 Plan lines.

16. Other information

Management and co-ordination activities

Tesmec S.p.A. is controlled pursuant to Article 93 of the Consolidated Law on Finance (TUF) by TTC S.r.l., holding company. TTC S.r.l. does not carry out the management and coordination activity on the Company pursuant to Article 2497-*sexies*, Italian Civil Code. TTC S.r.l. is a holding that performs the mere management function of equity investments without carrying out management and coordination activities towards the subsidiaries.

Management and co-ordination activities by Tesmec S.p.A.

Tesmec S.p.A. carries out management and coordination activities, pursuant to Articles 2497 et seq. of the Italian Civil Code, towards East Trenchers S.r.l., Tesmec Automation S.r.l., Bertel S.r.l., Tesmec Rail S.r.l. and 4 Service S.r.l.; this management and coordination activity consists in the preparation of Group directives, procedures and guidelines.

Treasury shares and shares of parent companies

On 22 April 2021, the Shareholders' Meeting authorised the treasury share buy-back plan for a period of 18 months; the authorisation of 22 April 2021 replaces the revocation granted by the Ordinary Shareholders' Meeting of 16 April 2019 valid until October 2020. In the plan, a threshold of 10% of the share capital was set as the maximum quantity.

As at the date of this report, 31 December 2021, a total of 4,711,879 shares (0.777% of Share Capital) had been purchased at an average price of Euro 0.5543 (net of commissions) for a total value of Euro 2,612 thousand. In the period no purchases of treasury shares were made.

Equity investments held by Directors and Statutory Auditors

Pursuant to CONSOB Regulation no. 11971/99, equity investments held by Directors and Statutory Auditors in Tesmec and in its subsidiaries are recorded, according to diagram 3) provided in enclosure 3C) of the regulation above:

Shares held by Directors and Statutory Auditors

Directors and Statutory Auditors

Name	Shareholding	Office	Number of shares held at the beginning of the 2021 financial period	Number of shares purchased	Number of shares sold	Number of shares held at the end of the 2021 financial period
Ambrogio Caccia Dominioni	Direct	Chairman and Chief Executive Officer	155,800	759,800	-	915,600
Gianluca Bolelli	Direct	Vice Chairman	101,000	492,600	-	593,600
Caterina Caccia Dominioni	Direct	Director	9,500	46,200	-	55,700
Lucia Caccia Dominioni	Direct	Director	9,500	46,200	-	55,700
Stefano Chirico	Direct	Statutory Auditor	11,492	56,000	-	67,492

Italian Legislative Decree no. 231/01

The Company has adopted an Organisational Model aimed at ensuring fair and transparent conditions in running the company business, to protect all holders of interest of the Company, tailored on the specificity of Tesmec S.p.A.

The Subsidiaries Tesmec Automation S.r.l. and Tesmec Rail S.r.l. have adopted their own Organisational Model also aimed at ensuring fair and transparent conditions in running the company business to protect all stakeholders of the Company, modulated to reflect the specific characteristics, by resolution of their respective boards of directors on 18 November 2019 and 19 December 2019.

Information on Significant Companies outside the EU

Tesmec S.p.A., parent company, controls two companies (Tesmec USA, Inc. and Tesmec Australia (Pty) Ltd.) which are considered subsidiaries of significant importance established and regulated by the law of countries outside the EU in accordance with the provisions of the Market Regulations adopted by CONSOB with resolution no. 20249 of 28 December 2017, as amended and supplemented.

With reference to these companies, it should be noted that:

- they draw up an accounting statement for the purposes of preparing the consolidated financial statements; the balance sheet and the income statement of the said companies are made available within the terms and methods provided for by the regulations on the matter;
- Tesmec S.p.A. has acquired the articles of association as well as the composition and powers of the corporate bodies;
- they: i) provide the accounting auditor of the Parent Company with the information required for carrying out the auditing of annual and interim accounts of the Parent Company; ii) they have an administrative and accounting system fit for submitting on a regular basis the economic and financial data required for preparing the consolidated financial statements to the management, supervisory body and the auditor of the Parent Company.

The Control and Risk, Sustainability and Related Party Transactions Committee of Tesmec S.p.A., in order to fulfil its regulatory obligations, checked the adequacy of the administrative and accounting system for submitting on a regular basis the economic and financial data required for preparing the consolidated financial statements to the management and to the auditor of Tesmec S.p.A., and the effectiveness of the information flow through meetings both with the auditor and with the Manager responsible for preparing the Company's financial statements.

Information pursuant to EU Regulation 2016/679 on General Data Protection Regulation – GDPR

Starting from May 2018, Tesmec Group has applied the Regulation on the protection of personal data (EU Regulation 2016/679 on General Data Protection Regulation - GDPR).

The GDPR is intended to ensure that the processing of personal data carried out by the company complies with the principles of lawfulness, correctness, transparency, non-excessiveness and protection of confidentiality.

Tesmec has complied with the new European standards by adapting its compliance standards, namely through:

- 1) the update of the Information on the website www.tesmec.com which can be consulted in the Privacy section;
- 2) the establishment of the Treatment Activity Register;
- 3) the revision of the existing procedural set and the introduction of new procedures provided by the GDPR.

For this last purpose, the Tesmec procedural set consists of:

- "Use of information tools, the corporate network, e-mail and related data processing" Policy, which codifies the rules of conduct to be respected in the use of the IT tools and company devices supplied and defines suitable control methods;
- "Data Retention" procedure, which defines the guidelines on the storage of personal data, with particular reference to the duration of the processing;
- "Data Protection Impact Assessment" process instructions, which, in application of the "Privacy by Design" principle, represent the tool to be used for risk assessment in the event of new activities and/or changes to pre-existing activities that involve personal data processing;
- "Data Breach Notification" process instructions, which establish the rules for notifying the supervisory authorities in the event of violation of personal data.

17. Consolidated Non-financial Statement for 2021 pursuant to Italian Legislative Decree no. 254/2016

Letter to Stakeholders

Dear Stakeholders,

I am pleased to present the fifth edition of the Consolidated Non-Financial Statement of the Tesmec Group, a sustainability reporting tool that is an opportunity to report on the initiatives undertaken during 2021 in the management of environmental, social and governance aspects.

Since its establishment, Tesmec has placed great emphasis on designing cutting-edge solutions, aimed at operational efficiency and reducing the environmental impact, in particular.

Our culture is oriented towards technological innovation, quality and product reliability.

This approach has enabled us to become what we are today: a leading Group operating in the international market for technologies dedicated to the transport of electricity, data and materials.

Tesmec has always been recognised as a company with a strong propensity for innovation and sustainability, today increasingly strategic key factors in its medium to long-term growth path. The growing focus on Innovability (integration of "innovation" and "sustainability") is also reflected in the Group's strategic choices and development plans.

In confirmation of our commitment to offer technologically advanced and low environmental impact solutions for advanced infrastructures and energy transition, in 2021 Tesmec was included among the leaders of sustainability, the 150 Italian companies that according to a report published in Il Sole 24 Ore are driving forces in the ESG field.

It can be said that innovation and sustainability are in Tesmec's DNA, an inseparable combination that has marked the company's history and will certainly be at the heart of our future developments.

Industry 4.0 technologies, digitalisation and the energy transition as drivers of global development see us involved on all high-tech fronts: from predictive diagnostics to cybersecurity, from high-precision surveying of underground networks to their digital mapping using advanced drones, from the digitalisation of products to their electrification.

Sustainability is an integral part of our business: the creation of modern and digital infrastructures, the installation of fibre optic cables for widespread connectivity, the modernisation and securing of rail networks, the increase in sustainable mobility, the switch to the use of renewable energy sources, as well as the growing importance of strong, efficient power networks (Strong & Smart Grids) are key aspects of a sustainable development approach. Our technologies are key components of energy transport and telecommunications infrastructures, the availability of which is crucial to the progress and well-being of communities.

In 2021, we celebrated our 70th anniversary, honouring the inventions, people and ideas that have enabled our Group to become what it is today: a provider of technologically advanced digital solutions to accelerate environmental sustainability in the world of infrastructure and energy and data transport.

We are open to new technologies, new business models and partnerships, according to deeply rooted values and principles in respect for the environment and people.

During this year, we prepared the guidelines of the Sustainability Plan that identify our commitments and objectives to contribute to the achievement of the United Nations Sustainable Development Goals published in the 2030 Agenda for Sustainable Development. The undertaken path aims at a sustainable approach in all our businesses and the main 2021 KPIs were analysed according to the "European Taxonomy".

We have also chosen to have a Sustainability Manager and a dedicated team to improve our ability to manage the broad topic of sustainability, with the will to spread the culture of social, environmental and economic responsibility throughout the Group's premises.

Attention to and dialogue with our stakeholders - shareholders, customers, suppliers, institutions, as well as the communities where we operate - has always been an important element guiding our growth. We intend to strengthen and consolidate this relationship in order to create a more sustainable future together.

We are facing a period of great change and technological discontinuity in which new frontiers and horizons are opening up for the innovative spirit of our Group. Technological acceleration, climate change, awareness of the importance of human resources are among the main elements characterising the change taking place in our company. Energy transition trends - decarbonisation, electrification and digitalisation - are driving the formulation of our Group's business strategies and their implementation.

In 2021, Tesmec confirmed its commitment to the development of several sustainable innovation projects and initiatives in priority areas of intervention, such as promoting a more sustainable future, protecting the environment in which we operate, respecting human rights, supporting personnel and ensuring ethical behaviour in the running of business and in the relationships we undertake with our stakeholders.

For us, sustainability is a strategically important asset that creates important growth opportunities for continuous improvement.

I am convinced that, with everyone's commitment, we can contribute to sustainable progress, which will make our Group and the environment in which it operates more responsible, inclusive and resilient.

*The Chief Executive Officer
Ambrogio Caccia Dominioni*

17.1 Methodology

17.1.1 Purpose of this section

The Tesmec Group (also "Tesmec" or "Group") falls within the scope of application of Italian Legislative Decree no. 254/2016 (also the "Decree") - issued in implementation of Directive no. 2014/95/EU of the European Parliament and of the Council of 22 October 2014 - which envisages the requirement of disclosure of non-financial information and diversity information by some large companies and groups.

This Consolidated Non-Financial Statement (also "NFS" or "Statement"), referring to the financial period ended on 31 December 2021, constitutes the commitment of the Tesmec Group to report on the initiatives and the main economic, social and environmental results achieved by the Group during 2021 (from January 1 to December 31). In particular, this document describes the management models, the governance practised by the company, the results achieved and the main risks, generated or suffered, with reference to the topics expressly indicated in Article 3 of the Decree (environmental, social, personnel-related, respect for human rights, fight against corruption) including the methods of their management. For more information, refer to the relevant chapters of this document.

In order to allow data comparability over time, a comparison with 2020 was presented. Moreover, the use of estimates was limited as much as possible to ensure data reliability. The estimates, if any, are based on the best available and duly reported methods.

In accordance with the provisions of Article 5 of the Decree, Tesmec has chosen to integrate the Statement into its Report on Operations.

The Non-financial Statement is drawn up on an annual basis.

17.1.2 Scope of the Consolidated Non-financial Statement

The scope of economic and financial data and information is the same as in the 2021 Annual Financial Report of the Tesmec Group.

The scope of environmental and social data and information is composed by the following companies consolidated on a line-by-line basis in the 2021 Annual Financial Report of the Tesmec Group (see § Group structure of the Report on Operations):

- Tesmec S.p.A.
- Tesmec USA, Inc.
- Tesmec SA (Pty) LTD
- Tesmec Automation S.r.l.
- Tesmec Rail S.r.l.
- 4 Service USA
- Groupe Marais SA
- Tesmec Australia (Pty) Ltd.
- Marais Laying Tech. (Pty) Ltd. Nouvelle Zelande
- Marais Cote d'Ivoire SARL
- Tesmec Guinee SARLU (former Marais Guinee SARLU)

The following companies consolidated on a line-by-line basis in the 2021 Annual Financial Report are excluded from the scope of environmental data and information:

- East Trencher S.r.l.
- OOO Tesmec RUS
- Tesmec New Technology Ltd.
- Marais Trenching (Pty) Ltd. AFS
- MIR SA
- 4 Service S.r.l.

The choice to exclude these companies is in line with the provisions of Article 4 of the Decree, according to which the Statement can exclude those companies that, albeit included in the scope of consolidation, are not necessary to understand the Group's activity, its performance, results and impact produced by the activity itself. In fact, the environmental impacts of these companies, as envisaged by the Group Non-Financial Report Policy, are not considered significant due to their low incidence in

terms of Group turnover (less than 2% of the consolidated total), number of employees (less than 10) and type of activity (non-productive)¹.

The companies Marais Technologies SA and Bertel S.r.l. are also excluded from the reporting boundary of this document, as provided for by the Group Non-Financial Report Policy, in that they are considered insignificant due to their low impact in terms of Group turnover (less than 1% of the consolidated total) and number of employees (0 units).

Any additional limits to the scope are properly indicated in the document.

This document also properly indicates the restatements of the figures published in the previous NFS.

During 2021, there were no significant changes to the Group's supply chain and ownership structure.

17.1.3 Reference guidelines and reporting process

This NFS has been prepared in accordance with the "Core" option of the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by the Global Reporting Initiative (GRI) and its subsequent amendments.

In the appendix to the document, it is possible to consult the GRI Content Index where the GRI indicators related to each material topic are indicated. These indicators were selected based on a materiality analysis that made it possible to identify the most relevant sustainability topics for the Group and its stakeholders, a description of which is provided in the chapter "Materiality analysis".

Tesmec Group identified the Chief Financial Officer, also the Manager responsible for preparing the Company's financial statements, as the Manager in charge of preparing the NFS with the task of managing the process of collecting and aggregating the data and information required for preparing the NFS. Under their coordination, an internal working group was set up, representing the main business functions, in order to collect the information required for the NFS, verify and validate it, and store the supporting documents to ensure their traceability.

The Group Policy related to the non-financial reporting process, formalised in a document approved on 20 December 2021 by the Control and Risk, Sustainability and Related Party Transactions Committee and approved by the Board of Directors again on 20 December 2021, identifies the following steps:

1. preliminary activities (definition of timing, context analysis, definition of boundary, risk analysis);
2. preparation, update and approval of the materiality analysis;
3. starting the process for collecting and approving non-financial data and information;
4. data analysis and preparation of the text of the Non-financial Statement;
5. approval of the Non-financial Statement.

This document was approved by the Board of Directors of Tesmec Spa on 11 March 2022.

The document was also subject to a limited review (limited assurance engagement in accordance with the criteria set out in the revised ISAE 3000 standard) by Deloitte & Touche S.p.A. The audit was carried out in accordance with the procedures indicated in the "Independent Auditors' Report" included in this document.

¹ As defined in the Group's Non-financial Report Policy, these figures refer to 30 September 2021.

17.1.4 Profile and activities of the Tesmec Group

The Tesmec Group, thanks to the thorough technological knowledge and the know-how gained from 70 years of experience, is mainly active in designing, manufacturing and selling systems and integrated solutions for the construction, maintenance and diagnostics of infrastructures (aerial, underground and rail networks), for the transport and supply of energy, data and materials (oil and derivatives, gas, water) as well as technologies for the running of quarries and surface mines. The Group is active in the following operating segments:

ENERGY SEGMENT

The Group designs, manufactures and markets integrated systems for the construction and maintenance of infrastructures for the transmission of electrical power and aerial and underground power lines. The Group's solutions are used for maintenance work on existing power lines, for the construction of infrastructures for data transmission and, in particular, for the stringing and maintenance of fibre optics.

In recent years, the Group consolidated its presence in the tension stringing market for the construction of aerial and underground lines for the transmission of electrical power, thanks to its coverage of the world's main markets and its continuous innovation in research and development, which enables it to offer specific solutions for all types and voltages of lines, including very high voltage lines and those using the new generation of high efficiency conductors.

Starting from 2011, the company strategy led it to combine the construction of power networks of the Stringing Equipment Segment, in which Tesmec is a world leader, with their management and automation, having identified a strong synergistic component in terms of market and customer type.

Tesmec thus entered the Energy-Automation Segment, first through the acquisition of minority shares in a number of Italian companies in this field and then, as from 2017, through their total acquisition.

Today, the Group develops, manufactures and markets advanced equipment and systems for the automation, streamlining, management and monitoring of high, medium and low voltage power lines and substations (with the aim of creating "smart grids"), where, thanks to the mutual exchange of information, it is possible to manage and integrate all sources of production efficiently and safely.

Tesmec, thanks to the high technical know-how in the field of electronics, telecommunications and sensors, is now able to offer its customers complete solutions for the management of smart grids, proposing remotely controlled, automation, protection, monitoring, measurement, service, telecommunications, sensors and IoT systems solutions.

The portfolio of solutions in the Energy segment is completed by pre-sales technical analysis, systems engineering and integration, scheduled maintenance to maximise system efficiency, after-sales technical support and commissioning in the field, continuous training and retraining programmes for customers' technicians.

TRENCHER SEGMENT

The Tesmec Group is one of the main operators worldwide in terms of revenues in the design, production and sale as well as rental of high-powered crawler trenchers for in-line excavations (channels and trenches for laying cables or pipes) and surface miners for earthworks and mines. In particular, the Group provides solutions and technologies for in-line excavation of oil pipelines, gas pipelines, water systems, telecommunication networks and installation of fibre optics, underground power networks, drainage operations, earthworks, quarries and surface mines and specialised excavation services.

In the Trencher Segment, in addition to the sale of machines, the Tesmec Group also offers short/medium and long-term rental solutions, with or without an operator. Compared to sales, the possibility of renting trenchers allows the Group's customers to obtain the maximum operational advantage by having the machine best suited to the type of work to be carried out with important savings in execution time - and costs - possibly postponing the purchase by the user customer to a later date.

The services mainly offered by the Tesmec Group, both through internal personnel and external consultants, in the Trencher Segment are consultancy and inspections, feasibility studies and geological analyses, training, fleet management and supervision, diagnostic and maintenance services, on-site assistance and provision of mobile workshops.

RAIL SEGMENT

The Group, leveraging its many years of experience in the Stringing Equipment Segment of the Energy Segment, has consolidated its position in the rail business due to the growing demand for maintenance and monitoring of rail networks driven by the increasing interest in and awareness of issues relating to the reliability and safety of the infrastructure.

In parallel with the continuous development of technical solutions for the laying of rail catenary (rail power supply networks), Tesmec has also developed technologies and integrated solutions to automate various maintenance operations on rail power lines. This development has taken place through both internal growth and acquisitions, through strategic operations with small companies with high technological content, which have allowed the integration of the Group's "historical" skills in rail

electrification with new skills relating both to vehicles with European certification for circulation and to the development of systems for rail infrastructure diagnostics.

Tesmec today designs, produces and sells integrated systems for rail catenary installation; working equipment for the maintenance of catenary wire systems (e.g. wear and tear) and of the track for special operations (e.g. removing snow from the track); and cutting-edge vehicles for catenary wire system and track diagnostics.

Tesmec also offers complementary service packages such as theoretical and practical courses for technical education, technological consultancy for the use of advanced technologies for project streamlining, vehicle start-up on construction sites and scheduled maintenance to improve the use of vehicles (maintenance service).

The main results achieved by the Tesmec Group in 2021 are represented by the following numbers:

Total number of employees	934
Net revenues	€ 194,286,103
Development costs capitalised	€ 8,065,270
Percentage of sale of products on total revenues	73%
Percentage of services provided as a percentage of total revenues	27%

For further details, refer to the consolidated financial statements of the Tesmec Group, shown on page 111 et seq. of the 2021 Annual Financial Report.

During 2021 the COVID-19 pandemic did not prevent the Group from continuing its operations, even if in an elevated uncertain context that impacted the order collection, which was in any case high. If there will be additional restrictions to face the further spread of COVID-19 the Group cannot exclude the possibility of a very short-term slowdown, without, however, affecting the overall forecasts of 2020-2023 Business Plan in the medium-long term. In fact, the short-term objectives and the Business Plan are based on the assumption that the pandemic situation does not entail the adoption of new restrictive measures similar to those imposed in the first part of 2020 with consequent significant worsening of the international macroeconomic scenario.

17.1.5 Relations with Stakeholders

The presence of Tesmec on the national, European and international market makes the dialogue between Tesmec and its stakeholders very relevant, and it is based on the criteria of fairness, collaboration, loyalty and mutual respect. This dialogue is on rules of behaviour such as:

- **Safety and ethics:** Tesmec's goal is to guarantee the highest safety standards with a sense of responsibility for oneself and others;
- **Performance improvement guidance for oneself and for the company:** it is the ability to pursue personal and group goals and improve performance;
- **Empowerment for continuous improvement:** improving the products and services offered by setting ambitious goals;
- **Enthusiasm, passion, commitment and self-motivation:** working with enthusiasm and pleasure;
- **Adaptability:** resilience by adapting plans and behaviours to respond to the changing environment.

Tesmec pays constant attention to the needs and expectations of its stakeholders in that it is considered a fundamental approach to increasingly direct the business to non-financial issues.

Main stakeholders of Tesmec

The main stakeholders of the Tesmec Group include employees, customers, shareholders, citizens, legal representatives, suppliers of goods and services, financial and/or business partners and trade and environmental associations.



Tesmec constantly improves the active involvement of its stakeholders and does so in different ways on a regular basis. The table below shows the main engagement activities, the engagement channels used over the years and any topics that may have emerged from each stakeholder group during the involvement phase. Note that also during 2021, participation in events and conferences took place mainly online and virtually in accordance with COVID-19 guidelines. The Group adopted solutions and platforms to enable people to communicate remotely and deal with each other safely within work spaces, always in compliance with COVID-19 procedures.

Stakeholder	Type of involvement activity	Topics/expectations expressed by stakeholders
Employees	Internal communications	Involvement in company life
Community	Specific projects	Solidarity initiatives
Shareholders	Virtual Shareholders' Meeting	Approval of financial statements/Strategic plan
Analysts	Virtual events & Video conference	Presentation of company results/Strategic plan
Financial and/or business partners	Events	Presentations of new projects
Trade associations	Conferences/Seminars	Coordination and development
Suppliers	Online events/Newsletters	Presentations of new products and initiatives
Customers	Online events/Newsletters	Presentations of new products and initiatives

During 2021, Tesmec engaged its stakeholders mainly on topics related to sustainable innovation by participating in sector seminars and events. In particular, on the occasion of the 70th anniversary of its foundation, the Group is organising a series of events called "Tesmec between industrial tradition and digital innovability" inviting the main stakeholders (representatives of institutions, shareholders, suppliers, customers, financial partners...) to discuss the issue of sustainability and digitalisation. The first two events took place on 21 September 2021 at the Accademia Carrara in Bergamo and on 11-12 November 2021 at the Museo Diocesano in Monopoli and the Group's premises in Puglia. The discussion took place during Round Tables featuring panels of prominent speakers. To ensure maximum public participation in compliance with COVID-19 regulations, the two events were also streamed live.

The company also involved its employees by offering them and their families guided tours of the two art sites. Further discussions are planned for next year involving other premises of the Group.

In addition to these initiatives, Tesmec organised other meetings with stakeholders, especially related to business and market trends, and intensified dialogue with analysts and investors through participation in events such as the STAR Conference organised by Borsa Italiana and others organised by major financial intermediaries.

In order to further promote an open and constant dialogue with all its Shareholders, and in compliance with what is recommended in this regard by article 1, Recommendation 3, of the Corporate Governance Code the Company complies with, at the meeting of 11 March 2022, the Board adopted, at the suggestion of the Chairman and Chief Executive Officer, the "Policy for the management of dialogue with all Shareholders" (the "Policy") which explains the general principles, the management methods and the main contents of the dialogue between Tesmec and its Shareholders.

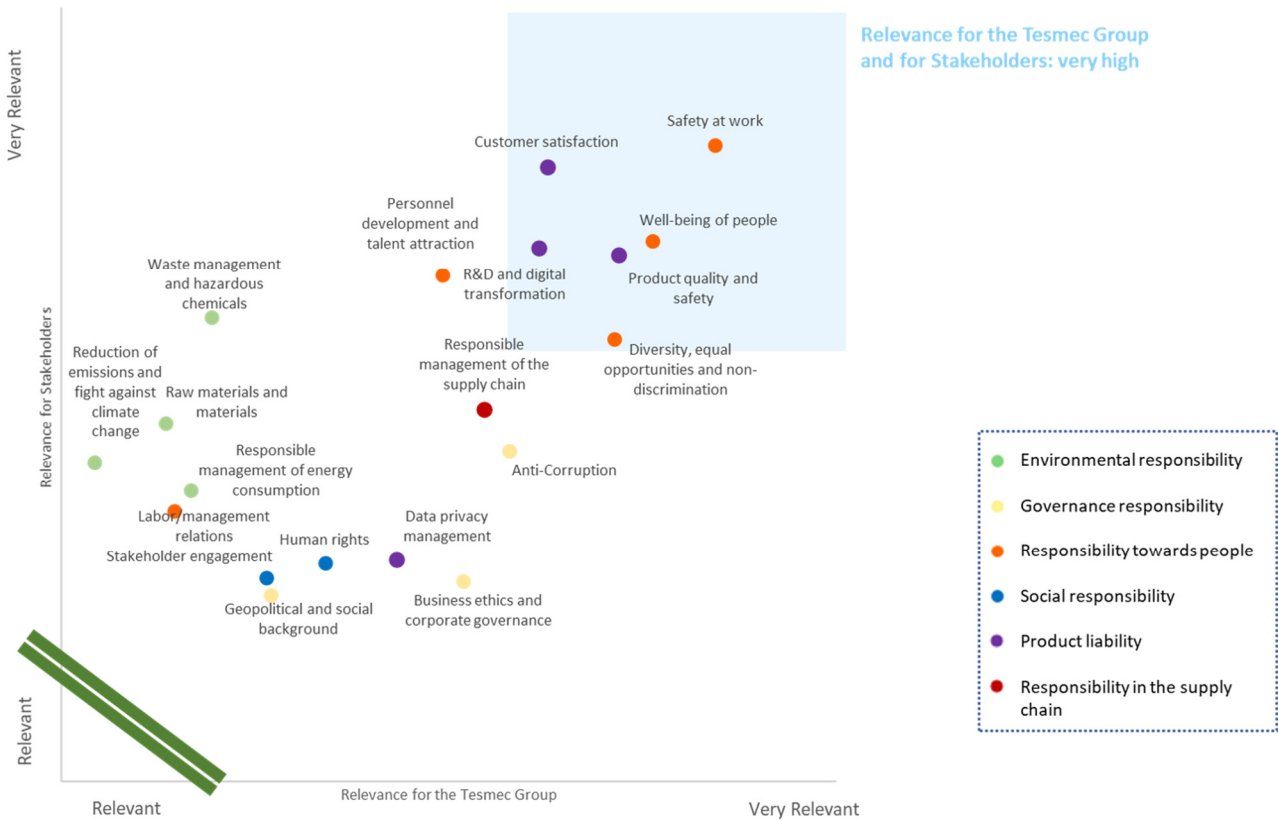
17.1.6 Materiality analysis

The information set out in this Statement, in accordance with the provisions of the Decree, was selected on the basis of the principle of materiality that identifies those topics that reflect significant economic, environmental and social impacts for the Tesmec Group and substantially affect the assessments and decisions of relevant Stakeholders.

The GRI Reporting Standards indicate the need for organisations to focus their non-financial reporting process on those topics that are significant ("material") for their activities and stakeholders.

The stakeholders and the Tesmec Group have assessed the importance attached to each topic, in relation to the Group's activities and operating context: a topic does not necessarily have to be highly significant for both the organisation and its stakeholders to be considered material. In fact, significance from one point of view is more important than convergence between the two.

In 2020, the process of defining material topics and establishing the materiality matrix below was undertaken.



For more details on the process and results, refer to the 2020 NFS available on the Company's website (www.tesmec.com).

There were no significant changes in the economic, social and business environment during the 2021 financial period, and therefore it was not considered necessary to update this process. The Control and Risk, Sustainability and Related Party Transactions Committee validated the materiality matrix on 20 December 2021 and the Board of Directors approved it on 20 December 2021.

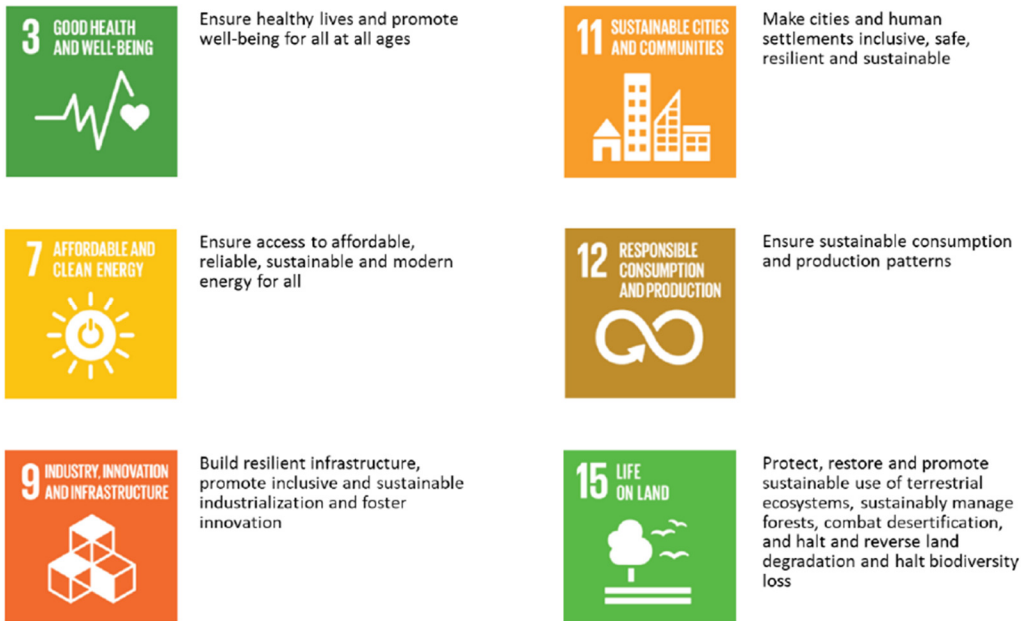
Table of reconciliation between Tesmec material topics and the GRI Standards

Area	Material aspects	Topic-specific GRI Standards of reference	Impact	
			Impact boundary	Impact type
Anti-Corruption	Anti-Corruption	Anti-corruption (GRI 205)	All the Group Consultants, agents and partners	Caused by the Group and directly related through a business relationship.
Human Resources	Well-being of people	Employment (GRI 401)	All the Group	Caused by the Group
	Industrial relations	Labor/Management Relations (GRI 402)	All the Group	Caused by the Group
	Safety at work	Occupational Health and Safety (GRI 403)	All the Group External workers	Caused by the Group and directly related through a business relationship.
	Personnel development and talent attraction	Training and Education (GRI 404)	All the Group	Caused by the Group
	Diversity, equal opportunities and non-discrimination	Diversity and Equal Opportunities (GRI 405) Non-discrimination (GRI 406)	All the Group	Caused by the Group
Human rights	Human rights	Non-discrimination (GRI 406)	All the Group Suppliers	Caused by the Group and directly related through a business relationship.
Environment	Responsible management of energy consumption	Energy (GRI 302)	All the Group	Caused by the Group
	Reduction of emissions and fight against climate change	Emissions (GRI 305)	All the Group	Caused by the Group.
	Waste and chemicals management	Waste (GRI 306)	All the Group	Caused by the Group
	Raw materials and materials	Materials (GRI 301)	All the Group Suppliers	Caused by the Group and directly related through a business relationship.
Social	Business ethics and corporate governance	Environmental compliance (GRI 307) Socioeconomic compliance (GRI 419) Tax (GRI 207)	All the Group	Caused by the Group
	Product quality and safety	Customer Health and Safety (GRI 416)	All the Group	Caused by the Group
	Responsible management of the supply chain	Supplier Environmental Assessment (GRI 308) Supplier Social Assessment (GRI 414)	All the Group Suppliers	Caused by the Group. Caused by the Group and directly related through a business relationship.
	Geopolitical and social background	n/a	All the Group	Caused by the Group
	Stakeholder engagement	n/a	All the Group	Caused by the Group
	Customer satisfaction	n/a	All the Group	Caused by the Group
	R&D and digital transformation	n/a	All the Group	Caused by the Group
	Data privacy management	Customer Privacy (GRI 418)	All the Group	Caused by the Group

17.1.7 Tesmec's commitment to the Sustainable Development Goals

In 2015, the United Nations approved the 2030 Agenda for Sustainable Development, which consists of 17 Sustainable Development Goals (SDGs) within an action programme with environmental, economic, social and institutional targets to be achieved by 2030.

Tesmec identified six of the 17 Objectives on which it could contribute more, taking into account its activities and material topics, and during 2021 identified the guidelines for the Sustainability Plan:



- **3. Health and Well-being:** ensuring a healthy life to its employees and the communities in which Tesmec operates, through welfare initiatives, awareness raising activities for employees and support to NPO organisations;
- **7. Affordable and Clean Energy:** promoting initiatives to optimise the Group's energy consumption by reducing it and favouring the use of renewable sources;
- **9. Industry, Innovation and Infrastructure:** supporting infrastructure innovation to make it increasingly safe and sustainable through advanced technological solutions that allow to have a lower impact on the environment;
- **11. Sustainable Cities and Communities:** supporting the dissemination of green technological practices and solutions for cities and environments;
- **12. Responsible Consumption and Production:** optimising responsible consumption and production at all Group production sites through initiatives aimed at improving the life cycle of products, encouraging the use of more sustainable materials and promoting the reuse and recycling of materials;
- **15. Life on the Land:** protecting, restoring and promoting a more sustainable ecosystem through initiatives focusing on respect, care and protection of the environment.

17.1.8 Guidelines of the Sustainability Plan

The Sustainability Plan is a tool with which a company communicates its sustainability strategy to stakeholders through the definition of strategic guidelines, medium-long term objectives and possible actions to be implemented to achieve them, integrated with the Group's business plan.

The Plan enhances the company's commitment to developing economically, socially and environmentally responsible business throughout the value chain in order to create positive impacts and minimise negative ones, generate value for both the company and all stakeholders and improve reputation.

During 2021, with the aim of promoting and disseminating the principles of responsibility and sustainability, the guidelines of the Sustainability Plan were drawn up, identifying commitments in the field of sustainability.

The work was divided into the following phases:

- Benchmark analysis
- Definition of contents and structure of the plan
- Definition of the guidelines of the sustainability plan

First, a benchmark analysis was carried out on a predefined set of peers/competitors as part of the Sustainability Plan and the reference context through which the main sustainability priorities identified by the sector peers were identified.

Subsequently, an analysis of the "as is" situation and of the Group's strategic lines of development was carried out in order to identify the most relevant areas on which to focus the drafting of the Sustainability Plan.

In cooperation with the heads of the relevant function managers, the Sustainability function identified areas for improvement and related projects. In detail, the functions involved discussed the following topics:

- Research & Development & Innovation
- Governance and Business Ethics
- Supply chain
- Health, Safety & Environment
- Marketing and customer relationship
- Human resources and activities for the territory

Strategic sustainability guidelines were then defined with a view to creating value for stakeholders in the medium to long term to be included in the Sustainability Plan.

In particular, Tesmec Group's strategic guidelines in terms of sustainability and ESG approach cover the following priorities:

- **E**nvironment, focus on Products: measuring and increasing the share of green & digital technology solutions. Directing product development activities towards an increasingly sustainable innovation, with a special attention to the electrification of equipment to minimise environmental impact, to the IoT & diagnostics to increase infrastructure safety and to the optimisation and digitalisation of networks for the efficient use of energy resources.
- **E**nvironment, focus on Processes: promoting the circular economy and integrating environmental aspects into business processes in order to properly manage the use of resources, promoting the reduction of direct and indirect environmental impacts, encouraging sustainable procurement policies for products and services
- **S**ocial, focus on Human Resources and Stakeholders: enhancing the human capital and well-being of employees, ensuring a safe and inclusive working environment. Ensuring the development of skills and competences through recruitment, training and professional development based on fairness and merit, combating all forms of discrimination. Strengthening the relationship with the territory by supporting the community through active participation in charitable and voluntary initiatives
- **G**overnance, focus on Sustainability governance: designing effective sustainability governance for the coordination, management and monitoring of actions planned to achieve the SDGs. Constantly undertaking to carry out the company business in compliance with the highest ethical standards, operating in compliance with the applicable laws and regulations

This was followed by a phase of mapping and identification of proposals in terms of sustainability goals, also through meetings with the main stakeholders involved in defining the contents of the Sustainability Plan.

On 5 November 2021, the guidelines of the sustainability plan were assessed by the Control and Risk, Sustainability and Related Party Transactions Committee, which verified their consistency with the Group's strategy and expressed its opinion to the Board of Directors that approved them.

17.1.9 European Taxonomy

In line with the provisions of Regulation (EU) no. 2020/852 of the European Parliament and of the Council of 18 June 2020², the Taxonomy Regulation, Tesmec discloses in this Consolidated Non-Financial Statement the portion of revenues, capital expenditure (Capex) and operating expenses (Opex) that is "taxonomy-eligible", i.e., those sustainable activities that fall within the list of activities listed by the Taxonomy in the Delegated Acts. To date, delegated acts identifying technical screening criteria for defining environmentally sustainable activities have been published for only two objectives (climate change mitigation and climate change adaptation). Both were adopted on 4 June 2021³. For the remaining four objectives (the sustainable use and protection of water and marine resources, the transition to a circular economy, the prevention and reduction of pollution and the protection and restoration of biodiversity and ecosystems), the reference delegated acts, which will indicate the economic activities that can be considered as environmentally sustainable and the related technical screening criteria, are not yet available.

The Group identified that its economic activities contribute to the first objective identified by the European Commission, namely the mitigation of climate change.

Since its establishment, Tesmec has placed great emphasis on designing cutting-edge solutions, aimed at operational efficiency and sustainability, in particular. The tension stringing equipment as well as the trenching technology have been conceived with the aim of proposing innovative solutions to reduce environmental impact. Innovation and sustainability are in Tesmec Group's DNA and are an inseparable combination that has marked the company's history and will certainly be at the heart of future developments.

Lower environmental impact, reduced emissions and safer solutions are key factors in the Group's development policy. The growing pressure on environmental sustainability and safety topics worldwide is reflected in the Group's strategic choices and development plans. The Group aims to continue investing in "sustainable" innovation according to the trends in energy transition, digitalisation and sustainability, in all its areas of activity: in the Stringing Equipment Segment, through the expansion of the "Full Electric - zero emission" range and the development of the new concept of integrated digital 4.0 systems for the transport and distribution of energy that made it possible to increase the efficiency of production processes; in the Rail Segment, focused on the design of electric and hybrid rail vehicles equipped with diagnostic systems for increasingly advanced and safe infrastructures; in the Energy-Automation Segment, whose solutions are intrinsically dedicated to environmental sustainability as they enable the integration and management of renewable energy sources, as well as the streamlining of power networks; in the Trencher Segment, engaged in the study of systems that guarantee an increasingly lower environmental impact also thanks to the use of engines that comply with the latest regulations on atmospheric emissions, the development of systems that allow the recycling of excavated material for backfilling, and finally the development of more efficient solutions to reduce unit consumption and therefore CO₂ emissions per unit of excavated volume.

2021 is the first year of application of the European Taxonomy, with regard to the disclosure requirements for non-financial companies obliged to prepare the Non-Financial Statement. For this reason, the following results are based on the information currently available and may be subject to future revisions, including as a result of developments in current regulations.

² European Union, REGULATION (EU) NO. 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2020 establishing a framework to encourage sustainable investment and amending Regulation (EU) no. 2019/2088. Available at <https://eur-lex.europa.eu/legal-content/IT/TXT/PDF/?uri=CELEX:32020R0852&from=EN>.

³ European Union, Annex I, II and III. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=PI_COM%3AC%282021%292800.

KPIs relating to eligible economic activities

Based on the company's considerations, the production of **stringing equipment and trenchers** falls under the economic activity "3.6. Manufacture of other low-carbon technologies - Annex I of the Regulation". The description of the activity that is eligible under the Taxonomy (Art. 3 of Regulation (EU) no. 2020/852) was analysed. The economic activity of this category is also related to the NACE C25 code of Tesmec S.p.A., in accordance with the statistical classification of economic activities defined by Regulation (EC) no. 1893/2006.

The revenues from the sale of the "*Full Electric*" and "*Digital Range 4.0*" line of machines were taken into account in the calculation of the percentage of turnover relating to economic activities eligible under the Taxonomy. The electrical equipment line ensures zero environmental impact thanks to the absence of gas emissions into the atmosphere. The reduction is 100% compared to a car with a diesel engine. The latest generation of digital machines also enables a reduction in gaseous emissions from diesel engines, compared to a previous machine of equal performance, thanks to automatic engine speed control.

The revenues from the sale of the latest generation of trenchers and surface miners (Tier 4 and Tier 3) were taken into account when calculating the percentage of turnover relating to economic activities eligible under the Taxonomy. The trenching technology is more sustainable than conventional solutions on the market (excavators, explosives, etc.). A trencher is able to perform different work steps that traditionally would have to be carried out using several excavators with hydraulic hammers, bulldozers or explosives. Compared to excavators, the trencher, for the same number of linear metres excavated, allows greater efficiency in excavation, a reduced furrow, the handling of a smaller quantity of material, the possibility of reusing the excavated material to fill the trench without the need for subsequent crushing (with a consequent reduction in the amount of material to be transported and disposed of). The lower number of machines required on site means that CO₂ emissions are reduced compared to alternative technologies, as well as generating lower levels of dust, vibration and noise, and higher levels of safety. The "surface mining" technology is a sustainable, simple and cost-effective alternative to traditional trenching and surface excavation technologies, and can replace many types of machinery on site, being able to excavate and crush material in a single pass. The reduction of the amount of machines needed to carry out the work and the amount of material to be transported to the primary crushers results in less environmental impact and lower CO₂ emissions.

The same approach was adopted for the calculation of the percentage of capital expenditure and operating expenses related to economic activities eligible under the Taxonomy. The Research & Development hours for projects to digitalise and electrify the range of stringing equipment and for the design of new-generation trenchers were considered.

In the Trencher Segment, in addition to the sale of machines, the Tesmec Group also offers rental solutions with an operator (hot rental or wet rental) or without an operator (cold rental or dry rental). Based on the company's considerations, when the Group's solutions and services are directed to wind farms or photovoltaic projects they fall under the economic activity "3.1. Manufacture of renewable energy technologies - Annex I of the Regulation". Therefore, revenues from rental and project management activities in the field of renewable energies were taken into account when calculating the percentage of turnover relating to eligible economic activities under the Taxonomy. The same approach was adopted for the calculation of capital expenditure related to the Group's fleet of trenchers.

According to the analysis carried out by the company, the Energy Automation activity falls within the economic activity described in point "3.1. Manufacture of renewable energy technologies - Annex I of the Regulation". The description of the activity that is eligible under the Taxonomy (Art. 3 of Regulation (EU) no. 2020/852) was analysed. The economic activity of this category is also related to the NACE C27 code of Tesmec Automation S.r.l., in accordance with the statistical classification of economic activities defined by Regulation (EC) no. 1893/2006.

The revenues from the sale of Energy Automation systems and equipment were taken into account when calculating the percentage of turnover relating to economic activities eligible under the Taxonomy. The automation technology is particularly suitable for supporting the development and integration of renewable energy plants into distribution and transmission networks. Renewable energy causes great instability on the current distribution and transmission networks that, being able to manage only modest levels of variability, are not designed to feed in medium and low voltage generation flows, unlike Smart Grids whose ultimate goal is to increase energy efficiency while reducing polluting emissions. Moreover, in this segment, the Group's commitment to the environment is further demonstrated by the certifications obtained and in the process of being obtained on a large part of its product range according to ISO 14067 for checking the carbon footprint with quantification of greenhouse gas emissions over the entire life cycle of a product and, consequently, related to compliance with Directive no. 2012/19/EU on waste electrical and electronic equipment (WEEE) and the principles of the circular economy.

In calculating the percentage of capital expenditure and operating expenses related to economic activities eligible under the Taxonomy, mainly Research & Development hours related to projects aimed at designing innovative solutions in the field of Smart Grids were considered.

Based on the company's considerations, the production of **railway works vehicles** falls under the economic activity "3.3. Manufacture of low-carbon technologies for transport - Annex I of the Regulation". The description of the activity that is eligible under the Taxonomy (Art. 3 of Regulation (EU) no. 2020/852) was analysed. The economic activity of this category is also related to the NACE C30.2 code of Tesmec Rail S.r.l., in accordance with the statistical classification of economic activities defined by Regulation (EC) no. 1893/2006.

The analyses of this economic activity are cautiously guided by the technical screening criterion set out in point b) and include in the calculation of the percentage of turnover relating to economic activities eligible under the Taxonomy only revenue relating to vehicles equipped with a bimodal propulsion system, capable of operating with catenary wire system electric power or diesel-electric traction. The same approach was adopted for the calculation of the percentage of capital expenditure and operating expenses. The Research & Development hours related to the design of vehicles with electric, hybrid and bimodal traction were taken into account.

On the basis of the above, the KPI values relating to the activities eligible under the European Taxonomy are shown below.

	TOTAL ('000 €)	Eligible pursuant to the European Taxonomy	Not eligible pursuant to the European Taxonomy
Turnover	194,286,103	45.58%	54.42%
CapEx (*)	35,608,790	30.18%	69.82%
OpEx (**)	4,158,711	38.07%	61.93%

(*) Capex is gross and includes only increases for the year and does not take into account decreases in the same period

(**) The calculation of Opex is precautionary and based on information collected to date

For the calculation of the above KPIs, the Group adopted a prudential approach in line with the interpretations of the regulations available to date (including the FAQ of December 20, 2021 and the interpretative notes of February 2, 2022.). For the purpose of reporting on economic activities aligned to the European Taxonomy, further considerations may also be made on the basis of regulatory developments and the publication of delegated acts on new objectives.

17.1.10 Adopted calculation methods

Only CO₂ emissions were taken into account for the calculation of greenhouse gas emissions. CO₂ emissions are calculated by multiplying the energy GJ by the emission factors provided by the technical literature in force. In particular, the source of the conversion and emission factors used for fossil fuels is the "UK Government - GHG Conversion Factors for Company Reporting" (DEFRA), updated in 2021 and the 2020 version for the year before the reporting year.

The emission factors used to convert electricity into tonnes of CO₂⁴ are the following:

Category		
Electricity (Location based)	gCO ₂ /kWh	Country-specific EFs - (Source: Terna International comparisons (all countries) 2018 - 2019)
Electricity (Market based)	gCO ₂ /kWh	Country-specific EFs - (Source AIB - European Residual Mixes 2020-2021). Where not available, the emission factors used for the location-based calculation were used

For the purposes of the specific GRI Standard 403 (Occupational Health and Safety), version 2018, estimates were used to calculate the hours worked, where the data was not available⁵.

Injury rate calculation method	
Rate of fatalities as a result of work-related injuries	Number of fatalities as a result of work-related injuries/total number of hours worked x 1,000,000
Rate of high-consequence work-related injuries (excluding fatalities);	Number of high-consequence work-related injuries (excluding fatalities)/total number of hours worked x 1,000,000
Rate of recordable work-related injuries	Number of recordable work-related injuries/total number of hours worked x 1,000,000

For the purposes of the waste standard, the production of municipal waste was excluded from the calculation.

17.2 Mission and values of the Tesmec Group

The mission of the Tesmec Group is to operate in the market of technologies dedicated to infrastructures for the transmission of electrical power, data and materials (oil and derivatives, gas, water), strategic sectors for the growth and modernisation of every country in the world.

Tesmec has commercial activities in over 135 countries worldwide. Tesmec Group has production plants in: Grassobbio (Bergamo), Endine Gaiano (Bergamo), Sirone (Lecco) and Monopoli (Bari) in Italy, Alvarado in the USA and Durtal in France, as well as three R&D and production units in Fidenza (Parma), Padua and Patrica (Frosinone). Listed on the Euronext STAR Milan segment of the Euronext Milan market of the Italian Stock Exchange, the Group also has a global commercial presence, with a direct presence on different continents, through foreign companies and sales offices in the USA, South Africa, West Africa, Australia, New Zealand, Russia, Qatar and China. The Tesmec Group is strategically placed between market and technology, interpreting the customer's needs in the best possible way, focusing on innovation and customisation of systems and solutions, all thanks to a flexible organisation, able to speed up decision-making processes and offer a fast and quality service. Tesmec trademark is a synonym for efficiency, quality, safety and reliability at global level.

Through its Code of Ethics, Tesmec defines at Group level the ethical and social responsibility of all participants in the entrepreneurial organisation. An ethical approach to business is essential to ensure the reliability of the Company and Group's behaviour towards Stakeholders and, more generally, towards the entire civil and economic context in which the Company and the Group operate. The compliance with the Group's Code of Ethics by all company representatives is of fundamental importance for the proper operation, reliability and reputation of the Company and of the Group itself.

⁴ Scope 2 emissions are expressed in tonnes of CO₂; however, the percentage of methane and nitrous oxide has a negligible effect on total greenhouse gas emissions (CO₂ equivalent) as can be inferred from the reference technical literature.

⁵ Tesmec Australia (Pty) Ltd, Australia and Marais Trenching Pty Ltd

In particular, the values of Tesmec are:

- Enhancement of human resources and personal integrity
- Confidentiality
- Responsibility towards the community
- Fighting corruption and conflicts of interest
- Protection of human rights and safety of people
- Protection of the environment and quality standards
- Fair competition
- Protection of Intellectual Property
- Transparency
- Fairness in the management of contracts

The Tesmec Group has decided to pursue a growth strategy that can be summarised in the term "Glocal": to be global, but to have a local presence in the major areas of the planet to better interpret the needs of individual markets.

The challenges of the future require modern industrial companies, as well as emerging ones, to invest in energy and telecommunications technology. New technologies are able to fill the gaps in infrastructures in different countries, improving efficiency and meeting the needs of new generations.

Therefore, the need to rationalise energy costs and improve the speed of information transmission makes global investment in energy and telecommunications crucial to global growth: for this reason, Tesmec's mission also includes an ever increasing investment in technologies for the streamlining and management of networks.

In its development strategy, Tesmec intends to consolidate its position as a solution provider in the three business areas, exploiting the trends of energy transition, digitalisation, and sustainability.

17.3 Risk management

The Company's risk management activity aims to promptly identify the risks in the company's core business, define suitable measures for their prevention and mitigation and safeguard operating effectiveness.

The importance of risk control in achieving the Company's objectives makes it of primary importance to define a preliminary analysis system that is adequately structured in order to strive for a high level of operating performance. Responsibility for risk management and control activities lies with the Chief Executive Officer, who is responsible for coordinating risk identification activities and monitoring their correct management. The Board of Directors of Tesmec S.p.A. also appointed the Director in charge of the Internal Control and Risk Management System, who is responsible for identifying and managing business risks.

The Company appoints the Internal Audit function manager from within the Board of Directors, reporting directly to the Control and Risk, Sustainability and Related Party Transaction Committee, responsible for coordinating and assessing the compliance of business processes with rules and regulations, who periodically reports to the control bodies on the activities carried out by the function, without prejudice to the responsibility of the Board of Statutory Auditors pursuant to Article 2403 of the Italian Civil Code, which carries out checks on what may have a significant impact on the financial statements, also in terms of potential liabilities; the Board of Statutory Auditors issues formal certification of these checks by means of special minutes.

The Company has also identified concrete ways of coordinating and improving the efficiency of the activities of the parties involved in the internal control and risk management system, planning joint meetings between them. In particular, the meetings of the Control and Risk, Sustainability and Related Party Transaction Committee are usually attended by the members of the Board of Statutory Auditors, the Director in charge of the internal control and risk management system, the Internal Audit Function Manager and the manager responsible for preparing the company's financial statements.

With regard to the monitoring of risks relating to the Environment, Occupational Health and Safety and Compliance, the Control and Risk, Sustainability and Related Party Transactions Committee during the year organised periodic meetings to share and review the Safety and Environment Reports and the six-monthly and annual reports of the Supervisory Body.

The risk assessment activity in health, safety and the environment launched in 2018 and updated in subsequent financial periods allowed to obtain the ISO 14001 and ISO 45001 certifications for all Italian factories. The risk assessment activity was also started by the Subsidiary Groupe Marais SAS, which helped to solidify the Risk Management process of the Tesmec Group. Although the Company has not yet obtained ISO certifications, it has nevertheless prepared and implemented an action plan aimed at mitigating the identified risks.

In 2021 the Risk Assessment activity was started. It will follow in 2022. The Risk Tolerance metrics have been defined, on the basis of which the evaluations for the Risk Assessment will be carried out. New business activities born in the last three years have been identified and the actions to be implemented are as follows:

- Georeferencing;
- Environment;
- Cyber;
- Intellectual Property.

The Risk Register will be drawn up and it will include both the identification of the risk based on the information collected and the assessment of the same using the defined metrics.

17.4 Compliance and Anti-Corruption

The following table shows the material topics relating to compliance and anti-corruption standards. The Management of Tesmec identified the main compliance and anti-corruption risks deriving from the business activities, identifying the appropriate prevention and mitigation actions. These risks are listed in specific tables for each chapter of this document.

MATERIAL TOPICS RELATED TO ANTI-CORRUPTION	MAIN RELATED RISKS
<p>Business ethics and corporate governance</p> <p>Anti-Corruption</p>	<p>Risks related to offences involving corruption</p> <p>Risks related to corporate crimes</p> <p>Risks related to non-compliance or violation of the reference legislation or applicable regulations</p> <p>Reputational risk deriving from recognised non-compliance events</p> <p>Possible unethical/illegal behaviour by the BoD, Top Management and employees</p> <p>Fraud and corruption risk</p> <p>Risk of corruption both with regard to the Public Administration and among private individuals</p> <p>Risk of possible violation of rules and regulations in relation to corruption</p> <p>Risk of violation of the Model pursuant to Italian Legislative Decree no. 231/01 and the Code of Ethics</p> <p>Risk of violation of internal company procedures</p> <p>Maintaining an adequate reputation profile</p>

Below is a description of the management and organisation model of the company's activities adopted by the Tesmec Group, also with reference to the management of the above mentioned risks and the policies adopted by the Group, the results achieved and the main key non-financial performance indicators.

17.4.1 Policies, management systems and organisational models

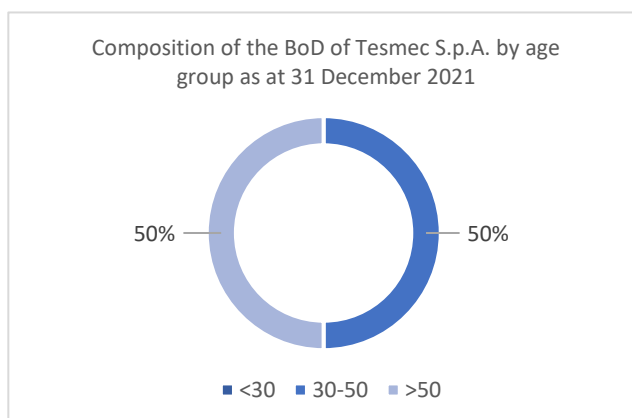
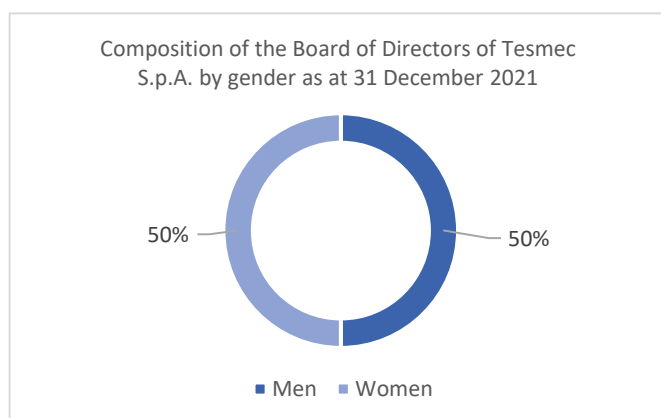
Corporate Governance Structure

The Tesmec Group conforms, with additions and adjustments resulting from the characteristics of the Group, to the Corporate Governance Code for listed companies approved in 2020 by the Committee for Corporate Governance promoted by Abi, Ania, Assogestioni, Assonime, Confindustria and Borsa Italiana, which came into force on 1 January 2021 (previously known as the Self-Regulatory Code of Conduct approved by the Committee in March 2006, and subsequently amended in July 2015 and December 2018).

On 12 March 2021, the Board of Directors of Tesmec S.p.A. was informed of the start of activities to adapt the Company's internal regulations to the provisions of the new Corporate Governance Code, which came into force on 1 January 2021. Tesmec will notify the market of the methods of application of the new Code in the report on corporate governance and ownership structure which will be published in 2022.

Tesmec adopts a traditional management and control system that consists of:

- a Shareholders' Meeting vested with the decisions on the acts of management of the Company, in accordance with the Law and the Articles of Association;
- a Board of Directors in charge of managing the business, which has granted operational powers to bodies and delegated subjects;
- a Board of Statutory Auditors called upon to supervise the compliance with the Law and the Articles of Association and the compliance with the principles of correct administration, as well as to control the adequacy of the organisational structure, the internal control system and the company's administrative and accounting system; the Board of Statutory Auditors comprises three statutory auditors and two alternate auditors;
- Independent Auditors, in charge of auditing and providing an opinion on the financial statements pursuant to the Law and Articles of Association;
- a Director in charge of the Internal Control and Risk Management System.



The Board of Directors of Tesmec S.p.A. was appointed by the Shareholders' Meeting of 16 April 2019 and will remain in office until approval of the financial statements for the period ended 31 December 2021: it consists of 8 members, of whom 4 independent as they meet the requirements of the regulations in force.

The Board of Directors has set up a Control and Risk, Sustainability and Related Party Transactions Committee and a Remuneration and Appointments Committee.

For further information on corporate bodies, internal committees and the internal control and risk management system, please refer to the Report on Operations and the Report on corporate governance and ownership structure published on the website www.tesmec.com.

Management systems and organisational models

Tesmec implemented and adopted the following business management systems and internal organisational models:

- Quality, Health, Safety and Environment Management Systems according to ISO 9001:2015, ISO 45001:2018 and ISO 14001:2015 for the Italian companies Tesmec S.p.a, Tesmec Rail S.r.l. and Tesmec Automation S.r.l.;
- Corruption Prevention Management System according to ISO 37001:2016 for Tesmec Automation S.r.l. and Tesmec Rail S.r.l.;

- Organisational, Management and Control Model pursuant to Italian Legislative Decree no. 231/2001 (hereinafter also Model 231) which includes the Group's Code of Ethics of Tesmec S.p.A., Tesmec Rail S.r.l. and Tesmec Automation S.r.l.
- The Information Security Management System according to ISO 27001:2017 for Tesmec Automation S.r.l.;
- Management System according to EN 15085-2 CL4 Design and sales of components and parts for rail industry for Tesmec Rail S.r.l.;
- Certificate of conformity of the entity in charge of maintenance (ECM) in accordance with the EU Directive 2016/798 for Tesmec Rail S.r.l.

The Board of Directors of Tesmec S.p.A. by resolution of 23 February 2010 adopted the Organisational, Management and Control Model pursuant to Italian Legislative Decree no. 231/2001 aimed at ensuring fair and transparent conditions in running the company business, to protect its own position and image and those of the companies of the Group, the expectations of its own shareholders and the work of its own employees.

Subsequently, through specific projects, the updates to Model 231 were approved in order to incorporate regulatory innovations and changes in Tesmec S.p.A.'s corporate organisation. In particular, in the subsequent updates of Model 231, account was taken:

- of the corporate organisational changes of Tesmec S.p.A.;
- of the results of the supervisory activities and those of internal audit activities;
- of the evolution of the regulatory framework and the Confindustria Guidelines.

The Management of Tesmec S.p.A. also approved specific policies on Environment, Health and Safety, and Groupe Marais SAS and Tesmec USA, Inc. implemented specific policies taking into account the local context. However, the Group is progressively harmonising its policies with a view to standardising processes and management wherever possible.

The aspects related to the Environment, Health and Safety at work are also included in the Special Part of Model 231 of Tesmec S.p.A., i.e. Offences relating to Occupational Health and Safety and the Environmental Offences; the relevant Special Parts identify specific sensitive areas with reference to the offences envisaged by Italian Legislative Decree no. 231/2001. Model 231 identifies specific sensitive activities, control and corporate conduct protocols relating to offences concerning Occupational Health and Safety and environmental offences included in the list of Offences pursuant to Italian Legislative Decree no. 231/2001.

For further information on certifications and on Model 231, please refer to the Report on corporate governance and ownership structure and the Group website ("Commitment" and "IR/Governance" sections).

The topics mentioned by the Decree (environmental, social topics relating to personnel, respect for human rights, anti-corruption and bribery matters) are managed at a high level centrally by the respective functions (General Counsel, Senior HR Manager, QHSE Manager, Purchasing Manager and Company Management), supported operationally by reference figures in the various Countries in which the Group operates.

Anti-Corruption

Tesmec is actively committed to preventing and fighting corruption through a control unit that is an integral part of the Internal Control System. Legality, honesty, integrity, fairness and transparency are some of the general principles on which the Code of Ethics of the Group and the management of the business activities are based upon. At Group level, the fight against corruption is the responsibility of any person acting in the name or on behalf of Tesmec.

The prevention and fight against corruption is achieved through the implementation and application of two main instruments: i) the Organisational, Management and Control Model pursuant to Italian Legislative Decree no. 231/2001 (including the Group's Code of Ethics), ii) Group Anti-Corruption Policy.

The first control unit to mitigate the risk of corruption both with regard to the Public Administration and among private individuals is represented by the Organisational, Management and Control Model pursuant to Italian Legislative Decree no. 231/2001 to ensure the prevention of the commission of the offences envisaged by the aforementioned decree including offences of corruption.

In October 2018, the update of the Group Anti-Corruption Policy was approved by the Company Management.

The Anti-Corruption Policy, extended and made available to the entire Group and also published on the company intranet, provides a systematic framework on anti-corruption and prohibits its company personnel and anyone working in the name or on behalf of Group companies and/or in the interest of the Group, from offering, paying or accepting, directly or indirectly, money or other benefits, in order to obtain or secure an unfair advantage as part of the business activities.

In detail, the Policy prohibits:

- offering, promising, giving, paying, authorising someone to give or pay, directly or indirectly, money or other benefit to a Public Official or private individual (active corruption);
- accepting, or authorising someone to accept, directly or indirectly, money or other benefit from a Public Official or private individual (passive corruption);

when the intention is to:

- incite a Public Official or a private individual to improperly perform any public function or any activity associated with a business or to reward them for having performed it;
- influence an official measure (or omission) by a Public Official or any decision in violation of an official duty;
- obtain, secure or maintain a deal or an unfair advantage in relation to the business activities; or
- in any case, violate applicable laws.

The prohibition is not limited to cash payments only, but includes, for corruption purposes:

- gifts, expenses and hospitality to third parties;
- contributions such as donations, sponsorships, etc.;
- commercial activities, employment or investment opportunities;
- confidential information that could be used to trade in regulated securities and products;
- personal discounts or credits;
- care or support for family members;
- other advantages or benefits.

During 2020 and 2021, there were no cases of both active and passive corruption.

Approach to tax

The current reference context places an increasing focus on the management of tax issues in order to better assess the potential risks also in terms of governance and company reputation. Also, as a result of the current pandemic crisis, the interest in new standards of transparency in order to achieve greater tax fairness has become an extremely relevant issue for all stakeholders.

The Group believes that tax practices carried out in a responsible manner support the economic and social development of the markets in which it operates, and, for this reason, it does not implement transactions for elusive purposes or with undue tax advantages, which result in fictitious transactions, and which do not reflect the “substance over form” principle, as in contrast with ethical and transparent behaviour in the management of tax activities. The choice of the Countries in which the Group operates is driven by business assessments and not by tax reasons and the Group does not operate in tax-heaven Countries with the sole purpose of reducing the tax burden.

In this context, the Tesmec Group is subject to taxation in Italy and in the other countries in which it operates, and although the Group pursues the objective of the optimization of its tax burden, it does not currently have tax planning policies that cover all the different tax jurisdictions. However, in relation to the Italian companies, the parent company Tesmec S.p.A. opted, as a parent company, for the domestic tax consolidation agreement as provided by Article 117 et seq. of the Consolidated Act on Income Tax with its subsidiaries Tesmec Rail S.r.l., Tesmec Automation S.r.l., East Trenchers S.r.l., Bertel S.r.l. for the 2020/2022 three-year period and with its subsidiary 4 Service S.r.l. for the three-year period 2021/2023. The tax consolidation agreement is part of management and coordination activities that the Parent Company exercises over its subsidiaries, and it aims to produce positive effects of optimization of “domestic” taxation both for each individual entity and for the Group as a whole. Tax consolidation is regulated by specific contractual agreements between the participating entities and the Parent Company, approved by their Boards of Directors.

The Group, operating in high-tech sectors, is also attentive to the tax benefits that may derive from national and foreign regulations that encourage research and innovation, such as, for example, the tax credit on Research and Development in Italy. The Group makes use of tax incentives applicable to all taxpayers, in line with its business and investment targets.

In consideration of the international business carried out by Group companies, transfer pricing regulations represent one of the most critical areas. This aspect is periodically monitored by the Board of Directors, which approves the policy on intra-group transfer pricing and its additions and updates.

The entities of the Group are committed to comply with the relevant local legislation and to maintain a collaborative and transparent approach with the corresponding tax authority. Therefore, the Group deems to diligently apply tax and fiscal regulations. However, fiscal and tax legislation, as well as its interpretation, are particularly complex, because of the continuous development of the regulations themselves and of their interpretation by the designated administrative and judicial bodies. This circumstance makes it impossible to exclude that the relevant tax authorities or case law may in the future come to interpretations or positions other than those adopted by the Group.

During June 2019, a tax audit by the Italian Inland Revenue Agency began in relation to the parent company Tesmec S.p.A. for the 2016 tax year. The audit is still in progress and the Company is awaiting the conclusions of the Office. The report on findings reveals disputes with respect to which the Company, supported by the opinion of its tax advisors, considers its tax treatment to be well-founded.

Following a tax audit, in December 2019 the subsidiary Groupe Marais received an assessment from the French tax authority concerning mainly the calculation of the R&D tax credit. The subsidiary deems it has correctly applied the tax legislation, also in relation to the validations obtained at the time of accounting of the tax credit and has filed an appeal against this assessment, supported by the opinion of its tax consultants.

Model 262 adopted by the Group includes a specific section on Tax Management, which is subject to internal compliance audits.

With regard to the information related to the Country by Country Reporting, the Group has begun to set up the reporting, shown below for the fiscal year 2020⁶:

	Italy	France	USA	Australia	New Zealand	Russia	South Africa	other tax jurisdictions *	Consolidation differences
Companies	Tesmec S.p.A. Tesmec Rail S.r.l. Tesmec Automation S.r.l. Bertel S.r.l. East Trencher S.r.l. 4Service S.r.l.	Marais Technologies SAS Groupe Marais SAS	Tesmec USA Inc. 4Service USA Llc	Tesmec Australia (Pty) Ltd	Marais Laying Tech. (Pty) Ltd NZ	OOO Tesmec Rus	Tesmec SA Marais Trenching (Pty) Ltd AFS		
Segments	Production Sales	Production Sales	Production Sales	Production Sales	Production Sales	Sales	Sales	Sales	
N. employees	514	140	86	12	73	8	24		
Tangible assets other than cash and cash equivalents	294,032	55,131	61,178	10,042	3,849	1,119	6,787	3,135	(169,816)
Revenues	130,319	25,807	42,505	6,888	7,318	1,855	3,456	1,256	(45,643)
Intra-group revenues	26,168	3,495	15,524	1	-	-	12	443	(45,643)
Profit (loss) before taxes	(4,480)	(1,505)	1,726	(1,690)	729	(742)	68	(981)	(2,163)
Corporate income tax accrued	1,644	238	(219)	419	(203)	128	(29)	(3)	252

**The other tax jurisdictions in which the Group operates include Tunisia, Guinea, the Ivory Coast and China, for which the overall tax burden is not relevant.*

⁶ In the next few years, Tesmec Group will also undertake to report the "Corporate income tax paid on a cash basis", required by GRI 207-4, to ensure complete coverage of the aforementioned Standard

17.5 Management of human resources and human rights

17.5.1 Introduction

The material topics related to the management of human resources are summarised in the following table, together with the main risks identified by Tesmec’s management. The Human Resources Department of Tesmec S.p.A. acts as a coordinator for the corresponding local functions; however, each Group company has its own management as a result of the needs arising from specific local legislation.

The following pages describe the policies, the management system and the results achieved.

MATERIAL TOPICS RELATED TO HUMAN RESOURCES and HUMAN RIGHTS	MAIN RELATED RISKS
<p>Personnel development and talent attraction</p> <p>Well-being of people</p> <p>Safety at work</p> <p>Human rights</p> <p>Industrial relations</p> <p>Diversity, equal opportunities and non-discrimination</p>	<p>Risk of increased turnover and loss of personnel with high professional seniority and difficulty in integrating skills</p> <p>Risk of not being able to find resources on the market with high digital skills</p> <p>Risk related to the health and safety of employees in relation to the COVID-19 pandemic and the potential increase in accidents, work-related stress and the increase in the number of injuries for personnel on secondment due to difficulties in monitoring compliance with health and safety standards at customer sites</p> <p>Risk related to the health and safety of persons in the vicinity of the workplace due to interference with personnel from other companies or external personnel in the same workplace</p> <p>Risk related to discriminatory behaviour by its employees</p> <p>Risk related to possible non-compliance with future laws and/or regulations on diversity</p>

Policies, management systems and organisational models

In continuity with 2020, given the continuation in 2021 of the state of emergency due to Covid-19, the Group maintained high safety measures to protect the health of its workers in all Italian and foreign premises. Moreover, in order to provide support and be close to its people and facilitate the work-life balance, which is increasingly necessary at a time like the pandemic, the Group has continued the initiatives undertaken in 2020 and promoted new ones. In particular:

- smart-working was introduced structurally for all office personnel through a review of the dedicated policy;
- flexible working hours on entry/exit were maintained and flexibility on a monthly basis was introduced;
- a Solidarity Time Bank was set up on a permanent basis to donate leave hours to colleagues in need;
- internal communication was strengthened to facilitate the dissemination of information;
- specific insurance cover was activated to protect the health of employees against Covid-19;
- PCs were rented to employees for distance learning for their children and special arrangements were made for home internet access;
- new leave and flexibility tools were introduced for parent workers, and the possibility of smart working and/or part-time work was extended;
- possibility of requesting severance indemnity advances or loans in case of special economic requirements.

With regard to Tesmec's human capital management model, it is based on the Global Integration Project that is characterised by:

- an organisational plan to align business processes by strengthening Group synergies, also favoured in the long term by the implementation of the new ERP management system in all Group companies;
- new models of Responsibility Matrix;
- alignment of Group policies.
- job rotation within the entire Group, enhancing individual talent and promoting an integration of knowledge.

Even if Tesmec does not have a formalised single policy on the issue of human resources (given the diversity of the global, contractual and regulatory aspects of personnel management), the principles and guidelines contained in the Code of Ethics inspire the entire Group. In fact, it affirms the fundamental commitments according to which the Group companies safeguard and promote the value of human resources in order to increase the wealth of expertise of each employee encouraging the respect for a person's physical, moral and cultural integrity. Moreover, the SPEED values (Safety and ethics, orientation to Performance improvement for self and team, Empowerment for continuous improvement, Enthusiasm passion, commitment, and self-motivation and Adaptability) shared by Tesmec are fundamental to increase awareness and knowledge of the principles that unite the human resources of all Group companies.

In particular, the elements that characterised Tesmec's personnel management system in 2021 are reported below:

- new organisational models and cross-fertilisation;
- consolidation and strengthening of the HR platform;
- projects in partnership with schools and universities;
- promotion of social integration activities;
- greater involvement of resources within the company to create a collective identity;
- incentive plans;
- strengthening of the company welfare plan;
- training plan and skill development;
- dialogue and relations with trade unions and workers' representatives;
- launch of innovative recruiting methods, using social logics;
- systems for managing health, safety and environmental topics.

In 2021, with a view to streamlining and standardising HR processes at Group level, a project was launched to implement the new HR management system, which will be used across the board by all Italian and foreign companies. The project represents a significant investment, a sign of the importance of human capital for Tesmec. In fact, the primary objective of the project is to provide the company and its human resources with an enabling system, fostering the growth of people as well as pursuing the Group's digital evolution path. The areas that will initially be involved are Talent Management and Development Management.

Tesmec is aware that some operations carried out as part of its activity can present risks for the environment and for people. In addition to the commitments valid for the entire Group for the protection of the environment and safety in the workplace, Tesmec S.p.A., already as from 2018, has implemented an integrated Policy for the Health and Safety of workers and for the Environment.

Human rights

The protection of human rights is an important issue for Tesmec, but it is not considered necessary to manage it strategically, in that the topic is set out by the Group in the relationships with its customers, suppliers in compliance with the principles and values referred to in the Code of Ethics.

However, in order to avoid as much as possible that isolated cases might violate human rights, Tesmec envisaged in its Code of Ethics, among the fundamental reference ethical principles, also that of "Enhancement of human resources and personal integrity", refusing any form of discrimination in terms of age, sex, nationality, sexuality, health status, marital status, race, political opinions, religious beliefs, etc. and any form of forced or irregular labor and exploitation of child labor, with the relevant mechanism for strengthening the culture and the penalty system that derive from it.

There were no cases of discrimination during 2020 and 2021. With reference to the investigation of the case of alleged discrimination that occurred during 2018 regarding the company Tesmec USA, note that all civil proceedings in Texas were suspended due to COVID and, therefore, in line with the 2020 NFS, there are no updates at the date of this document.

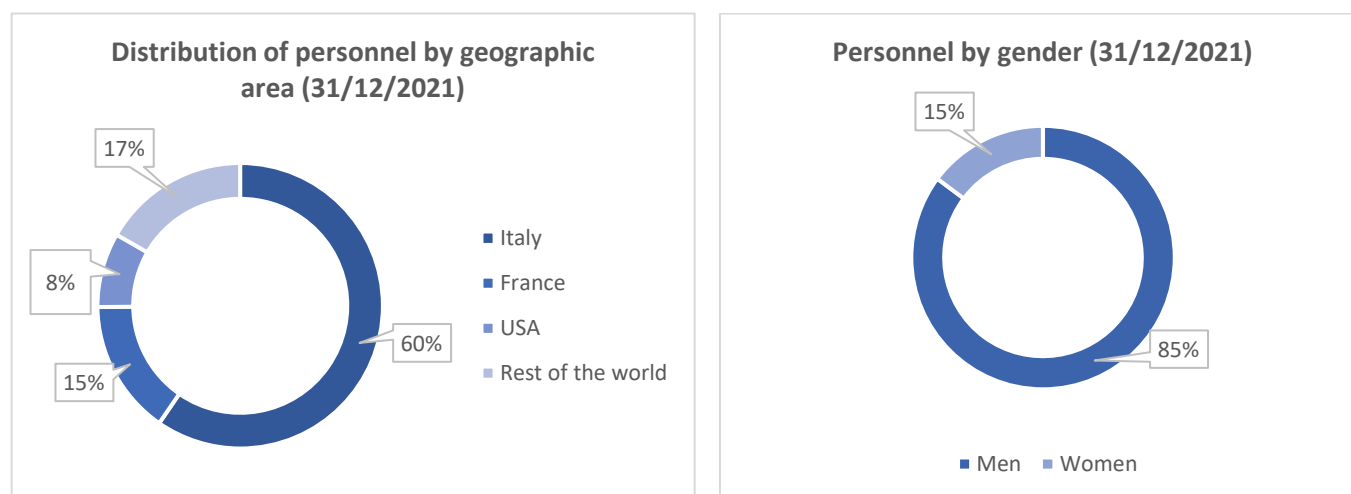
Despite the reporting, monitoring and control system envisaged by the Code of Ethics for the protection of human rights, the Group is aware that the topic could be important for the supply chain and that specific assessments to this effect could be carried out in the coming years, also after Tesmec S.p.A. has obtained integrated certification in the field of Health and Safety in 2018 (ISO 45001).

17.5.2 Non-financial results and indicators

Composition and characteristics

The Tesmec Group had 934 employees as at 31 December 2021. In 2021, human resources increased by 6.4% compared to 31 December 2020.

As shown in the Methodological Note to this Non-Financial Statement, in 2021 the company Tesmec Guinee SARLU entered the boundary of the company data and information.



The commitment to establish stable and lasting relations is confirmed by the high percentage of employees hired with an open-term labor contract (98% of the total).

Number of employees as at 31 December by employment contract (permanent and temporary), by gender and by region							
	Type of Contract	2020			2021		
		Men	Women	Total	Men	Women	Total
ITALY	Permanent	420	89	509	457	92	549
	Temporary	5	-	5	7	1	8
	Total Italy	425	89	514	464	93	557
FRANCE	Permanent	123	14	137	125	15	140
	Temporary	1	2	3	2	0	2
	Total France	124	16	140⁷	127	15	142
USA	Permanent	75	11	86	66	13	79
	Temporary	-	-	-	0	0	0
	Total USA	75	11	86	66	13	79
REST OF THE WORLD	Permanent	122	13	135	136	15	151
	Temporary	2	1	3	2	3	5
	Total Rest of the World	124	14	138	138	18	156
TOTAL TESMEC GROUP	Permanent	740	127	867	784	135	919
	Temporary	8	3	11	11	4	15
	Total TESMEC GROUP	748	130	878	795	139	934

The geographical distribution of Group employees records 60% employed in Italy, 15% in France, 8% in North America and the remaining 17% in other countries.

Number of employees as at 31 December by employment contract (full-time and part-time) and by gender							
	Type of Contract	2020			2021		
		Men	Women	Total	Men	Women	Total
TOTAL TESMEC GROUP	Full-Time	744	118	862	790	126	916
	Part-time	4	12	16	5	13	18
	Total	748	130	878	795	139	934

The professional category most represented is that of blue collar workers (51% of the total), followed by white collar workers (41% of the total), middle managers (around 5% of the total), and managers (around 3% of the total).

85% of the personnel is male, due to the nature of the business that requires the presence of a high number of blue collar workers and therefore work duties historically characterised by a strong male presence. Women are mainly present in administrative offices, as shown by the 29% share of female white collar workers.

Furthermore, in carrying out its activities, the Group strives to combat all forms of discrimination in the workplace by recognising equal opportunities for all collaborators as indicated in its Code of Ethics and by protecting and hiring the number of people belonging to protected categories each year in accordance with the regulations in force.

61% of the Group's employees belong to the age group between 30 and 50 years, 21% of employees are over 50 years of age and 18% of employees are under 30 years of age⁸.

⁷ Note that the total number of employees at 31 December 2020 of the French company Groupe Marais included an employee whose employment contract ended on 31 December 2020; therefore, the 2021 data is not comparable with 2020 in terms of total turnover.

⁸ Note that these percentages do not include Tescmec USA, Inc. in that, by company decision, the breakdown of employees by age group is not monitored or reported by the company, in order to avoid the disclosure of data subject to possible disputes.

Employee category	Number of employees as at 31 December by category and by gender					
	2020			2021		
	Men	Women	Total	Men	Women	Total
Managers	19	4	23	20	3	23
Middle managers	58	8	66	42	9	51
White collar	224	105	329	270	111	381
Blue collar workers	447	13	460	465	14	479
Total	748	130	878	797	137	934

Employee category	Number of employees as at 31 December 2021 by category and by age group ⁹			
	2021			
	<30 years	30-50 years	>50 years	Total
Managers	-	15	7	22
Middle managers	1	26	20	47
White collar	61	250	48	359
Blue collar workers	93	229	105	427
Total	155	520	180	855

Employee category	Number of employees as at 31 December 2020 by category and by age group ¹⁰			
	2020			
	<30 years	30-50 years	>50 years	Total
Managers	-	15	6	21
Middle managers	5	39	17	61
White collar	40	222	43	305
Blue collar workers	84	218	103	405
Total	129	494	169	792

The use of external workers is necessary to deal with the increased workload following the acquisition of new orders, especially in the Rail segment.

As at 31 December 2021, the number of external workers in the Tesmec Group was 49, slightly down from last year's data (60)¹¹.

The use of coordinated and continued collaboration contracts takes place as part of the development of new product technologies whereas the use of internships, especially in Italy, takes place as part of the collaboration with technical institutes or public institutions.

Lastly, the industrial relations that the Group maintains are based on constructive dialogue with trade unions in compliance with the regulations in force and, in any case of company reorganisation and restructuring, workers and their representatives are informed in advance, with deadlines that vary depending on the Country in which the Group operates in full compliance with local laws, of collective labor agreements in force and of trade union agreements.

⁹ Note that this data does not include Tesmec USA, Inc. in that, by company decision, the breakdown of employees by age group is not monitored or reported by the company, in order to avoid the disclosure of data subject to possible disputes.

¹⁰ Note that this data does not include Tesmec USA, Inc. in that, by company decision, the breakdown of employees by age group is not monitored or reported by the company, in order to avoid the disclosure of data subject to possible disputes.

¹¹ Note that the total number of external workers also includes directors with coordinated and continued collaboration contracts (Co. Co. Co.).

Training and skills development

The Tesmec Group believes in training as a lever to develop human capital and constantly invests in training initiatives for its personnel.

In addition to specific training activities aimed at facilitating the recruitment and integration of new employees and compulsory health and safety training, the training offered by Tesmec in 2021 has been further extended and consolidated with a view to ensuring the Lifelong Learning process, which meets the following objectives:

- enhancing and qualifying resources;
- updating and increasing specific technical skills;
- disseminating new knowledge;
- increasing awareness of actions, the ability to adapt and propose improvements;
- promote generational relay.

To this end, each Manager identifies the training needs (hard skills and soft skills) for their area in relation to the work requirements and the specific features of each professional figure and, with the support of the Human Resources Department, defines the most appropriate training actions.

Specifically, training requirements were defined for 2021 on the basis of the following macro-areas:

- CHANGE MANAGEMENT
- IT: DIGITAL/ICT
- STRATEGIC TRANSFORMATION
- LANGUAGE AREA
- RELATIONSHIP AND PERSONAL DEVELOPMENT
- DEVELOPMENT OF TECHNICAL AND TECHNOLOGICAL SKILLS RELATED TO THE ROLE/TASK
- FUNCTIONAL SAFETY CERTIFICATION COURSES

As a result of the analysis carried out, a 2021 Training Plan was drawn up and approved by HR Manager and Quality Manager. For authorised courses, plans financed by Fondimpresa and/or Fondirigenti have been set up, where possible.

Personnel training for all the Group's Italian companies is recorded in the HR management system in order to keep track of all training events organised both internally and with the support of external professionals.

In 2021, in view of the Covid-19 emergency, training continued to be organised mainly in remote mode.

The following table shows the average training hours of the Tesmec Group, broken down by type of contract and gender:

Employee category	Average hours of training per employee, by category and by gender					
	2020			2021		
	Men	Women	Total	Men	Women	Total
Managers	10.7	-	8.8	2.7	1.8	2.6
Middle managers	7.1	6.0	7.0	5.8	3.8	5.5
White collar	4.0	5.2	4.4	13.4	11.3	12.8
Blue collar workers	7.8	2.5	7.6	8.5	3.9	8.4
Total	6.7	4.9	6.4	9.9	9.8	9.9

In 2021, the project to implement the new ERP management software (T-EN Project) in the Group's various premises continued, in which training actions were organised, with the support of external consultants, aimed at guiding the company population towards the new digital processes and working methods.

As part of the "Evolution Speeder: condivisione delle conoscenze - stato delle tecnologie di Tesmec" (Evolution Speeder: knowledge sharing - state of Tesmec technologies) project, launched in 2020 with the aim of identifying the technologies developed to date, identifying synergies in terms of skills, resources and technologies between the various product lines and

encouraging knowledge sharing and the process of contamination between the Group's different Business Units, the following initiatives were implemented for 2021:

- 1) creation of a tool for mapping the skills of technical office resources, with the aim of creating a shared pool of knowledge that colleagues can draw on when needed;
- 2) creation of a company Academy for the promotion of internal training, whose objective is to share Tesmec's positive experience in other business areas.

To this end:

- a Project Management course was organised by internal company speakers, involving various resources across departments. The aim of the course was to provide an overview on Project Management in order to have a common language when approaching the world of project management and to share a method that is easily applicable to different business initiatives;

- a training plan on Software Development was developed with the aim of reviewing the method and governance of software development projects in all Business Units, identifying a common substrate to improve the effectiveness and reuse of skills. The aim of the project is both to develop technical and digital skills and to accompany the transition through the growth and updating of transversal skills. This is a need to develop innovative technical skills in Information Systems and ICT and to digitalise processes for managing the software life cycle by defining design standards. This must go hand in hand with the further objective of identifying improvement actions in the managerial and organisational area, defining common guidelines for all BUs concerning Project management, Creativity and Innovation, Change management and Employee empowerment;

- concrete groups were created for the practical sharing of know-how through ad hoc meetings and chats dedicated to and reserved for experts in the sector (design streams) with particular reference to the following topics involving several BUs (Rail, Stringing Equipment, Trencher, Automation):

- Mechanical design
- Oleo hydraulic, pneumatic and hydraulic design
- Electrical design
- Electronic design
- Simulation and finite element calculations

The materials of these meetings, together with those of the seven 2020 projects of the "Evolution Speeder" path, will be uploaded to the business training platform for sharing with all Group resources.

New employee hires and employee turnover¹²

The Tesmec Group is aware that human capital and relations with its employees represent a strategic resource to be maintained. As explained in the Code of Ethics, the Group safeguards and promotes the value of human resources in order to increase the wealth of expertise of each employee and encourages the respect for a person's physical, moral and cultural integrity.

For the Group, the processes of attracting qualified figures and relevant specialist profiles are integrated into the practice followed daily in personnel management.

During 2021, the Tesmec Group pursued its talent acquisition strategy to attract the best resources, which includes three fundamental steps:

1. fall into line with the main company objectives, to launch a talent acquisition strategy targeted to the real needs of personnel for the coming years;

¹² For the purpose of calculating the new employee hires and turnover rates by age group and gender, the data relating to the company Tesmec USA, Inc. was excluded in that, by company decision, the breakdown of employees by age group is not monitored or reported by the company, in order to avoid the disclosure of data subject to possible disputes. The number indicated in the table corresponds to the total number of employees hired and resigned without the specific age bracket of reference. Note that for 2021, the total number of hires for Tesmec USA, Inc. was 12 (of which 9 men and 3 women); the total number of terminations was 19 (of which 17 men and 2 women). On the other hand, for 2020, the total number of hires for Tesmec USA, Inc. was 5 (of which 4 men and 1 woman); the total number of terminations was 11 (of which 9 men and 2 women).

2. use flexible talent to future-proof the company;
3. strengthen employer branding to attract more qualified candidates.

In order to increase collaboration networks between the world of education and the world of work, during 2021, 46 students from schools that are logistically close to the various Tesmec offices were hosted at the Group's Italian premises, offering on-the-job training experience and an opportunity for orientation in order to develop the skills needed to deal with the world of work in a conscious way.

With the aim of increasingly strengthening relations with the school world, in 2021 Tesmec, in collaboration with the Headmaster of ITIS "P. Paleocapa" of Bergamo and President of the M²A Mechatronics-Mechanics and Automation national network, activated the "RETE NAZIONALE M²A Meccatronica-Meccanica e Automazione" (M2A Mechatronics-Mechanics and Automation NATIONAL NETWORK) project. Various company departments at the Group's various Italian premises proposed real projects, which have been implemented or are being developed with the collaboration of students and professors from local technical schools. Specifically:

Project title	Tesmec Premises
Diagnostic Vehicles: Falco Fleet	Tesmec RAIL: Bitetto
First Heart Portal	Tesmec RAIL: Bitetto
Automation of an industrial machine for testing voltage and current measurement sensors	Tesmec AUTOMATION: Padua
Plant signal simulator	Tesmec AUTOMATION: Fidenza
Methods of manufacturing studies (Assembly of mechanical machining products in the mechanical, mechatronic sector)	Tesmec SPA: Sirone
ICT project: Automation and optimisation of the data extraction and correction process for the launch of the new ERP D365	Tesmec SPA: Grassobbio
ICT project: Technological renewal: IT asset survey, with development of OS upgrade plan and implementation of new data security and data protection tools	Tesmec SPA: Grassobbio
Project related to the development of a configurator	Tesmec SPA: Grassobbio
Developing applications for smart phones	Tesmec SPA: Grassobbio
Surveying and drafting of equipment with 2D and 3D drawing programmes	Tesmec SPA: Grassobbio
Development of a linear voltage amplifier	Tesmec AUTOMATION: Patrica
Development of an application to manage a handling system	Tesmec AUTOMATION: Patrica

During September and October 2021, as part of the work orientation activities, four meetings of "Coach With Us" were held, the initiative organised in collaboration with Club DIPER and Confindustria Bergamo to give the children of Tesmec employees the opportunity to attend orientation courses for the world of work. The programme enabled the students to reflect on the following topics: who will be the protagonist of their own future, professional development in the company, possible occupational opportunities. Moreover, the students had the opportunity to listen to two Tesmec employees, both of whom had been with the company for no more than a year, to visit the company departments and to simulate job interviews. This initiative received praise from the participating students who found the experience very positive.

Again with a view to increasing partnerships with universities and fostering employer branding, Tesmec participated in the following Career Days during the year:

- Polimi - Politecnico di Milano
- Poliba - Politecnico di Bari
- Università degli studi di Cassino
- Bergamo Job Festival
- Università degli studi di Padova

Moreover, in 2021 Tesmec Automation in collaboration with the University of Cassino financed a three-year Doctorate in "Methods, models and technologies for engineering" with administrative offices at the Department of Civil and Mechanical Engineering, whose objective is to develop technical engineering skills in the company.

Among other projects aimed at improving Tesmec's attractiveness on the labor market, other initiatives were promoted during 2021 in collaboration with the partner Manpower. In particular, a Digital Assessment was organised to assess the profiles of young people who had recently graduated or were about to complete their studies in the technical/technological field.

In 2021 and 2020, the following turnover indices were recorded, broken down by age group, gender and geographic area.

New employees hires and employee turnover	New employee hires		Employee Turnover	
	2020	2021	2020	2021
Age group				
<30	26%	41%	29%	18%
30-50	13%	17%	16%	11%
>50	4%	7%	18%	12%
Gender				
Man	12%	19%	18%	13%
Woman	18%	18%	20%	14%
Geographic area				
Italy	9%	14%	7%	6%
France	16%	14%	16%	12%
United States	6%	15%	13%	24%
Rest of the world	28%	43%	64%	37%
Total	13%	19%	18%	13%

During the reporting period, there was an increase in the hiring rate compared to the previous year (from 13% in 2020 to 19% in 2021), the data collected at the Tesmec Group level, considering the specified exclusions, shows that in 2021 there was a greater incidence of hiring for employees under 30 years of age (41%), compared to the rates recorded for 2021 for the other age groups. Moreover, new employee hires were evenly distributed by male gender (19%) and by female gender (18%) compared to the respective headcount totals.

With reference to the employee turnover rate, overall down compared to last year (from 18% in 2020 to 13% in 2021), a slightly higher rate was recorded in the under-30 age group (18%), considering the trend by age group during the year subject to reporting.

Specifically, the figures for new employee hires and turnover are broken down below in absolute terms for the years 2020 and 2021¹³.

New employee hires:

2021		Italy			France			USA			Rest of the World		
Age group	Men	Women	Total	Men	Women	Total	Men	Women	Total (without age group)	Men	Women	Total	
<30	31	5	36	4	1	5	N/A	N/A	N/A	20	3	23	
30-50	31	5	36	11	4	15	N/A	N/A	N/A	33	2	35	
>50	4	0	4	0	0	0	N/A	N/A	N/A	8	1	9	
Total	66	10	76	15	5	20	9	3	12	61	6	67	

2020		Italy			France			USA			Rest of the World		
Age group	Men	Women	Total	Men	Women	Total	Men	Women	Total (without age group)	Men	Women	Total	
<30	5	3	8	6	4	10	N/A	N/A	N/A	15	1	16	
30-50	26	9	35	9	3	12	N/A	N/A	N/A	17	2	19	
>50	2	-	2	1	-	1	N/A	N/A	N/A	3	1	4	
Total	33	12	45	16	7	23			5	35	4	39	

Employee Turnover:

2021		Italy			France			USA			Rest of the World		
Age group	Men	Women	Total	Men	Women	Total	Men	Women	Total (without age group)	Men	Women	Total	
<30	2	0	2	5	3	8	N/A	N/A	N/A	16	2	18	
30-50	14	5	19	5	2	7	N/A	N/A	N/A	29	3	32	
>50	11	1	12	1	1	2	N/A	N/A	N/A	7	0	7	
Total	27	6	33	11	6	17	17	2	19	52	5	57	

2020		Italy			France			USA			Rest of the World		
Age group	Men	Women	Total	Men	Women	Total	Men	Women	Total (without age group)	Men	Women	Total	
<30	5	-	5	3	1	4	N/A	N/A	N/A	25	3	28	
30-50	14	5	19	9	3	12	N/A	N/A	N/A	45	5	50	
>50	10	3	13	5	1	6	N/A	N/A	N/A	8	3	11	
Total	29	8	37	17	5	22			11	78	11	89	

¹³ Note that these data do not include Tesmec USA, Inc. in that, by company decision, the breakdown of employees by age group is not monitored or reported by the company, in order to avoid the disclosure of data subject to possible disputes.

Welfare and work-life balance

Tesmec places employees at the centre of its strategies for growth and development, promoting their well-being and fostering the ideal of work-life balance.

In this perspective, in continuity with 2020, the following initiatives were promoted in 2021 in favour of the employees of Italian companies:

- flexible working tools, such as multi-week working hours, flexible working hours on entry/exit, flexibility and special leave;
- structural introduction of smart working with a dedicated policy;
- company factotum service to handle personal errands;
- possibility of having goods purchased online delivered to company premises;
- possibility of changing tyres at the company;
- tax support service;
- activation of agreements for leisure, sports, health and household goods and services;
- granting loans and severance indemnity advances to meet personal needs and/or economic difficulties;
- scholarships to children of employees;
- company seniority bonus and Speed Awards;
- in-house flu vaccination campaign.

Moreover, the company Welfare Plan, which makes a wide range of goods and services available to employees and their families through the Edenred platform, was further strengthened in 2021. In particular:

- the platform was enriched with new services and tools, expanding among other things the network of online spendability of Digital Ticket Compliments;
- employees entitled to company performance bonuses and MBO bonuses were given the opportunity to convert a portion of these bonuses into welfare credit, with the possibility of further increases if the option right is exercised.

During 2021, all the insurance coverage activated for Italian companies during the emergency phase was maintained, specifically insurance for COVID-19, coverage against pandemic syndromes with a specific quarantine indemnity and a policy for death due to illness, with a further increase in the insured capital.

In 2021, the adoption of the WHP (Work and Health Programme) project, as part of a strategy to enhance human resources and their well-being, is of particular importance.

The WHP model, recommended by the WHO, oversees the prevention of behavioural risk factors through organisational changes that facilitate the adoption of healthy lifestyles.

The Programme addresses factors not traditionally associated with occupational risk, the approach recommends its implementation according to the Comprehensive Workplace Health Total Worker Health.

The Programme, with the leverage of Corporate Social Responsibility, envisages the engagement of employers in the activation of processes that make the workplace a "health-friendly" environment through environmental organisational changes and the increase in workers' skills. It is a structured and participatory process aimed at implementing effective and sustainable actions (recommended good practices) on various issues, such as nutrition, smoking, COVID.

A minimum standard is required for recognition, specifically:

- In the first year, adoption of a good practice in two priority areas;
- In the second year, adoption of a good practice on the other two priority areas (keeping the previous ones active);
- In the third year, adoption of a good practice on a thematic area (keeping all previous ones active).

Subsequently, all best practices in the priority thematic areas should be completed.

In addition to the minimum standard, the company may also assess from the first year onwards the implementation of best practices in the thematic areas not considered a priority.

The following are the thematic areas of the WHP project:

- DIET
- PHYSICAL ACTIVITY
- TOBACCO SMOKE
- COMBATING ADDICTIVE BEHAVIOUR (alcohol, drugs, gambling, etc.)
- ROAD SAFETY
- WELLNESS (LIFE - WORK BALANCE)
- COVID AREA (psychological support etc ...)

Tesmec proposed the following best practices, partly implemented in 2021 and partly planned for 2022 with a special focus on Italian companies, but also followed up in foreign companies through the promotion of dedicated initiatives:

- 1) DIET: raising awareness among employees about balanced eating through dedicated webinars and distribution of organic kits to employees. Food baskets containing organic food products were also chosen for Christmas gifts to employees in all Italian and foreign Group companies.
- 2) PHYSICAL ACTIVITY:
 - a) Good practice in using stairs: internal information campaign on the promotion of physical activity by displaying signs at lifts encouraging the use of stairs;
 - b) Promoting physical activity: displaying promotional posters in the company and agreements concerning subscriptions to gyms, swimming pools or sports centres and/or the purchase of sports clothing/equipment;
 - c) Launch of the Virtuoso App in Italian and foreign companies: App promoting physical exercise to all employees with special competitions (1 every two months) and special prizes for the winners.
 - d) Organisation of sports initiatives:
 - 18-19 September 2021: E - Bike Festival Valtellina + walk through the wood of Dazio (Sondrio)
 - 17 July 2021: Alpe Corte hike (Bergamo)
 - 6 August 2021: Monopoli volleyball tournament (Bari)
- 3) TOBACCO SMOKE:
 - a) Smoke-free paths to be implemented internally with employees in cooperation with LILT.
 - b) Communication and information campaign: display of tobacco posters.
- 4) COVID AREA: awareness-raising intervention on the medium/long-term psychological effects of Covid-19 in the workplace:
 - a) Interviews with the COVID-related stress decompression psychologist;
 - b) Wellness webinars on psychological balance.
- 5) TESMEC WEBINAR WELLNESS: Webinars on WELLNESS were launched in cooperation with the external body Welfood and a number of employees, who made their teaching available. The titles of the courses are:
 - CONSCIOUS BREATHING
 - NUTRITION AND THE IMMUNE SYSTEM
 - FLOWER COMPOSITIONS
 - CARE FOR POSTURE
 - COOKING COURSES
 - MASTERS OF ONE'S OWN TIME
 - COPING WITH STRESS
 - SUPER MUMS AND SUPER DADS: TIME MANAGEMENT

The courses were planned from October 2021 until May 2022.

- 6) PSYCHOLOGICAL SUPPORT
 In the French company Groupe Marais, a training plan (Risque Psycho Sociaux) was launched in 2021 for managers to be able to communicate better with teams, improve the company climate and possibly identify people who may be particularly stressed, with the aim of activating psychological support for workers in a second phase.

In 2021, Tesmec also promoted an important volunteer project with several initiatives in Italy and abroad:

- Food collection: with the aim of fostering sustainable development for the growth of the community, generating shared social value and contributing to a future of inclusion and development, food collections were organised at all the Italian offices of the Tesmec group, in collaboration with the Banco Alimentare (<https://www.bancoalimentare.it/it>) which promotes policies to combat food waste and support poverty, and in the USA in collaboration with the association Alvarado Helping Hands For Jesus;
- Bosco della Memoria: on 18 March 2021 Bergamo commemorated the National Day for the victims of COVID-19 by planting the first tree in the Bosco della Memoria. Tesmec wanted to make its contribution to share memory and hope in a common living space;
- "Bergamo Network_Noì Aderiamo" project in collaboration with Patronato San Vincenzo and Fondazione Riva: possibility of supporting these companies with voluntary work by employees, with payment of surpluses in the canteen (project already activated), as well as training activities for personnel reinstatement. This project involves several companies in addition to Tesmec and aims to increase networking with other companies;
- "Corri per Theodora" project from 2 August to 26 September 2021: since 1995, Fondazione Theodora Onlus has been bringing moments of play, listening and escape to children in hospital with the special personalised visits of the professional artists, called Dottor Sogni (Dream Doctors), hired and specifically trained by the Foundation to work in highly complex paediatric wards in synergy with hospital personnel, as part of an integrated care process for the young patient. Tesmec has chosen to support Theodora's mission because it shares its fundamental values, such as caring and listening. For Tesmec, caring for and listening to our stakeholders, our customers, our employees; for Theodora, caring for and listening to children in hospital, their families and hospital personnel, within a common vision of inclusion and integration. Respect and care for others and the territory are the basis of Tesmec's sustainability policy.

During the year, a survey was launched to all personnel to analyse employees' awareness of volunteering and to promote new corporate volunteering initiatives in the short/medium term.

Finally, a number of business events and team building initiatives were organised in all the Group's Italian and foreign companies to increase the sense of belonging to the company and encourage cohesion within work groups.

A list of the main activities is shown below:

- Christmas call with Management during the Christmas holidays, in all the Group's offices
- Celebration of Tesmec's 70th year in Bergamo at the Carrara Academy and in Monopoli at the Diocesan Museum
- Chili Cook Off in the USA
- Mid-Autumn Festival celebrations and corporate dinner in China
- Company picnic in France

Occupational Health and Safety

The Health and Safety of workers is a fundamental aspect for the Group, the importance of the adequacy of the working environment and equipment, the training of personnel and everything necessary to comply with safety requirements represents one of the main values for the Group and for the protection of its employees, considered the substantial asset of Tesmec.

The Tesmec Group, considering that Occupational Health and Safety are a fundamental right of workers and a key element for the sustainability of the Group, ensures safe and healthy working environments, in compliance with the regulations on safety and health at work in force in the various countries where it operates. This principle is also included in the Code of Ethics of Tesmec.

In detail, 2021 was characterised by the continuation of the "strong" theme of the previous year, namely the global Covid-19 pandemic. In the Tesmec Group, all the actions already initiated in 2020 were developed, improved and integrated:

- Constant review and sharing of COVID management procedures
- distancing within offices and production areas through barriers, imposed distances, smart working, differentiated access times to premises including canteens;
- constant improvement of the automatic temperature control "portal" recently integrated with the checking of the Green Pass.

Tesmec also provided total willingness to use its sites as vaccination hubs for the employees themselves. The project did not get off the ground for reasons external to the Group.

All of the above actions resulted in a safe environment, preventing any COVID outbreak within the Tesmec Group.

All workers are regularly informed about Health, Safety and Environmental aspects and are encouraged to report dangerous conditions to their supervisors or QHSE Manager via the system implemented two years ago called Find & Fix or by any other means of communication. Moreover, when an injury or a damage to the environment occurs, specific internal procedures are implemented to carry out an appropriate investigation and to determine the action to be taken to prevent its recurrence.

Foreign subsidiaries operate medical services in accordance with local regulations. Moreover, all subsidiaries ensure the quality of occupational health services and contribute to the identification and elimination of hazards and the minimisation of risks through various actions such as subjecting new workers to medical examinations before the beginning of the employment relationship, mitigating the risk of hiring personnel unsuitable for the tasks to be performed, training and sensitising the workers awareness during work and carrying out regular audits. Finally, employee health information is stored on a server to which a limited number of people in the company can have access.

For Italian companies, the responsibility for ensuring a safe working environment in compliance with current regulations, and therefore, the carrying-out of activities concerning the application of laws that regulate Occupational Health and Safety, is assigned to the Employer in the first place and, to all other persons involved in the organisation of safety: Prevention and Protection Service Manager, QHSE Manager, Delegates, Managers and Heads. The periodic updating of the procedures as a consequence of any new regulation or organisational change always falls on the Employer, be it the Parent Company or the subsidiaries.

To date, the management systems of all the Italian companies and the subsidiary Marais Laying New Zeland are certified according to ISO 45001:2018.

The implementation of the same standard on the main foreign subsidiaries is being evaluated.

The activities covered are mainly the design, production, marketing, maintenance and after-sales service of:

- rolling stock, railway vehicles and measurement and diagnostic systems.
- electronic sensors for measuring, monitoring and troubleshooting in the electrical sector; measurement, protection and control systems for managing the MV/HV electricity distribution network, electronic devices and systems in the fields of automation and telecommunications remote controls.
- machines, equipment and integrated systems for stringing and maintenance of power lines and data; tension stringing equipment systems for the construction, maintenance and diagnostics of rail power supply networks; crawler and road trencher for the linear excavation with a set section; crawler trenchers for earth moving works and surface mining; multi-purpose site machines; on/off shore single-drum winches.

Moreover, in Italy, in accordance with the regulations in force, occupational hazards that constitute a risk of injury are assessed, monitored and reported in the Risk Assessment Document (RAD), which is specific to each factory and periodically updated. All Italian plants have their own occupational health specialist and meetings are organised at least annually between the occupational health specialist, the HSO, the Safety Delegates and the Workers' Representative for Safety.

With a view to continuous improvement, an operating procedure has been in place for some years now, with the support of the Group's QHSE Manager (Quality, Health, Safety and Environment Manager), invites Tesmec Group employees to follow through a number of distinct phases the management of any injury that may have occurred in the workplace. This procedure is aimed at obtaining a greater awareness of the causes of accidents and at disseminating, through publication in a place accessible to all, the report of the event with the relative remedy action, where provided for, in order to raise awareness of the business culture in risk prevention and reduce the probability of occurrence of the event.

In Italy, monthly meetings were scheduled to circulate information on Health, Safety and Environment. In companies abroad, these types of meetings are carried out on the basis of local regulations in force and the requirements laid down by the QHSE Manager. In the long term, certain activities that have become common practice in Tesmec companies in Italy will also be common practice in the Group's main foreign factories.

Each worker is guaranteed adequate training and information as required by local regulations in force in the various countries in which the Group operates; in Italy in particular, monthly "HSE Talks" lasting half an hour are also organised to raise awareness and a two-way channel of information.

The Tesmec Group is also aware of the risks relating to the "Health and Safety" area concerning the personnel on secondment and to the work at the sites in which they operate. Therefore, following the principle of continuous improvement also indicated in the Group's Code of Ethics, Tesmec prepared manuals of conduct for personnel on secondment on sites, with the aim of monitoring as much as possible the main risks related to the service activities carried out at these workplaces, in compliance with the regulations of the country of reference and of the other companies operating within the same site. As a result, specific safety training sessions were held for the Italian companies' personnel on secondment, in addition to those already provided for by law, with the aim of disseminating the contents of the "manuals of personnel on secondment" and exposing the risks of this working environment.

The important project that Tesmec Italia has joined in 2021: the WHP - WORKPLACE HEALTH PROMOTION PROGRAMME is also worth mentioning.

The programme aims to reduce the preventable and avoidable burden of morbidity, mortality and disability of chronic non-communicable diseases. It contributes to the processes of health promotion in the workplace, specifically overseeing the prevention of behavioural risk factors of chronic and degenerative diseases (unhealthy diet, sedentary lifestyle, smoking, harmful alcohol consumption), therefore, on the basis of the best evidence of effectiveness, has as its priority objective to promote the adoption in the workplace of recommended practices in order to make them favourable environments for the competent and conscious adoption of lifestyles favourable to health.

Several practices and activities have already been launched during 2021 throughout Tesmec Italy and others are already planned for 2022.

The main data collected on Occupational Health and Safety is summarised below. It is specified that the main types of injuries are related to the handling of machinery on worksites and the handling of heavy items within production sites and the falling of personnel during work activities. Occupational hazards are generally identified through risk assessments and consultations with workers.

In 2021, there were 23 employee injuries, of which 9 occurred in Italy, 10 in France, 3 in the U.S.A. and 1 in the other countries where the group operates.

In 2021 there were also 7 injuries involving external workers and 3 cases of occupational disease, of which 2 at Groupe Marais and 1 at in Marais Laying New Zeland.

The following rates only take into account injuries that have resulted in days lost beyond the day on which the event occurred (minor accidents, e.g., first-aid and limitation to work, are not taken into account).

	2020 ¹⁴		2021 ¹⁵	
	Employees	External workers	Employees	External workers
Hours worked	1,460,428.36	108,505.10	1,586,689	102,169
Number of fatalities	-	-	-	-
Number of high-consequence work-related injuries (excluding fatalities)	1	-	1	-
Number of recordable work-related injuries (excluding deaths and injuries with serious consequences)	20	11	22	7
Rate of fatalities as a result of work-related injuries	-	-	-	-
Rate of high-consequence work-related injuries (excluding fatalities)	0.68	-	0.63	-
Rate of recordable work-related injuries	13.69	101.38	13.87	68.51

17.6 Responsible management of environmental impacts

The Group pays a special attention to topics relating to climate change and greenhouse gas emissions in that both energy and emissions are material topics for the Group. With a view to the future, company initiatives are also planned to reduce energy consumption and therefore emissions.

As from August 2018, the figure of the QHSE Manager (Quality, Health, Safety and Environment Manager) was included in the team of Tesmec S.p.A. with the task of coordinating at Group level the areas relating to Quality, Environment and Health and Safety, adopting the necessary measures to reduce the related risks. There is also the figure of the RSPD with reference to all the Italian companies of the Tesmec Group; in support of the above-mentioned business functions, Tesmec also avails itself of the services of specific consultants for certain topics with direct or indirect impact on the Environment concerning Italian companies. The QHSE Manager of Tesmec S.p.A., supported at the level of each branch by the local managers, collect and process the data required for the purposes of this Consolidated Non-financial Statement, by sending questionnaires in Excel format.

The following pages describe the policies, the management system and the results achieved.

MATERIAL TOPICS RELATED TO THE ENVIRONMENT	MAIN RELATED RISKS
<p>Responsible management of energy consumption</p> <p>Reduction of emissions and fight against climate change</p> <p>Raw materials and materials</p> <p>Waste and chemicals management</p>	<p>Risk related to non-compliance with environmental laws and regulations, including those concerning the disposal of waste and other hazardous substances and environmental protection.</p> <p>Risk related to the absence of targets to reduce energy consumption and greenhouse gas emissions</p> <p>Risk related to the occurrence of external natural/accidental events</p> <p>Risk related to the lack of suppliers able to guarantee the environmental requirements</p> <p>Risk related to the increase in costs of natural resources</p>

¹⁴ The data from the companies MIR SA and East Trenchers S.r.l. is excluded from the total of occupational health and safety data as it is not available.

¹⁵ The data from the companies MIR SA, East Trenchers S.r.l., 4 Service USA, 4 Service S.r.l. is excluded from the total of occupational health and safety data as it is not available.

During 2021, based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), a gap analysis was carried out with respect to the practices implemented by the Group. Firstly, a benchmarking analysis was carried out on a predefined set of peers/competitors on Climate Change disclosure, with a special reference to the TCFD recommendations on:

- organisational governance of climate-related risks and opportunities.
- the current and potential impacts of climate-related risks and opportunities on the organisation's operations, strategy and financial planning.
- how the organisation identifies, assesses and manages climate-related risks.
- metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Subsequently, an analysis was prepared of the "as is" situation of the TCFD's areas of attention, existing policies, procedures and operational practices related to the identification, management and external communication of key risks and opportunities. Climate-related KPIs, targets and governance systems. The analysis was then deepened through meetings with those involved in the management of the topic.

A gap analysis of what the Group was implemented with respect to the recommendations of the TCFD and the best practices identified during the benchmarking phase was carried out. The Group's efforts in the coming years will focus on the design of sustainability governance.

At the same time, as an important basis for this project, the certification of many electronic products of Tesmec Automation S.r.l. according to the ISO14067:2018 standard (Greenhouse gases: Carbon footprint) was managed in 2020 and in 2021. This activity is continuing steadily leading to the certification of new products; therefore, new ones are also expected in 2022.

Moreover, in 2021 the process was started to bring all Italian factories to EMAS (Eco-Management and Audit Scheme) registration, which indicates a company's compliance with the provisions of European Regulation no. 1221/2009.

This regulation aims to encourage a more rational management of the environmental aspects of the companies based not only on compliance with legal limits, but also on the continuous improvement of environmental performance, the active participation of employees and transparency with institutions and the public.

17.6.1 Policies, management systems and organisational models

The Tesmec Group is active in designing, manufacturing and selling systems and integrated solutions for construction, maintenance and diagnostics of infrastructures (aerial, underground and rail networks), for the transport of electric energy, data and materials (oil and derivatives, gas, water) as well as technologies for managing quarries and surface mines. Therefore, considering the activity, environmental impacts are related to the use of materials, energy, emissions and waste management (mainly "non-hazardous" waste) whereas the management of water resources and other air polluting emissions not included in greenhouse gas emissions are not material.

The Management is aware that some operations carried out as part of its activity can present risks for the environment; such as hazards arising from actual or proposed changes in the organisation as a result of incorrect management of changes to existing processes or introduction of new machines.

To date, environmental commitments are formalised in an HSE Policy valid for all the Italian companies of the Group and also in the Code of Ethics according to which the environment is a primary asset to be protected for present and future generations; in line with this principle, the Company and the Group plan their own activities seeking for the best possible balance between economic initiatives and environmental requirements: for example, since 2018, specific sensors have been present in various areas at the Grassobbio site to monitor and improve the tracking of energy consumption.

Note that all management systems of Italian companies are already according to ISO 14001:2015, an important goal achieved with the aim of protecting the environment in which Tesmec operates. The certification and the related system aim at an in-depth knowledge of the environmental aspects (emissions, use of resources, etc.) that the companies must effectively manage, in accordance with the legislative framework and the applicable requirements, assessing the importance of their impacts. The related HSE policies were also standardised at Italian level, thus achieving the objective of global integration in the management of environmental topics set previously by the Tesmec Group. In addition to the Parent Company, the American company Tesmec USA, Inc. and the French company Groupe Marais SAS already have a formalised HSE Policy.

Therefore, the Management of Tesmec S.p.A. defines, also through the Environmental Policy, drawn up as part of the integrated certification of Tesmec S.p.A., its commitment to always keep in mind the topic of the protection of the

environmental heritage when defining company choices and objectives and to the constant improvement of the following essential aspects:

- production cycles - minimise the environmental impact by improving the technologies used and selecting less polluting products;
- waste management and disposal - differentiate the waste generated and, where possible, reduce its quantity;
- products - analysis of the product to be manufactured, which takes into account, from the early stages of the project, the environmental impact of the product, both during operation and at the end of its life cycle and disposal.

The Management of Tesmec S.p.A. is constantly engaged in defining and implementing the management system so as to ensure that all workers can operate in the best possible conditions and become aware of the importance of protecting the company's assets, including protection of the environment and safety in the workplace.

The advanced technologies developed by Tesmec are always aimed at improving performance and respect for the environment, with a commitment to reduce greenhouse gas emissions through the development of energy efficiency projects. The machines produced have the objective of reducing the environmental impact to a minimum: low emission and high efficiency motors, automated controls that optimise operations and reduce errors, minimised deforestation through the use of stringing equipment demountable and transportable by helicopter, reduced excavation sections by the trenchers that allow recycling of excavated material, etc.

The use of more and more advanced technologies allows Tesmec a continuous improvement and a greater attention to the environment in which the Group operates.

17.6.2 Non-financial results and indicators

Energy

For the protection of the environment, Tesmec S.p.A. implemented a monitoring system as per ENEA directives to check consumption and define energy saving solutions and procedures.

Since the end of 2018, an energy monitoring system that, through specific sensors and a dedicated software, allows a timely measurement and analysis of different energy consumption (such as gas consumption, electricity, etc.). This system aims to obtain a better measurement of consumption and thus allow a better energy efficiency.

As shown in the Methodological Note to this Non-Financial Statement, in 2021 the company Tesmec Guinee SARLU entered the boundary of the company data and information.

As can be seen from the table below, total energy consumption increased in 2021 compared to the previous year. This change is mainly due to a general resumption of activities previously interrupted due to the Covid-19 pandemic.

The following table shows the Group's energy consumption for 2020 and 2021:

Energy consumption (GJ)	2020 ¹⁶	2021 ¹⁷
Natural gas	21,748	24,051
Diesel oil	24,472	55,220 ¹⁸
Petrol ¹⁹	4,449	962 ¹⁹
LPG	558	633
Electricity purchased	17,958	18,319
Self-produced electricity	4,770	4,328
<i>of which from renewable sources</i>	4,770	4,328
Electricity sold	1,121	695
Total consumption	72,834	102,817
<i>of which electricity consumed</i>	21,607	21,952

¹⁶ The data of 4 Service USA LLC is excluded from the total energy consumption data in that not available.

¹⁷ The data of 4 Service USA LLC is excluded from the total energy consumption data in that not available.

¹⁸ It should be noted that the data relating to diesel oil consumption in 2021 by the company Tesmec USA are excluded from the reporting scope of the data.

¹⁹ It should be noted that the data relating to petrol consumption in 2021 by the company Tesmec USA are excluded from the reporting scope of the data.

In 2021 the Tesmec Group produced energy from photovoltaic renewable sources for 1,202,239 kWh, of which 192,978 kWh were sold to the electricity network, slightly down compared to the previous year following despite the closure of some plants due to the COVID-19 pandemic.

Emissions into the atmosphere

Given the nature of Tesmec's business and activities (described above), significant emissions into the atmosphere are those related to greenhouse gases, whereas emissions of pollutants are not significant.

Tesmec calculates its "carbon footprint" in terms of CO₂, reporting:

- direct emissions (Scope 1) deriving from the operation of plants and machinery owned or fully managed by the Company, such as, for example, heating plants (fuelled by natural gas) and machines fuelled by diesel oil, LPG and petrol;
- indirect emissions (Scope 2) deriving from the energy consumption of all factories coming from external supply (electricity), net of production and supply from renewable source plants (photovoltaic).

Scope 2 emissions were calculated in accordance with the Location-based and Market-based method.

As can be seen from the table below, the total emissions of Scope 1 increased during compared to the previous year (+60%). This change is mainly due to the increase in the use of diesel and natural gas, following the resumption of the Group's activities after the pandemic.

Emissions	2020	2021
Direct emissions - scope 1 (tCO₂eq)		
emissions from natural gas consumption	1,109	1,224
emissions from diesel oil consumption	1,637	3,660
emissions from petrol consumption	282	62
emissions from LPG consumption	33	38
emissions from refrigerant gases (R134a)	65	32
Total scope 1	3,126	5,016
Indirect emissions - scope 2 (tCO₂)		
Emissions from electricity consumption - location based	1,722	1,574
Emissions from electricity consumption - market based	2,032	2,065
Total scope 1 and scope 2 (market based)	5,158	7,081

Waste

With reference to the nature of the activities described in the above paragraphs, the Tesmec Group produces mainly non-hazardous waste.

As can be seen from the table below, for the year 2021, 346 tonnes of hazardous waste were produced.

With regard to the production of non-hazardous waste, 1,023 were produced in 2021. Any deviations between 2020 and 2021 are mainly justified by the absence of a stable production process. For this reason, significant differences in the quantities of waste produced can be identified between one year and another.

Waste	Total waste by type and disposal method		
	Unit of measurement	From 1 ^o January 2020 to 31 December 2020 ²⁰ .	From 1 ^o January 2021 to 31 December 2021 ²¹
		Total	Total
Total hazardous waste	t	305	346
Total non-hazardous waste	t	1,173	1,023
Total waste	t	1,478	1,369

Raw materials and materials

The entire production process is characterised by low use of polluting materials and correct disposal of waste and polluting agents, confined to special areas with adequate air treatment.

The raw materials most used (in terms of quantity) by the production companies (Tesmec S.p.A., Tesmec USA, Inc., Groupe Marais SAS) are semi-finished products in steel and aluminium (sheets, tubes, rounds) and semi-finished products in nylon (rings and plates) as well as hydraulic oil and lubricants. On the other hand, Tesmec Rail S.r.l. and Tesmec Automation S.r.l. do not purchase semi-finished steel, aluminium and nylon products, intended as relevant raw materials, while only for aluminium and nylon also Tesmec USA and Tesmec Marais Group France do not make purchases.

In total, 928 tonnes of mainly steel and ferrous materials were purchased in 2020, whereas for 2021 the purchase of 1,045 tonnes is broken down in: semi-finished steel and aluminium products (sheets, tubes, rounds), semi-finished nylon products (rings and plates), hydraulic oil and lubricants. These purchases refer to Tesmec S.p.A., Tesmec USA, Inc. and Groupe Marais SAS, whereas Tesmec Rail S.r.l. is included for the purchase of hydraulic oil and lubricants.

Purchases of materials - non-renewable (tonnes) ²²	2020	2021
Semi-finished steel products (sheets, tubes, rounds)	712	807
Semi-finished aluminium products (sheets, tubes, rounds)	29	38
Semi-finished nylon products (rings, plates)	72	60
Hydraulic oil and lubricants	115	140
Total	928	1,045

Moreover, in terms of the high quantity of purchases on an annual basis, for the purposes of a more complete representation, the elements purchased from Tesmec S.p.A. listed below have been considered:

- welded frames;
- welded wagon carrier trucks;
- capstans;
- cabins;
- conveyors;
- diesel engines;
- reduction gears and couplers;
- pumps and hydraulic motors;
- pneumatic components;
- electrical components;
- electronic components;
- axles and railway wheels;
- cranes and lifting platforms;
- teeth and excavation pockets;
- track chains.

²⁰ The indicator "306-3 Waste produced" includes the data of the production companies (Tesmec SpA; Tesmec Automation Srl; Tesmec Rail Srl; Tesmec USA, Inc.; Groupe Marais SAS) and of the company Marais Laying NZ Ltd. As reported in paragraph "17.1.7 Calculation methodologies adopted", the production of urban waste was excluded from the calculation.

²¹ The indicator "306-3 Waste produced" includes the data of the production companies (Tesmec SpA; Tesmec Automation Srl; Tesmec Rail Srl; Groupe Marais SAS) and of the companies Marais Laying NZ Ltd, Marais Cote d'Ivoire, Tesmec Guinee SARLU, Tesmec Australia (Pty) Ltd and Tesmec SA. Data from Tesmec USA Inc. are excluded from the total waste data, as they are not available. As reported in paragraph "17.1.7 Calculation methodologies adopted", the production of urban waste was excluded from the calculation.

²² Note that these figures refer exclusively to the Group's production companies: Tesmec S.p.A., Tesmec Automation S.r.l., Tesmec Rail S.r.l., Groupe Marais SAS and Tesmec USA, Inc.

17.7 Responsible management of the supply chain and social topics

The material topics related to the management of suppliers and of the product are summarised in the following table, together with the main risks identified by Tesmec management.

The data concerning these topics were collected and processed by the Senior Purchasing Manager of Tesmec S.p.A. in collaboration with the representatives of the Technical Office of Tesmec S.p.A. and the representatives of the local purchasing offices of the various companies involved in the consolidation area. The Senior Purchasing Manager is permanently present at the Purchasing Office of Tesmec S.p.A. at the premises of Grassobbio and coordinates centrally the purchases for the premises of Endine and Sirone, where there are additional resources to support the Central Office. The Senior Purchasing Manager of Tesmec S.p.A. also holds the authority within certain financial limits for the purchases of the Italian company Tesmec Rail S.r.l. with registered offices in Monopoli. The Senior Purchasing Manager of Tesmec S.p.A. coordinates with the other foreign premises of the Group on a continuous basis, with a view to organisational efficiency and, where possible, to obtain incentives deriving from the possibility of creating economies of scale.

The Purchasing Office of Tesmec S.p.A., supported at the level of each branch by the local managers, has collected and processed the data required for the purposes of this Non-financial Statement, by sending questionnaires in Excel format.

The following pages describe the policies, the management system and the results achieved.

MATERIAL TOPICS RELATED TO SOCIAL ISSUES	MAIN RELATED RISKS
<p>Geopolitical and social background</p> <p>Stakeholder engagement</p> <p>Customer satisfaction</p> <p>Product quality and safety</p> <p>Responsible management of the supply chain</p> <p>R&D and digital transformation</p> <p>Data privacy management</p>	<p>Risks due to negative externalities arising from its supply chain</p> <p>Risks due to insecurity of products sold and marketed</p> <p>Risks due to non-compliance of product information</p> <p>Risks related to the operation of industrial plants due to, by way of example, equipment breakdown and malfunctions, revocation of or dispute over authorisations and licences by the competent public authorities, strikes or shortage of labor force</p> <p>Risks due to accidents involving contractors, suppliers and strategic partners</p> <p>Risks related to intellectual property rights</p> <p>Risks related to the operation of IT systems (including infrastructure and software) and IT security, i.e. risks of exposure to cyber-attacks, viruses, unauthorised access aimed at extracting or corrupting Group information, which may damage the business of the Group's customers.</p> <p>Risks related to product development, product obsolescence and research and development</p> <p>Risks related to the breach of contracts with regard to delivery time and product quality</p>

17.7.1 Policies, management systems and organisational models

The development and production of machines focus on efficiency (including energy efficiency), safety and product quality, from the mechanical design of individual components to the analysis of materials and components and strict quality controls during and post-production. The machines are equipped with logical, electrical and electronic controls to increase efficiency and reduce consumption and to allow easy and correct use of the machines and analysis devices; moreover, all Tesmec products are designed with the aim of protecting and increasing the safety of the operator.

More specifically, in addition to the traditional advantage over traditional techniques, tension stringing has a lower environmental impact as it avoids deforestation or alteration of the underlying soil. The products and solutions of the Energy Automation Segment are intrinsically committed to environmental sustainability in that they enable the integration and management of renewable energy sources. In this segment, the Group's commitment to the environment is further demonstrated by the certification obtained on several Energy Automation product ranges according to ISO 14067 for checking the climate footprint with quantification of greenhouse gas emissions over the entire life cycle of a product and, consequently, related to compliance with Directive no. 2012/19/EU on waste electrical and electronic equipment (WEEE) and the principles

of the circular economy. The current development of the range towards machines with fully digital control and products with fully electrical solutions makes Tesmec's offer environmentally friendly; moreover, compared to excavators, the trencher, for the same number of linear metres excavated, allows greater efficiency in excavation, a reduced furrow, the handling of a smaller quantity of material, the possibility of reusing the excavated material to fill in the trench (with a consequent reduction in the material to be disposed of) and, under certain conditions, the use of fewer machines. The focus on efficiency and the use of low-emission engines make this technology less impactful when compared to traditional technologies (excavators and crushers). Moreover, integration with soil geolocation and mapping systems (identifying the presence of pipes and cables with a margin for error to the nearest centimetre) makes it possible to use the machine while minimising the possible side effects of the operation, with advantages in terms of speed of execution and reduced environmental impact. Rail vehicles whose engines comply with the most recent regulations in terms of environmental impact are equipped with automatic devices for reading signals on the infrastructure, aligning their use with the most recent European standards on railway traffic safety.

The development of a Tesmec product - from conception to application on site - is a process that implies investments and involves the attention of different offices including, for example, the Technical Office, Production, Quality and Safety, and After-Sales Service. Product development involves not only the Group companies, but innovation also expands the horizon towards the search for partnerships with suppliers, leaders in their sector, driving research into industrial products towards the technological renewal of components, mechanisms and electronics aimed at improving the performance of finished products.

Experimental development includes implementations and field tests coordinated and managed by specialised engineers. The attention to the machine or the equipment does not end with the finished product, but continues throughout its entire life cycle, through on-site inspections, direct on-site support, continuous reporting and monitoring activities by the technical staff present both remotely and in all countries where Tesmec machines are operating.

Tesmec holds the registration of several patents and certifications.

Management systems of Tesmec S.p.A., Tesmec Rail S.r.l., Tesmec Automation S.r.l. and Tesmec USA, Inc. have obtained the ISO 9001:2015 certifications in compliance with the updates of the standard. All the systems are coordinated at Group level by the QHSE Manager who, at the level of the individual branch, is supported by the reference managers. Moreover, the Tesmec Code of Ethics also includes among the Group's fundamental principles the quality of products as an intrinsic value of the Tesmec trademark both in terms of its safety and compliance with the highest quality and regulatory standards.

It should be noted that Tesmec Rail obtained the Ecovadis Gold Medal, i.e. the company falls within the 5% of the companies evaluated by Ecovadis that have obtained the best scores.

With regard to the supply chain, the Group bases its conduct in relations with suppliers and all partners on principles of transparency, equality, loyalty and free competition. Tesmec recognises the strategic importance of its suppliers inspiring all negotiations in full compliance with all the values set out in the Code of Ethics adopted by the Group.

17.7.2 Non-financial results and indicators

Supply chain

Tesmec Group has always tried to favour local suppliers (Europe for the production plants in Italy and France and USA for Tesmec USA, where this is possible and compatible with business solutions) to reduce transport time and costs.

The preference for local supply has also a positive impact on local communities (supporting the market) and the environment (helping to reduce pollution).

The main services/goods purchased are:

- raw materials and semi-finished products;
- services and productions in account for manufacture.

In Italy, Tesmec S.p.A., thanks to its quality management system, manages qualified suppliers in a special register (Qualified Suppliers List), which is subject to review at least once a year. The qualification of suppliers is defined on the basis of the assessment carried out according to the following parameters:

- assessment of technical capabilities and business organisation, with regard to the quality of the supplier, in particular;
- RSGQ recognition of a supplier that has achieved quality system certification according to ISO 9000 by an officially authorised body;
- assessment of the experience and reliability of the supplier in the acquired belief that the supplies have a consolidated quality over time, punctuality in delivery, availability, correct and punctual supply of the requested technical documentation.

Moreover, for the qualification of new suppliers of Tesmec S.p.A., if considered strategic for the product they supply, Tesmec carries out a qualification process before establishing a collaboration that includes, for example, inspections at the premises of the supplier, collection of any certifications held by the supplier, samples and tests on products that will be purchased by the same.

In 2021, the company began working on a policy for qualifying new suppliers that would include specific environmental or social requirements in the assessment, in addition to those aspects related to safety and protection at work both during the collection of documents and during the visit to the supplier's premises (elements such as the technical and professional suitability of the examined company, the regularity of contributions and remuneration for employees, the existence of a structure dedicated to safety at work, etc.).

With regard to the assessment of existing suppliers, in accordance with the requirements of the integrated health, safety and environmental certification obtained by Tesmec S.p.A., in the second half of 2021 a process was started to structure a process to perform audits also in terms of ESG, starting with suppliers considered strategic.

From 2022 a process will be structured to perform audits also in terms of HSE (Health Safety and Environment) by part of the Tesmec S.p.A. supplier base.

Product quality and safety

In order to ensure the highest level of service to its customers, Tesmec adopted a quality management system focused on processes: this allowed the company to offer its customers maximum transparency in the carrying-out of the various phases of projects, which lead to the supply of solutions, even complex ones, within the established timeframe, while maintaining a simple and flexible organisational structure. For this reason, the Italian offices of Tesmec have long obtained the ISO 9001 certification of its Quality Management Systems, which covers the entire product life cycle, from research and development to the selling phase, from delivery and installation to after-sales service. Special attention is paid to design control, a fundamental moment for defining the quality of the final product. Tesmec has precise operating instructions, procedures and manuals to ensure quality management in line with certification requirements.

Conformity with the Machinery Directive (CE mark) is required for all products (where applicable), including those outside the EU, in order to ensure maximum coverage of the safety assessment. Therefore, the product is above the safety requirement in markets with lower safety requirements. Each machine and equipment are accompanied by a manual explaining the main risks that can be incurred due to incorrect use of the product.

In some specific countries, special actions and customisations are required to comply with local legislation and each product may be subject to security inspections.

In the event that technical problems and/or non-conformities are reported, despite the tests carried out, the Company, through its Technical Offices and after-sales service, promptly intervenes to avoid any identified non-conformities, especially those related to product safety, and takes action to resolve the problems.

The process of reporting non-conformities primarily involves the After-Sales Office, which appoints a Technical Office Representative or an After-Sales Service Representative to verify what the issue highlighted and consider the subsequent steps to be taken to resolve the non-conformities.

The Tesmec Group is constantly focused on:

- improvement of product performance;
- development of innovative products;
- development of innovative technologies to improve applications and product functions;
- development of products in accordance with customer specifications.

In 2020 and 2021, no non-conformities were found with regard to product safety.

Innovation and Research & Development

The research and development activity is a strategic priority for the Tesmec Group, which over the years has secured a position in the market segments with the highest added value and international recognition as a technological leader able to offer solutions in line with the highest safety standards and with an increasing level of environmental compatibility in accordance with the most recent regulations on emissions into the atmosphere.

Tesmec is characterised by its ability to provide innovative products through intensive research and development to support the marketing of both standard products and products customised to the specific needs of its customers. Furthermore, the Group's success depends on its ability to promptly adapt and innovate its range of products and services to foreseeable technological developments, in order to respond to the continuous technological progress that characterises the sectors in which the Group operates, also through a continuous investment in research and development.

The same technological solutions offered by the Group to the market aim to help customers and user production chains achieve the Sustainable Development Goals. In particular, in this context, the Group intends to continue to innovate the products and solutions offered according to the trends in energy transition, digitalisation and sustainability, in all its areas of activity: in the Stringing Equipment Segment, where a new concept of integrated digital 4.0 systems was created for the transport and distribution of energy that made it possible to increase the efficiency of production processes; in the Rail Sector, engaged in the design of electric and hybrid rail vehicles equipped with diagnostic systems for increasingly advanced and safe infrastructures; in the Energy Automation Segment, whose solutions are intrinsically dedicated to environmental sustainability as they enable the integration and management of renewable energy sources, as well as the streamlining of power networks; in the Trencher segment, engaged in the study of systems that guarantee an increasingly lower environmental impact thanks to the use of engines that comply with the latest regulations on atmospheric emissions.

The research and development activity is carried out internally through dedicated structures in that it is considered strategic for the Group and constitutes one of its main success factors.

Geopolitical and social context - COVID-19

During 2021, the pandemic situation caused by COVID-19 did not prevent the Group from continuing its operations, even if in a context of high uncertainty. Thanks to the spread of vaccines, there has been a containment of the pandemic. The Group continued with the monitoring and management of the situation, applying all the appropriate health and safety protocols in full compliance with the provisions of the Ministry of Health, with the aim of ensuring the full operation of its offices and plants, guaranteeing, at the same time, the protection of its personnel, customers, and suppliers.

The actions undertaken in 2020 continued and new ones were promoted. Smart-working has been introduced in a structural form, the Solidarity Hour Bank has been established on a permanent basis, specific insurance coverage has been activated to protect the health of employees against Covid-19 and special agreements have been activated for employees, new permits and time flexibility tools were introduced as well as constantly revised, the Covid information and management procedures were improved and shared.

Digital transformation

Digitalisation is becoming increasingly important in the current economic scenario. The main digital trends include pervasive connectivity, the key role of IoT, extended supply chains, cybersecurity and an abundance of information resulting in Big Data management issues. Innovation and digitalisation are at the centre of the strategy of the Tesmec Group. The development of a digital strategy includes the digitalisation of products and services as well as of the information surrounding them.

Tesmec's culture of innovation extends beyond the company's boundaries to global supply chains in a dynamic environment. Tesmec's investments in research and development focus on digitalisation for predictive maintenance, data management for the highest safety standards and infrastructure diagnostics. As a result, there is a "digital transformation" in all of the Group's business areas. The implementation of certified solutions in the field of smart grids and IT security, the development of digital platforms and innovative systems for the mapping of underground services are just some of the innovations in the pipeline.

Privacy policy

With a global presence, directly and through its agents, and a complex company structure in different sectors, as well as its approximately 950 employees, Tesmec is aware of the importance of protecting the sensitive information of its customers and workers, and has always been committed to ensuring maximum transparency in the collection, use, communication, transfer and storage of information concerning them.

With the introduction of the "General Data Protection Regulation" (GDPR), Tesmec immediately activated a process of review of internal processes to comply with the new regulations. A specialised firm was commissioned to carry out a complete mapping of personal data processing, analysing the compliance of the systems used and identifying third parties with critical privacy profiles. With regard to the categories of third parties identified, with the support of the legal department, a contractual review was started, by adjusting in particular the clauses in use, so that the third parties are made aware of the obligations in this regard and take steps to strictly comply with them. Moreover, the need to process data that may be even assumed to be relevant for the purposes of the GDPR was reduced to the minimum.

This monitoring activity and constant attention to new regulations and case laws became even more crucial in the phase following the Covid-19 health emergency, in which numerous practical and interpretative doubts had to be overcome, balancing business and public health requirements with full compliance with individual guarantees and privacy principles. In particular, reference was made to the guidelines of the trade associations at this delicate stage, which is evolving almost daily.

Customer satisfaction

One of the main missions of Tesmec is to be a partner for its customers. Being a partner goes one step further than qualifying as a mere supplier: a partner is present, attentive and proactive in listening and supporting the customer at every stage of the relationship. The solutions proposed by the Group are designed to be intrinsically functional and self-diagnostic so as to minimise downtime and maximise energy and cost efficiency for the customer.

Flexibility and adaptability are the keystone of customer satisfaction service and monitoring: the driver of service digitalisation and automation, already at the centre of the business development for some time, has a highly valuable role given the recent developments in the COVID-19 pandemic that have significantly restricted the mobility of people globally. A special service project is created for the customer with channels always open to communication in order to make the relationship constructive and effective in a one-to-one way.

17.8 GRI Content Index

GRI Standard	GRI disclosure number	GRI Disclosure Title	Page of the Statement and remarks
GRI 101: Foundation – 2016			
GRI 102: General Disclosures 2016			
Organisational profile			
GRI 102: General Disclosures 2016	102-1	Name of the organisation	Tesmec SpA
	102-2	Activities, brands, products, and services	Pp. 53 – 54
	102-3	Location of headquarters	Via Zanica, 17/O, 24050 Grassobbio, Bergamo - Italy
	102-4	Location of operations	P. 63
	102-5	Ownership and legal form	P. 46 Reference to the Report on corporate governance and ownership structure
	102-6	Markets served	Pp. 63 – 64
	102-7	Scale of the organisation	P. 54
	102-8	Information on employees and other workers	Pp. 72 – 74
	102-9	Supply chain	Pp. 90 – 92
	102-10	Significant changes to the organisation and its supply chain	There were no significant changes to the supply chain
	102-11	Precautionary Principle or approach	Pp. 65; 70; 85; 90
	102-12	External initiatives	P. 58
	102-13	Membership of associations	Confindustria
Strategy			
GRI 102: General Disclosures 2016	102-14	Statement from senior decision-maker	Pp. 49 – 50
Ethics and integrity			
GRI 102: General Disclosures 2016	102-16	Values, principles, standards and norms of behaviour	Pp. 63 – 64
Governance			
GRI 102: General Disclosures 2016	102-18	Governance structure	P. 66
Stakeholder engagement			
GRI 102: General Disclosures 2016	102-40	List of stakeholder groups	P. 55
	102-41	Collective bargaining agreements	77 %
	102-42	Identifying and selecting stakeholders	Pp. 54 – 56
	102-43	Approach to stakeholder engagement	Pp. 54 – 56
	102-44	Key topics and concerns raised	Pp. 54 – 56
Reporting practice			
GRI 102: General Disclosures 2016	102-45	Entities included in the consolidated financial statements	Pp. 51 – 52
	102-46	Defining report content and topic Boundaries	P. 57
	102-47	List of material topics	P. 57
	102-48	Restatements of information	Any changes with respect to the previous report are indicated in the text
	102-49	Changes in reporting	P. 56
	102-50	Reporting period	P. 51

	102-51	Date of most recent report	The previous NFS refers to the reporting year 2020 and published on 31 March 2021	
	102-52	Reporting cycle	P. 51	
	102-53	Contact point for questions regarding the report	P. 3	
	102-54	Claims of reporting in accordance with the GRI Standards	P. 52	
	102-55	GRI content index	Pp. 95 – 99	
	102-56	External assurance	Pp. 101 - 105	
MATERIAL TOPICS				
Anti-Corruption				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	
	103-2	The management approach and its components	Pp. 66 – 68	
	103-3	Evaluation of the management approach	Pp. 66 – 68	
GRI 205: Anti-corruption - 2016	205-3	Confirmed incidents of corruption and actions taken	P. 68	
Uman Rights				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	
	103-2	The management approach and its components	Pp. 70 – 72	
	103-3	Evaluation of the management approach	Pp. 70 – 72	
GRI 406: Non-discrimination-2016	406-1	Non-discrimination	P. 72	
Business ethics and corporate governance				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	
	103-2	The management approach and its components	Pp. 68 – 69; 86 – 87	
	103-3	Evaluation of the management approach	Pp. 68 – 69; 86 – 87	
GRI 207: Tax – 2019	207-1	Approach to tax	Pp. 68 – 69	
	207-2	Tax governance, control and risk management	Pp. 68 – 69	
	207-3	Stakeholder engagement and management of concerns related to tax	Pp. 68 – 69	
	207-4	Country by country reporting	P. 69 In the next few years, Tesmec Group will also undertake to report the "Corporate income tax paid on a cash basis", required by GRI 207-4, in order to ensure complete coverage of the aforementioned Standard	
GRI 307: Environmental compliance – 2016	307-1	Non-compliance with environmental laws and regulations	In 2020 and 2021, there were no cases of non-compliance with environmental regulations and laws that led to fines or penalties	
GRI 419: Socioeconomic Compliance - 2016	419-1	Non-compliance with laws and regulations in the social and economic area	In 2020 and 2021, there were no cases of non-compliance with social and economic regulations and laws that led to fines or penalties	
Materials				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	

	103-2	The management approach and its components	Pp. 85; 89 – 90	
	103-3	Evaluation of the management approach	Pp. 85; 89 – 90	
GRI 301: Materials – 2016	301-1	Materials used by weight or volume	P. 89	
Responsible management of energy consumption				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	
	103-2	The management approach and its components	Pp. 85 – 87	
	103-3	Evaluation of the management approach	Pp. 85 – 87	
GRI 302: Energy – 2016	302-1	Energy consumption within the organisation	P. 87 – 88	
Reduction of emissions and fight against climate change				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 - 57	
	103-2	The management approach and its components	Pp. 85 – 88	
	103-3	Evaluation of the management approach	Pp. 85 – 88	
GRI 305: Emissions – 2016	305-1	Direct (Scope 1) GHG emissions	P. 88	
	305-2	Energy indirect (Scope 2) GHG emissions	P. 88	
Waste and chemicals management				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	
	103-2	The management approach and its components	Pp. 85 – 87; 88	
	103-3	Evaluation of the management approach	Pp. 85 – 87; 88	
GRI 306: Waste - 2020	306-3	Waste	Pp. 88 – 89	
Responsible management of the supply chain				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	
	103-2	The management approach and its components	Pp. 90 – 92	
	103-3	Evaluation of the management approach	Pp. 90 – 92	
GRI 308: Supplier Environmental Assessment – 2016	308-1	New suppliers that were screened using environmental criteria	P. 92	
GRI 414: Supplier Social Assessment – 2016	414-1	New suppliers that were screened using social criteria	P. 92	
Well-being of people				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	
	103-2	The management approach and its components	Pp. 70 – 72; 76 - 78	
	103-3	Evaluation of the management approach	Pp. 70 – 72; 76 – 78	
GRI 401: Employment - 2016	401-1	New employee hires and employee turnover	Pp. 76; 78 – 79	
	401-2	Benefits provided to full-time employees that are not	Pp. 80 – 82	
Industrial relations				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 - 57	
	103-2	The management approach and its components	Pp. 71 – 72; 74	
	103-3	Evaluation of the management approach	Pp. 71 – 72; 74	
GRI 402: Labor/Management Relations – 2016	402-1	Minimum notice periods regarding operational changes	The minimum period, where present, is defined by local regulations and, where envisaged, by the CCNL (Contratto Collettivo Nazionale	

			di Lavoro, Collective National Labor Agreement)	
Safety at work				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	
	103-2	The management approach and its components	Pp. 71 – 72	
	103-3	Evaluation of the management approach	Pp. 71 – 72	
GRI 403: Occupational Health and Safety – 2018	403-1	Occupational health and safety management system	Pp. 80 – 85	
	403-2	Hazard identification, risk assessment, and incident investigation	Pp. 80 – 85	
	403-3	Occupational health services	Pp. 80 – 85	
	403-4	Worker participation, consultation, and communication on occupational health and safety	Pp. 80 – 85	
	403-5	Worker training on occupational health and safety	Pp. 80 – 85	
	403-6	Promotion of worker health	Pp. 80 – 85	
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Pp. 80 – 85	
	403-9	Work-related injuries	Pp. 84 – 85	
	403-10	Work-related ill health	Pp. 84 – 85	
Personnel development and talent attraction				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	
	103-2	The management approach and its components	Pp. 71 - 72; 75 – 76	
	103-3	Evaluation of the management approach	Pp. 71 - 72; 75 – 76	
GRI 404: Training and Education – 2016	404-1	Average hours of training per year per employee	P. 75	
Diversity, equal opportunities and non-discrimination				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	
	103-2	The management approach and its components	Pp. 71 – 72	
	103-3	Evaluation of the management approach	Pp. 71 – 72	
GRI 405: Diversity and equal opportunities – 2016	405-1	Diversity of governance bodies and employees	Pp. 72 – 74	
GRI 406: Non-discrimination – 2016	406-1	Incidents of discrimination and corrective actions taken	P. 72	
Product quality and safety				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	
	103-2	The management approach and its components	Pp. 90 – 93	
	103-3	Evaluation of the management approach	Pp. 90 – 93	
GRI 416: Customer Health and Safety – 2016	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	P. 93	
Data privacy management				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	
	103-2	The management approach and its components	P. 94	
	103-3	Evaluation of the management approach	P. 94	

GRI 418: Privacy dei clienti - 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	In 2020 and 2021 there were no cases of complaints concerning breaches of customer privacy	
Geopolitical and social background				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	
	103-2	The management approach and its components	P. 93	
	103-3	Evaluation of the management approach	P. 93	
Stakeholder engagement				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	
	103-2	The management approach and its components	Pp. 54 – 56	
	103-3	Evaluation of the management approach	Pp 54 – 56	
Customer satisfaction				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	
	103-2	The management approach and its components	P. 94	
	103-3	Evaluation of the management approach	P. 94	
R&D and digital transformation				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	Pp. 56 – 57	
	103-2	The management approach and its components	Pp. 93 – 94	
	103-3	Evaluation of the management approach	Pp. 93 - 94	

INDEPENDENT AUDITOR'S REPORT

**INDEPENDENT AUDITOR'S REPORT
ON THE 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. 20267/2018**

**To the Board of Directors of
TESMEC 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 Non-Financial Statement of Tesmec S.p.A. and its subsidiaries ("Tesmec Group" or "Group") as of December 31, 2021 prepared on the basis of art. 4 of the Decree, presented in the specific section of the report on operations and approved by the Board of Directors on March 11st, 2022 ("NFS").

Our limited assurance engagement does not extend to the information required by art. 8 of the European Regulation 2020/852 included in the paragraph "*European Taxonomy*".

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 by GRI – Global Reporting Initiative ("*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.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10.328.220,00 i.v.

Codice Fiscale/Registro delle Imprese di Milano Monza Brianza Lodi n. 03049560166 - R.E.A. n. MI-1720239 | Partita IVA: IT 03049560166

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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.

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*. 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 Tesmec 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.

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) of this report;

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 with the management of Tesmec S.p.A. and with the employees of Groupe Marais SA, Tesmec USA, Inc. 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 regard 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 regard 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 companies Tesmec S.p.A., Groupe Marais SA, Tesmec USA, Inc., 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 Tesmec Group as of December 31, 2021 is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and the GRI Standards.

Deloitte.

4

Our conclusion on the NFS does not extend to the information required by art. 8 of the European Regulation 2020/852 included in the paragraph “*European Taxonomy*”.

DELOITTE & TOUCHE S.p.A.

Signed by
Lorenzo Rossi
Partner

Milan, Italy
March 31, 2022

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

DRAFT RESOLUTION OF ALLOCATION OF PROFIT OR LOSS FOR THE PERIOD

Report of the Board of Directors of Tesmec S.p.A., drawn up pursuant to Articles 125-ter of Italian Legislative Decree no. 58 of 24 February 1998, as subsequently supplemented and amended (“T.U.F.”) and 84-ter of the Regulation adopted with CONSOB Resolution no. 11971 of 14 May 1999, as subsequently amended and supplemented (“Issuers’ Regulation”).

Dear Shareholders,

This report shows the draft resolutions that the Board of Directors of Tesmec S.p.A. (hereinafter referred to as “Tesmec” or the “Company”) intends to submit for your approval in relation to the items on the agenda of the ordinary Shareholders’ Meeting that will be held on 21 April 2022, at 10:30 at Notary Practice SNPZ Notai a Milano, in Milan, Piazza della Repubblica, 28 on single call.

1. Approval of the financial statements as at 31 December 2021 and presentation of the Tesmec Group’s consolidated financial statements and relevant reports, including the consolidated non-financial statement; allocation of result for the period; related and consequent resolutions.

2.1 Approval of the financial statements as at 31 December 2021 and the Board of Directors’ report on operations;

2.2 Allocation of profit or loss for the period.

Dear Shareholders,

The Company, within the term established by Article 154-ter of the Consolidated Law on Finance (T.U.F.), must publish the annual financial statements comprising the draft financial statements, the consolidated financial statements, the directors’ report (which includes the consolidated non-financial statement containing information, referred to Tesmec and its subsidiaries, relating to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters) and the certification set forth in Article 154-bis, paragraph 5, of the Consolidated Law on Finance (T.U.F.). The audit reports prepared by the independent auditors as well as the reports indicated in Article 153 of the Consolidated Law on Finance (T.U.F.) are made fully available to the public together with the annual financial statements.

The draft financial statements were approved by the Board of Directors of the Company on 11 March 2022.

The directors’ report will be available to the public, together with the draft financial statements of Tesmec as at 31 December 2021, the consolidated financial statements of the Tesmec Group as at 31 December 2021, the certification of the Executive responsible for preparing the Company’s accounting documents, the report of the Board of Statutory Auditors and the Independent Auditors’ Report, at the registered office and Borsa Italiana S.p.A. (“Borsa Italiana”), as well as on the website of the Company www.tesmec.com and in accordance with the other methods prescribed by CONSOB within the methods and terms provided by the regulations in force.

For complete information on the subject in hand, reference is made to the directors’ report and to the additional documents made available to the public, according to the methods the terms prescribed by the law, at the registered office and Borsa Italiana, as well as on the Company website at the address www.tesmec.com (Investors section) and in accordance with the other methods prescribed by the CONSOB regulation.

You are invited to approve the financial statements as at 31 December 2021 of Tesmec that closed with a net loss of 752,412.23 Euro.

With reference to the results achieved, the Board of Directors proposes that you resolve the coverage of the loss through the use of the Extraordinary Reserve.

* * *

In light of the above, in relation to this item on the agenda, there will be two separate votes at the Shareholders’ Meeting, based on the proposals formulated hereunder.

1.1 Approval of the financial statements as at 31 December 2021 and the Board of Directors’ report on operations.

In light of the above, with regard to the approval of the financial statements as at 31 December 2021, the Board therefore invites the Shareholders’ Meeting called to pass the following resolution:

“The Ordinary Shareholders’ Meeting of Tesmec S.p.A.,

- *having examined the Company’s draft financial statements as at 31 December 2021 and the Board of Directors’ report on operations, as well as the consolidated non-financial statement included therein and drafted in accordance with Legislative Decree 254/2016;*

- *having examined the Report of the Board of Statutory Auditors to the Shareholders' Meeting pursuant to Art. 153 of Legislative Decree no. 58 of 24 February 1998;*
- *having examined the Independent Auditors' Report relating to the draft financial statements as at 31 December 2021;*

decides:

- *to approve the financial statements as at 31 December 2021 and the Board of Directors' report on operations;*
- *to confer to the Chairman of the Board of Directors and the Chief Executive Officer, with the right to sub-delegate, the mandate to carry out all the activities regarding, consequent to or connected with the implementation of this resolution”.*

1.2 Allocation of profit or loss for the period.

In light of the above, with regard to the allocation of the profit or loss for the period, the Board therefore invites the Shareholders' Meeting called to pass the following resolution:

“The Ordinary Shareholders’ Meeting of Tesmec S.p.A.,

- *having examined the Company's draft financial statements as at 31 December 2021 and the Board of Directors' report on operations, as well as the consolidated non-financial statement included therein and drafted in accordance with Legislative Decree 254/2016;*
- *having examined the Report of the Board of Statutory Auditors to the Shareholders' Meeting pursuant to Art. 153 of Legislative Decree no. 58 of 24 February 1998;*
- *having examined the Independent Auditors' Report relating to the draft financial statements as at 31 December 2021;*

decides:

- *to cover the net loss recorded at 31 December 2021, equal to Euro 752,412.23 through the use of the Extraordinary Reserve;*
- *to confer to the Chairman of the Board of Directors and the Chief Executive Officer, with the right to sub-delegate, the mandate to carry out all the activities regarding, consequent to or connected with the implementation of this resolution”.*

Grassobbio, 11 March 2022

TESMEC S.p.A.

The Chairman of the Board of Directors
Ambrogio Caccia Dominioni

CONSOLIDATED FINANCIAL STATEMENTS OF THE TESMEC GROUP

Consolidated statement of financial position

<i>(Euro in thousands)</i>	Notes	31 December	
		2021	2020
NON-CURRENT ASSETS			
Intangible assets	7	23,896	22,487
Property, plant and equipment	8	47,607	49,831
Rights of use	9	23,352	22,825
Equity investments in associates evaluated using the equity method	10	8,088	4,384
Other equity investments		3	3
Financial receivables and other non-current financial assets	11	6,821	5,196
Derivative financial instruments	23	10	1
Deferred tax assets	31	15,839	16,446
Non-current trade receivables		1,761	1,302
Other non-current assets		1,266	-
TOTAL NON-CURRENT ASSETS		128,643	122,475
CURRENT ASSETS			
Work in progress contracts	12	15,691	11,216
Inventories	13	81,293	74,386
Trade receivables	14	54,392	60,415
<i>of which with related parties:</i>		<i>3,510</i>	<i>1,590</i>
Tax receivables	15	1,782	1,444
Other available-for-sale securities		2	1
Financial receivables and other current financial assets	16	16,775	13,776
<i>of which with related parties:</i>		<i>9,270</i>	<i>3,691</i>
Other current assets	17	9,365	8,810
Cash and cash equivalents	18	50,189	70,426
TOTAL CURRENT ASSETS		229,489	240,474
TOTAL ASSETS		358,132	362,949
SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS			
Share capital	19	15,702	15,702
Reserves	19	55,670	60,513
Group net profit/(loss)	19	1,195	(6,828)
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS		72,567	69,387
Non-controlling interest in capital and reserves		61	44
Net profit/(loss) for the period attributable to non-controlling interests		14	17
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		75	61
TOTAL SHAREHOLDERS' EQUITY		72,642	69,448
NON-CURRENT LIABILITIES			
Medium/long-term loans	20	100,439	74,336
<i>of which with related parties:</i>		<i>3,263</i>	<i>3,263</i>
Non-current bond issue	21	3,727	6,194
Non-current financial liabilities from rights of use	22	18,009	16,855
Derivative financial instruments	23	49	170

Employee benefit liability	24	4,564	4,660
Deferred tax liabilities	31	6,707	7,628
Non-current provisions for risks and charges		-	-
Other long-term liabilities		254	625
TOTAL NON-CURRENT LIABILITIES		133,749	110,468
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	25	56,753	68,362
<i>of which with related parties:</i>		2,620	2,788
Current bond issue	26	2,467	17,437
Current financial liabilities from rights of use	22	6,484	5,218
Derivative financial instruments	23	50	1
Trade payables	27	55,966	61,385
<i>of which with related parties:</i>		1,310	1,465
Advances from customers		2,194	3,185
Income taxes payable	28	2,051	626
Provisions for risks and charges	29	3,171	2,968
Other current liabilities	30	22,605	23,851
TOTAL CURRENT LIABILITIES		151,741	183,033
TOTAL LIABILITIES		285,490	293,501
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		358,132	362,949

Consolidated income statement

<i>(Euro in thousands)</i>	Notes	Financial period ended 31 December	
		2021	2020
Revenues from sales and services	32	194,286	170,655
<i>of which with related parties:</i>		10,647	7,754
Cost of raw materials and consumables	33	(78,565)	(77,418)
<i>of which with related parties:</i>		(56)	(12)
Costs for services	34	(37,738)	(30,156)
<i>of which with related parties:</i>		(239)	(50)
Payroll costs	35	(56,011)	(48,519)
Other operating costs/revenues, net	36	(3,256)	131
<i>of which with related parties:</i>		160	(621)
Amortisation and depreciation	37	(22,447)	(21,842)
Development costs capitalised	38	8,065	5,787
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method		1,353	499
Total operating costs		(188,599)	(171,518)
Operating income		5,687	(863)
Financial expenses	39	(12,112)	(10,207)
<i>of which with related parties:</i>		(514)	(671)
Financial income	40	9,152	1,903
<i>of which with related parties:</i>		87	90
Portion of losses/(gains) from associated companies and non-operational Joint Ventures evaluated using the equity method		(25)	129
Pre-tax profit/(loss)		2,702	(9,038)
Income tax	31	(1,493)	2,227
Net profit/(loss) for the period		1,209	(6,811)
Profit/(loss) attributable to non-controlling interests		14	17
Group profit/(loss)		1,195	(6,828)
Basic and diluted earnings/(losses) per share		0.002	(0.011)

Consolidated statement of comprehensive income

<i>(Euro in thousands)</i>	Notes	Financial period ended 31 December	
		2021	2020
NET INCOME FOR THE PERIOD		1,209	(6,811)
<i>Other components of comprehensive income:</i>			
<i>Other components of comprehensive income that will be subsequently reclassified to net income/(loss) for the year:</i>			
Exchange differences on conversion of foreign financial statements	19	2,077	(3,225)
<i>Other components of comprehensive income that will not be subsequently reclassified to net income/(loss) for the year:</i>			
Actuarial profit/(loss) on defined benefit plans	24	152	42
Income tax		(36)	(10)
		116	32
Total other income/(losses) after tax		2,193	(3,193)
Total comprehensive income/(loss) after tax		3,402	(10,004)
<i>Attributable to:</i>			
Shareholders of Parent Company		3,388	(10,015)
Non-controlling interests		14	11

Statement of consolidated cash flows

<i>(Euro in thousands)</i>	Notes	Financial period ended 31 December	
		2021	2020
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit/(loss) for the period		1,209	(6,811)
<i>Adjustments to reconcile net income for the period with the cash flows generated by operating activities:</i>			
Amortisation and depreciation	37	22,447	21,842
Provisions for employee benefit liability	24	423	449
Provisions for risks and charges/inventory obsolescence/doubtful accounts	13-14-29	3,092	1,556
Employee benefit payments	24	(367)	(198)
Payments/use of provisions for risks and charges	29	(453)	(460)
Net change in deferred tax assets and liabilities	31	(221)	(2,825)
Change in fair value of financial instruments	23	(81)	162
<i>Change in current assets and liabilities:</i>			
Trade receivables	14	1,578	7,384
<i>of which with related parties:</i>		(1,920)	3,915
Inventories	13	(10,494)	(2,100)
Trade payables	27	(5,590)	4,222
<i>of which with related parties:</i>		(155)	(1,678)
Other current and non-current assets and liabilities		(2,462)	(2,643)
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		9,081	20,578
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	8	(17,525)	(6,759)
Investments in intangible assets	7	(9,989)	(10,704)
Investments in rights of use	9	(7,751)	(4,750)
(Investments)/disposals of financial assets		(5,835)	(4,909)
<i>of which with related parties:</i>		(5,579)	151
Change in the consolidation area		(2,462)	(14,190)
Proceeds from sale of property, plant and equipment, intangible assets and rights of use	7-8-9	14,867	8,888
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		(28,695)	(32,424)
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	20	35,381	69,832
<i>of which with related parties:</i>		-	3,263
Recognition of financial liabilities from rights of use	22	9,411	10,741
Repayment of medium/long-term loans	20-21	(33,095)	(11,916)
Repayment of financial liabilities from rights of use	22	(6,992)	(8,209)
Net change in short-term financial debt	22-25-26	(5,581)	(19,617)
<i>of which with related parties:</i>		(168)	630
Other changes	19	(208)	-
Paid increase of capital	19	-	23,900
NET CASH FLOW GENERATED BY/(USED IN) FINANCING ACTIVITIES (C)		(1,084)	64,731
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		(20,698)	52,885
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		461	(394)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	18	70,426	17,935
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		50,189	70,426
Additional information:			
Interest paid		4,464	4,744
Income tax paid		1,242	1,228

Statement of changes in consolidated shareholders' equity

	Share capital	Legal reserve	Share premium reserve	Reserve of Treasury Shares	Translation reserve	Other reserves	Net profit/(loss) for the period	Total shareholders' equity attributable to Parent Company shareholders	Total shareholders' equity attributable to non-controlling interests	Total shareholders' equity
<i>(Euro in thousands)</i>										
Balance as at 1 January 2020	10,708	2,141	10,915	(2,341)	5,028	16,684	2,967	46,102	50	46,152
Profit/(loss) for the period	-	-	-	-	-	-	(6,828)	(6,828)	17	(6,811)
Other profits/(loss)	-	-	-	-	(3,219)	32	-	(3,187)	(6)	(3,193)
Total comprehensive income/(loss)								(10,015)	11	(10,004)
Allocation of profit for the period	-	-	-	-	-	2,967	(2,967)	-	-	-
Capital increase	4,994	-	28,300	-	-	6	-	33,300	-	33,300
Balance as at 31 December 2020	15,702	2,141	39,215	(2,341)	1,809	19,689	(6,828)	69,387	61	69,448
Profit/(loss) for the period	-	-	-	-	-	-	1,195	1,195	14	1,209
Other profits/(loss)	-	-	-	-	2,077	116	-	2,193	-	2,193
Total comprehensive income/(loss)								3,388	14	3,402
Allocation of profit for the period	-	-	-	-	-	(6,828)	6,828	-	-	-
Other changes	-	-	-	-	-	(208)	-	(208)	-	(208)
Balance as at 31 December 2021	15,702	2,141	39,215	(2,341)	3,886	12,769	1,195	72,567	75	72,642

Explanatory notes

Accounting and reporting standards adopted in preparing the consolidated financial statements as at 31 December 2021

1. Company information

The Parent Company Tesmec S.p.A. (hereinafter "Parent Company" or "Tescmec") is a legal entity organised in accordance with the legal system of the Italian Republic. The ordinary shares of Tesmec are listed on the MTA STAR Segment of the Milan Stock Exchange as from 1 July 2010. The registered office of the Tesmec Group (hereinafter "Group" or "Tescmec Group") is in Milan, Piazza S. Ambrogio 16.

The publication of Tesmec's consolidated financial statements for the period ended as at 31 December 2021 was authorised by means of the resolution of the Directors on 11 March 2022.

2. Reporting standards

The consolidated financial statements of the Tesmec Group as at 31 December 2021 comprise the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in shareholders' equity and the related explanatory notes. These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and approved by the European Union according to the text published on the Official Journal of the European Communities (OJEC) and in force as at 31 December 2020 and on the basis of the provisions issued in implementation of Article 9 of Italian Legislative Decree no. 38/2005. These IFRS principles also include all revised international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously called Standing Interpretations Committee ("SIC").

The reference accounting standards adopted in the current yearly consolidated financial statements are consistent with those used for preparing the yearly consolidated financial statements of the Group for the period ended 31 December 2020, also prepared according to the international accounting standards, with the exception of the standards and interpretations of new application, explained in note 3.4.

The financial statements and relevant explanatory notes are presented in Euro and all values are express in Euro thousand, unless otherwise indicated.

Business continuity

These Financial Statements were prepared on a going concern basis in that the Directors checked the ability of the Company and of the Group to meet their obligations in the foreseeable future of at least 12 months, developing for this purpose alternative provisional forecasting scenarios that reflect the effects of further possible slowdowns in business compared to what is already foreseen in the plan, to take in consideration the general uncertainty related to the increase in prices not immediately recoverable through the increase in sales prices and to the rigidity of the supply chain and logistics, further complicated by the Russian-Ukrainian conflict, as well as the pandemic situation, in relation to which it was assumed that the same does not involve the adoption of new restrictive measures similar to those imposed in the first part of 2020. At the end of this analysis, the Directors concluded that the going concern assumption adopted in the preparation of the financial statements is adequate in that there are no significant uncertainties as to the Company's ability to continue as a going concern. Different trends from the Company's forecasts, as in particular the purchasing costs increases, could result lower than expected, with possible effects not yet foreseeable on the ability of the Company and the Group to comply with financial covenants.

The main risks and uncertainties to which Tesmec Group is exposed are described in the specific paragraph of the Report on Operations. A description of how the Company and the Group manage financial risks is provided in the section Management of financial risks of these Explanatory notes.

2.1 Adopted financial statement reporting formats

In compliance with the provisions of CONSOB Resolution no. 15519 of 27 July 2006, information on the adopted financial statement reporting format compared to what is stated in IAS 1 are indicated below for the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of

changes in shareholders' equity as well as the method used for representing the financial flows in the consolidated statement of cash flows compared to those specified in IAS 7:

- in the consolidated income statement, it was decided to present a cost analysis by using a classification based on their nature;
- the statement of comprehensive income includes the result for the period and, by homogeneous categories, the income and expenses that, under IFRS, are recognised directly in shareholders' equity;
- in the consolidated statement of financial position, it was decided to represent current and non-current assets and current and non-current liabilities classified separately, in accordance with IAS 1;
- the consolidated statement of changes in shareholders' equity occurred during the period is represented through a table that reconciles the opening and closing balances of each item of the Group shareholders' equity;
- the consolidated statement of cash flows represents the financial flows by dividing them into operating, investing and financing activities. In particular, financial flows from operating activities are represented, in accordance with IAS 7, using the indirect method, whereby net profit or loss for the year is adjusted by the effects of non-monetary transactions, by any deferral or provision of prior or future operating receipts or payments, and by revenue or cost elements connected with financial flows from investing or financing activities.

It should be noted that, in accordance with the above-mentioned resolution, the amounts of the positions or transactions with related parties and (positive and/or negative) income components resulting from non-recurring events or operations, i.e. from operations or facts that do not recur with frequency in the usual course of business, were reported under specific sub-items, in case of significant amounts, in the consolidated statement of financial position, consolidated income statement and consolidated statement of cash flows.

2.2 Consolidation methods and area

The consolidated financial statements are prepared on the basis of the draft financial statements (or reporting packages) for which the respective Boards of Directors are responsible. The financial statements of subsidiaries are adjusted, where necessary, to the same accounting policies of the Parent Company. Subsidiaries are fully consolidated from the date of acquisition, i.e. from the date on which the Group acquires the control, and they are no longer consolidated on the date on which the control is transferred outside the Group.

All balances and intra-group transactions, including any unrealised gains and losses arising from relations between companies of the Tesmec Group are completely written off.

Acquisitions of subsidiaries are recorded in accordance with the purchase method that involves the allocation of costs of the business combination at fair values of assets, liabilities and contingent liabilities acquired at the date of acquisition and the entry of the results of the acquired Company from the date of acquisition until the close of the financial period.

Non-controlling interests represent the portion of the profit or loss and equity related to net assets not held by the Group and are shown in a separate item of the consolidated income statement, of the consolidated statement of comprehensive income and of the consolidated statement of financial position, separately from profit and equity attributable to the Group.

Associated companies are those in which the Group holds at least 20% of the voting rights or exercises a significant influence, but not control or joint control, on financial and operating policies. Equity investments in associates are evaluated using the equity method. Profit or loss attributable to the Group is recognised in the consolidated financial statements from the date on which the significant influence began and until the date on which it ceases.

Joint ventures are defined on the basis of IFRS 11 that defines the financial reporting standards for entities that are parties to agreements relating to jointly controlled activities (i.e., joint arrangements). The equity investments acquired or sold during the financial period are consolidated using the equity method for the period in which the joint control was exercised.

As at 31 December 2021, the consolidation area changed with respect to that as at 31 December 2020:

- on 24 June 2021, the parent company Tesmec S.p.A. acquired 49% of the share capital of Tesmec Saudi Arabia, a company operating in the trenchers rental business, for a total consideration of Euro 2,019 thousand. The effects of the acquisition were described in the previous paragraph *4.1 Effects of the acquisition of 49% of the capital of Tesmec Saudi Arabia LLC* described in the report on operations; the subsidiary is consolidated according to the equity method;
- on 14 October 2021, Tesmec Maroc SARL was established as a wholly-owned subsidiary of Groupe Marais SAS. The company is based in Casablanca (Morocco) and will be active in the marketing and rental business for the trencher segment;

SUBSIDIARIES					
(consolidated on a line-by-line basis, by making clear the portion of equity and of non-controlling interests)					
Name	Registered office	Currency	Share capital Currency unit	Percentage held	
				Directly	Indirectly
TESMEC USA, Inc.	Alvarado (Texas)	US Dollar	31,200,000	100.00%	-
TESMEC SA (Pty) Ltd.	Johannesburg (South Africa)	South African Rand	93,901,000	100.00%	-
Tesmec Automation S.r.l.	Grassobbio - BG – (Italy)	Euro	10,000	100.00%	-
Bertel S.r.l.	Milan (Italy)	Euro	500,000	100.00%	-
East Trenchers S.r.l.	Milan (Italy)	Euro	100,000	100.00%	-
OOO Tesmec RUS	Moscow (Russia)	Russian Rouble	450,000	100.00%	-
Tesmec New Technology Beijing Ltd.	Beijing (China)	Euro	200,000	100.00%	-
Tesmec Rail S.r.l.	Monopoli - BA - (Italy)	Euro	10,000	100.00%	-
4 Service S.r.l.	Milan (Italy)	Euro	1,000,000	100.00%	-
4 Service USA, Inc.	Alvarado (Texas)	US Dollar	500	100.00%	-
Marais Technologies SA	Durtal (France)	Euro	3,785,760	100.00%	-
Group Marais SA	Durtal (France)	Euro	3,700,000	-	100.00%
Marais Trenching (Pty) Ltd. AFS	Pretoria (South Africa)	South African Rand	500,000	-	80.00%
Tesmec Australia (Pty) Ltd	Sydney (Australia)	Australian Dollar	6,000,100	100.00%	-
Marais Laying Technologies (Pty) Ltd. Nouvelle Zelande	Auckland (New Zealand)	New Zealand Dollar	100	-	100.00%
Marais Cote d'Ivoire	Abidjan (Ivory Coast)	CFA Franc	6,500,000	-	100.00%
Tesmec Guinee SARLU	Conakry (Guinea)	GNF Franc	100,000,000	-	100.00%
MIR SA	Tunis (Tunisia)	Tunisian Dinar	300,000	-	100.00%
Tesmec Maroc	Casablanca (Morocco)	Moroccan dinar	90,000	-	100.00%

ASSOCIATED COMPANIES					
(consolidated with the equity method)					
Name	Registered office	Currency	Share capital Currency unit	Percentage held	
				Directly	Indirectly
Locavert SA	Bouillargues (France)	Euro	403,735	38.63%	-
Marais Lucas Tech. (Pty) Ltd.	New South Wales (Australia)	Australian Dollar	332,400	50.00%	-
R and E contracting Ltd	Pretoria (South Africa)	South African Rand	1,000	20.00%	-
Primis Group S.r.l.	Milan (Italy)	Euro	11,115	10.03%	-
Innova 70 Consorzio Stabile	Milan (Italy)	Euro	10,000	36.91%	-

JOINT VENTURES					
(consolidated with the equity method)					
Name	Registered office	Currency	Share capital Currency unit	Percentage held	
				Directly	Indirectly
Condux Tesmec Inc	Mankato (Minnesota)	US Dollar	2,500,000	50.00%	-
Tesmec Peninsula WLL	Doha (Qatar)	Qatar Riyal	7,300,000	49.00%	-
Tesmec Saudi Arabia	Riyad (Saudi Arabia)	Saudi Riyal	200,000	49.00%	-

The companies Marais Lucas Technologie (Pty) Ltd. and Locavert close their financial period as at 30 June of each year. Financial statements used for evaluating the equity investment in accordance with the equity method refer to the most recent available interim closing of accounts, at a date close to the end of the reporting period of the Group.

The financial statements were modified, if necessary, in order to make them consistent with the accounting policies of the Group, which are in accordance with the IFRS adopted by the European Union.

Translation of foreign currency financial statements and of foreign currency items

The consolidated financial statements are presented in Euro, which is the functional and presentation currency adopted by the Parent Company. Each company of the Group defines its functional currency, which is used to evaluate the items included in each financial statement. Foreign currency transactions are initially recognised using the exchange rate (referring to the functional currency) which is applicable on the transaction date. Monetary assets and liabilities in foreign currency are reconverted in the functional currency at the exchange rate in force at the end of the reporting period.

All exchange-rate differences are recognised in the income statement.

Non-monetary items, measured at their historical cost in foreign currency, are translated by using the exchange rates in force on the date of initial recognition of the transaction.

The conversion into Euro of the financial statements of the foreign companies being consolidated is carried out according to the current exchange-rate method, which contemplates using the exchange rate in force at the end of the reporting period for the translation of the financial items and the average exchange rate of the year for the income statement items.

Exchange-rate differences deriving from translation are directly posted to equity and separately recorded in a special fair-value reserve. On disposal of a foreign company, accumulated exchange-rate differences posted to equity with regard to that particular foreign company are recognised in the income statement.

The exchange rates used to determine the value in Euros in the financial statements of subsidiary companies expressed in foreign currency (exchange rate to 1 Euro) are shown below:

	Average exchange rate for the period ended 31 December		End-of-period exchange rate as at 31 December	
	2021	2020	2021	2020
US Dollar	1.1827	1.1422	1.1326	1.2271
Russian Rouble	87.1527	82.725	85.3004	91.467
Qatari Riyal	4.3052	4.158	4.1227	4.467
South African Rand	17.4766	18.766	18.0625	18.022
Renminbi	7.6282	7.875	7.1947	8.023
Australian Dollar	1.5749	1.655	1.5615	1.590
Algerian Dinar	159.6527	144.847	157.4077	162.107
New Zealand Dollar	1.6724	1.756	1.6579	1.698
Tunisian Dinar	3.2881	3.200	3.2603	3.294
CFA Franc	655.957	655.957	655.957	655.957
GNF Franc	11,545,825	10,935,463	10,354,307	12,249,154
Saudi Riyal	4.4353	4.283	4.2473	4.602
Moroccan dinar	10.626	10.824	10.483	10.919

3. Accounting standards

3.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of EC Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002 and in accordance with Article 9 of Italian Legislative Decree no. 38/2005.

The consolidated financial statements have been prepared on a historical cost basis, except for items that have been measured at fair value in accordance with IFRS (derivative financial instruments, financial assets represented by shares or bonds in portfolio, investment properties and contingent consideration). The carrying amounts of recognised assets and liabilities that

are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in fair value attributable to the risks that are being hedged in effective hedge relationships.

The consolidated financial statements are presented in Euro; all values are rounded to the nearest thousand, unless otherwise indicated.

The consolidated financial statements as at 31 December 2021 provide comparative information in respect of the previous period. In addition, the accounting policies adopted in these consolidated financial statements were applied in the same way also to all the periods of comparison.

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Tesmec S.p.A. and its subsidiaries as at 31 December 2021.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns;

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangements with the other vote holders of the investee;
- Rights arising from other contractual arrangements
- The Group's voting and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the shareholders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3.3 Significant accounting principles

Business combinations and goodwill

Business combinations are recorded by using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred at fair value as at the date of acquisition and the amount of any minority interest in the acquired company. For each business combination, the purchaser must consider any minority interest in the acquired company at fair value or in proportion to the share of the minority interest in the identifiable net assets of the acquired company. Acquisition costs are paid and classified among administrative expenses.

When the Group acquires a business, it must classify or designate the acquired financial assets or the liabilities assumed in accordance with the contract terms, the economic conditions and other relevant conditions existing at the date of acquisition. This includes the verification to establish whether an embedded derivative must be separated from the host contract.

Each contingent consideration must be recognised by the purchaser at fair value at the date of acquisition. The contingent consideration classified as equity is not remeasured and its subsequent payment is recorded with the shareholders' equity as a balancing entry. The fair value change in the contingent consideration classified as asset or liability, i.e. a financial instrument that is in the scope of IFRS 9 Financial instruments, must be recognised in the income statement in compliance with IFRS 9. The contingent consideration that is not within the scope of IFRS 9 is measured at fair value at the end of the reporting period and changes in fair value are recognised in the income statement.

The goodwill is initially measured at cost that arises as surplus between the sum of the paid consideration and the amount recognised for the minority shares compared to identifiable net assets acquired and liabilities undertaken by the Group. If the consideration is less than the fair value of the net assets of the acquired subsidiary, the Group checks again if it has identified correctly all the assets acquired and all the liabilities assumed and reviews the procedures used to determine the amounts to be recognised at the acquisition date. If the consideration is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognised in the income statement.

After initial recognition, goodwill is measured at cost, net of any accumulated impairment loss. For impairment loss verification, the goodwill acquired in a business combination must be allocated, from the date of acquisition, to each cash-generating unit of the Group that is expected to benefit from the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to such units.

If the goodwill has been allocated to the cash-generating unit and the entity disposes of part of the assets of such unit, the goodwill associated to the asset disposed of must be included in the book value of the asset when the profit or loss deriving from the divestment is determined. The goodwill associated with the asset disposed of must be determined on the basis of the values related to the asset disposed of and of the retained part of the cash-generating unit.

Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- it is held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified under non-current assets and liabilities.

Intangible assets

Intangible assets are recorded in the assets at purchase cost when it is likely that the use of the asset will generate future economic benefits and when the cost of the asset can be measured reliably. Intangible assets acquired by means of business combinations are recorded at fair value on the date of acquisition. The useful life of intangible assets is measured as definite or indefinite.

Intangible assets with definite lives are amortised on a straight-line basis over their estimated useful life and submitted to impairment test whenever there is a possible impairment loss. The residual useful life is reviewed at the end of each financial period or more frequently, if necessary. Changes in the expected estimated useful life or in the ways in which future economic benefits related to the intangible asset are achieved by the Group are recognised by changing the period and/or the method of amortisation and treated as changes in accounting estimates. Amortisation charges of intangible assets with definite lives are recognised in the income statement in the category of cost consistent with the function of the intangible asset.

The estimate of the useful life of intangible assets with definite lives is set below:

	Years
Industrial rights and patents	5
Development costs	5
Trademarks	5
Other intangible assets	3 - 5

Research and Development costs

Research costs are posted to the income statement when they are borne.

Development costs borne with regard to a particular project concerning the development of new excavating machines, stringing equipment and/or railway machines, of their significant individual components and/or of significant customisations that materialise in new models included in the catalogue, are capitalised only when the Group can show the ability to complete the technical work in order to make it available for use or for sale, its intention to complete the said asset in order to use it or transfer it to third parties, the ways in which it will generate probable future economic benefits, the availability of technical, financial or other type of resources to complete the development, its ability to reliably consider the cost attributable to the asset during its development and the existence of a market for the products and services deriving from the asset or usefulness for internal purposes.

During the period of development, the asset is annually reviewed in order to recognise any impairment loss. After the initial recognition, development costs are measured at cost decreased by any accumulated amortisation or loss. The amortisation of the asset starts when the development is complete and the asset is available for use. It is amortised with reference to the period in which the connected project is expected to generate revenues for the Group, estimated on average over five years. If the projects to which such assets refer are abandoned or the related machines are no longer included in the catalogue, specific impairment indicators are recognised, and therefore the asset is tested for impairment and written down for any impairment loss recognised as described for intangible assets with definite lives.

Rights and trademarks

The purchase costs of the rights and trademarks are amortised over a period of time during the useful life of the acquired asset, which was determined in five years.

Intangible assets with indefinite lives are not amortised but tested annually for impairment losses on an individual basis or in terms of cash-generating unit. The assessment of the indefinite life is reviewed annually to determine whether such an allocation continues to be sustainable otherwise the change from indefinite to definite life applies on a prospective basis.

An intangible asset is derecognised on disposal (i.e. when the acquirer obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net consideration of the disposal and the book value of the asset) is included in the income statement.

Property, plant and equipment

Property, plant and equipment acquired separately, with the exception of the land and buildings item, are recorded at historical cost, including directly imputable additional costs necessary for putting the asset into operation for the use for which it was acquired. This cost includes the charges for replacing part of the machines and plants when they are borne, if complying with the recognition criteria.

Property, plant and equipment acquired by means of business combinations are recorded at fair value on the date of acquisition.

Maintenance and repair costs, which are not likely to enhance and/or extend the residual life of the assets, are paid during the financial period in which they are borne, otherwise they are capitalised.

Property, plant and equipment are stated net of the related accumulated depreciation and any impairment loss determined as described below. The depreciation is calculated on a straight-line basis according to the estimated useful life of the asset for the company, which is reviewed every year and any change, if necessary, is applied prospectively.

The estimate of the useful life of the main classes of property, plant and equipment is set below:

	Years
Buildings	40
Plant and machinery	10
Fixtures and fittings, tools and equipment	4
Leasehold trenchers	5
Other assets	4 – 8

If significant parts of property, plant and equipment have different useful lives, these components are recorded separately. Lands, both without construction and belonging to buildings, are recorded separately and are not depreciated since they have an unlimited useful life.

Starting from 1 January 2021, the Group adopted a new method of determining the depreciation of trencher machines in the fleet. Based on technical analyses carried out by the company's engineers, and confirmed by an external opinion, a period of 8 years was identified as the best representation of the average useful life of these machines, therefore, the new depreciation rate of 12.5% on an annual basis is in force. This new method represents a change in estimates and is therefore applied prospectively.

Instead for trenching machines totally addressed to lease activity, due to it is necessary a usual replacement of significant parts of these machines, the group depreciate separately the following components, on the base of their useful life:

- frame: 15 years
- motors: 8 years
- caterpillars: 5 years

The book value of property, plant and equipment is subject to an impairment test when events or changed circumstances indicate that the book value cannot be recovered. If there is an indication of this type and, in the event that the book value exceeds the estimated realisable value, assets are written down so as to reflect their realisable value. The realisable value of property, plant and equipment is represented by the net sales price and the value in use, whichever is higher.

When defining the value in use, the expected future financial flows are discounted back using a pre-tax discount rate that reflects the current market estimate of the cost of money placed in relation to the timescale and specific risks of the asset. In relation to assets that do not generate fully independent financial flows, the realisable value is determined in relation to the cash-generating unit to which the asset belongs. Impairment losses are recorded in the income statement among costs for depreciation and write-downs. These impairment losses are reversed if the reasons that generated them no longer exist.

At the time of sale or when there are no future economic benefits expected from the use of an asset, it is written off from the financial statements and any loss or profit is posted to the income statement in the year of the aforesaid writing off.

Leases

The Group assesses at the time of signing an agreement whether it is, or contains, a lease. In other words, whether the contract gives the right to control the use of an identified asset for a period of time in exchange for a consideration.

Contracts with the Group as lessee

The Group adopts a single recognition and measurement model for all leases, except for short-term leases and leases of low-value assets. The Group recognises the lease liability representing its obligation to make lease payments and the right-of-use asset representing its right to use the underlying leased asset.

Rights of use

The Group recognises the right-of-use asset on the inception date of the lease (i.e. the date on which the underlying asset is available for use). The right-of-use assets are measured at cost, net of accumulated depreciation and any impairment, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of the lease liabilities recognised, the initial direct costs incurred and the lease payments made at or before the commencement date, net of any incentives received. Right-of-use assets are depreciated on a straight-line basis from the commencement date to the end of the useful life of the asset consisting of the right of use or at the end of the lease term, whichever comes first.

If the lease transfers ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the right-of-use asset reflects the fact that the lessee will exercise the purchase option, the lessee must depreciate the right-of-use asset from the commencement date until the end of the useful life of the underlying asset.

Right-of-use assets are subject to Impairment. Refer to the section Impairment of assets.

Lease liabilities

At the commencement date of the lease, the Group recognises the lease liabilities by measuring them at the present value of the lease payments not yet paid at that date. Payments due include fixed payments net of any lease incentives to be received, variable lease payments that depend on an index or rate, and amounts expected to be paid as residual value guarantees. Lease payments also include the exercise price of a purchase option if it is reasonably certain that this option will be exercised by the Group and the penalty payments for termination of the lease, if the lease term takes account of the exercise by the Group of the option to terminate the lease.

Variable lease payments that do not depend on an index or rate are recognised as costs in the period in which the event or condition that generated the payment occurs.

In calculating the present value of the payments due, the Group uses the incremental borrowing rate at the inception date if the implicit interest rate cannot be easily determined. After the commencement date, the amount of the lease liability increases to reflect interest on the lease liability and decreases reflect the lease payments made. Moreover, the book value of lease liabilities is restated in the event of any changes to the lease or for reviewing the contractual terms for the change in

payments; it is also restated if there are changes in the valuation of the option to purchase the underlying asset or changes in future payments resulting from a change in the index or rate used to determine such payments.

Short-term leases and leases of low-value assets

The Group applies the exemption for the recognition of short-term leases (leases that have a duration of 12 months or less from the inception date and do not contain a purchase option). The Group has also applied the exemption for leases relating to low-value assets with reference to lease contracts for office equipment whose value is considered low. Short-term leases and leases of low-value assets are recognised as costs on a straight-line basis over the lease term.

Contracts with the Group as lessor

If the Group signs lease contracts that substantially transfer to the customers all the risks and rewards deriving from the ownership of the leased asset, the revenues concerning the transfer of the asset are recognised in the financial statements and are recorded on the inception date of the lease at the fair value of the leased asset or at the present value of the lease payments, if lower. Moreover, a borrowing that corresponds to the present value of the lease payments still due is recorded in the balance sheet. Financial income is posted directly to the income statement.

Lease contracts in which the Group substantially retains all risks and rewards related to the ownership of the asset are classified as operating leases. Lease income from operating leases must be recognised on a straight-line basis over the lease term and are included in revenues in the income statement due to their operating nature. Initial trading costs are added to the book value of the leased asset and recognised over the term of the contract on the same basis as lease income. Unplanned rents are recognised as revenue in the period in which they accrue.

Impairment of assets

At the end of each reporting period, the Group considers the possible existence of impairment loss indicators of intangible assets with definite lives, of property, plant and equipment, of right-of-use assets and of investments in associates and joint ventures. If these indicators exist, an impairment test is carried out.

The recoverable amount is determined as the higher of the fair value of an asset or cash-generating unit less selling costs and its value in use, and is determined by single asset, with the exception of the case in which this asset generates financial flows that are not widely independent from those generated by other assets or groups of assets, in which case the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

When determining the value in use, the Group discounts back the present value of future estimated financial flows, by using a pre-tax discount rate that reflects the market evaluations on the time value of money and specific risks of the asset.

In order to estimate the value in use, the future financial flows are derived from the business plans approved by the Board of Directors, which represent the best estimate made by the Group on the economic conditions laid down in the plan period. The projections of the plan normally cover a period of three financial periods; the long-term growth rate used in order to estimate the terminal value of the asset or of the unit is normally lower than the average long-term growth rate of the segment, country or market of reference. Future financial flows are estimated by referring to the current conditions: therefore, estimates do not consider benefits deriving from future restructuring for which the Group has not yet committed itself or future investments for improving or optimising the asset or the unit.

If the book value of an asset or cash-generating unit is greater than its recoverable amount, this asset was impaired and consequently amortised until its recoverable amount is reached.

Impairment losses incurred by operating assets are recognised in the income statement in the categories of cost consistent with the function of the asset that showed the impairment loss. At the end of each reporting period, the Group also considers the possible existence of elements indicating a decrease in impairment losses previously recognised and, if these indicators exist, it estimates the recoverable amount again. The value of an asset previously written down can be restored only if there were changes in the estimates used for determining the recoverable amount of the asset after the last recognition of an impairment loss. In this case, the book value of the asset is set to the recoverable amount, however without the possibility for the value thus increased to exceed the book value that would have been determined, net of amortisation, if no impairment had been recognised in previous years. Each reversal of impairment loss is recognised as an income in the income statement; after recognising a reversal of impairment loss, the amortisation rate of the asset is adjusted in future periods, in order to distribute the changed book value, net of any residual value, on a straight-line basis over the remaining useful life.

Intangible assets with an indefinite useful life are tested for impairment at least once a year at the cash-generating unit level and whenever circumstances indicate that there may be an impairment.

Equity investments in associates and joint ventures

A joint venture is a contractual agreement whereby two or more parties undertake an economic activity subject to joint control; it exists only when the operating decisions require the unanimous consent of the parties sharing control. A jointly-controlled

company is a joint venture that involves the establishment of a separate company in which each venturer has an interest and over which it shares control with the other venturers.

An associate is a company over which the Group exercises a significant influence and is not classifiable as subsidiary or joint venture.

The Group consolidates its equity investments in associates and in joint ventures with the equity method.

The application of the equity method involves the initial recognition of the equity investment at cost. Goodwill pertaining to the associated company or joint venture is included at the book value of the equity investment and is subject to a separate impairment test at least annually and whenever indicators of impairment emerge. Subsequently, the book value of the equity investment is increased or decreased in order to recognise the Parent Company's relative portion of profits and losses of the investee realised after the acquisition date. The income statement reflects the Group's share of the investee's operating result. The result of the income statement of the joint ventures that offer an operational contribution was included in the Group's Operating Income. If an investee recognises adjustments directly posted to the shareholders' equity, the Group recognises its share and shows it in the statement of changes in shareholders' equity, if applicable. Any unrealised profit and loss deriving from transactions between the Group and the subsidiary is written off in proportion to the equity investment.

In the presence of impairment indicators, after applying the equity method, the Group determines whether it is necessary to record any additional impairment loss with reference to the net equity investment by carrying out an impairment test. In this case, the Group calculates the amount of the loss as difference between the recoverable amount of the associate or joint venture and its book value in its proper financial statements, recognising this difference in the income statement.

The financial statements of the associated company and joint venture are prepared at the same reporting date of the Group. Any lack of homogeneity in the applied accounting policies are corrected by adjustments. In case the reporting date of some associates is not in line with that of the Group, for the purposes of the Group's consolidated financial statements, the companies will prepare interim closing accounts on dates next to the end of the reporting period of the Group.

The Group holds investments in jointly controlled companies classified as joint ventures. Based on the effective operation of distribution joint ventures (Condux Tesmec Inc., Tesmec Peninsula WLL and from the 2021 financial period Tesmec Saudi Arabia), the result of these is classified as part of the Operating Income. Considering the type of activity carried out and the actual operating phase, the result of any other JVs held by the Group having non-comparable characteristics is classified among the non-operative components of income, together with the results of the associates.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity. They are initially recognised at fair value and, after initial recognition, measured in relation to the classification, as required by IFRS 9.

Upon initial recognition, financial assets are classified, as the case may be:

- financial assets at fair value through profit or loss;
- financial assets at amortised cost.

The classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows of the financial assets and on the business model that the Group uses to manage them. With the exception of trade receivables that do not contain a significant loan component or for which the Group has applied a practical expedient, the Group initially values a financial asset at its fair value plus transaction costs. Trade receivables that do not contain a significant loan component or for which the Group has applied a practical expedient are valued at the transaction price as explained in the specific paragraph. Financial assets at fair value with changes recognised in the income statement are recognised in the statement of financial position at fair value and net changes in fair value in profit or loss. This category includes derivative instruments.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or revalued. Financial assets at amortised cost of the Group include trade receivables.

Financial assets are derecognised from the Group's statement of financial position when:

- rights to receive cash flows from the asset are paid off; or
- the Group has transferred to a third party the right to receive cash flows from the asset or it has assumed the contractual obligation to transfer them totally and without any delays and (a) it has transferred substantially all risks and rewards related to the ownership of the financial asset, or (b) it has not substantially transferred all risks and rewards of the activity, but it has transferred the control of the same.

If the Group has not transferred or retained substantially all the risks and rewards or has not lost control over it, the asset continues to be recognised in the consolidated financial statements of the Group to the extent of its residual involvement in the asset itself. In this case, the Group also recognises an associated liability.

The Group records a write-down for expected credit loss ('ECL') for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

All financial liabilities are initially recognised at fair value, in addition to directly attributable transaction costs in case of mortgages, loans and payables. The Group's financial liabilities include trade payables and other payables, mortgages and loans, including current account overdrafts and derivative financial instruments.

For the purposes of subsequent valuation, financial liabilities are classified into two categories:

- financial liabilities at fair value through profit or loss;
- financial liabilities at amortised cost.

Financial liabilities at fair value with changes recognised in the income statement include derivative financial instruments subscribed by the Group that are not designated as hedging instruments in a hedging relationship pursuant to IFRS 9. Gains or losses on those liabilities are recognised in profit or loss.

With regard to financial liabilities at amortised cost, they are measured using the effective interest rate method. Gains or losses are recorded in the income statement when the liability is discharged, in addition to using the amortisation process. Amortisation at the effective interest rate is included in financial expenses in the income statement for the period.

A financial liability is derecognised when the obligation underlying the liability is discharged, cancelled or fulfilled. If an existing financial liability is replaced by another from the same lender, at substantially different conditions, or if the conditions of an existing liability are substantially changed, this replacement or change is treated as a derecognition of the original liability accompanied by the recognition of a new liability, with any differences between the book values recognised in the income statement.

For the management of payments with its suppliers, the Group uses some solutions of the "supply chain finance" and in particular it uses the instrument of reverse factoring with some financial institutions. In such cases, the financial institution extinguishes the trade payable by anticipating its payment to the supplier, and grants the Group, of which it has become a creditor, an extension of payment. The Group assesses, for each supplier, the deferral conditions obtained from financial counterparties on these liabilities and, depending on the substance of the liabilities, records them as trade payables or reclassifies them as financial payables. The liability relating to reverse factoring not included in financial debt is disclosed pursuant to the "Guidelines on disclosure obligations pursuant to the prospectus regulation" published by ESMA on 4 March 2021

Derivative financial instruments

Derivative financial instruments are used by the Group solely with the intent to hedge financial risks relating to exchange-rate changes on commercial transactions in foreign currency and interest rate risks on interest-bearing loans and borrowings. These derivative financial instruments are initially recognised at fair value at the date when the derivative contract is signed, after which these are once again valued at fair value. Derivatives are recognised as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

If the conditions for the application of hedge accounting do not apply, the effects deriving from the fair value measurement of the derivative financial instrument are booked directly to the income statement.

In accordance with IFRS 9, hedging derivative financial instruments can be recorded according to the methods established for hedge accounting only when all of the following hedging effectiveness requirements are met:

- there is an economic relationship between the hedged item and hedging instrument;
- the effect of the credit risk does not prevail over the changes in value resulting from the economic relation;
- the hedging ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

At the end of the reporting period, the Group does not hold derivative instruments that qualify for hedge accounting.

Financial assets and other non-current assets

These assets are measured according to the amortised cost approach by using the effective discount rate method net of any provision for impairment.

The amortised cost is calculated taking into consideration any discount or purchase premium and includes the commissions that are part and parcel of the effective interest rate and of the transaction costs.

Receivables falling due after one year, interest bearing or paying interests lower than the market, are discounted by using interest rates in line with market references.

Inventories

Inventories are measured at the purchase and/or production cost, whichever lower, calculated by using the weighted average cost method, and the net realisable value. The purchase cost is inclusive of additional expenses; the cost of production includes directly attributable costs and a share of indirect costs, reasonably attributable to the products. The net estimated realisable value consists of the estimated sales prices less the estimated completion costs and the costs estimated to make the sale. Write-down allowances are allocated for materials, finished products, spare parts and other supplies considered obsolete or slow-moving, taking into account their future expected usefulness or their realisable value.

Construction contracts

The construction contracts are activity deriving from the contract. A work order is a contract specifically negotiated for the construction of an asset according to the instructions of the company commissioning the work, which defines in advance the design and specifications.

Work order revenues include the considerations initially agreed with the company commissioning the work, in addition to variations in the commissioned work and to price changes provided for in the contract that can be measured reliably.

When the work order result can be measured reliably, work order revenues and costs are recognised as sales and as costs on the basis of the percentage of completion; the work in progress is calculated by referring to the costs of the work order borne until the end of the reporting period as a percentage of total costs estimated for each work order.

The costs borne in relation to future activities of the work order are excluded from the work order costs when calculating the work in progress and are recorded as inventories.

Total estimated costs for each work order are reviewed periodically, and when the costs of the work order are expected to be greater than its total revenues, the expected loss is recognised immediately as a cost.

Trade receivables and other current assets

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.

Other current assets are initially recorded at fair value, which generally corresponds to the nominal value and subsequently measured at amortised cost and reduced in case of impairment losses. The Group availed itself of the possibility not to use the amortised cost criterion if this would have irrelevant effects in order to give a true and fair view.

These financial assets are subsequently measured recognising a specific allowance for expected credit losses ('ECL'). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

For trade receivables, the Group applies a simplified approach in calculating ECLs using a provision matrix that is based on its historical experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Receivables in foreign currency other than the reporting currency are recorded at the exchange rate of the date of operation and subsequently converted to the exchange rate at the end of the financial period. The profit or loss resulting from the conversion are attributed to the income statement.

If the maturity of the trade receivables and of the other current assets does not fall within the normal commercial terms and do not bear interests, a detailed discounting process is applied based on assumptions and estimates.

The Tescmec Group assigns part of its trade receivables through factoring without recourse. Receivables assigned following factoring operations can be written off from the assets of the balance sheet only if the risks and rewards related to their legal ownership were substantially transferred to the assignee.

Other receivables and other financial assets

They are recorded initially at fair value and subsequently measured according to the amortised cost.

Cash and cash equivalents

Cash and short-term deposits include cash on hand as well as on-demand and short-term bank deposits; in this last case, with original maturity of no more than three months. Cash and cash equivalents are booked at nominal value and at the spot exchange rate at the end of the financial period, if in currency, corresponding to the fair value.

Loans

Loans are initially recognised at fair value of the amount received, net of any related loan acquisition costs.

After initial recognition, loans are valued using the amortised cost approach, applying the effective interest rate method. Any profit or loss is recorded in the income statement when the liability is discharged, in addition to using the amortisation process.

The Group availed itself of the possibility not to use the amortised cost criterion if this would have irrelevant effects in order to give a true and fair view.

Treasury shares

The repurchased treasury shares are recognised at cost and deducted from shareholders' equity. The purchase, sale or cancellation of treasury shares does not give rise to any profit or loss in the income statement. The difference between the acquisition value and the consideration, in case of transfer, is recognised in share premium reserve.

The voting rights related to the treasury shares are cancelled as well as the right to receive dividends. In case of exercise of share options during the period, these are met with treasury shares.

Trade payables and other payables

Payables are measured at nominal value.

Given the granted terms of payment, when a financial operation is configured, payables measured with the amortised cost approach are submitted to the discounting back of the nominal value to be paid, recording the discount as a financial charge. The Group availed itself of the possibility not to use the amortised cost criterion if this would have irrelevant effects in order to give a true and fair view.

Payables in foreign currency are aligned with the exchange rate at the end of the financial period and profits or losses deriving from the adjustment are posted to the income statement in unrealised exchange profits/losses.

Provisions for risks and charges

Provisions for risks and charges are made when the Group must face up a current liability (legal or implicit) that is the result of a past event; an outflow of resources is likely to meet this obligation and it is possible to make a reliable estimate of its amount. When the Group believes that a provision for risks and charges will be partially or totally reimbursed, for example in the case of risks covered by insurance policies, the compensation is recognised separately in the assets only if it is practically certain. In this case, the cost of any provision is stated in the income statement net of the amount recognised for the compensation.

If the discounting back effect of the value of money is significant, provisions are discounted back using a pre-tax discount rate that reflects, if appropriate, the specific risks of the liabilities. When discounting back is carried out, the increase in the provision due to the passage of time is recognised as a financial expense.

The Group makes provisions for product warranties in relation to the warranty contractually granted to its customers on the sold machines. These provisions are calculated on the basis of the historical incidence of costs for product warranty borne in past financial periods, of the period of validity of the granted warranties and revised annually.

Employee benefit liability

Post-employment benefits are defined on the basis of plans, even though not yet formalised, which are classified as "defined contribution" and "defined benefit" in relation to their characteristics.

The Italian legislation (Article 2120 of the Italian Civil Code) establishes that, at the date on which each employee rescinds the employment contract with the company, he/she receives an allowance called TFR (severance indemnity). The calculation of this allowance is based on some items forming the yearly pay of the employee for each year of work (properly revalued) and on the duration of the employer-employee relationship. According to the Italian civil law, this allowance is reflected in the financial statements according to a calculation method based on the allowance accrued by each employee at the reporting date, if all employees rescind the employment contract on that date.

The IFRIC of the IASB dealt with the TFR matter, as defined by the Italian legislation, and concluded that, in accordance with IAS 19, it must be calculated according to a method called Projected Unit Credit Method (known as PUCM) in which the amount of the liability for the acquired benefits must reflect the expected resignation date and must be discounted back.

The Group's net liability deriving from defined benefit plans is calculated separately for each plan by estimating the amount of the future benefit that the employees acquired in exchange for the work carried out in the current financial period and in prior financial periods; this benefit is discounted back to calculate the present value. As envisaged by IAS 19, actuarial gains and losses are recorded in full in the comprehensive income statement in the period in which they arise. The evaluation of liabilities is made by an independent actuary.

The Group has no other defined benefit pension plan.

The Group's liability deriving from defined-contribution plans is limited to the payment of contributions to the State or to an asset or legally separate entity (known as fund), and is determined on the basis of the contributions due.

Government grants

Government grants are recognised in the financial statements when there exists a reasonable certainty that they will be received and that the company will meet all the conditions for receiving them. When the contributions are related to cost components, they are recognised as revenues, but are allocated systematically across the financial periods in order to be

proportionate to the costs that they intend to compensate. If a contribution is related to an asset, the asset and the contribution are recognised for their nominal values and they are gradually discharged to the income statement, on a straight-line basis, along the expected useful life of the asset of reference.

If the Group receives a non-monetary contribution, the asset and contribution are recognised at their nominal value and discharged to the income statement, on a straight-line basis, along the expected useful life of the asset of reference.

In case of loans or similar forms of assistance supplied by government entities or similar institutions that have an interest rate lower than the current market rate, the effect related to the favourable interest rate is considered as an additional government grant.

Revenues from contracts with customers

The recognition of revenues from contracts with customers is based on the following five steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations, represented by the contractual promises to transfer goods and/or services to a customer; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligation identified on the basis of the 'stand-alone' selling price of each item of goods or each service; (v) recognition of the revenue when the relative performance obligation has been fulfilled, or at the time of transfer to the customer of the goods or services promised; the transfer is considered complete when the customer obtains control of the goods or services, which may continue over time, or at a specific point in time.

Revenues are recognised at the fair value of the consideration received or receivable, net of returns, discounts and volume rebates.

Revenues from contracts with customers are therefore recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Generally, control of the asset is transferred to the customer on delivery.

More specifically, with reference to sales with CIF condition, control of the asset is transferred to the end customer, and therefore the revenues are recognised, when the asset is handed over at the broadside of the ship. With regard to any machine completed and not yet shipped to the customer (bill and hold) for reasons that do not depend on the Group, revenues are recognised if the following conditions established by paragraph B81 of IFRS 15 and are designed to understand the substance of the transaction at the end of the reporting period:

- the reason for the bill-and-hold arrangement must be substantive (for example, the customer has requested the arrangement);
- the product must be identified separately as belonging to the customer;
- the product currently must be ready for physical transfer to the customer;
- the Group cannot have the ability to use the product or to direct it to another customer.

With reference to the sales of goods to the Joint ventures, if, at the reporting date, the Joint venture has not sold the asset to the end customer, the margin achieved with it, following the application of the equity method by the Tesmec Group in the consolidated financial statements, is reversed in relation to the amount of shares held in the capital of the company.

If the trade agreements related to the sales of machines contemplate their on-site testing at the premises of the purchaser as a binding condition for the acceptance of the machine, the revenues are recognised when the machine has been tested and the purchaser has accepted.

The allocation of revenues relative to services partially rendered are recognised for the portion matured, if it is possible to reliably determine stage of completion and there is no significant uncertainty about the amount and existence of the income.

In particular, Tesmec Group provides services that contemplate an excavation activity carried out by using machines belonging to the company and specialised workers employed by third-party companies. The provision of these services is contractually regulated by agreements with the counterparty that indicate, among other things, the timing for carrying out the excavation and contemplate a price per excavated metre that changes according to different hardness of the soil. Revenues are recognised on the basis of the actual excavation carried out to date.

Furthermore, the Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g.: warranties). In determining the price of the sale transaction, the Group considers the effects arising from the presence of variable considerations, significant financing components, non-monetary considerations and considerations to be paid to the customer (if any).

Tesmec Group provides after-sales services concerning the machines sold and these standard warranties on quality are accounted for under IAS 37 "Provisions, contingent liabilities and contingent assets". If these services are requested after the expiry of the warranty period, the service is contractually regulated by agreements with the counterparty. Revenues are recognised based on the time and components used by the technicians during repair operations.

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

The recognition in the accounts of certain contractual agreements with customers envisages the recognition of revenue based on the progress of the activity, the determination of which is based on estimates of the costs incurred and at completion.

Costs

Costs are recognised in the period when they relate to goods and services sold or consumed during the same period or when it is not possible to identify their future use.

Labor costs comprise remuneration paid, provisions made to pension funds, accrued holidays, national insurance and social security contributions in compliance with national contracts of employment and current legislation.

Financial income and expenses

Financial income and expenses are recognised on an accrual basis and consist of interests accrued on the net value of the related financial assets and liabilities, by using the effective interest rate.

Fair Value Measurement

Fair value is defined as the price receivable for the sale of an asset or payable to transfer a liability in a normal transaction between market participants at the valuation date. All assets and liabilities measured or recognised at fair value are classified based on a fair value hierarchy and described hereunder:

- Level 1 - quoted prices (not adjusted) in active markets for identical assets or liabilities the entity of which is identifiable at the measurement date;
- Level 2 - input data other than quoted prices included in Level 1 which can be observed, either directly or indirectly for the asset or liability to be measured;
- Level 3 - the valuation techniques for which input data cannot be observed for the asset or liability to be measured.

The fair value of financial instruments that do not have a quoted market price in an active market is determined by using measurement techniques based on a series of methods and assumptions related to market conditions at the end of the reporting period.

Dividends

Dividends are recorded when the right of the shareholders to receive the payment arises, coinciding with the time in which they are decided.

Income tax

Current taxation

Taxes reflect an estimate of the tax burden, determined by applying the laws and regulations in force in the Countries where the Tesmec Group carries on its activity and are valued at the amount expected to be recovered or paid to the tax authorities. Current tax liabilities are calculated by using the rates in force or substantially approved at the end of the reporting period. Current tax liabilities are recorded in the current liabilities net of any paid tax advances.

Taxable income for tax purposes differs from the pre-tax profit or loss indicated in the income statement, because it excludes positive and negative components that will be taxable or deductible in other financial periods and excludes items that will never be taxable or deductible.

Deferred taxes

Deferred taxes are calculated by applying the "liability method", on the temporary differences resulting at the end of the reporting period among the tax values used as a reference for assets and liabilities and their values indicated in the financial statements.

Deferred tax liabilities are recognised on all taxable temporary differences.

Deferred tax assets are recognised for all the temporary deductible differences and for retained tax assets and liabilities, insofar as the existence of appropriate future tax profits that can apply the use of the temporary deductible differences and of the retained tax assets and liabilities is likely.

The value to be stated in the financial statements for deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient income for tax purposes will be available in the future for this tax credit to be used totally or partially. Deferred tax assets not recognised are reviewed every year at the end of the reporting period and are recognised to the extent that the pre-tax profit is probably sufficient to allow the recovery of these deferred tax assets.

Deferred tax assets and liabilities are measured based on tax rates that are expected to be applied to the financial period in which such assets are sold or such liabilities are discharged, considering the rates in force and those already issued or substantially issued at the end of the reporting period.

Deferred tax assets and liabilities are recognised directly in the income statement, with the exception of those relating to items recognised directly in equity, in which case the related deferred taxes are also accounted for consistently without booking to the income statement.

Deferred tax assets and liabilities are offset, if there is a legal right to offset current tax assets against current tax liabilities, and the deferred taxes refer to the same tax entity and to the same tax authority.

Assets for deferred tax assets and liabilities for deferred tax liabilities are classified as non-current assets and liabilities.

Indirect taxes

Revenues, costs, assets and liabilities are recognised net of indirect taxes (such as value added tax) with the exception of the case in which:

- such tax applied to the purchase of goods and services is not deductible, in which case it is recognised as part of the purchase cost of the asset or part of the cost item recognised in the income statement;
- they refer to trade receivables and payables for which the invoice has already been issued or received by including the value of the tax.

The net amount of indirect taxes on sales and purchases that can be recovered from or paid to the tax authorities is recorded in the financial statement item other receivables or payables depending on the sign of the balance.

VAT related to invoicing to public bodies is paid to the Italian Tax authority when the receivable is collected during suspended VAT, pursuant to Italian Presidential Decree no. 633/72 and subsequent amendments.

Earnings per share

The basic earnings per share are calculated by dividing the Group's economic result by the weighted average of the outstanding shares during the period. For the purposes of the calculation of the diluted earnings per share, the weighted average of the outstanding shares is modified by assuming the conversion of all the potential dilutive shares. The net result is also adjusted to take account of the effects, net of tax, of the conversion.

The diluted earnings per share coincide with the basic earnings, since there are no outstanding shares or options other than ordinary shares.

3.4 Accounting standards, amendments and IFRS interpretations applied as from 1 January 2021.

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

- On 31 March 2021, the IASB published an amendment called "***Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)***" extending by one year the period of application of the amendment issued in 2020, which allowed lessees to recognise the rent reductions related to Covid-19 without having to assess, through the analysis of the contracts, whether the definition of lease modification of IFRS 16 was met. Therefore, lessees applying this option in 2020 recognised the effects of rent reductions directly in profit or loss at the effective date of the reduction. The 2021 amendment, which is only available to entities that have already adopted the 2020 amendment, applies from 1 April 2021 and early adoption is permitted. The adoption of these amendments did not have any effect on the consolidated financial statements.
- On 25 June 2020, the IASB published an amendment called "Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)". The amendments allow the temporary exemption from the application of IFRS 9 to be extended until 1 January 2023 for insurance companies. The adoption of this amendment did not have any effect on the Company's financial statements.
- On 27 August 2020, the IASB published, in the light of the interbank interest rate reform such as IBOR, the document "Interest Rate Benchmark Reform — Phase 2" which contains amendments to the following standards:

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

All amendments came into force beginning on 1 January 2021. The adoption of these amendments did not have any effect on the consolidated financial statements.

Accounting standards, amendments and IFRS interpretations approved by the European Union, not yet mandatorily applicable and not early adopted by the group as at 31 December 2021

- On 14 May 2020, the IASB published the following amendments called:
 - **Amendments to IFRS 3 Business Combinations:** the purpose of the amendments is to update the reference in IFRS 3 to the revised Conceptual Framework without this entailing changes to the provisions of the standard.
 - **Amendments to IAS 16 Property, Plant and Equipment:** the purpose of the amendments is not to allow the amount received from the sale of goods produced during the testing phase of the asset to be deducted from the cost of property, plant and equipment. Therefore, these sales revenues and the related costs will be recognised in the income statement.
 - **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets:** the amendment clarifies that all costs directly attributable to the contract must be considered in the estimate of the possible cost of a contract. Accordingly, the assessment of the possible cost of a contract includes not only incremental costs (such as, for example, the cost of direct material used in processing), but also all costs that the company cannot avoid in that it has entered into the contract (such as, for example, the portion of depreciation of machinery used for the performance of the contract).
 - **Annual Improvements 2018-2020:** the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and to Illustrative Examples of IFRS 16 Leases.

All amendments are effective beginning on 1 January 2022. The directors do not expect a significant effect on the consolidated financial statements.

- On 18 May 2017, the IASB issued the standard **IFRS 17 – Insurance Contracts** that will replace standard IFRS 4 – Insurance Contracts.

The aim of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations arising from issued insurance contracts. The IASB developed the standard to eliminate inconsistencies and weaknesses in existing accounting policies by providing a single standard-based framework to take account of all types of insurance contracts, including reinsurance contracts that an insurer holds.

The new standard also includes presentation and disclosure requirements to improve comparability between entities in this sector.

The new standard measures an insurance contract on the basis of a General Model, or its simplified version, called the Premium Allocation Approach ("PAA").

The main features of the General Model are:

- estimates and assumptions of future cash flows are always current;
- the measurement reflects the time value of money;
- the estimates envisage an extensive use of observable information on the market;
- there is a current and explicit measurement of the risk;
- the expected profit is deferred and aggregated in groups of insurance contracts at the time of initial recognition; and
- the expected profit is recognised during the contractual hedging period, taking into account the adjustments resulting from changes in the assumptions relating to the cash flows for each group of contracts.

The PAA approach involves measuring the liability for the residual coverage of a group of insurance contracts provided that, at the time of initial recognition, the entity expects the liability to reasonably represent an approximation of the General Model. Contracts with a coverage period of one year or less are automatically eligible for the PAA approach. The simplifications resulting from the application of the PAA method do not apply to the measurement of liabilities for outstanding claims, which are measured using the General Model. However, it is not necessary to discount those cash flows if it is expected that the balance to be paid or received will occur within one year of the date on which the claim occurred.

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

The standard is effective beginning on 1 January 2023 but earlier application is permitted only for entities applying IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers. The directors do not expect a significant effect on the consolidated financial statements.

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

At the date of this document, the competent bodies of the European Union have not yet completed the approval process required for the adoption of the amendments and standards described below:

- On 23 January 2020, the IASB published an amendment called **“Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current”**. The purpose of the document is to clarify how to classify payables and other short or long-term liabilities. The amendments are effective beginning on 1 January 2023; in any case, early application is permitted. The directors do not expect a significant effect on the consolidated financial statements through the adoption of this amendment.
- On 12 February 2021, the IASB published two amendments called **“Disclosure of Accounting Policies—Amendments to IAS 1 and IFRS Practice Statement 2”** and **“Definition of Accounting Estimates—Amendments to IAS 8”**. The amendments are intended to improve the disclosure of accounting policies so as to provide more useful information to investors and other primary users of financial statements and to help companies distinguish changes in accounting estimates from changes in accounting policies. The amendments will apply beginning on 1 January 2023, but early application is permitted. The directors do not expect a significant effect on the consolidated financial statements through the adoption of these amendments.
- On 7 May 2021, the IASB published an amendment called **“Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction”**. The document clarifies how deferred taxes must be recognised on certain operations that can generate assets and liabilities of equal amounts, such as leases and dismantling obligations. The amendments will apply beginning on 1 January 2023, but early application is permitted. The directors do not expect a significant effect on the consolidated financial statements through the adoption of this amendment.
- On 9 December 2021, the IASB published an amendment called **“Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 - Comparative Information”**. The amendment is a transition option relating to comparative information on financial assets presented as at the date of initial application of IFRS 17. The amendment is aimed at avoiding temporary accounting mismatches between financial assets and liabilities of insurance contracts, and thus at improving the usefulness of comparative information for readers of financial statements. The amendments will apply from 1 January 2023, together with the application of IFRS 17. The directors do not expect a significant effect on the consolidated financial statements through the adoption of this amendment.
- On 30 January 2014, the IASB published **IFRS 14 - Regulatory Deferral Accounts**, which allows only those who adopt IFRS for the first time to continue to recognise amounts relating to Rate Regulation Activities in accordance with the previously adopted accounting standards. Since the Company is not a first-time adopter, this standard is not applicable.

3.5 Discretionary evaluation and significant accounting estimates

The preparation of financial statements and interim reports in accordance with generally accepted accounting standards requires management to make accounting estimates based on complex or subjective judgements, past experience and assumptions deemed reasonable and realistic based on the information available at the time. The use of these accounting estimates affects the book value of contingent assets and liabilities at the end of the reporting period as well as the amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based.

Summarised below are those accounting estimates used in the preparation of financial statements and interim reports that are considered critical because they require management to make a large number of subjective judgements, assumptions and estimates regarding matters that are inherently uncertain. The Group based its estimates and assumptions on parameters available at the time of preparation of the consolidated financial statements. Changes in the conditions underlying such judgements, assumptions and estimates may have a significant effect on future results.

Deferred tax assets

Deferred tax assets are recognised for all the temporary differences and all retained tax losses, in so far as the existence of adequate taxable future profits for which such losses may be used is likely. Directors are requested a significant discretionary assessment to determine the amount of deferred tax assets that can be recorded. They must estimate the probable time in which it will reveal itself and the amount of taxable future profits as well as a future tax planning strategy.

Employee benefits

Post-employment benefit plans arising from defined benefit plans are evaluated with reference to uncertain events and based upon actuarial assumptions including, among others, discount rates, expected rates of salary increases, mortality rates, retirement dates and medical cost trends. Since these are long-term plans, such estimates are subject to a significant level of uncertainty and are sensitive to changes in hiring. All hires are reviewed every year.

Development costs

Development costs are capitalised on the basis of IAS 38 and are based on the fact that the directors' opinion on the technical feasibility and economic viability of the project is confirmed, so as to allow the recoverability of the capitalised costs. The directors must make assumptions on future cash flows expected from projects, discount rates to be applied and the periods during which the expected benefits reveal themselves in order to determine the values to be capitalised.

Impairment of non-current assets

An impairment loss occurs when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher value between its fair value deducted the selling costs and its value in use. Fair value less selling costs is equal to the amount obtainable from the sale of an asset or cash-generating unit in a free transaction between knowledgeable, willing parties, deducted from writing off costs. The calculation of the value in use is based on a discounted cash flow model. The cash flows are derived from the business plan of the next three years and do not include restructuring activities for which the Group has not yet committed to or significant future investments that will increase the results related activity included in the cash-generating unit evaluated. The recoverable amount depends significantly on the discount rate used in the discounted cash flow model as well as the expected cash flows in the future and the growth rate used for extrapolation, as well as external variables that cannot be controlled, including exchange and interest rates, infrastructure investments in the countries where the Group operates, geopolitical or social factors with a local or global impact.

Reverse factoring

With regard to reverse factoring, the Group assesses, for each supplier, the deferral conditions obtained from financial counterparties on these liabilities and, depending on the substance of the liabilities, records them as trade payables or reclassifies them as financial payables. This assessment is required to understand the substance of the deferral agreements and necessarily involves a subjective assessment of the elements to be considered for the purposes of whether or not the corresponding payable is included in the Group's financial liabilities.

Revenues

The recognition in the accounts of certain contractual agreements with customers envisages the recognition of revenue based on the progress of the activity, the determination of which is based on estimates of the costs incurred and at completion. These estimates involve a technical recognition process of the order that involves subjective assessments of its completion.

Likewise, with reference to the typical cases for the Tesmec Group in which there are machines completed and not yet shipped to the customer (bill and hold) for reasons that do not depend on the Group, revenues are recognised if the following provisions of IFRS 15 are met, including those mentioned above, designed to understand the substance of the transaction at the end of the reporting period. The determination of these aspects necessarily involves a subjective assessment of the elements to be considered and their scope in relation to the transaction in question.

Lease – Estimate of the incremental borrowing rate

The Group may not easily determine the interest rate implicit in the lease and therefore uses the incremental borrowing rate to measure the lease liability. The incremental borrowing rate is the interest rate that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Therefore, the incremental borrowing rate reflects what the group should have paid, and this requires an estimate to be made when no observable data exist or when rates need to be adjusted to reflect the terms and conditions of the lease.

Moreover, estimates are used for recognising the ECLs for trade receivables, provisions for product warranties, for risks and charges, for inventory obsolescence, amortisation, depreciation and write-downs of assets, as well as the fair value of financial instruments.

Estimates and assumptions are periodically revised and the effects of each change are immediately reflected in the income statement.

Lastly, in applying the Group's accounting standards, the directors made decisions based on certain discretionary evaluations (excluding those involving estimates).

Lease term of contracts containing an extension option (Group as lessee)

The Group determines the lease term as the non-cancellable period of the lease plus the periods covered by the option to extend the lease if there is reasonable certainty of exercising this option and the periods covered by the termination option, if there is reasonable certainty of not exercising this option. The Group has the option, for some of its leases, to extend the lease or terminate it early. The Group applies its own judgement in assessing whether there is reasonable certainty of exercising the renewal options and considers all the factors recognised that may give rise to an economic incentive to exercise the renewal options or to conclude the agreement. After the commencement date, the Group reviews its estimates of the lease term if a significant event or significant change occurs in circumstances under its control that may affect the ability to exercise (or not exercise) the renewal or early termination option.

Change of depreciation criteria

Starting from January 1, 2021, the Group has adopted a new method of determining the depreciation of trencher machinery in the fleet. On the basis of technical analyzes carried out by the company's engineers, a period of 8 years has been identified as the best representation of the average useful life of these machineries, therefore, the new depreciation percentage of 12.5% on an annual basis is used instead of the previous one. method that provided for amortization based on use, or on the basis of a useful life of between 5 and 10 years. This new method represents a change in the estimate and is therefore applied prospectively. Based on the Management's estimates, it is believed that this change did not lead to a significant change in the depreciation recorded in the income statement with respect to the previous calculation method.

4. Financial risk management policy

The Group is exposed in varying degrees to financial risks related to the core business. In particular, the Group is exposed at the same time to the market risk (interest-rate risk and exchange-rate risk), liquidity risk and credit risk.

The management of financial risks (mainly interest-rate risks) is carried out by the Group on the basis of guidelines defined by the Board of Directors. The purpose is to guarantee a liability structure always in equilibrium with the structure of the balance sheet assets, in order to keep a very sound balance sheet structure.

Forms of financing most commonly used are represented by:

- interest bearing medium/long-term financial payables with multiyear redemption plan, to cover the investments in fixed assets.
- short-term financial payables and bank overdrafts to finance the working capital.

The average cost of indebtedness is benchmarked to the trend of the 3-month Euribor rates plus a spread that depends on the financial instrument used and on the rating of the Company.

The Group uses derivative financial instruments in order to hedge the interest-rate risk. The Group does not apply the Cash Flow Hedge Accounting with reference to such positions in that they do not meet the requirements provided in this regard by the IFRS.

The trading of derivative instruments with speculative purposes is not contemplated.

Management of the exchange-rate risk

The Group's exposure to interest rate risk is managed by taking overall exposure into consideration: as part of the general policy to optimise financial resources, the Group seeks equilibrium, by using less expensive forms of financing.

With regard to the market risk due to changes in the interest rate, the Group's policy is to hedge the exposure related to the portion of medium to long-term indebtedness. Derivative instruments such as swaps, collars and caps are used to manage this risk.

As at 31 December 2021, there were seven positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 26.06 million, with a negative equivalent value of Euro 90 thousand.

As at 31 December 2020, there were seven positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 16.63 million, with a negative equivalent value of Euro 170 thousand.

The short-term portion of interest bearing financial payables (current portion), which is mainly used to finance working capital requirements, is not subject to interest-rate risk hedging.

The cost of bank borrowings is benchmarked to the Euribor/Libor rate plus a spread that depends on the type of credit line used and is the same by type of line. The applied margins can be compared to the best market standards. The interest rate risk to which the Group is exposed is mainly originated from existing financial payables.

The main sources of exposure of the Group to the interest-rate risk refer to existing interest bearing medium/long-term financial payables (current portion) and interest bearing short-term financial payables and to the existing derivative instruments. In particular, the potential impacts on the Income Statement of the 2021 financial period (compared to 2020) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 2020 financial period .
- potential change in fair value of existing derivative instruments.

The potential changes in fair value of the effective component of existing hedging derivative instruments affect Shareholders' Equity.

The Group estimated the potential impacts on the Income Statement and on Shareholders' Equity of the 2021 financial period (compared to 2020) produced by a simulation of the change in the term structure of the interest rates, by using internal measurement models, based on the general acceptance approach. In particular:

- for loans, these impacts were estimated by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates, applied only to the cash flows to be settled during the 2021 financial period (compared to 2020).
- for derivative instruments, by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates.

With reference to the situation as at 31 December 2021, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2022 financial period of Euro 92 thousand, offset by an increase of Euro 2 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 28 thousand, offset by a decrease of Euro 1 thousand in the collected spread for the existing derivatives.

With reference to the situation as at 31 December 2020, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2021 financial period of Euro 93 thousand, offset by an increase of Euro 2 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 28 thousand, offset by a decrease of Euro 1 thousand in the collected spread for the existing derivatives.

<i>(Euro in thousands)</i>	Interests					
	31 December 20201			31 December 2020		
	Residual debt	Impact on IS +100 bps	Impact on IS - 30 bps	Residual debt (*)	Impact on IS +100 bps	Impact on IS - 30 bps
Borrowings/Bond issue	189,160	(92)	28	189,141	(93)	28
Total Loans	189,160	(92)	28	189,141	(93)	28
<i>(Euro in thousands)</i>	Nozional	Impact on IS +100 bps	Impact on IS - 30 bps	Nozional	Impact on IS +100 bps	Impact on IS - 30 bps

Derivative instruments hedging cash flows	26,062	1	(1)	16.630	2	(1)
Total Derivative instruments	26,062	1	(1)	16.630	2	(1)
Total		(91)	27		(91)	27

* Il debito residuo è considerato al lordo dei costi ammortizzati

	Fair value sensitivity of derivatives									
	Financial period ended 31 December 2021									
	Notional value	Net FV	Net FV + 30 bps	Net FV + 100 bps	Impact on IS +100 bps	Impact on SE +100 bps	Net FV -30 bps	Net FV - 100 bps	Impact on IS -30 bps	Impact on SE -30 bps
<i>(Euro in thousands)</i>										
Derivative instruments hedging cash flows	16.630	(170)	221	340	340	-	(221)	(340)	(221)	-
Total	16.630	(170)	221	340	340	-	(221)	(340)	(221)	-
	Financial period ended 31 December 2020									
	Notional value	Net FV	Net FV + 100 bps	Net FV + 100 bps	Impact on IS + 100 bps	Impact on SE + 100 bps	Net FV -30 bps	Net FV - 30 bps	Impact on IS -30 bps	Impact on SE -30 bps
	<i>(Euro in thousands)</i>									
Derivative instruments hedging cash flows	7.649	(8)	9	14	14	-	(9)	(14)	(9)	-
Totale	7.649	(8)	9	14	14	-	(9)	(14)	(9)	-

With reference to the situation as at 31 December 2021, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 180 thousand, with an impact on the Income Statement of the 2022 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 117 thousand, with an impact only on the Income Statement of the 2022 financial period.

With reference to the situation as at 31 December 2020, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 340 thousand, with an impact on the Income Statement of the 2021 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 221 thousand, with an impact only on the Income Statement of the 2021 financial period.

The assumptions concerning the extent of changes in market parameters used for the simulation of shocks were formulated on the basis of an analysis of the historical development of such parameters with reference to a time scale of 12 months.

Gestione del rischio liquidità

The Group has a much parcelled out customer structure being mostly end-consumers. Moreover, most of the contemplated forms of collection include advance payments of the supply or a deposit not less than 30% of the sale.

This structure zeroes the credit risk; the validity of this approach is endorsed by the low amount of receivables at the end of the financial period compared to the amount of annual sales.

There are no significant concentrations of credit risk exposure in relation to individual debtors to be reported.

The stratification of existing liabilities with reference to 2021 and to 2020 financial periods, with regard to financial instruments, by residual maturity, is set out below.

Maturity	31 December 2021						Total g=a+b+c+d+e+f
	Financial payables		Bonds		Trade payables	Financial instruments	
	Capital*	Interests	Capital*	Interests			
(Euro in thousands)	a	b	c	d	e	f	
Within 12 months	63,464	2,649	2,500	267	55,966	50	124,896
Between one and two years	39,065	2,167	2,500	148	-	-	43,880
Between two and three years	29,318	1,432	1,250	30	-	-	32,030
Between three and five years	42,224	2,184	-	-	-	46	44,454
Between five and seven years	3,445	94	-	-	-	(7)	3,532
After more than 7 years	5,394	251	-	-	-	-	5,645
Total	182,910 *	8,777	6,250 *	445	55,966	89	254,437

* The residual debt is considered before amortised costs

Maturity	31 December 2020						Total g=a+b+c+d+e+f
	Financial payables		Bonds		Trade payables	Financial instruments	
	Capital*	Interests	Capital*	Interests			
(Euro in thousands)	a	b	c	d	e	f	
Within 12 months	73,845	2,506	17,500	1,376	61,385	1	156,613
Between one and two years	19,098	1,906	2,500	1,286	-	-	24,791
Between two and three years	23,783	1,341	2,500	267	-	-	27,891
Between three and five years	35,719	1,588	1,250	178	-	-	38,735
Between five and seven years	12,919	276	-	-	-	169	13,364
After more than 7 years	26	1	-	-	-	-	28
Total	165,391 *	7,619	23,750 *	3,107	61,385	170	261,422

* The residual debt is considered before amortised costs

The estimate of expected future expenses implicit in loans and of expected future differentials implicit in derivative instruments was determined on the basis of the term structure of interest rates in Euro existing at the reporting dates (31 December 2021 and 31 December 2020).

Management of the exchange-rate risk

The Group is exposed to exchange-rate fluctuations of the currencies in which the sales to foreign customers are paid (US Dollars, South African Rand, Australian dollars, Chinese renminbi, Russian Rouble). This risk is expressed if the equivalent value in Euro of revenues decreases following negative exchange-rate fluctuations, thereby preventing the Company from achieving the desired margin. This risk is increased due to the relevant time interval between the moment in which the prices of a shipment are fixed and the moment in which the costs are converted in Euro.

The potential impacts on the Income Statement of the 2021 financial period (compared to 2020) referable to the exchange-rate risk are determined by the revaluation/write-down of asset and liability items in foreign currency.

The Group estimated the potential impacts on the Income Statement of the 2021 financial period (compared to 2020 calculated) produced by a shock of the exchange-rate market, by using internal measurement models, based on the general acceptance approach.

	2021 Exposure in foreign currency (USD)			2021 Sensitivity	
	Assets (USD/000)	Liabilities (USD/000)	Net (USD/000)	Income statement EUR/USD exchange rate+5% (EUR/000)	Income statement EUR/USD exchange rate -5% (EUR/000)
Exposure with regard to equity items					
Trade receivables	7,462		7,462	(329)	318
Financial receivables	29,576		29,576	(1,306)	1,306
Trade payables		(419)	(419)	18	(18)
Total gross exposure with regard to equity items	37,038	(419)	36,619	(1,617)	1,606
Derivative instruments	-	-	-	-	-

	2020 Exposure in foreign currency (USD)			2020 Sensitivity	
	Assets (USD/000)	Liabilities (USD/000)	Net (USD/000)	Income statement EUR/USD exchange rate +5% (EUR/000)	Income statement EUR/USD exchange rate -5% (EUR/000)
Exposure with regard to equity items					
Trade receivables	7,795		7,795	(318)	318
Financial receivables	17,763		17,763	(724)	724
Trade payables		(461)	(461)	19	(19)
Total gross exposure with regard to equity items	25,558	(461)	25,097	(1,023)	1,023
Derivative instruments	-	-	-	-	-

	2021 Exposure in foreign currency (ZAR)			2021 Sensitivity	
	Assets (ZAR/000)	Liabilities (ZAR/000)	Net (ZAR/000)	Income statement exchange rate EUR/ZAR +5% (EUR/000)	Income statement exchange rate EUR/ZAR -5% (EUR/000)
Exposure with regard to equity items					
Trade receivables	6,802	-	6,802	(19)	19
Financial receivables	35,652	-	35,652	(99)	99
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	42,454	-	42,454	(118)	118
Derivative instruments	-	-	-	-	-

	2020 Exposure in foreign currency (ZAR)			2020 Sensitivity	
	Assets (ZAR/000)	Liabilities (ZAR/000)	Net (ZAR/000)	Income statement exchange rate EUR/ZAR +5% (EUR/000)	Income statement exchange rate EUR/ZAR -5% (EUR/000)
Exposure with regard to equity items					
Trade receivables	13,759	-	13,759	(38)	38
Financial receivables	6,994	-	6,994	(19)	19
Trade payables	-	(104)	(104)	-	-
Total gross exposure with regard to equity items	20,753	(104)	20,649	(57)	57
Derivative instruments	-	-	-	-	-

	2021 Exposure in foreign currency (AUD)			2021 Sensitivity	
	Assets (AUD/000)	Liabilities (AUD/000)	Net (AUD/000)	Income statement exchange rate EUR/AUD +5% (EUR/000)	Income statement exchange rate EUR/AUD -5% (EUR/000)
Exposure with regard to equity items					
Trade receivables	1,297	-	1,297	(42)	42
Financial receivables	21,453	-	21,453	(687)	687
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	22,750	-	22,750	(729)	729
Derivative instruments	-	-	-	-	-

	2020 Exposure in foreign currency (AUD)			2020 Sensitivity	
	Assets (AUD/000)	Liabilities (AUD/000)	Net (AUD/000)	Income statement exchange rate EUR/AUD +5% (EUR/000)	Income statement exchange rate EUR/AUD -5% (EUR/000)
Exposure with regard to equity items					
Trade receivables	49	-	49	(2)	2
Financial receivables	19,589	-	19,589	(616)	616
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	19,638	-	19,638	(618)	618
Derivative instruments	-	-	-	-	-

	2021 Exposure in foreign currency (CNY)			2021 Sensitivity	
	Assets (CNY/000)	Liabilities (CNY/000)	Net (CNY/000)	Conto economico cambio EUR/CNY +5% (EUR/000)	Conto economico cambio EUR/CNY -5% (EUR/000)
Exposure with regard to equity items					
Trade receivables	177	-	177	(1)	1
Financial receivables	8,580	-	8,580	(60)	60
Trade payables	-	(1,149)	(1,149)	8	(8)
Total gross exposure with regard to equity items	8,757	(1,149)	7,608	(953)	53
Derivative instruments	-	-	-	-	-

	2020 Exposure in foreign currency (CNY)			2020 Sensitivity	
	Assets (CNY/000)	Liabilities (CNY/000)	Net (CNY/000)	Income statement exchange rate EUR/CNY +5% (EUR/000)	Income statement exchange rate EUR/CNY -5% (EUR/000)
Exposure with regard to equity items					
Trade receivables	8,843	-	8,843	(55)	55
Financial receivables	7,307	-	7,307	(46)	46
Trade payables	-	(882)	(882)	5	(5)
Total gross exposure with regard to equity items	16,150	(882)	15,268	(96)	96
Derivative instruments	-	-	-	-	-

	2021 Exposure in foreign currency (RUB)			2021 Sensitivity	
	Assets (RUB/000)	Liabilities (RUB/000)	Net (RUB/000)	Income statement exchange rate EUR/RUB +5% (EUR/000)	Income statement exchange rate EUR/RUB -5% (EUR/000)
Exposure with regard to equity items					
Trade receivables	945	-	945	(1)	1
Financial receivables	50,000	-	50,000	(29)	29
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	50,945	-	50,945	(30)	30
Derivative instruments	-	-	-	-	-

	2020 Exposure in foreign currency (RUB)			2020 Sensitivity	
	Assets (RUB/000)	Liabilities (RUB/000)	Net (RUB/000)	Income statement exchange rate EUR/RUB +5% (EUR/000)	Income statement exchange rate EUR/RUB -5% (EUR/000)
Exposure with regard to equity items					
Trade receivables	164	-	164	-	-
Financial receivables	50,000	-	50,000	(27)	27
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	50,164	-	50,164	(27)	27
Derivative instruments	-	-	-	-	-

The assumptions concerning the extent of changes in market parameters used for the simulation of shocks were formulated on the basis of an analysis of the historical development of such parameters with reference to a time scale of 30-60-90 days, consistent with the expected duration of exposures.

Disclosures: categories of financial assets and liabilities according to IFRS 7

The following tables show the book values for each class of financial assets and liabilities identified by IFRS 9.

The value expressed in the financial statements of derivative financial instruments, whether assets or liabilities, corresponds to their fair value, as explained in these Notes.

The value expressed in the financial statements of cash and cash equivalents, financial receivables and trade receivables, suitably adjusted for impairment in accordance with IFRS 9, approximates the estimated realisable value and therefore the fair value.

All financial liabilities, including fixed-rate financial payables, are recorded in the financial statements at a value that approximates their fair value.

	31 December	
	2021	2020
<i>(Euro in thousands)</i>		
NON-CURRENT ASSETS:		
Receivables and other financial assets	6,821	5,196
Derivative financial instruments	10	1
Non-current trade receivables	1,761	1,302
CURRENT ASSETS:		
Trade receivables	54,392	60,415
Other available-for-sale securities	2	1
Financial receivables	16,775	13,776
Cash and cash equivalents	50,189	70,426

<i>(Euro in thousands)</i>	31 December	
	2021	2020
NON-CURRENT LIABILITIES:		
Financial payables	100,439	74,336
Non-current bond issue	3,727	6,194
Non-current financial liabilities and rights of use	18,009	16,855
Derivative financial instruments	49	170
CURRENT LIABILITIES:		
Interest-bearing financial payables (current portion)	56,753	68,362
Current bond issue	2,467	17,437
Current financial liabilities and rights of use	6,484	5,218
Derivative financial instruments	50	1
Trade payables	55,966	61,385
Advances from customers	2,194	3,185

The assumptions concerning the extent of changes in market parameters used for the simulation of shocks were formulated on the basis of an analysis of the historical development of such parameters with reference to a time scale of 30-60-90 days, consistent with the expected duration of exposures.

The following table shows the book values for each class of financial assets and liabilities:

<i>(Euro in thousands)</i>	Loans and receivables/payables at amortised cost	Cash and cash equivalents	Fair value recognised in the income statement
Financial assets:			
Financial receivables	6,821	-	-
Derivative financial instruments	-	-	10
Non-current trade receivables	1,761	-	-
Total non-current	8,582	-	10
Trade receivables	50,882	-	-
Trade receivables from related parties	3,510	-	-
Other available-for-sale securities	2	-	-
Financial receivables from third parties	7,505	-	-
Financial receivables from related parties	9,270	-	-
Cash and cash equivalents	-	50,189	-
Total current	71,169	50,189	-
Total	79,751	50,189	10
Financial liabilities:			
Medium/long-term loans	100,439	-	-
Bond issue	3,727	-	-
Non-current financial liabilities from rights of use	18,009	-	-
Derivative financial instruments	-	-	49
Total non-current	122,175	-	49

Interest-bearing financial payables (current portion)	54,133	-	-
Financial payables to related parties	2,620	-	-
Current bond issue	2,467	-	-
Current financial liabilities from rights of use	6,484	-	-
Derivative financial instruments	-	-	50
Trade payables from third parties	54,656	-	-
Trade payables due to related parties	1,310	-	-
Advances from customers	2,194	-	-
Total current	123,864	-	50
Total	246,039	-	99

Disclosures: hierarchy levels of fair value measurement

In relation to financial instruments measured at fair value, the following table shows the classification of such instruments on the basis of the hierarchy of levels required by IFRS 13, which reflects the significance of the inputs used in measuring the fair value. The levels are broken down as follows:

- level 1 - quoted prices without adjustment recorded in an active market for measured assets or liabilities;
- level 2 - inputs other than quoted prices included within level 1 that are observable in the market, either directly (as in the case of prices) or indirectly (i.e. when derived from the prices);
- level 3 - inputs that are not based on observable market data.

The following table shows the assets and liabilities that are measured at fair value as at 31 December 2021, divided into the three levels defined above:

<i>(Euro in thousands)</i>	Book value as at 31 December 2021	Level 1	Level 2	Level 3
Financial assets:				
Derivative financial instruments	10	-	10	-
Total non-current	10	-	10	-
Other available-for-sale securities	2	-	-	2
Total current	2	-	-	2
Total	12	-	10	2
Financial liabilities:				
Derivative financial instruments	49	-	49	-
Total non-current	49	-	49	-
Derivative financial instruments	50	-	50	-
Total current	50	-	50	-
Total	99	-	99	-

5. Impairment Test

As foreseen by IAS 36, the Group verifies whether there is any indication that the value of investments may have suffered an impairment loss, thus estimating the recoverable amount of such assets in such circumstances. In assessing the existence of an indication that one or more investments may have suffered an impairment loss, indications deriving from information sources both inside and outside the Group were considered. In particular, potential impairment indicators were identified in the changing market scenarios of the different and diversified geographical areas in which the Tesmec Group operates.

For the purposes of preparing these consolidated financial statements, in consideration of the results of the main subsidiaries that correspond to the CGUs identified at the level of the consolidated financial statements, no general impairment indicators were identified and therefore it was not necessary to update the impairment test carried out for the purposes of preparing the financial statements as at 31 December 2020 in a context in which the uncertainty caused by the COVID-19 pandemic represented a "trigger event" which made it necessary to carry out impairment tests on non-current assets

As already indicated in the report on operations, it is also noted that although the book value of consolidated shareholders' equity (Euro 72.6 million) is higher than the market capitalization at the balance sheet date (Euro 64.9 million), it is believed that this circumstance it does not represent an impairment indicator of the assets owned by the Group but is related to the volatility of market prices. Moreover, an increasing trend of the share price is observed which, after the balance sheet date, positions the capitalization above the accounting parity.

From another point of view, already during the 2021 financial year the parent company had communicated to the market that, compared to the guidance for the 2021 financial year previously widespread relating to the expected consolidated turnover of approximately Euro 220 million, a lower consolidated turnover was expected. In this regard, it is noted that the change does not in itself represent a general impairment indicator, but is mainly attributable to the performance of the Group in the Trencher sector and in particular to the American market, with respect to which a positive growth outlook is nonetheless confirmed for 2022 and the Australian one, heavily conditioned by exogenous factors that impacted the area and in particular by the new restrictive measures connected to the COVID-19 pandemic applied in the second half of the year by the competent authorities and by the consequent generalized market stall of reference. In this context, already in the half-year report as at 30 June 2021, the forecasts of the US trencher CGU plan were updated on the basis of which the impairment test had been carried out which revealed the confirmed recoverability of the value of the corresponding carrying amount. Therefore, for the purposes of preparing these consolidated financial statements, it was decided to carry out a specific impairment test again with reference to the US trencher CGU attributable to Tesmec USA Inc. and 4Service USA Inc. and to carry out an impairment test also with reference to the CGU trencher Australia attributable to Tesmec Australia and Marais Laying NZ - New Zealand due to the heavy impact on performance caused by exogenous factors.

Finally, as mentioned, the Group holds investments in associated companies and joint ventures, valued according to the equity method, which involves the initial recognition of the investment at cost. The goodwill relating to the associate or joint venture is included in the book value of the investment and is subject to a separate impairment test at least annually and whenever impairment indicators emerge.

Therefore, for the purposes of preparing these consolidated financial statements and in accordance with the requirements of IAS 36, the book value of CGU trencher USA and trencher Australia and the Tesmec Saudi Arabia joint venture (due to the presence of implicit goodwill in the valuation according to the equity method) was tested for impairment, a process that was specifically approved by the Board of Directors on 11 March 2022.

According to IAS 36, the recoverable amount is the higher between the market value (fair value) and the value in use.

Fair value is the income obtainable from the sale in an arm's length transaction between knowledgeable, willing parties, net of directly attributable expenses. Depending on the circumstances, this value is determined on the basis of the agreed price if there is a binding sale agreement established in an uncontrolled transaction (net of disposal costs) or the market price, less selling costs, if the asset is traded in an active market. Conversely, the value in use is the discounting back of expected cash flows by applying an appropriate rate (equal to the weighted average cost of capital). The impairment loss resulting from the impairment test is measured by the excess of the carrying amount of the asset over its recoverable amount.

The operating cash flows used for the purpose of impairment testing derive from the plans of the single Cash Generating Unit drawn up by the Management on the basis of the 2022 Budget and the 2022-2024 Business Plan approved by the Board of Directors on 11 March 2022. The estimate of those cash flows includes assumptions of the Directors consistent with the strategy of the Tesmec Group in the individual businesses and markets in which it operates and also depends on external variables not subject to the management's control, such as exchange rate and interest rate trends, the trend in procurement

costs including the cost of energy, the availability of raw materials and in general the absence of prolonged rigidity constraints in the supply chain and logistics, infrastructure investments in the countries where the group operates, macro political or social factors of local or global impact.

These external factors, in line with IAS 36, were estimated on the basis of the elements known at the date of preparation of the financial statement and, in the current context of uncertainty related to the increase in procurement costs and, more generally, the temporary difficulties in the supply chain, as well as the persistence, albeit with less disruptive effects, of the pandemic crisis, incorporate the expectations of a gradual economic recovery that, although subject to the risk of further slowdowns due to further possible partially restrictive measures on travel and certain economic activities, is not affected with reference to the medium/long-term prospects. It is believed in fact that, Tesmec's operating sectors will be able to benefit from new investments and development policies aimed at strengthening the key infrastructures of the main countries and the Group's business is concentrated in strategic sectors that are extremely lively and have significant growth prospects. For a more complete analysis of the main risks and uncertainties to which Tesmec Group is exposed, please refer to paragraph 8 of the report on operations.

Based on these operating cash flows, the value in use of the Cash Generating Unit was estimated using the Discounted Cash Flow (DCF) method, i.e. the discounting back of future operating cash flows until the end of its useful life. The net operating cash flows estimated for this purpose were derived from the plans according to the generally used "unlevered" approach, according to which flows are calculated regardless of the financial structure of the company.

The Weighted Average Cost of Capital (WACC) used for discounting operating cash flows for the explicit period and for calculating the terminal value was determined differently depending on the Country of reference, as detailed in the table below:

	Carrying amount (Euro thousands)	WACC 31 December 2021	WACC 31 December 2020
CGU trencher USA	49,669	10.3%	n.a.
CGU trencher Australia	8,108	9.0%	n.a.
<i>Joint Venture</i>			
Tesmec Saudi Arabia (Arabia Saudita)	2,938	10.8%	n.a.

For the estimate of cash flows beyond the explicit forecast period, the terminal value was determined on the basis of a g growth rate of 1%.

In relation to the US trencher and Australian trencher CGUs, the application of the methodology described above led to the estimate of a value in use which, compared with the corresponding carrying amount in the consolidated financial statements, does not cause any impairment.

In relation to the impairment test conducted on the Tesmec Saudi Arabia joint venture, the application of the methodology described above led to the estimate of a value in use of the investment being tested which, added to the corresponding net financial position, determines the value of the economic capital (equity value) to be compared with the book value. Even in this circumstance, no permanent losses in value emerged at the outcome of the impairment test.

Moreover, it is noted that the recoverable value is mainly constituted by the discounting of the cash flows that make up the Terminal Value, i.e. flows associated with distant periods in time, the achievement of which is characterized by a higher and more exposed risk profile. to trends in uncontrollable exogenous variables that are different from those expected.

In this context, also taking into account the global uncertainties that emerged after the end of the year in relation to the onset of the Russian-Ukrainian conflict, which, as a non-adjusting event pursuant to the provisions of IAS 10, were not considered in the impairment test at 31 December 2021, a sensitivity analysis was carried out to verify the change in the equity value of the individual cash generating units as the discount rate (the weighted average cost of capital, WACC) changes and growth rate (g).

On the outcome of the sensitivity analyzes it is observed that a 2% increase in the WACC would not cause any impairment as well as the adoption of a growth rate g equal to zero would not cause any impairment. We will proceed with the preparation of the interim reports scheduled for the current year as required by IAS 36, verification of the existence of impairment indicators that could make it necessary to update the impairment test, also in light of events subsequent to the closing of the

year, with particular reference to the consequences of the Russian-Ukrainian conflict, in the context of the significant increase in the correlated country risk, and to the possible further negative consequences of procurement costs.

6. Other information

Information pursuant to Italian Law no. 124/2017

Italian Law no. 124 of 4 August 2017 introduced, starting with the 2018 financial statements, certain transparency requirements of persons who receive "subsidies, contributions, paid assignments and, in any case, economic advantages of any kind" from public administrations and from a series of similar subjects with whom they have economic relations.

In view of the fact that this provision raised questions of interpretation and application that are still unresolved, the Group carried out the necessary in-depth studies and, also in the light of the most recent guidelines, considers that the following elements are not part of the legal requirement of publication:

- amounts received as consideration for public works, services and supplies;
- remunerated tasks that are part of the typical business activity of the company;
- the general measures available to all enterprises within the general structure of the reference system defined by the State (for example: ACE);
- selective economic advantages received under an aid scheme, available to all enterprises meeting certain conditions, based on predetermined general criteria (for example: contributions to research and development projects and tax reliefs);
- public resources from public bodies in other countries (European or non-European) and from the European institutions;
- training contributions received from inter-professional funds (for example: Fondimpresa and Fondirigenti); in that they are funds in the form of associations and the legal status of private-law entities, which are financed by contributions paid by the enterprises themselves.

During the financial period, the Group did not receive grants falling within the category of donations and ad hoc public aid, i.e. not granted under a general scheme.

For amounts recognised during the previous financial period, refer to the National State Aid Register.

COMMENTS ON THE MAIN ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

Non-current assets

7. Intangible assets

The breakdown of *Intangible assets* as at 31 December 2021 and as at 31 December 2020 is indicated in the table below:

<i>(Euro in thousands)</i>	31 December					
	2021			2020		
	Historical cost	Accum. amort.	Net value	Historical cost	Accum. amort.	Net value
Development costs	72,743	(57,292)	15,451	66,183	(49,404)	16,779
Rights and trademarks	13,832	(9,468)	4,364	9,680	(8,065)	1,615
Other intangible assets	86	(46)	40	55	(36)	19
Goodwill	-	-	-	129	-	129
Assets in progress and advance payments to suppliers	4,041	-	4,041	3,945	-	3,945
Total intangible assets	90,702	(66,806)	23,896	79,992	(57,505)	22,487

The following table shows the changes in intangible assets for the period ended as at 31 December 2021:

<i>(Euro in thousands)</i>	1 January 2021	Increases	Reclassifications	Amortisation and depreciation	Exchange rate differences	31 December 2021
Development costs	16,779	5,714	-	(7,149)	107	15,451
Rights and trademarks	1,615	1,130	3,018	(1,399)	-	4,364
Other intangible assets	19	31	-	(10)	-	40
Goodwill	129	-	(129)	-	-	-
Assets in progress	3,945	3,114	(3,018)	-	-	4,041
Total intangible assets	22,487	9,989	(129)	(8,558)	107	23,896

As at 31 December 2021, intangible assets net of amortisation totalled Euro 23,896 thousand, up Euro 1,409 thousand due to the following effects:

- development costs, which increased by Euro 5,714 thousand, and amortisation for the period of Euro 7,149 thousand. These costs are related to projects for the development of new products and equipment that are expected to generate positive cash flows in future years, based on the requirements described in more detail in the section on the accounting standards applied;
- goodwill of Euro 129 thousand relating to the acquisition of 4 Service S.r.l. in the previous year was allocated, at the time of defining the purchase price allocation, to the fleet of trenching machines recorded under "other assets" among property, plant and equipment.
- assets in progress of Euro 3,114 thousand, relating to ongoing development projects and costs incurred for the implementation of the new ERP Group management, for the part that has not yet gone live. This ERP (Enterprise Resource Planning, consisting of a system that allows you to control and manage all business processes), is aimed at greater efficiency of business processes and from which the Group expects to obtain benefits in terms of quality and timeliness of flows information to support business management. Starting from the 2019 financial year, the Tesmec Group has started the implementation of a single ERP, carrying out the preliminary phases of fit & gap analysis and carrying out some tests that led to the actual go live on 1 January 2021 for the parent company Tesmec S.p.A. and 1 July 2021 for the subsidiary Tesmec Rail S.r.l. .. During the year 2022, implementation is planned for the other Italian subsidiaries and for the American and French subsidiaries. The extension of the project to the rest of the Group is being defined.

The following table shows the changes in intangible assets for the period ended as at 31 December 2020:

	1 January 2020	Increases	Reclassifications	Change in the consolidation area	Decreases	Amortisation	Exchange rate differences	31 December 2020
<i>(Euro in thousands)</i>								
Development costs	16,570	7,292	748	-	-	(7,696)	(135)	16,779
Rights and trademarks	2,447	97	-	-	(5)	(924)	-	1,615
Other intangible assets	24	-	-	-	-	(5)	-	19
Goodwill	-	-	-	129	-	-	-	129
Assets in progress	1,378	3,315	(748)	-	-	-	-	3,945
Total intangible assets	20,419	10,704	-	129	(5)	(8,625)	(135)	22,487

8. Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2021 and as at 31 December 2020 is indicated in the table below:

	31 December					
	2021			2020		
	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
<i>(Euro in thousands)</i>						
Land	4,536	(148)	4,388	3,308	(148)	3,160
Buildings	23,373	(8,275)	15,098	22,500	(7,375)	15,125
Plant and machinery	18,833	(14,965)	3,868	18,088	(13,831)	4,257
Equipment	8,019	(6,879)	1,140	5,730	(4,960)	770
Other assets	54,081	(32,360)	21,721	59,010	(32,877)	26,133
Assets in progress and advance payments to suppliers	1,392	-	1,392	386	-	386
Total property, plant and equipment	110,234	(62,627)	47,607	109,022	(59,191)	49,831

The following table shows the changes in property, plant and equipment for the period ended 31 December 2021:

	1 January 2021	Increases	Reclassifications	Decreases	Depreciation	Exchange rate differences	31 December 2021
<i>(Euro in thousands)</i>							
Land	3,160	1,213	-	-	-	15	4,388
Buildings	15,125	209	-	-	(628)	392	15,098
Plant and machinery	4,257	288	96	-	(847)	74	3,868
Equipment	770	675	230	(2)	(535)	2	1,140
Other assets	26,133	13,551	725	(14,565)	(5,262)	1,139	21,721
Assets in progress	386	1,589	(583)	-	-	-	1,392
Total property, plant and equipment	49,831	17,525	468	(14,567)	(7,272)	1,622	47,607

As at 31 December 2021, property, plant and equipment totalled Euro 47,607 thousand, down compared to the previous year by Euro 2,224 thousand.

The change is mainly due to the decrease in the item "Other assets" of Euro 14,565 thousand related to the sale of trenching machines previously recorded in the fleet.

The following table shows the changes in property, plant and equipment for the period ended 31 December 2020:

<i>(Euro in thousands)</i>	1 January 2020	Increases	Reclassifications	Change in the consolidation area	Decreases	Depreciation	Exchange rate differences	31 December 2020
Land	2,989	189	-	-	-	-	(18)	3,160
Buildings	15,158	584	451	-	-	(628)	(440)	15,125
Plant and machinery	3,522	1,159	518	-	(8)	(849)	(85)	4,257
Equipment	1,045	239	(50)	-	(14)	(450)	-	770
Other assets	19,004	4,359	(34)	18,285	(7,748)	(5,656)	(2,077)	26,133
Assets in progress	679	229	(522)	-	-	-	-	386
Total property, plant and equipment	42,397	6,759	363	18,285	(7,770)	(7,583)	(2,620)	49,831

9. Rights of use

The breakdown in *Rights of use* as at 31 December 2021:

<i>(Euro in thousands)</i>	31 December					
	2021			2020		
	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Industrial Buildings - Right of use	18,371	(7,201)	11,170	17,629	(4,993)	12,636
Plant and machinery - Rights of use	487	(221)	266	473	(146)	327
Equipment - Rights of use	28	(17)	11	28	(11)	17
Other assets - Rights of use	19,104	(7,199)	11,905	15,541	(5,696)	9,845
Total rights of use	37,990	(14,638)	23,352	33,671	(10,846)	22,825

The following table shows the changes in rights of use for the period ended 31 December 2021:

<i>(Euro in thousands)</i>	1 January 2021	Increases due to purchases	Reclassifications	Decreases	Depreciation	Exchange rate differences	31 December 2021
Buildings - rights of use	12,636	1,443	-	(275)	(2,650)	16	11,170
Plant and machinery - rights of use	327	5	-	-	(69)	3	266
Equipment - rights of use	17	-	-	-	(7)	1	11
Other assets - rights of use	9,845	6,303	(339)	(25)	(3,891)	12	11,905
Total rights of use	22,825	7,751	(339)	(300)	(6,617)	32	23,352

The item rights of use as at 31 December 2021 amounted to Euro 23,352 thousand and increased by Euro 527 thousand compared to the previous year, due for Euro 7,751 thousand to the signing of new lease contracts partially offset by the depreciation for the period of Euro 6,617 thousand.

The reclassification of Euro 277 thousand is related to the redemption of trenching machines previously leased.

The following table shows the changes in rights of use for the period ended 31 December 2020:

<i>(Euro in thousands)</i>	1 January 2020	Increases due to purchases	Reclassifications	Change in the consolidation area	Decreases	Depreciation	Exchange rate differences	31 December 2020
Buildings - rights of use	15,286	558	(451)	-	(84)	(2,647)	(26)	12,636
Plant and machinery - rights of use	391	8	-	-	-	(67)	(5)	327
Equipment - rights of use	25	-	-	-	-	(7)	(1)	17

Other assets - rights of use	4,442	4,184	-	5,176	(1,029)	(2,913)	(15)	9,845
Total rights of use	20,144	4,750	(451)	5,176	(1,113)	(5,634)	(47)	22,825

10. Equity investments in associates evaluated using the equity method

The breakdown of equity investments in associates evaluated using the equity method as at 31 December 2021 and 2020 is indicated in the table below:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Associates:		
Locavert SA	695	720
Consorzio Innova Stabile 70	4	-
Primis Group S.r.l.	18	-
Subtotal	717	720
Joint Ventures:		
Condux Tesmec Inc	3,854	3,520
Tesmec Peninsula WLL	579	144
Tesmec Saudi Arabia	2,938	-
Subtotal	7,371	3,664
Total Equity investments in associates evaluated using the equity method	8,088	4,384

Following the application of the equity method to investments - accounting standard adopted by the Group on Joint Ventures - the margin achieved by Tesmec S.p.A. on the machines sold to them and not yet transferred to third-party customers as at 31 December 2021 was reversed against the value of the investment (if not sufficient, by creating a relevant covering provision).

The main financial statement items of associates and Joint Ventures are summarised below:

<i>(Euro in thousands)</i>	31 December 2021							
	% held	Revenues	Net result	Assets	Liabilities	Shareholders' Equity	Equity investment value in the Consolidated Financial Statements	Value of provision for risks due to losses
Associates:								
Locavert SA	38.63%	182	(25)	1,125	430	695	695	-
Consorzio Innova Stabile 70	36.91%	-	-	-	-	4	4	-
Primis Group S.r.l.	10.03%	74	-	69	51	18	18	-
R&E Contracting	20.00%	-	-	10	44	(34)	-	34
Joint Ventures:								
Condux Tesmec Inc.	50.00%	5,640	285	7,525	3,289	4,236	3,854	-
Tesmec Peninsula	49.00%	440	400	1,664	1,032	632	579	-
Tesmec Saudi Arabia	49.00%	1,260	668	3,524	3,291	232	2,938	-
Marais Lucas Technologies Pty Ltd.	50.00%	-	-	176	2,009	(1,833)	-	1,833

With reference to the impairment test carried out in relation to certain joint ventures, please refer to the previous paragraph 5. Impairment Test.

11. Financial receivables and other non-current assets

The following table sets forth the breakdown of financial receivables and other non-current assets as at 31 December 2021 and 2020:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Guarantee deposits	107	107
Financial receivables from third parties	6,714	5,089
Total financial receivables and other non-current financial assets	6,821	5,196

The item *Financial receivables from third parties* increased by Euro 1,625 thousand compared to the previous financial period and is mainly related to the recognition of financial receivables generated by sales of trenching machines with extended terms and which provide for the accrual of interest income.

Financial receivables from third parties are shown net of a write-down equal to Euro 1,208 thousand set aside entirely in the period and attributable to the partial write-down of some receivables from certain commercial counterparties in the trencher sector operating in countries of the Africa area whose positions had been subject in the previous years of definition of financially onerous payment plans that were not fully or partially respected during the year, also in connection with the operational and financial difficulties of the counterparties as a result of the pandemic. The residual balance of positions of a financial nature connected to these cases, net of the write-downs recorded, amounts to Euro 2,132 thousand. In this regard, actions are underway aimed at recovering existing receivables, including through the stipulation of specific supply guarantees with leading institutions, as well as - more generally - monitoring the Group's exposure to this type of counterparty.

Current assets

12. Work in progress contracts

The following table sets forth the breakdown of Work in progress contracts as at 31 December 2021 and as at 31 December 2020:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Work in progress (Gross)	31,489	18,379
Advances from contractors	(15,798)	(7,163)
Work in progress contracts	15,691	11,216

"Work in progress" refers both to the Rail segment and the Energy segment where the machinery is produced in accordance with specific customer requirements.

"Work in progress" is recognised as an asset if, on the basis of an analysis carried out for each contract, the gross value of work in progress is greater than advances from customers; it is recognised as a liability if the advances are greater than the related work in progress. If the advances are not collected at the reporting date, the corresponding amount is recognised as trade receivables.

The increase recorded compared to the corresponding value of the previous year reflects the normal trend in the management of working capital in the Railway sector and in the Energy sector, subject to trends related to the specific management of individual sales orders.

13. Inventories

The following table provides a breakdown of *Inventories* as at 31 December 2021 compared to 31 December 2020:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Raw materials and consumables	53,427	41,210

Work in progress	12,452	10,471
Finished products and goods for resale	15,206	21,592
Advances to suppliers for assets	208	1,113
Total inventories	81,293	74,386

The measurement criteria of inventories with regard to raw materials and consumables, work in progress, finished products and goods for resale remained unchanged compared to the prior financial period.

In total, inventories increased by 9.3% or Euro 6,907 thousand due to a greater use of procurement also to cope with possible rigidity of the supply chain, a generalised increase in the prices of raw materials and components, and a delay in planned deliveries to customers for the difficulties that have affected the logistics.

The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2021 and 2020 are indicated below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Value as at 1 January	5,883	6,158
Provisions	1,177	242
Reclassifications	-	(222)
Uses	(533)	(158)
Exchange rate differences	119	(137)
Total provisions for inventory obsolescence	6,646	5,883

The value of the provisions for inventory obsolescence is substantially in line with the previous financial period.

The adequacy of the provision is assessed on a regular basis to constantly monitor the actual level of inventories recovered through sales.

14. Trade receivables

The table below shows the breakdown of trade receivables as at 31 December 2021 and 2020:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Trade receivables from third-party customers	50,882	58,825
Trade receivables from related parties	3,510	1,590
Total trade receivables	54,392	60,415

For terms and conditions relating to receivables from related parties, refer to paragraph 41.

Trade receivables as at 31 December 2021 amounted to Euro 54,392 thousand, down by Euro 6,023 thousand compared to the 2020 financial period reflecting the decline in sales in the last quarter of the year.

The balance of trade receivables is shown net of provisions for doubtful accounts. This provision was calculated in an analytical manner by dividing the receivables in classes depending on the level of customer and country risk and by applying to each class an expected percentage of loss derived from historical experience, considered representative for the purposes of the forward-looking assessment of losses on receivables, in line with the treatment of Expected Credit Losses for IFRS 9.

The changes in the provisions for doubtful accounts for the financial periods ended 31 December 2021 and 2020 are indicated in the table below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Value as at 1 January	3,147	2,926
Change in the consolidation area	-	-
Provisions	1,173	946
Uses	(646)	(816)
Reclassifications	-	187
Exchange rate differences	80	(96)
Total provisions for doubtful accounts	3,754	3,147

Provisions and uses related to the provisions for doubtful accounts are included in "other operating (costs)/revenues, net" of the income statement.

15. Tax receivables

The following table sets forth the breakdown of tax receivables as at 31 December 2021 and 2020:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
IRAP receivables	197	98
IRES receivables	323	301
Other direct income taxes	1,262	1,045
Total tax receivables	1,782	1,444

The item *tax receivables* increased compared to the previous financial period of Euro 338 thousand mainly due to the increase in direct taxes of foreign subsidiaries.

16. Financial receivables and other current financial assets

The following table sets forth the breakdown of financial receivables and other current financial assets as at 31 December 2021 and 31 December 2020:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Financial receivables from related parties	9,270	3,691
Financial receivables from third parties	7,403	9,983
Other current financial assets	102	102
Total financial receivables and other current financial assets	16,775	13,776

The increase in *current financial assets* from Euro 13,776 thousand to Euro 16,775 thousand is mainly due to the increase in tax receivables from related parties.

These receivables include the amount of Euro 417 thousand relating to interest accrued in relation to the sum obtained following the favorable arbitration award in the context of the dispute closed with a Chinese trading company. In relation to this amount, also based on the opinion of the lawyers who assist the Company, collection is expected in the short term.

Financial receivables from related parties mainly include receivables from Joint Ventures Tesmec Peninsula WLL of Euro 2,044 thousand and Tesmec Saudi Arabia of Euro 4,648 thousand.

17. Other current assets

The following table sets forth the breakdown of other current assets as at 31 December 2021 and as at 31 December 2020:

(Euro in thousands)	31 December	
	2021	2020
Prepaid expenses	2,553	2,284
Accrued income	3	-
VAT credit	3,399	4,289
Other receivables	694	345
Advance to suppliers for services	1,110	397
Withholding tax on interest and dividends	10	9
Other tax receivables	1,596	1,486
Total other current assets	9,365	8,810

Other current assets were considered receivable and therefore were not subject to value adjustment.

The increase in *Prepaid expenses* of Euro 269 thousand mainly refers to the suspension of costs related to the implementation of the new ERP.

Other tax receivables include the tax credit recognised for significant research and development expenses incurred by the Group in both Italy and France. In particular, with reference to the tax credit on Research and Development activities in Italy, this is recorded on the basis of the provisions of the 2017 Budget Law (Italian Law no. 232/16) which changed the regulations of the tax benefit, introduced by the "Destination Italy" Decree (Italian Law Decree no. 145/2013) as amended by Italian 2015 Stability Law (Italian Law no. 190/2014).

18. Cash and cash equivalents

The following table sets forth the breakdown of the item as at 31 December 2021 and as at 31 December 2020:

(Euro in thousands)	31 December	
	2021	2020
Bank and post office deposits	50,164	70,411
Cash on hand	8	8
Other cash	17	7
Total cash and cash equivalents	50,189	70,426

Cash and cash equivalents are deposited in current deposits and they are remunerated at a floating rate related to the Euribor trend. The balance as at 31 December 2021 amounted to Euro 50,189 thousand and decreased of Euro 20,237 thousand. This decrease is due to the cash outflow made necessary for the repayment of the "Tesmec S.p.A. 6% 2014-2021" bond issue for the entire amount of Euro 15 million, as well as cash outflows relating to the investments made in the period.

The stated values are subject to a non-significant risk of change in value. The book value of cash and cash equivalents is deemed to be aligned to their fair value at the end of the reporting period.

The Group believes that the credit risk related to cash and cash equivalents is limited since it mainly represents deposits divided across domestic and international banking institutions.

19. Shareholders' Equity

Share capital and reserves

The *Share capital* amounts to Euro 15,702 thousand, fully paid up, and comprises 606,460,200 shares without par value.

The following table sets forth the breakdown of Other reserves as at 31 December 2021 and as at 31 December 2020:

	31 December	
	2021	2020
<i>(Euro in thousands)</i>		
Revaluation reserve	86	86
Extraordinary reserve	37,044	37,499
Change in the consolidation area	16	-
Reserve for first-time adoption of IFRS 9	(491)	(491)
Severance indemnity valuation reserve	(563)	(679)
Network reserve	824	824
Future capital increase reserve	6	6
Retained earnings/(losses brought forward)	(20,105)	(13,508)
Bills charged directly to shareholders' equity on operations with entities under common control	(4,048)	(4,048)
Total other reserves	12,769	19,689

The *revaluation reserve* is a reserve in respect of which tax has been deferred, set up in accordance with Italian Law no. 72/1983.

The value of translation difference had a positive impact on Shareholders' Equity of Euro 2,077 thousand as at 31 December 2021.

As a result of the resolution of 22 April 2021, with the approval of the 2020 financial statements, the Shareholders' Meeting decided to allocate the loss of Euro 455 thousand to the extraordinary reserve.

Non-current liabilities

20. Medium/long-term loans

Medium/long-term loans include medium/long-term loans from banks and payables towards other providers of finance. The following table shows the breakdown thereof as at 31 December 2021 and as at 31 December 2020, with separate disclosure of total loans and current portion:

	31 December			
	2021	of which current portion	2020	of which current portion
<i>(Euro in thousands)</i>				
Domestic fixed-rate bank loans	39,389	3,356	19,774	4,822
Domestic floating-rate bank loans	53,426	13,479	58,351	16,794
Foreign fixed-rate bank loans	1,147	475	1,059	578
Foreign floating-rate bank loans	15,862	1,456	9,618	253
Shareholder loan	3,263	-	3,263	-
Total medium/long-term loans	113,087	18,766	92,065	22,447
less current portion	(18,766)		(22,447)	
Non-current portion of medium/long-term loans	94,321		69,618	
Medium/long-term loan due to Simest	7,418	1,300	8,718	4,000
less current portion	(1,300)		(4,000)	
Medium/long-term loan due to Simest	6,118		4,718	
Total medium/long-term loans	100,439	20,066	74,336	26,447

Some loan contracts, whose residual value at the balance date amounts to Euro 53.9 million, contain financial covenant provisions. In particular, they require that parameters, calculated on the basis of the financial statements of the Group and of the American subsidiary Tesmec USA Inc., have to be met; they are verified on an annual basis and failure to comply with this could cause the benefit of the term to be lost.

In general, covenants are based on the observance of certain levels, different between the various loan agreements, of following relations:

- Net Financial Position / EBITDA;
- Net Financial Position/Shareholders' equity;
- Debt Service Coverage Ratio;
- Current Ratio;
- Leverage Ratio;
- Collateral Coverage Ratio.

Based on the financial results of the Company and Tesmec Group, covenants relating to these loans are respected. On the other hand - as also specified further on - a covenant relating to the bond loan, equal to Euro 6.2 million, the regulation of which provides, for this circumstance, an increase in the interest rate which, moreover, has already been applied from previous years, is not respected.

From a perspective overview, the Directors verified the ability of the Company and the Group to meet their obligations in the foreseeable future of at least 12 months and in particular the ability to comply, also for the year 2022, with the covenants relating to the most significant loans to this verification, elaborating for this purpose alternative forecast scenarios to take into account the effects of further possible slowdowns of the business with respect to what is already foreseen in the plan, due to the context of general uncertainty connected to the increase in procurement costs, further complicated for due to the Russian-Ukrainian conflict that arose after the end of the financial year, as well as to the ongoing pandemic situation. As a result of this analysis, the Directors concluded that there are no significant uncertainties regarding compliance with the covenants in question and, consequently, on the going concern of the company. Trends differing from the company forecasts, with particular reference to increases in procurement costs higher than the prudence scenarios incorporated in the aforementioned forecasts, could lead to the achievement of lower than expected results with possible effects currently unforeseeable on the ability of the Company and the Group to comply such covenants.

The debt to Simest S.p.A. equal to Euro 7,418 thousand, consists of the amount relating to the capital shares held by Simest S.p.A. in the subsidiaries of Marais Technologies SAS, Tesmec SA Ltd. (Pty) and Tesmec Australia (Pty) Ltd which, by virtue of Tesmec's obligation to repurchase the corresponding shares upon contractual maturity, are treated as a loan. For accounting purposes, the respective equity investments are 100% consolidated

The average cost of indebtedness is benchmarked to the trend of the 3-month Euribor rates plus a spread applied depending also on the type of the financial instrument used.

The table below shows the figures relevant to the Company's outstanding loans as at 31 December 2021, by indicating the portion due within one year, within 5 years and after more than 5 years:

Description	Residual value as at 31 December 2021	Portion within 12 months	Portion within 5 years	Portion after more than 5 years
Domestic fixed-rate bank loans	39,389	3,356	35,864	169
Domestic floating-rate bank loans	53,426	13,479	39,496	451
Foreign fixed-rate bank loans	1,147	475	672	-
Foreign floating-rate bank loans	15,862	1,456	8,293	6,113
Shareholder loan	3,263	-	3,263	-
Total	113,087	18,766	87,588	6,733

The shareholder loan was a transaction of greater importance and therefore approved by the Company's Control and Risk, Sustainability and Related Party Transactions Committee. This is a shareholder loan with a duration of 36 months and bearing interest at an annual rate of 2%. As at 31 December 2021, a total of Euro 3,263 thousand was drawn down.

Net financial indebtedness

In accordance with the "Guidelines on disclosure requirements under the Prospectus Regulation" published by ESMA on 4 March 2021 with the "ESMA32- 382-1138" document and incorporated by CONSOB in its communication 5/21 of 29 April 2021, note that the Group's net financial indebtedness is as follows:

	Financial period ended 31 December			
	2021	<i>of which with related parties and group</i>	2020	<i>of which with related parties and group</i>
<i>(Euro in thousands)</i>				
Cash and cash equivalents	(50,189)		(70,426)	
Current financial assets	(16,777)	(9,270)	(13,777)	(3,691)
Current financial liabilities	59,220	2,620	85,799	2,788
Current financial liabilities from rights of use	6,484	-	5,218	-
Current portion of derivative financial instruments	50		1	
Current financial indebtedness	(1,212)	(6,650)	6,815	(903)
Non-current financial liabilities	104,166	3,263	80,530	3,263
Non-current financial liabilities from rights of use	18,009		16,855	
Non-current portion of derivative financial instruments	49		170	
Trade payables and other payables (non-current)	254		625	
Non-current financial indebtedness	122,478	3,263	98,180	3,263
Net financial indebtedness pursuant to ESMA 32-382-1138 Communication	121,266	(3,387)	104,995	2,360
Trade payables and other payables (non-current)	(254)		(625)	
Group net financial indebtedness	121,012	(3,387)	104,370	2,360

The net financial indebtedness as at 31 December 2021 increased by Euro 16,642 thousand compared to the end of 2020 (15.9%). The net financial indebtedness prior to the application of IFRS 16, as at 31 December 2021, is equal to Euro 96,519 thousand with an increase of Euro 14,222 thousand compared to the end of 2020.

The table below shows the breakdown of the changes:

- decrease in current financial indebtedness of Euro 8,027 thousand due to the:
 - decrease in cash and cash equivalents and current financial assets of Euro 17,237 thousand following the repayment of the "Tesmec S.p.A. 6% 2014-2021" bond for the entire amount of Euro 15 million and as a result of investments made during the period;
 - decrease in current financial liabilities of Euro 26,579 thousand mainly due to the restatement to non-current financial liabilities of the portions classified as current at the end of 2020 due to failure to comply with certain financial parameters and as a result of the redemption of the bond described above;
- increase in medium/long-term financial indebtedness of Euro 24,298 thousand relating to new loans taken out during the financial period and to the reclassification to the long term of the portions classified as short term at the end of 2020, following the actual receipt of waivers.

With regard to the recent ESMA 32-382-1138 guidelines, which required the disclosure within the Net Financial Indebtedness of trade payables and other non-current payables that have a significant implicit or explicit financing component and any other non-interest-bearing loans, the amount of Euro 254 thousand corresponds to the consideration still to be paid for the lease of the AMG business unit started in 2019.

With regard to reverse factoring, the Group assesses, for each supplier, the deferral conditions obtained from financial counterparties on these liabilities and, depending on the substance of the liabilities, records them as trade payables or reclassifies them as financial payables. This assessment is required to understand the substance of the deferral agreements and necessarily involves a subjective assessment of the elements to be considered for the purposes of whether or not the corresponding payable is included in the Group's financial liabilities. Pursuant to the aforementioned ESMA guidelines, it is noted that the amounts relating to "indirect factoring" (reverse factoring) not included in the debt declaration as the deferral is part of the normal practice of the Group amount to Euro 3,402 thousand.

21. Non-current bond issue

The item related to the non-current bond issue amounts to Euro 3,727 thousand and is related to the medium-long term portion of the "Tescmec S.p.A. 4.75% 2018-2024" bond issue of Euro 10 million placed on 27 July 2018 with professional investors. The 4.75% fixed rate Bond Issue, placed by Banca Finint, will expire on 30 June 2024 with half-yearly coupon and amortising repayment, and since the two-year pre-amortisation period has ended, the five-year amortisation plan is in progress and as at 31 December 2021 the residual debt is Euro 6,195 thousand.

As mentioned, the failure to comply with certain financial covenants has no effect on outstanding bond as the interest rate step-up had already taken place in past years.

22. Financial liabilities from rights of use

The item *Financial liabilities from rights of use* refers to the accounting required by IFRS 16 of the loan due to counterparties of the lease contracts as from 1 January 2019. The following table sets forth the breakdown of the items as at 31 December 2021 and 2020:

(Euro in thousands)	31 December	
	2021	2020
Non-current financial liabilities from rights of use	18,009	16,855
Current financial liabilities from rights of use	6,484	5,218
Total financial liabilities from rights of use	24,493	22,073

The balance of financial liabilities from rights of use as at 31 December 2021 amounted to Euro 24,493 thousand and increased by Euro 2,420 thousand compared to the previous year following the signing of new lease contracts.

23. Derivative financial instruments

The Group signed some contracts related to derivative financial instruments whose contractual characteristics and related fair value as at 31 December 2021 and 2020 are shown in the table below:

Counterparties	Type	Debt interest rate (fixed)	Credit interest rate (variable)	Start date	Maturity date	Notional principal	Fair Value (Euro/000) as at 31 December	
							2021	2020
Banco BPM	IRS	Fixed interest rate 0.12%	3-month Euribor	31/01/2017	30/04/2021	345,949	-	(1)
Banco BPM	CAP	Quarterly floating rate 1.5%	3-month Euribor	01/02/2019	30/06/2025	1,000,000	3	1
Deutsche Bank	IRS	Fixed interest rate 1.80%	3-month Euribor	01/07/2020	30/06/2025	3,684,211	(19)	(60)
Intesa	IRS	Fixed interest rate 2.00%	3-month Euribor	18/05/2020	31/03/2025	10,000,000	(30)	(110)
INTESA	IRS	Fixed interest rate -0.18%	3-month Euribor	20/07/2021	30/06/2027	5,000,000	7	-
DEUTSCHE BANK	FLEX	-	-	06/01/2022	10/01/2022	2,000,000	(19)	-
BNL	FLEX	-	-	12/01/2022	12/01/2022	2,612,103	(23)	-
MPS	FLEX	-	-	06/10/2021	10/01/2022	1,724,584	(8)	-
Assets for derivative instruments within the financial period							-	-
Assets for derivative instruments beyond the financial period							10	1
Liabilities for derivative instruments within the financial period							(50)	(1)
Liabilities for derivative instruments beyond the financial period							(49)	(170)

The Group uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The transactions for interest-rate risk hedging are limited to medium to long-term loans.

The Group does not account for these financial instruments according to the methods established for hedge accounting since they do not meet all the requirements provided on this matter by the international accounting standards. Therefore, the changes in fair value of the financial instruments are attributed to the income statement during the financial period under review.

The financial management of the Group does not envisage the trading of derivative instruments with speculative purposes.

24. Employee benefit liability

The Group has no defined benefit pension plans in the strict sense. However, the severance indemnity fund allocated by the Parent Company and Italian subsidiaries required by Article 2120 of the Italian Civil Code, in terms of recognition in the financial statements, falls under this type and as such was accounted for, as shown in the applied accounting policies.

The following table shows the changes for the period ended 31 December 2021 and 31 December 2020 of employee benefits:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Present value of the liability at the beginning of the period	4,660	4,451
Financial expense	14	28
Benefits accrued	409	421
Benefits paid	(367)	(198)
Loss (profit)	(152)	(42)
Present value of the liability at the end of the period	4,564	4,660

With the adoption of the IFRS, the severance indemnity is considered a defined-benefit liability to be accounted for in accordance with IAS 19 and, as a result, the relevant liability is measured based on actuarial techniques.

The main assumptions used in determining the present value of the severance indemnity are shown below:

Economic and financial technical bases

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Annual discount rate	1.00%	0.35%
Inflation rate	1.75%	1.00%
Total annual salary increase rate	2.92%	2.12%

The sensitivity analyses are shown below by using an annual discount rate of +0.5% and -0.5% compared to the annual discount rate used on the valuation date.

<i>(Euro in thousands)</i>	Discount rate	
	0.50%	-0.50%
Effect on the aggregate current cost of the service and of the financial expenses	51	9
Reported value for liabilities with respect to defined benefit plans	3,948	4,386

Technical and demographic bases

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Mortality	2004 ISTAT tables	2004 ISTAT tables
Disability	INPS tables	INPS tables
Retirement age	67 N/F	67 N/F

Frequency of turnover and advances on severance indemnity

(In migliaia di Euro)	Esercizio chiuso al 31 dicembre	
	2021	2020
Advance frequency %	2.00%	2.00%
Turnover frequency %	13.00%	18.00%

Current liabilities

25. Interest-bearing financial payables (current portion)

The following table sets forth the breakdown of *Interest-bearing financial payables (current portion)* for the 2021 financial periods and as at 31 December 2020:

(Euro in thousands)	31 December	
	2021	2020
Advances from banks against invoices and bills receivables	27,648	31,552
Payables due to factoring companies	5,957	7,173
Current account overdrafts	-	1
Financial payables due to SIMEST	1,300	4,000
Short-term loans to third parties	462	401
Current portion of medium/long-term loans	18,766	22,447
Financial payables to related parties	2,620	2,788
Total interest-bearing financial payables (current portion)	56,753	68,362

Interest-bearing financial payables (current portion) decreased by Euro 11,609 thousand, mainly due to lower use of export advance lines of Euro 3,904 thousand and lower payables to factoring companies of Euro 1,216 thousand.

Payables due to factoring companies include both advances received for transfers with recourse of the Group's trade receivables and payables arising from supplies received and transferred using reverse factoring, the deferral conditions of which determine the representation of a financial liability.

26. Current bond issue

The item related to the current bond issue amounts to Euro 2,467 thousand and is related to the short-term portion of the "Tesmec S.p.A. 4.75% 2018-2024" bond issue of Euro 10 million placed on 27 July 2018 with professional investors. The 4.75% fixed rate Bond Issue, placed by Banca Finint, will expire on 30 June 2024 with half-yearly coupon and amortising repayment, and since the two-year pre-amortisation period has ended, the five-year amortisation plan is in progress and as at 31 December 2021 the residual debt is Euro 6,195 thousand.

27. Trade payables

The breakdown of *Trade payables* as at 31 December 2021 and as at 31 December 2020, respectively, is indicated in the table below:

(Euro in thousands)	31 December	
	2021	2020
Trade payables due to third-parties	54,656	59,920
Trade payables due to related parties	1,310	1,465
Total trade payables	55,966	61,385

Trade payables as at 31 December 2021 decreased by Euro 5,419 thousand or 8.8% compared to the previous financial period. This figure includes payables related to the Group's normal course of business, in particular the purchase of raw materials and outsourced works.

This item also includes payables originating from supplies received and sold in accordance with the reverse factor that maintain commercial deferment conditions.

Note also that there are no payables with maturity exceeding five years at the above dates.

28. Income taxes payable

The breakdown of *Income taxes payable* as at 31 December 2021 and as at 31 December 2020, respectively, is indicated in the table below:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Current IRES tax liabilities	4	8
Current IRAP tax liabilities	287	71
Current USA tax liabilities	71	81
Other current taxes	1,689	466
Total income taxes payable	2,051	626

IRES and IRAP tax liabilities as at 31 December 2021 include the net payable due by the Group to the Italian Tax authority for the payment of direct income taxes. *Other current taxes* include payables for direct taxes due to foreign tax authorities.

29. Provisions for risks and charges

Provisions for risks and charges refer in part to provision for the product guarantee fund, in part to the adjustment of the value of consolidated investments by using the equity method and in part against the risks related to certain ongoing disputes. With reference to the guarantee fund, the calculation is based on a historical, statistical and technical analysis of the interventions under guarantee carried out on sales in prior financial periods and includes both the cost of labor and that for spare parts used. Changes in the item as at 31 December 2021 and as at 31 December 2020 are indicated below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Value as at 1 January	2,968	3,104
Change in the consolidation area	-	-
Provisions	600	368
Reclassifications	32	(12)
Uses	(453)	(460)
Exchange rate differences	24	(32)
Value as at 31 December	3,171	2,968

During the year, the provision was mainly used to cover the work under warranty carried out by Group technicians, while the provision for the period is related to the allocations to cover some outstanding disputes.

The main ongoing disputes are described in note 45 Legal and tax disputes below.

30. Other current liabilities

The following table sets forth the breakdown of *other current liabilities* as at 31 December 2021 and as at 31 December 2020:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Due to social security	2,056	2,231
Due to INAIL (National Insurance Institute for Industrial Accidents)	349	306
Due to trade funds	548	398
Due to employees and collaborators	3,940	3,139
Guarantee deposits payable	155	155
VAT debit	1,160	2,438
Due to others	629	609
Accrued expenses and liabilities	11,830	12,125
Other current taxes	1,938	2,450
Total other current liabilities	22,605	23,851

Other current liabilities decreased compared to the prior financial period of Euro 1,246 thousand and refer to the decrease in Vat debit of Euro 1,278 thousand. The item includes certain overdue social security liabilities settled after the end of the financial year.

31. Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2021 and as at 31 December 2020:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Deferred tax assets	15,839	16,446
Deferred tax liabilities	6,707	7,628

The breakdown of net deferred taxes as at 31 December 2021 and 2020 is shown in the following table by type by listing the items that present underlying temporary differences:

<i>(Euro in thousands)</i>	31 December		31 December		Financial period ended 31 December	
	Statement of financial position		Shareholders' equity		Income statement	
	2021	2020	2021	2020	2021	2020
Deferred tax assets						
Reversals of intangible assets	-	3	-	-	(3)	(3)
Obsolescence fund	1,534	1,430	(18)	(105)	122	77
Provisions for future risks and charges	297	96	199	(9)	2	(31)
Unrealised exchange-rate losses	2,546	1,172	26	(1)	1,348	200
Tax effect on UCC gain reversals	43	55	-	1	(12)	(36)
Tax effect on inter-company margin adjustments	1,921	1,580	(1)	134	342	285
Tax losses carried forward	7,130	8,629	858	310	(2,357)	1,862
Other temporary differences	2,368	3,481	(1,493)	831	380	1,042
Total deferred tax assets	15,839	16,446	(429)	1,161	(178)	3,396
Deferred tax liabilities						
Unrealised exchange rate gains	(3,157)	(1,520)	-	-	(1,637)	(34)
Difference of value USA building	(140)	(134)	(11)	13	5	6

Capitalisation of Development costs Tesmec USA	(256)	(309)	(22)	94	75	(56)
Deferred tax liabilities Tesmec USA	(241)	(1,427)	1,186	(633)	-	-
Profits allocated to network reserve	(218)	(218)	-	-	-	-
Tax effect on inter-company margin adjustments	(80)	(97)	1	4	16	(31)
Deferred tax liabilities of Group Marais	(1,713)	(1,953)	2	(1)	238	415
Other temporary differences	(902)	(1,970)	(646)	(816)	1,714	(818)
Total deferred tax liabilities	(6,707)	(7,628)	510	(1,339)	411	(518)
Net effect on Shareholders' Equity						
<i>Net balance deferred wealth taxes</i>	9,132					
<i>Represented in the income statement as follows:</i>						
<i>Deferred tax assets</i>	(178)					
<i>Deferred tax liabilities</i>	411					
Deferred tax liabilities, net	233					

The possibility of recovering taxes is subject to the availability of future taxable income over the time horizon used by the Directors in formulating the 2022-2024 Business Plan on the basis of the best information available at the date of approval of the financial statements, as well as in accordance with the tax rules applicable in the countries where temporary differences and tax losses are identified.

Current taxation

Profit before taxes and the allocation for income taxes for the financial periods as at 31 December 2021 and 2020 are summarised below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Consolidated pre-tax profit/(loss)	2,702	(9,038)
Current taxation:		
Italy	(291)	(26)
USA	(76)	(142)
Rest of the world	(1,359)	(483)
Deferred tax (liabilities)/assets		
Italy	161	1,563
USA	244	522
Rest of the world	(172)	793
Total Income taxes	(1,493)	2,227

The reconciliation between the nominal tax rate established by the Italian legislation and the effective tax rate resulting from the consolidated financial statements is set below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Profit before tax	2,702	(9,038)
IRES tax rate in force during the period	24.00%	24.00%
Theoretical tax charge	(648)	2,169
Irap	(282)	(71)
Permanent tax differences	(57)	(196)
Effect of different tax rate for foreign companies	(506)	325
Total difference	(563)	129
Total tax charge as per income statement	(1,493)	2,227

Comments to the main items in the income statement

32. Revenues from sales and services

In the 2021 and 2020 financial periods, revenues from sales and services amounted to Euro 194,286 thousand and Euro 170,655 thousand, respectively. The breakdown is set below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Sales of products	127,391	134,957
Services rendered	53,100	38,986
Changes in work in progress	13,795	(3,288)
Total revenues from sales and services	194,286	170,655

In 2021, the Group realised revenues of Euro 194,286 thousand compared to Euro 170,655 thousand in 2020, recording an increase of 13.8%. The trend of the three segments is shown below:

- **Energy**
With regard to the Energy segment, revenues amounted to Euro 51,118 thousand, increasing by 16.7% compared to the figure of Euro 43,812 thousand as at 31 December 2020. In particular, the Stringing Equipment Segment achieved revenues of Euro 34,140 thousand, compared to Euro 30,291 thousand as at 31 December 2020 with an increase in turnover attributable to the resumption of production activities, compared to the pandemic situation of the year 2020 and in substantial compliance with the objectives set out in the plan. The Energy-Automation Segment achieved revenues of Euro 16,978 thousand, compared to Euro 13,521 thousand as at 31 December 2020. Also in this sector there is a recovery driven by investments in compliance with the Plan targets.
- **Trencher**
Revenues of the Trencher segment amounted to Euro 110,283 thousand, increasing by 9.8% compared to Euro 100,444 thousand as at 31 December 2020. This result is essentially attributable to the delay with respect to the original guidance for 2021 and although the figure is an improvement compared to 2020, the sector has been heavily impacted by the delays due to critical issues on the supply chain and in particular to the performance in the USA and Australia, whose recovery was further delayed by the worsening of the spread of the pandemic in the last quarter of 2021.
- **Rail**
The Rail Segment recorded revenues of Euro 32,885 thousand, increasing by 24.6% compared to Euro 26,399 thousand as at 31 December 2020 and also in this case substantially in line with the plan. This sector was the least affected in the previous year by the lock down period and during the period it initiated projects with higher added value related to diagnostic products and the energy transition.

33. Cost of raw materials and consumables

For the financial periods as at 31 December 2021 and 31 December 2020, cost of raw materials and consumables amounted to Euro 78,564 thousand and Euro 77,418 thousand, respectively.

The breakdown of the item is as in the following table:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Cost for the purchase of raw materials and consumables	84,969	84,049
Change in inventories	(6,404)	(6,631)
Total cost of raw materials and consumables	78,565	77,418

Cost of raw materials and consumables increased by Euro 1,147 thousand (1.5%) less than the increase in sales volumes (13.8%).

34. Costs for services

The table below shows the breakdown of *costs for services* that amounted in 2021 and in 2020 to Euro 37,738 thousand and Euro 30,156 thousand, respectively.

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Transport, customs and incidental expenses	7,146	6,764
Outsourced work service	7,318	5,330
External production services	333	136
Services for legal, tax, technical and other consultancy	8,301	6,041
Banking services	1,113	1,243
Insurance	1,763	1,580
Energy, water, gas, telephone expenses and postage	1,983	1,280
Board and lodging expenses and travelling allowance	3,355	2,772
Directors' and Auditors' fees	929	772
Advertising and other selling expenses	398	409
Maintenance services	1,509	1,110
Commissions and additional expenses	1,430	1,100
Other general expenses	2,160	1,619
Total costs for services	37,738	30,156

The increase in costs for services (25.1%) was mainly due to the increase in *Outsourced work service* of Euro 1,988 thousand in connection with the increase in revenues and *Services for legal, tax, technical and other consultancy* of Euro 2,260 thousand related to some strategic consultancies.

Finally, note the increase in *Energy, water, gas, telephone expenses and postage* of Euro 703 thousands following the general increase of costs, in the last quarter, for the supply of electricity and gas.

35. Payroll costs

During the financial periods ended 31 December 2021 and 31 December 2020, payroll costs amounted to Euro 56,011 thousand and Euro 48,519 thousand, respectively, up by 15.4%.

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Wages and salaries	43,998	37,135
Social security charges	8,766	8,496
Employee severance indemnity	1,621	1,552
Other personnel costs	1,626	1,336
Total payroll costs	56,011	48,519

36. Other operating (costs)/revenues, net

During the financial periods ended 31 December 2021 and 31 December 2020, other operating (costs)/revenues, net amounted to Euro 3,256 thousand and Euro 131 thousand, respectively. The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Provisions for risks and other provisions	1,731	1,314
Rents	2,691	1,734
Hiring	1,321	1,784
Other lease and rental expenses	(274)	(161)
Sundry taxes	776	799
Other revenues	(5,502)	(7,472)
Other	2,513	1,871
Total other operating revenues, net	3,256	(131)

Other operating (costs)/revenues, net increased by Euro 3,387 thousand compared to the previous financial period. The item includes the value of the benefit of the tax credit for 2021 of Euro 2,059 thousand compared to Euro 1,860 thousand for 2020 and also included at 31 December 2020 the contribution received from the American subsidiary Tesmec USA, Inc. within the American grant program in the pandemic period equal to Euro 1,233 thousand.

The item *Provisions for risks and other net provisions* of Euro 1,731 thousand includes the provision to the allowance for short-term doubtful receivables of Euro 1,173 thousand and for long-term doubtful receivables of Euro 142 thousand and the provision for the product guarantee fund of Euro 416 thousand.

The item *Other* is increased by Euro 642 thousand and mainly regards the cost of software licenses for the new ERP management system.

37. Amortisation and depreciation

During the financial periods ended 31 December 2021 and 31 December 2020, depreciation and amortisation amounted to Euro 22,431 thousand and Euro 21,842 thousand, respectively, with a 2.7% increase.

The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Amortisation of intangible assets	8,558	8,625
Depreciation of property, plant and equipment	7,272	7,583
Depreciation of right of use	6,617	5,634
Total amortisation and depreciation	22,447	21,842

38. Development costs capitalised

Development costs capitalised for the financial periods ended 31 December 2021 and 31 December 2020 amounted to Euro 8,065 thousand and Euro 5,787 thousand, respectively.

The Group continued to develop the projects for the launch of new models and new functionalities for its own products, which are requested by the markets, in order to maintain its leader sector position.

39. Financial expenses

During the financial periods ended 31 December 2021 and 31 December 2020, financial expenses amounted to Euro 12,112 thousand and Euro 10,207 thousand. The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Bank interest expenses	502	371
Interests payable for factoring and billing discounts	648	997
Interests payable on interest-bearing medium/long-term loans and borrowings	3,144	3,020
Interests payable on advance loans on exports	292	274
Other sundry financial expenses	1,352	71
Financial expenses on rights of use	973	950
Realised foreign exchange losses	565	2,718
Unrealised foreign exchange losses	4,586	1,632
Fair value adjustment of derivative instruments	50	174
Total financial expenses	12,112	10,207

Financial expenses increased by Euro 1,905 thousand compared to the previous financial period, mainly due to realised and unrealised exchange losses that amounted to Euro 5,151 thousand compared to Euro 4,530 thousand in the previous financial period, as well as the partial write-down of some medium / long-term financial receivables from certain commercial counterparties in the Trencher sector operating in countries of the Africa area whose positions had been the subject of the definition of financially onerous payment plans that were not respected in all or part of it during the year, also in connection with the operational and financial difficulties of the counterparties as a result of the pandemic.

40. Financial income

During the financial periods ended 31 December 2021 and 2020, financial income amounted to Euro 9,152 thousand and Euro 1,903 thousand, respectively. The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Interests from banks	17	2
Realised foreign exchange gains	511	116
Unrealised foreign exchange gains	7,867	618
Fair value adjustment of derivative instruments	130	12
Interest income from customers	627	1,155
Total financial income	9,152	1,903

Financial income increased by Euro 7,249 thousand compared to the previous financial period mainly due to higher realised and unrealised foreign exchange gains totalling Euro 7,644 thousand.

41. Segment Reporting

For management purposes, the Tescmec Group is organised into strategic business units identified based on the goods and services provided, and presents three operating segments for disclosure purposes:

Energy segment

- machines and integrated systems for overhead and underground stringing of power lines and fibre optic cables; integrated solutions for the streamlining, management and monitoring of low, medium and high voltage power lines (smart grid solutions).

Trencher segment

- high-efficiency crawler trenching machines for excavation with a set section for the construction of infrastructures for the transmission of data, raw materials and gaseous and liquid products in the various segments: energy, farming, chemical and public utilities, crawler machines for working in the mines, surface works and earth moving works (RockHawg);

- rental of the trenching machines;
- specialised consultancy and excavation services on customer request;
- multi-purpose site machinery (Gallmac).

Rail segment

- machines and integrated systems for the installation, maintenance and diagnostics of the railway catenary wire system, plus customised machines for special operations on the line.

No operating segment has been aggregated in order to determine the indicated operating segments that are the subject of the reporting.

	31 December									
	2021					2020				
	Energy	Trencher	Rail	Not allocated	Consolidated	Energy	Trencher	Rail	Not allocated	Consolidated
<i>(Euro in thousands)</i>										
Intangible assets	10,062	5,833	8,001	-	23,896	9,748	5,287	7,452	-	22,487
Property, plant and equipment	2,980	36,554	8,073	-	47,607	2,756	39,474	7,601	-	49,831
Rights of use	817	21,945	590	-	23,352	760	21,351	714	-	22,825
Financial assets	3,858	4,334	3,293	3,437	14,922	3,523	965	1,925	3,171	9,584
Other non-current assets	1,936	6,595	727	9,608	18,866	1,736	7,197	841	7,974	17,748
Total non-current assets	19,653	75,261	20,684	13,045	128,643	18,523	74,274	18,533	11,145	122,475
Work in progress contracts	1,346	-	14,345	-	15,691	-	-	11,216	-	11,216
Inventories	17,766	59,542	3,985	-	81,293	18,316	50,030	6,040	-	74,386
Trade receivables	7,657	35,734	11,001	-	54,392	9,330	38,400	12,685	-	60,415
Other current assets	2,500	4,385	7,554	13,485	27,924	1,825	5,052	6,164	10,990	24,031
Cash and cash equivalents	5,205	9,807	7,135	28,042	50,189	3,565	7,145	7,721	51,995	70,426
Total current assets	34,474	109,468	44,020	41,527	229,489	33,036	100,627	43,826	62,985	240,474
Total assets	54,127	184,729	64,704	54,572	358,132	51,559	174,901	62,359	74,130	362,949
Shareholders' equity attributable to parent company shareholders	-	-	-	72,567	72,567	-	-	-	69,387	69,387
Shareholders' equity attributable to non-controlling interests	-	-	-	75	75	-	-	-	61	61
Non-current liabilities	2,983	19,414	8,338	103,014	133,749	1,760	17,725	8,468	82,515	110,468
Current financial liabilities	2,509	4,279	10,013	42,469	59,270	3,788	6,255	9,616	66,141	85,800
Current financial liabilities from rights of use	276	3,531	91	2,586	6,484	242	2,129	83	2,764	5,218
Trade payables	14,351	33,089	8,526	-	55,966	19,124	29,666	12,595	-	61,385
Other current liabilities	1,324	8,779	11,588	8,330	30,021	1,590	7,812	13,358	7,870	30,630
Total current liabilities	18,460	49,678	30,218	53,385	151,741	24,744	45,862	35,652	76,775	183,033
Total liabilities	21,443	69,092	38,556	156,399	285,490	26,504	63,587	44,120	159,290	293,501
Total shareholders' equity and liabilities	21,443	69,092	38,556	229,041	358,132	26,504	63,587	44,120	228,738	362,949

	Financial period ended 31 December							
	2021				2020			
	Energy	Trencher	Rail	Consolidated	Energy	Trencher	Rail	Consolidated
<i>(Euro in thousands)</i>								
Revenues from sales and services	51,118	110,283	32,885	194,286	43,812	100,444	26,399	170,655
Operating costs net of depreciation and amortisation	(43,283)	(96,868)	(26,001)	(166,152)	(38,566)	(87,931)	(23,179)	(149,676)
EBITDA	7,835	13,415	6,884	28,134	5,246	12,513	3,220	20,979
Depreciation and amortisation	(5,274)	(13,259)	(3,914)	(22,447)	(5,899)	(12,485)	(3,458)	(21,842)
Total operating costs	(48,557)	(110,127)	(29,915)	(188,599)	(44,465)	(100,416)	(26,637)	(171,518)
Operating income	2,561	156	2,970	5,687	(653)	28	(238)	(863)

Net financial income/(expenses)	(2,985)	(8,175)
Pre-tax profit/(loss)	2,702	(9,038)
Income tax	(1,493)	2,227
Net profit/(loss) for the period	1,209	(6,811)
Profit/(loss) attributable to non-controlling interests	14	17
Group profit/(loss)	1,195	(6,828)

It should be noted that non-current unallocated assets mainly refer to the value of deferred tax assets recorded in the consolidated financial statements of the Group. Current unallocated assets relate to current account ratios and short-term financial receivables from related parties.

Management monitors the operating income of its business units separately for the purpose of making decisions on resource, allocation and performance assessment. Segment performance is assessed based on operating income. Group financial management (including financial income and charges) and income tax are managed at Group level and are not allocated to the individual operating segments.

42. Related party transactions

The following table gives details of economic and equity transactions with related parties. The companies listed below have been identified as related parties as they are linked directly or indirectly to the current shareholders:

In particular, for the financial period ended 31 December 2021, the breakdown of each related party is indicated below:

	31 December					31 December				
	2021					2020				
	Trade receivables	Current financial receivables	Non-current financial payables	Current financial payables	Trade payables	Trade receivables	Current financial receivables	Current financial payables	Current financial payables	Trade payables
<i>(Euro in thousands)</i>										
Associates:										
Locavert S.A.	20	-	-	-	-	27	-	-	-	-
R&E Contracting (Pty) Ltd.	-	-	-	-	-	-	-	-	-	-
Subtotal	20	-	-	-	-	27	-	-	-	-
Joint Ventures:										
Condux Tesmec Inc.	2,782	1,707	-	-	3	1,345	933	-	-	25
Tesmec Peninsula	12	2,044	-	1,089	4	12	1,887	-	1,214	-
Tesmec Saudi Arabia	441	4,648	-	-	7	-	-	-	-	-
Marais Lucas	-	794	-	-	-	-	794	-	-	-
Subtotal	3,235	9,193	-	1,089	14	1,357	3,614	-	1,214	25
Related parties:										
Ambrosio S.r.l.	-	-	-	-	4	-	-	-	-	22
Dream Immobiliare S.r.l.	-	77	-	-	1,137	-	77	-	-	1,240
Fi.ind.	-	-	-	-	-	25	-	-	-	11
TTC S.r.l.	-	-	-	-	24	-	-	-	-	16
M.T.S. Officine meccaniche S.p.A.	123	-	3,050	-	63	181	-	3,050	43	59
RX S.r.l.	-	-	213	1,531	34	-	-	213	1,531	92
Triskell Conseil Partner	-	-	-	-	34	-	-	-	-	-
ICS Tech. S.r.l.	132	-	-	-	-	-	-	-	-	-
Comatel	-	-	-	-	-	-	-	-	-	-
Subtotal	255	77	3,263	1,531	1,296	206	77	3,263	1,574	1,440
Total	3,510	9,270	3,263	2,620	1,310	1,590	3,691	3,263	2,788	1,465

	Financial period ended 31 December					Financial period ended 31 December				
	2021					2020				
	Revenues	Cost of raw materials	Costs for services	Other operating costs/revenues, net	Financial income and expenses	Revenues	Cost of raw materials	Costs for services	Other operating costs/revenues, net	Financial income and expenses
<i>(Euro in thousands)</i>										
Associates:										
Locavert S.A.	160	-	-	-	-	(210)	-	-	-	-
Subtotal	160	-	-	-	-	(210)	-	-	-	-
Joint Ventures:										
Condux Tesmec Inc.	7,520	-	(3)	159	24	6,708	-	(4)	10	11
Tesmec Saudi Arabia	400	-	-	-	-	-	-	-	-	-
Tesmec Peninsula	263	(55)	-	-	47	92	-	-	-	50
Subtotal	8,183	(55)	(3)	159	71	6,800	-	(4)	10	61
Related parties:										
Ambrosio S.r.l.	-	-	-	(2)	-	-	-	-	(3)	(4)
Dream Immobiliare S.r.l.	-	-	-	(23)	(398)	-	-	-	(10)	(461)
Fi.ind.	-	-	-	29	-	-	-	-	77	(11)
TTC S.r.l.	-	-	(30)	-	-	-	-	(51)	-	(16)
M.T.S. Officine meccaniche S.p.A.	2,147	(1)	(3)	(3)	(65)	1,164	(12)	5	(695)	(58)
RX S.r.l.	-	-	-	-	(35)	-	-	-	-	(92)
Triskell Conseil Partner	-	-	(203)	-	-	-	-	-	-	-
ICS Tech. S.r.l.	109	-	-	-	-	-	-	-	-	-
Comatel	48	-	-	-	-	-	-	-	-	-
Subtotal	2,304	(1)	(236)	1	(498)	1,164	(12)	(46)	(631)	(642)
Total	10,647	(56)	(239)	160	(427)	7,754	(12)	(50)	(621)	(581)

- Locavert S.A.: the French associate normally purchases trenchers/spare parts for rental business and carrying-out of excavation works at market prices and terms of payment;
- Condux Tesmec, Inc.: the JV purchases stringing machines and equipment for sale on the American market at market prices and terms of payment;
- Tesmec Peninsula WLL: the JV operates on the Saudi Arabian market supplying trencher machinery produced by the Group as well as on-site and after-sale support services. The income and cost items relate to the normal marketing activities of trenching machines;
- Dream Immobiliare S.r.l.: Financial income and expenses include financial expenses of the rentals for the Building of Grassobbio and Endine of Euro 398 thousand. Note that, following the application of the accounting standard IFRS 16, rents are not shown in the above table as they are represented as depreciation on rights of use.

43. Fees paid to Directors, Auditors, Operating Manager and executives with strategic responsibilities

Year 2021:

Board of Directors				
Name and Surname	Office	Fees (in Euro)	Bonus and other fees (in Euro)	Total fees (in Euro)
Ambrogio Caccia Dominioni	Chairman and Chief Executive Officer	460,000	-	460,000
Gianluca Bolelli	Vice Chairman	83,200	-	83,200
Caterina Caccia Dominioni	Director	52,000	-	52,000
Lucia Caccia Dominioni	Director	20,000	-	20,000
Paola Durante	Director	40,000	-	40,000

Simone Andrea Crolla	Director	30,000	-	30,000
Emanuela Teresa Basso Petrino	Director	41,600	-	41,600
Guido Luigi Traversa	Director	30,000	-	30,000

Board of Statutory Auditors				
Name and Surname	Office	Fees (in Euro)	Bonus and other fees (in Euro)	Total fees (in Euro)
Simone Cavalli	Chairman	39,000	-	39,000
Stefano Chirico	Statutory Auditor	26,000	-	26,000
Alessandra De Beni	Statutory Auditor	26,000	-	26,000

Fees paid to executives with strategic responsibilities in the 2020 financial period amounted to Euro 353 thousand (Euro 364 thousand in the 2021 financial period).

44. Legal and tax disputes

At the end of the reporting period, the Tesmec Group is party to a number of civil and tax disputes. With regard to civil disputes, the Group, based on the advice of its lawyers, considers that the possibility of losing these cases is possible or remote and therefore it has not set aside any provision in the financial statements for any liabilities arising from such disputes, in accordance with the accounting standards of reference that require the allocation of liabilities for probable and quantifiable risks. See below for details.

The perimeter of assessment of the tax audits in progress described below is for a total amount of approximately Euro 4 million, with respect to which, with the support of the opinion of the tax consultants in charge, no provisions have been set aside in the financial statements.

With reference to the arbitration award obtained at the CIETAC Chinese Commission for International Trade Arbitration in Beijing, once the final release of the amount paid has been obtained, the Company is continuing with the recovery action before the Beijing Ordinary Court for the interest income accrued equal to Euro 417 thousand for which collection is expected in the short term, also on the basis of the opinion of the lawyers who assist the Company, while it should be remembered that the principal amount of the credit has already been collected in April 2021, equal to Euro 1,506 thousands.

In April 2018, a debtor company notified the subsidiary Tesmec Rail S.r.l., following the enforcement by the subsidiary of an court order not opposed by the debtor, for an amount of Euro 41 thousand, for a writ of summons before the Court of Bari, by virtue of which the debtor asked the judge to ascertain the termination of an alleged contract pending between the parties, requesting that Tesmec Rail be ordered to pay the sum of Euro 587 thousand for an invoice issued and not paid and as compensation for the alleged damage suffered, as well as legal costs; amounts and objections not contested and/or enforced in the proceedings opposing the injunction, which, moreover, was never formulated by the debtor company. The Group had not made any provision on the basis of the opinion expressed by the appointed lawyers, based on the lack of allegations in the introductory phase of the proceedings by the debtor company.

During June 2019, a tax audit by the Italian Inland Revenue Agency began in relation to the parent company Tesmec S.p.A. for the 2016 tax year, with reference to alleged capital losses not deductible for IRES and IRAP purposes. The report on findings received reveal disputes with respect to which the Company, supported by the opinion of its tax advisors, considers its behaviour to be well-founded and the related risk of incurring liabilities is consequently assessed as merely possible. For this reason, the Directors did not deem it necessary to recognize any provision in the financial statements.

In December 2020, the Parent Company received a notice of assessment relating to the 2015 tax year, with a total finding for IRES, IRAP and VAT purposes of Euro 20 thousand. The position was closed with the full payment of the relief sought.

Following a tax audit on the 2015, 2016 and 2017 tax years, subsequently extended to the 2018 tax year, in December 2019 the subsidiary Groupe Marais received an assessment from the French tax authority mainly concerning the calculation of the R&D tax credit. In particular, the French tax authority contested the inherent nature mainly of the applicability of the tax relief regulations of the projects for a total amount of around Euro 500 thousand, which were used to justify the recognition of the

tax credit. The subsidiary believes that it has correctly applied the tax regulations also in relation to the validations obtained at the time of the accrual of the tax credit and has appealed against this assessment, with the help of its tax advisors. The Company, supported by the opinion of its tax advisors, considers its behaviour to be well-founded and the related risk of incurring liabilities is consequently assessed as merely possible. For this reason, the Directors did not deem it necessary to recognize any provision in the financial statements.

45. Positions or transactions resulting from atypical and/or unusual operations

Note that, pursuant to CONSOB Communication no. DEM/6064293 of 28 July 2006, in 2020 the Company did not carry out any atypical and/or unusual operation, as defined by the Communication itself.

46. Commitments and risks

They include sureties, guarantees and third-party assets with the Group. For the financial periods as at 31 December 2021 and 2020, they are summarised as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Sureties	121,461	110,604
Total commitments and risks	121,461	110,604

The recorded value concerns sureties provided by Tesmec S.p.A. through primary banking institutions in favour of customers. The increase is mainly due to the work orders of the newly set up Rail segment.

Risks and future expenses are reasonably hedged by funds specifically accounted for in the financial statements in accordance with IAS 37.

47. Reporting pursuant to Article 149-duodecies of CONSOB Issuer Regulation

Pursuant to Article 149-*duodecies* of the CONSOB Issuer Regulation (Resolution no. 11971/1999 and subsequent amendments), the following table shows the fees charged in the financial statements ended 31 December 2021 and 2020 for auditing services and for services other than audit rendered by the Company Deloitte & Touche S.p.A.

<i>(Euro in thousands)</i>	Receiver	Independent Auditors that supplied the service	2021	2020
Audit of the financial statements and consolidated financial statements	Tesmec S.p.A. Parent Company	Deloitte & Touche S.p.A.	128	140
	Italian subsidiaries	Deloitte & Touche S.p.A.	53	56
	Foreign subsidiaries and JV	Deloitte network	112	122
Limited half-year auditing	Tesmec S.p.A. Parent Company	Deloitte & Touche S.p.A.	28	28
Limited auditing of the consolidated non-financial statement	Tesmec S.p.A. Parent Company	Deloitte & Touche S.p.A.	38	25
Certification services	Tesmec S.p.A. Parent Company and Subsidiaries	Deloitte & Touche S.p.A.	70	95
Examination of the pro-forma financial information included in the registration document relating to the share capital increase	Tesmec S.p.A. Parent Company	Deloitte & Touche S.p.A.	-	124
Total			429	590

48. Significant events occurred after the reporting period

The following significant events occurred after the reporting period:

- on 24 February 2022, with the beginning of the Russian-Ukrainian conflict, Tesmec took all necessary actions to mitigate the impact of this conflict and slowed down its activities on the Russian territory. This circumstance has led to further tensions and uncertainties on the markets, exacerbating the increase in the prices of the energy component and raw materials. In relation to the emerging uncertainties on operations in Russia, it is specified that Tesmec, over the years, has developed a commercial presence and service offering through the subsidiary OOO Tesmec RUS. In this regard, the Group has invested and developed specific solutions and technologies for the area but with a limited contribution to the consolidated turnover in the last period (around 2%). Nevertheless, the Tesmec management team is constantly monitoring the situation in order to be able to carry out assessments in full compliance with EU and international rules (with respect to which there are no reports in particular with subjects subject to sanctions) and estimates possible impacts in the very short term, due to the currency trend and the execution of some orders in progress without, however, this having a significant impact for the Group on the result for the year 2022 and on the lines of the 2022-2024 Plan (the value of the net assets attributable to the operations in Russia amount to a total of approximately negative 1 million euros, including, however, an exposure of intra-group receivables due from the subsidiary OOO Tesmec RUS of approximately 2.9 million euros);
- in March 2022, the Boards of Directors of the subsidiaries 4Service USA LLC and Tesmec Rail S.r.l. proposed the distribution of dividends based on the 2021 results. These proposals will be approved by the respective Shareholders' Meetings and dividends will be distributed during the first half of 2022.

Certificate of the Consolidated financial statements pursuant to Article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 as amended

1. The undersigned Ambrogio Caccia Dominioni and Marco Paredi, as the Chief Executive Officer and the Manager responsible for preparing the Company's financial statements of Tesmec S.p.A., respectively, hereby certify, also taking into consideration the provisions of Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998:

- the adequacy in relation to the characteristics of the business and
- the actual application

of the administrative and accounting procedures for preparing the consolidated financial statements during the 2021 financial period.

2. We also certify that:

2.1 the consolidated financial statements as at 31 December 2021:

- have been prepared in accordance with IFRS as endorsed by the European Union, as provided by Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspond to the amounts shown in the Company's accounts, books and records;
- give a true and fair view of the financial position, the results of the operations and of the cash flows of the issuer and of its consolidated companies.

2.2 the directors' report includes a reliable analysis of the business trend and operating result as well as of the situation of the issuer and of its consolidated companies, together with a description of the main risks and uncertainties they are exposed to.

Milan, 11 March 2022

Ambrogio Caccia Dominioni
Chief Executive Officer

Marco Paredi
Manager responsible for preparing
the Company's financial statements

INDEPENDENT AUDITORS' REPORT

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

**To the Shareholders of
TESMEC S.p.A.**

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Tesmec S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated income statement, consolidated statement of comprehensive income, statement of consolidated cash flows and statement of changes in consolidated shareholders' equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Tesmec 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.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10.328.220,00 i.v.

Codice Fiscale/Registro delle Imprese di Milano Monza Brianza Lodi n. 03049560166 - R.E.A. n. MI-1720239 | Partita IVA: IT 03049560166

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Key Audit Matters

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

Revenue Recognition: terms and conditions of contracts for product sales

Description of the key audit matter Group’s contracts for product sales are based upon shipping terms that can vary by region and that include, in some cases, the transfer of ownership to the buyer prior to the actual delivery of the product.

Revenue recognition criteria for such transactions require the assessment of sales contractual terms and the fulfilment of relevant performance obligations in order to have a complete and true representation of these operations in the financial statements.

The assessment of sales terms and conditions and their application to revenue recognition has been deemed a key audit matter, considering the variance and complexity of some contractual terms applied to sales transactions.

The notes 3.3 “*Significant accounting principles – Revenues from contracts with customers*” and 3.5 “*Discretionary evaluations and significant accounting estimates*” of the consolidated financial statements provide disclosure on revenue recognition criteria applied to for product sales.

Audit procedures performed

As part of our audit, we have, among other procedures, carried out the following:

- gained an understanding of the Group’s process and procedures related to revenue recognition in accordance with applicable financial reporting standards;
- gained the key controls implemented by the Group for revenue recognition;
- gained an understanding of the substance of the sale transactions by analyzing the terms and conditions included in the main contracts and performed sample-based substantive procedures to test the fulfilment of revenue-relevant obligations recognized close to the year-end date in case ownership is transferred to the buyer prior to the actual delivery of the product;
- verified the disclosures provided in the consolidated financial statements in accordance with applicable accounting standards.

Compliance with financial covenants provided in financial loan contracts

Description of the key audit matter

The Group's net financial indebtedness amounts to Euro 121.0 million (Euro 104.4 million as at December 31, 2020). Certain medium/long-term loan contracts, whose residual value as of the financial statements' date amounts to Euro 53.9 million provide the respect of some financial covenants that, at the financial statements' date, are respected. On the other hand, the Directors report that a covenant relating to the bond loan, amounting to Euro 6.2 million, has been breached. The related regulation provides, for this circumstance, an increase in the interest rate which, moreover, has already been applied from previous years.

Moreover, the Directors state that they have verified the ability of the Group to meet their obligations in the foreseeable future of at least 12 months and in particular the ability to comply, also for the year 2022, with the covenants related to the most relevant loans, elaborating for this purpose alternative forecast scenarios to take into account the effects of further possible slowdowns of the business with respect to what is already foreseen in the plan, due to the context of general uncertainty connected to the increase in procurement costs, further complicated for due to the Russian-Ukrainian conflict that arose after the end of the financial year, as well as to the ongoing pandemic situation. As a result of this analysis, the Directors concluded that there are no significant uncertainties regarding compliance with the covenants and, consequently, on the going. Furthermore the Directors indicate that different trends from those included in the forecasts, with particular reference to higher increases in procurement costs than the prudent scenarios incorporated in the aforementioned forecasts, could lead to the achievement of lower results with possible effects currently unforeseeable on the ability of the Company and the Group to comply with such covenants.

The compliance with the financial covenants and related disclosure have been deemed a key audit matter considering the current and potential impacts of their non-compliance on the balance sheet classification of non-current financial liabilities, as well as on the ability of the Group to fulfill its obligations in the foreseeable future.

The note 20 "*Medium/long-term loans*" of the consolidated financial statements provides disclosure on the Group's financial covenant provisions and on the potential impacts of their breach.

Audit procedures performed

As part of our audit, we have, among other procedures, carried out the following:

- understanding of the process and significant controls put in place by the Group to verify compliance with the economic and financial covenants set forth in the loan agreements;

-
- assessed loan contracts and the regulations of the bond loan, with particular reference to the covenants contained therein and the other main contractual clauses;
 - reviewed the accuracy of the covenants' calculations prepared by the Management of the Group based on the criteria provided in the loan contracts;
 - assessed the classification of financial liabilities in the financial statements in accordance with the applicable accounting standards;
 - assessed the consistency of the forecasts prepared by the Directors in order to verify the ability of the Group to meet its obligations in the foreseeable future for at least 12 months and, in particular, to comply, also for the year 2022, with the covenants relating to the most relevant loans;
 - verified the disclosure provided in the consolidated financial statements and its compliance with the applicable accounting standards.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of the Group has appointed us on April 22, 2021 as auditors of the Company for the years from December 31, 2019 to December 31, 2027.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**Opinion on the compliance with the provisions of the Delegated Regulation (EU) 2019/815**

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

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

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

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/2010 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Tesmec S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of the Group as at December 31, 2021, including its consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of the Group as at December 31, 2021 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure is consistent with the consolidated financial statements of the Group as at December 31, 2021 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.

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

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

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

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

DELOITTE & TOUCHE S.p.A.

Signed by
Lorenzo Rossi
Partner

Milan, Italy
March 31, 2022

As disclosed by the Directors, the accompanying consolidated financial statements of Tesmec S.p.A. constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

FINANCIAL STATEMENTS OF TESMEC S.P.A.

Statement of financial position

<i>(in Euro)</i>	Notes	31 December	
		2021	2020
NON-CURRENT ASSETS			
Intangible assets	4	8,140,673	7,739,314
Property, plant and equipment	5	7,609,428	7,070,771
Rights of use	6	11,200,473	13,238,298
Equity investments in subsidiaries	7	67,009,426	67,009,426
Equity investments in associates	7	4,110,491	1,737,511
Other equity investments		2,808	2,808
Financial receivables and other non-current financial assets	8	4,498,000	5,667,641
<i>of which with related parties:</i>		<i>1,500,000</i>	<i>2,500,000</i>
Derivative financial instruments	18	9,736	855
Deferred tax assets	26	4,743,972	2,970,082
Other non-current assets		422,362	-
TOTAL NON-CURRENT ASSETS		107,747,369	105,436,706
CURRENT ASSETS			
Inventories	9	38,796,446	35,132,423
Trade receivables	10	31,155,851	31,215,118
<i>of which with related parties:</i>		<i>17,588,401</i>	<i>9,632,658</i>
Tax receivables		409,829	300,720
Other available-for-sale securities		2,125	1,455
Financial receivables and other current financial assets	11	66,247,786	52,948,714
<i>of which with related parties:</i>		<i>64,194,154</i>	<i>48,286,863</i>
Other current assets	12	3,296,368	3,095,285
<i>of which with related parties:</i>		<i>316,437</i>	<i>60,013</i>
Cash and cash equivalents	13	21,000,382	49,886,778
TOTAL CURRENT ASSETS		160,908,787	172,580,493
TOTAL ASSETS		268,656,156	278,017,199
SHAREHOLDERS' EQUITY			
Share capital	14	15,702,162	15,702,162
Reserves	14	73,023,940	73,456,242
Net profit for the period	14	(752,412)	(454,999)
TOTAL SHAREHOLDERS' EQUITY		87,973,690	88,703,405
NON-CURRENT LIABILITIES			
Medium/long-term loans	15	76,967,416	58,134,517
<i>of which with related parties:</i>		<i>3,263,000</i>	<i>3,263,000</i>
Non-current bond issue	16	3,727,346	6,194,511
Non-current financial liabilities from rights of use	17	8,928,674	10,908,724
Derivative financial instruments	18	49,237	170,331
Employee benefit liability	19	1,593,570	1,813,868
Deferred tax liabilities	26	3,318,365	1,664,116
TOTAL NON-CURRENT LIABILITIES		94,584,608	78,886,067
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	20	38,058,996	46,265,373
<i>of which with related parties:</i>		<i>1,089,501</i>	<i>1,257,449</i>

Current financial liabilities from rights of use	17	2,547,577	2,690,427
Current bond issue	21	2,467,165	17,436,980
Derivative financial instruments	18	50,161	459
Trade payables	22	34,604,075	36,217,159
<i>of which with related parties:</i>		2,942,895	2,100,027
Advances from customers		1,088,057	1,285,389
Income taxes payable	23	39,384	53,662
Provisions for risks and charges	24	425,000	400,000
Other current liabilities	25	6,817,443	6,078,278
<i>of which with related parties:</i>		175,232	-
TOTAL CURRENT LIABILITIES		86,097,858	110,427,727
TOTAL LIABILITIES		180,682,466	189,313,794
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		268,656,156	278,017,199

Income statement

(in Euro)	Notes	Financial period ended 31 December	
		2021	2020
Revenues from sales and services	27	91,109,511	88,817,626
<i>of which with related parties:</i>		35,554,909	28,089,889
Cost of raw materials and consumables	28	(47,896,753)	(49,557,978)
<i>of which with related parties:</i>		(2,406,312)	(1,920,881)
Costs for services	29	(17,869,167)	(13,317,432)
<i>of which with related parties:</i>		(404,374)	314,799
Payroll costs	30	(21,049,115)	(18,063,934)
Other operating costs/revenues, net	31	(906,686)	(345,505)
<i>of which with related parties:</i>		613,690	(333,789)
Depreciation and amortisation	32	(6,410,052)	(6,239,932)
Development costs capitalised	33	2,612,748	1,779,208
Total operating costs		(91,519,025)	(85,745,573)
Operating income		(409,514)	3,072,053
Financial expenses	34	(10,153,645)	(7,092,531)
<i>of which with related parties:</i>		(484,554)	(563,385)
Financial income	35	9,585,750	2,947,383
<i>of which with related parties:</i>		1,790,401	1,078,831
Pre-tax profit/(loss)		(977,409)	(1,073,095)
Income tax	26	224,997	618,096
Net profit/(loss) for the period		(752,412)	(454,999)

Comprehensive income statement

<i>(in Euro)</i>	Notes	Financial period ended 31 December	
		2021	2020
NET PROFIT/(LOSS) FOR THE PERIOD		(752,412)	(454,999)
<i>Other components of comprehensive income:</i>			
<i>Other components of comprehensive income that will not be subsequently reclassified to net income/(loss) for the year:</i>			
Actuarial profit/(loss) on defined benefit plans	19	(29,864)	(17,118)
Income tax		7,167	4,108
		(22,697)	(13,010)
Total other income/(losses) after tax		(22,697)	(13,010)
Total comprehensive income (loss) after tax		(775,109)	(468,009)

Cash flow statement

(in Euro)	Notes	Financial period ended 31 December	
		2021	2020
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit/(loss) for the period		(752,412)	(454,999)
<i>Adjustments to reconcile net income for the period with the cash flows generated by (used in) operating activities:</i>			
Depreciation and amortisation	32	6,410,052	6,239,932
Provisions for employee benefit liability	19	6,006	13,190
Provisions for risks and charges / inventory obsolescence / doubtful accounts	9-10-24	917,000	375,000
Employee benefit payments	19	(196,440)	(132,927)
Payments/use of provisions for risks and charges	24	-	(250,000)
Net change in deferred tax assets and liabilities	26	(126,808)	(635,574)
Change in fair value of financial instruments	18	(80,273)	161,734
<i>Change in current assets and liabilities:</i>			
Trade receivables	10	(730,065)	5,888,240
<i>of which with related parties:</i>		(7,955,743)	3,911,694
Inventories	9	(3,964,023)	(582,023)
Trade payables	22	(1,613,084)	2,956,422
<i>of which with related parties:</i>		842,868	(551,992)
Other current and non-current assets and liabilities		(7,667)	(3,215,845)
<i>of which with related parties:</i>		36,784	(233,141)
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		(137,714)	10,363,150
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	5	(1,917,444)	(1,272,209)
Investments in intangible assets	4	(3,064,103)	(4,608,356)
Investments in rights of use	6	(734,504)	(1,680,348)
(Investments)/disposals of financial assets		(14,503,081)	(9,457,156)
<i>of which with related parties:</i>		(16,907,291)	(8,606,218)
Proceeds from sale of property, plant and equipment, intangible assets and rights of use	4-5-6	403,808	636,036
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		(19,815,324)	(16,382,033)
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	15	25,295,463	55,298,466
Recognition of financial liabilities from rights of use	17	670,352	2,149,121
Repayment of medium/long-term loans	15-16	(27,199,854)	(7,985,986)
<i>of which with related parties:</i>		-	3,263,000
Repayment of financial liabilities from rights of use	17	(2,793,253)	(2,899,469)
Net change in short-term financial debt	17-20-21	(4,906,067)	(19,205,847)
<i>of which with related parties:</i>		(167,948)	(4,523,442)
Paid increase of capital	14	-	23,900,310
NET CASH FLOW GENERATED BY/(USED IN) FINANCING ACTIVITIES (C)		(8,933,358)	51,256,595
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		(28,886,396)	45,237,712
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH		-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	13	49,886,778	4,649,066
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		21,000,382	49,886,778
Additional information:			
Interest paid		3,218,105	3,525,631
Income tax paid		140,507	587,989

Statement of changes in shareholders' equity

<i>(in Euro)</i>	Share capital	Legal reserve	Share premium reserve	Reserve of Treasury Shares	Other reserves	Net profit/(loss) for the period	Total shareholders' equity
Balance as at 1 January 2020	10,708,400	2,141,680	10,915,101	(2,340,969)	30,188,495	4,232,378	55,845,084
Net profit/(loss) for the period	-	-	-	-	-	(454,999)	(454,999)
Allocation of profit for the period	-	-	-	-	4,232,378	(4,232,378)	-
Other changes	-	-	-	-	13,010	-	13,010
Capital increase	4,993,762	-	28,300,120	-	6,428	-	33,300,310
Balance as at 31 December 2020	15,702,162	2,141,680	39,215,221	(2,340,969)	34,440,311	(454,999)	88,703,405
							-
Net profit/(loss) for the period	-	-	-	-	-	(752,412)	(752,412)
Allocation of profit for the period	-	-	-	-	(454,999)	454,999	-
Other changes	-	-	-	-	22,697	-	22,697
Balance as at 31 December 2021	15,702,162	2,141,680	39,215,221	(2,340,969)	34,008,009	(752,412)	87,973,690

Explanatory notes

Accounting policies adopted in preparing the financial statements as at 31 December 2021

1. Company information

The Tesmec S.p.A. Parent Company (hereinafter "Parent Company", "Tescmec" or "Company") is a legal entity organised in accordance with the legal system of the Italian Republic. The ordinary shares of Tesmec are listed on the MTA STAR Segment of the Milan Stock Exchange as from 1 July 2010. The registered office of the Company is in Milan in Piazza S. Ambrogio no. 16.

The publication of Tesmec's financial statements for the period ended 31 December 2021 was authorised by means of the resolution of the Board of Directors on 11 March 2022.

2. Reporting standards

The financial statements of Tesmec S.p.A. as at 31 December 2021 comprise the statement of financial position, income statement, comprehensive income statement, cash flow statement, statement of changes in shareholders' equity and the related explanatory notes. These financial statements are prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and approved by the European Union according to the text published in the Official Journal of the European Communities (OJEC) and in force as at 31 December 2021. These IFRS principles also include all revised international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously called Standing Interpretations Committee ("SIC").

The reference accounting standards adopted in the current yearly financial statements are consistent with those used for preparing the yearly financial statements of the Company for the period ended 31 December 2020, also prepared according to the international accounting standards, with the exception of the principles and interpretations of new application, explained in note 2.3.

The values shown in the financial statements are expressed in Euro. The values shown in the explanatory notes are rounded to the nearest thousand, unless otherwise indicated.

Business continuity

These Financial Statements were prepared on a going concern basis in that the Directors checked the ability of the Company and of the Group to meet their obligations in the foreseeable future of at least 12 months, for this purpose elaborating alternative forecast scenarios in which the effects of further possible slowdowns of the business were reflected compared to what is already foreseen in the plan, to take into account the context of general uncertainty connected to the increase in procurement costs that are not immediately recovered through the increase in sales prices and the rigidity of the supply chain and logistics, further complicated by the Russian-Ukrainian conflict, as well as the pandemic situation, in relation to which it was assumed that the same does not involve the adoption of new measures restrictive similar to those imposed in the first part of 2020. At the end of this analysis, the Directors concluded that the going concern assumption adopted in the preparation of the financial statements is adequate in that there are no significant uncertainties as to the Company's ability to continue as a going concern. Trends differing from the company forecasts, with particular reference to increases in procurement costs higher than the scenarios of further prudence incorporated in the aforementioned forecasts, could lead to the achievement of results that were lower than expected, with possible effects currently unforeseeable on the capacity of the Company and the Group to comply with financial covenants.

The main risks and uncertainties to which Tesmec Group is exposed are described in the specific paragraph of the Report on Operations. A description of how the Company and the Group manage financial risks is provided in the section Management of financial risks of these Explanatory Notes.

2.1 Adopted financial statement reporting formats

In compliance with the provisions of CONSOB Resolution no. 15519 of 27 July 2006, information on the adopted financial statement reporting format compared to what is stated in IAS 1 are indicated below for the statement of financial position, income statement, comprehensive income statement, statement of changes in shareholders' equity as well as the method used for representing the financial flows in the cash flow statement compared to those specified in IAS 7.

- In the income statement, it was decided to present a cost analysis by using a classification based on their nature.

- The comprehensive income statement includes the result for the period and, by homogeneous categories, the income and expenses that, under IFRS, are recognised directly in shareholders' equity.
- In the statement of financial position, it was decided to represent current and non-current assets and current and non-current liabilities classified separately, in accordance with IAS 1.
- The statement of changes in shareholders' equity occurred during the period are represented through a table that reconciles the opening and closing balances of each item of the shareholders' equity of the Company.
- The cash flow statement represents the financial flows by dividing them into operating, investing and financing activities. In particular, financial flows from operating activities are represented, in accordance with IAS 7, using the indirect method, whereby net profit or loss for the year is adjusted by the effects of non-monetary transactions, by any deferral or provision of prior or future operating receipts or payments, and by revenue or cost elements connected with financial flows from investing or financing activities.

It should be noted that, in accordance with the above-mentioned resolution, the amounts of the positions or transactions with related parties and (positive and/or negative) income components resulting from non-current events or operations, i.e. from operations or facts that do not recur with frequency in the usual course of business were reported under specific sub-items, in case of significant amounts, in the statement of financial position, income statement and cash flow statement.

2.2 Significant accounting principles

Basis of preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of EC Regulation no. 1606/2002 of the European Parliament and Council of July 19, 2002 and in accordance with Article 9 of Italian Legislative Decree no. 38/2005.

The financial statements have been prepared on a historical cost basis, except for items that have been measured at fair value in accordance with IFRS (derivative financial instruments, financial assets represented by shares or bonds in portfolio, investment properties and contingent consideration). The carrying amounts of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in fair value attributable to the risks that are being hedged in effective hedge relationships.

The financial statements as at 31 December 2021 provide comparative information in respect of the previous period. In addition, the accounting policies adopted in these consolidated financial statements were applied in the same way also to all the periods of comparison.

Current versus non-current classification

The assets and liabilities in the statement of financial position are based on current/non-current classification. An asset is current when it is:

- expected to be realised or intended to be sold or consumed in the normal operating cycle;
- it is held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified under non-current assets and liabilities.

Business combinations and goodwill

Business combinations are recorded by using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred at fair value as at the date of acquisition and the amount of any minority interest in the acquired company. For each business combination, the purchaser must consider any minority interest in the acquired company at fair value or in proportion to the share of the minority interest in the identifiable net assets of the acquired company. Acquisition costs are paid and classified among administrative expenses.

When the Company acquires a business, it must classify or designate the acquired financial assets or the liabilities assumed in accordance with the contract terms, the economic conditions and other relevant conditions existing at the date of acquisition. This includes the verification to establish whether an embedded derivative must be separated from the host contract. Each contingent consideration must be recognised by the purchaser at fair value at the date of acquisition. The contingent consideration classified as equity is not remeasured and its subsequent payment is recorded with the shareholders' equity as a balancing entry. The fair value change in the contingent consideration classified as asset or liability, i.e. a financial instrument that is in the scope of IFRS 9 Financial instruments, must be recognised in the income statement in compliance with IFRS 9. The contingent consideration that is not within the scope of IFRS 9 is measured at fair value at the end of the reporting period and changes in fair value are recognised in the income statement.

The goodwill is initially measured at cost that arises as surplus between the sum of the paid consideration and the amount recognised for the minority shares compared to identifiable net assets acquired and liabilities undertaken by the Company. If the fair value of net assets acquired is in excess of the sum of the consideration paid, the Company checks again if it has identified correctly all the assets acquired and all the liabilities assumed and reviews the procedures used to determine the amounts to be recognised at the acquisition date. If the consideration is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognised in the income statement.

After initial recognition, goodwill is measured at cost, net of any accumulated impairment loss. For impairment loss verification, the goodwill acquired in a business combination must be allocated, from the date of acquisition, to each cash-generating unit of the Company that is expected to benefit from the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to such units.

If the goodwill has been allocated to the cash-generating unit and the entity disposes of part of the assets of such unit, the goodwill associated to the asset disposed of must be included in the book value of the asset when the profit or loss deriving from the divestment is determined. The goodwill associated with the asset disposed of must be determined on the basis of the values related to the asset disposed of and of the retained part of the cash-generating unit.

Intangible assets with definite lives

Intangible assets are recorded in the assets at purchase cost when it is likely that the use of the asset will generate future economic benefits and when the cost of the asset can be measured reliably. Intangible assets acquired by means of business combinations are recorded at fair value on the date of acquisition. The useful life of intangible assets is measured as definite or indefinite.

Intangible assets with definite lives are amortised on a straight-line basis over their estimated useful life and submitted to impairment test whenever there is a possible impairment loss. The residual useful life is reviewed at the end of each financial period or more frequently, if necessary. Changes in the expected estimated useful life or in the ways in which future economic benefits related to the intangible asset are achieved by the Company are recognised by changing the period and/or the method of amortisation and treated as changes in accounting estimates. Amortisation charges of intangible assets with definite lives are recognised in the income statement in the category of cost consistent with the function of the intangible asset.

The estimate of the useful life of intangible assets with definite lives is set below:

	Years
Industrial rights and patents	5
Development costs	5
Trademarks	5
Other intangible assets	3 - 5

Research and Development costs

Research costs are posted to the income statement when they are borne.

Development costs borne with regard to a particular project concerning the development of new excavating machines, stringing equipment and/or railway machines, of their significant individual components and/or of significant customisations that materialise in new models included in the catalogue, are capitalised only when the Company can show the ability to complete the technical work in order to make it available for use or for sale, its intention to complete the said asset in order to use it or transfer it to third parties, the ways in which it will generate probable future economic benefits, the availability of technical, financial or other type of resources to complete the development, its ability to reliably consider the cost attributable to the asset during its development and the existence of a market for the products and services deriving from the asset or usefulness for internal purposes.

During the period of development, the asset is annually reviewed in order to recognise any impairment loss. After the initial recognition, development costs are measured at cost decreased by any accumulated amortisation or loss. The amortisation of

the asset starts when the development is complete and the asset is available for use. It is amortised with reference to the period in which the connected project is expected to generate revenues for the Company, estimated on average over five years. If the projects to which such assets refer are abandoned or the related machines are no longer included in the catalogue, specific impairment indicators are recognised, and therefore the asset is tested for impairment and written down for any impairment loss recognised as described for intangible assets with definite lives.

Rights and trademarks

The purchase costs of the rights and trademarks are amortised over a period of time during the useful life of the acquired asset, which was determined in five years.

Intangible assets with indefinite lives are not amortised but tested annually for impairment losses on an individual basis or in terms of cash-generating unit. The assessment of the indefinite life is reviewed annually to determine whether such an allocation continues to be sustainable otherwise the change from indefinite to definite life applies on a prospective basis.

An intangible asset is derecognised on disposal (i.e. when the acquirer obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net consideration of the disposal and the book value of the asset) is included in the income statement.

Property, plant and equipment

Property, plant and equipment acquired separately, with the exception of the land and buildings item, are recorded at historical cost, including directly imputable additional costs necessary for putting the asset into operation for the use for which it was acquired. This cost includes the charges for replacing part of the machines and plants when they are borne, if complying with the recognition criteria.

Property, plant and equipment acquired by means of business combinations are recorded at fair value on the date of acquisition.

Maintenance and repair costs, which are not likely to enhance and/or extend the residual life of the assets, are paid during the financial period in which they are borne, otherwise they are capitalised.

Property, plant and equipment are stated net of the related accumulated depreciation and any impairment loss determined as described below. The depreciation is calculated on a straight-line basis according to the estimated useful life of the asset for the company, which is reviewed every year and any change, if necessary, is applied prospectively.

The estimate of the useful life of the main classes of property, plant and equipment is set below:

	Years
Buildings	40
Plant and machinery	10
Fixtures and fittings, tools and equipment	4
Leasehold trenchers	5
Other assets	4 – 8

If significant parts of property, plant and equipment have different useful lives, these components are recorded separately. Lands, both without construction and belonging to buildings, are recorded separately and are not depreciated since they have an unlimited useful life.

Starting from 1 January 2021, the Group adopted a new method of determining the depreciation of trencher machines in the fleet. Based on technical analyses carried out by the company's engineers, and confirmed by an external opinion, a period of 8 years was identified as the best representation of the average useful life of these machines, therefore, the new depreciation rate of 12.5% on an annual basis is in force. This new method represents a change in estimates and is therefore applied prospectively.

The book value of property, plant and equipment is subject to an impairment test when events or changed circumstances indicate that the book value cannot be recovered. If there is an indication of this type and, in the event that the book value exceeds the estimated realisable value, assets are written down so as to reflect their realisable value. The realisable value of property, plant and equipment is represented by the net sales price and the value in use, whichever is higher.

When defining the value in use, the expected future financial flows are discounted back using a pre-tax discount rate that reflects the current market estimate of the cost of money placed in relation to the timescale and specific risks of the asset. In relation to assets that do not generate fully independent financial flows, the realisable value is determined in relation to the

cash-generating unit to which the asset belongs. Impairment losses are recorded in the income statement among costs for amortisation, depreciation and write-downs. These impairment losses are reversed if the reasons that generated them no longer exist.

At the time of sale or when there are no future economic benefits expected from the use of an asset, it is written off from the financial statements and any loss or profit is posted to the income statement in the year of the aforesaid writing off.

Leases

The Company assesses at the time of signing an agreement whether the agreement is, or contains, a lease. In other words, whether the contract gives the right to control the use of an identified asset for a period of time in exchange for a consideration.

Contracts with the Company as lessee

The Company adopts a single recognition and measurement model for all leases, except for short-term leases and leases of low-value assets. The Company recognises the lease liability representing its obligation to make lease payments and the right-of-use asset representing its right to use the underlying leased asset.

Rights of use

The Company recognises the right-of-use asset on the inception date of the lease (i.e. the date on which the underlying asset is available for use). The right-of-use assets are measured at cost, net of accumulated depreciation and any impairment, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of the lease liabilities recognised, the initial direct costs incurred and the lease payments made at or before the commencement date, net of any incentives received. Right-of-use assets are depreciated on a straight-line basis from the commencement date to the end of the useful life of the asset consisting of the right of use or at the end of the lease term, whichever comes first.

If the lease transfers ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the right-of-use asset reflects the fact that the lessee will exercise the purchase option, the lessee must depreciate the right-of-use asset from the commencement date until the end of the useful life of the underlying asset.

Right-of-use assets are subject to Impairment. Refer to the section Impairment of assets.

Lease liabilities

At the commencement date of the lease, the Company recognises the lease liabilities by measuring them at the present value of the lease payments not yet paid at that date. Payments due include fixed payments net of any lease incentives to be received, variable lease payments that depend on an index or rate, and amounts expected to be paid as residual value guarantees. Lease payments also include the exercise price of a purchase option if it is reasonably certain that this option will be exercised by the Company and the penalty payments for termination of the lease, if the lease term takes account of the exercise by the Company of the option to terminate the lease.

Variable lease payments that do not depend on an index or rate are recognised as costs in the period in which the event or condition that generated the payment occurs.

In calculating the present value of the payments due, the Company uses the incremental borrowing rate at the inception date if the implicit interest rate cannot be easily determined. After the commencement date, the amount of the lease liability increases to reflect interest on the lease liability and decreases reflect the lease payments made. Moreover, the book value of lease liabilities is restated in the event of any changes to the lease or for reviewing the contractual terms for the change in payments; it is also restated if there are changes in the valuation of the option to purchase the underlying asset or changes in future payments resulting from a change in the index or rate used to determine such payments.

Short-term leases and leases of low-value assets

The Company applies the exemption for the recognition of short-term leases (leases that have a duration of 12 months or less from the inception date and do not contain a purchase option). The Company has also applied the exemption for leases relating to low-value assets with reference to lease contracts for office equipment whose value is considered low. Short-term leases and leases of low-value assets are recognised as costs on a straight-line basis over the lease term.

Contracts with the Company as lessor

If the Company signs lease contracts that substantially transfer to the customers all the risks and rewards deriving from the ownership of the leased asset, the revenues concerning the transfer of the asset are recognised in the financial statements and are recorded on the inception date of the lease at the fair value of the leased asset or at the present value of the lease payments, if lower. Moreover, a borrowing that corresponds to the present value of the lease payments still due is recorded in the balance sheet. Financial income is posted directly to the income statement.

Lease contracts in which the Company substantially retains all risks and rewards related to the ownership of the asset are classified as operating leases. Lease income from operating leases must be recognised on a straight-line basis over the lease

term and are included in revenues in the income statement due to their operating nature. Initial trading costs are added to the book value of the leased asset and recognised over the term of the contract on the same basis as lease income. Unplanned rents are recognised as revenue in the period in which they accrue.

Impairment of assets

At the end of each reporting period, the Company considers the possible existence of impairment loss indicators of intangible assets with definite lives, of property, plant and equipment, of right-of-use assets and of investments in associates and joint ventures. If these indicators exist, an impairment test is carried out.

The recoverable amount is determined as the higher of the fair value of an asset or cash-generating unit less selling costs and its value in use and is determined by single asset, with the exception of the case in which this asset generates financial flows that are not widely independent from those generated by other assets or groups of assets, in which case the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

When determining the value in use, the Company discounts back the present value of future estimated financial flows, by using a pre-tax discount rate that reflects the market evaluations on the time value of money and specific risks of the asset.

In order to estimate the value in use, the future financial flows are derived from the business plans approved by the Board of Directors, which represent the best estimate made by the Company on the economic conditions laid down in the plan period. The projections of the plan normally cover a period of three financial periods; the long-term growth rate used in order to estimate the terminal value of the asset or of the unit is normally lower than the average long-term growth rate of the segment, country or market of reference. Future financial flows are estimated by referring to the current conditions: therefore, estimates do not consider benefits deriving from future restructuring for which the Company has not yet committed itself or future investments for improving or optimising the asset or the unit.

If the book value of an asset or cash-generating unit is greater than its recoverable amount, this asset was impaired and consequently amortised until its recoverable amount is reached.

Impairment losses incurred by operating assets are recognised in the income statement in the categories of cost consistent with the function of the asset that showed the impairment loss. At the end of each reporting period, the Company also considers the possible existence of elements indicating a decrease in impairment losses previously recognised and, if these indicators exist, it estimates the recoverable amount again. The value of an asset previously written down can be restored only if there were changes in the estimates used for determining the recoverable amount of the asset after the last recognition of an impairment loss. In this case, the book value of the asset is set to the recoverable amount, however without the possibility for the value thus increased to exceed the book value that would have been determined, net of amortisation, if no impairment had been recognised in previous years. Each reversal of impairment loss is recognised as an income in the income statement; after recognising a reversal of impairment loss, the amortisation rate of the asset is adjusted in future periods, in order to distribute the changed book value, net of any residual value, on a straight-line basis over the remaining useful life.

Intangible assets with an indefinite useful life and goodwill are tested for impairment at least once a year at the cash-generating unit level and whenever circumstances indicate that there may be an impairment.

Equity investments in subsidiaries, associates and in joint ventures

Equity investments in subsidiaries, associates and companies subject to joint control (not classified as held for sale) are recorded in accordance with the method of cost, converted in Euro at historical exchange rates if referring to equity investments in foreign companies whose financial statements are drawn up in a currency other than Euro, in accordance with IAS 27.

The initial cost is equal to the costs incurred for the purchase or constitution or it is defined by experts in case of acquisitions through contributions.

When there is an indication that the equity investment may have suffered an impairment, its recoverable amount is estimated, in accordance with the method specified in IAS 36 "Impairment of Assets", in order to determine the eventual loss to be posted to the income statement. In this case, the Company calculates the amount of the loss as difference between the recoverable amount of the investee and its book value in its own financial statements, recognising this difference in the income statement.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity. They are initially recognised at fair value and, after initial recognition, measured in relation to the classification, as required by IFRS 9.

Upon initial recognition, financial assets are classified, as the case may be:

- financial assets at fair value through profit or loss;
- financial assets at amortised cost.

The classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows of the financial assets and on the business model that the Company uses to manage them. With the exception of trade receivables that do not contain a significant loan component or for which the Company has applied a practical expedient, the Company initially values a financial asset at its fair value plus transaction costs. Trade receivables that do not contain a significant loan component or for which the Company has applied a practical expedient are valued at the transaction price as explained in the specific paragraph.

Financial assets at fair value with changes recognised in the income statement are recognised in the statement of financial position at fair value and net changes in fair value in profit or loss. This category includes derivative instruments.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or revalued. Financial assets at amortised cost of the Company include trade receivables.

Financial assets are derecognised from the Company's statement of financial position when:

- rights to receive cash flows from the asset are paid off; or
- the Company has transferred to a third party the right to receive cash flows from the asset or it has assumed the contractual obligation to pay them totally and without any delays and (a) has transferred substantially all risks and rewards related to the ownership of the financial asset, or (b) has not substantially transferred or retained all risks and rewards of the asset, but has transferred its control.

If the Company has not transferred or retained substantially all the risks and rewards or has not lost control over it, the asset continues to be recognised in the consolidated financial statements of the Group to the extent of its residual involvement in the asset itself. In this case, the company also recognises an associated liability.

The Company records a write-down for expected credit loss ('ECL') for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

All financial liabilities are initially recognised at fair value, in addition to directly attributable transaction costs in case of mortgages, loans and payables. The Company's financial liabilities include trade payables and other payables, mortgages and loans, including current account overdrafts and derivative financial instruments.

For the purposes of subsequent valuation, financial liabilities are classified into two categories:

- financial liabilities at fair value through profit or loss;
- financial liabilities at amortised cost.

Financial liabilities at fair value with changes recognised in the income statement include derivative financial instruments subscribed by the Company that are not designated as hedging instruments in a hedging relationship pursuant to IFRS 9. Gains or losses on those liabilities are recognised in profit or loss.

With regard to financial liabilities at amortised cost, they are measured using the effective interest rate method. Gains or losses are recorded in the income statement when the liability is discharged, in addition to using the amortisation process. Amortisation at the effective interest rate is included in financial expenses in the income statement for the period.

A financial liability is derecognised when the obligation underlying the liability is discharged, cancelled or fulfilled. If an existing financial liability is replaced by another from the same lender, at substantially different conditions, or if the conditions of an existing liability are substantially changed, this replacement or change is treated as a derecognition of the original liability accompanied by the recognition of a new liability, with any differences between the book values recognised in the income statement.

For the management of payments with its suppliers, the Company uses some solutions of the "supply chain finance" and in particular it uses the instrument of reverse factoring with some financial institutions. In such cases, the financial institution extinguishes the trade payable by anticipating its payment to the supplier, and grants the Company, of which it has become a creditor, an extension of payment. The Company assesses, for each supplier, the deferral conditions obtained from financial counterparties on these liabilities and, depending on the substance of the liabilities, records them as trade payables or reclassifies them as financial payables. The liability relating to reverse factoring not included in financial debt is disclosed pursuant to the "Guidelines on disclosure obligations pursuant to the prospectus regulation" published by ESMA on 4 March 2021.

Derivative financial instruments

Derivative financial instruments are used by the Company solely with the intent to hedge financial risks relating to exchange-rate changes on commercial transactions in foreign currency and interest rate risks on interest-bearing loans and borrowings. These derivative financial instruments are initially recognised at fair value at the date when the derivative contract is signed, after which these are once again valued at fair value. Derivatives are recognised as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

If the conditions for the application of hedge accounting do not apply, the effects deriving from the fair value measurement of the derivative financial instrument are booked directly to the income statement.

In accordance with IFRS 9, hedging derivative financial instruments can be recorded according to the methods established for hedge accounting only when all of the following hedging effectiveness requirements are met:

- there is an economic relationship between the hedged item and hedging instrument;
- the effect of the credit risk does not prevail over the changes in value resulting from the economic relation;
- the hedging ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

At the end of the reporting period, the Company does not hold derivative instruments that qualify for hedge accounting.

Financial assets and other non-current assets

These assets are measured according to the amortised cost approach by using the effective discount rate method net of any provision for impairment.

The amortised cost is calculated taking into consideration any discount or purchase premium and includes the commissions that are part and parcel of the effective interest rate and of the transaction costs.

Receivables falling due after one year, interest bearing or paying interests lower than the market, are discounted by using interest rates in line with market references.

Inventories

Inventories are measured at the purchase and/or production cost, whichever lower, calculated by using the weighted average cost method, and the net realisable value. The purchase cost is inclusive of additional expenses; the cost of production includes directly attributable costs and a share of indirect costs, reasonably attributable to the products. The net estimated realisable value consists of the estimated sales prices less the estimated completion costs and the costs estimated to make the sale.

Write-down allowances are allocated for materials, finished products, spare parts and other supplies considered obsolete or slow-moving, taking into account their future expected usefulness or their realisable value.

Construction contracts

The construction contracts are activity deriving from the contract. A work order is a contract specifically negotiated for the construction of an asset according to the instructions of the company commissioning the work, which defines in advance the design and specifications.

Work order revenues include the considerations initially agreed with the company commissioning the work, in addition to variations in the commissioned work and to price changes provided for in the contract that can be measured reliably.

When the work order result can be measured reliably, work order revenues and costs are recognised as sales and as costs on the basis of the percentage of completion; the work in progress is calculated by referring to the costs of the work order borne until the end of the reporting period as a percentage of total costs estimated for each work order.

The costs borne in relation to future activities of the work order are excluded from the work order costs when calculating the work in progress and are recorded as inventories.

Total estimated costs for each work order are reviewed periodically, and when the costs of the work order are expected to be greater than its total revenues, the expected loss is recognised immediately as a cost.

Trade receivables and other current assets

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.

Other current assets are initially recorded at fair value, which generally corresponds to the nominal value and subsequently measured at amortised cost and reduced in case of impairment losses. The Company availed itself of the possibility not to use the amortised cost criterion if this would have irrelevant effects in order to give a true and fair view.

These financial assets are subsequently measured recognising a specific allowance for expected credit losses ('ECL'). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

For trade receivables, the Company applies a simplified approach in calculating ECLs using a provision matrix that is based on its historical experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Receivables in foreign currency other than the reporting currency are recorded at the exchange rate of the date of operation and subsequently converted to the exchange rate at the end of the financial period. The profit or loss resulting from the conversion are attributed to the income statement.

If the maturity of the trade receivables and of the other current assets does not fall within the normal commercial terms and do not bear interests, a detailed discounting process is applied based on assumptions and estimates.

The Company sells a portion of its trade receivables through factoring without recourse. Receivables assigned following factoring operations can be written off from the assets of the balance sheet only if the risks and rewards related to their legal ownership were substantially transferred to the assignee.

Other receivables and other financial assets

They are recorded initially at fair value and subsequently measured according to the amortised cost.

Cash and cash equivalents

Cash and short-term deposits include cash on hand as well as on-demand and short-term bank deposits; in this last case, with original maturity of no more than three months. Cash and cash equivalents are booked at nominal value and at the spot exchange rate at the end of the financial period, if in currency, corresponding to the fair value.

Loans

Loans are initially recognised at fair value of the amount received, net of any related loan acquisition costs.

After initial recognition, loans are valued using the amortised cost approach, applying the effective interest rate method. Any profit or loss is recorded in the income statement when the liability is discharged, in addition to using the amortisation process.

The Company availed itself of the possibility not to apply this criterion if the effects for the purposes of a true and fair representation were irrelevant.

Treasury shares

The repurchased treasury shares are recognised at cost and deducted from shareholders' equity. The purchase, sale or cancellation of treasury shares does not give rise to any profit or loss in the income statement. The difference between the acquisition value and the consideration, in case of transfer, is recognised in share premium reserve.

The voting rights related to the treasury shares are cancelled as well as the right to receive dividends. In case of exercise of share options during the period, these are met with treasury shares.

Trade payables and other payables

Payables are measured at nominal value.

Given the granted terms of payment, when a financial operation is configured, payables measured with the amortised cost approach are submitted to the discounting back of the nominal value to be paid, recording the discount as a financial charge. The Company availed itself of the possibility not to apply this criterion if the effects for the purposes of a true and fair representation were irrelevant.

Payables in foreign currency are aligned with the exchange rate at the end of the financial period and profits or losses deriving from the adjustment are posted to the income statement in unrealised exchange profits/losses.

Provisions for risks and charges

Provisions for risks and charges are made when the Company must face up a current liability (legal or implicit) that is the result of a past event; an outflow of resources is likely to meet this obligation and it is possible to make a reliable estimate of its amount.

When the Company believes that a provision for risks and charges will be partially or totally reimbursed, for example in the case of risks covered by insurance policies, the compensation is recognised separately in the assets only if it is practically certain. In this case, the cost of any provision is stated in the income statement net of the amount recognised for the compensation.

If the discounting back effect of the value of money is significant, provisions are discounted back using a pre-tax discount rate that reflects, if appropriate, the specific risks of the liabilities. When discounting back is carried out, the increase in the provision due to the passage of time is recognised as a financial expense.

The Company makes provisions for product guarantees in relation to the guarantee contractually granted to its customers on the sold machines. These provisions are calculated on the basis of the historical incidence of costs for product warranty borne in past financial periods, of the period of validity of the granted warranties and revised annually.

Employee benefit liability

Post-employment benefits are defined on the basis of plans, even though not yet formalised, which are classified as “defined contribution” and “defined benefit” in relation to their characteristics.

The Italian legislation (Article 2120 of the Italian Civil Code) establishes that, at the date on which each employee rescinds the employment contract with the company, he/she receives an allowance called TFR (severance indemnity). The calculation of this allowance is based on some items forming the yearly pay of the employee for each year of work (properly revalued) and on the length of the employer-employee relationship. According to the Italian civil law, this allowance is reflected in the financial statements according to a calculation method based on the allowance accrued by each employee at the reporting date, if all employees rescind the employment contract on that date.

The IFRIC of the IASB dealt with the TFR matter, as defined by the Italian legislation, and concluded that, in accordance with IAS 19, it must be calculated according to a method called Projected Unit Credit Method (known as PUCM) in which the amount of the liability for the acquired benefits must reflect the expected resignation date and must be discounted back.

The Company’s net liability deriving from defined benefit plans is calculated separately for each plan by estimating the amount of the future benefit that the employees acquired in exchange for the work carried out in the current financial period and in prior financial periods; this benefit is discounted back to calculate the present value. As provided by the revised version of IAS 19, actuarial gains and losses are recorded in full in the comprehensive income statement in the period in which they arise. The evaluation of liabilities is made by an independent actuary.

The Company has no other defined benefit pension plan.

The Company’s liability deriving from defined-contribution plans is limited to the payment of contributions to the State or to an asset or legally separate entity (known as fund), and is determined on the basis of the contributions due.

Government grants

Government grants are recognised in the financial statements when there exists a reasonable certainty that they will be received and that the company will meet all the conditions for receiving them. When the contributions are related to cost components, they are recognised as revenues, but are allocated systematically across the financial periods in order to be proportionate to the costs that they intend to compensate. If a contribution is related to an asset, the asset and the contribution are recognised for their nominal values and they are gradually discharged to the income statement, on a straight-line basis, along the expected useful life of the asset of reference.

If the Company receives a non-monetary contribution, the asset and contribution are recognised at their nominal value and discharged to the income statement, on a straight-line basis, along the expected useful life of the asset of reference.

In case of loans or similar forms of assistance supplied by government entities or similar institutions that have an interest rate lower than the current market rate, the effect related to the favourable interest rate is considered as an additional government grant.

Revenues from contracts with customers

The recognition of revenues from contracts with customers is based on the following five steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations, represented by the contractual promises to transfer goods and/or services to a customer; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligation identified on the basis of the ‘stand-alone’ selling price of each item of goods or each service; (v) recognition of the revenue when the relative performance obligation has been fulfilled, or at the time of transfer to the customer of the goods or services promised; the transfer is considered complete when the customer obtains control of the goods or services, which may continue over time, or at a specific point in time.

Revenues are recognised at the fair value of the consideration received or receivable, net of returns, discounts and volume rebates.

Revenues from contracts with customers are therefore recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Generally, control of the asset is transferred to the customer on delivery.

More specifically, with reference to sales with CIF condition, control of the asset is transferred to the end customer, and therefore the revenues are recognised, when the asset is handed over at the broadside of the ship. With regard to any machine completed and not yet shipped to the customer (bill and hold) for reasons that do not depend on the Company, revenues are recognised if the following conditions established by paragraph B81 of IFRS 15 and are designed to understand the substance of the transaction at the end of the reporting period:

- the reason for the bill-and-hold arrangement must be substantive (for example, the customer has requested the arrangement);
- the product must be identified separately as belonging to the customer;
- the product currently must be ready for physical transfer to the customer;

- the Company cannot have the ability to use the product or to direct it to another customer.

If the trade agreements related to the sales of machines contemplate their on-site testing at the premises of the purchaser as a binding condition for the acceptance of the machine, the revenues are recognised when the machine has been tested and the purchaser has accepted.

The allocation of revenues relative to services partially rendered are recognised for the portion matured, if it is possible to reliably determine stage of completion and there is no significant uncertainty about the amount and existence of the income.

In particular, the Company provides services that contemplate an excavation activity carried out by using machines belonging to the company and specialised workers employed by third-party companies. The provision of these services is contractually regulated by agreements with the counterparty that indicate, among other things, the timing for carrying out the excavation and contemplate a price per excavated metre that changes according to different hardness of the soil. Revenues are recognised on the basis of the actual excavation carried out to date.

Furthermore, the Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g.: warranties). In determining the price of the sale transaction, the Company considers the effects arising from the presence of variable considerations, significant financing components, non-monetary considerations and considerations to be paid to the customer (if any).

Tesmec provides after-sales services concerning the machines sold and these standard warranties on quality are accounted for under IAS 37 “Provisions, contingent liabilities and contingent assets”. If these services are requested after the expiry of the warranty period, the service is contractually regulated by agreements with the counterparty. Revenues are recognised based on the time and components used by the technicians during repair operations.

Generally, the Company receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

The recognition in the accounts of certain contractual agreements with customers envisages the recognition of revenue based on the progress of the activity, the determination of which is based on estimates of the costs incurred and at completion.

Costs

Costs are recognised in the period when they relate to goods and services sold or consumed during the same period or when it is not possible to identify their future use.

Labor costs comprise remuneration paid, provisions made to pension funds, accrued holidays, national insurance and social security contributions in compliance with national contracts of employment and current legislation.

Financial income and expenses

Financial income and expenses are recognised on an accrual basis and consist of interests accrued on the net value of the related financial assets and liabilities, by using the effective interest rate.

Fair Value Measurement

Fair value is defined as the price receivable for the sale of an asset or payable to transfer a liability in a normal transaction between market participants at the valuation date. All assets and liabilities measured or recognised at fair value are classified based on a fair value hierarchy and described hereunder:

- Level 1 – quoted prices (not adjusted) in active markets for identical assets or liabilities the entity of which is identifiable at the measurement date;
- Level 2 – input data other than quoted prices included in Level 1 which can be observed, either directly or indirectly for the asset or liability to be measured;
- Level 3 – the valuation techniques for which input data cannot be observed for the asset or liability to be measured.

The fair value of financial instruments that do not have a quoted market price in an active market is determined by using measurement techniques based on a series of methods and assumptions related to market conditions at the end of the reporting period.

Dividends

Dividends are recorded when the right of the shareholders to receive the payment arises, coinciding with the time in which they are decided.

7 Income tax

Current taxation

Taxes reflect an estimate of the tax burden, determined by applying the laws and regulations in force and are valued at the amount expected to be recovered or paid to the tax authorities.

Current tax liabilities are calculated by using the rates in force or substantially approved at the end of the reporting period. Current tax liabilities are recorded in the current liabilities net of any paid tax advances.

Taxable income for tax purposes differs from the pre-tax profit or loss indicated in the income statement, because it excludes positive and negative components that will be taxable or deductible in other financial periods and excludes items that will never be taxable or deductible.

Deferred taxes

Deferred taxes are calculated by applying the "liability method", on the temporary differences resulting at the end of the reporting period among the tax values used as a reference for assets and liabilities and their values indicated in the financial statements.

Deferred tax liabilities are recognised on all taxable temporary differences.

Deferred tax assets are recognised for all the temporary deductible differences and for retained tax assets and liabilities, insofar as the existence of appropriate future tax profits that can apply the use of the temporary deductible differences and of the retained tax assets and liabilities is likely.

The value to be stated in the financial statements for deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient income for tax purposes will be available in the future for this tax credit to be used totally or partially. Deferred tax assets not recognised are reviewed every year at the end of the reporting period and are recognised to the extent that the pre-tax profit is probably sufficient to allow the recovery of these deferred tax assets.

Deferred tax assets and liabilities are measured based on tax rates that are expected to be applied to the financial period in which such assets are sold or such liabilities are discharged, considering the rates in force and those already issued or substantially issued at the end of the reporting period.

Deferred tax assets and liabilities are recognised directly in the income statement, with the exception of those relating to items recognised directly in equity, in which case the related deferred taxes are also accounted for consistently without booking to the income statement.

Deferred tax assets and liabilities are offset, if there is a legal right to offset current tax assets against current tax liabilities, and the deferred taxes refer to the same tax entity and to the same tax authority.

Assets for deferred tax assets and liabilities for deferred tax liabilities are classified as non-current assets and liabilities.

Indirect taxes

Revenues, costs and assets are recognised net of value added tax with the exception of the case in which:

- such tax applied to the purchase of goods and services is not deductible, in which case it is recognised as part of the purchase cost of the asset or part of the cost item recognised in the income statement;
- they refer to trade receivables and payables for which the invoice has already been issued or received by including the value of the tax.

The net amount of indirect taxes on sales and purchases that can be recovered from or paid to the tax authorities is recorded in the financial statement item other receivables or payables depending on the sign of the balance.

VAT related to invoicing to public bodies is paid to the Tax authority when the receivable is collected during suspended VAT, pursuant to Italian Presidential Decree no. 633/72 and subsequent amendments.

Earnings per share

The basic earnings per share are calculated by dividing the Group's economic result by the weighted average of the outstanding shares during the period. For the purposes of the calculation of the diluted earnings per share, the weighted average of the outstanding shares is modified by assuming the conversion of all the potential dilutive shares. The net result is also adjusted to take account of the effects, net of tax, of the conversion.

The diluted earnings per share coincide with the basic earnings, since there are no outstanding shares or options other than ordinary shares.

2.3 Accounting standards, amendments and IFRS interpretations applied as from 1 January 2021.

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

- On 31 March 2021, the IASB published an amendment called "**Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)**" extending by one year the period of application of the amendment issued in 2020, which allowed lessees to recognise the rent reductions related to Covid-19 without having to assess, through the analysis of the contracts, whether the definition of lease modification of IFRS 16 was met. Therefore, lessees applying this option in 2020 recognised the effects of rent reductions directly in profit or loss at the effective date of the reduction. The 2021 amendment, which is only available to entities that have already adopted the 2020 amendment, applies from 1 April 2021 and early adoption is permitted. The adoption of these amendments did not have any effect on the Company's financial statements.
- On 25 June 2020, the IASB published an amendment called "Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)". The amendments allow the temporary exemption from the application of IFRS 9 to be extended until 1 January 2023 for insurance companies. The adoption of this amendment did not have any effect on the Company's financial statements.
- On 27 August 2020, the IASB published, in the light of the interbank interest rate reform such as IBOR, the document "**Interest Rate Benchmark Reform — Phase 2**" which contains amendments to the following standards:
 - IFRS 9 Financial Instruments;
 - IAS 39 Financial Instruments: Recognition and Measurement;
 - IFRS 7 Financial Instruments: Disclosures;
 - IFRS 4 Insurance Contracts; and
 - IFRS 16 Leases.

All amendments came into force beginning on 1 January 2021. The adoption of this amendment did not have any effect on the Company's financial statements.

Accounting standards, amendments and IFRS interpretations approved by the European Union, not yet mandatorily applicable and not early adopted by the group as at 31 December 2021

- On 14 May 2020, the IASB published the following amendments called:
 - **Amendments to IFRS 3 Business Combinations:** the purpose of the amendments is to update the reference in IFRS 3 to the revised Conceptual Framework without this entailing changes to the provisions of the standard.
 - **Amendments to IAS 16 Property, Plant and Equipment:** the purpose of the amendments is not to allow the amount received from the sale of goods produced during the testing phase of the asset to be deducted from the cost of property, plant and equipment. Therefore, these sales revenues and the related costs will be recognised in the income statement.
 - **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets:** the amendment clarifies that all costs directly attributable to the contract must be considered in the estimate of the possible cost of a contract. Accordingly, the assessment of the possible cost of a contract includes not only incremental costs (such as, for example, the cost of direct material used in processing), but also all costs that the company cannot avoid in that it has entered into the contract (such as, for example, the portion of depreciation of machinery used for the performance of the contract).
 - **Annual Improvements 2018-2020:** the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and to Illustrative Examples of IFRS 16 Leases.

All amendments are effective beginning on 1 January 2022. The directors do not expect a significant effect on the Company's financial statements.

- On 18 May 2017, the IASB issued the standard **IFRS 17 – Insurance Contracts** that will replace standard IFRS 4 – Insurance Contracts.

The aim of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations arising from issued insurance contracts. The IASB developed the standard to eliminate inconsistencies and weaknesses in existing accounting policies by providing a single standard-based framework to take account of all types of insurance contracts, including reinsurance contracts that an insurer holds.

The new standard also includes presentation and disclosure requirements to improve comparability between entities in this sector.

The new standard measures an insurance contract on the basis of a General Model, or its simplified version, called the Premium Allocation Approach ("PAA").

The main features of the General Model are:

- estimates and assumptions of future cash flows are always current;
- the measurement reflects the time value of money;
- the estimates envisage an extensive use of observable information on the market;
- there is a current and explicit measurement of the risk;
- the expected profit is deferred and aggregated in groups of insurance contracts at the time of initial recognition; and
- the expected profit is recognised during the contractual hedging period, taking into account the adjustments resulting from changes in the assumptions relating to the cash flows for each group of contracts.

The PAA approach involves measuring the liability for the residual coverage of a group of insurance contracts provided that, at the time of initial recognition, the entity expects the liability to reasonably represent an approximation of the General Model. Contracts with a coverage period of one year or less are automatically eligible for the PAA approach. The simplifications resulting from the application of the PAA method do not apply to the measurement of liabilities for outstanding claims, which are measured using the General Model. However, it is not necessary to discount those cash flows if it is expected that the balance to be paid or received will occur within one year of the date on which the claim occurred.

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

The standard is effective beginning on 1 January 2023 but earlier application is permitted only for entities applying IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers. The directors do not expect a significant effect on the Company's financial statements.

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

At the date of this document, the competent bodies of the European Union have not yet completed the approval process required for the adoption of the amendments and standards described below:

- On 23 January 2020, the IASB published an amendment called **“Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current”**. The purpose of the document is to clarify how to classify payables and other short or long-term liabilities. The amendments are effective beginning on 1 January 2023; in any case, early application is permitted. The directors do not expect a significant effect on the Company's financial statements through the adoption of this amendment.
- On 12 February 2021, the IASB published two amendments called **“Disclosure of Accounting Policies—Amendments to IAS 1 and IFRS Practice Statement 2”** and **“Definition of Accounting Estimates—Amendments to IAS 8”**. The amendments are intended to improve the disclosure of accounting policies so as to provide more useful information to investors and other primary users of financial statements and to help companies distinguish changes in accounting estimates from changes in accounting policies. The amendments will apply beginning on 1 January 2023, but early application is permitted. The directors do not expect a significant effect on the Company's financial statements through the adoption of these amendments.
- On 7 May 2021, the IASB published an amendment called **“Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction”**. The document clarifies how deferred taxes must be recognised on certain operations that can generate assets and liabilities of equal amounts, such as leases and dismantling obligations. The amendments will apply beginning on 1 January 2023, but early application is permitted. The directors do not expect a significant effect on the Company's financial statements through the adoption of this amendment.
- On 9 December 2021, the IASB published an amendment called **“Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 - Comparative Information”**. The amendment is a transition option relating to comparative information on financial assets presented as at the date of initial application of IFRS 17. The amendment is aimed at avoiding temporary accounting mismatches between financial assets and liabilities of insurance contracts, and thus at improving the usefulness of comparative information for readers of financial statements. The amendments

will apply from 1 January 2023, together with the application of IFRS 17. The directors do not expect a significant effect on the Company's financial statements through the adoption of this amendment.

- On 30 January 2014, the IASB published *IFRS 14 - Regulatory Deferral Accounts*, which allows only those who adopt IFRS for the first time to continue to recognise amounts relating to Rate Regulation Activities in accordance with the previously adopted accounting standards. Since the Company is not a first-time adopter, this standard is not applicable.

2.4 Discretionary evaluations and significant accounting estimates

The preparation of financial statements and interim reports in accordance with generally accepted accounting standards requires management to make accounting estimates based on complex or subjective judgements, past experience and assumptions deemed reasonable and realistic based on the information available at the time. The use of these accounting estimates affects the book value of contingent assets and liabilities at the end of the reporting period as well as the amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based.

Summarised below are those accounting estimates used in the preparation of financial statements and interim reports that are considered critical because they require management to make a large number of subjective judgements, assumptions and estimates regarding matters that are inherently uncertain. The Company based its estimates and assumptions on parameters available at the time of preparation of the financial statements. Changes in the conditions underlying such judgements, assumptions and estimates may have a significant effect on future results.

Deferred tax assets

Deferred tax assets are recognised for all the temporary differences and all retained tax losses, in so far as the existence of adequate taxable future profits for which such losses may be used is likely. Directors are requested a significant discretionary assessment to determine the amount of deferred tax assets that can be recorded. They must estimate the probable time in which it will reveal itself and the amount of taxable future profits as well as a future tax planning strategy.

Employee benefits

Post-employment benefit plans arising from defined benefit plans are evaluated with reference to uncertain events and based upon actuarial assumptions including, among others, discount rates, expected rates of salary increases, mortality rates, retirement dates and medical cost trends. Since these are long-term plans, such estimates are subject to a significant level of uncertainty and are sensitive to changes in hiring. All hires are reviewed every year.

Development costs

Development costs are capitalised on the basis of IAS 38 and are based on the fact that the directors' opinion on the technical feasibility and economic viability of the project is confirmed, so as to allow the recoverability of the capitalised costs. The directors must make assumptions on future cash flows expected from projects, discount rates to be applied and the periods during which the expected benefits reveal themselves in order to determine the values to be capitalised.

Impairment of non-current assets

An impairment loss occurs when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher value between its fair value deducted the selling costs and its value in use. Fair value less selling costs is equal to the amount obtainable from the sale of an asset or cash-generating unit in a free transaction between knowledgeable, willing parties, deducted from writing off costs. The calculation of the value in use is based on a discounted cash flow model. The cash flows are derived from the business plan of the next three years and do not include restructuring activities for which the Company has not yet committed to or significant future investments that will increase the results related activity included in the cash-generating unit evaluated. The recoverable amount depends significantly on the discount rate used in the discounted cash flow model as well as the expected cash flows in the future and the growth rate used for extrapolation, as well as external variables that cannot be controlled, including exchange and interest rates, infrastructure investments in the countries where the Company operates, geopolitical or social factors with a local or global impact.

Reverse factoring

With regard to reverse factoring, the Company assesses, for each supplier, the deferral conditions obtained from financial counterparties on these liabilities and, depending on the substance of the liabilities, records them as trade payables or reclassifies them as financial payables. This assessment is required to understand the substance of the deferral agreements

and necessarily involves a subjective assessment of the elements to be considered for the purposes of whether or not the corresponding payable is included in the Company's financial liabilities.

Revenues

The recognition in the accounts of certain contractual agreements with customers envisages the recognition of revenue based on the progress of the activity, the determination of which is based on estimates of the costs incurred and at completion. These estimates involve a technical recognition process of the order that involves subjective assessments of its completion.

Likewise, with reference to the typical cases for Tesmec in which there are machines completed and not yet shipped to the customer (bill and hold) for reasons that do not depend on the Company, revenues are recognised if the following provisions of IFRS 15 are met, including those mentioned above, designed to understand the substance of the transaction at the end of the reporting period. The determination of these aspects necessarily involves a subjective assessment of the elements to be considered and their scope in relation to the transaction in question.

Lease – Estimate of the incremental borrowing rate

The Company may not easily determine the interest rate implicit in the lease and therefore uses the incremental borrowing rate to measure the lease liability. The incremental borrowing rate is the interest rate that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Therefore, the incremental borrowing rate reflects what the group should have paid, and this requires an estimate to be made when no observable data exist or when rates need to be adjusted to reflect the terms and conditions of the lease.

Moreover, estimates are used for recognising the ECLs for trade receivables, provisions for product warranties, for risks and charges, for inventory obsolescence, amortisation, depreciation and write-downs of assets, as well as the fair value of financial instruments.

Estimates and assumptions are periodically revised and the effects of each change are immediately reflected in the income statement.

Lastly, in applying the accounting standards, the directors made decisions based on certain discretionary evaluations (excluding those involving estimates).

Lease term of contracts containing an extension option (Company as lessee)

The Company determines the lease term as the non-cancellable period of the lease plus the periods covered by the option to extend the lease if there is reasonable certainty of exercising this option and the periods covered by the termination option, if there is reasonable certainty of not exercising this option. The Company has the option, for some of its leases, to extend the lease or terminate it early. The Company applies its own judgement in assessing whether there is reasonable certainty of exercising the renewal options and considers all the factors recognised that may give rise to an economic incentive to exercise the renewal options or to conclude the agreement. After the commencement date, the Company reviews its estimates of the lease term if a significant event or significant change occurs in circumstances under its control that may affect the ability to exercise (or not exercise) the renewal or early termination option.

Change of depreciation criteria

Starting from January 1, 2021, the Group has adopted a new method of determining the depreciation of trencher machinery in the fleet. On the basis of technical analyzes carried out by the company's engineers, a period of 8 years has been identified as the best representation of the average useful life of these machinery, therefore, the new depreciation percentage of 12.5% on an annual basis is used instead of the previous one. methodology that provided for Tesmec S.p.A. depreciation according to use. This new method represents a change in the estimate and is therefore applied prospectively. Based on the Management's estimates, it is believed that this change did not lead to a significant change in the depreciation recorded in the income statement with respect to the previous calculation method.

3. Management of financial risks

Tesmec S.p.A. is exposed in varying degrees to financial risks related to the core business. In particular, the Company is exposed at the same time to the market risk (interest-rate risk and exchange-rate risk), liquidity risk and credit risk.

The management of financial risks (mainly interest-rate risks) is carried out by the Company on the basis of guidelines defined by the Board of Directors. The purpose is to guarantee a liability structure always in equilibrium with the structure of the balance sheet assets, in order to keep a very sound balance sheet structure.

Forms of financing most commonly used are represented by:

- interest bearing medium/long-term financial payables with multiyear redemption plan, to cover the investments in fixed assets.
- short-term financial payables and bank overdrafts to finance the working capital.

The average cost of indebtedness is benchmarked to the trend of the 3-month Euribor rates plus a spread that depends on the financial instrument used and on the rating of the Company.

Tesmec S.p.A. uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The Company does not apply the Cash Flow Hedge Accounting with reference to such positions, in that they do not meet the requirements provided in this regard by the IFRS standards.

The trading of derivative instruments with speculative purposes is not contemplated.

Management of the exchange-rate risk

Exchange-rate risk sensitivity of Tesmec S.p.A. is managed appropriately taking into consideration the overall exposure: within the general optimisation policy of financial resources, the Company pursues an equilibrium resorting to less expensive forms of financing.

With regard to the market risk for changes in the interest rate, the Company's policy is to hedge the exposure related to the portion of medium to long-term indebtedness. Derivative instruments such as swaps, collars and caps are used to manage this risk.

As at 31 December 2021, there were seven positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 26,06 million, with a negative equivalent value of Euro 90 thousand.

As at 31 December 2020, there were seven positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 16.63 million, with a negative equivalent value of Euro 170 thousand.

The short-term portion of interest bearing financial payables (current portion), which is mainly used to finance working capital requirements, is not subject to interest-rate risk hedging.

The cost of bank borrowing is benchmarked to the Euribor/Libor rate plus a spread that depends on the type of credit line used and is the same by type of line. The applied margins can be compared to the best market standards. The interest rate risk to which the Company is exposed is mainly originated from existing financial payables.

The main sources of exposure of the Company to the interest-rate risk refer to existing interest bearing medium/long-term financial payables (current portion) and interest bearing short-term financial payables and to the existing derivative instruments. In particular, the potential impacts on the Income Statement of the 2021 financial period (compared to 2020) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 2021 financial period.
- potential change in fair value of existing derivative instruments.

The potential changes in fair value of the effective component of existing hedging derivative instruments affect Shareholders' Equity.

The Company estimated the potential impacts on the Income Statement and on Shareholders' Equity of the 2020 financial period (compared to 2019) produced by a simulation of the change in the term structure of the interest rates, by using internal measurement models, based on the general acceptance approach. In particular:

- for loans, these impacts were estimated by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates, applied only to the cash flows to be settled during the 2021 financial period (compared to 2020).
- for derivative instruments, by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates.

With reference to the situation as at 31 December 2021, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2022 financial period of Euro 75 thousand, offset by an increase of Euro 1 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure

of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses accrued in the 2022 financial period of Euro 23 thousand, more than offset by a decrease of Euro 1 thousand in the collected spread for the existing derivatives.

With reference to the situation as at 31 December 2020, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2021 financial period of Euro 75 thousand, offset by an increase of Euro 2 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses accrued in the 2021 financial period of Euro 23 thousand, more than offset by a decrease of Euro 1 thousand in the collected spread for the existing derivatives.

	Interests					
	31 december 2021			31 december 2020		
	Residual debt	Impact on IS +100 bps	Impact on IS - 30 bps	Residual debt	Impact on IS +100 bps	Impact on IS - 30 bps
<i>(Euro in thousands)</i>						
Borrowings/Bond issue	133,783	(75)	23	142,146	(75)	23
Total Loans	133,783 *	(75)	23	142,146 *	(75)	23
<i>(Euro in thousands)</i>	Notional	Impact on IS +100 bps	Impact on IS - 30 bps	Notional	Impact on IS +100 bps	Impact on IS - 30 bps
Derivative instruments hedging cash flows	26,062	1	(1)	16,630	2	(1)
Total Derivative instruments	26,062 *	1	(1)	1,630	2	(1)
Total		(74)	22		(73)	22

* The residual debt is considered before amortised costs..

	Fair value sensitivity of derivatives									
	Financial period ended 31 December 2021									
	Notional value	Net FV	Net FV +100 bps	Net FV + 100 bps	Impact on IS +100 bps	Impact on SE +100 bps	Net FV - 30 bpss	Net FV - 100 bps	Impact on IS - 30 bps	Impact on SE - 30 bps
<i>(Euro in thousands)</i>										
Derivative instruments hedging cash flows	26,062	(90)	117	180	180	-	(117)	(180)	(180)	-
Total	26,062	(90)	117	180	180	-	(117)	(180)	(180)	-
	Financial period ended 31 December 2020									
	Notional value	Net FV	Net FV +100 bps	Net FV + 100 bps	Impact on IS +100 bps	Impact on SE +100 bps	Net FV - 30 bpss	Net FV - 100 bps	Impact on IS - 30 bps	Impact on SE - 30 bps
<i>(Euro in thousands)</i>										
Derivative instruments hedging cash flows	16.630	(170)	221	340	340	-	(221)	(340)	(221)	-
Total	16.630	(170)	221	340	340	-	(221)	(340)	(221)	-

With reference to the situation as at 31 December 2021, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 180 thousand, with an impact on the Income Statement of the 2022 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 117 thousand, with an impact only on the Income Statement of the 2022 financial period.

With reference to the situation as at 31 December 2020, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 340 thousand, with an impact on the Income Statement of the 2020 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 221 thousand, with an impact only on the Income Statement of the 2020 financial period.

The assumptions concerning the extent of changes in market parameters used for the simulation of shocks were formulated on the basis of an analysis of the historical development of such parameters with reference to a time scale of 12 months.

Credit risk management

The Company has a much parcelled out customer structure being mostly end-consumers. Moreover, most of the contemplated forms of collection include advance payments of the supply or a deposit not less than 30% of the sale.

This structure zeroes the credit risk; the validity of this approach is endorsed by the low amount of receivables at the end of the financial period compared to the amount of annual sales.

There are no significant concentrations of credit risk exposure in relation to individual debtors to be reported.

Management of liquidity risk

The Company manages the liquidity risk by controlling strictly the elements forming the working capital and in particular trade receivables and payables.

The Company tends to obtain upstream a good cash generation in relation to sales and then use it for paying the suppliers without compromising the short-term balance of the treasury and avoid problems and tensions in current liquidity.

The stratification of existing liabilities with reference to 2021 and to 2020 financial periods, with regard to financial instruments, by residual maturity, is set out below.

Maturity	31 December 2021						
	Financial payables		Bonds		Trade payables	Financial instruments Capital	Total Interest
	Capital	Interest	Capital	Interest			
(Euro in thousands)	a	b	c	d	e	f	g=a+b+c+d+e+f
Within 12 months	40,773	2,132	2,500	267	34,604	50	80,326
Between one and two years	27,537	1,716	2,500	148	-	-	31,902
Between two and three years	22,646	1,201	1,250	30	-	-	25,126
Between three and five years	33,938	1,962	-	-	-	46	35,946
Between five and seven years	2,539	54	-	-	-	(7)	2,586
After more than 7 years	100	3	-	-	-	-	103
Total	127,533 *	7,067	6,250 *	445	34,604	89	175,988

* The residual debt is considered before amortised costs.

Maturity	31 December 2020						
	Financial payables		Bonds		Trade payables	Financial instruments	Total
	Capital	Interest	Capital	Interest			
(Euro in thousands)	a	b	c	d	e	f	g=a+b+c+d+e+f
Within 12 months	49,165	1,879	17,500	1,286	36,217	1	106,048
Between one and two years	12,066	1,434	2,500	267	-	-	16,267
Between two and three years	18,587	1,038	2,500	148	-	-	22,273
Between three and five years	27,142	1,210	1,250	30	-	-	29,632
Between five and seven years	11,410	214	-	-	-	169	11,793
After more than 7 years	26	1	-	-	-	-	28
Total	118,396 *	5,776	23,750 *	1,730	36,217	170	186,040

* The residual debt is considered before amortised costs.

The estimate of expected future expenses implicit in loans and of expected future differentials implicit in derivative instruments was determined on the basis of the term structure of interest rates in Euro existing at the reporting dates (31 December 2021 and 31 December 2020).

Management of the exchange-rate risk

The Company is exposed to exchange-rate fluctuations of the currencies in which the sales to foreign customers are paid (US Dollars, South African Rand, Australian dollars, Chinese renminbi, Russian Rouble). This risk is expressed if the equivalent value in Euro of revenues decreases following negative exchange-rate fluctuations, thereby preventing the Company from achieving the desired margin. This risk is increased due to the relevant time interval between the moment in which the prices of a shipment are fixed and the moment in which the costs are converted in Euro.

The potential impacts on the Income Statement of the 2021 financial period (compared to 2020 when available) referable to the exchange-rate risk are determined by the revaluation/write-down of asset and liability items in foreign currency.

The Company estimated the potential impacts on the Income Statement of the 2020 financial period (compared to 2019) produced by a shock of the exchange-rate market, by using internal measurement models, based on the general acceptance approach.

Exposure with regard to equity items	2021 Exposure in foreign currency (USD)			2021 Sensitivity	
	Assets (USD/000)	Liabilities (USD/000)	Net (USD/000)	Income statement EUR/USD exchange rate +5% (EUR/000)	Income statement EUR/USD exchange rate -5% (EUR/000)
Trade receivables	7,454		7,454	(329)	329
Financial receivables	29,576		29,576	(1,306)	1,306
Trade payables		(416)	(416)	18	(18)
Total gross exposure with regard to equity items	37,030	(416)	36,614	(1,617)	1,617
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2020 Exposure in foreign currency (USD)			2020 Sensitivity	
	Assets (USD/000)	Liabilities (USD/000)	Net (USD/000)	Income statement EUR/USD exchange rate +5% (EUR/000)	Income statement EUR/USD exchange rate -5% (EUR/000)
Trade receivables	7,703		7,703	(314)	314
Financial receivables	17,763		17,763	(724)	724
Trade payables		(395)	(395)	16	(16)
Total gross exposure with regard to equity items	25,466	(395)	25,071	(1,022)	1,022
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2021 Exposure in foreign currency (ZAR)			2021 Sensitivity	
	Assets (ZAR/000)	Liabilities (ZAR/000)	Net (ZAR/000)	Income statement EUR/ZAR exchange rate +5% (EUR/000)	Income statement EUR/ZAR exchange rate -5% (EUR/000)
Trade receivables	6,802	-	6,802	(19)	19
Financial receivables	35,652	-	35,652	(99)	99
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	42,454	-	42,454	(118)	118
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2020 Exposure in foreign currency (ZAR)			2020 Sensitivity	
	Assets (ZAR/000)	Liabilities (ZAR/000)	Net (ZAR/000)	Income statement EUR/ZAR exchange rate +5% (EUR/000)	Income statement EUR/ZAR exchange rate -5% (EUR/000)
Trade receivables	13,759	-	13,759	(38)	38
Financial receivables	6,994	-	6,994	(19)	19
Trade payables	-	(104)	(104)	-	-
Total gross exposure with regard to equity items	20,753	(104)	20,649	(57)	57
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2021 Exposure in foreign currency (AUD)			2021 Sensitivity	
	Assets (AUD/000)	Liabilities (AUD/000)	Net (AUD/000)	Income statement EUR/AUD exchange rate +5% (EUR/000)	Income statement EUR/AUD exchange rate -5% (EUR/000)
Trade receivables	1,297	-	1,297	(42)	42
Financial receivables	21,456	-	21,453	(687)	687
Trade payables	-	-	(39)	1	(1)
Total gross exposure with regard to equity items	22,750	(39)	22,711	(728)	728
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2020 Exposure in foreign currency (AUD)			2020 Sensitivity	
	Assets (AUD/000)	Liabilities (AUD/000)	Net (AUD/000)	Income statement EUR/AUD exchange rate +5% (EUR/000)	Income statement EUR/AUD exchange rate -5% (EUR/000)
Trade receivables	49	-	49	(2)	2
Financial receivables	19,589	-	19,589	(616)	616
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	19,638	-	19,638	(618)	618
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2021 Exposure in foreign currency (CNY)			2021 Sensitivity	
	Assets (CNY/000)	Liabilities (CNY/000)	Net (CNY/000)	Income statement EUR/CNY exchange rate +5% (EUR/000)	Income statement EUR/CNY exchange rate -5% (EUR/000)
Trade receivables	177	-	177	(1)	1
Financial receivables	8,580	-	8,580	(60)	60
Trade payables	-	(1,103)	(1,103)	8	(8)
Total gross exposure with regard to equity items	8,757	(1,103)	7,654	(53)	53
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2020 Exposure in foreign currency (CNY)			2020 Sensitivity	
	Assets (CNY/000)	Liabilities (CNY/000)	Net (CNY/000)	Income statement EUR/CNY exchange rate +5% (EUR/000)	Income statement EUR/CNY exchange rate -5% (EUR/000)
Trade receivables	8,843	-	8,843	(55)	55
Financial receivables	7,307	-	7,307	(46)	46
Trade payables	-	(517)	(517)	3	(3)
Total gross exposure with regard to equity items	16,150	(882)	15,633	(98)	98
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2020 Exposure in foreign currency (RUB)			2020 Sensitivity	
	Assets (RUB/000)	Liabilities (RUB/000)	Net (CNY/000)	Income statement EUR/RUB exchange rate +5% (EUR/000)	Income statement EUR/RUB exchange rate -5% (EUR/000)
Trade receivables	945	-	945	(1)	1
Financial receivables	50,000	-	50,000	(29)	29
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	50,945	-	50,945	(30)	30
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2020 Exposure in foreign currency (RUB)			2020 Sensitivity	
	Assets (RUB/000)	Liabilities (RUB/000)	Net (CNY/000)	Income statement EUR/RUB exchange rate +5% (EUR/000)	Income statement EUR/RUB exchange rate -5% (EUR/000)
Trade receivables	154	-	164	-	-
Financial receivables	50,000	-	50,000	(27)	27
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	50,154	-	50,154	(27)	27
Derivative instruments	-	-	-	-	-

The assumptions concerning the extent of changes in market parameters used for the simulation of shocks were formulated on the basis of an analysis of the historical development of such parameters with reference to a time scale of 30-60-90 days, consistent with the expected duration of exposures.

Disclosures: categories of financial assets and liabilities according to IFRS 7

The following tables show the book values for each class of financial assets and liabilities identified by IFRS 9.

The value expressed in the financial statements of derivative financial instruments, whether assets or liabilities, corresponds to their fair value, as explained in these Notes.

The value expressed in the financial statements of cash and cash equivalents, financial receivables and trade receivables, suitably adjusted for impairment in accordance with IFRS 9, approximates the estimated realisable value and therefore the fair value.

All financial liabilities, including fixed-rate financial payables, are recorded in the financial statements at a value that approximates their fair value.

	31 December	
	2021	2020
<i>(Euro in thousands)</i>		
NON-CURRENT ASSETS:		
Receivables and other financial assets	4,498	5,668
Derivative financial instruments	10	1
CURRENT ASSETS:		
Trade receivables	31,156	31,215
Other available-for-sale securities	2	1
Financial receivables	66,248	52,949
Cash and cash equivalents	21,000	49,887

	31 December	
	2021	2020
<i>(Euro in thousands)</i>		
NON-CURRENT LIABILITIES:		
Medium/long-term loans	76,967	58,135
Non-current bond issue	3,727	6,195
Non-current financial liabilities and rights of use	8,929	10,909
Derivative financial instruments	49	170
CURRENT LIABILITIES:		
Interest-bearing financial payables (current portion)	38,059	46,265
Current financial liabilities and rights of use	2,548	2,690
Current bond issue	2,467	17,437
Derivative financial instruments	50	0
Trade payables	34,604	36,217
Advances from customers	1,088	1,285

The following table shows the book values for each class of financial assets and liabilities:

	Loans and receivables/payables at amortised cost	Guarantee deposits	Cash and cash equivalents	Available-for-sale financial assets	Fair value recognised in the income statement
<i>(Euro in thousands)</i>					
Financial assets:					
Financial receivables from third parties	2,996	-	-	-	-
Financial receivables from related parties	1,500	2	-	-	-
Derivative financial instruments	-	-	-	-	10
Total non-current	4,496	2	-	-	10
Trade receivables	13,568	-	-	-	-
Trade receivables from related parties	17,588	-	-	-	-
Other available-for-sale securities	-	-	-	2	-
Financial receivables from third parties	2,054	-	-	-	-
Financial receivables from related parties	64,194	-	-	-	-
Cash and cash equivalents	-	-	21,000	-	-

Total current	97,404	-	21,000	2	-
Total	101,900	2	21,000	2	10
Financial liabilities:					
Medium/long-term loans	73,704	-	-	-	-
Medium/long-term loans due to related parties	3,263	-	-	-	-
Non-current bond issue	3,727	-	-	-	-
Non-current financial liabilities from rights of use	8,929	-	-	-	-
Derivative financial instruments	-	-	-	-	49
Total non-current	89,624	-	-	-	49
Interest-bearing financial payables (current portion)	36,969	-	-	-	-
Interest-bearing financial payables (current portion) due to related parties	1,090	-	-	-	-
Current financial liabilities from rights of use	2,548	-	-	-	-
Current bond issue	2,467	-	-	-	-
Derivative financial instruments	-	-	-	-	50
Trade payables from third parties	34,429	-	-	-	-
Trade payables due to related parties	175	-	-	-	-
Advances from customers	1,088	-	-	-	-
Total current	78,766	-	-	-	50
Total	168,390	-	-	-	99

Disclosures: hierarchy levels of fair value measurement

In relation to financial instruments measured at fair value, the following table shows the classification of such instruments on the basis of the hierarchy of levels required by IFRS 13, which reflects the significance of the inputs used in measuring the fair value. The levels are broken down as follows:

- level 1 - quoted prices without adjustment recorded in an active market for measured assets or liabilities;
- level 2 - inputs other than quoted prices included within level 1 that are observable in the market, either directly (as in the case of prices) or indirectly (i.e. when derived from the prices);
- level 3 - inputs that are not based on observable market data.

The following table shows the assets and liabilities that are measured at fair value as at 31 December 2021, divided into the three levels defined above:

(Euro in thousands)	Book value as at 31 December 2021	Level 1	Level 2	Level 3
Financial assets:				
Derivative financial instruments	10	-	10	-
Total non-current	10	-	10	-
Other available-for-sale securities	2	-	-	2
Total current	2	-	-	2
Total	12	-	10	2

Financial liabilities:				
Derivative financial instruments	49	-	49	-
Total non-current	49	-	49	-
Derivative financial instruments	50	-	50	-
Total current	50	-	50	-
Total	99	-	99	-

COMMENTS ON THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

Non-current assets

4. Intangible assets

The breakdown of *Intangible assets* as at 31 December 2021 and as at 31 December 2020 is indicated in the table below:

<i>(Euro in thousands)</i>	31 December					
	2021			2020		
	Historical cost	Accum. amort.	Net value	Historical cost	Accum. amort.	Net value
Development costs	28,459	(23,944)	4,515	26,485	(21,952)	4,533
Rights and trademarks	6,202	(3,599)	2,603	3,116	(2,929)	187
Assets in progress and advance payments to suppliers	1,023	-	1,023	3,019	-	3,019
Total intangible assets	35,684	(27,543)	8,141	32,620	(24,881)	7,739

The following table shows the changes in intangible assets for the period ended as at 31 December 2021:

<i>(Euro in thousands)</i>	1 January 2021	Increases	Decreases	Reclassifications	Amortisation	31 December 2021
Development costs	4,533	1,975	-	-	(1,993)	4,515
Rights and trademarks	187	67	-	3,019	(670)	2,603
Assets in progress and advance payments to suppliers	3,019	1,023	-	(3,019)	-	1,023
Total intangible assets	7,739	3,065	-	-	(2,663)	8,141

As at 31 December 2021, intangible assets net of amortisation totalled Euro 8,141 thousand, up Euro 402 thousand on the previous year.

Increases for the period totalled Euro 3,065 thousand and consist in:

- development costs capitalised of Euro 1,975 thousand related to the development of new products and equipment that are expected to generate positive cash flows in future financial periods, based on the requirements described in more detail in the section on the main accounting standards applied;
- assets in progress and advance payments to suppliers of Euro 1,023 thousand mainly related to new development projects not yet completed and therefore not subject to amortisation.

At the end of the reporting period, the Company analysed the value of its intangible assets and, as no specific indicators of impairment were found, it did not deem it necessary to test them for impairment.

The following table shows the changes in intangible assets for the period ended 31 December 2020:

	1 January 2020	Increases	Decreases	Reclassifications	Amortisation	31 December 2020
<i>(Euro in thousands)</i>						
Development costs	5,162	1,904	-	-	(2,533)	4,533
Rights and trademarks	185	70	-	-	(68)	187
Assets in progress and advance payments to suppliers	385	2,634	-	-	-	3,019
Total intangible assets	5,732	4,608	-	-	(2,601)	7,739

5. Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2021 and as at 31 December 2020 is indicated in the table below:

<i>(Euro in thousands)</i>	31 December					
	2021			2020		
	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Land	2,463	-	2,463	1,250	-	1,250
Buildings	3,403	(801)	2,602	3,373	(699)	2,674
Plant and machinery	11,993	(10,385)	1,608	11,822	(9,950)	1,872
Equipment	4,067	(3,881)	186	3,984	(3,777)	207
Other assets	3,111	(2,361)	750	3,148	(2,080)	1,068
Total property, plant and equipment	25,037	(17,428)	7,609	23,577	(16,506)	7,071

The following table shows the changes in property, plant and equipment for the period ended 31 December 2021:

	1 January 2021	Increases	Decreases	Reclassifications	Depreciation	31 December 2021
<i>(Euro in thousands)</i>						
Land	1,250	1,213	-	-	-	2,463
Buildings	2,674	30	-	-	(102)	2,602
Plant and machinery	1,872	171	-	-	(435)	1,608
Equipment	207	99	-	-	(120)	186
Other assets	1,068	404	(396)	62	(388)	750
Total property, plant and equipment	7,071	1,917	(396)	62	(1,045)	7,609

As at 31 December 2021, property, plant and equipment totalled Euro 7,609 thousand, an increase of Euro 538 thousand compared to the previous year, mainly due to the purchases for the period of Euro 1,979 thousand.

The increases for the financial period amount to Euro 1,979 thousand and refer for Euro 1,213 thousand to the purchase of a plot of land in the municipality of Grassobbio bordering on that of the factory, with building prospects.

As at the end of the reporting period, the Company analysed the value of its property, plant and equipment and, as no specific indicators of impairment were found, it did not deem it necessary to test them for impairment.

The following table shows the changes in property, plant and equipment for the period ended 31 December 2020:

	1 January 2020	Increases	Decreases	Reclassifications	Depreciation	31 December 2020
<i>(Euro in thousands)</i>						
Land	1,250	-	-	-	-	1,250
Buildings	2,762	13	-	-	(101)	2,674
Plant and machinery	1,161	662	(8)	522	(465)	1,872
Equipment	309	58	-	-	(160)	207
Other assets	1,399	539	(627)	-	(243)	1,068
Assets in progress and advance payments to suppliers	522	-	-	(522)	-	-
Total property, plant and equipment	7,403	1,272	(635)	-	(969)	7,071

6. Rights of use

The breakdown in *Rights of use* as at 31 December 2021:

<i>(Euro in thousands)</i>	31 December					
	2021			2020		
	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Industrial Buildings - Right of use	14,942	(5,838)	9,104	14,283	(3,887)	10,396
Plant and machinery - Rights of use	316	(116)	200	316	(84)	232
Equipment - Rights of use	28	(18)	10	28	(11)	17
Other assets - Rights of use	3,393	(1,507)	1,886	3,665	(1,072)	2,593
Total rights of use	18,679	(7,479)	11,200	18,292	(5,054)	13,238

The following table shows the changes in rights of use for the period ended 31 December 2021:

	1 January 2021	Increases	Decreases	Reclassifications	Depreciation	31 December 2021
<i>(Euro in thousands)</i>						
Industrial Buildings - Right of use	10,396	659	-	-	(1,951)	9,104
Plant and machinery - Rights of use	232	-	-	-	(32)	200
Equipment - Rights of use	17	-	-	-	(7)	10
Other assets - Rights of use	2,593	75	(8)	(62)	(712)	1,886
Total rights of use	13,238	734	(8)	(62)	(2,702)	11,200

As at 31 December 2021, rights of use totalled Euro 11,200 thousand, a decrease of Euro 2,038 thousand compared to the previous year, mainly due to the depreciation for the period of Euro 2,702 thousand.

The increases for the year amount to Euro 734 thousand and mainly concern the extension of the Endine factory lease.

As at the end of the reporting period, the Company analysed the value of its right-of-use assets and, as no specific indicators of impairment were found, it did not deem it necessary to test them for impairment.

The following table shows the changes in rights of use for the period ended 31 December 2020:

	1 January 2020	Increases	Decreases	Reclassifications	Depreciation	31 December 2020
<i>(Euro in thousands)</i>						
Industrial Buildings - Right of use	12,299	43	-	-	(1,946)	10,396
Plant and machinery - Rights of use	264	-	-	-	(32)	232
Equipment - Rights of use	24	-	-	-	(7)	17

Other assets - Rights of use	1,642	1,636	-	-	(685)	2,593
Total rights of use	14,229	1,679	-	-	(2,670)	13,238

7. Equity investments in subsidiaries, associates and joint ventures

The breakdown of *Equity investments in subsidiaries, associates and joint ventures* as at 31 December 2021 and 2020 is indicated in the table below:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Subsidiaries:		
Tesmec USA, Inc. (United States)	21,261	21,261
Tesmec SA (South Africa)	6,296	6,296
East Trenchers S.r.l. (Italy)	265	265
Tesmec Automation S.r.l. (Italy)	4,776	4,776
OOO Tesmec RUS (Russia)	11	11
Tesmec New Technology (Beijing) LTD (China)	200	200
Marais Technologies SA (France)	10,814	10,814
Tesmec Australia Ltd. (Australia)	3,766	3,766
Bertel S.r.l. (Italy)	4,293	4,293
Tesmec Rail S.r.l. (Italy)	5,606	5,606
4Service S.r.l. (Italy)	9,721	9,721
Total equity investments in subsidiaries	67,009	67,009

Equity investments in subsidiaries are unchanged from the previous year.

The following table shows the main financial statement items of subsidiaries:

<i>(Euro in thousands)</i>	31 December						
	2021						
	% held	Revenues	Net result	Assets	Liabilities	Shareholders' Equity	Book value
Subsidiaries:							
Tesmec USA, Inc. (United States)	100.00%	26,233	(1,372)	55,115	32,161	22,954	21,261
Tesmec SA (South Africa)	51.00% ²	6,807	187	8,398	3,550	4,848	6,296
East Trenchers S.r.l. (Italy)	100.00%	233	23	400	255	145	265
Tesmec Automation S.r.l. (Italy)	100.00%	16,750	10	22,784	22,243	541	4,776
OOO Tesmec RUS (Russia)	100.00%	3,565	80	2,109	3,027	(918)	11
Tesmec New Technology (Beijing) LTD (Cina)	100.00%	524	(87)	571	1,842	(1,271)	200
Marais Technologies SA (France)	66.04% ¹	-	(224)	18,847	3,869	14,978	10,814
Tesmec Australia Ltd. (Australia)	51.00% ³	8,454	(2,873)	8,838	16,142	(7,304)	3,766
Bertel S.r.l. (Italy)	100.00%	-	307	1,091	298	793	4,293
Tesmec Rail S.r.l. (Italy)	100.00%	32,093	3,140	62,291	52,886	9,405	5,606
4Service S.r.l. (Italy)	100.00%	3,490	381	19,705	12,446	7,259	9,721

⁽¹⁾ The remaining 33.96% is held by Simest S.p.A. Since Tesmec has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the shareholding in Marais Technologies SAS is consolidated on a 100% basis.

⁽²⁾ The remaining 49% is held by Simest S.p.A. Since Tesmec has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the shareholding in Tesmec SA is consolidated on an 100% basis.

⁽³⁾ The remaining 49% is held by Simest S.p.A. Since Tesmec has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the shareholding in Tesmec Australia (Pty) Ltd. is consolidated on a 100% basis.

In accordance with the requirements of IAS 36, the book value of equity investments was tested for impairment, which was specifically approved by the Board of Directors on 12 March 2022.

In particular, at the end of each reporting period, the Company verifies whether there is any indication that the value of investments may have suffered an impairment loss, thus estimating the recoverable amount of such assets in such circumstances. In assessing the existence of an indication that one or more investments may have suffered an impairment loss, indications deriving from information sources both inside and outside the Group were considered. In particular, potential impairment indicators were identified in the changing market scenarios of the different and diversified geographical areas in which the Tesmec Group operates, together with the negative results in some cases of some subsidiaries, or the differentials between the higher book value of the equity investment and the corresponding fraction of shareholders' equity, as shown in the table above.

According to IAS 36, the recoverable amount is the higher between the market value (fair value) and the value in use. Fair value is the income obtainable from the sale in an arm's length transaction between knowledgeable, willing parties, net of directly attributable expenses. Depending on the circumstances, this value is determined on the basis of the agreed price if there is a binding sale agreement established in an uncontrolled transaction (net of disposal costs) or the market price, less selling costs, if the asset is traded in an active market. Conversely, the value in use is the discounting back of expected cash flows by applying an appropriate rate (equal to the weighted average cost of capital).

The impairment loss resulting from the impairment test is measured by the excess of the carrying amount of the asset over its recoverable amount.

For the purposes of the impairment test, certain equity investments were considered jointly, where necessary, according to the sub-group to which they belonged (Marais Technologies SAS, holding company of the Marais Group acquired in 2015 with total revenues in 2021 of Euro 56 million) or the uniqueness of the market of reference (Tesmec Automation, considered for the purposes of the impairment test together with the subsidiary Bertel of which the business operates within a company lease agreement) or belonging to the same CGU (as in the case of Tesmec USA and 4 Service USA, both based in Alvarado in the United States and operating in the trencher sector, one in the sale, the other in the rental and in the case of Temec Australia and its subsidiary Marais Laying NZ - New Zealand, both operating in the trencher sector). In other cases, each equity investment was tested for impairment individually, depending on the different geographical area of reference or sector to which it belongs, which involves different specificities in terms of market and competitive factors.

The operating cash flows used for the purpose of impairment testing derive from the plans of the single Cash Generating Unit drawn up by the Management on the basis of the 2022 Budget and the 2022-2024 Business Plan approved by the Board of Directors on 11 March 2022. The estimate of those cash flows includes assumptions of the Directors consistent with the strategy of the Tesmec Group in the individual businesses and markets in which it operates and also depends on external variables not subject to the management's control, such as exchange rate and interest rate trends, the trend in procurement costs including the cost of energy, the availability of raw materials and in general the absence of prolonged rigidity constraints in the supply chain and logistics, infrastructure investments in the countries where the group operates, macro political or social factors of local or global impact.

These external factors, in line with IAS 36, were estimated on the basis of the elements known at the balance date and, in the current context of uncertainty related to the increase in procurement costs and, more generally, to temporary difficulties in the supply chain, as well as to the persistence, albeit with less disruptive effects, of the pandemic crisis, incorporate the expectations of a gradual economic recovery that, although subject to the risk of further slowdowns due to further possible partial restrictive measures on travel and certain economic activities, is not affected with reference to the medium/long-term prospects. It is believed in fact that, Tesmec's operating sectors will benefit from new investments and development policies aimed at strengthening the key infrastructures of the main countries and the Group's business is concentrated in strategic sectors that are extremely lively and have significant growth prospects. For a more complete analysis of the main risks and uncertainties to which Tesmec Group is exposed, please refer to paragraph 8 of the report on operations.

Based on these plans, the value in use of the cash generating units was estimated using the Discounted Cash Flow (DCF) method, i.e. the discounting of future operating cash flows until the end of its useful life. The net operating cash flows estimated for this purpose were derived from the above mentioned plans according to the generally used "unlevered" approach, according to which flows are calculated regardless of the financial structure of the company.

The weighted average cost of capital (WACC) used for discounting operating cash flows for the explicit period and for calculating the terminal value was determined differently depending on the country of reference of the cash-generating units, as detailed in the table below:

Subsidiaries	31 December	
	2021	2020
Tesmec USA, Inc. and 4 Service USA (United States)	10.34%	8.90%
Tesmec SA (South Africa)	15.94%	15.50%
Tesmec Automation S.r.l. and Bertel S.r.l. (Italy) (*)	9.44%	8.90%
OOO Tesmec RUS (Russia)	14.39%	14.40%
Tesmec New Technology (Beijing) LTD (China)	10.50%	10.20%
Marais Technologies SA (France)	7.76%	7.50%
Tesmec Australia Ltd. (Australia) and Marais Laying NZ (Nuova Zelanda)	8.98%	9.00%
Tesmec Rail S.r.l. (Italy)	7.44%	6.20%
4 Service S.r.l. (Italy)	9.07%	8.90%
East Trenchers S.r.l. (Italy)	9.05%	8.90%

* For the purposes of the impairment test, a single CGU was considered for the subsidiaries Tesmec Automation and Bertel in consideration of the unique business and reference market, as well as the fact that Bertel's operating activity is managed by Tesmec Automation through a company lease agreement

For the estimate of cash flows beyond the explicit forecast period, the terminal value was determined on the basis of a g growth rate of 1%.

The application of the method described above led to an estimate of the value in use (or enterprise value) of the equity investments tested that, added to the corresponding net financial position, determines the value of the economic capital (equity value) to be compared with the book value.

The impairment test did not reveal any impairment losses.

Moreover, note that in some limited cases, the equity value is substantially in line with or slightly higher than the corresponding book value, i.e. it mainly consists of the discounting back of the cash flows that make up the Terminal Value, i.e. flows associated with periods distant in time whose achievement is marked by a higher risk profile and more exposed to changes in uncontrollable external variables that are different from those expected.

In this context, taking also account of the global uncertainties that emerged after the end of reporting period due to in relation to the onset of the Russian-Ukrainian conflict which, as a non-adjusting event pursuant to the provisions of IAS 10, were not considered in the Impairment Test at 31 December 2021, a sensitivity analysis was carried out to check the change in the equity value of the individual cash generating units as the discount rate (the weighted average cost of capital, WACC) and the growth rate (g) changed.

As a result of the sensitivity analysis, note that a 2% increase in WACC together with the adoption of a growth rate g equal to zero, it would result in write-downs of a total amount of less than 5% of the total value of the item investments in subsidiaries. When preparing the interim reports for the current year, as required by IAS 36, the existence of impairment indicators that may require an update of the impairment test will be checked, also in light of the events subsequent to the end of the year, with particular reference to the onset of the Russian-Ukrainian conflict which could determine the need to recognize provisions to cover the capital deficit of the Russian subsidiary OOO Tesmec RUS (which at the date balance sheet amounts to Euro 918 thousand), towards which the Company has financial and commercial receivables, equal to a total of Euro 2,296 thousand, the recoverability of which could cease during the year in the context of a significant increase in the country risk for the rise of the Russian-Ukrainian conflict.

The breakdown of equity investments in associates and joint ventures as at 31 December 2021 and 2020 is indicated in the table below:

	31 December	
	2021	2020
<i>(Euro in thousands)</i>		
Associates:		
Locavert SA	52	52
Primis Group S.r.l.	1	-
Subtotal	53	52
Joint Ventures:		
Condux Tesmec Inc (United States)	956	956
Tesmec Peninsula (Qatar)	730	730
Saudi Tesmec (Saudi Arabia)	2,371	-
Subtotal	4,057	1,686
Total equity investments in associates and joint ventures	4,110	1,738

Equity investments in associates and joint ventures increased overall of Euro 2,372 thousand as a result of the following operations:

- on 24 June 2021, the Company acquired 49% of the share capital of Tesmec Saudi Arabia, a company operating in the trenchers rental business, for a total consideration of Euro 2,019 thousand. The effects of the acquisition were described in the previous paragraph 4.1 *Effects of the acquisition of 49% of the capital of Tesmec Saudi Arabia LLC* described in the report on operations;
- on 23 November 2021, the Company purchased 10.03% of the share capital of the company Primis Group S.r.l. based in Milan.

The following table shows the main financial statement items of associated companies and joint ventures:

	31 December 2021							
	% held	Revenues	Net result	Assets	Liabilities	Shareholders' Equity	Valuation according to the equity method	Equity investment value in the Consolidated Financial Statements
<i>(Euro in thousands)</i>								
Associates:								
Locavert SA	38.63%	182	(25)	1,125	430	695	695	52
Primis Group S.r.l.	10.03%	74	-	69	51	18	18	1
Joint Ventures:								
Condux Tesmec Inc.	50.00%	5,640	285	7,525	3,289	4,236	3,854	956
Tesmec Peninsula	49.00%	440	400	1,664	1,032	632	579	730
Tesmec Saudi Arabia	49.00%	1,260	668	3,524	3,291	232	2,938	2,371

The Company holds equity investments in associates and joint ventures valued according to the cost method. As for subsidiaries, also for associated companies and joint ventures, the Company assesses at each balance sheet date whether there is an indication that the value of the equity investments may have suffered a lasting reduction in value, thus estimating in such circumstances the recoverable value of that activity. In assessing the existence of an indication that one or more equity investments may have suffered a lasting reduction in value, indications deriving from sources of information both internal and external to the Group were considered. In particular, potential impairment indicators have been identified in the changing market scenarios of the different and diversified geographical areas in which the Tesmec Group operates, together with the negative results of some associated companies or joint ventures in some cases, or the differentials between the greater book value of the investment and the corresponding valuation according to the equity method (which corresponds to the book value in the consolidated financial statements), as indicated in the previous table.

Therefore, for the purposes of preparing these financial statements, the book value of the investments in the Tesmec Peninsula WLL and Tesmec Saudi Arabia joint ventures was subjected to impairment tests, subject to specific approval by the Board of Directors on 11 March 2022.

This impairment test was carried out on the basis of the methodology described above, in compliance with accounting standard IAS 36.

The Weighted Average Cost of Capital (WACC) used for discounting the operating cash flows of the explicit period and for calculating the terminal value, was determined to a different extent depending on the country of reference, as detailed in the following table:

	Carrying amount (Euro thousand)	WACC 31 December 2021	WACC 31 December 2020
Tesmec Peninsula WLL (Qatar)	730	10.1%	10.7%
Tesmec Saudi Arabia (Arabia Saudita)	2,371	10.8%	n.a.

To estimate cash flows beyond the explicit forecast period, the terminal value was determined on the basis of a growth rate g of 1%.

The application of the methodology described above led to the estimate of a value in use of the equity investments under test which, added to the corresponding net financial position, determines the value of the economic capital (equity value) to be compared with the book value

The impairment test did not reveal any impairment losses.

Moreover, it is noted that the equity value is mainly constituted by the discounting of the cash flows that make up the Terminal Value, i.e. flows associated with distant periods in time, the achievement of which is characterized by a higher and more exposed to trends in uncontrollable exogenous variables that are different from those expected.

In this context, also taking into account the global uncertainties that emerged after the end of the year in relation to the onset of the Russian-Ukrainian conflict, a sensitivity analysis was carried out to verify the change in the equity value of the individual generating units. cash as the discount rate (the weighted average cost of capital, WACC) and the growth rate (g) changes.

On the outcome of the sensitivity analyzes it is observed that a 2% increase in the WACC would not cause any impairment as well as the adoption of a growth rate g equal to zero would not cause any impairment. When preparing the interim reports scheduled for the current year, as required by IAS 36, the existence of impairment indicators will be verified that may make it necessary to update the impairment test.

8. Financial receivables and other non-current financial assets

The following table sets forth the breakdown of the item *Financial receivables and other non-current assets* as at 31 December 2021 and 2020:

(Euro in thousands)	31 December	
	2021	2020
Guarantee deposits	2	2
Financial receivables from third-party customers	2,996	3,166
Financial receivables from related parties	1,500	2,500
Total financial receivables and other non-current financial assets	4,498	5,668

As at 31 December 2021, financial receivables and other non-current financial assets totalled Euro 4,498 thousand, down Euro 1,170 thousand on the previous financial period.

Financial receivables from third parties are shown net of a write-down of Euro 1,208 thousand set aside entirely in the period and attributable to the partial write-down of some receivables from certain commercial counterparties in the trencher sector operating in countries of the Africa area whose positions had been subject in the previous years of definition of financially onerous payment plans that were not fully or partially respected during the year, also in connection with the operational and financial difficulties of the counterparties as a result of the pandemic. The residual balance of the positions of a financial nature connected to these cases, net of the write-downs recorded, amounts to Euro 1,691 thousand. In this regard, actions are underway aimed at recovering outstanding receivables, including through the stipulation of specific supply guarantees with leading institutions, as well as – more generally – monitoring the Company’s exposure to this type of counterparty.

The decrease mainly concerns the repayment of the loan granted to the subsidiary Tesmec Rail S.r.l. of Euro 1,000 thousand.

Current assets

9. Inventories

The following table provides a breakdown of the item *Inventories* as at 31 December 2021 and 2020:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Advances to Suppliers	46	24
Raw materials and consumables	26,503	17,989
Work in progress	3,146	5,333
Finished products and goods for resale	9,101	11,786
Total inventories	38,796	35,132

The measurement bases of inventories remained unchanged compared to the prior financial period. The item as a whole increased by 10.4% compared to the prior financial period.

The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2021 and 2020 are indicated below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Value as at 1 January	3,460	3,390
Provisions	300	70
Uses	-	-
Total provisions for inventory obsolescence	3,760	3,460

The value of the provisions for inventory obsolescence increased by Euro 300 thousand compared to the prior financial period. The adequacy of the provision is assessed on a regular basis to constantly monitor the actual level of inventories recovered through sales.

10. Trade receivables

The table below shows the breakdown of trade receivables as at 31 December 2021 and 2020:

<i>(Euro in thousands)</i>	31 December	
	2021	2020

Trade receivables from third-party customers	13,568	21,582
Trade receivables from related parties	17,588	9,633
Total trade receivables	31,156	31,215

For terms and conditions relating to receivables from related parties, refer to note 35.

Trade receivables as at 31 December 2021 amounted to Euro 31,156 thousand substantially in line with the 2020 financial period.

The balance of trade receivables is shown net of provisions for doubtful accounts. This provision was calculated in an analytical manner by dividing the receivables in classes depending on the level of risk, by country and customer, and by applying to each class an expected percentage of loss derived from historical experience. This process was supplemented with additional considerations in line with the treatment of Expected Credit Losses under IFRS 9.

The changes in the provisions for doubtful accounts for the financial periods ended 31 December 2021 and 2020 are indicated in the table below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Value as at 1 January	1,081	963
Provisions	592	175
Uses	-	(57)
Total provisions for doubtful accounts	1,673	1,081

The value of provisions for doubtful accounts increased by Euro 592 thousand compared to the prior financial period. Uses and provisions related to the provisions for doubtful accounts are included in "other operating (costs)/revenues, net" of the income statement.

11. Financial receivables and other current financial assets

The following table sets forth the breakdown of *financial receivables and other current financial assets* as at 31 December 2021 and 31 December 2020:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Financial receivables from related parties	64,194	48,286
Other current financial assets	2,054	4,662
Total financial receivables and other current financial assets	66,248	52,948

The increase in *financial receivables and current financial assets* (Euro 13,300 thousand) is due for Euro 15,908 thousand to the increase in credit positions relating to specific contracts signed with the related parties on which an interest rate is applied and repayable within 12 months. The main financial receivables and related interest rate applied are set below:

- Tesmec USA, Inc of Euro 17,714 thousand with interest rate equivalent to 6-month Euribor rate + spread of 2;
- Tesmec Automation S.r.l. of Euro 8,320 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3.5%;
- Tesmec Australia Ltd. of Euro 13,596 thousand with annual interest rate of RBA 1.5% + spread of 3.02% or Interbank 3 months + spread of 3.5% depending on the nature of the transaction;
- Tesmec Rail S.r.l. of Euro 7,015 thousand, of which Euro 1,250 thousand related to a loan and the remaining Euro 5,765 thousand to a current account, both with interest rate equivalent to 3-month Euribor rate + spread of 3.5%;
- 4Service S.r.l. of Euro 967 thousand with interest rate equivalent to 3-month Euribor rate + spread of 2.5%;

For terms and conditions relating to receivables from related parties, refer to note 35.

Other current financial assets mainly refer to financial receivables from third party customers deriving from sales of trencher machines with extended payment terms and that envisage the payment of interest in addition to the amount of € 417 thousand relating to interest accrued in relation to the amount obtained following the favourable arbitration award in the current dispute with a Chinese trading company, currently deposited in trust with the treasury of the Court of Beijing. In relation to this amount, also based on the opinion of the lawyers who assist the Company, collection is expected in the short term.

12. Other current assets

The following table sets forth the breakdown of *other current assets* as at 31 December 2021 and as at 31 December 2020:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Prepaid expenses	1,227	1,047
Accrued income	3	-
VAT credit	290	1,188
Other tax receivables	789	457
Other receivables	278	213
Receivables from subsidiaries	316	60
Advance to suppliers for services	393	130
Total other current assets	3,296	3,095

The item *Other current assets* is considered receivable and therefore was not subject to value adjustment; the item increased by Euro 201 thousand compared to the previous financial period. This increase is mainly due to the item "other tax receivables" of Euro 332 thousand due to the higher tax credit on research and development costs recorded for the 2021 financial period.

13. Cash and cash equivalents

The following table sets forth the breakdown of the item as at 31 December 2021 and 2020:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Bank and post office deposits	20,996	49,883
Cash on hand	3	3
Other cash	1	1
Total cash and cash equivalents	21,000	49,887

Cash and cash equivalents are invested in short-term bank deposits and they are remunerated at a floating rate related to the Euribor trend. The balance as at 31 December 2021 amounted to Euro 21,000 thousand and decreased of Euro 28,887 thousand. This change is related to the repayment of the "Tescmec S.p.A. 6% 2014-2021" bond issue for the entire amount of Euro 15 million and investments made in the period;

The stated values can be readily converted into cash and are subject to a non-significant risk of change in value. The book value of cash and cash equivalents is deemed to be aligned to their fair value at the end of the reporting period.

The Company believes that the credit risk related to cash and cash equivalents is limited since it mainly represents deposits divided across domestic and international banking institutions.

14. Shareholders' Equity

Share capital and reserves

The *Share capital* amounts to Euro 15,702 thousand, fully paid up, and comprises 606,460,200 shares without par value.

The following table sets forth the breakdown of *Other reserves* as at 31 December 2021 and 2020:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Revaluation reserve	86	86
Extraordinary reserve	37,044	37,499
Reserve for first-time adoption of IFRS 9	(391)	(391)
Severance indemnity valuation reserve	(362)	(385)
Network reserve	754	754
Future capital increase reserve	6	6
Retained earnings/(losses brought forward)	2,490	2,490
Bills charged directly to shareholders' equity on operations with entities under common control	(5,619)	(5,619)
Total other reserves	34,008	34,440

The revaluation reserve is a reserve in respect of which tax has been deferred, set up in accordance with Italian Law no. 72/1983.

As a result of the resolution of 22 April 2021, with the approval of the 2020 financial statements, the Shareholders' Meeting decided to allocate the loss of Euro 455 thousand to the extraordinary reserve.

The Reserve for First-Time Adoption is mainly related to the application of the principle of continuity of values within extraordinary operations concluded among companies "under common control" with a subsequent write-off of the higher values recognised in the transaction with the Shareholders' Equity as a balancing entry.

The reserve for first-time adoption of IFRS 9 refers to the net impact related to the adoption of the new standard. The Company attributed the largest allowance related to doubtful accounts applied to the decrease in equity reserves as at 1 January 2018 without restating the comparative data.

The Shareholders' Equity is therefore divided according to the origin, the possibility of usage, the related distributability and the actual usage in the 3 previous financial periods.

Nature/description	Amount (Euro/000)	Possibility of usage	Amount available	Summary of uses in the last 3 periods	
				to cover losses	for other reasons
Share capital	15,702	B			
Equity reserves:					
Share premium reserve	39,215	A, B, C (*)	39,215	-	-
Reserve of Treasury Shares	(2,341)				
Earnings reserves:					
Legal reserve	2,142	B			
Revaluation reserve	86	A, B, C	86	-	-
Extraordinary reserve	37,044	A, B, C	37,044	-	-
Reserve for First-Time Adoption	(5,619)				
Reserve for first-time adoption of IFRS 9	(391)				
Severance indemnity valuation reserve	(362)				

Network reserve	754			
Future capital increase reserve	6			
Retained earnings	2,490	B		
Net profit/(loss) for the period	(752)			
Total	87,974		76,345	-

(*) Pursuant to Article 2431 of the Italian Civil Code, the whole amount of this reserve is distributable only if the legal reserve has reached the limit established in Article 2430 of the Italian Civil Code. That level was reached as at 31 December 2020.

Legend:

A: To increase shareholders' equity

B: To cover losses

C: To distribute to shareholders

Non-current liabilities

15. Medium/long-term loans

Medium/long-term loans include medium/long-term loans from banks and payables towards other providers of finance. The following table shows the breakdown thereof as at 31 December 2021 and as at 31 December 2020, with separate disclosure of total loans and current portion:

	31 December			
	2021	of which current portion	2020	of which current portion
<i>(Euro in thousands)</i>				
Domestic fixed-rate bank loans	34,796	1,896	15,045	45
Domestic floating-rate bank loans	45,250	10,564	48,169	13,015
Shareholder loan	3,263	-	3,263	-
Total medium/long-term loans	83,309	12,460	66,477	13,060
less current portion	(12,460)		(13,060)	
Non-current portion of medium/long-term loans	70,849		53,417	
Medium/long-term loan due to Simest	7,418	1,300	8,718	4,000
less current portion	(1,300)		(4,000)	
Medium/long-term loan due to Simest	6,118		4,718	
Total medium/long-term loans	76,967	13,760	58,135	17,060

Some loan contracts, whose residual value at the balance date amounts to Euro 41.3 million, they entail compliance with contractual obligations relating to financial covenants in relation to the Group's financial statements, the verification of which is carried out annually and failure to comply with which could result in the benefit of the term being lost.

In general, covenants are based on the observance of the following relations:

- Net Financial Position/EBITDA
- Net Financial Position/Shareholders' equity

Based on the financial results of the Company and the Tesmec Group, the covenants relating to these loans are respected. On the other hand - as also specified further on - a covenant relating to the bond loan, equal to Euro 6.2 million, the regulation of which provides, for this circumstance, an increase in the interest rate which, moreover, has already been applied from previous years, is not respected.

From a perspective overview, the Directors verified the ability of the Company and the Group to meet their obligations in the foreseeable future of at least 12 months and in particular the ability to comply, also for the year 2022, with the covenants

relating to the most significant loans to this verification, elaborating for this purpose alternative forecast scenarios to take into account the effects of further possible slowdowns of the business with respect to what is already foreseen in the plan, due to the context of general uncertainty connected to the increase in procurement costs, further complicated for due to the Russian-Ukrainian conflict that arose after the end of the financial year, as well as to the ongoing pandemic situation. As a result of this analysis, the Directors concluded that there are no significant uncertainties regarding compliance with the covenants in question and, consequently, on the going concern of the company. Trends differing from the company forecasts, with particular reference to increases in procurement costs higher than the prudence scenarios incorporated in the aforementioned forecasts, could lead to the achievement of lower than expected results with possible effects currently unforeseeable on the ability of the Company and the Group to comply such covenants.

The debt to Simest S.p.A. equal to Euro 7,418 thousand, consists of the amount relating to the capital shares held by Simest S.p.A. in the subsidiaries of Marais Technologies SAS, Tesmec SA Ltd. (Pty) and Tesmec Australia Ltd. (Pty) which, by virtue of Tesmec's obligation to repurchase the corresponding shares upon contractual maturity, are treated as a loan. For accounting purposes, the respective equity investments are 100% consolidated.

The average cost of indebtedness is benchmarked to the trend of the 3-month Euribor rates plus a spread applied depending also on the type of the financial instrument used.

The table below shows the figures relevant to the Company's outstanding loans as at 31 December 2021, by indicating the portion due within one year, within 5 years and after more than 5 years:

Description	Residual value as at 31 December 2021	Portion within 12 months	Portion within 5 years	Portion after more than 5 years
Domestic fixed-rate bank loans	34,796	1,896	32,760	140
Domestic floating-rate bank loans	45,250	10,564	34,235	451
Shareholder loan	3,263	-	3,263	-
Total	83,309	12,460	70,258	591

The shareholder loan was a transaction of greater importance and therefore approved by the Company's Control and Risk, Sustainability and Related Party Transactions Committee. This is a shareholder loan with a duration of 36 months and bearing interest at an annual rate of 2%. As at 31 December 2021, a total of Euro 3,263 thousand was drawn down.

Net financial indebtedness

In accordance with the requirements of the ESMA 32-382-1138 communication of 4 March 2021 with document "ESMA32-382-1138" and incorporated by CONSOB in communication 5/21 of 29 April 2021, note that the Company's net financial indebtedness is as follows:

	31 December			
	2021	of which with related parties and group	2020	of which with related parties and group
<i>(Euro in thousands)</i>				
Cash and cash equivalents	(21,000)		(49,887)	
Current financial assets	(66,250)	(64,194)	(52,949)	(48,286)
Current financial liabilities	40,526	1,090	63,702	1,257
Current financial liabilities from rights of use	2,547		2,690	
Current portion of derivative financial instruments	50		-	
Current financial indebtedness	(44,127)	(63,104)	(36,444)	(47,029)
Non-current financial liabilities	80,695	3,263	64,329	3,263
Non-current financial liabilities from rights of use	8,929		10,909	
Non-current portion of derivative financial instruments	49		170	
Non-current financial indebtedness	89,673	3,263	75,408	3,263
Net financial indebtedness pursuant to ESMA 32-382-1138 Communication	45,546	(59,841)	38,964	(43,766)

Net indebtedness stood at Euro 45,546 thousand as at 31 December 2021, an increase from Euro 38,964 thousand as at 31 December 2020.

We also report the following changes:

- decrease in current financial indebtedness of Euro 7,683 thousand due to the:
 - decrease in cash and cash equivalents and current financial assets of Euro 15,586 thousand following the repayment of the "Tesmec S.p.A. 6% 2014-2021" bond for the entire amount of Euro 15 million and as a result of investments made during the period;
 - decrease in current financial liabilities of Euro 23,176 thousand mainly due to the restatement to non-current financial liabilities of the portions classified as current at the end of 2020 due to failure to comply with certain financial parameters and as a result of the redemption of the bond described above;
- increase in medium/long-term financial indebtedness of Euro 14,265 thousand relating to new loans taken out during the financial period and to the reclassification to the long term of the portions classified as short term at the end of 2020, following the actual receipt of waivers.

Pursuant to the "Guidelines on disclosure obligations pursuant to the prospectus regulation" published by ESMA, it is noted that the amounts relating to "indirect factoring" (reverse factoring) are not included in the debt declaration as the deferral is part of the normal Company practices amount to Euro 2,820 thousand.

16. Non-current bond issue

The item related to the *non-current bond issue* amounted to Euro 3,727 thousand and decreased by Euro 2,467 thousand compared to the previous year following the repayment of the bond issue "Tesmec S.p.A. 6% 2014-2021" equal to Euro 15 million expired on 10 April 2021.

As mentioned, failure to comply with some financial covenants has no effect on the existing bond since the step-up of the interest rate had already occurred in previous years.

17. Financial liabilities from rights of use

The item *Financial liabilities from rights of use* refers to the accounting required by IFRS 16 of the loan due to counterparties of the lease contracts. The following table sets forth the breakdown of the items as at 31 December 2021 and 2020:

(Euro in thousands)	31 December	
	2021	2020
Non-current financial liabilities from rights of use	8,929	10,909
Current financial liabilities from rights of use	2,548	2,690
Total financial liabilities from rights of use	11,476	13,599

Overall, financial liabilities from rights of use decreased by Euro 2,123 thousand in that repayments for the period were greater than the signing of new lease/rental contracts.

18. Derivative financial instruments

The Company signed some contracts related to derivative financial instruments whose contractual characteristics and related fair value as at 31 December 2021 and 2020 are shown in the table below:

Counterparties	Type	Debt interest rate (fixed)	Credit interest rate (variable)	Start date	Maturity date	Notional principal	Fair Value (Euro/000) as at 31 December	
							2021	2020
Banco BPM	IRS	Fixed interest rate 0.12%	3-month Euribor	31/01/2017	30/04/2021	345,949	-	(1)

Banco BPM	CAP	Quarterly floating rate 1.5%	3-month Euribor	01/02/2019	30/06/2025	1,000,000	3	1	
Deutsche Bank	IRS	Fixed interest rate 1.80%	3-month Euribor	01/07/2020	30/06/2025	3,684,211	(19)	(60)	
Intesa	IRS	Fixed interest rate 2.00%	3-month Euribor	18/05/2020	31/03/2025	10,000,000	(30)	(110)	
INTESA	IRS	Fixed interest rate -0.18%	3-month Euribor	20/07/2021	30/06/2027	5,000,000	7	-	
DEUTSCHE BANK	FLEX	-	-	06/01/2022	10/01/2022	2,000,000	(19)	-	
BNL	FLEX	-	-	12/01/2022	12/01/2022	2,612,103	(23)	-	
MPS	FLEX	-	-	06/10/2021	10/01/2022	1,724,584	(8)	-	
Assets for derivative instruments within the financial period							-	-	
Assets for derivative instruments beyond the financial period							10	1	
Liabilities for derivative instruments within the financial period							(50)	(1)	
Liabilities for derivative instruments beyond the financial period							(49)	(170)	

Tesmec S.p.A. uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The transactions for interest-rate risk hedging are mainly related to medium-term loans. The exchange-rate hedging transactions are related to commercial transactions.

The Company does not account for these financial instruments according to the methods established for hedge accounting since they do not meet all the requirements provided on this matter by the international accounting standards. Therefore, the changes in fair value of the financial instruments are attributed to the income statement during the financial period under review.

The financial management of the Company does not envisage the trading of derivative instruments with speculative purposes.

19. Employee benefit liability

The Company has no defined benefit pension plans in the strict sense. However, the severance indemnity fund required by Article 2120 of the Italian Civil Code, in terms of recognition in the financial statements, falls under this type and as such was accounted for, as shown in the applied accounting policies.

The following table shows the changes for the period ended 31 December 2021 and 31 December 2020 of employee benefits:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Present value of the liability at the beginning of the period	1,814	1,951
Financial expense	6	13
Benefits paid	(196)	(133)
Financial loss (profit)	(30)	(17)
Present value of the liability at the end of the period	1,594	1,814

With the adoption of the IFRS, the severance indemnity is considered a defined-benefit liability to be accounted for in accordance with IAS 19 and, as a result, the relevant liability is measured based on actuarial techniques.

The main assumptions used in determining the present value of the severance indemnity are shown below:

Economic and financial technical bases

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Annual discount rate	1.00%	0.35%
Inflation rate	1.75%	1.00%
Total annual salary increase rate	2.92%	2.12%

The sensitivity analyses are shown below by using an annual discount rate of +0.5% and -0.5% compared to the annual discount rate used on the valuation date.

<i>(Euro in thousands)</i>	Discount rate	
	0.50%	-0.50%
Effect on the aggregate current cost of the service and of the financial expenses	22	4
Reported value for liabilities with respect to defined benefit plans	1,531	1,660

Technical and demographic bases

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Mortality	2004 ISTAT tables	2004 ISTAT tables
Disability	INPS tables	INPS tables
Retirement age	67 N/F	67 N/F

Frequency of turnover and advances on severance indemnity

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Advance frequency %	2.00%	2.00%
Turnover frequency %	5.32%	16.09%

Current liabilities

20. Interest-bearing financial payables (current portion)

The following table sets forth the breakdown of *Interest-bearing financial payables (current portion)* for the 2021 and 2020 financial periods:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Advances from banks against invoices and bills receivables	18,849	23,430
Financial payables due from affiliated companies	1,090	1,257
Payables due to factoring companies	4,360	4,518
Financial payables due to SIMEST	1,300	4,000
Current portion of medium/long-term loans	12,460	13,060
Total interest-bearing financial payables (current portion)	38,059	46,265

The current portion of medium/long-term loans decreased mainly due to the medium/long-term reclassification of the contractually envisaged portion beyond the year (Euro 5.2 million) but which in the preparation of the financial statements at 31 December 2020 was reclassified in the short term following the failure to comply with financial covenants as already illustrated in note 15 above.

Payables due to factoring companies include both advances received for transfers with recourse of the Company's trade receivables and payables arising from supplies received and transferred using reverse factoring, the deferral conditions of which determine the representation of a financial liability.

21. Current bond issue

The item related to the current bond issue amounts to Euro 2,467 thousand and is related to the short-term portion of the “Tesmec S.p.A. 4.75% 2018-2024” bond issue of Euro 10 million placed on 27 July 2018 with professional investors. The 4.75% fixed rate Bond Issue, placed by Banca Finint, will expire on 30 June 2024 with half-yearly coupon and amortising repayment, and since the two-year pre-amortisation period has ended, the five-year amortisation plan is in progress and as at 31 December 2021 the total residual debt is Euro 6,195 thousand.

22. Trade payables

The breakdown of *Trade payables* as at 31 December 2021 and as at 31 December 2020, respectively, is indicated in the table below:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Trade payables due to third-parties	31,661	34,117
Trade payables due to related parties	2,943	2,100
Total trade payables	34,604	36,217

Trade payables as at 31 December 2021 decreased compared to the previous financial period by Euro 1,613 thousand.

This figure includes payables related to the normal course of business of the Company, in particular the purchase of raw materials and outsourced works.

This item also includes payables originating from supplies received and sold in accordance with the reverse factor that maintain commercial deferment conditions.

Note also that there are no payables with maturity exceeding five years at the above dates.

23. Income taxes payable

The breakdown of *Income taxes payable* as at 31 December 2021 and as at 31 December 2020, respectively, is indicated in the table below:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Current IRES tax liabilities	-	-
Current IRAP tax liabilities	39	54
Total income taxes payable	39	54

The item *IRES and IRAP taxes payable* as at 31 December 2021 includes the net payable due by the Company to the tax authorities for the payment of direct income taxes. Some overdue positions are being settled.

Domestic tax consolidation

The Company, as parent company, opted for the domestic tax consolidation system provided by Articles 117 et seq. of the Consolidated Act on Income Tax with the subsidiaries Tesmec Rail S.r.l., Tesmec Automation S.r.l., East Trenchers S.r.l. and Bertel S.r.l. for the 2020/2022 three-year period and with the subsidiary 4 Service S.r.l. for the 2021/2023 three-year period.

Consequently, in addition to the Parent Company Tesmec S.p.A., the investees Tesmec Rail S.r.l., Tesmec Automation S.r.l., East Trenchers S.r.l., Bertel S.r.l. and 4 Service S.r.l. are included in the tax consolidation for the 2021 financial period.

Specific consolidation agreements were signed with each subsidiary opting for the domestic tax consolidation system, which regulate the timing and the methods for exchanging the information required to carry out the tax consolidation, the timing and methods for transferring resources among companies resulting from group taxation, as well as the methods for recognising the tax benefit to the companies that transfer, as part of the group taxation, tax losses, surpluses of non-deductible interest expenses and excess deduction to aid economic growth (A.C.E.).

These financial statements were affected by this institute in the following items:

- “Other current assets” of the statement of financial position, which includes the receivable of Euro 316 thousand from the following subsidiaries for the 2021 IRES tax pertaining to the latter:

2021 IRES tax Tesmec Rail	Euro	764 thousand
Benefit for the use of 2020 tax loss Tesmec Rail S.r.l.	Euro	(472) thousand
2021 IRES tax 4 Service S.r.l.	Euro	24 thousand
Total	Euro	316 thousand

- “Other current liabilities” of the statement of financial position, which includes the payable of Euro 175 thousand from the following subsidiaries for the 2021 IRES tax pertaining to the latter:

Benefit for the use of the 2020 tax loss Tesmec Automation S.r.l.	Euro	165 thousand
Benefit for the use of the 2020 tax loss East Trenchers S.r.l.	Euro	10 thousand
Total	Euro	175 thousand

The tax result for the 2021 financial period referring to the tax consolidation consists, in summary, of the following:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	
Tax income (loss) of the consolidating company Tesmec S.p.A.	(1,418)	
Tax income (loss) of the consolidated company Tesmec Rail S.r.l.	3,183	
Tax income (loss) of the consolidated company Tesmec Automation s.r.l.	(591)	
Tax income (loss) of the consolidated company East Trenchers S.r.l.	1	
Tax income (loss) of the consolidated company Bertel S.r.l.	-	
Tax income (loss) of the consolidated company 4 Service s.r.l.	101	
Total consolidated tax income (loss)	1,276	
Use of tax losses carried forward	(1,276)	

24. Provisions for risks and charges

Provisions for risks and charges mainly refers to the product guarantee fund. The calculation is based on a historical, statistical and technical analysis of the interventions under guarantee carried out on sales in prior financial periods and includes both the cost of labor and that for spare parts used.

Changes in *Provisions for risks and charges* as at 31 December 2021 and 2020 are indicated below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Value as at 1 January	400	520
Provisions	25	130
Uses	-	(250)
Value as at 31 December	425	400

The provision for the period is entirely related to cover the future work under guarantee.

25. Other current liabilities

The following table sets forth the breakdown of *Other current liabilities* as at 31 December 2021 and 2020:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Due to social security	2,691	3,135
Due to INAIL (National Insurance Institute for Industrial Accidents)	294	282
Due to trade funds	489	354
Due to employees and collaborators	2,403	1,877
Due to others	8	7
Payables due to related parties	175	-
Accrued expenses and liabilities	757	423
Total other current liabilities	6,817	6,078

Other current liabilities increased compared to the prior financial period of Euro 739 thousand and mainly refers to the increase in due to employees and collaborators of Euro 526 thousand and to payables due to related parties of Euro 175 thousand. The item includes certain overdue social security liabilities settled after the end of the financial year.

26. Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2021 and 2020:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Deferred tax assets	4,744	2,970
Deferred tax liabilities	3,318	1,664

The breakdown of net deferred taxes as at 31 December 2021 and 2020 is shown in the following table by type by listing the items that present underlying temporary differences.

<i>(Euro in thousands)</i>	31 December		31 December		Financial period ended 31 December	
	Statement of financial position		Shareholders' equity		Income statement	
	2021	2020	2021	2020	2021	2020
Deferred tax assets						
Reversals of intangible assets		3	-	-	(3)	(3)
Obsolescence fund	1,049	965	-	-	84	19
Provisions for future risks and charges		-	-	-	-	(41)
Unrealised exchange-rate losses	2,520	1,172	-	-	1,348	200
Tax effect on UCC gain reversals	43	55	-	-	(12)	(36)
Provision for bad debts	302	193	-	-	109	9
Write-down of financial receivables	290	-	-	-	290	
Other temporary differences	132	126	-	-	6	37
Tax losses carried forward	408	456	-	-	(48)	456
Total deferred tax assets	4,744	2,970	-	-	1,774	641
Deferred tax liabilities						
Unrealised exchange rate gains	(3,157)	(1,520)	-	-	(1,637)	(34)
Profits allocated to network reserve	(199)	(199)	-	-	-	-
Other temporary differences	38	55	(7)	(4)	(10)	29

Total deferred tax liabilities	(3,318)	(1,664)	(7)	(4)	(1,647)	(5)
Net effect on Shareholders' Equity						
Net balance deferred wealth taxes	1,426	1,306				
<i>Represented in the income statement as follows:</i>						
Deferred tax assets	1,774	641				
Deferred tax liabilities	(1,647)	(5)				
Deferred tax liabilities, net	127	636				

The possibility of recovering taxes is subject to the availability of future taxable income over the time horizon used by the Directors to formulate forecasts on the basis of the best information available at the date of approval of the financial statements, as well as in accordance with the applicable tax rules.

Current taxation

Profit before taxes and the allocation for income taxes for the financial periods as at 31 December 2021 and 2020 are summarised below:

	Financial period ended 31 December	
	2021	2020
<i>(Euro in thousands)</i>		
Pre-tax profit/(loss)	(977)	(1,073)
Current taxation	(98)	18
Deferred tax liabilities/(assets)	(127)	(636)
Total taxes	(225)	(618)

The reconciliation between the nominal tax rate established by the Italian legislation and the effective tax rate resulting from the financial statements is set below:

		Financial period ended 31 December		
		2021		
<i>(Euro in thousands)</i>		IRES	IRAP	TOTAL
Profit before tax	A	(977)	(977)	
Difference in taxable income between IRES and IRAP	B		1,383	
	C=A+B	(977)	406	
Nominal rate (%)	D	24.0%	3.9%	
Theoretical taxes	E=C*D	(234)	16	(219)
Tax effect on permanent differences	F	(22)	25	3
Tax effect on temporary differences	G	(11)	-	(11)
Tax effect on the re-absorption of temporary differences	H	(73)	(2)	(75)
Current taxation posted to the income statement	I=E+F+G+H	-	39	39
Deferred tax liabilities	L	1,647	-	1,647
Deferred tax assets	M	(1,764)	(10)	(1,774)
Taxes related to prior financial periods	N	-	5	5
Income from tax consolidation	O	(142)	-	(142)
Aggregate tax posted to the income statement	P=I+L+M+N+O	(259)	34	(225)

Comments to the main items in the income statement

27. Revenues from sales and services

In the 2021 and 2020 financial periods, revenues from sales and services amounted to Euro 91,110 thousand and Euro 88,818 thousand respectively, an increase of 2.6%. The breakdown is set below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Sales of products	84,715	84,075
Services rendered	6,395	4,743
Total revenues from sales and services	91,110	88,818

Revenues from *sales of goods* refer to transfer of machines and equipment for Energy, Trenchers and Rail.

28. Cost of raw materials and consumables

For the financial periods as at 31 December 2021 and 2020, cost of raw materials and consumables amounted to Euro 47,897 thousand and Euro 49,558 thousand, respectively. The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Cost for the purchase of raw materials and consumables	51,752	50,061
Change in inventories	(3,855)	(503)
Total cost of raw materials and consumables	47,897	49,558

Cost of raw materials and consumables decreased inversely to the increase in sales volumes, due to the different margins given by the different sales mix of the segments.

29. Costs for services

The table below shows the breakdown of *Costs for services* that amounted in 2021 and in 2020 to Euro 17,869 thousand and Euro 13,317 thousand, respectively.

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Transport, customs and incidental expenses	2,003	2,658
Outsourced work service	4,253	2,216
Services for legal, tax, technical and other consultancy	4,003	3,077
External production services	259	-
Banking services	981	928
Insurance	757	543
Energy, water, gas, telephone expenses and postage	1,369	612
Board and lodging expenses and travelling allowance	391	284
Directors' and Auditors' fees	906	736
Advertising and other selling expenses	132	192
Maintenance services	429	293
Commissions and additional expenses	924	736
Other general expenses	1,462	1,042
Total costs for services	17,869	13,317

The increase in costs for services was mainly due to the increase in *Outsourced work service* of Euro 2,037 thousand in connection with the increase in revenues and *Services for legal, tax, technical and other consultancy* of Euro 926 thousand related to some strategic consultancies.

Finally, note the increase in *Energy, water, gas, telephone expenses and postage* of Euro 757 thousands following the general increase of costs, in the last quarter, for the supply of electricity and gas.

30. Payroll costs

In the financial periods ended 31 December 2021 and 2020, labor costs amounted to Euro 21,049 thousand and Euro 18,064 thousand, respectively, an increase of 16.4% due to the adjustment of the workforce and the absence of the reduction in labor costs that occurred last year during the lockdown period.

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Wages and salaries	16,265	13,682
Social security charges	3,591	3,207
Employee severance indemnity	1,013	969
Other personnel costs	180	206
Total payroll costs	21,049	18,064

31. Other operating (costs)/revenues, net

During the financial periods ended 31 December 2021 and 2020, *other operating (costs)/revenues, net* amounted to Euro 907 thousand and Euro 346 thousand, respectively.

The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Provisions for risks and other net provisions	592	305
Rents	540	63
Hiring	303	1,040
Other lease and rental expenses	1	13
Sundry taxes	202	83
Other revenues	(1,995)	(1,303)
Income for Research and Development tax credits	(820)	(522)
Contingent assets/liabilities/losses	242	(29)
Other expenses	1,842	696
Total other operating revenues, net	907	346

The item *other operating (costs)/revenues, net* increased by Euro 561 thousand compared to the previous year, mainly due to the increase in the item "Other expenses" of Euro 1,146 thousand, mainly due to the purchase of software licences related to the new ERP management system.

The item Provisions for risks and other net provisions of Euro 592 thousand includes the provision to the allowance for doubtful receivables.

32. Amortisation and depreciation

During the financial periods ended 31 December 2021 and 2020, amortisation and depreciation amounted to Euro 6,410 thousand and Euro 6,240 thousand respectively, in line with the previous financial period. The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Amortisation of intangible assets	2,663	2,601
Depreciation of property, plant and equipment	1,045	969
Depreciation of right of use	2,702	2,670
Total amortisation and depreciation	6,410	6,240

33. Development costs capitalised

Development costs capitalised for the financial periods ended 31 December 2021 and 31 December 2020 amounted to Euro 2,613 thousand and Euro 1,799 thousand, respectively.

During the financial period, the increase in the item is related to the development of projects for the launch of new models and new functions requested by the markets in which the Company operates.

The percentage incidence on revenues of development costs capitalised increased from 2.0% for the 2020 financial period to 2.9% for the 2021 financial period.

34. Financial expenses

During the financial periods ended 31 December 2021 and 2020, financial expenses amounted to Euro 10,154 thousand and Euro 7,093 thousand, respectively, with an increase of Euro 3,061 thousand. The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Bank interests expense	81	-
Interests payable for factoring and billing discounts	380	671
Interests payable on interest-bearing medium/long-term loans and borrowings	2,651	2,601
Interests payable on advance loans on exports	221	197
Other sundry financial expenses	1,316	-
Financial expenses on rights of use	522	598
Realised foreign exchange losses	404	1,663
Unrealised foreign exchange losses	4,529	1,189
Fair value adjustment of derivative instruments	50	174
Total financial expenses	10,154	7,093

Financial expenses worsened by Euro 3,061 thousand mainly due to exchange losses (realised and unrealised) of Euro 2,081 thousand, as well as the partial write-down of some medium / long-term financial receivables from certain commercial counterparties in the Trencher sector operating in countries of the Africa area whose positions had been the subject of the definition of financially onerous payment plans that were not respected in all or part of it during the year, also in connection with the operational and financial difficulties of the counterparties as a result of the pandemic.

35. Financial income

During the financial periods ended 31 December 2021 and 2020, financial income amounted to Euro 9,586 thousand and Euro 2,947 thousand, respectively. The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2021	2020
Interests from banks	1	1
Realised foreign exchange gains	309	71
Unrealised foreign exchange gains	6,820	503
Fair value adjustment of derivative instruments	130	12
Sundry income	2,326	2,360
Total financial income	9,586	2,947

Financial income increased by Euro 6,639 thousand mainly due to the increase in Exchange rate gains (realised and unrealised) of Euro 6,555 thousand due to a more favourable USD/EUR exchange rate trend.

36. Related party transactions

The following table gives details of economic and equity transactions with related parties. The companies listed below have been identified as related parties as they are linked directly or indirectly to the current shareholders:

<i>(Euro in thousands)</i>	31 December								31 December							
	2021								2020							
	Financial receivables and other non-current financial assets	Trade receivables	Current financial receivables	Other current assets	Current financial payables	Non-current financial payables	Trade payables	Other current liabilities	Financial receivables and other non-current financial assets	Trade receivables	Current financial receivables	Other current assets	Current financial payables	Non-current financial payables	Trade payables	
Subsidiaries:																
Tesmec USA Inc.	-	2,113	17,714	-	-	-	308	-	-	3,302	13,542	3	-	-	44	
East Trencher S.r.l.	-	37	180	-	-	-	-	10	-	26	83	-	-	-	-	
Tesmec SA	-	377	1,974	-	-	-	-	-	-	365	388	51	-	-	6	
OOO Tesmec RUS	-	1,710	586	-	-	-	-	-	-	889	547	-	-	-	-	
Tesmec Automation S.r.l.	-	88	8,320	-	-	-	25	165	-	123	7,515	-	-	-	132	
Tesmec New Technology (Beijing)	-	25	1,193	-	-	-	153	-	-	29	911	-	-	-	-	
Marais Technologies SAS	-	8	1,973	-	-	-	-	-	-	-	1,941	-	-	-	-	
Groupe Marais SAS	-	1,987	761	-	-	-	737	-	-	1,471	431	-	-	-	476	
Tesmec Australia Ltd.	-	831	13,596	-	-	-	25	-	-	31	10,493	6	-	-	-	
Marais Laying Tech. Ltd. NZ	-	221	706	-	-	-	-	-	-	1	776	-	-	-	-	
Marais Cote d'Ivoire	-	-	270	-	-	-	3	-	-	241	-	-	-	-	3	
Bertel S.r.l.	-	7	267	-	-	-	-	-	-	9	739	-	-	-	-	
Tesmec Rail S.r.l.	1,500	5,544	7,015	292	-	-	150	-	2,500	1,435	4,821	-	-	-	6	
4SERVICE S.r.l.	-	1,250	967	24	-	-	329	-	-	98	3,203	-	-	-	146	
4SERVICE USA LLC	-	-	-	-	-	-	-	-	-	23	-	-	-	-	-	
MIR SA	-	4	-	-	-	-	-	-	-	1	-	-	-	-	-	
Tesmec Guinee	-	279	196	-	-	-	21	-	-	-	-	-	-	-	-	
Subtotal	1,500	14,481	55,718	316	-	-	1,751	175	2,500	8,044	45,390	60	-	-	813	
Associates:																
Locavert S.A.	-	20	-	-	-	-	-	-	-	27	-	-	-	-	-	
Subtotal	-	20	-	-	-	-	-	-	-	27	-	-	-	-	-	
Joint Ventures:																
Condux Tesmec Inc.	-	2,781	1,707	-	-	-	3	-	-	1,345	933	-	-	-	25	
Tesmec Peninsula	-	12	2,044	-	1,090	-	4	-	-	12	1,886	-	1,214	-	-	
Tesmec Saudi Arabia	-	40	4,648	-	-	-	7	-	-	-	-	-	-	-	-	

Subtotal	-	2,833	8,399	-	1,090	-	14	-	-	1,357	2,819	-	1,214	-	25
Related parties:															
Ambrosio S.r.l.	-	-	-	-	-	-	4	-	-	-	-	-	-	-	22
Dream Immobiliare S.r.l.	-	-	77	-	-	-	1,083	-	-	-	77	-	-	-	1,166
TTC S.r.l.	-	-	-	-	-	-	24	-	-	-	-	-	-	-	16
RX S.r.l.	-	-	-	-	-	213	4	-	-	-	-	-	-	213	-
Fi.ind.	-	-	-	-	-	-	-	-	-	24	-	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	-	121	-	-	-	3,050	63	-	-	181	-	-	43	3,050	58
ICS Tech. S.r.l.	-	133	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	-	254	77	-	-	3,263	1,178	-	-	205	77	-	43	3,263	1,262
Total	1,500	17,588	64,194	316	1,090	3,263	2,943	175	2,500	9,633	48,286	60	1,257	3,263	2,100

	Financial period ended 31 December					Financial period ended 31 December				
	2021					2020				
	Revenues	Cost of raw materials	Costs for services	Other operating (costs)/revenues, net	Financial income and expenses	Revenues	Cost of raw materials	Costs for services	Other operating (costs)/revenues, net	Financial income and expenses
<i>(Euro in thousands)</i>										
Subsidiaries:										
Tesmec USA, Inc.	4,040	(347)	(73)	97	436	9,391	(82)	48	26	178
East Trencher S.r.l.	78	-	-	8	4	146	-	10	3	3
Tesmec SA	1,789	-	(7)	10	71	482	-	3	1	18
Tesmec RUS	1,815	-	(11)	3	43	296	-	3	-	34
Tesmec Automation S.r.l.	60	(236)	(1)	123	268	178	(108)	34	65	254
Tesmec New Technology (Beijing)	28	(176)	(200)	-	72	120	(92)	1	-	51
Tesmec Rail S.r.l.	9,354	(397)	-	727	267	6,766	(128)	243	220	111
Marais Technologies SAS	-	-	-	-	32	-	-	-	-	23
Group Marais SAS	4,661	(1,194)	(24)	(7)	1	2,253	(695)	18	3	5
Tesmec Australia Ltd.	1,706	-	(28)	21	400	408	-	1	13	224
Marais Laying Tech. Ltd. NZ	976	-	-	6	19	18	-	2	2	35
Marais Cote d'Ivoire	29	-	-	(15)	-	175	-	1	-	-
Marais Guinee SARLU	279	-	(19)	1	-	-	-	-	-	-
Bertel S.r.l.	-	-	-	3	26	-	-	-	3	43
4Service S.r.l.	1,412	-	-	(519)	42	80	(804)	-	(600)	-
4SERVICE USA LLC	1	-	-	-	-	23	-	-	-	-
MIR SA	-	-	(5)	3	-	-	-	2	-	-
Subtotal	26,228	(2,350)	(368)	461	1,681	20,336	(1,909)	366	(264)	979
Associates:										
Locavert S.A.	160	-	-	-	-	(211)	-	-	-	-
Subtotal	160	-	-	-	-	(211)	-	-	-	-
Joint Ventures:										
Condux Tesmec Inc.	7,520	-	(3)	159	24	6,708	-	(5)	10	11
Tesmec Peninsula	263	(55)	-	-	47	93	-	-	-	50
Tesmec Saudi Arabia	(872)	-	-	(7)	16	-	-	-	-	-
Subtotal	6,911	(55)	(3)	152	87	6,801	-	(5)	10	61
Related parties:										
Ambrosio S.r.l.	-	-	-	(2)	-	-	-	-	(3)	(4)
Dream Immobiliare S.r.l.	-	-	-	(22)	(393)	-	-	-	-	(446)
RX S.R.L.	-	-	-	-	(4)	-	-	-	-	-

TTC S.r.l.	-	-	(30)	-	-	-	-	(51)	-	(16)
Fi.ind.	-	-	-	29	-	-	-	-	78	-
M.T.S. Officine meccaniche S.p.A.	2,147	(1)	(3)	(4)	(65)	1,164	(12)	5	(155)	(58)
ICS Tech. S.r.l.	109	-	-	-	-	-	-	-	-	-
Subtotal	2,256	(1)	(33)	1	(462)	1,164	(12)	(46)	(80)	(524)
Total	35,555	(2,406)	(404)	614	1,306	28,090	(1,921)	315	(334)	516

- Tesmec USA Inc.: Revenues and Costs of materials refer to mutual sales transactions concerning machines and spare parts. Financial income refers to the remuneration of a current account balance that reported during the year an indebtedness situation of Tesmec USA towards Tesmec S.p.A.;
- Tesmec SA (Pty) LTD: Revenues refer to the sales of trencher spare parts. Financial income refers to the remuneration of a current account balance that reported during the year an indebtedness situation of Tesmec SA towards Tesmec S.p.A.;
- Tesmec RUS: Revenues refer to the sale of stringing equipment machines and spare parts;
- Tesmec Rail S.r.l.: Revenues refer to the sale of machines/equipment of the Rail segment. Financial income refers to the remuneration of a current account and loan balance that reported during the year an indebtedness situation of Tesmec Rail S.r.l. towards Tesmec S.p.A.;
- 4 Service S.r.l.: revenues refer to the sale of machinery in the trencher segment, while Other operating (costs)/revenues, net refers to rental fees paid for the use of machinery in the trencher segment;
- Locavert S.A.: the French associate normally purchases trenchers/spare parts for rental business and carrying-out of excavation works at market prices and terms of payment;
- Condux Tesmec, Inc.: the JV purchases stringing machines and equipment for sale on the American market at market prices and terms of payment;
- Tesmec Peninsula WLL: the JV operates on the Saudi Arabian market supplying trencher machinery produced by the Group as well as on-site and after-sale support services. The income and cost items relate to the normal marketing activities of trenching machines;
- Dream Immobiliare S.r.l.: Financial income and expenses includes expenses related to the rentals for the Building of Grassobbio and Endine. Note that, following the application of the accounting standard IFRS 16, rents are not shown in the above table as they are represented as depreciation on rights of use.
- M.T.S. Officine meccaniche S.p.A.: revenues are mainly related to the operation started in 2017 and the sale of semi-finished products.

37. Fees paid to Directors, Auditors, Operating Manager and executives with strategic responsibilities

Year 2021:

Board of Directors				
Name and Surname	Office	Fees (in Euro)	Bonus and other fees (in Euro)	Total fees (in Euro)
Ambrogio Caccia Dominioni	Chairman and Chief Executive Officer	460,000	-	460,000
Gianluca Bolelli	Vice Chairman	83,200	-	83,200
Caterina Caccia Dominioni	Director	52,000	-	52,000
Lucia Caccia Dominioni	Director	20,000	-	20,000
Paola Durante	Director	40,000	-	40,000
Simone Andrea Crolla	Director	30,000	-	30,000
Emanuela Teresa Basso Petrino	Director	41,600	-	41,600
Guido Luigi Traversa	Director	30,000	-	30,000

Board of Statutory Auditors				
Name and Surname	Office	Fees (in Euro)	Bonus and other fees (in Euro)	Total fees (in Euro)
Simone Cavalli	Chairman	39,000	-	39,000
Stefano Chirico	Statutory Auditor	26,000	-	26,000
Alessandra De Beni	Statutory Auditor	26,000	-	26,000

Fees paid to executives with strategic responsibilities in the 2021 financial period amounted to Euro 353 thousand (Euro 364 thousand in the 2020 financial period).

38. Summary statement of considerations to the Independent Auditors and to the entities belonging to their network

Pursuant to Article 149-*duodecies* of the CONSOB Issuer Regulation (Resolution no. 11971/1999 and subsequent amendments), the following table shows the fees charged in the financial statements ended 31 December 2021 and 2020 for auditing services and for services other than audit rendered by the Company Deloitte & Touche S.p.A.

<i>(Euro in thousands)</i>	Independent Auditors that supplied the service	Receiver	Accrued amount	
			2021	2020
Audit of the financial statements and consolidated financial statements	Deloitte & Touche S.p.A.	Tesmec S.p.A.	128	140
Limited half-year auditing	Deloitte & Touche S.p.A.	Tesmec S.p.A.	28	28
Limited auditing of the consolidated non-financial statement	Deloitte & Touche S.p.A.	Tesmec S.p.A.	38	25
Certification services	Deloitte & Touche S.p.A.	Tesmec S.p.A.	36	48
Examination of the pro-forma financial information included in the registration document relating to the share capital increase	Deloitte & Touche S.p.A.	Tesmec S.p.A.	-	124
Total			230	365

39. Legal and tax disputes

As at the end of the reporting period, the Company is party to a number of civil and tax disputes. With regard to civil disputes, the Company, based on the advice of its lawyers, considers that the possibility of losing these cases is possible or remote and therefore it has not set aside any provision in the financial statements for any liabilities arising from such disputes, in accordance with the accounting standards of reference that require the allocation of liabilities for probable and quantifiable risks. See below for details.

The perimeter of assessment of the tax audits in progress described below relating to the Company is for a total amount of approximately Euro 3.8 million, with respect to which, with the support of the opinion of the tax consultants in charge, no provisions have been set aside in the financial statements.

With reference to the arbitration award obtained at the CIETAC Chinese Commission for International Trade Arbitration in Beijing, once the final release of the amount paid has been obtained, the Company is continuing with the recovery action before the Beijing Ordinary Court for the interest income accrued equal to Euro 417 thousand for which collection is expected in the short term, also on the basis of the opinion of the lawyers who assist the Company, while it should be remembered that the principal amount of the credit has already been collected in April 2021, equal to Euro 1,506 thousands.

During June 2019, a tax audit by the Italian Inland Revenue Agency began for the 2016 tax year, with reference to alleged capital losses not deductible for IRES and IRAP purposes. The report on findings received reveal disputes with respect to which the Company, supported by the opinion of its tax advisors, considers its behaviour to be well-founded and the related risk of incurring liabilities is consequently assessed as merely possible. For this reason, the Directors did not deem it necessary to recognize any provision in the financial statements.

In December 2020, the Company received a notice of assessment relating to the 2015 tax year, with a total finding for IRES, IRAP and VAT purposes of Euro 20 thousand. The position was closed in court with the full payment of the relief sought.

40. Positions or transactions resulting from atypical and/or unusual operations

Note that, pursuant to CONSOB Communication no. DEM/6064293 of 28 July 2006, in 2020 the Company did not carry out any atypical and/or unusual operation, as defined by the Communication itself.

41. Commitments and risks

They include sureties, guarantees and third-party assets with the Company. For the financial periods as at 31 December 2021 and 2020, they are summarised as follows:

<i>(Euro in thousands)</i>	31 December	
	2021	2020
Sureties	119,791	109,123
Total commitments and risks	119,791	109,123

The recorded value concerns sureties provided by Tesmec S.p.A. through primary banking institutions in favour of customers and its subsidiaries. The increase is mainly due to the work orders of the newly set up Rail segment.

On the basis of the specific characteristics of the segments in which the Company works, Tesmec did not make any provision for contingent liabilities in the memorandum accounts. Risks and future expenses are reasonably hedged by funds specifically accounted for in the financial statements.

42. Significant events occurred after the reporting period

The following significant events occurred after the reporting period.

- on February 24, 2022, with the beginning of the Russian-Ukrainian conflict, Tesmec took steps to activate all the necessary actions in order to mitigate the impact of this conflict and slowed down its activities on Russian territory. This circumstance has led to further tensions and uncertainties on the markets, exacerbating the increase in the prices of the energy component and raw materials. In relation to the emerging uncertainties on operations in Russia, it is specified that Tesmec, over the years, has developed a commercial presence and service offering through the subsidiary OOO Tesmec RUS. In this regard, the Group has invested and developed specific solutions and technologies for the area but with a limited contribution to the consolidated turnover in the last period (around 2%). Nevertheless, the Tesmec management team is constantly monitoring the situation in order to be able to carry out assessments in full compliance with EU and international rules (with respect to which there are no reports in particular with subjects subject to sanctions) and estimates possible impacts in the very short term, due to the currency trend and the execution of some orders in progress without, however, this having a significant impact for the Group on the result for the year 2022 and on the lines of the 2022-2024 Plan (the value of the net assets attributable to the operations in Russia amount to a total of approximately negative 1 million euros, including, however, an exposure of intra-group receivables due from the subsidiary OOO Tesmec RUS of approximately 2.9 million euros);
- in March 2022, the Boards of Directors of the subsidiaries 4Service USA LLC, 4Service Italia S.r.l. and Tesmec Rail S.r.l. proposed the distribution of dividends based on the 2021 results. These proposals will be approved by the respective Shareholders' Meetings and dividends will be distributed during the first half of 2022.

Certificate of the Separate financial statements pursuant to Article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 as amended

1. The undersigned Ambrogio Caccia Dominioni and Marco Paredi, as the Chief Executive Officer and the Manager responsible for preparing the Company's financial statements of Tesmec S.p.A., respectively, hereby certify, also taking into consideration the provisions of Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998:

- the adequacy in relation to the characteristics of the business and
- the actual application

of the administrative and accounting procedures for preparing the financial statements during the 2021 financial period.

2. We also certify that:

2.1 the financial statements as at 31 December 2021:

- have been prepared in accordance with IFRS as endorsed by the European Union, as provided by Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspond to the amounts shown in the Company's accounts, books and records;
- provide a true and fair view of the financial position, the results of the operations and of the cash flows of the issuer.

2.2 the report on operations includes a reliable analysis of the business trend and operating result as well as of the situation of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Milan, 11 March 2022

Ambrogio Caccia Dominioni
Chief Executive Officer

Marco Paredi
Manager responsible for preparing
the Company's financial statements

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

TESMEC S.p.A.
Registered office in Milan, Piazza S. Ambrogio no. 16
Subscribed and paid-up share capital Euro 15,702,162
Tax code and registration number at the
Milan Register of Companies no. 10227100152
Economic and Administrative Register (REA) no. 1360673

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF TESMEC S.P.A. PURSUANT TO ARTICLE 153 OF ITALIAN

LEGISLATIVE DECREE 58/1998 AND OF ARTICLE 2429 OF THE ITALIAN CIVIL CODE

Dear Shareholders,

During the financial period ended 31 December 2021, the Board of Statutory Auditors of Tesmec S.p.A. carried out the supervision activities required by law in accordance with the principles of conduct of the Board of Statutory Auditors recommended by the Italian Accounting Profession Council, by attending the meetings of the company's Bodies, carrying out periodic audits and meeting the managers of the Independent Auditors Deloitte & Touche S.p.A. (the "Independent Auditors"), the members of the Control, Risk and Sustainability Committee, the members of the Supervisory Body set up pursuant to Italian Legislative Decree 231/2001, the key representatives of the different business functions and the Manager responsible for preparing the Company's financial statements for an exchange of information on activities and programs.

During 2021, the meetings of the Board of Directors and the Board of Statutory Auditors were held remotely, as part of the measures to combat the spread of Covid-19.

Pursuant to Article 153 of Italian Legislative Decree 58/1998 (the "Consolidated Law on Finance (T.U.F.)") and of Article 2429, paragraph 2 of the Italian Civil Code, taking also into account the instructions given by CONSOB with communication no. DEM/1025564 of 6 April 2001, and subsequent amendments and supplements, and pursuant to Art. 19 of Italian Legislative Decree 39/2010 with reference to the internal Control Committee and audit activities that in listed company are identified in the Board of Statutory Auditors, we report the following:

- we supervised the observance of the law and of the articles of association;
- we obtained from the Directors, on a regular periodicity, information on management performance and business outlook as well as on the business carried on and on the major economic and financial operations performed during the financial period, also through subsidiaries, verifying that they comply with the law and with the articles of association and that they are not clearly imprudent or reckless, in potential conflict of interest, in contrast with the resolutions passed by the Shareholders' Meeting or such as to compromise the integrity of the company assets;
- we received from the Board of Directors, within the timeframe set by the law, the half-yearly financial report and the quarterly interim reports on operations;
- we verified the correct application of the criteria and procedures adopted by the Board of Directors to ascertain the independence of its members on the basis of the methods provided by law and by the Corporate Governance Code;
- we carried out a self-assessment process, following the guidelines of Rule Q.1.1. "Self-assessment of the Board of Statutory Auditors" included in the document "Code of Conduct of the Board of Statutory Auditors of Listed Entities" published on 26 April 2018 by the Italian National Council of Certified Public Accountants (*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*) as well as the combined effect of the Article 2, criteria 7 and 9 of the Corporate Governance Code. Such process has been performed with the aim of reaching a definition of both the optimal qualitative and quantitative composition of the Board and its functionality, by identifying any critical issues and facilitating their solution. We then

informed the Board of Directors of the Company that, based on such process, no deficiencies related to any effective member nor related to the composition of the Board have been identified, and we did not identify any critical issues nor improvement areas;

- we obtained information and supervised, to the extent of our authority, compliance with the principles of correct administration and the adequacy of the organizational structure and of the instructions given by the Company to the subsidiaries pursuant to Article 114, paragraph 2, of the Consolidated Law on Finance, by means of direct observations, collecting information from department heads and meetings with the Independent Auditors, with the manager responsible for preparing the Company's financial statements and with the Head of Internal Control in order to exchange relevant data and information.
- we obtained information and supervised, to the extent of our authority, also pursuant to Article 19 of Italian Legislative Decree 39/2010, the adequacy and effectiveness of the internal control system and risk management, as well as the activity carried out by the relevant manager responsible for preparing the Company's financial statements and the company's administrative-accounting system, the reliability of the latter in correctly representing operating performance, by obtaining information from the persons in charge of their respective functions, examining company documents and the work carried out by the Independent Auditors, the attendance at the meetings of the Control Risk and Sustainability Committee and meetings with the Manager responsible for preparing the Company's financial statements, and Executive Director in charge of supervising the functionality of the internal control system;
- we maintained a steady communication flow and performed periodically meeting with the head of the Internal Audit function.
- we have noticed no atypical and/or unusual operations with third parties, companies of the Group or related parties to report, nor have we received information from the Board of Directors, Independent Auditors or Control and Risk Committee on this matter;
- during the meeting of 12° March 2021, the Board of Directors of Tesmec S.p.A. stated that the subsidiaries companies Tesmec USA Inc and Tesmec Australia (Pty) Ltd are "strategically important subsidiaries";
- we have ascertained that the information flows provided by the subsidiaries outside the European Union are adequate to conduct the auditing of annual and interim accounts as provided by Article 15 of the Market Regulation adopted with CONSOB Resolution no. 20249 of 28 December 2017;
- the Directors illustrated, in the accompanying Report on operations both on the financial statements of Tesmec S.p.A. and on the consolidated financial statements of the Tesmec Group as well as in the relevant explanatory notes, ordinary operations carried out during the financial period with related parties or companies of the group. We refer to those documents, to the extent of our authority, and in particular as regards the description of the characteristics of the transactions and the related economic and equity effects. In this regard, we also monitored compliance with the principles indicated in the Consob Regulation containing provisions on transactions with related parties adopted with resolution no. 17221 of 12 March 2010, as subsequently amended (the "RPT Regulation"), of the consequent Procedure for transactions with Related Parties, adopted by the Board of Directors on 11 November 2010, updated in its latest version on 28 June 2021;
- the Directors have adequately described in the explanatory notes to the financial statements the main assumptions used in the performance of the impairment test for some assets of the financial statements together with the sensitivity analysis performed;
- during the financial period, the Company didn't carry out transactions on Treasury shares;

- during the financial period, no complaints under Article 2408 of the Italian Civil Code have been received nor any other complaint filed by third parties;
- we supervised the observance of the regulations established by Legislative Decree 254/2016, examining the Consolidated Disclosure of Non-financial information, also ascertaining compliance with the provisions that govern its preparation pursuant to the aforementioned Decree;
- based on the information received from the Independent Auditors of the Group, Deloitte & Touche S.p.A., during the year ended December 31, 2021, the Company conferred to Deloitte & Touche S.p.A. additional assignments with respect to that envisaged for the auditing of the Company and the Group and in particular the assignment for the certificate of the Tax Credit on Research and Development in view of fees of Euro 70 thousand . In any case, the Board verified that the services requested were not among those prohibited by art. 5 of Regulation 537/2014 and that the activity did not damage the independence of the auditing firm;
- we received confirmation of the independence of the Independent Auditors, in charge of the external audit pursuant the EU Reg. 537/2014 and no situations compromising this independence, or the occurrence of incompatibility were reported;
- we received from the Independent Auditors the additional report pursuant to art. 11 of EU Reg. 537/2014 dated 31 March 2022 from the examination of which no aspects that should be highlighted in this report have emerged, and which will be transmitted to the Board of Directors as required by current legislation;
- we supervised the effectiveness of the external audit process by examining with the Independent Auditors the audit plan and by discussing the activities carried out;
- the Independent Auditors issued, on 31 March 2022, pursuant to art. 14 of Legislative Decree 39/2010 and of art. 10 of EU Regulation 537/2014, the Reports on the separate and consolidated financial statements as of 31 December 2021.

With regards to opinions and attestations in the audit reports, the Independent Auditors have:

- issued an opinion which shows that the financial and consolidated financial statements of Tesmec S.p.A. give a true and fair view of the financial position of the Company and of the Group as of 31 December 2021, and of their financial performance and cash flows for the year ended on that date in accordance with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued in implementation of art. 9 of Legislative Decree 38/2005;
- issued a consistency opinion which shows that the Report on operations accompanying the financial statements and the consolidated financial statements as of 31 December 2021 and some specific information contained in the "Report on corporate governance and ownership structure" as indicated in the art. 123 - bis, paragraph 4 of the T.U.F. whose responsibility is the responsibility of the Company's Directors, are consistent with financial statements and the consolidated financial statements and are prepared in compliance with the law;
- the opinions on the separate and consolidated financial statements issued included the aforementioned Independent Auditors' Reports are consistent with the content of the Additional Report prepared pursuant to art. 11 of the EU Reg. 537/2014;
- with reference to assessment whether the Report on operations contains material misstatements, declared that, based on the knowledge and understanding of the entity and its environment obtained through the audit (Article 14, paragraph 2, letters e) of Italian Legislative Decree 39/2010), they have no matters to report;
- issued the opinion on the consolidated financial statements under XHTML format and its signing, in all the relevant aspect, in accordance with the Commission Delegated Regulation (EU) 2019/815;
- on 31 March 2022 the Independent Auditors also issued the Report on the Consolidated Disclosure of Non-Financial information pursuant to art. 3, paragraph 10 of Legislative Decree 254/2016 and with art. 5 of Consob Regulation No. 20267

of 18 January 2018. The Independent Auditors' Report concludes that nothing has come to their attention that causes them to believe that the Tesmec Group's Disclosure of Non-financial information, referring to the financial period ended 31 December 2022, has not been prepared in all significant aspects in accordance with the requirements of articles 3 and 4 of the aforementioned Decree and of the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by GRI - Global Reporting Initiative ("GRI Standards");

- pursuant to the Commission Delegated Regulation (EU) 2019/815, in transposition of Directive 2013/50/EU, requesting to listed Companies, starting from 1st January 2021, to prepare the annual financial statements under the European Single Electronic Format – ESEF, the Company completed the implementation of the requirements inherent to the ESEF regulation for the year 2021. The consolidated financial statement as at 31 December 2021 was prepared according to the XHTML format, signing some information of the IFRS consolidated financial statements. Starting from 1st January 2022, the XBRL marking will be applied also to the notes to the consolidated financial statements.
- during the meetings held with the Independent Auditors pursuant to Article 150, paragraph 3, of TUF, no relevant issues emerged that would require any particular comments;
- during the financial period, we issued the opinions required by the Board of Statutory Auditors pursuant to the law;
- we took note of the preparation of the Report on Remuneration ex Articles 123-ter of TUF and 84-quarter of the Issuers' Regulation, as well as in accordance with the recommendations of art. 5 of Corporate Governance Code and we have no special observations to remark;
- we verified that the independence requirements of the Statutory Auditors remain valid, as already ascertained before the appointment, on the basis of the methods provided by law and by the Corporate Governance Code; we have also complied with the limit on the number of tasks required by the Article of Associations and Art. 144-terdecies of the Consob Issuers Regulation 11971, fulfilling, if required, during the year the relevant Consob disclosure obligations;
- during the financial period, we attended the Shareholders' meeting for the approval of the balance sheet on 22 April 2021, in which the Shareholders were able to intervene exclusively through the designated representative, pursuant to art. 106 of the D.L. 18/2020, subsequently converted into Law 27/2020 and 14 meetings of the current Board of Directors. During the same period, the Board of Statutory Auditors met 19 times including 12 in joint session with the Control, Risk and Sustainability Committee;
- we have tested and evaluated the information and periodic press releases issued by the Company to the public, as well as the obligations to notify Consob;
- we supervised the concrete methods of implementing corporate governance regulations of the Corporate Governance Code of listed companies, whose adoption was approved by the Committee for the Corporate Governance during January 2020;
- we verified, through direct audits and information received from the Independent Auditors and the Manager responsible for preparing the Company's financial statements, compliance with the rules of laws concerning the preparation and layout of the consolidated financial statements of the Tesmec Group, of the financial statements of Tesmec S.p.A. and of the report on operations. Moreover, nothing reported to the supervisory authorities or worth mentioning in this report was revealed by our supervisory activity;
- we verified the compliance of the financial statements with the facts and information of which we are aware, following the fulfilment of our duties and we have no observations in this regard;
- the Company adopted an Organizational Model in compliance with the Italian Legislative Decree n. 231/2001 (the "Organizational Model 231"), of which the Code of Ethics is an integral part; the aim is to prevent the offenses listed in the Decree and consequently the extension of the administrative liability to the Company. The Board of statutory auditors met

- the Supervisory Board during the year for the reciprocal exchange of information on the activity carried out, as well as having read the annual report of the same dated 21 February 2022 in which no reprehensible facts or violations of the Model adopted by the Company, or acts or conduct that violate the provisions contained in Legislative Decree 231/2001;
- starting from May 2018 the EU Regulation 679/2016 (c.d. General Data Protection Regulation) became effective. Tesmec has complied with the new European standards by adapting its compliance rules by updating the privacy information available on its website, by establishing the Treatment Activities Register and by adjusting the existing procedural set; from the analyzes carried out by the Board and from the information acquired, no elements emerged in order not to consider such a system as a whole adequate, effective and with effective operations;
 - the Directors, in the paragraph called “Main risks and uncertainties to which the Tesmec Group is exposed” on the Report on operations, point out the risk factors or uncertainties that may significantly affect the activity of the Tesmec Group. In particular, some information tending to illustrate the aims and policies of the Group on the management of the exchange-rate, price and financial risk, credit risk, liquidity risk and cash-flow variation risks as well as tending to indicate the degree of exposure to: the international activities of the Group, to operations through the award of tenders, to the possible loss of value of work in progress, supply risks and purchase price fluctuations, as well as risks associated with disputes.
 - during the year 2021 Tesmec Group has monitored and carefully managed the impact of the Covid-19 pandemic. During the year, the Board of Statutory Auditors ensured its best attention to the measures taken by the Company to deal with the pandemic. The effects and actions taken are described in a specific paragraph of the Management Report.

With regards to the Shareholders’ meeting, called on 21 April 2022, the Board of Statutory Auditors notes that Law Decree 18/2020 "Cura Italia" (as most recently converted with modification to Law no. 27 of 2020, as consequently modified, integrated and prolonged) authorizes the to take place “behind closed doors”, allowing the entities to provide, in the notice of call, even in derogation from any different by-laws provision, the use of measures – such as voting rights exercised by written consultation or by electronic means, the electronic participation, the Common Proxy – granting the attendance at the meeting and the execution of voting rights without the physical presence of the shareholders gathered in a single place. At this regard, the Board of Statutory Auditors will supervise, in close coordination with the Board of Directors, that the attendance of the shareholders at the meeting and the exercise of their rights are duly ensured, in accordance with the provisions of the aforementioned Law Decree.

Considering all the above, we find no reasons not to approve - to the extent of our authority - the financial statements as of 31 December 2021, or to make observations on the proposal for cover the loss for the year, contained in the report on management performance prepared by the Board of Directors.

We thank you for the trust placed in us, we remind you that with the approval of the financial statements on 31 December 2021, the offices of the Board of Statutory Auditors expire and we invite the Shareholders' Meeting to take care of theml.

Bergamo, 31 March 2022

The Board of Statutory Auditors

Simone Cavalli - Chairman

Alessandra De Beni - Statutory Auditor

Stefano Chirico - Statutory Auditor

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

INDEPENDENT AUDITOR'S REPORT

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

**To the Shareholders of
TESMEC S.p.A.**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Tesmec S.p.A. (the "Company"), which comprise the statement of financial position as at December 31, 2021, and the income statement, statement of comprehensive income, statement of cash flows and statement of changes in shareholders' equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

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

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Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10.328.220,00 i.v.

Codice Fiscale/Registro delle Imprese di Milano Monza Brianza Lodi n. 03049560166 - R.E.A. n. MI-1720239 | Partita IVA: IT 03049560166

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Revenue Recognition: terms and conditions of contracts for product sales

Description of the key audit matter Contracts for product sales are based upon shipping terms that can vary by region and that include, in some cases, the transfer of ownership to the buyer prior to the actual delivery of the product.

Revenue recognition criteria for such transactions require the assessment of sales contractual terms and the fulfilment of relevant performance obligations in order to have a complete and true representation of these operations in the financial statements.

The assessment of sales terms and conditions and their application to revenue recognition has been deemed a key audit matter, considering the variance and complexity of some contractual terms applied to sales transactions.

The notes 2.2. *“Significant accounting principles– Revenues from contracts with customers”* and 2.4 *“Discretionary evaluations and significant accounting estimates”* of the financial statements provide disclosure on revenue recognition criteria applied to for product sales.

Audit procedures performed

As part of our audit, we have, among other procedures, carried out the following:

- gained an understanding of the Company’s process and procedures related to revenue recognition in accordance with applicable financial reporting standards;
- gained the key controls implemented by the Company for revenue recognition;
- gained an understanding of the substance of the sale transactions by analyzing the terms and conditions included in the main contracts and performed sample-based substantive procedures to test the fulfilment of revenue-relevant obligations recognized close to the year-end date in case ownership is transferred to the buyer prior to the actual delivery of the product;
- verified the disclosures provided by the Company in the financial statements in accordance with applicable accounting standards.

Compliance with financial covenants provided in financial loan contracts

Description of the key audit matter The Company’s net financial indebtedness amounts to Euro 45.5 million (Euro 39.0 million as at December 31, 2020). Certain medium/long-term loan contracts, whose residual value as of the financial statements’ date amounts to Euro 41.3 million, provide the respect of some financial covenants that, at the financial statements’ date, are respected. On the other hand, the Directors report that a covenant relating to the bond loan, amounting to Euro 6.2 million, has been breached. The related regulation provides, for this circumstance, an increase in the interest rate which, moreover, has already been applied from previous years.

Moreover, the Directors state that they have verified the ability of the Company and the Group to meet their obligations in the foreseeable future of at least 12 months and in particular the ability to comply, also for the year 2022, with the covenants related to the most relevant loans, elaborating for this purpose alternative forecast scenarios to take into account the effects of further possible slowdowns of the business with respect to what is already foreseen in the plan, due to the context of general uncertainty connected to the increase in procurement costs, further complicated for due to the Russian-Ukrainian conflict that arose after the end of the financial year, as well as to the ongoing pandemic situation. As a result of this analysis, the Directors concluded that there are no significant uncertainties regarding compliance with the covenants and, consequently, on the going concern. Furthermore the Directors indicate that different trends from those included in the forecasts, with particular reference to higher increases in procurement costs than the prudent scenarios incorporated in the aforementioned forecasts, could lead to the achievement of lower results with possible effects currently unforeseeable on the ability of the Company and the Group to comply with such covenants.

The compliance with the financial covenants and related disclosure have been deemed a key audit matter considering the current and potential impacts of their non-compliance on the balance sheet classification of non-current financial liabilities, as well as on the ability of the Company to fulfill its obligations in the foreseeable future.

The note 15 “*Medium/long-term loans*” of the financial statements provides disclosure on financial covenant and on the potential impacts of their breach.

Audit procedures performed As part of our audit, we have, among other procedures, carried out the following:

- understanding of the process and significant controls put in place by the Company to verify compliance with the economic and financial covenants set forth in the loan agreements;
- assessed loan contracts and the regulation of the bond loan, with particular reference to the covenants contained therein and the other main contractual clauses;

- reviewed the accuracy of the covenants' calculations prepared by the Management of the Company based on the criteria provided in the loan contracts;
- assessed the classification of financial liabilities in the financial statements in accordance with the applicable accounting standards;
- assessed the consistency of the forecasts prepared by the Directors in order to verify the ability of the Company and the Group to meet its obligations in the foreseeable future for at least 12 months and, in particular, to comply, also for the year 2022, with the covenants relating to the most relevant loans;
- verified the disclosure provided in the financial statements and its compliance with the applicable accounting standards.

Impairment Test of investments

Description of the key audit matter

The Company recognizes Investments in subsidiaries for Euro 67.0 million and Investments in affiliated companies for Euro 4.1 million as at December 31, 2021.

As required by IAS 36, due to the presence of impairment indicators, the Directors tested the value of investments for impairment in order to ensure that such investments are carried in the financial statements as at December 31, 2021 at no more than their recoverable amount.

The recoverable value of the investments was determined by discounting the expected cash flows deriving from the 2022-2024 Business Plan.

As a result of the Impairment Test, approved by the Board of Directors on March 11, 2022, the Directors assessed that the recoverable value of the tested investments is not lower than the corresponding carrying amount and, therefore, no impairment loss has been recorded.

The valuation process made by the Management is complex and based on assumptions concerning, among others, future cash flows of subsidiaries and affiliated companies and the determination of an appropriate discount rate (WACC).

The key variables in estimating future cash flow are:

- market trends where the Company's subsidiaries and affiliated companies operate, influenced especially by the realization of infrastructural investments;
- trends of exogenous variables out of the Management control, such as interest and exchange rates, the macroeconomic and social environment at global level as well as at local one;

- discount and growth rates estimated by Management.

These assumptions are influenced by future expectations regarding market scenarios.

Moreover, also considering the circumstances related to the increase in procurement costs and, more generally, with the temporary rigidity of the supply chain, as well as the continuation, although with less significant effects, of the pandemic crisis, the Management prepared a sensitivity analysis as described in the notes. The Directors indicate that as a result of the sensitivity analysis, a 2% increase in WACC together with the adoption of a growth rate g equal to zero, would result in write-downs of a total amount of less than 5% of the total value of the caption investments in subsidiaries.

The Directors report that the global uncertainties that emerged after the financial statements' date due to the Russian-Ukrainian conflict have not considered in the Impairment Test at 31 December 2021, as it represents a non-adjusting event pursuant to the provisions of IAS 10. When preparing the interim reports, as required by IAS 36, the existence of impairment indicators that may require an update of the impairment test will be checked, with particular reference to the Russian subsidiary OOO Tesmec RUS in the context of the significant increase in the country risk.

Considering the importance of the amount of the investments carried in the financial statements, the subjectivity of future cash flows and of the key variables' estimates for the impairment test model, we deemed the impairment test a key audit matter.

The note 7 "*Equity investments in subsidiaries, associates and joint ventures*" of the financial statements includes the disclosures on the impairment test, and the results of the sensitivity analysis carried out by the Management showing the possible effects from changes in certain key assumptions used for the impairment test.

Audit procedures performed

As part of our audit, we have, among other procedures, carried out the following, also with the support of experts:

- reviewed the methods and methodology adopted by Management for the determination of the recoverable value of the investments in the subsidiaries and affiliated companies and analyzed the methodology and assumptions used for the impairment test, as well as its compliance with the relevant accounting standards;
- developed an understanding of the Company's relevant controls on the impairment test process;

- performed a reasonableness analysis of the key assumptions used for the future cash flow estimate, and through information obtained from Management;
- analyzed actual data with respect to the original plans in order to assess the nature of the deviations and the reliability of the planning process;
- analyzed the reasonableness of the discount rate (WACC) and assumptions used for the terminal value calculation;
- reviewed the mathematical accuracy of the model used for the estimate of the value in use of the investments;
- reviewed Management's sensitivity analysis;
- analyzed the compliance of the disclosures on the impairment test according to IAS 36 requirements.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Tesmec S.p.A. has appointed us on April 16, 2019, as auditors of the Company for the years from December 31, 2019 to December 31, 2027.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The Directors of Tesmec S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Tesmec S.p.A. as at December 31, 2021, including its consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Tesmec S.p.A. as at December 31, 2021 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of Tesmec S.p.A. as at December 31, 2021 and are prepared in accordance with the law.

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

DELOITTE & TOUCHE S.p.A.

Signed by
Lorenzo Rossi
Partner

Milan, Italy
March 31, 2022

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

ENCLOSURES

Enclosure A

List of investments held as at 31 December 2021 by Tesmec S.p.A. and statement of changes during the financial period. The following is the list of investments held as at 31 December 2021, which includes, under Article 126 of Consob Regulation no. 11971/99, the investments held in companies with unlisted shares or in limited liability companies, amounting to more than 10% of their capital.

CHANGES IN INVESTMENTS MADE DURING THE FINANCIAL PERIOD ENDED 31 DECEMBER 2021

Company	31 December 2020			Increases		Decreases		Other changes	31 December 2021		
	Quantity	%	Value	Quantity	Cost	Quantity	Cost	Write-down Revaluation	Quantity	%	Value
<i>Investments in consolidated subsidiaries</i>											
Tesmec USA Inc.	15,600,000	100.00%	21,261,434	-	-	-	-	-	15,600,000	100.00%	21,261,434
OOO Tesmec Rus	10,590	100.00%	10,590	-	-	-	-	-	10,590	100.00%	10,590
Tesmec SA (Pty) Ltd.	93,901,000	51.00% (1)	6,295,785	-	-	-	-	-	93,901,000	51.00% (1)	6,295,785
East Trenchers S.r.l.	100,000	100.00%	265,000	-	-	-	-	-	100,000	100.00%	265,000
Tesmec Automation S.r.l.	10,000	100.00%	4,775,600	-	-	-	-	-	10,000	100.00%	4,775,600
4 Service S.r.l.	1,000,000	100.00%	9,721,252	-	-	-	-	-	1,000,000	100.00%	9,721,252
Tesmec New Technology (Beijing)	200,000	100.00%	200,000	-	-	-	-	-	200,000	100.00%	200,000
Marais Technologies	378,576	66.04% (2)	10,813,664	-	-	-	-	-	378,576	66.04% (2)	10,813,664
Tesmec Australia (Pty) Ltd.	3,060,000	51.00% (3)	3,766,984	-	-	-	-	-	3,060,000	51.00% (3)	3,766,984
Bertel S.r.l.	200,000	100.00%	4,293,235	-	-	-	-	-	200,000	100.00%	4,293,235
Tesmec Rail S.r.l.	10,000	100.00%	5,605,882	-	-	-	-	-	10,000	100.00%	5,605,882
Total			67,009,426								67,009,426
<i>Investments in associates consolidated under the equity method</i>											
Tesmec Peninsula WLL	346,125	49.00%	729,748	-	-	-	-	-	346,125	49.00%	729,748
Locavert S.A.	20,525	38.63%	52,000	-	-	-	-	-	20,525	38.63%	52,000
Condux Tesmec Inc.	250	50.00%	955,763	-	-	-	-	-	250	50.00%	955,763
Tesmec Saudi Arabia	-	0.00%	-	2,371,865	2,371,865	-	-	-	2,371,865	49.00%	2,371,865
Primis Group S.r.l.	-	0.00%	-	1,115	1,115	-	-	-	1,115	10.03%	1,115
Total			1,737,511		2,372,980						4,110,491

(1) The remaining 49% is held by Simest S.p.A. Since Tesmec has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the shareholding of the subsidiary Tesmec SA is consolidated on a 100% basis.

(2) The remaining 33.96% is held by Simest S.p.A. Since Tesmec has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the investment of the Parent Company in Marais Technologies SAS is consolidated on an 100% basis.

(3) The remaining 49% is held by Simest S.p.A. Since Tesmec has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the investment in the subsidiary Tesmec Australia (Pty) Ltd. is consolidated on a 100% basis.



ATTRACTIVE TECHNOLOGIES

Tesmec S.p.A.

Registered Office

Piazza S. Ambrogio, 16
20123 Milano - Italy

Share Capital Euro 15.702.162 fully paid
VAT identification code IT10227100152
Milan Register of companies no. 314026

www.tesmec.com