TESMEC

# Annual Financial Report 2022

Investor Relator
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**Tesmec S.p.A.**
Registered Office: Piazza Sant'Ambrogio, 16 – 20123 Milan
Fully paid-up share capital as at 31 December 2022 Euro 15,702,162
Milan Register of Companies no. 314026
Tax and VAT code: 10227100152

Website: www.tesmec.com
Switchboard: +39.035.4232911

The accompanying annual report 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.

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# NOTICE OF CALL

EMARKET SDIR CERTIFIED

**TESMEC S.P.A.**

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## 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 the Tesmec operational headquarters in Grassobbio (BG), Via Zanica 17/O 24050, on 20 April 2023 at 10:30 a.m. in single call to discuss and deliberate on the following:

## AGENDA

1. **Approval of the financial statements as at 31 December 2022 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 2022 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 2023 illustrated in the first section of the report;**
   - **2.2 Consultation on the second section of the report regarding the fees paid in 2022 or relating to them.**
3. **Authorisation to purchase and dispose of treasury shares; related and consequent resolutions.**

### 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 Tuesday, 11 April 2023. 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. Monday, 17 April 2023). 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 at the Tesmec operational headquarters in Grassobbio (BG), Via Zanica 17/O 24050.

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

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

the Shareholders' Meeting will be attended by those entitled to vote without access to the Shareholders' Meeting venues, and in particular, it 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.) provided for by art. 106 of the Decree-Law of 17 March 2020 n. 18, most recently extended with Decree Law 29 December 2022 n. 198 converted with amendments into Law no. 14 of 24 February (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 **18 April 2023**) 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 aforementioned art. 106 of the Decree-Law of 17 March 2020 n. 18 , to 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 19 April 2023**, 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.

**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 Tuesday 11 April 2023).

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 2023 - 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 Friday 14 April 2023) 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 18 April 2023, 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 5 April 2023, 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 "*2023 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.

**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.

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

Grassobbio, 10 March 2023

Tesmec S.p.A.

EMARKET SDIR CERTIFIED

## 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 2024)

| | |
|---|---|
| Chairman and Chief Executive Officer | Ambrogio Caccia Dominioni |
| Vice Chairman | Gianluca Bolelli |
| Directors | Caterina Caccia Dominioni<br>Lucia Caccia Dominioni<br>Paola Durante (*)<br>Simone Andrea Crolla (*)<br>Emanuela Teresa Basso Petrino (*)<br>Guido Luigi Traversa (*)<br>Antongiulio Marti<br>Nicola Iorio |

(*) Independent Directors

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**Board of Statutory Auditors** (in office until the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2024)

| | |
|---|---|
| Chairman | Simone Cavalli |
| Statutory auditors | Attilio Massimo Franco Marcozzi<br>Laura Braga |
| Alternate auditors | Alice Galimberti<br>Maurizio Parni |

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**Members of the Control and Risk, Sustainability and Related Parties Transactions Committee** (in office until the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2024)

| | |
|---|---|
| Chairman | Emanuela Teresa Basso Petrino |
| Members | Simone Andrea Crolla<br>Guido Luigi Traversa |

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**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 2024)

| | |
|---|---|
| Chairman | Emanuela Teresa Basso Petrino |
| Members | Antongiulio Marti<br>Simone Andrea Crolla |

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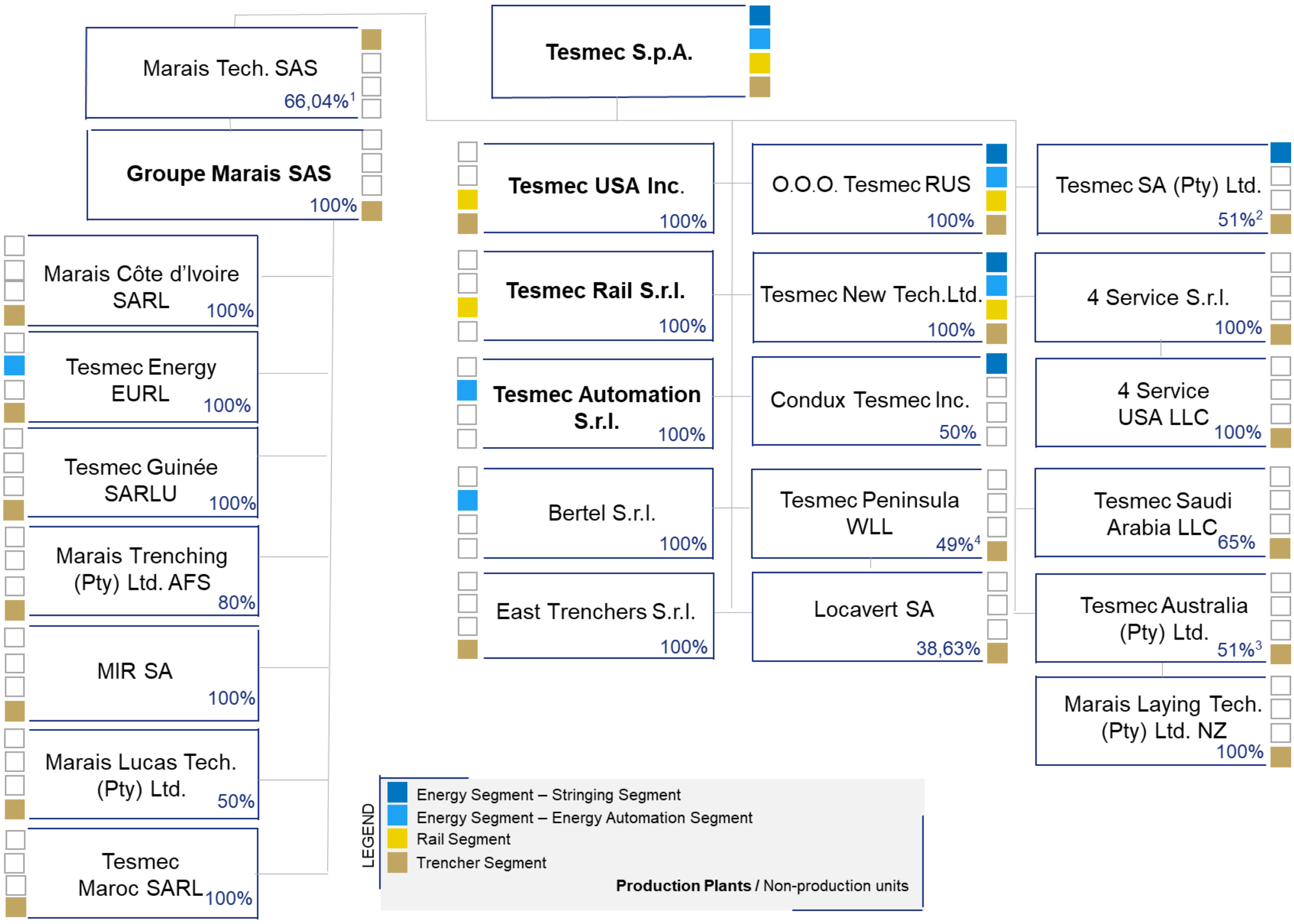
| | |
|---|---|
| **Lead Independent Director** | Paola Durante |
| **Director in charge of the internal control and risk management system** | Ambrogio Caccia Dominioni |
| **Manager responsible for preparing the Company's financial statements** | Ruggero Gambini |
| **Independent Auditors** | Deloitte & 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.

(4) The remaining 51% is held by Fusion Middle East Services WLL. By virtue of de facto control for accounting purposes, the equity investment in Tesmec Peninsula WLL is consolidated at 99%.

# REPORT ON OPERATIONS

# 1. Introduction

## 1.1 The Tesmec Group

The Parent Company Tesmec S.p.A. (hereinafter "Parent Company" or "Tesmec") 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 "Tesmec 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, 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), Sirone (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);
- The Trencher 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.

## 1.2 Economic and financial framework as at 31 December 2022

In an external context characterised by high volatility, the Tesmec Group in 2022 continued to implement its 2021-2023 Business Plan, with a significant growth in Revenues, Income Statement and backlog (the latter is an important indicator of prospective growth), also thanks to the balance between the various strategic business areas, product innovation and international development. At the same time, the Group has managed to limit the impact of this current and prospective growth on Working Capital (which is higher than in 2021 mainly due to the backlog and the establishment of an adequate safety stock), with an increase in Financial Indebtedness only due to this higher working capital and the expansion of the scope of consolidation (due to the line-by-line consolidation of Saudi Tesmec and Tesmec Peninsula from 1 September and 1 December 2022, respectively).

More specifically, in 2022 the Group's Revenues grew by 26% compared to 2021, reaching a turnover of more than Euro 245 million, with development across all business areas; in this regard, it should be noted that the turnover of the Rail segment grew by +61%, that of the Trencher segment by +22% and, finally, that generated by the Energy segment by +14%, compared to 2021. Moreover, as mentioned above, there was a strong increase in the Group's backlog, which exceeded Euro 400 million compared to approximately Euro 280 million in 2021, due in particular to, among others, the strong contribution of new orders acquired in the Rail segment.

The above-mentioned growth took place in a contextual framework that led, especially in the second half-year:

- from an *external* point of view, an increase in the costs of raw materials and energy (with an impact on the accounts that peaked in the fourth quarter, with a further impact on working capital due to the carry-over effect of the weighted average cost principle) and transport costs, now stabilising but not yet fully recovered in terms of selling prices;
- from an *internal* point of view, a boost in commercial expenses and structural strengthening costs to support the current and prospective growth of the business, the presence of non-recurring charges related to the subsidiary in Saudi Arabia and other provisions, as well as lower tax contributions for research and development activities compared to 2021.

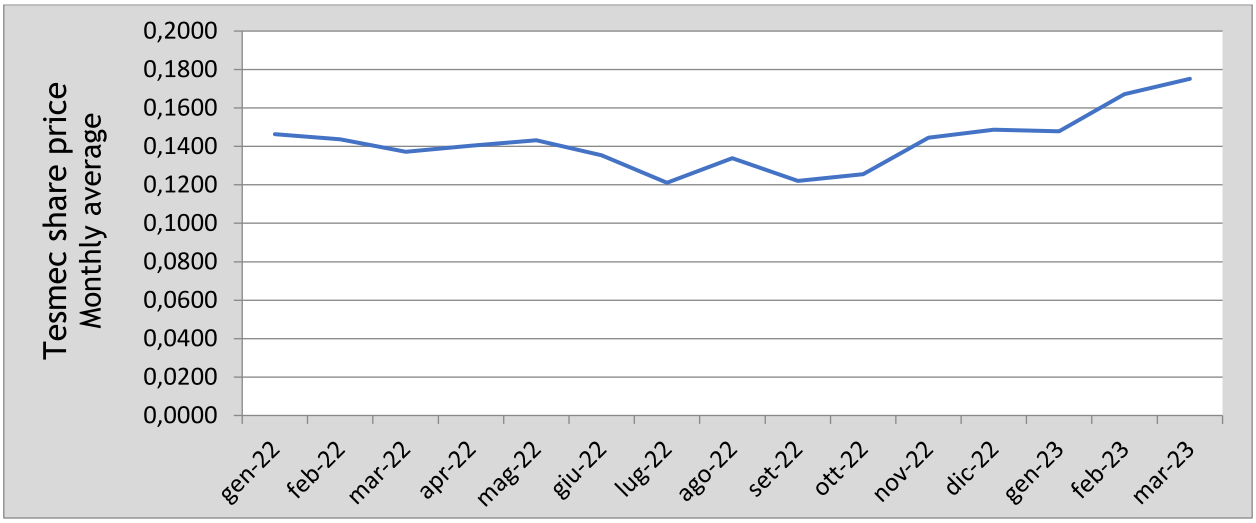
As a combined effect of the above, in 2022 the Group achieved a significant growth in EBITDA, which reached Euro 35 million (+25% compared to 2021), and EBIT (more than doubled compared to 2021 and now amounting to approximately Euro 13 million), and with an EBITDA margin that, although below expectations, especially due to the aforementioned inflationary impact and increased costs, including non-recurring ones, nevertheless stood at 14.4%, in line with that of 2021. These results not only confirm the validity of the development strategies pursued but also demonstrate the resilience of Tesmec's business model, which, thanks to the synergistic diversification of its businesses and the strategic investment made and underway, has made it possible to absorb, at the level of gross and net operating margins, the negative developments in the external context and, in particular, inflationary trends.

With reference to the financial results, consolidated Net Financial Indebtedness as at 31 December 2022 amounted to approximately Euro 128 million, up by approximately Euro 6 million compared to 31 December 2021, exclusively as a result of the increase in working capital to support the growth of the business and the change in the scope of consolidation due to the full consolidation of the companies in Saudi Arabia and Qatar, markets where the Group has important development plans. Finally, in relation to the financial indicators, there was also an improvement in both the NFP/EBITDA ratio (from 4.30 in 2021 to 3.65 in 2022) and the NFP/Equity ratio (from 1.67 in 2021 to 1.54 in 2022).

The results of 2022, although necessarily affected by the contextual evolutions that have been taking place for several months now, demonstrate Tesmec's soundness and the resilience of its business model, while corroborating the Group's growth expectations. In this regard, with reference to the forecasts for the current financial year, the Group confirms the turnover targets of the '21-'23 Business Plan (which indicated Revenues in the range of Euro 270-290 million, with expectations now at the upper end of this range), while the guidance on EBITDA margin (now estimated at around 16%) and NFP at the end of the year has been revised (expected to improve compared to 2022 and to be around Euro 120 million at the end of the year, after a seasonal peak between March and September due to a higher level of working capital, which will be reabsorbed during the fourth quarter).

## 2. Tesmec on the Stock Exchange Market

As at 31 December 2022, the reference price of the Tesmec share was equal to Euro 0.1402 per share while market capitalisation as at 31 December 2022 amounted to Euro 85.03 million. At the date of this report, the reference price is Euro 0.1770 per share, and the capitalisation is approximately Euro 107.34 million. The following chart shows the listing price trend of the shares of the Parent Company from 1 January 2022 to March 2023: The market capitalisation at the end of the reporting year remains, albeit slightly, higher than the book value of the consolidated shareholders' equity. Moreover, confirming the absence of impairment indicators of the assets held by the Group, the chart shows an upward trend that after the reporting year takes capitalisation even higher than the accounting parity.




| | |
|---|---|
| Reference price as at 31 December 2022 | 0.1402 |
| Reference price as at 10 March 2023 | 0.1770 |
| Maximum price (27 January 2022) (1) | 0.1878 |
| Minimum Price (3 January 2022) (1) | 0.1066 |

(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 Framework

The global cyclical picture deteriorated in the fourth quarter of 2022 and international trade slowed down sharply. The global economy suffers from high inflation, strong uncertainty related to the war in Ukraine and the restrictive stance of monetary policies. Since mid-October, the price of oil has fallen to just under USD 85 per barrel as global demand has slowed. The price of natural gas traded on the Dutch Title Transfer Facility (TTF) market also fell sharply, to an average value of just under Euro 70 per megawatt-hour, due to the favourable weather conditions during the autumn and the decline in industrial demand in Europe. The prices of industrial metals rose modestly on the prospect of a recovery in Chinese demand, while the prices of agricultural raw materials fell, partly as a result of compliance with the agreement on Ukrainian wheat exports. At its meetings in November and December, the Federal Reserve decided to raise the federal funds rate further in order to bring inflation back to a level consistent with its 2% target. International institutions expect a slowdown in global growth for the current year (global GDP would fall to 2.2%, from 3.1 % last year), mainly due to still high energy prices, weak household disposable income and less favourable financial conditions. These projections are mainly subject to downside risks, including those deriving from the continuation of the war in Ukraine, the persistence of high levels of inflation and the possible continued weakness in activity in China.

According to the most recent economic indicators, the Eurozone GDP would have essentially stagnated in the last quarter of 2022. Consumer inflation remained high (9.2 % year-on-year), although it has been declining since November. The trend in prices continues to be supported by the energy component and driven by both the acceleration of food prices and the strengthening of prices for industrial goods and services, which are affected by a gradual transmission of past energy price increases. According to the Eurosystem's precise projections published in December, inflation in the area would fall from 8.4% in 2022 to 6.3% this year and 3.4% in 2024, while in 2025 the trend in prices would stand at 2.3%. At its meetings in October and December, the Governing Council of the ECB raised the official interest rates. Expectations of narrowing spreads between interest rates in the United States and other countries affected the development of the exchange rate of the dollar: since mid-October, the euro-dollar exchange rate strengthened by approximately 11%. The Council considers that, in order to support a timely return of inflation to the medium-term objective of price stability, interest rates will need to continue to increase significantly and at a steady pace. In the forecasts of the Eurosystem, GDP growth estimates indicate a slowdown for 2023 (0.5%, from 3.4% in the previous estimate), to be followed by an acceleration in the two-year period 2024-25 (1.9% and 1.8%, respectively). In the comparison, the estimates were revised downwards mainly due to the weakening of the global economic cycle and the continuation of a strong trend in prices, as well as an increase in wage growth estimates

According to the estimates of the Bank of Italy, activity in Italy weakened in the last quarter of last year, due to the still high costs of energy and the weakening of demand. Energy price rises over the past two years are said to have caused unit costs to rise by 6.7% compared to the first quarter of 2021, causing selling prices to rise, not always to the same extent, and profit margins to fall. After a strong expansion in the first half of the year, the growth of exports came to a halt in the autumn months, while imports were reported to have declined. Inflation reached new highs in the autumn months (12.3% year-on-year), again driven by the energy component. This trend in prices continued to be mitigated and the total dampening effect of energy measures on inflation would have been more than one percentage point. The rise in official interest rates was passed on to the cost of bank credit, and bank lending to the non-financial private sector slowed down between August and November. According to the Bank Lending Survey in the Eurozone, the demand for loans for investment purposes by companies decreased, while demand for loans for inventories and working capital increased. Despite the weakening of the economic scenario, the Italian stock market index rose sharply between mid-October and the first half of December, and the yield on Italian government bonds on the ten-year maturity decreased by about 100 basis points to below 4.0%, with the yield differential against German sovereign bonds falling below 185 points. However, by 2022 as a whole, national GDP would have increased by almost 4%.

In terms of public finance, preliminary information for 2022 points to a significant reduction in the deficit and in the ratio of public debt to GDP. An improvement in the public finance picture in comparison with 2021 would also emerge from the estimated debt-to-GDP ratio, which would be in the range of 145% (from approximately 150% in 2021). The budget law for the three-year period 2023-25, approved by Parliament last December, increases the deficit by 1.1 percentage points of GDP in 2023 and 0.1 points in the following year, while in 2025 a correction of 0.2 points is planned. Considering these effects, net indebtedness would fall from 5.6% planned for 2022 to 4.5% in 2023 and would continue to fall in subsequent years, to 3% of GDP in 2025. Moreover, last November Italy received the second tranche of funds from the Fund for recovery and resilience, amounting to Euro 21 billion, bringing the total loans received to almost Euro 67 billion. Lastly, on 30 December 2022, the Ministry of Economy and Finance sent the European Commission a request for payment of the third instalment of resources provided for in the plan, the disbursement of which, amounting to Euro 19 billion, will take place in the coming months.

In the baseline forecast scenario for the Italian economy, which assumed that tensions related to the war will still remain high in the first months of 2023 and gradually decrease over the forecast horizon, after an increase of almost 4% in 2022 GDP would slow down to 0.6% in 2023 and 1.2% in both 2024 and 2025. Inflation, which rose to almost 9% last year, would fall to 6.5% in 2023 and more sharply thereafter, to 2.0% in 2025. Interest rates would rise again in 2023 and stabilise for the next two years, and investment would grow by almost 2% on average over the three-year period. However, the war in Ukraine remains a major source of instability for the macroeconomic scenario. In an adverse scenario, which assumes a permanent suspension of supplies of energy raw materials from Russia to Europe, the product would instead fall by almost 1% in both 2023 and 2024, before rising moderately in the following year, while inflation would rise further to 10% this year, before falling to around 4% in 2024 and around 2% in 2025.

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

The significant events occurred during the period are reported below:

- as from 24 February 2022, with the beginning of the Russian-Ukrainian conflict, Tesmec took all necessary actions to mitigate the impact of this conflict and therefore limited its operations on the Russian territory while preserving the operation of the branch and its essentially commercial management. Note that Tesmec, over the years, has developed a commercial presence and service offering through the subsidiary O.O.O. Tesmec RUS, which, due to its commercial essence, does not have fixed assets and, consequently, is not exposed to their risk of impairment. In fact, the Group, as part of its well-established offering of products and services, developed specific solutions and technologies for the Russian territory that nevertheless made a limited contribution to consolidated turnover in the last financial years (around 2.0% in 2021 and 0.4% in 2022). However, Tesmec's management team is constantly monitoring the situation in order to be able to make assessments on the future operations of the Russian subsidiary in full compliance with EU and international rules (with respect to which there are no relations with sanctioned parties nor are there any sales of products and product categories that are not allowed);

- on 13 April 2022, the subsidiary Tesmec Rail S.r.l. definitively acquired by the company Advanced Measuring Group S.r.l. (AMG) the business unit that was managed on a lease basis since July 2019. As this transaction had already been originally recognised in accordance with IFRS 3, the outright acquisition did not have any significant impact on the Group's statement of financial position. On the same date, the Tesmec Rail S.r.l. Shareholders' Meeting approved the distribution of the 2021 dividends for the amount of Euro 1 million. The dividend was paid on 15 April 2022;

- on 21 April 2022, the Ordinary Shareholders' Meeting of Tesmec S.p.A. met electronically in a single call and approved the Financial Statements as at 31 December 2021 and the allocation of the Net Profit. During the Shareholders' Meeting, the

Consolidated Financial Statements as at 31 December 2021 of the Tesmec Group and the related reports were presented, including the Consolidated Non-Financial Statement.

The Shareholders' Meeting also resolved favourably on the First Section of the Report on Remuneration 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 also the Board of Directors, for a period of 18 months, to purchase, on the regulated market, ordinary shares of Tesmec until 10% of the share capital of the Company and within the limits of the distributable profits and of the available reserves resulting from the last financial statements duly approved by the Company or the subsidiary company making the purchase.

The authorisation also includes the right to dispose of (in whole or in part and also in several times) the shares in the portfolio subsequently, even before having exhausted the maximum number of shares purchasable and to possibly repurchase the shares to the extent that the treasury shares held by the Company and, if necessary, by its subsidiaries, do not exceed the limit established by the authorisation. The quantity and the price at which transactions will be made will comply with the operating procedures laid down by the regulations.

Today's authorisation replaces the last authorisation resolved by the Shareholders’ Meeting on 22 April 2021 and expiring in October 2022. The resolution concerning authorisation to purchase treasury shares was passed with the favourable vote of the majority of the Tesmec shareholders at the shareholders’ meeting other than the majority shareholder and therefore, pursuant to Article 44-bis of the Issuers' Regulation, the shares that the Issuer will purchase in executing this resolution will be included in the share capital of the Issuer, on which the significant equity investment for the purpose of Article 106, paragraphs 1, 1-bis, 1-ter and 3 letter b) of the TUF will be calculated;

- on 21 April 2022, the Shareholders' Meeting of Tesmec S.p.A. resolved to:
  - appoint the new Board of Directors that will remain in office until the shareholders' meeting that will be called to approve the financial statements for the year ended 31 December 2024, composed of Gianluca Bolelli, Caterina Caccia Dominioni, Lucia Caccia Dominioni, Paola Durante, Simone Andrea Crolla, Emanuela Teresa Basso Petrino, Guido Luigi Traversa, Antongiulio Marti and Nicola Iorio as well as Ambrogio Caccia Dominioni, who was confirmed as Chairman of the Board of Directors;
  - appoint the new Board of Statutory Auditors that will also remain in office until the shareholders' meeting that will be called to approve the 2024 financial statements, composed of the Statutory Auditors Simone Cavalli (Chairman), Laura Braga and Attilio Massimo Franco Marcozzi and by the Alternate Auditors Maurizio Parni and Alice Galimberti;

- on 21 April 2022, the Board of Directors confirmed Ambrogio Caccia Dominioni as the Chief Executive Officer and Gianluca Bolelli as Vice Chairman.

  The Board of Directors decided to appoint:
  - the directors Emanuela Teresa Basso Petrino (Chairman), Simone Andrea Crolla and Guido Traversa as members of the Control and Risk, Sustainability and Related Parties Transactions Committee;
  - the directors Emanuela Teresa Basso Petrino (Chairman), Antongiulio Marti and Caterina Caccia Dominioni as members of the new Remuneration and Appointments Committee;
  - the Chief Executive Officer Ambrogio Caccia Dominioni as director in charge of the internal control and risk management system and, subordinately, the Vice Chairman Gianluca Bolelli;
  - the Independent Director Paola Durante as Lead Independent Director;

- on 30 May 2022, 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 16 June 2022, the Board of Directors decided to appoint for the Remuneration and Appointments Committee:
  - Emanuela Teresa Basso Petrino as Chairman;
  - Antongiulio Marti
  - Simone Andrea Crolla;

- on 29 June 2022, Tesmec officially became part of the special register of historical trademarks of national interest established by the Italian Ministry of Economic Development;

- on 28 July 2022, Tesmec signed a loan agreement of Euro 10 million with Ver Capital. This loan has a duration of 6 years expiring on 3 August 2028, and bears an annual floating rate equal to the average of the 3-month and 6-month Euribor plus a 5.00% spread, with a pre-amortisation period of 3 years;

- on 1 August 2022, the subsidiary Tesmec Automation S.r.l. received the report on findings (PVC) from the Italian Inland Revenue at the end of the tax audit for the tax year 2018. The inspectors challenged the Company's undue utilisation of R&D tax receivables totalling Euro 1.1 million. The Company, supported in this by the opinion of its tax advisors, believes that it has operated correctly and has consequently mandated its consultants to analyse the documentation and produce their own counterclaims;

- on 4 August 2022, the parent company Tesmec S.p.A. appointed Marco Paredi, former Group Chief Financial Officer, as Director of the Trencher Business Unit and Ruggero Gambini as the new Group Chief Financial Officer and Manager responsible for preparing the Company's financial statements. Paredi will continue to serve as Tesmec's Investor Relations Manager;

- on 8 September 2022, by virtue of a share capital increase of the subsidiary Tesmec Saudi Arabia LLC, the parent company Tesmec S.p.A. increased its shareholding in the same company to 65% of the share capital. Consequently, Tesmec Saudi Arabia LLC was consolidated on a line-by-line basis as from that date. The effects and methods of the acquisition were described in the next paragraph *4.1 Effects of the acquisition of an additional 16% of the capital of Tesmec Saudi Arabia LLC*;

- on 29 September 2022, the Shareholders' Meeting of the subsidiary Tesmec Automation S.r.l. resolved to scrip issue by Euro 990 thousand. The new share capital of the subsidiary amounts to Euro 1 million;

- on 29 September 2022, the Shareholders' Meeting of the subsidiary Tesmec Rail S.r.l. resolved to scrip issue by Euro 1,990 thousand. The new share capital of the subsidiary amounts to Euro 2 million;

- on 23 November 2022, the parent company Tesmec S.p.A. announced the start of works for the construction of a new photovoltaic system connected to the electricity distribution network at the Grassobbio headquarters, which will expand and enhance the existing system. The works, which envisage an investment of approximately Euro 1.2 million, expected to be completed in March 2023, are part of the Group's sustainability strategy that aims, among other things, to monitor and optimise the use of energy within the company structures, also in consideration of the current international scenarios;

- on 29 November 2022, the subsidiary Tesmec Rail S.r.l. announced the provisional award of two tender lots by RFI - Rete Ferroviaria Italiana, a company of the Ferrovie dello Stato Italiane Group responsible for the overall management of the national rail network, for the supply of 44 work trucks for the Equipment segment in Full Maintenance Service for a total value of approximately Euro 109 million;

- on 1 December 2022, the parent company Tesmec S.p.A. entered into a series of agreements, as further indicated in note 3.5 Discretionary judgments and significant accounting estimates of the Explanatory Notes to the Consolidated Financial Statements, with the partner Fusion Middle East Services WLL under which it acquired de facto control of the equity investment in Tesmec Peninsula WLL, a company operating in business of renting and selling trenchers. Consequently, Tesmec Peninsula WLL was consolidated on a line-by-line basis as from that date. The effects and methods of the acquisition of the de facto control were described in the next paragraph *4.2 Effects of the acquisition of the de facto control of Tesmec Peninsula WLL*.

**4.1 Effects of the acquisition of an additional 16% of the capital of Tesmec Saudi Arabia LLC**

As described above, on 8 September 2022, by virtue of a share capital increase of the subsidiary Tesmec Saudi Arabia LLC, the parent company Tesmec S.p.A. increased its shareholding in the same company to 65% of the share capital, subscribed for Euro 5,310 thousand, while the remaining 35% continues to be represented by a local third party 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.

Therefore, the equity investment in Tesmec Saudi Arabia LLC qualifies as a controlling interest and is consolidated on a line-by-line basis as of that date. The transition from a situation of significant influence, which characterised the governance rules prior to the share capital increase and therefore involved consolidation using the equity method, to a situation of control resulted in the remeasurement at fair value of the subsidiary's assets and liabilities, with the corresponding recognition among the Group's assets of the difference emerging between the subsidiary's shareholders' equity and the fair value of the assets and liabilities acquired, amounting to Euro 3,014 thousand. This difference is provisionally allocated to Goodwill, as permitted by the international accounting standard IFRS 3.

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

| *(Euro in thousands)* | **Values of the acquired company** |
|---|---|
| **NON-CURRENT ASSETS** | |
| Property, plant and equipment | 3,908 |
| Financial receivables and other non-current financial assets | 347 |
| **TOTAL NON-CURRENT ASSETS** | **4,255** |
| **CURRENT ASSETS** | |
| Inventories | 2,415 |
| Trade receivables | 1,339 |
| Other current assets | 233 |
| Cash and cash equivalents | 1,002 |
| **TOTAL CURRENT ASSETS** | **4,989** |
| **TOTAL ASSETS** | **9,244** |
| **SHAREHOLDERS' EQUITY** | |
| Share capital | 8,202 |
| Reserves/(deficit) | (1,275) |
| **TOTAL SHAREHOLDERS' EQUITY** | **6,927** |
| **NON-CURRENT LIABILITIES** | |
| Employee benefit liability | 170 |
| **TOTAL NON-CURRENT LIABILITIES** | **170** |
| **CURRENT LIABILITIES** | |
| Trade payables | 1,660 |
| Advances from customers | 447 |
| Other current liabilities | 40 |
| **TOTAL CURRENT LIABILITIES** | **2,147** |
| **TOTAL LIABILITIES** | **9,244** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | **9,244** |

The difference between the total consideration, including the aforementioned capital increase, 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:

| *(Euro in thousands)* | **Goodwill calculation** |
|---|---|
| Total consideration of the acquisition | 7,682 |
| Acquired shareholders' equity | 4,668 |
| **Goodwill** | **3,014** |

This Goodwill continues to be recognised as an intangible asset and is tested for impairment for the purpose of preparing these financial statements as at 31 December 2022.

### 4.2 Effects of the acquisition of de facto control of Tesmec Peninsula WLL

As described above, on 1 December 2022, the parent company Tesmec S.p.A. entered into a series of agreements with the partner Fusion Middle East Services WLL under which it acquired de facto control of the equity investment in Tesmec Peninsula WLL, a company operating in business of renting and selling trenchers.

Therefore, the equity investment in Tesmec Peninsula WLL qualifies as a controlling interest and is consolidated on a line-by-line basis as of that date. Also with reference to the equity investments under review, the transition from a situation of significant influence, which characterised the governance rules prior to the share capital increase and therefore involved consolidation using the equity method, to a situation of control resulted in the remeasurement at fair value of the subsidiary's assets and liabilities, which, however, in view of the start-up phase of the commercial operations, did not result in any difference between the subsidiary's shareholders' equity and the fair value of the assets and liabilities acquired, and therefore no goodwill was recognised.

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

| *(Euro in thousands)* | **Values of the acquired company** |
|---|---|
| **NON-CURRENT ASSETS** | |
| Intangible assets | 3 |
| Property, plant and equipment | 531 |
| **TOTAL NON-CURRENT ASSETS** | **534** |
| **CURRENT ASSETS** | |
| Inventories | 6,403 |
| Trade receivables | 220 |
| Other current assets | 399 |
| Cash and cash equivalents | 308 |
| **TOTAL CURRENT ASSETS** | **7,330** |
| **TOTAL ASSETS** | **7,864** |
| **SHAREHOLDERS' EQUITY** | |
| Share capital | 1,931 |
| Reserves/(deficit) | (1,692) |
| **TOTAL SHAREHOLDERS' EQUITY** | **239** |
| **CURRENT LIABILITIES** | |
| Interest-bearing financial payables (current portion) | 2,231 |
| Trade payables | 5,394 |
| **TOTAL CURRENT LIABILITIES** | **7,625** |
| **TOTAL LIABILITIES** | **7,864** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | **7,864** |

## 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 2022. The following table shows a summary of the profit and loss indicators achieved in 2022 and in 2021 and the main financial position indicators as at 31 December 2022 and as at 31 December 2021.

**OVERVIEW OF RESULTS**

| 31 December 2021 | **Key income statement data** (Euro in millions) | 31 December 2022 |
|---|---|---|
| 194.3 | Operating Revenues | 245.2 |
| 28.1 | EBITDA | 35.2 |
| 5.7 | Operating Income | 13.1 |
| 1.2 | Group Net Profit | 7.9 |
| 934 | Number of employees | 965 |

| 31 December 2021 | **Key financial position data** (Euro in millions) | 31 December 2022 |
|---|---|---|
| 193.7 | Net Invested Capital | 211.7 |
| 72.6 | Shareholders' Equity | 83.4 |
| 121.0 | Group net financial indebtedness | 128.4 |
| 22.9 | Net investments in property, plant and equipment, intangible assets and rights of use | 31.9 |

### 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 statement of financial position.
- 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 2022, the Group achieved total revenues of Euro 245,245 thousand compared to Euro 194,286 thousand in 2021, recording an increase of 26.2%.

### 5.3 Performance by segment

- **Trencher**

Revenues of the Trencher segment amounted to Euro 134,049 thousand, increasing by 21.6% compared to Euro 110,283 thousand as at 31 December 2021. This increase is mainly due to the recovery of the American market and, more generally, to the start of the development and recovery plans in the countries in which the Group operates, despite an economic scenario characterised by difficulties in finding materials and increased purchase prices.

- **Energy**
  With regard to the Energy segment, revenues amounted to Euro 58,195 thousand, increasing by 13.8% compared to the figure of Euro 58,118 thousand as at 31 December 2021. In particular, the Stringing Equipment Segment achieved revenues of Euro 37,783 thousand, compared to Euro 34,140 thousand as at 31 December 2021. The Energy-Automation Segment achieved revenues of Euro 20,412 thousand, compared to Euro 16,978 thousand as at 31 December 2021. Growth in this sector was also confirmed for the year despite the difficulties in sourcing electronic components and semiconductors from the Far East.

- **Rail**
  The Rail Segment recorded revenues of Euro 53,001 thousand, increasing by 61.2% compared to Euro 32,885 thousand as at 31 December 2021. The growth confirms the trend of strengthening the business generated by higher value-added projects related to diagnostic products and outside the national perimeter.

### 5.4 Management performance of the main subsidiary companies and Joint Ventures

The information on the operations of the main subsidiaries and joint ventures 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:

*Subsidiaries*

- 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 2022 financial year, it generated revenues of Euro 36,094 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., a wholly-owned subsidiary of Tesmec S.p.A., based in Milan. During 2022, the two trencher rental companies generated revenue to third parties of Euro 35,672 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 2022 financial year, it generated revenues of Euro 53,094 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 year, the company generated revenues of Euro 1,709 thousand.

- Groupe Marais SAS, with registered office in Durtal (France), indirectly controlled by Tesmec S.p.A., through the holding company Marais Technologies SAS, company 66.04% owned by Tesmec S.p.A. and 33.96% by Simest S.p.A. as at 31 December 2022, (with option to repurchase this interest for Tesmec as at 31 March 2023). The French company is a leader in the construction of machines for infrastructures and in services for telecommunications, electricity and gas. During the 2022 financial year, it generated revenues of Euro 32,702 thousand.

- Marais Laying Tech. (Pty) Ltd. based in Auckland (New Zealand), company 100% owned by Tesmec Australia (Pty) Ltd. specialised in the business of rental and sale of trenchers in the Oceanic market. During the 2022 financial year, it generated revenues of Euro 14,444 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 2022 financial year, it generated revenues of Euro 20,289 thousand.

- Tesmec Peninsula WLL, a de facto subsidiary of Tesmec S.p.A. as from 1 December 2022, based in Doha (Qatar), is active in the business of renting and selling trenchers in the Middle Eastern market. The company has been consolidated on a line-by-line basis since the date of control, while until that date it was consolidated using the equity method. In 2022, it generated revenues totalling Euro 2,942 thousand;

- Tesmec Saudi Arabia LLC, a 65% owned subsidiary of Tesmec S.p.A. based in Ryad (Saudi Arabia) since 8 September 2022, is active in the business of renting and selling trenchers in the market of the Arabian Peninsula. The company has been consolidated on a line-by-line basis as from the date of control, while until that date it was consolidated using the equity method. In 2022, it generated revenues totalling Euro 2,988 thousand.

*Joint Ventures*

- 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 2022 financial year generated revenues totalling Euro 12,323 thousand.

## 6. Income statement and balance sheet situation as at 31 December 2022

### 6.1 Consolidated income statement

The Group closed the financial year as at 31 December 2022 with a positive operating income of Euro 13,316 thousand (Euro 5,687 thousand in 2021) and with a net profit of Euro 12,546 thousand compared to a net loss of Euro 1,195 thousand as at 31 December 2021. The following table shows the trend of major economic indicators as at 31 December 2022 compared to 31 December 2021.

| | **Financial year ended 31 December** | | | |
|---|---|---|---|---|
| *(Euro in thousands)* | **2022** | **% of revenues** | **2021** | **% of revenues** |
| **Revenues from sales and services** | **245,245** | **100.0%** | **194,286** | **100.0%** |
| Cost of raw materials and consumables | (97,441) | -39.7% | (78,565) | -40.4% |
| Costs for services | (53,783) | -21.9% | (37,738) | -19.4% |
| Payroll costs | (60,701) | -24.8% | (56,011) | -28.8% |
| Other operating costs/revenues, net | (8,101) | -3.3% | (3,256) | -1.7% |
| Amortisation and depreciation | (22,085) | -9.0% | (22,447) | -11.6% |
| Development costs capitalised | 10,806 | 4.4% | 8,065 | 4.2% |
| Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method | (821) | -0.3% | 1,353 | 0.7% |
| **Total operating costs** | **(232,126)** | **-94.7%** | **(188,599)** | **-97.1%** |
| **Operating income** | **13,119** | **5.3%** | **5,687** | **2.9%** |
| Financial expenses | (7,939) | -3.2% | (6,961) | -3.6% |
| Financial income | 2,226 | 0.9% | 774 | 0.4% |
| Foreign exchange gains/losses | 4,162 | 1.7% | 3,227 | 1.7% |
| Portion of gains/(losses) from equity investments evaluated using the equity method | 44 | 0.0% | (25) | 0.0% |
| **Pre-tax profit/(loss)** | **11,612** | **4.7%** | **2,702** | **1.4%** |
| Income tax | (3,696) | -1.5% | (1,493) | -0.8% |
| **Net profit/(loss) for the year** | **7,916** | **3.2%** | **1,209** | **0.6%** |
| Profit/(loss) attributable to non-controlling interests | 54 | 0.0% | 14 | 0.0% |
| **Group profit/(loss)** | **7,862** | **3.2%** | **1,195** | **0.6%** |

#### Revenues

Total revenues as at 31 December 2022 increased by 26.2% compared to those recorded in the previous financial year.

| | **Financial year ended 31 December** | | | | |
|---|---|---|---|---|---|
| *(Euro in thousands)* | **2022** | **% of revenues** | **2021** | **% of revenues** | **2022 vs 2021** |
| Sales of products | 154,638 | 63.1% | 127,391 | 65.6% | 27,247 |

| | | | | | |
|---|---|---|---|---|---|
| /Services rendered | 62,660 | 25.5% | 53,100 | 27.3% | 9,560 |
| Changes in work in progress | 27,947 | 11.4% | 13,795 | 7.1% | 14,152 |
| **Total revenues from sales and services** | **245,245** | **100.0%** | **194,286** | **100.0%** | **50,959** |

a) Revenues by geographic area

The Group’s turnover is mainly produced abroad (by 70.7%) and in particular in non-EU countries. The revenue analysis by area is indicated below, compared with the 2022 financial year and the 2021 financial year, which indicates the growth in the Middle Eastern and Italian 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.

| | **Financial year ended 31 December** | | | |
|---|---|---|---|---|
| *(Euro in thousands)* | **2022** | **% of revenues** | **2021** | **% of revenues** |
| Italy | 71,977 | 29.3% | 48,851 | 25.1% |
| Europe | 46,681 | 19.0% | 49,534 | 25.5% |
| Middle East | 29,507 | 12.0% | 13,547 | 7.0% |
| Africa | 12,431 | 5.1% | 12,039 | 6.2% |
| North and Central America | 39,645 | 16.2% | 30,954 | 15.9% |
| BRIC and Others | 45,004 | 18.4% | 39,361 | 20.3% |
| **Total revenues** | **245,245** | **100.0%** | **194,286** | **100.0%** |

**Operating costs net of depreciation and amortisation**

| | **Financial year ended 31 December** | | | |
|---|---|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** | **2022 vs 2021** | **% change** |
| Cost of raw materials and consumables | (97,441) | (78,565) | (18,876) | 24.0% |
| Costs for services | (53,783) | (37,738) | (16,045) | 42.5% |
| Payroll costs | (60,701) | (56,011) | (4,690) | 8.4% |
| Other operating costs/revenues, net | (8,101) | (3,256) | (4,845) | 148.8% |
| Development costs capitalised | 10,806 | 8,065 | 2,741 | 34.0% |
| Portion of (losses)/gains from operational Joint Ventures evaluated using the equity method | (821) | 1,353 | (2,174) | -160.7% |
| **Total operating costs net of depreciation and amortisation** | **(210,041)** | **(166,152)** | **(43,889)** | **26.4%** |

The table shows an increase in operating costs of Euro 43,692 thousand (26.4%) in line with the increase in sales (26.2%).

In particular, operating costs in 2022 were negatively affected by the general increase in costs. Transport costs and times have also increased significantly, making it more difficult to manage stock and provide an adequate level of service to customers. The increase in energy and transport costs was only partially offset by an increase in selling prices, which inevitably had a negative impact on the aim of increasing the Group's margin.

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 year 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 779 thousand for 2022 whereas it amounted to Euro 2,059 thousand for 2021, also in relation to the change in regulations with regard to calculation methods. The benefit was recognised under the item “other operating (costs)/revenues, net”.

**EBITDA**

In terms of margins, EBITDA amounts to Euro 35,204 thousand, which represents 14.4% of the sales for the period, compared to 14.5% recorded in 2021. This result was affected by the general increase in costs commented on in the previous paragraph.

| | Financial year ended 31 December | | | | |
|---|---|---|---|---|---|
| *(Euro in thousands)* | **2022** | **% of revenues** | **2021** | **% of revenues** | **2022 vs 2021** |
| Operating income | 13,119 | 5.3% | 5,687 | 2.9% | 7,432 |
| + Amortisation and depreciations | 22,085 | 9.0% | 22,447 | 11.6% | (362) |
| **EBITDA** | **35,204** | **14.4%** | **28,134** | **14.5%** | **7,070** |

**Financial Management**

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Net financial income/(expenses) | (6,555) | (6,267) |
| Realised foreign exchange gains/losses | 1,461 | (54) |
| Unrealised foreign exchange gains/losses | 2,701 | 3,281 |
| Fair value adjustment of derivative instruments | 842 | 80 |
| Portion of gains/(losses) from equity investments evaluated using the equity method | 44 | (25) |
| **Total net financial income/expenses** | **(1,507)** | **(2,985)** |

The net financial management increased compared to the same period in the previous financial year by Euro 1,478 thousand, with the following changes reported:

- improvement of Euro 935 thousand due to the different exchange rate trend in the two periods of reference that resulted in the recording of net profits totalling Euro 4,162 thousand (Euro 1,461 thousand realised and Euro 2,701 thousand unrealised) against a net profit of Euro 3,227 thousand in the 2021 financial year;
- improvement in the fair value adjustment of derivative financial instruments of Euro 762 thousand.

**Net result**

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| **Net profit/(loss)** | **7,916** | **1,209** |
| % Effect on revenues | 3.23% | 0.62% |
| Profit/(loss) attributable to non-controlling interests | 54 | 14 |
| **Group net profit/(net loss)** | **7,862** | **1,195** |
| *% Effect on revenues* | 3.21% | 0.62% |

Results for the period amounted to Euro 7,916 thousand (Euro 1,209 thousand in 2021) after deducting taxes totalling Euro 3,696 thousand (Euro 1,493 thousand in 2021).
Net of the portion attributable to non-controlling interests, the net result is Euro 7,862 thousand.

**Profitability ratios**

| | | Financial year ended 31 December | |
|---|---|---|---|
| *Ratio* | *Composition* | **2022** | **2021** |
| Return on sales (R.O.S.) | Operating income/Net revenues | 5.3% | 2.9% |
| Return on investment (R.O.I.) | Operating income/Invested capital | 6.2% | 2.9% |
| Return on equity (R.O.E.) | Net income/Shareholders' equity | 9.4% | 1.6% |
| Invested capital turnover | Net revenues/Net invested capital | 1.16 | 1.00 |

| | | | |
|---|---|---|---|
| Working capital turnover | Net revenues/Net working capital | 3.04 | 2.54 |
| Debt ratio/EBITDA | Net financial position/EBITDA | 3.65 | 4.31 |
| Debt ratio | Net financial position/Shareholders' equity | 1.54 | 1.67 |

The table above summarises the main trends that characterised the financial statements of the Group as at 31 December 2022 compared to 31 December 2021.

### 6.2 Income Statement by segment

**Revenues by segment**

The tables below show the income statement figures as at 31 December 2022 compared to those as at 31 December 2021, broken down into the three operating segments.

| | **Financial year ended 31 December** | | | | |
|---|---|---|---|---|---|
| *(Euro in thousands)* | **2022** | **% of revenues** | **2021** | **% of revenues** | **2022 vs 2021** |
| Energy | 58,195 | 23.7% | 51,118 | 26.3% | 7,077 |
| Trencher | 134,049 | 54.7% | 110,283 | 56.8% | 23,766 |
| Rail | 53,001 | 21.6% | 32,885 | 16.9% | 20,116 |
| **Total revenues** | **245,245** | **100.0%** | **194,286** | **100.0%** | **50,959** |

For a detailed breakdown of revenues by segment, reference is made to what is described in paragraph *5.3 Performance by segment*.

**Operating costs by segment**

| | **Financial year ended 31 December** | | | | |
|---|---|---|---|---|---|
| *(Euro in thousands)* | **2022** | **% of revenues** | **2021** | **% of revenues** | **2022 vs 2021** |
| Energy | 55,202 | 94.9% | 48,557 | 95.0% | 6,645 |
| Trencher | 133,966 | 99.9% | 110,127 | 99.9% | 23,839 |
| Rail | 42,958 | 81.1% | 29,915 | 91.0% | 13,043 |
| **Total operating costs** | **232,126** | **94.7%** | **188,599** | **97.1%** | **43,527** |

Operating costs, including depreciations and amortisation, were up 23.0% compared to the prior year in a less than proportional way compared to the sales trend (26.2%), for the reasons already set out in paragraph *5.2 General performance*.

The tables below show the EBITDA as at 31 December 2022 compared to that as at 31 December 2021, broken down into the three operating segments:

| | **Financial year ended 31 December** | | | | |
|---|---|---|---|---|---|
| *(Euro in thousands)* | **2022** | **% of revenues** | **2021** | **% of revenues** | **2022 vs 2021** |
| Energy | 7,828 | 13.5% | 7,835 | 15.3% | (7) |
| Trencher | 13,366 | 10.0% | 13,415 | 12.2% | (49) |
| Rail | 14,010 | 26.4% | 6,884 | 20.9% | 7,126 |
| **EBITDA** | **35,204** | **14.4%** | **28,134** | **14.5%** | **7,070** |

Margins increased in absolute terms by Euro 7,070 thousand (from Euro 28,134 thousand in 2021 to Euro 35,204 thousand in 2022) in percentage terms from 14.5% in 2021 to 14.4% in 2022. This result is the combined effect of different trends in the three segments:

- Rail: the improvement of the EBITDA from Euro 6,844 thousand in 2021 to Euro 14,010 thousand in 2022 is due, on the one hand, to the recovery of full operations in the segment as described in the previous paragraph commenting on sales, and, on the other hand, to a strong improvement in the mix, now more oriented towards solutions with greater added value;
- Trencher: although sales increased, the EBITDA in the Trencher area decreased in absolute terms from a value of Euro 13,145 thousand in 2021 to a value of Euro 13,366 thousand in 2022. This decrease in the relative margins was due to the aforementioned effects of, on the one hand, higher cost of raw materials, transport and energy, with a still marginal contribution from the pursued policy of price increases, and, on the other hand, higher expenses related to provisions, trade fair and travel expenses, as well as the negative contribution of the Saudi Arabian subsidiary in particular;
- Energy: EBITDA decreased from a value of Euro 7,835 thousand in 2021 to a value of Euro 7,828 thousand in 2022, with reductions both in absolute and relative terms compared to turnover, motivated by a strong increase in the costs of materials and by slowdowns in the supply chain that, although in the presence of a solid backlog, were only partially mitigated by price adjustment actions at contracting authorities.

**Operating Income**

| | Financial year ended 31 December | | | | |
|---|---|---|---|---|---|
| *(Euro in thousands)* | **2022** | **% of revenues** | **2021** | **% of revenues** | **2022 vs 2021** |
| Stringing Equipment | 2,993 | 5.1% | 2,561 | 5.0% | 432 |
| Trencher | 83 | 0.1% | 156 | 0.1% | (73) |
| Rail | 10,043 | 18.9% | 2,970 | 9.0% | 7,073 |
| **Total operating income** | **13,119** | **5.3%** | **5,687** | **2.9%** | **7,432** |

The operating income as at 31 December 2022 stood at Euro 13,119 thousand (5.3% of revenues) up compared to Euro 5,687 thousand (2.9% of revenues) achieved as at 31 December 2021.

### 6.3 Balance sheet and financial profile

The financial position of the Group as at 31 December 2022 compared to 31 December 2021 is briefly shown in the table below.

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| **USES** | | |
| Net working capital | 80,631 | 76,536 |
| Fixed assets | 111,658 | 102,946 |
| Other long-term assets and liabilities | 19,452 | 14,172 |
| **Net invested capital** | **211,741** | **193,654** |
| **SOURCES** | | |
| Group net financial indebtedness | 128,364 | 121,012 |
| Shareholders' equity | 83,377 | 72,642 |
| **Total sources of funding** | **211,741** | **193,654** |

**A) Net working capital**

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Trade receivables | 56,229 | 54,392 |
| Work in progress contracts | 24,973 | 15,691 |
| Inventories | 101,411 | 81,293 |
| Trade payables | (74,178) | (55,966) |

| | | |
|---|---|---|
| Other current assets/(liabilities) | (27,804) | (18,874) |
| **Net working capital** | **80,631** | **76,536** |

Net working capital of Euro 80,631 thousand increased by Euro 4,095 thousand compared to 31 December 2021. This trend is mainly due to the increase in the item "Inventories" of Euro 20,118 thousand (equal to 24.7%), which reflects both a greater use of supplies and a general increase in the prices of raw materials and components.

### B) Fixed assets

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Intangible assets | 32,293 | 23,896 |
| Property, plant and equipment | 51,759 | 47,607 |
| Rights of use | 21,939 | 23,352 |
| Equity investments in associates | 5,639 | 8,088 |
| Other equity investments | 28 | 3 |
| **Fixed assets** | **111,658** | **102,946** |

Total *fixed assets* recorded a net increase of Euro 8,712 thousand compared to 31 December 2021 mainly due to the increase in trenching machines in the fleet offset by the decrease in the item "Equity investments in associates" of Euro 2,449 thousand due to the acquisition of control in Tesmec Saudi Arabia LLC and Tesmec Peninsula WLL.

### C) Other medium to long-term assets and liabilities

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Financial receivables and other non-current financial assets | 11,302 | 6,831 |
| Non-current trade receivables | 1,754 | 1,761 |
| Other non-current assets | 1,204 | 1,266 |
| Deferred tax assets | 16,349 | 15,839 |
| Employee benefit liability | (3,958) | (4,564) |
| Other long-term liabilities | - | (254) |
| Deferred tax liabilities | (7,199) | (6,707) |
| **Other long-term assets and liabilities** | **19,452** | **14,172** |

*Medium to long-term assets and liabilities* increased by Euro 5,280 thousand from Euro 14,172 thousand as at 31 December 2021 to Euro 19,452 thousand as at 31 December 2022. This change is mainly generated by the increase in non-current financial receivables of Euro 4,471 thousand and by the decrease in deferred tax assets of Euro 492 thousand.

### D) Net financial indebtedness

| | Financial year ended 31 December | | | |
|---|---|---|---|---|
| *(Euro in thousands)* | **2022** | ***of which with related parties and group*** | **2021** | ***of which with related parties and group*** |
| Cash and cash equivalents | (50,987) | | (50,189) | |
| Current financial assets | (17,163) | *(2,596)* | (16,777) | *(9,270)* |
| Current financial liabilities | 80,086 | *4,144* | 59,220 | *2,620* |
| Current financial liabilities from rights of use | 7,280 | | 6,484 | |
| Current portion of derivative financial instruments | - | | 50 | |
| **Current financial indebtedness** | **19,216** | ***1,548*** | **(1,212)** | ***(6,650)*** |
| Non-current financial liabilities | 92,376 | - | 104,166 | *3,263* |

| | | | | |
|---|---|---|---|---|
| Non-current financial liabilities from rights of use | 16,772 | | 18,009 | |
| Non-current portion of derivative financial instruments | - | | 49 | |
| Trade payables and other non-current payables | - | | 254 | |
| **Non-current financial indebtedness** | **109,148** | **-** | **122,478** | **3,263** |
| **Net financial indebtedness pursuant to ESMA 32-382-1138 Communication** | **128,364** | ***1,548*** | **121,266** | ***(3,387)*** |
| Trade payables and other non-current payables | - | | (254) | |
| **Group net financial indebtedness** | **128,364** | ***1,548*** | **121,012** | ***(3,387)*** |

The net financial indebtedness as at 31 December 2022 increased by Euro 7,352 thousand compared to the end of 2021 (6.1%). The net financial indebtedness prior to the application of IFRS 16, as at 31 December 2021, is equal to Euro 104,312 thousand with an increase of Euro 7,793 thousand compared to the end of 2021.

The table below shows the breakdown of the changes:

- increase in current financial indebtedness of Euro 20,428 thousand due to the:
  - increase in cash and cash equivalents and current financial assets of Euro 1,184 thousand;
  - increase in current financial liabilities of Euro 20,866 thousand mainly due to the short-term reclassification to short-term of the portions to be reimbursed in 2023;
- decrease in medium/long-term financial indebtedness of Euro 13,330 thousand relating to the short-term reclassification of new loans of Euro 25,549 thousand.

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.

With regard to the 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, there are no amounts to be disclosed in this regard at the end of the reporting year. As at 31 December 2021, the amount of Euro 254 thousand, which corresponded to the consideration still to be paid for the lease of the AMG business unit started in 2019 for which the acquisition was completed in 2022 and the related debt extinguished, was included.

At the end of the reporting year, all the covenants in place were complied with.

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 should be noted that the amounts relating to reverse factoring not included in the statement on indebtedness, in that the deferment is part of the Group's normal practice, amount to Euro 7,742 thousand.

**E) Shareholders' Equity**

| | **Financial year ended 31 December** | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Share capital | 15,702 | 15,702 |
| Reserves | 57,290 | 55,670 |
| Profit/(loss) for the year | 7,862 | 1,195 |
| Non-controlling interests | 2,523 | 75 |
| **Shareholders' equity** | **83,377** | **72,642** |

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:

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **Shareholders' Equity** | **Net result** |
| **Amounts resulting from the financial statements of Tesmec S.p.A.** | **92,220** | **4,134** |
| *Consolidation adjustments* | | |
| a) Equity investments evaluated using the equity method | 3,799 | (777) |
| b) Difference between book value and assets of consolidated equity investments | (23,109) | - |
| c) Results from consolidated equity investments | 6,188 | 6,188 |
| d) Translation reserve | 3,873 | - |
| e) Elimination of dividends distributed by Companies of the Group | (2,406) | (2,406) |
| f) Elimination of intra-group items | 289 | 723 |
| *Net effect of consolidation adjustments* | *(11,366)* | *3,728* |
| **Amounts attributable to the Group** | **80,854** | **7,862** |

**F) Investments**

Investments include capitalisations relevant to development projects (Euro 10,806 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.

**Financial risks**

**Risk related to business performance and financial situation**

2022 was a year characterised by a still uncertain macroeconomic context, with the impact of the Russian-Ukrainian conflict and the increasing trend in procurement and energy costs. However, the 2022 results are improving compared to those of 2021, even in the market context characterised by the aforementioned factors of geopolitical uncertainty and supply chain complexities.

From another point of view, even if the pandemic emergency was over in 2022, the possible introduction of other forms of restriction to cope with any pandemic recurrence cannot make the Group exclude the possibility of some slowdowns in the short term without, however, affecting the overall forecasts related to the Business Plan approved by the Board of Directors on 10 March 2023. The objectives of the 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 recent past, nor a significant worsening of the international macroeconomic scenario.

Furthermore, it is noted that the Business Plan is based on assumptions characterized by considerable uncertainties. On the one hand, the Plan has been prepared taking into consideration some hypothetical assumptions of a general nature and concerning future events which essentially depend on variables that cannot be controlled by the Company and the Group, relating to the pandemic scenario, the trend in the cost of energy and supply chain in general, the possible persistence of rigidity 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 to an extent, methods and/or times other than those envisaged. In this context, it should be noted that, although the plan was drawn up without specifically taking into consideration the effects of the Russian-Ukrainian conflict, the Group is not exposed to significant reductions in assets connected with the possible continuation of the interruption of operations with these markets (limited contribution to consolidated turnover in the last period of around 0.4%). On the other hand, the economic-financial projections assumed in the Plan were also defined on the basis of hypothetical assumptions relating to compliance with the clauses of the financial contracts which involve limits on the use of financial resources (including covenants) and the prospective evolution of the business, which are of a discretionary nature and pertain to future, uncertain events and partly independent of the will of the Directors and Management.
Therefore, due to the uncertainty associated with the realization of any future event, both as regards the occurrence of the event and as regards the extent and timing of its occurrence, there could be deviations, even significant ones, between final values and estimated values in the Plan, as well as delays in the execution of the Plan itself, with possible negative effects on the Group's business, equity and financial situation, economic results and prospects.

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

**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 segments 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.

**Supply risk and risk of fluctuation in purchase prices**

The Group, while retaining the management and organisation of the most important phases of its business model in-house, turns to suppliers for the purchase of semi-finished goods and finished components required for the manufacture of its products. The manufacture of some of the main products of the Group requires skilled labour, semi-finished goods, finished goods, components and high-quality raw materials. Therefore, the Group is exposed to the risk of encountering difficulties in obtaining the supplies it needs to carry out its activities, as well as the risk related to fluctuations in their prices.

In particular, in carrying out its production, the Group mainly uses semi-finished goods in steel and aluminium and semi-finished goods in nylon. The price of raw materials for these semi-finished goods – and, in particular, of steel – can be volatile due to several factors beyond the Group's control and are difficult to predict. Moreover, for the supply of some components, the Group uses high-end suppliers for which it is not a strategic customer.

The Tesmec Group put in place a purchasing policy aimed at diversifying the suppliers of components that have unique characteristics in terms of purchased volumes or high added value. The Group's price risk is mitigated by having multiple suppliers and by the inherent heterogeneity of raw materials and components used in the production of Tesmec machines. Moreover, in consideration of the nature of semi-finished goods and the importance of the technological content of the purchased components, their commodity price only partially affects the costs of purchase. However, in consideration of the current market context, characterised by increasing 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 requirements of the reference markets, especially for long-haul shipments, by the persistence of the pandemic crisis albeit with forms and methods that often have less impact on economic activities, as well as, lastly, by the onset - after the reporting year - of the Russian-Ukrainian conflict 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 procurement markets may negatively affect 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 year, 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 topics**

Climate change is an issue of particular attention for each industrial sector, including the one in which Tesmec operates, whose greenhouse gas emissions are mainly linked to the organization's direct consumption, mainly deriving from the production plants. But not only that, the company's attention is also directed 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 matter 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.

Tesmec has 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. In fact, the trends linked to the energy transition - decarbonisation, electrification and digitization - are elements that are guiding the formulation of corporate.

Moreover, 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. In particular, in 2022, the Control, Risk and Sustainability Committee began monitoring sustainability projects on a quarterly basis in order to verify their objectives and progress.

For more details, see paragraph 17.6 Responsible management of environmental impacts.

## 9. Human Resources, Training and Industrial Relations

The engagement model of the organizational structure, through the development of bottom-up activities, has generated a positive effect and found its foundation in every initiative of development, growth, internal communications, and moments of confrontation with the Management.
The organizational configuration has been increasingly consolidated:

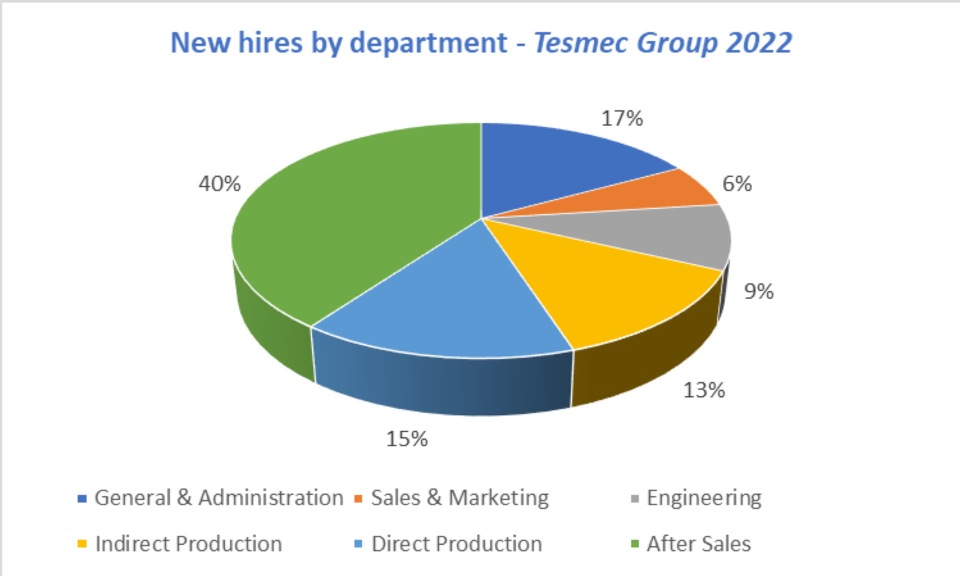
- the three Business Units (Energy, Railways and Trencher) were capable of transferring the full responsibility for results to the business and were equipped with all decision-making and operational levers;
- a group of companies and subsidiaries, of the different countries in which Tesmec operates, which refer directly to the three Business Units, ensuring the development and commercial growth. At the organizational configuration level, the inclusion of a new CEO in Tesmec USA was the result of an investment plan on the organization;
- a staff structure with a controlling and directing role on the strategic lines of the Group.

In 2022, Tesmec Group tried to ensure a level of business continuity and growth in the business, by reinvesting in the human capital both through a strong replacement action and through the inclusion in the company of new professional figures, required by technological evolution and change.

During 2022, the new Dynamic D365 application has completed its Roll-Out activity for all the companies of the Group. At the same time, the project for the new HR management system has continued through the INFOR platform, which in the coming years will optimize and unify all the processes of use and internal communication between all the Group’s companies.

New measurement parameters have been created for the performance indicators for the strategic figures, linking and directing them towards sustainability and ESG issues. Moreover, the engagement of the Management was increased to strengthen short-term incentives for profitability indicators, which were subdivided by Company and Business Unit. If the target is reached in the middle of the year, an advance of 30% on the MBO value will be paid.

During 2022, the Group’s employment recorded a net increase of 4%, reaching a total of 965 resources. Throughout the year, Tesmec has worked to realign market demand and supply of skills 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 talent attraction and retention through continuing education, the implementation of Digital Transformation and the enhancement of Teamworking and Networking. In 2022 there were a total of 194 new hires, distributed as shown in the chart below:




In 2022 98.7% of the Group's employees were employed with a permanent contract.

### 9.1 Employer Branding, Training, Welfare and Sustainability

For the initiatives of Employer Branding and the activities related to the aspect of training, welfare and sustainability (declined – in terms of human resources – in the activation of social volunteering projects) please refer to what is stated in DNF (paragraph 17.5 Management of human resources and human rights).

### 9.2 2023: Tesmec for the future

Creating value for the organization involves regenerating resources, starting from people. It will be necessary to give more weight to the potential of people and, for this reason, we will have to focus on the development of soft skills (as well as hard skills) and wellbeing.
During 2023 we will have to deal with the Great Resignation and the difficulty of finding skilled collaborators in addition to the possible increase in labor costs due to the lack of labor and rising inflation. Therefore, Tesmec will have to plan digital and infrastructure investments, redesign the work by investing in continuing education programs and in attracting talent to consolidate flexibility by trying to motivate and retain them.

It will be necessary to combine flexibility with new ways of communication and agile collaboration, so to combine adaptability to the economic environment and develop custom practices to increase workforce engagement.

It will be necessary to strengthen policies related to the relationship with schools, universities and businesses through internship and greater joint work as well as greater attention to the strengthening of internal skills and the quality of human relationships to guide the professionalism of young people.

As far as sustainability and solidarity initiatives are concerned, for 2023 Tesmec renews its support to the volunteering projects undertaken during 2022, as well as its relations with the respective non-profit organizations, trying – at the same time – to establish connections with other associations on the territory.

As for future strategies, Tesmec Group aims to:

1. face every situation with a people-focused approach: the HR team will have the opportunity to promote a change that will involve the whole organization;

2. listen to the voice of colleagues: the Employee Experience is one of the areas where the analysis of people brings maximum value. Companies that "listen well to talent" focus on business outcomes and key issues for business leaders and use the information they collect to make decisions for the benefit of the company and of its colleagues;

3. create an AI-based sourcing capacity, a fair internal labor market, and a well-structured onboarding to engage new colleagues right away.

## 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 2022 financial year, 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 2022 compared with that of the prior financial year is summarised below:

| | Financial year ended 31 December | | | |
|---|---|---|---|---|
| *(Euro in thousands)* | **2022** | **% of revenues** | **2021** | **% of revenues** |
| **Revenues from sales and services** | **110,775** | **100.0%** | **91,110** | **100.0%** |
| Cost of raw materials and consumables | (59,877) | -54.1% | (47,897) | -52.6% |
| Costs for services | (22,881) | -20.7% | (17,869) | -19.6% |
| Payroll costs | (21,973) | -19.8% | (21,049) | -23.1% |
| Other operating costs/revenues, net | 290 | 0.3% | (907) | -1.0% |
| Amortisation and depreciation | (5,917) | -5.3% | (6,410) | -7.0% |
| Development costs capitalised | 2,406 | 2.2% | 2,613 | 2.9% |
| **Total operating costs** | **(107,952)** | **-97.5%** | **(91,519)** | **-100.4%** |
| **Operating income** | **2,823** | **2.5%** | **(409)** | **-0.4%** |
| Financial expenses | (15,018) | -13.6% | (10,154) | -11.1% |
| Financial income | 17,363 | 15.7% | 9,586 | 10.5% |
| **Pre-tax profit/(loss)** | **5,168** | **4.7%** | **(977)** | **-1.1%** |
| Income tax | (1,034) | -0.9% | 225 | 0.2% |
| **Net profit/(loss) for the year** | **4,134** | **3.7%** | **(752)** | **-0.8%** |

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 871 thousand for the 2022 financial year and to Euro 820 thousand for the 2021 financial year.

The table below illustrates the performance of EBITDA that decreased by 45,6% compared to the previous financial year:

| | Financial year ended 31 December | | | | |
|---|---|---|---|---|---|
| *(Euro in thousands)* | **2022** | **% of revenues** | **2021** | **% of revenues** | **2022 vs 2021** |
| Operating income | 2,823 | 2.5% | (409) | -0.4% | 3,232 |
| + Amortisation and depreciations | 5,917 | 5.3% | 6,410 | 7.0% | (493) |
| **EBITDA** | **8,740** | **7.9%** | **6,001** | **6.6%** | **2,739** |

### Operating Income

The operating income of Euro 2,823 thousand in 2022, increased by Euro 3,232 thousand compared to 2021 mainly to the improvement of the railway sector.

### Net result

The result for the period amounted to Euro 4,134 thousand (negative and totalling Euro 752 thousand in 2021) after deducting taxes totalling Euro 1,034 thousand (income of Euro 225 thousand in 2021).

### Balance sheet and financial profile

The financial position of the Company as at 31 December 2022 compared to 31 December 2021 is summarised in the table below.

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| **USES** | | |
| Net working capital | 38,085 | 30,685 |
| Fixed assets | 101,454 | 98,072 |
| Other long-term assets and liabilities | 23,089 | 4,763 |
| **Net invested capital** | **162,628** | **133,520** |
| **SOURCES** | | |
| Net financial indebtedness | 70,408 | 45,546 |
| Shareholders' equity | 92,220 | 87,974 |
| **Total sources of funding** | **162,628** | **133,520** |

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

### Working capital

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Trade receivables | 44,411 | 31,156 |
| Inventories | 40,629 | 38,796 |
| Trade payables | (40,277) | (34,604) |
| Other current assets/(liabilities) | (6,678) | (4,663) |
| **Net working capital** | **38,085** | **30,685** |

The Working capital compared to revenues increased to 34.4% reported in 2022 from 33.7% in 2021. This result was affected by the increase in "Trade receivables" of Euro 13,255 thousand and the increase in trade payables of Euro 5,673 thousand.

**Fixed assets**

| | Financial year ended 31 December | |
|---|---|---|
| | **2022** | **2021** |
| Intangible assets | 8,266 | 8,141 |
| Property, plant and equipment | 8,124 | 7,609 |
| Rights of use | 8,412 | 11,200 |
| Equity investments in subsidiaries | 75,620 | 67,009 |
| Equity investments in associates | 1,008 | 4,110 |
| Other equity investments | 24 | 3 |
| **Fixed assets** | **101,454** | **98,072** |

Total fixed assets recorded a net increase of Euro 3,382 thousand, mainly attributable to the increase of the item Equity investments in subsidiaries for Euro 8,611 thousand due to the acquisition of de facto control of the company Tesmec Peninsula WLL and the additional 16% of the share capital of the company Saudi Tesmec LLC.

**Net financial indebtedness**

| | 31 December | | | |
|---|---|---|---|---|
| *(Euro in thousands)* | **2022** | ***of which with related parties and group*** | **2021** | ***of which with related parties and group*** |
| Cash and cash equivalents | (19,616) | | (21,000) | |
| Current financial assets | (44,439) | *(43,021)* | (66,250) | *(64,194)* |
| Current financial liabilities | 57,637 | *3,788* | 40,526 | *1,090* |
| Current financial liabilities from rights of use | 2,616 | | 2,547 | |
| Current portion of derivative financial instruments | - | | 50 | |
| **Current financial indebtedness** | **(3,802)** | ***(39,233)*** | **(44,127)** | ***(63,104)*** |
| Non-current financial liabilities | 67,819 | - | 80,695 | *3,263* |
| Non-current financial liabilities from rights of use | 6,391 | | 8,929 | |
| Non-current portion of derivative financial instruments | - | | 49 | |
| **Non-current financial indebtedness** | **74,210** | **-** | **89,673** | **3,263** |
| **Net financial indebtedness pursuant to ESMA 32-382-1138 Communication** | **70,408** | ***(39,233)*** | **45,546** | ***(59,841)*** |

Net debt stands at Euro 70,408 thousand as at 31 December 2022 from Euro 45,546 thousand as at 31 December 2021. The increase of Euro 24,862 thousand is mainly due to the reclassification in the medium/long term, following the amendments to the existing loan agreement granted to the subsidiary Tesmec USA, Inc. for a total of Euro 18,798 thousands.

**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 year starting after 31 December 2020, informing the market of it in the report on corporate governance to be published in 2023.
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 year

No significant events occurred after the reporting year:

## 15. Business outlook

Tesmec confirms its ability to respond to external challenges by adapting its strategy to external changes thanks to its sectoral and geographical diversification. The Group expects growth to be maintained and strengthened by the opportunities generated by national plans to support the development of infrastructure, energy transition and digitalisation projects. The Group's business is concentrated in strategic sectors that have extremely lively and significant growth prospects. Huge investments are planned in the Trencher segment for the implementation of telecommunications networks and digitalisation as well as for the development in the mining sector. The American market will contribute to the performance of 2023 also thanks to the new American IRA - Inflation Reduction Act plan, which is expected to favour American productions. 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 the light of the above, Tesmec forecasts revenues for 2023 at the top end of the 2021-2023 Business Plan range, i.e. between Euro 280-290 million, a margin of between 16% and 17%, an improvement over 2022, a reduction compared to the forecasts of the '21-'23 Plan, which did not contemplate inflationary effects such as those recorded in 2021 and 2022, and an improvement in Net Financial Indebtedness compared to the end of 2022.

## 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 21 April 2022, the Shareholders' Meeting authorised the treasury share buy-back plan for a period of 18 months; the authorisation of 21 April 2022 replaces the revocation granted by the Ordinary Shareholders' Meeting of 22 April 2022. 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 2022, 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 year 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 2022 financial year | Number of shares purchased | Number of shares sold | Number of shares held at the end of the 2022 financial year |
|---|---|---|---|---|---|---|
| Ambrogio Caccia Dominioni | Direct | Chairman and Chief Executive Officer | 915,600 | - | - | 915,600 |
| Gianluca Bolelli | Direct | Vice Chairman | 593,600 | - | - | 593,600 |
| Caterina Caccia Dominioni | Direct | Director | 55,700 | - | - | 55,700 |
| Lucia Caccia Dominioni | Direct | Director | 55,700 | - | - | 55,700 |
| Guido Luigi Traversa | Direct | Director | - | 100,000 | - | 100,000 |

**Italian Legislative Decree no. 231/2001**

As from 2008, the Company has adopted an Organisational, Management and Control Model pursuant to Italian Legislative Decree no. 231/2001 (Model 231) 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.

Constantly updated, Model 231 is a set of principles, rules, provisions, organisational schemes and related duties and responsibilities, required for the implementation and efficient management of the monitoring and control system of sensitive activities, in order to prevent the commission or attempted commission of offences by Company employees.

Model 231 and the Code of Ethics are the tool through which Tesmec clearly defines its values, principles and responsibilities in order to maximise Tesmec's own efficiency, reliability and reputation, which are key factors for its success and for improving the conditions in which the Company operates.

As part of the constant updating activity aimed at implementing regulatory innovations and corporate organisational changes, the Board of Directors of Tesmec S.p.A. approved the latest version of Model 231 on 5 August 2021. The Subsidiaries Tesmec Rail S.r.l. and Tesmec Automation S.r.l. adopted their own Organisational, Management and Control Model pursuant to Italian Legislative Decree no. 231/2001 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 19 December 2019 and 18 November 2019. Also as part of the constant updating aimed at implementing regulatory innovations and company organisational changes, the Board of Directors of Tesmec Rail S.r.l. and Tesmec Automation S.r.l. approved the latest versions of their respective 231 models on 29 October 2021.

**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 Brench 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 2022 pursuant to Italian Legislative Decree no. 254/2016

**Letter to Stakeholders**

*Dear Stakeholders,*

*I am pleased to present the Tesmec Group's 2022 Consolidated Non-Financial Statement, the reporting tool that summarises the initiatives undertaken and the ESG (Environmental, Social and Governance) commitments that the organisation has made during the year.*

*Now in its sixth edition, the document is part of an increasingly complex sustainability process, which considers the management of environmental, social and governance aspects a strategic priority.*

*We are a leading Group in the international market for technologies dedicated to the transport of electricity, data and materials.*

*In the challenge of decarbonisation and electrification, energy infrastructure becomes the most important factor in sustainable development, and Tesmec confirms its willingness to be one of the enablers of this era of green transition.*

*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.*

*Our R&D departments are working to increasingly integrate sustainability principles into innovation activities, ensuring the design of cutting-edge solutions that guarantee, in addition to the operational efficiency that has always characterised Tesmec branded products, the lowest possible environmental impact in compliance with the highest safety standards. Special attention is also paid to the life cycle and business processes with the commitment to gradually reduce our carbon footprint.*

*In this regard, we note the investment made in the new photovoltaic system at the Grassobbio production site and those planned for the Group's other factories. The objective of achieving significant energy savings for the facilities served, by using the renewable energy source represented by the sun, combines the strategic choice of producing electricity without the emission of pollutants, without noise pollution and with fossil fuel savings.*

*In 2022, the macroeconomic scenario was strongly influenced by the evolution of the conflict in Ukraine, the developments of which remain uncertain. War-related tensions, the increase in the prices of raw materials and energy and critical supply chain issues characterised the international environment, keeping uncertainty high and slowing international trade.*

*Faced with these events, our Group has acted prudently to continue to operate efficiently and confirm its strategic choice to continue along the virtuous process that combines the creation of economic value with environmental, social and governance sustainability topics.*

*For us, sustainability is not a fad or a mere declaration of intent, but a priority strategic lever and an integral part of what we do.*

*The economic results achieved so far provide a strong foundation on which to continue working to create long-term value for all our stakeholders, in line with the highest ethical and governance principles.*

*Environmental sustainability is a priority: the Group's commitment takes the form of activities aimed at reducing the environmental impact and atmospheric emissions of its products and processes, through technical plans for sustainable innovation, initiatives aimed at the responsible use of resources, environmental protection and full compliance with national and international regulations.*

*In addition to providing technological solutions that facilitate the transition to a more sustainable economy, Tesmec also has a strong commitment to social responsibility.*

*Human resources are a key competitive factor: their continuous enhancement through the process of sharing and participating in the company's initiatives, professional growth and satisfaction are fundamental objectives. In continuity with 2021, the Group* *continued to spread the culture of sustainability. In 2022, we intend to continue to raise awareness on this issue through information and training initiatives for all Group companies.*

*Our responsibility to the community is expressed through concrete actions in support of the community and in full respect of human rights. The Tesmec Group has a strong commitment to the community, supporting social and training projects both in the areas where the Group operates and abroad.*

*In 2022, "corporate volunteering" was launched, through which the Group aims to create opportunities for social awareness and sharing through an exchange of experience and knowledge that allows for human and personal growth of employees, who can choose to participate in projects carried out in collaboration with non-profit organisations.*

*The challenge of sustainability is a great opportunity for a Group like ours. We will continue along this process with increasing conviction and determination.*

*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 22nd 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 year ended on December 31st, 2022, 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 2022 (from January 1st to December 31st). 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 2021 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.

Tesmec is required to include in the NFS, starting from publications after January 1st, 2022, the disclosure required by the "EU Taxonomy" regulation in relation to the environmental sustainability activities carried out by the Group, in relation to which please refer to the paragraph "REGULATION 2020/852 ON EU TAXONOMY REGULATION". Pursuant to Article 10 of the Delegated Regulation (EU) no. 2021/2178 of 6th July 2021, this disclosure for 2022 relates to the proportion of the Group's total turnover, investment and operating costs pertaining to the eligible activities in line with the Taxonomy with reference to climate change mitigation and adaptation objectives, as contemplated in the annexes to the Delegated Regulation (EU) no. 2021/2139 of June 4th, 2021, as well as certain qualitative information.

The Non-financial Statement is drawn up on an annual basis and it is published on Tesmec website (https://investor.tesmec.com/en/Investors/AnnualReports).

The contact person for questions on reporting or information in the Non-Financial Statement is Patrizia Pellegrinelli, Tesmec's Sustainability & Innovation funding Manager.

Tesmec has notified the GRI (Global Reporting Initiative) of the use of the GRI Standards and the related Statement of use.

### 17.1.2 Scope of the Consolidated Non-financial Statement

The scope of the economic and financial data and information in this Consolidated Non-Financial Statement is the same as those in the 2022 Annual Financial Report of the Tesmec Group, therefore, it includes the data of the Parent Company (Tesmec S.p.A.) and its Subsidiaries consolidated on a line-by-line basis, excluding the Companies consolidated using the equity method in the consolidated financial statements of the Tesmec S.p.A. Group.

Some companies were also excluded from the environmental data, as shown below. In line with the Policy Group Non-Financial Report, the scope of environmental and social data and information is composed by the following companies consolidated on a line-by-line basis in the 2022 Annual Financial Report of the Tesmec Group (see § Group structure of the Report on Operations on page 15):

- 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

The following companies consolidated on a line-by-line basis in the 2022 Annual Financial Report are excluded from the scope of environmental data and information:

- Marais Cote d'Ivoire SARL
- Tesmec Guinee SARLU (former Marais Guinee SARLU)
- 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 company details of Tesmec Saudi Arabia LLC and Tesmec Peninsula WLL are included, with reference only to the exact figures as of 31st December 2022, while full-year flow data will be collected from 2023 onwards, as the two companies became part of the Group during 2022 and only impacted the Group for the last few months of the year.

The companies Marais Technologies SA, Bertel S.r.l. and Tesmec Maroc SARL 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).

This document also properly indicates the restatements (if any) of the figures published in the previous NFS.

During 2022, there were no significant changes to the Group's supply chain and ownership structure.

### 17.1.3 Reporting criteria and process

This NFS has been prepared in accordance with the methodologies and principles established by the GRI Sustainability Reporting Standards, defined by the Global Reporting Initiative (GRI) in their latest version (2021). The GRI standards published in 2021 updated in particular the drafting process, the general information and the process of identifying and assessing material topics: GRI 1 Foundation; GRI 2 General Disclosures; GRI 3 Material topics.

The GRI 1 Foundation 2021 defines the general principles of sustainability reporting (Reporting principles): accuracy, balance, clarity, comparability, completeness, sustainability context, timeliness and verifiability.

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 December 20th, 2022, by the Control and Risk, Sustainability and Related Party Transactions Committee and approved by the Board of Directors again on December 21st, 2022, 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.

1 As defined in the Group's Non-financial Report Policy, these figures refer to 30 September 2022.

This document was approved by the Board of Directors of Tesmec S.p.A. on March 10 , 2023.

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. This audit includes compliance with the requirements of Italian Legislative Decree no. 254/2016 and the GRI Standards. Other possible reporting standards and the assessment of activities that are eligible and in line as per Delegated Regulation (EU) 2021/2139 of June 4$^{th}$, 2021 are not included in the audit (European Taxonomy).

### 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. This segment also includes the excavation services for power lines and fibre optic cables that constitute the core business of Marais Group.

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 2022 are represented by the following numbers:

| | |
|---|---:|
| **Total number of employees** | 965 |
| **Net revenues** | € 245,245,511 |
| **Development costs capitalised** | € 10,806,282 |
| **Percentage of sale of products on total revenues** | 74% |
| **Percentage of services provided as a percentage of total revenues** | 26% |

For further details, refer to the Consolidated financial statements of the Tesmec Group, shown on page 132 et seq. of the 2022 Annual Financial Report.

### 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, summarised in the acronym SPEED, 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, 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 relevant channels used over the years and topics that may have emerged from each stakeholder group during the involvement phase. Note that also during 2022, participation in events and conferences took place both online/virtually and in person in full compliance 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** | IR events & Video conference | Presentation of company results/Strategic plan |
| **Financial and/or business partners** | Events/Webinars | Presentations of new projects |
| **Trade associations** | Conferences/Seminars | Coordination and development |
| **Suppliers** | Trade fairs/Online events/Newsletters | Presentations of new products and initiatives |
| **Customers** | Trade fairs/Online events/Newsletters | Presentations of new products and initiatives |

During 2022, Tesmec engaged its stakeholders on topics related to sustainability by participating in sector seminars and events. There were several opportunities to discuss relevant topics in the field of sustainable innovation.

Innotrans 2022 (20th-23rd September), the world's most important trade fair for the rail segment, held in Berlin every two years, and Bauma 2022 (24th-30th October), the largest international trade fair for the building and construction industry, held in Munich every three years, are worth mentioning. Tesmec's participation in the two events was dedicated to digital and sustainable innovation. The Group presented its innovation strategy focused on electrification, automation and digitalisation to ensure increasingly safe technological solutions with minimal environmental impact.

In particular, at the Innotrans trade fair, Tesmec focused on presenting innovative hybrid and electric vehicles and work vehicles equipped with advanced diagnostic systems. Special attention was paid to the concept of a new vehicle equipped with state-of-the-art maintenance and diagnostics of the railway catenary wire system, with innovative management of the combined (hydraulic/electric) transmission, which will allowing lower emissions and greater vehicle efficiency, thanks to the electronic management of the electrically driven truck. Moreover, a completely new model of a motorised electric ladder was presented, which aroused great interest from industry specialists.

The "e-Sidecut", Tesmec's first full electric trencher concept designed for the deployment of fibre optic networks in an urban environment, was launched at the Bauma trade fair in Munich. Also, as part of the Group's sustainable solutions, the new-generation machine PE1150 was presented, a full electric solution for underground cable laying, which allows a complete reduction of pollutant emissions and noise emissions. Finally, Tesmec promoted an innovative integrated system of ground mapping and ultra-high precision digital 3D surveying for safer and more efficient site management.
During Bauma, the Group organised an event at its stand with strategic suppliers to discuss the main issues relating to the supply chain. Attendance was good and topics such as economic sustainability and environmental and social sustainability were widely discussed.

In mid-September 2022, Tesmec organised a two-day Openhouse called “Safety, Sustainability, Efficiency of infrastructures installation”. The initiative was very successful: more than a hundred of the main customers and representatives of the sales network attended, ensuring the success of the event.

In addition to these initiatives, Tesmec organised other meetings with stakeholders, especially with its own employees, on issues 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 March 11th, 2022, the Board adopted, at the suggestion of the Chairman and Chief Executive Officer, the "Policy for the management of dialogue with all Shareholders", which explains the general principles, the management methods and the main contents of the dialogue between Tesmec and its Shareholders.

Among the opportunities for dialogue and involvement of local communities, the launch conference of the important Corporate Volunteering Project, organised in mid-May 2022, where the various associations and non-profit organisations involved presented their projects to all the employees of the Group's Italian offices is worth mentioning.

#### 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 represent the most significant impacts of the company on the economy, the environment and people, including impacts on human rights.

The GRIs (GRI 3 Material Topics) define the stakeholder as an individual or group that has an interest on which the company's activities have or could have an impact. The GRI Reporting Standards indicate the need for organisations to focus their non-financial reporting process on those topics that are significant ("material"), putting the concept of positive or negative, actual or potential business impact at the centre of materiality analysis.

In line with the new GRI standards, the process of defining material aspects was undertaken in 2022.

The process was developed in the following phases:

- Stakeholder mapping;
- Mapping of impacts and related topics;
- Assessment of impacts and related topics;
- Definition / prioritization of the list of material topics.

The stakeholder categories of employees, customers and agents were involved in the materiality analysis process and were surveyed online.

The mapping of impacts and related topics was carried out based on the analysis of the regulatory and reference context, the benchmarking analysis on sustainability topics reported by the main comparable companies in the sector, on the Topics identified by the main academic sources, and on the analysis of the main information related to the Tesmec Group in the field of sustainability and/or present in the 2021 Consolidated Non-Financial Statement.

An assessment of the significance of the Tesmec Group's impacts on the economy, the environment and people, including impacts on human rights, generated through the Group's business activities and relationships was required to prioritise them. The assessment consisted in assigning a score on a scale of 1 to 5 (1 = low impact - 5 = very high impact).

The assessment of the current and potential positive impacts generated by the Group was carried out taking into consideration the significance of a positive impact, which is determined by Scale (how positive the impact is or could be), Scope (how widespread the impact is or could be) and Probability (possibility of the impact occurring) if the impact is potential.

The assessment of current and potential negative impacts generated by the Group was carried out taking into consideration the significance of a negative impact, which is determined by Severity (i.e.: scale - how serious the impact is; extent - how widespread the impact is; irreparability - how difficult it is to neutralise or remedy the damage caused) and Probability (the possibility of the impact occurring) if it is potential.

For the purposes of the analysis process, the Tesmec Group also involved its Top Management, submitting the same survey, with the same compilation methods.

Following the impact assessment, a relevant qualitative analysis was performed based on the results obtained, which led to the grouping and exclusion of impacts that were found to be below the identified "materiality threshold" (3.33) and therefore not considered material.

Following the process, the Tesmec Group's 2022 list of material topics was defined, substantially in line with those of 2021.

The following is the list of material topics resulting from the process:

- Occupational Health and Safety
- Anti-corruption, business ethics and corporate governance
- Customer satisfaction
- R&D and digital transformation
- Responsible management of energy consumption
- Personnel development and talent attraction
- Well-being of people
- Product and Life Cycle Design and Product Quality and Safety
- Reduction of emissions and fight against climate change
- Raw materials and other materials
- Sustainable supply chain management
- Waste and chemical product management
- Diversity, fairness and non-discrimination
- Management of data confidentiality
- Human rights

The Control and Risk, Sustainability and Related Party Transactions Committee validated the list of material topics on 20th December 2022 and the Board of Directors approved it on 21st December 2022.

**Table of reconciliation between TESMEC material topics and the GRI Standards**

| Area D Lgs 254/2016 | Material aspects | GRI topic standards of reference | Impact boundary | Impact type | Nature of the impact |
|---|---|---|---|---|---|
| **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 | Negative |
| **Human Resources** | Well-being of people | Employment (GRI 401) | All the Group | Caused by the Group | Positive |
| | Industrial relations | Labour/Management Relations (GRI 402) | All the Group | Caused by the Group | Positive |
| | 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 | Positive - Negative |
| | Personnel development and talent attraction | Training and Education (GRI 404) | All the Group | Caused by the Group | Positive - Negative |
| | Diversity, equal opportunities and non-discrimination | Diversity and Equal Opportunities (GRI 405) Non-discrimination (GRI 406) | All the Group | Caused by the Group | Negative |
| **Human rights** | Human rights | Non-discrimination (GRI 406) | All the Group Suppliers | Caused by the Group and directly related through a business relationship | Negative |
| **Environment** | Responsible management of energy consumption | Energy (GRI 302) | All the Group | Caused by the Group | Positive |
| | Reduction of emissions and fight against climate change | Emissions (GRI 305) | All the Group | Caused by the Group | Positive – Negative |
| | Waste and chemicals management | Waste (GRI 306) | All the Group | Caused by the Group | Negative |
| | Raw materials and materials | Materials (GRI 301) | All the Group Suppliers | Caused by the Group and directly related through a business relationship | Positive – Negative |
| **Social** | Business ethics and corporate governance | Anti-corruption (GRI 205) Tax (GRI 207) | All the Group | Caused by the Group | Positive – Negative |
| | Product quality and safety | Customer Health and Safety (GRI 416) | All the Group | Caused by the Group | Positive – Negative |
| | Responsible management of the supply chain | Supplier Environmental Assessment (GRI 308) Supplier Social Assessment (GRI 414) | All the Group Suppliers | Caused by the Group and directly related through a business relationship | Positive - Negative |
| | Customer satisfaction | n/a | All the Group | Caused by the Group | Positive |
| | R&D and digital transformation | n/a | All the Group | Caused by the Group | Positive – Negative |
| | Management of data confidentiality | Customer Privacy (GRI 418) | All the Group | Caused by the Group | Negative |

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


- **SGD3 - 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;
- **SDG4 - Quality education:** ensure inclusive and equitable quality education and promote lifelong learning opportunities for all;
- **SDG7 - Affordable and Clean Energy:** promoting initiatives to optimise the Group's energy consumption by reducing it and favouring the use of renewable sources;
- **SDG 8 - Decent work and economic growth:** promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all;
- **SDG9 - 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;
- **SDG11 - Sustainable Cities and Communities:** supporting the dissemination of green technological practices and solutions for cities and environments;
- **SDG12 - 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;
- **SDG15 - 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 November 5th, 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.

The Board of Directors plays a key role in developing, approving and updating the organization's purpose, value or mission statements, strategies, policies and goals related to sustainable development, and processes for identifying and managing related impacts.

During 2022, the Group implemented several activities in line with the SDGs and in accordance with the guidelines of the sustainability plan. These are described in the following paragraphs of this report.

**17.1.9 European Taxonomy**

In recent years, the European Union has developed an ambitious strategy for sustainable development and the transition to a low-carbon economy, in line with the contents of the 2015 Paris Climate Agreement and the United Nations' 2030 Agenda with its 17 Sustainable Development Goals, committing to become the first climate-neutral continent by 2050 and to reduce greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels.

In this perspective, the European Commission adopted a first Sustainable Finance Action Plan in 2018, in which it set out a strategy that aims to redirect capital flows towards sustainable investment in order to achieve sustainable and inclusive growth. In this context, a central role is played by the need to establish a classification system or "taxonomy" of sustainable activities, which is set out in Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020[2] (the Taxonomy Regulation), which defines specific criteria for identifying environmentally sustainable economic activities.

The central role assigned to the Taxonomy Regulation is to harmonise at European level the criteria according to which an economic activity can be considered environmentally sustainable with respect to certain environmental objectives.

The Taxonomy Regulation identifies six environmental and climate objectives:

1. climate change mitigation;
2. climate change adaptation;
3. sustainable use and protection of water and marine resources;
4. transition to a circular economy, also with reference to waste reduction and recycling;
5. pollution prevention and control;
6. protection of biodiversity and the health of eco-systems.

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 2021[3]. 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.

In line with Regulation (EU) no. 2020/852, Tesmec discloses in this Consolidated Non-Financial Statement the portion of revenues, capital expenditure (Capex) and operating expenses (Opex) that is "taxonomy-eligible" and "taxonomy-aligned", i.e., those sustainable activities that fall within the list of activities listed by the Taxonomy in the Delegated Acts and that meet the technical screening criteria.

In particular, to be considered environmentally sustainable and in line with the Taxonomy, an activity must meet the following requirements:

- contribute significantly to the achievement of one or more of the environmental objectives defined in the Regulation;
- comply with the technical screening criteria established by the Commission;

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.

- do not cause significant harm to any of the environmental objectives (meeting the "DNSH - Do Not Significant Harm" criteria);
- be carried out in compliance with minimum safeguards, i.e. the organisation must demonstrate that it complies with the OECD Guidelines for Multinational Enterprises and with the United Nations Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight core conventions identified in the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

2022 is the first year of application of the European Taxonomy, with regard to the alignment 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.

*Significant contribution to climate change mitigation*

The Tesmec Group identified its business activities as "enabling activities", i.e. consisting of products and services that make a significant contribution to other activities from an environmental perspective by contributing to the first objective identified by the European Commission, i.e. **climate change mitigation**.

According to the European Environment Agency, "Mitigation" means reducing the impact of climate change by preventing or reducing the emission of greenhouse gases (GHGs) into the atmosphere. Mitigation is achieved by reducing the sources of these gases (e.g. by increasing the share of renewable energy or creating a cleaner mobility system) or by enhancing their storage.
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 $CO_2$ emissions per unit of excavated volume. The Trencher Division is also studying the first electric trencher concept.

The Group's focus is not only on investing in technological solutions that aim to reduce the carbon footprint, but also on promoting efficient and sustainable business processes through the proper management of resources, thereby promoting the reduction of direct and indirect environmental impacts. An example of this is the project to extend and upgrade the photovoltaic system at the Group's headquarters in Grassobbio, which started in November 2022, and which stems from the need to combine architectural and environmental protection requirements, the total absence of noise pollution, a significant saving of fossil fuels and, above all, the production of electricity without the emission of pollutants. This investment is part of a broader plan to reduce the Group's environmental impact.

*Compliance with technical screening criteria specific to each economic activity*

The Company assessed that 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 specific technical screening criterion in "3.6" refers to economic activities that manufacture technologies that significantly reduce life-cycle greenhouse gas emissions, and demonstrate such a reduction, compared to the best available alternative technologies/solutions/products on the market. The life cycle greenhouse gas emission reduction is calculated according to Commission Recommendation no. 2013/179/EU or alternatively according to ISO 14067:201897 or ISO 14064-1:201898. The quantified life cycle greenhouse gas emission reduction is verified by an independent third party.

To this end, Tesmec commissioned a study from a specialised consultant in 2022 in order to gain knowledge and awareness of the environmental impact associated with greenhouse gas emissions for both stringing machines and trenching technology. In particular, an analysis was carried out to determine the quantification of impacts in terms of greenhouse gas (GHG) emissions and removals during the life cycle. The aim of the activity was to verify potential environmental impacts related to Tesmec machinery, for the Climate Change category.

In this context, Tesmec decided to use the Carbon Footprint methodology, which is used according to international standards:

- ISO 14067:2018 Environmental management - Carbon Footprint - Principles, requirements and guidelines
- ISO 14040:2006+A1:2020 Environmental management - Life cycle assessment - Principles and framework
- ISO 14044:2006+A2:2020 Environmental management - Life cycle assessment - Requirements and guidelines

to assess and compare the environmental impact associated with:

- two Tesmec stringing equipment products (a BAT - Best Available Technology machine and a Digital 4.0 machine)

- a Tesmec trencher and an excavator from a market-leading competitor.

The study on the two Tesmec stringing equipment products and the Tesmec trencher was carried out by analysing the consumption of resources, waste and materials for the different phases of the life cycle of the products from cradle to grave, i.e. the extraction and use of raw materials, the use of secondary materials, their transport and processing, the assembly process at the production factory, the distribution process of the finished products at the installation site, the installation of the products, the use phase including maintenance, and the end of life.
For data collection, the period from January 2021 to December 2021 was taken as a reference and specific data was collected for all products under consideration.
In particular, the most important primary source data relates to raw materials, their transport, electricity, heat and water consumption, as well as waste generated in the assembly process, distribution distances and consumption during use and maintenance.
Data from secondary sources relates to vehicle combustion processes (emissions, fuel consumption), electricity (distribution network, sulphur hexafluoride emissions, losses), extraction and processing of raw materials, the energy mix used (residual mix) and modelling of the proposed end of life.
The study results show that, for the impact category CF Total, consumption associated with downstream is predominant (> 85%) where the main impact is due to the use phase for all products analysed.
A sensitivity analysis was carried out on the assumption concerning the transport of the finished product at the end of its life, which showed the robustness of the assumptions made and the model created.

The study on the competitor excavator was carried out by analysing the consumption of resources, waste and materials for the different phases of the product life cycle from cradle to grave, i.e. the extraction and use of raw materials, the related processing, the use phase including maintenance, and the end of life.
For data collection, the period from January 2021 to December 2021 was used as a reference and proxy data was collected for all life cycle phases except for the use and maintenance phase.
In particular, the main data from primary sources concern the weight of machinery and consumption during use and maintenance.

Data from secondary sources concerns the composition of the machinery, consumption for the production of the machinery, transport and end-of-life modelling.
The study results show that, for the impact category GWP Total, consumption associated with downstream is predominant (> 85%).

Finally, Tesmec has identified an independent third party to verify and validate the results of the product Carbon Footprint study (CFP) and its calculation, in accordance with the current version of the ISO 14067:2018 Standard and the Product Category Rules (PCR), or other applicable documents.
This is a leading company in the world for inspection, testing, analysis and certification services company that carried out an audit to confirm that the quantification of the CFP was carried out in accordance with §6 of ISO 14067:2018 and the applicable PCR, confirm that the CFP study report was carried out in accordance with §7 of ISO 14067:2018, and confirm that the Carbon Footprint is accurate complete, consistent, transparent and free from material errors or omissions.
The verification of the quantification method was carried out as follows:

1. Inspection of production factories to check that processes are as described in the documents;
2. Checking primary data collected and provided by the company, in particular: bill of materials, factory consumption, transport of raw materials and distribution of finished product, use phase;
3. Checking methodological choices and compliance with reference standards;
4. Checking the model used, consistency with the data collected and reports prepared, to quantify potential environmental impacts.

In addition to this audit, a critical review was also carried out to assess the additional analysis carried out by Tesmec as part of the same project on the competing excavator product.

The audit achieved its objectives satisfactorily and was concluded successfully.

In the light of the activity described above, it can therefore be stated that:

- the use of the stringing equipment machine 4.0 under standard conditions for a service life of 3,000 hours, compared to the use of a BAT machine under standard conditions for a service life of 3,000 hours, avoids the emission of 2,300 kg of CO2 and (the impact is 2.4% lower);

- the use of the trencher under standard conditions for a service life of 10,000 hours, compared to that of four excavators in standard conditions for a service life of 10,000 hours, avoids the emission of 5,250,000 kg of CO2 and (the impact is 67.8% lower);

Based on the above studies and evidence, the company reported the revenues from the sale of the "Full Electric" and "Digital Range 4.0" machine line as aligned for the Stringing equipment segment. For the Trencher segment, the Company reported revenues from the sale of the latest generation of Trencher and surface miners as aligned. The same approach was applied to the calculation of Capex and Opex.

The Company has assessed that the Energy Automation activity falls within the economic activity described in point "3.1. Manufacture of Renewable Energy Technologies - Annex I of the Regulation" as well as the offer of **solutions and services of trencher rental** with operator (hot rental or wet rental) or without operator (cold rental or dry rental) addressed to wind or photovoltaic plant projects. 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. and 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 specific technical screening criterion of point "3.1" refers to economic activities that manufacture renewable energy technologies. In this regard, Tesmec analyses and reported turnover, opex and capex related to the development and installation of renewable energy technologies, as defined in Article 2, paragraph 1 of Directive (EU) no. 2018/2001[4].

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

4 "Energy from renewable sources" or "renewable energy": energy from non-fossil renewable sources, i.e. wind, solar (solar thermal and photovoltaic) and geothermal energy, environment energy, tidal energy, wave and other forms of marine energy, hydraulic energy, biomass, landfill gas, sewage treatment plant gas and biogas.

(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 specific technical screening criterion of point "3.3" includes in the economic activity the manufacture, repair, maintenance, upgrading, change of use or modernisation of (a) trains, passenger carriages and railway wagons with zero direct emissions (from exhaust) of CO2; (b) trains, passenger carriages and railway wagons with zero direct emissions (from exhaust) of $CO_2$ when operating on tracks with the required infrastructure and using a conventional engine when such infrastructure is not available (bimodal).

Therefore, the analyses of this economic activity included in the calculation of the percentage of turnover relating to economic activities in line with 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.

*Do Not Significant Harm – DNSH principle*

The DNSH (Do Not Significant Harm) principle is defined by Regulation (EU) 2020/852 on Taxonomy (Article 17) and envisages that, in order to be defined as sustainable, an economic activity must not only contribute significantly to one or more of the environmental objectives set out in Article 9 of the Regulation, but must not harm any of the remaining objectives.

In carrying out its economic activities, the Tesmec Group takes into account the environmental impact of its business and the environmental impact of the products and services it provides. As also reported in the Sustainability Policy, Tesmec undertakes not to produce negative impacts on the environmental objectives defined in the Taxonomy Regulation, complying with the DNSH principle.

The analysis was carried out on the basis of the provisions of Delegated Regulation (EU) no. 2021/2139 of 4 June 2021, which complements Regulation (EU) no. 2020/852 by setting technical screening criteria for climate objectives (mitigation and adaptation). Tesmec has identified the climate change mitigation objective (Objective 1) as a significant contribution to the achievement of the environmental objectives of the Taxonomy. The Annexes to the Delegated Regulation define the criteria to be followed to verify compliance with the DNSH principle. These criteria can be specific or generic in relation to the various activities. The generic criteria can be found in the Appendices to the Annexes.

For Annex 1 (Objective 1 - Climate Change Mitigation), Appendix A sets out the criteria for Objective 2 Climate Change Adaptation, while Appendices B, C, D set out the criteria for the objectives on water/marine resources, pollution/chemicals and biodiversity/ecosystems, respectively.

The analysis and internal due diligence process concerned the Group's assets identified as eligible for the purposes of the European taxonomy, for which the compliance with the technical screening criteria identified by Delegated Regulation no. 2021/2139 was calculated. This process involved the following:

a) involvement of Tesmec's Business Unit managers and technical analysis of eligible activities with respect to specific DNSH criteria;
b) analysis of processes for managing activities/Business Units;
c) document analysis.

The analysis was carried out with the support of a consultant specialised in environmental objectives.

| Tesmec Business Unit | Assets | Description (abstract) | EU Taxonomy objective |
|---|---|---|---|
| *Trencher* | 3.1 Manufacture of renewable energy technologies<br><br>3.6 Manufacture of other low-carbon technologies | Manufacture of renewable energy technologies<br><br>Manufacture of technologies to substantially reduce greenhouse gas emissions in other sectors of the economy. | Climate change mitigation |
| *Energy* | *Stringing equipment segment*:<br>3.6 Manufacture of other low-carbon technologies<br><br>*Energy Automation segment:*<br>3.1 Manufacture of renewable energy technologies | Manufacture of renewable energy technologies<br><br>Manufacture of technologies to substantially reduce greenhouse gas emissions in other sectors of the economy. | |
| *Rail* | 3.3 Manufacture of low-carbon technologies for transport | Manufacture, repair, maintenance, upgrading, change of use and modernisation of vehicles, rolling stock and low-carbon ships. | |

The table summarises the results of the analysis carried out for DNSH purposes and then presents the results of the analysis carried out for each business unit.

| **Tesmec activities** | | **DNSH alignment (YES/NO)** | | | | |
|---|---|---|---|---|---|---|
| **Business Unit** | **Segment** | **Climate change adaptation** | **Water and marine resources** | **Transition Circular economy** | **Pollution** | **Biodiversity and ecosystems** |
| Trencher | - | YES | YES | YES | YES | YES |
| Energy | Stringing Equipment | YES | YES | YES | YES | YES |
| Energy | Energy Automation | YES | YES | YES | YES | YES |
| Rail | - | YES | YES | YES | YES | YES |

**BUSINESS UNIT: TRENCHER**

<table>
<tr><td colspan="2">Activities<br>3.1. Manufacture of renewable energy technologies<br>3.6 Manufacture of other low-carbon technologies</td></tr>
<tr><td colspan="2">Alignment with DNSH criteria<br>Delegated Regulation EU no. 2021/2139 - Annex 1 - Climate Change Mitigation</td></tr>
<tr><td colspan="2">2 Adaptation to climate change</td></tr>
<tr><td>Criteria set out in Appendix A<br>Generic DNSH criteria for climate change adaptation.<br><br>Areas of assessment<br>a) Identification of physical climate risks;<br>b) if the activity is considered to be at risk: climate risk and vulnerability assessment;<br>c) assessment of adaptation solutions that can reduce the identified physical climate risk.</td><td>The analysis did not reveal any physical climate risks that could significantly affect economic activity.</td></tr>
<tr><td colspan="2">3 Sustainable use and protection of water and marine resources</td></tr>
<tr><td>Criteria set out in Appendix B<br>Generic DNSH criteria for the sustainable use and protection of water and marine resources.<br><br>Areas of assessment:<br>Good water status and ecological potential; Management Plan for Water Use and Protection.</td><td>The analysis carried out did not reveal any particular risks of environmental degradation related to the preservation of water quality and the prevention of water stress in relation to the carrying-out of economic activity.<br><br>The production sites are in line with national and regional directives on wastewater management.</td></tr>
<tr><td colspan="2">4 Transition to a circular economy</td></tr>
<tr><td>Specific DNSH criteria<br>a) reuse and use of secondary raw materials and reused components in the manufacture of products;<br>b) designed for high durability, recyclability, easy disassembly and adaptability of manufactured products;<br>c) waste management that favours recycling over disposal in the manufacturing process;<br>d) information on and traceability of potentially hazardous substances throughout the life cycle of manufactured products.</td><td>The analysis carried out showed that the technology adopted for the machinery used for the business, accompanied by a study of the subsoil and the type of intervention, made it possible to minimise the impact on the surrounding area and limit the environmental impact, compared with the application of traditional excavation techniques.<br><br>The efficiency and precision of the trenchers reduce lead times and the number of machines used, limiting the use of resources with the same performance. The restoration and closure works of the excavation are carried out with a preference for the recovery of up to 100% of the excavated material, possibly compacted using environmentally friendly binders. During the excavation phase, the machine also simultaneously crushes the material, allowing it to be reused without the need for further crushing.<br><br>The Group adopts the ISO 14001:2015 certified management system and constantly monitors regulatory developments. Waste is managed in accordance with Italian regulations with annual submission of the MUD and registration of loads and discharges not only on the relevant paper registers, but also via a specific database.</td></tr>
</table>

| 5 Pollution prevention and reduction | |
|---|---|
| Criteria set out in Appendix C<br>Generic DNSH criteria for pollution prevention and control regarding the use and presence of chemicals<br><br>The activity does not involve the manufacture, marketing or use of:<br>a) substances pursuant to Regulation (EU) no. 2019/1021);<br>b) mercury, mercury compounds, mercury mixtures and products with added mercury (Article 2 Regulation (EU) no. 2017/852);<br>c) ozone-depleting substances (Regulation (EU) no. 2009/1005);<br>d) substances pursuant to Annex II Directive (EU) no. 2011/65 (electrical and electronic equipment);<br>e) substances pursuant to Annex XVII of Regulation (EC) no. 2006/1907;<br>f) substances pursuant to Article 57 Regulation (EC) 2006/1907 criteria (e.g. substances that are carcinogenic, mutagenic, toxic for reproduction, persistent, bioaccumulative and toxic, and substances that disrupt the endocrine system or for which there is evidence of serious effects on human health or the environment);<br>g) other substances, pursuant to Article 57 of Regulation (EC) no. 2006/1907. | Analyses conducted at all Group plants by the Quality, Safety and Environment Department showed that all substances used comply with Appendix C.<br><br>The Group carried out a comparative analysis of all substances/chemicals used at its production sites. The verification of all the substances listed in the safety data sheets (SDS) of the chemical products used at all Tesmec S.p.A. factories (Endine Gaiano, Grassobbio and Sirone), in relation to the relevant European directives and/or regulations, did not reveal any correlation with the presence of banned and/or restricted products according to the current DNSH criteria. |
| **6 Protection and restoration of biodiversity and ecosystems** | |
| Criteria set out in Appendix D<br>Generic DNSH criteria for the protection and restoration of biodiversity and ecosystems.<br><br>Areas of assessment<br>▪ Environmental Impact Assessment (EIA) as per Directive no. 2011/92/EU;<br>▪ In case of an EIA: the necessary mitigation and compensation measures were implemented to protect the environment.<br>▪ Sites and operations located in or near biodiversity-sensitive areas: assessment and, based on the findings, necessary mitigation measures are implemented. | Tesmec's plants are not subject to an EIA as the environmental impact of the plants is not relevant according to industry guidelines. Moreover, the plants themselves are not located in sensitive areas for the purpose of protecting biodiversity and potential impacts.<br><br>With regard to the sites where the Business Unit's products are used, it should be noted that the responsibility for any environmental impact assessments or specific examinations regarding possible impacts on the protection of biodiversity and ecosystems lies directly with the customer/client. |

EMARKET SDIR CERTIFIED

BUSINESS UNIT: ENERGY - STRINGING EQUIPMENT SEGMENT

| **Assets**<br>**3.6 Manufacture of other low-carbon technologies** | |
|---|---|
| *Alignment with DNSH criteria*<br>*Delegated Regulation EU no. 2021/2139 - Annex 1 - Climate Change Mitigation* | |
| **2 Adaptation to climate change** | |
| Criteria set out in Appendix A<br>Generic DNSH criteria for climate change adaptation.<br><br>*Areas of assessment: as per Business Unit Trencher* | The analysis did not reveal any physical climate risks that could significantly affect economic activity.<br><br>It should be noted, in this regard, that the new full electric machines in the Energy Stringing segment have been specifically designed to meet the technical requirements of laying high-voltage underground power lines; this type of line guarantees greater safety and better continuity of transmission service even in the event of natural disasters than traditional aerial lines. |
| **3 Sustainable use and protection of water and marine resources** | |
| Criteria set out in Appendix B<br>Generic DNSH criteria for the sustainable use and protection of water and marine resources.<br><br>*Areas of assessment: as per Business Unit Trencher* | The analysis did not reveal any particular risks of environmental degradation related to the preservation of water quality and the prevention of water stress in relation to the carrying-out of economic activity.<br><br>The production sites are in line with national and regional directives on wastewater management. |
| **4 Transition to a circular economy** | |
| Specific DNSH criteria: *as for Business Unit Trencher* | The Energy Stringing segment is diversifying its machinery design and production in line with evolving market requirements.<br><br>Tesmec's production is specifically oriented towards the development of full electric machines, able to provide a performance in line with the peculiarities of the project. Electrically driven machines have been on the market since 2022 and currently represent around 10% of total production, with growing demand. These technologies are designed to optimise the use of natural and economic resources, as they do not require the use of hydraulic oil - as they have no traditional hydraulic system - and limit noise pollution and greenhouse gas emissions during operation.<br><br>The design of full electric vehicles aims to make the management of machinery smart, starting from the possibility of disassembling individual components, allowing them to be replaced, repaired or maintained, with a special attention to the flexibility of the electric battery - a critical element from the point of view of vehicle autonomy - which in the new models can be replaced and recharged separately, guaranteeing the continuity of operation of the vehicle on the construction site.<br><br>In general, the design has always been focused on ensuring high product durability and resilience; full electric machines also meet this requirement, as the life time of the main components is longer than the life time of the machine itself, and therefore do not require significant periodic replacements, which would have a major impact on waste management and disposal. |

EMARKET SDIR CERTIFIED

| | |
|---|---|
| | All the machines, whether with traditional hydraulic systems or electric transmission, are equipped with REM (Remote Monitoring System) 4.0 technologies that allow remote operation of the vehicle, as well as constant status monitoring, the programming of ad hoc maintenance cycles, and the adjustment of engine power according to performance requirements, resulting in a reduction in overall consumption of between 25 and 30% compared to traditional machines.<br><br>The Group adopts the ISO 14001:2015 certified management system and constantly monitors regulatory developments. Waste is managed in accordance with Italian regulations with annual submission of the MUD and registration of loads and discharges not only on the relevant paper registers, but also via a specific database. |
| **5 Pollution prevention and reduction** | |
| Criteria set out in Appendix C<br>Generic DNSH criteria for pollution prevention and control regarding the use and presence of chemicals<br><br>*Areas of assessment: as per Business Unit Trencher* | Analyses conducted at all Group plants by the Quality, Safety and Environment Department showed that all substances used comply with Appendix C.<br><br>The Group carried out a comparative analysis of all substances/chemicals used at its production sites. The verification of all the substances listed in the safety data sheets (SDS) of the chemical products used at all Tesmec S.p.A. factories (Endine Gaiano, Grassobbio and Sirone), in relation to the relevant European directives and/or regulations, did not reveal any correlation with the presence of banned and/or restricted products according to the current DNSH criteria. |
| **6 Protection and restoration of biodiversity and ecosystems** | |
| Criteria set out in Appendix D<br>Generic DNSH criteria for the protection and restoration of biodiversity and ecosystems.<br><br>*Areas of assessment: as per Business Unit Trencher* | Tesmec's plants are not subject to an EIA as the environmental impact of the plants is not relevant according to industry guidelines. Moreover, the plants themselves are not located in sensitive areas for the purpose of protecting biodiversity and potential impacts.<br><br>With regard to the sites where the Business Unit's products are used, it should be noted that the responsibility for any environmental impact assessments or specific examinations regarding biodiversity lies directly with the customer/client. |

**BUSINESS UNIT: ENERGY - ENERGY AUTOMATION SEGMENT**

| **Activities**<br>**3.1. Manufacture of renewable energy technologies** | |
|---|---|
| *Alignment with DNSH criteria*<br>*Delegated Regulation EU no. 2021/2139 - Annex 1 - Climate Change Mitigation* | |
| **2 Adaptation to climate change** | |
| Criteria set out in Appendix A<br>Generic DNSH criteria for climate change adaptation.<br><br>*Areas of assessment: as per Business Unit Trencher* | The analysis did not reveal any physical climate risks that could significantly affect economic activity.<br><br>The products are installed within electricity transmission and distribution networks to protect and monitor these networks (also remotely); therefore, depending on the peculiarities of the individual product and the type of installation, the devices are always equipped with appropriate weather protection mechanisms, limiting the risk of failure even in the event of unforeseen natural events; the resilience of these products brings benefits to the network on which they are installed, in terms of security and continuity of operation. |
| **3 Sustainable use and protection of water and marine resources** | |
| Criteria set out in Appendix B<br>Generic DNSH criteria for the sustainable use and protection of water and marine resources.<br><br>*Areas of assessment: as per Business Unit Trencher* | The analysis did not reveal any particular risks of environmental degradation related to the preservation of water quality and the prevention of water stress in relation to the carrying-out of economic activity.<br><br>The production sites are in line with national and regional directives on wastewater management. |
| **4 Transition to a circular economy** | |
| Specific DNSH criteria: *as for Business Unit Trencher* | By their very nature, the products of the Energy Automation segment are at the heart of the process of integrating renewable energy sources into the traditional network, contributing significantly to the energy transition objectives by optimising and increasing the efficiency of networks and substations through the sale of innovative products and solutions for line monitoring and stabilisation.<br><br>The products are designed to ensure high resistance and durability. In particular, the devices are marketed with a carbon footprint assessment certified by a third party, according to the UNI EN ISO 14067 standard directives, and equipped with a disassembly manual for end-of-life management and proper disposal of components, in accordance with the provisions of Italian Legislative Decree no. 118/2020 on the collection, treatment and recycling of WEEE.<br><br>The Group adopts the ISO 14001:2015 certified management system and constantly monitors regulatory developments. |
| **5 Pollution prevention and reduction** | |
| Criteria set out in Appendix C<br>Generic DNSH criteria for pollution prevention and control regarding the use and presence of chemicals<br><br>*Areas of assessment: as per Business Unit Trencher* | Analyses conducted at all Group plants by the Quality, Safety and Environment Department showed that all substances used comply with Appendix C.<br><br>In detail, the Group carried out a comparative analysis of all substances/chemicals used at its production sites.<br>The verification of all the substances listed in the safety data sheets (SDS) of the chemical products used at all Tesmec Automation Srl factories |

| | |
|---|---|
| | (Patrica, Padova and Fidenza), in relation to the relevant European directives and/or regulations, did not reveal any correlation with the presence of banned and/or restricted products according to the current DNSH criteria. |
| **6 Protection and restoration of biodiversity and ecosystems** | |
| Criteria set out in Appendix D<br>Generic DNSH criteria for the protection and restoration of biodiversity and ecosystems.<br><br>*Areas of assessment: as per Business Unit Trencher* | Tesmec's plants are not subject to an EIA as the environmental impact of the plants is not relevant according to industry guidelines. Moreover, the plants themselves are not located in sensitive areas for the purpose of protecting biodiversity and potential impacts.<br><br>With regard to the sites where the Business Unit's products are used, it should be noted that the responsibility for any environmental impact assessments or specific examinations regarding biodiversity lies directly with the customer/client. |

**BUSINESS UNIT: RAIL**

| **Assets**<br>**3.3. Manufacture of low-carbon technologies for transport** | |
|---|---|
| *Alignment with DNSH criteria*<br>*Delegated Regulation EU no. 2021/2139 - Annex 1 - Climate Change Mitigation* | |
| **2 Adaptation to climate change** | |
| Criteria set out in Appendix A<br>Generic DNSH criteria for climate change adaptation.<br><br>*Areas of assessment: as per Business Unit Trencher* | The analysis did not reveal any physical climate risks that could significantly affect economic activity.<br><br>The designed diagnostic tools are able to monitor parameters to continuously record the state of the rail infrastructure and envisage targeted and efficient maintenance cycles, identifying physiological or unforeseen anomalies caused, among other things, by possible natural disasters.<br><br>This also provides greater confidence in terms of repeatability and quality of measurements, as well as the ability to process large volumes of data using AI, comparing measurements with predefined standards and eliminating the risk of false negatives and false positives.<br><br>From an environmental point of view, these systems offer benefits both in terms of safety during operation, as well as an advantage in terms of efficiency of the infrastructure's energy requirements, as they allow maintenance to be optimised according to the specific need. |
| **3 Sustainable use and protection of water and marine resources** | |
| Criteria set out in Appendix B<br>Generic DNSH criteria for the sustainable use and protection of water and marine resources.<br><br>*Areas of assessment: as per Business Unit Trencher* | The analysis did not reveal any particular risks of environmental degradation related to the preservation of water quality and the prevention of water stress in relation to the carrying-out of economic activity.<br><br>The production sites are in line with national and regional directives on wastewater management. |
| **4 Transition to a circular economy** | |
| Specific DNSH criteria: *as for Business Unit Trencher* | With regard to waste management, internal procedures and collaboration agreements are established with certified entities for the disposal of special waste, including hydraulic oil and paint, which is recycled where possible.<br><br>Waste is managed in accordance with Italian regulations with annual submission of the MUD and registration of loads and discharges not only on the relevant paper registers, but also via a specific database.<br><br>The Business Unit is implementing a development programme for the transition from traditional diesel-powered machinery to bi-modal, hybrid and full electric machinery, depending on the type of application for which they are intended and their respective characteristics. These machines are already in production and, thanks to the electric traction and the absence of hydraulic oil in the engine, allow efficient use of resources and significantly reduce environmental impact.<br><br>The Group adopts the ISO 14001:2015 certified management system and constantly monitors regulatory developments. |

| 5 Pollution prevention and reduction | |
|---|---|
| Criteria set out in Appendix C<br>Generic DNSH criteria for pollution prevention and control regarding the use and presence of chemicals<br><br>*Areas of assessment: as per Business Unit Trencher* | Analyses conducted at all Group plants by the Quality, Safety and Environment Department showed that all substances used comply with Appendix C.<br><br>The Group carried out a comparative analysis of all substances/chemicals used at its production sites. The verification of all the substances listed in the safety data sheets (SDS) of the chemical products used at all Tesmec Rail factories (Monopoli and Bitetto), in relation to the relevant European directives and/or regulations, did not reveal any correlation with the presence of banned and/or restricted products according to the current DNSH criteria. |
| **6 Protection and restoration of biodiversity and ecosystems** | |
| Criteria set out in Appendix D<br>Generic DNSH criteria for the protection and restoration of biodiversity and ecosystems.<br><br>*Areas of assessment: as per Business Unit Trencher* | Tesmec's plants are not subject to an EIA as the environmental impact of the plants is not relevant according to industry guidelines. Moreover, the plants themselves are not located in sensitive areas for the purpose of protecting biodiversity and potential impacts.<br><br>With regard to the sites where the Business Unit's products are used, it should be noted that the responsibility for any environmental impact assessments or specific examinations regarding biodiversity lies directly with the customer/client. |

*Compliance with minimum safeguards*

The minimum safeguards are defined by the EU Taxonomy Regulation (2020/852), Article 18, *procedures implemented by an enterprise carrying out an economic activity to ensure that it is in line with the OECD Guidelines for Multinational Enterprises and with the United Nations Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight core conventions identified in the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work and the International Bill of Human Rights*.

The eco-sustainability criteria of economic activities laid down in Article 3 of Regulation (EU) no. 2020/852 require that in order to establish the degree of eco-sustainability of an investment, an economic activity is considered eco-sustainable if, in addition to the other criteria set out in the previous paragraphs (eligibility - alignment with technical criteria - DNSH) it is (letter c) Article 3) *carried out in compliance with the minimum safeguards laid down in Article 18.*

**Human rights**

In terms of compliance with the minimum guarantees of social protection, Tesmec, in line with the request of Article 18 of the EU Taxonomy, believes that the defence and enhancement of human rights is an indispensable prerogative for entering into any economic and commercial relationship. Respect for human rights is considered a fundamental element in the pursuit of sustainable development. In this regard, the Group has adopted the Human Rights Policy that defines the fundamental principles, rules of conduct and commitments on human rights that Tesmec recognises and complies with. Tesmec's Human Rights Policy is based on internationally generally accepted declarations and conventions, standards and principles, guidelines and recommendations, as well as strict compliance with company regulations and procedures.

**Corruption**

Tesmec is aware that the phenomenon of corruption is an obstacle to economic, political and social development, causing a significant distortion of the rules, fairness and transparency of markets. Therefore, in carrying out its activities, it is actively committed to preventing and combating corruption, in accordance with the principles of legality, honesty, integrity, fairness and transparency on which the Group's Code of Ethics is based. The approach to preventing and combating corruption is substantiated through the Organisation, Management and Control Model pursuant to Italian Legislative Decree no. 231/01 (including the Group's Code of Ethics) and the Group Anti-Corruption Policy, which provides a systematic framework on anti-corruption and sets out the principles and rules to be followed in order to prohibit and prevent any corrupt conduct.

**Taxation**

The Group believes that responsible tax practices support the economic and social development of the markets in which it operates and that the efficient, effective and sustainable management of tax variables not only supports the Group's business but also maximises value for stakeholders. In line with these principles, the choice of countries in which the Group operates is guided solely by business considerations and the Group does not operate in countries considered to be tax-privileged for the sole purpose of reducing the tax burden. Similarly, the Group does not engage in false transactions, for the purpose of tax avoidance or with undue tax benefits, which result in constructions that do not reflect the underlying economic reality, as this would be contrary to ethical and transparent conduct in the management of tax activities.

**Free competition**

The Group ensures compliance with the general conditions of freedom of enterprise and is committed to avoiding any form of restriction or distortion of free competition in order to allow economic operators to enter the market and compete on equal terms and, to protect its customers, who are interested in high quality standards at low prices. The Group does not conceal any information requested by the Antitrust authority or if requested during any inspection. The principle of accountability in every transaction is a fundamental pillar of Tesmec to avoid any kind of asymmetric information or conflict of interest. Tesmec is committed to providing stakeholders with clear, timely and transparent information about its financial and management performance, without favouring any interests, so that they can make independent and informed decisions.

**KPIs relating to aligned activities**

Based on the above, the table below summarises the eligible and aligned KPI values according to the European Taxonomy and the reporting tables on the following pages.

| | TOTAL | Aligned pursuant to the European Taxonomy | Not aligned pursuant to the European Taxonomy |
|---|---|---|---|
| **Turnover** | **€ 245,245,511** | **43.6%** | **56.4%** |
| CapEx (*) | **€ 33,145,432** | **30.3%** | **69.7%** |
| OpEx | **€ 3,998,304** | **34.1%** | **65.9%** |

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

## Portion of revenues from products or services associated with economic activities in line with the 2022 taxonomy

| | Economic activities | NACE Code | Revenues (Euro million) | % of revenues | Criteria for substantial contribution(%) | | | | | | Criteria for not causing significant harm (DNSH) (YES/NO) | | | | | | Minimum safeguard guarantees (YES/NO) | Revenue portion in line with taxonomy (%) | Qualifying activity category (A) | Transition activity category (T) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | *Climate change mitigation* | *Climate change adaptation* | *Water and marine resources* | *Circular economy* | *Pollution* | *Biodiversity/ ecosystems* | *Climate change mitigation* | *Climate change adaptation* | *Water and marine resources* | *Circular economy* | *Pollution* | *Biodiversity/ ecosystems* | | | | |
| **A** | **Activities eligible for taxonomy** | | | | | | | | | | | | | | | | | | | |
| A.1 | Environmentally sustainable activities<br>Activities in line with the taxonomy | | | | | | | | | | | | | | | | | | | |
| 3.1 | Manufacture of renewable energy technologies | C27 - C25 | 35,074,504.94 € | 14.3% | 100% | | | | | | | YES | YES | YES | YES | YES | YES | 14.3% | 14.3% | 0% |
| 3.3 | Manufacture of low-carbon technologies for transport | C30.2 | 3,950,559.00 € | 1.6% | 100% | | | - | | | N/A | YES | YES | YES | YES | YES | YES | 1.6% | 1.6% | 0% |
| 3.6 | Manufacture of other low-carbon technologies | C25 | 67,877,079.09 € | 27.7% | 100% | | | | | | | YES | YES | YES | YES | YES | YES | 27.7% | 27.7% | 0% |
| | Revenues from environmentally sustainable activities (in line with the taxonomy) (A.1) | | 106,902,143.04 € | 43.6% | | | | | | | | | | | | | | 43.6% | 43.6% | 0% |
| A.2 | Activities eligible for taxonomy but not environmentally sustainable<br>(Activities not in line with the taxonomy) | | | | | | | | | | | | | | | | | | | |
| 3.1 | Manufacture of renewable energy technologies | C27 - C25 | 36,359,476.06 € | 14.8% | | | | | | | | | | | | | | | | |
| 3.3 | Manufacture of low-carbon technologies for transport | C30.2 | 49,050,508.00 € | 20.0% | | | | | | | | | | | | | | | | |
| 3.6 | Manufacture of other low-carbon technologies | C25 | 52,933,383.91 € | 21.6% | | | | | | | | | | | | | | | | |
| | Revenues from activities eligible for taxonomy but not environmentally sustainable (activities not in line with the taxonomy) (A.2) | | 138,343,367.96 € | 56.4% | | | | | | | | | | | | | | | | |
| | Total revenues from eligible activities (A.1 + A.2) | | 245,245,511.00 € | 100% | | | | | | | | | | | | | | | | |
| **B** | **Activities not eligible for taxonomy** | | | | | | | | | | | | | | | | | | | |
| | Revenues from activities not eligible for taxonomy (B) | | 0 € | 0% | | | | | | | | | | | | | | | | |
| | Total (A) + (B) | | 245,245,511.00 € | 100% | | | | | | | | | | | | | | | | |

## Portion of investment associated with economic activities in line with the 2022 taxonomyeen 5

| | Economic activities | NACE Code | Investment (Euro million) | % of investment | Criteria for substantial contribution(%) | | | | | | Criteria for not causing significant harm (DNSH) (YES/NO) | | | | | | Minimum safeguard guarantees (YES/NO) | Investment portion in line with taxonomy (%) | Qualifying activity category (A) | Transition activity category (T) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Climate change mitigation | Climate change adaptation | Water and marine resources | Circular economy | Pollution | Biodiversity/ecosystems | Climate change mitigation | Climate change adaptation | Water and marine resources | Circular economy | Pollution | Biodiversity/ecosystems | | | | |
| **A** | **Activities eligible for taxonomy** | | | | | | | | | | | | | | | | | | | |
| A.1 | Environmentally sustainable activities<br>Activities in line with the taxonomy | | | | | | | | | | | | | | | | | | | |
| 3.1 | Manufacture of renewable energy technologies | C27 - C25 | 3,603,584.58 € | 10.9% | 100% | | | | | | | YES | YES | YES | YES | YES | YES | 10.9% | 10.9% | 0% |
| 3.3 | Manufacture of low-carbon technologies for transport | C30.2 | 2,319,159.00 € | 7.0% | 100% | | | - | | | N/A | YES | YES | YES | YES | YES | YES | 7.0% | 7.0% | 0% |
| 3.6 | Manufacture of other low-carbon technologies | C25 | 4,104,185.45 € | 12.4% | 100% | | | | | | | YES | YES | YES | YES | YES | YES | 12.4% | 12.4% | 0% |
| | Investment in environmentally sustainable activities (in line with the taxonomy) (A.1) | | 10,026,929.03 € | 30.3% | | | | | | | | | | | | | | 30.3% | 30.3% | 0% |
| A.2 | Activities eligible for taxonomy but not environmentally sustainable (Activities not in line with the taxonomy) | | | | | | | | | | | | | | | | | | | |
| 3.1 | Manufacture of renewable energy technologies | C27 - C25 | 5,872,426.62 € | 17.7% | | | | | | | | | | | | | | | | |
| 3.3 | Manufacture of low-carbon technologies for transport | C30.2 | 5,519,446.29 € | 16.7% | | | | | | | | | | | | | | | | |
| 3.6 | Manufacture of other low-carbon technologies | C25 | 11,726,630.39 € | 35.4% | | | | | | | | | | | | | | | | |
| | Investment in activities eligible for taxonomy but not environmentally sustainable (activities not in line with the taxonomy) (A.2) | | 23,118,503.30 € | 69.7% | | | | | | | | | | | | | | | | |
| | Total investment in eligible activities (A.1 + A.2) | | 33,145,432.33 € | 100% | | | | | | | | | | | | | | | | |
| **B** | **Activities not eligible for taxonomy** | | | | | | | | | | | | | | | | | | | |
| | Investment in activities not eligible for taxonomy (B) | | 0 € | 0% | | | | | | | | | | | | | | | | |
| | Total (A) + (B) | | 33,145,432.33 € | 100% | | | | | | | | | | | | | | | | |

## Portion of operating expenses deriving from products or services associated with economic activities in line with the 2022 taxonomy

| | Economic activities | NACE Code | Operating expenses (Euro million) | % of operating expenses | Criteria for substantial contribution(%) | | | | | | Criteria for not causing significant harm (DNSH) (YES/NO) | | | | | | Minimum safeguard guarantees (YES/NO) | Portion of operating expenses in line with taxonomy (%) | Qualifying activity category (A) | Transition activity category (T) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Climate change mitigation | Climate change adaptation | Water and marine resources | Circular economy | Pollution | Biodiversity/ecosystems | Climate change mitigation | Climate change adaptation | Water and marine resources | Circular economy | Pollution | Biodiversity/ecosystems | | | | |
| **A** | **Activities eligible for taxonomy** | | | | | | | | | | | | | | | | | | | |
| A.1 | Environmentally sustainable activities<br>Activities in line with the taxonomy | | | | | | | | | | | | | | | | | | | |
| 3.1 | Manufacture of renewable energy technologies | C27 - C25 | 246,049.65 € | 6.2% | 100% | - | | | | | N/A | YES | YES | YES | YES | YES | YES | 6.2% | 6.2% | 0% |
| 3.3 | Manufacture of low-carbon technologies for transport | C30.2 | 637,109.55 € | 15.9% | 100% | | | | | | | YES | YES | YES | YES | YES | YES | 15.9% | 15.9% | 0% |
| 3.6 | Manufacture of other low-carbon technologies | C25 | 479,209.50 € | 12.0% | 100% | | | | | | | YES | YES | YES | YES | YES | YES | 12.0% | 12.0% | 0% |
| | Operating expenses of environmentally sustainable activities (in line with the taxonomy) (A.1) | | 1,362,368.70 € | 34.1% | | | | | | | | | | | | | | 34.1% | 34.1% | 0% |
| A.2 | Activities eligible for taxonomy but not environmentally sustainable<br>(Activities not in line with the taxonomy) | | | | | | | | | | | | | | | | | | | |
| 3.1 | Manufacture of renewable energy technologies | C27 - C25 | 1,302,723.78 € | 32.6% | | | | | | | | | | | | | | | | |
| 3.3 | Manufacture of low-carbon technologies for transport | C30.2 | 299,820.16 € | 7.5% | | | | | | | | | | | | | | | | |
| 3.6 | Manufacture of other low-carbon technologies | C25 | 1,033,391.72 € | 25.8% | | | | | | | | | | | | | | | | |
| | Operating expenses of activities eligible for taxonomy but not environmentally sustainable<br>(activities not in line with the taxonomy) (A.2) | | 2,635,935.66 € | 65.9% | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | |
| | Total operating expenses of eligible activities (A.1 + A.2) | | 3,998,304.36 € | 100% | | | | | | | | | | | | | | | | |
| **B** | **Activities not eligible for taxonomy** | | | | | | | | | | | | | | | | | | | |
| | Operating expenses of activities not eligible for taxonomy (B) | | 0 € | 0% | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | |
| | Total (A) + (B) | | 3,998,304.36 € | 100% | | | | | | | | | | | | | | | | |

### 17.1.10 Adopted calculation methods

Only $CO_2$ emissions were taken into account for the calculation of greenhouse gas emissions. $CO_2$ 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 2022 and the 2021 version for the year before the reporting year.

The emission factors used to convert electricity into tonnes of $CO_2$[5] are the following:

| Category | | |
|---|---|---|
| Electricity (Location based) | $gCO_2/kWh$ | Country-specific FEs - (Source: Terna International comparisons (all countries) – 2019) |
| Electricity (Market based) | $gCO_2/kWh$ | Country-specific EFs - (Source AIB - European Residual Mixes 2021-2022). 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 (2018), estimates were used to calculate the hours worked, where the data was not available[6].

| 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 requirements of GRI Standard 306 (2020) on waste, 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 S.p.A. 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.,

Tesmec S.p.A is associated with Confindustria Bergamo, Confindustria Sondrio and Lecco. Tesmec Rail S.r.l. is associated with Confindustria BARIBAT and Tesmec Automation S.r.l. is associated with Unindustria Rome-Frosinone-Latina-Rieti.

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

5 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.

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

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.

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**

For Tesmec Group, corporate risk management is a fundamental element of the decision-making process, at all levels of the organisation. The importance of risk control for the achievement of the Company's objectives makes it essential to define a suitably structured system of analysis that, by identifying and monitoring risks in relation to the objectives themselves, allows the adoption of appropriate risk responses in order to strive for a high level of operational performance.

The governance that controls risk management is extremely complex and is based on the corporate governance code for listed companies the issuer has complied with for several years. The Board of Directors defines the guidelines of the internal control and risk management system in order to ensure that the main risks of the issuer and its subsidiaries are correctly identified, as well as adequately measured, managed and monitored, and to determine the extent to which such risks are compatible with the management of the company in accordance with the strategic objectives set. In this task, it is supported by the Control, Risks and Sustainability Committee, a board committee composed of independent persons, which issues opinions and reports to the Board at least every six months on the adequacy of the internal control system and risk management.

Operationally, the Chief Executive Officer, also in his capacity as Chief Operating Officer pursuant to the Corporate Governance Code, and the Vice Chairman in his capacity as co-Chairman are responsible for identifying the main corporate risks, taking into account the characteristics of the activities carried out by the issuer and its subsidiaries and submitting them to the Committee and the Board of Directors for review on a regular basis. The company management is responsible for identifying, assessing and managing risks in their respective areas of responsibility and in the conduct of business. This is without prejudice to the responsibility of the Board of Statutory Auditors pursuant to Article 2403 of the Italian Civil Code, to verify any significant impact on the financial statements, including potential liabilities, and to formally certify this by means of a specific report.

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.

The methodology adopted by the issuer in the management of risks at the process level is based on the suggestions of the CoSO ERM Framework and ISO 31000:2018; "COSO Enterprise Risk Management Framework Integrating with Strategy and Performance" (for which no certification was deemed necessary at this time).

The process is carried out on an annual basis starting with the identification of possible new risks against a reference Risk Model that includes external and sector factors, such as natural/environmental events, competition from different operators on the market, the trend of supplies and logistics chains, possible external unlawful acts, risks posed by the evolution of laws and regulations in the markets in which Tesmec operates, as well as internal strategic, operational and financial factors related to business processes and the management of a complex organisation such as the Tesmec Group.

The identification of new risks by management leads to the enrichment of the Risk Register, the tool the issuer uses to collect and describe the risks identified for the benefit of the various organisational structures on which they impact. Therefore, the risks are assessed first at the inherent level, i.e. without taking into account existing mitigation measures, then at the residual level, thus highlighting the controls required to reduce the risks to a threshold deemed acceptable and stimulating discussion on measures to be taken to reduce the issuer's risk profile. At the time of writing, the Tesmec Group's Risk Register counts 107 risks, all of which have been assessed at the inherent and residual level and mitigation actions have been identified and assigned to specific responsible parties.

Moreover, there are other risk assessments more specifically oriented towards compliance models, such as those carried out for the maintenance of the organisation, management and control models for the purposes of Italian Legislative Decree no. 231/01 of the main Italian companies, as well as the identification of risks related to economic and financial reporting carried out during the Annual Programme L262 of the Tesmec Group, alongside the risk analyses of the various quality management models of the issuer and its main subsidiaries. In particular, the risk assessment activity in health, safety and the environment launched in 2018 and updated in subsequent financial years 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. During the year, the Control, Risks and Sustainability Committee organised regular meetings to share and review the Safety and Environment Reports and the half-yearly and annual reports of the Supervisory Body.

In this context, the risk analysis on ESG issues is of particular importance, carried out with the involvement of senior management and operational management, and brought to the attention of the Control, Risks and Sustainability Committee, which expresses its opinion before the material issues of the Non-Financial Statement are formally submitted to the Board of Directors.

During the year, the Control, Risks and Sustainability Committee, on the initiative of the Chief Operating Officer and the co-appointed officer, requested an analysis to check the compliance of the internal control and risk management system of the issuer with respect to best practices and in particular with respect to the elements of the CoSO Framework. With reference to the specific area of Risk Assessment, this analysis revealed the presence of various models for identifying and managing risks and the application of sound operating methods. The opportunity emerged to create greater co-ordination and integration between the different models, stimulating the definition of different levels of reporting and continuous monitoring by management, creating greater co-ordination with the definition of company budgets and periodic monitoring.

For this reason, at the end of the year, the issuer, with the support of an external consultant, started a progressive process aimed at greater integration between the various risk management models, as well as the adoption of a structured risk analysis process to accompany the budgeting process and which envisages the regular involvement of management and the Control, Risks and Sustainability Committee. This project will be carried out in close collaboration with the ESG team.

### 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 the specific table below.

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

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.

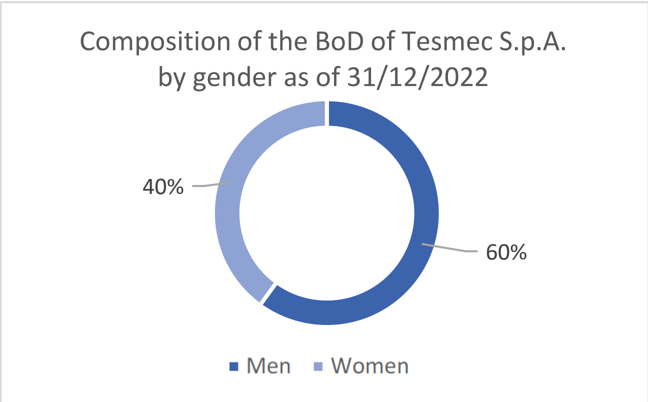
#### 17.4.1 Policies, management systems and organisational models

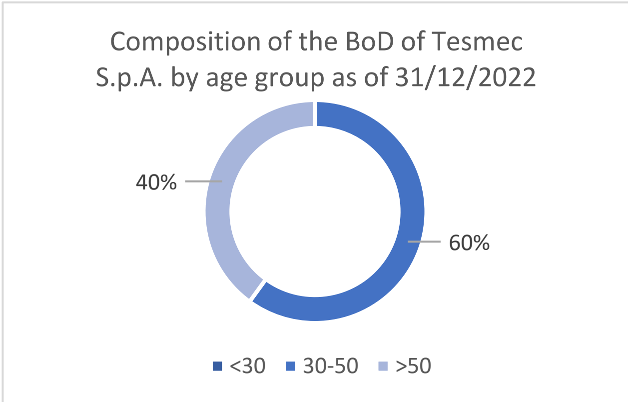
**Corporate Governance Structure**

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 January 1st, 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 March 12th, 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 January 1st, 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 on April 21st, 2022, and will remain in office until approval of the financial statements for the year ended 31 December 2024: it consists of 10 members, of whom 4 independents 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.

The Board of Directors assesses on a regular basis the effectiveness of its activity and the contribution made by its individual components through formalised procedures whose implementation it supervises.
In particular, on an annual basis, the Board carries out a self-assessment of its own and its Committees' size, composition and actual operation (also considering the role played by the Board in defining strategies and monitoring management performance and the adequacy of the internal control and risk management system).
This self-assessment consists of the anonymous completion by each Director of a specific questionnaire through which the adequacy of the size, composition and actual operation of the Board itself and its Committees are assessed in a uniform manner over the three years of the Board's term of office. The results of the questionnaires are then examined by the Remuneration and Appointments Committee acting as Appointments Committee, and by the Board of Directors.

The Board of Statutory Auditors also carried out the self-assessment aimed at verifying the suitability of its standing members and of the Board as a whole, as set forth in the "Rules of Conduct of the Board of Statutory Auditors of Listed Companies" issued by the National Institute of Chartered Accountants. The Board of Statutory Auditors therefore informed the Company's Board of Directors that said preliminary activity did not bring to light any deficiencies regarding either each standing member or the Board's composition.

The composition of the Board of Statutory Auditors is adequate to ensure the independence and professionalism of its function. The Board of Statutory Auditors verified whether the independence requirements of the Auditors were still met, on the basis of the criteria provided for by the law and by the Corporate Governance Code and sent the outcome of these checks to the Board of Directors; it also complied with the limit on the number of offices provided for by the Articles of Association and by Article 144-terdecies of the Issuers' Regulations, fulfilling – where required – CONSOB's reporting obligations during the year.

For further information on the highest governing body and its committees, please refer to the Report on corporate governance and ownership structure, the Policy on diversity relating to the formation of the administration and control bodies of Tesmec S.p.A. and the Regulations of the Board of Directors published on our website at www.tesmec.com.

The Chairman and Chief Executive Officer, Ambrogio Caccia Dominioni, is the person who is chiefly responsible for managing the Issuer (Chief Executive Officer). The reason for assigning operational proxies to the Chairman of the Board of Directors lies in the fact that Ambrogio Caccia Dominioni is one of the key figures who has contributed significantly to the development of the Group and, since having years of experience in the field of operations of the Group, the fact that Ambrogio Caccia Dominioni is operational and has an important role in the management of the Company and the Group represents an important resource for the Group. In order to manage conflicts of interest, please refer to the Procedure for Related Party Transactions published in the Related Party Transactions section of www.tesmec.com.

The Board of Directors annually defines and reviews the remuneration policy on proposal of the Remuneration and Appointments Committee, which is subject to a binding vote of the Ordinary Shareholders' Meeting.
The Remuneration and Appointments Committee is in charge of the correct implementation of this policy, in performing its functions, as well as the Chief Executive Officer and the Board of Directors. The Board of Statutory Auditors is responsible for supervising the actual implementation of the Policy.

The Remuneration Policy contributes to the Company's strategy, the pursuit of the Company's interests, including long-term, and sustainability, illustrating the way in which it makes this contribution and taking into account the remuneration and employment conditions of the Company's employees.
The Remuneration Policy serves to attract, motivate and retain resources with the professional qualities required to profitably pursue the Company's objectives. The Policy serves also as a means to align the interests of the management and of the shareholders, through the creation of a strong relation between remuneration and individual performance. The aim of the Policy is to create sustainable value in the medium to long term for the Issuer and the shareholders, as well as to ensure that the remuneration is based on the results actually obtained.

For non-executive directors, the Remuneration Policy envisages a remuneration that is adequate to the competence, professionalism and commitment required by the tasks assigned to them within the management body and in board committees; this remuneration is not linked to the economic results achieved by the Company.
When determining remuneration and each of its components, the Board of Directors will take account of the specific contents of the delegation of powers assigned to each executive director and/or of the functions and of the role actually carried out by each executive director within the company, making sure in this way that the estimate of any variable component is consistent with the type of tasks assigned to them.

The criteria used to determine remuneration are as follows:

- the indications on the consistency between the elements underlying the calculation of the remuneration and the set objectives;
- the correct balance between the fixed and variable component must be in accordance with the strategic objectives and with the risk management policy of the Company, also taking account of the sector in which it operates and the nature of the business practically carried out;
- the performance targets – i.e. the economic results and any other specific target – to which the disbursement of the variable components is related are predetermined, measurable and related to the creation of value for shareholders in the medium-long term.

The Shareholders' Meeting held on April 21st, 2022, in accordance with the regulations in force, approved the Remuneration Policy for the 2022 financial year, with 100% of the attendees voting in favour, substantially in line with that obtained at previous Shareholders' Meetings.

In 2022, the ratio of the total annual compensation of the person receiving the highest compensation to the median total annual compensation of all employees (excluding this person) is 13.60. Compared to 2021, there were no changes in the remuneration of the highest paid individual and, consequently, in the ratio with the median of all employees.

**Management systems and organisational models**

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

- 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.
- 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.;
- The Information Security Management System according to ISO 27001:2017 for Tesmec Automation S.r.l.;
- Management system in accordance with 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 compliance with Directive (EU) no. 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.

Tesmec S.p.A. also adopts a Procedure for Related Party Transactions. The purpose of the Procedure is to ensure transparency and substantive and procedural correctness of these transactions, if not carried out at arm’s length, in order to protect the interests of the Company. A conflict of interest exists when a personal interest or activity interferes or could interfere with Tesmec's assignment. According to the Group Code of Ethics, any situation that may give rise to a potential or actual conflict of interest must be reported to the line manager. The Guidelines provide for appropriate measures to ensure that decisions at all levels are not influenced by private interests and/or relationships, but are made in the exclusive interest of Tesmec; and that business agreements are entered into or continued solely on the basis of objective criteria, including the quality, price and reliability of the partner company concerned.

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.

Furthermore, the Internal Audit function, through meetings on an ongoing basis, informs the President of the Control, Risk and Sustainability Committee and the CEO of any critical issues that may have an impact on the Internal Control and Risk Management System level.

In 2021 and 2022 there were no significant cases of non-compliance with laws and regulations.

**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. In particular, the Group Policy on Anti-corruption states that "*the Group prohibits corruption without exception*".

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.

All Tesmec employees are responsible for complying with anti-corruption regulations: all relevant documents are easily accessible via the company website and intranet portal. Managers have a key role to play in this regard, as they are required to promote compliance with anti-corruption procedures among their own employees.

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 Group 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.

Aware that the cornerstone for the development of an effective strategy to combat corruption is the maturation of an in-depth knowledge of prevention tools, Tesmec considers particularly relevant the training initiatives inter alia on the Group's Code of Ethics, Organisation, Management and Control Model pursuant to Italian Legislative Decree no. 231/2001, ISO 37001, Group Anti-Corruption Policy and Group Whistleblowing Policy and awareness-raising activities to promote and disseminate knowledge in the areas of Compliance, Ethics and anti-corruption.In particular, with reference to the anti-corruption management system (ISO 37001:2016), a leading international certification body audited Tesmec Automation S.r.l. in 2019 and Tesmec Rail S.r.l. in 2021. These audits revealed no instances of non-compliance and the management system was found to be effective and in compliance with the above standard. The official certificate was issued respectively for Tesmec Automation S.r.l. on 30 December 2019, then confirmed in 2020, 2021 and 2022 after specific audit activities, and for Tesmec Rail S.r.l. on 10 September 2021, then confirmed in 2022.

Moreover, Tesmec's Internal Audit function, on the basis of its annual audit programme approved by the Board of Directors of Tesmec S.p.A., independently examines and evaluates the internal control system in order to verify compliance with the provisions of the Group Anti-Corruption Policy. Due Diligence is carried out on counterparties as part of the business activities carried out with Tesmec (e.g., customers, agents, suppliers).

Any suspected or known violation of the Group Code of Ethics, anti-corruption laws or the Group Anti-Corruption Policy must be reported immediately through the channels indicated in the Group Whistleblowing Policy available on the corporate website and intranet portal. Disciplinary measures are envisaged against Tesmec employees who violate anti-corruption rules and fail to report violations of which they become aware.

There were no proven cases of corruption in 2021 and 2022. More information on legal proceedings to which the Group is a party can be found in Note 44 of the Notes to the Consolidated Financial Statements "Legal and Tax Disputes".

Tesmec requires its stakeholders to comply with applicable laws, including anti-corruption laws, as part of their business activities with Tesmec, as well as their commitment to comply with the reference principles contained in the Code of Ethics and the Organisation, Management and Control Model pursuant to Italian Legislative Decree no. 231/2001.

**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 both 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 responsible tax practices support the economic and social development of the markets in which it operates and that the efficient, effective and sustainable management of tax variables not only supports the Group's business but also maximises value for stakeholders. In line with these principles, the choice of countries in which the Group operates is guided solely by business considerations and the Group does not operate in countries considered to be tax-privileged for the sole purpose of reducing the tax burden. Similarly, the Group does not engage in false transactions, for the purpose of tax avoidance or with undue tax benefits, which result in constructions that do not reflect the underlying economic reality, as this would be contrary to ethical and transparent conduct in the management of tax activities.

The Tesmec Group is subject to taxation in Italy and in the other countries in which it operates and the management of taxation is shared among the CFOs of the various countries. The latter are responsible for managing local tax compliance and, for certain tax issues of particular complexity or relevance, for involving tax advisors from leading networks, in coordination with the Finance and Legal functions of the parent company, so that tax risks are managed consistently with the Group's objectives. Although the Parent Company Tesmec S.p.A. pursues the objective of optimising its tax burden, it does not internally have tax planning tools that cover all the different tax systems in which it operates. In this regard, 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.

On the other hand, in relation to the Italian companies, the Parent Company opted for the domestic tax consolidation system provided by Article 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., Bertel S.r.l. and 4 Service S.r.l. Tax consolidation represents a moment of tax planning and management and coordination activities that the Parent Company exercises over its subsidiaries with the aim of producing positive effects of optimisation of "domestic" taxation both for individual companies and for the Group as a whole. Tax consolidation is regulated by specific contractual agreements between the participating companies and the Parent Company, approved by their Boards of Directors.

The Group recognises that the payment of taxes is an important contribution to the economies of the countries in which it operates, but also that taxes are an operating cost to be managed. With this in mind, and in full compliance with the rules in force, the Group takes advantage of the tax incentives available to all operators, in line with its industrial and investment objectives. The Group applies the most appropriate and correct tax treatment, taking into account both legitimate tax saving opportunities and the opinions of its experts. In particular, operating in high-tech sectors, the Group is 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 and France.

Group companies are required to comply with local regulations and to maintain a cooperative and transparent relationship with the relevant tax authorities. The Tesmec Group is committed to discouraging its management from making unethical choices or choices that do not comply with applicable tax laws, and disseminates, as a general principle, the adoption of an open and honest attitude towards the various tax authorities. Model 262 adopted by the Group includes a specific section on Tax Management, which is subject to internal compliance audits.

Each country in which the Group operates has its own tax laws and tax assessment procedures. As a result, each company could be subject to different taxation rules and/or rates, and the Group's effective taxation can shift and change as not only the profits realised but also the applicable regulations change. The Group believes that it is diligent in its application of tax laws. However, tax legislation and its interpretation, as well as its interpretation, are particularly complex, also 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 competent tax authorities or case law may in the future come to interpretations or positions other than those adopted by the Group.

At the date of this non-financial statement, the Tesmec Group is party to certain tax disputes. Following a tax audit, 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 for the years 2015-2017. The same Authority also started its own audits, on the same subject, for the 2018 tax year. 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, in this respect supported by the opinion of its tax advisors. However, in view of the uncertainty surrounding the outcome of a tax case, a provision has been made to mitigate the risk of losing the case.

Following a tax audit for the tax year 2018, in August 2022, the subsidiary Tesmec Automation received the report on findings (PVC) from the Italian Inland Revenue, in which the auditors contested the Company's undue use of R&D credits. The Company believes that it has operated correctly and has mandated its consultants to analyse the documentation and produce their own counterclaims.

During November 2022, the tax audit opened in June 2019 by the Italian Inland Revenue Agency in relation to the parent company Tesmec S.p.A. for the 2016 tax year was successfully closed.

With regard to information relating to Country-by-Country Reporting, the Group started to set up the reporting, which is shown below for the 2021 tax year:

| | **Italy** | **France** | **USA** | **Australia** | **New Zealand** | **Russia** | **South Africa** | **Guinea** | **Ivory Coast** | **Other jurisdictions** |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating companies | Tesmec S.p.A.<br>Tesmec Rail S.r.l.<br>Tesmec Automation S.r.l.<br>Bertel S.r.l.<br>East Trencher S.r.l.<br>4Service S.r.l. | Marais Technologies SAS<br>Groupe Marais SAS | Tesmec USA Inc.<br>4Service USA Llc | Tesmec Australia (Pty) Ltd | Marais Laying Tech. (Pty) Ltd NZ | OOO Tesmec Rus | Tesmec SA<br>Marais Trenching (Pty) Ltd<br>AFS | Tesmec Guinee SARLU | Marais Cote d'Ivoire SARL | |
| Main sectors | Production<br>Sale | Production<br>Sale | Production<br>Sale | Production<br>Sale | Production<br>Sale | Sale | Sale | Sale | Sale | Sale |
| Number of employees | 563 | 142 | 79 | 22 | 80 | 8 | 27 | 7 | 10 | 5 |
| Property, plant and equipment other than cash and cash equivalents | 317,543 | 47,711 | 60,506 | 7,890 | 5,927 | 1,327 | 7,958 | 2,029 | 1,712 | 533 |
| Third-party revenues | 138,603 | 31,638 | 38,798 | 8,454 | 13,755 | 3,565 | 7,551 | 1,464 | 457 | 543 |
| Intra-group revenues | 30,910 | 3,751 | 15,076 | 32 | - | 9 | 161 | 19 | 98 | 485 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Pre-tax profit/(loss) | 1,853 | (411) | (757) | (2,970) | 3,715 | 132 | 916 | 798 | (572) | (126) |
| Tax | (130) | (24) | 94 | (4) | (1,051) | (60) | (182) | (169) | (72) | (0) |
| Tax paid | (141) | (102) | (93) | - | (497) | (4) | (284) | (5) | (9) | (1) |

** * The other tax jurisdictions in which the Group operates include Tunisia, Morocco and China, for which overall the tax burden is not significant.*

## 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 |
|---|---|
| Personnel development and talent attraction<br><br>Well-being of people<br><br>Safety at work<br><br>Human rights<br><br>Industrial relations<br><br>Diversity, equal opportunities and non-discrimination | Risk of increased turnover and loss of personnel with high professional seniority and difficulty in integrating skills<br><br>Risk of not being able to find resources on the market with high digital skills<br><br>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<br><br>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<br><br>Risk related to discriminatory behaviour by its employees<br><br>Risk related to possible non-compliance with future laws and/or regulations on diversity |

**Policies, management systems and organisational models**

During 2022, in order to protect the health of its workers, the Group maintained the various safety measures implemented during the emergency state by COVID-19 at all Italian and foreign locations. Moreover, in order to show support and be close to its people and facilitate the work-life balance, the Group has continued the initiatives undertaken during the pandemic. In particular:

- smart working for all office personnel, flexitime in/out and elasticity on a monthly basis were maintained;
- a Solidarity Time Bank was set up on a permanent basis to donate leave hours to colleagues in need;
- 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;
- the possibility to request severance indemnity advances or loans in case of special economic requirements was given.

Maintaining these initiatives demonstrates the strong sense of responsibility shown by the Group towards its resources. Tesmec is aware that poor work management can lead to increased stress levels for its employees and a consequent increase in the number of work-related illnesses and accidents. For this reason, the company works to promote a safe and healthy workplace for all workers.
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;
- gradual 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 2022 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 contribute to the creation and consolidation of a collective identity and a shared culture;
- 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 and will be operational at the main Group companies from next year. 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 Tesmec Group firmly believes that the defence and appreciation of human rights, especially in the workplace, is an indispensable prerequisite for entering into any economic and commercial relationship. Respect for human rights is considered a fundamental element in the pursuit of sustainable development.

Tesmec operates within the framework of the United Nations Universal Declaration of Human Rights, which states that “every individual and every organ of society, including companies, shall strive by teaching and education to promote respect for human rights and freedoms and by progressive measures, national and international, to secure their universal and effective recognition and observance.”

In order to uphold and promote respect for inviolable human rights, Tesmec is committed to ensuring professional relations with all its stakeholders based on respect for the fundamental guarantees recognised to all human beings by national and supranational laws, ensuring the recognition and protection of dignity, freedom and equality, the protection of labour and trade union freedoms, health, safety, the environment and biodiversity, as well as the circular and efficient use of resources and sustainable development.

Tesmec's commitment is implemented in the Human Rights Policy approved by the Board of Directors on 21 December 2022. The issue of respect for human rights is also addressed in the Code of Ethics, one of the reference ethical principles being the protection of 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 labour and exploitation of child labour, with the relevant mechanism for strengthening the culture and the penalty system that derive from it.

There were no cases of discrimination during 2021 and 2022.

With reference to the investigation of the case of alleged discrimination that took place in 2018 in relation to Tesmec USA, it should be noted that the judgement of the court of first instance rejected the allegations of discrimination and upheld the counterclaims relating to the terms of dismissal. At the suggestion of the appointed lawyer, Tesmec lodged an appeal that is still pending.

To mitigate the above risk, Tesmec updated the handbook (with the support of external specialists) that is given to employees in compliance with US law, and took out a policy to protect the company in the event of a claim by an employee.

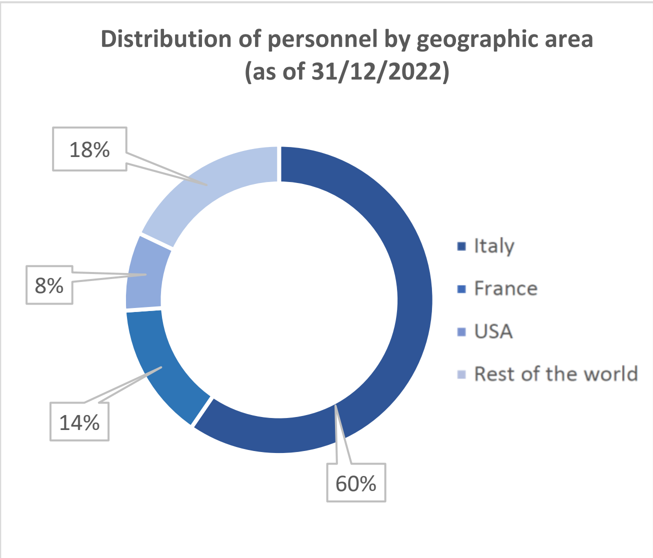
There is the reporting, monitoring and control system envisaged by the Code of Ethics to protect human rights. The Group is aware that the topic could be important for the supply chain and that specific assessments to this effect could be carried out in the coming years.

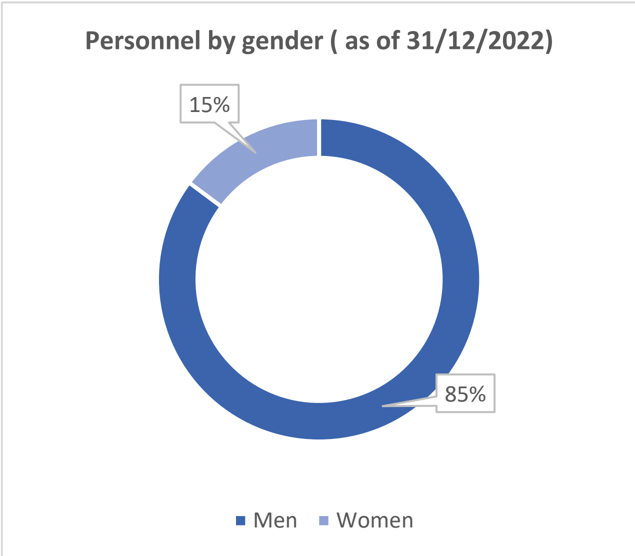
### 17.5.2 Non-financial results and indicators

**Composition and characteristics**

The total number of Tesmec Group employees as of December 31st, 2022, was 965, an increase of 3.3% compared to December 31st, 2021.

As shown in the Methodological Note to this Non-Financial Statement, in 2022 Tesmec Saudi Arabia LLC and Tesmec Peninsula WLL were included for what concerns company data with reference only to the precise data as of December 31st, 2022.




The commitment to establish stable and lasting relations is confirmed by the high percentage of employees hired with an open-term labour contract (98.7% of the total).

| | Number of employees as of 31st December by employment contract (permanent and temporary), by gender and by region | | | | | | |
|---|---|---|---|---|---|---|---|
| | Type of Contract | 2022 | | | 2021 | | |
| | | Men | Women | Total | Men | Women | Total |
| ITALY | Permanent | 474 | 95 | 569 | 457 | 92 | 549 |
| | Temporary | 5 | 1 | 6 | 7 | 1 | 8 |
| | **Total Italy** | **479** | **96** | **575** | **464** | **93** | **557** |
| FRANCE | Permanent | 121 | 15 | 136 | 125 | 15 | 140 |
| | Temporary | 1 | 1 | 2 | 2 | 0 | 2 |
| | **Total France** | **122** | **16** | **138** | **127** | **15** | **142** |
| USA | Permanent | 68 | 11 | 79 | 66 | 13 | 79 |
| | Temporary | 0 | 0 | 0 | 0 | 0 | 0 |
| | **Total USA** | **68** | **11** | **79** | **66** | **13** | **79** |
| REST OF THE WORLD | Permanent | 149 | 20 | 169 | 136 | 15 | 151 |
| | Temporary | 3 | 1 | 4 | 2 | 3 | 5 |
| | **Total Rest of the World** | **152** | **21** | **173** | **138** | **18** | **156** |
| TOTAL TESMEC GROUP | **Permanent** | **812** | **141** | **953** | **784** | **135** | **919** |
| | **Temporary** | **9** | **3** | **12** | **11** | **4** | **15** |
| | **Total TESMEC GROUP** | **821** | **144** | **965** | **795** | **139** | **934** |

The geographical distribution of Group employees records 60% employed in Italy, 14% in France, 8% in North America and the remaining 18% in other countries.

| | Number of employees as of 31st December by employment contract (full-time and part-time) and by gender | | | | | | |
|---|---|---|---|---|---|---|---|
| | Type of Contract | 2022 | | | 2021 | | |
| | | Men | Women | Total | Men | Women | Total |
| TOTAL TESMEC GROUP | Full-Time | 815 | 129 | 944 | 790 | 126 | 916 |
| | Part-time | 6 | 15 | 21 | 5 | 13 | 18 |
| | **Total** | **821** | **144** | **965** | **795** | **139** | **934** |

The professional category most represented is that of blue collar workers (48% of the total), followed by white collar workers (43% of the total), middle managers (around 6% 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.
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, 22% of employees are over 50 years of age and 17% of employees are under 30 years of age[7].

7 Note that these percentages 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.

| Employee category | Number of employees as of December 31st by category and by gender | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| | Men | Women | Total | Men | Women | Total |
| Managers | 24 | 3 | 27 | 20 | 3 | 23 |
| Middle managers | 48 | 10 | 58 | 42 | 9 | 51 |
| White collar | 299 | 116 | 415 | 270 | 111 | 381 |
| Blue collar workers | 450 | 15 | 465 | 465 | 14 | 479 |
| **Total** | **821** | **144** | **965** | **797** | **137** | **934** |

| Employee category | Number of employees as of December 31st, 2021, by category and by age group[8] | | | |
|---|---|---|---|---|
| | 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 of December 31st, 2022, by category and by age group[9] | | | |
|---|---|---|---|---|
| | 2022 | | | |
| | <30 years | 30-50 years | >50 years | Total |
| Managers | 0 | 16 | 8 | 24 |
| Middle managers | 0 | 32 | 22 | 54 |
| White collar | 83 | 259 | 50 | 392 |
| Blue collar workers | 71 | 231 | 114 | 416 |
| **Total** | **154** | **537** | **195** | **886** |

At Group level as of December 31st, 2022, we report the presence of one employee with non-guaranteed hours.

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 of December 31st, 2022, the number of external workers in the Tesmec Group was 66, up from last year's data (49)[10]. The increase in the hiring of external workers derives from the need to manage business needs and priorities more efficiently.

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 labour agreements in force and of trade union agreements.

8 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.

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 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 strategic 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 2022 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.

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 | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| | Men | Women | Total | Men | Women | Total |
| **Managers** | 14.0 | 2.0 | 12.6 | 2.7 | 1.8 | 2.6 |
| **Middle managers** | 6.2 | 4.4 | 5.9 | 5.8 | 3.8 | 5.5 |
| **White collar** | 5.3 | 7.6 | 5.9 | 13.4 | 11.3 | 12.8 |
| **Blue collar workers** | 9.0 | 3.0 | 8.8 | 8.5 | 3.9 | 8.4 |
| **Total** | **7.6** | **6.8** | **7.5** | **9.9** | **9.8** | **9.9** |

It should be noted that the training hours of Tesmec USA are not monitored, therefore they are equal to zero even though training is provided to employees.

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 2022 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
- LEADERSHIP

As a result of the analysis carried out, a 2022 Training Plan was drawn up and approved by HR Manager and Quality Manager. For authorised courses, plans financed by Fondimpresa and/or Fondirigenti and Events proposed by Confindustria such as Leadership and Change Management have been set up, where possible.

Personnel training for all the Group's Italian companies is recorded in the HR management system at the end of the planned courses, in order to keep track of all training events organised both internally and with the support of external professionals.
Many courses in 2022 were activated in person, in compliance with all the COVID protocols necessary to ensure employee safety.

Moreover, Tesmec, in collaboration with Microsoft, organised a series of six training meetings dedicated to digital sustainability, with the aim of improving collaboration between different departments, perfecting the use of the main applications of the Microsoft environment.

In continuity with 2021, in 2022 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.

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, entered the "Execution" phase in November 2022. This phase is characterised by the creation of panel discussions, to encourage moments of confrontation not only between technical departments but also between the Operations, Marketing and Sales departments, with the aim of creating an Academy to train new recruits in the Onboarding phase, on the one hand, and to provide the basis for the establishment of a well-established business culture and a standard of common methods on the other.

Moreover, the process of mapping the skills of technical office resources continued, with the aim of creating a shared pool of knowledge that colleagues can draw on when needed. The documentation produced in the stream phase during the various brainstorming sessions was collected in a library on Microsoft Teams, with the aim of encouraging the advancement of cross-BU knowledge.

In 2022, the groups set up in the previous year to promote the practical exchange of know-how continued their discussions on the following topics:

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

The introduction of a new stream dedicated to sustainability issues is being considered.

**New employee hires and employee turnover[11]**

The Tesmec Group is aware that human capital and relations with its employees represent a strategic resource to be maintained. For this reason, in order to limit the turnover rate and the loss of trained and high-potential resources, Tesmec is committed to developing its human capital, creating the basis for a shared pool of knowledge and decent work in terms of remuneration, incentives, well-being, identity and a sense of belonging.
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.

In 2021 and 2022, the following turnover indices were recorded, broken down by age group, gender and geographic area.

11 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.

| New employees hires and employee turnover | New employee hires | | Turnover | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Age group** | | | | |
| <30 | 42% | 41% | 29% | 18% |
| 30-50 | 15% | 17% | 14% | 11% |
| >50 | 9% | 7% | 18% | 12% |
| **Gender** | | | | |
| Man | 17% | 19% | 17% | 13% |
| Woman | 25% | 18% | 22% | 14% |
| **Geographic area** | | | | |
| Italy | 12% | 14% | 9% | 6% |
| France | 22% | 14% | 25% | 12% |
| United States | 22% | 15% | 22% | 24% |
| Rest of the world | 36% | 43% | 42% | 37% |
| **Total** | **18%** | **19%** | **18%** | **13%** |

During the reporting period, the recruitment rate remained in line with the previous year (18% in 2022 and 19% in 2021). The data collected at the Tesmec Group level, considering the specified exclusions, show that in 2022 there was a greater incidence of hiring for employees under 30 years of age (42%), compared to the rates recorded for the other age groups. Moreover, recruitment by gender out of the total number of employees increased more for the women (25%) than for the men (17%) during this reporting year. These data demonstrate the willingness of Tesmec Group to invest in young people and to enhance the presence of women in a business historically characterised by a strong male presence.

With reference to the employee turnover rate, overall up compared to last year (from 13% in 2021 to 18% in 2022), a slightly higher rate was recorded in the under-30 age group (29%), considering the trend by age group during the year subject to reporting. The main reason of the increase in the turnover rate can be found in the variety and competitiveness of the job offers present on a market which, after the pandemic, has regained its dynamism.

Specifically, the figures for new employee hires and turnover are broken down below in absolute terms for the years 2021 and 2022[12].

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** |

12 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.

| 2022 | 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** | 20 | 9 | 29 | 7 | 2 | 9 | N/D | N/D | N/D | 16 | 10 | 26 |
| **30-50** | 29 | 3 | 32 | 15 | 4 | 19 | N/D | N/D | N/D | 26 | 2 | 28 |
| **>50** | 6 | 1 | 7 | 1 | 1 | 2 | N/D | N/D | N/D | 7 | 2 | 9 |
| **Total** | **55** | **13** | **68** | **23** | **7** | **30** | **15** | **2** | **17** | **49** | **14** | **63** |

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** |

| 2022 | 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** | 11 | 2 | 13 | 5 | 0 | 5 | N/D | N/D | N/D | 22 | 4 | 26 |
| **30-50** | 15 | 6 | 21 | 13 | 6 | 19 | N/D | N/D | N/D | 30 | 7 | 37 |
| **>50** | 14 | 2 | 16 | 10 | 0 | 10 | N/D | N/D | N/D | 7 | 2 | 9 |
| **Total** | **40** | **10** | **50** | **28** | **6** | **34** | **14** | **3** | **17** | **59** | **13** | **72** |

During 2022, 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;
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 2022, 51 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.

During 2022, Tesmec undertook a training project for candidates from different fields of study and work. The process consisted of an initial Assessment phase (4 hours), a theoretical training course (40 hours) and "on-the-job" training (8 hours) in which a day was spent at Tesmec.
A number of Academies were launched in collaboration with the company Manpower and the Patronato San Vincenzo.

Tesmec S.p.A. - Academy Grassobbio, 5 candidates placed
Tesmec S.p.A. - Academy Endine, 4 candidates placed

In cooperation with schools, the following days were dedicated to introducing the new generations to the world of business and its opportunities through guided tours of the company:

Tesmec S.p.A.:

- SME DAY Sirone 18/11/2022
- ITS Badoni e Fiocchi: Meeting at ITS 9/02 - Meeting at Tesmec 23/05/2022
- ITS Mechatronic Sesto San Giovanni: Liberal Merit Awards 29/11/2022

Tesmec RAIL:

- ITS Logistica Bari meeting at the premises of Monopoli 07/04/2022 - 21/04/2022

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

- Lavoro chiama Italia – candidates throughout Italy 03/03/2022 - 10/03/2022
- University of Cassino 11/04/2022
- Bergamo Job Festival 27/4 -06/05/2022
- Poliba - Politecnico di Bari 05/05/2022 -12/05/2022
- ITS Dalmine 07/06/2022

In order to strengthen Employer Branding, the following panel discussions were carried out involving various representatives of the company organisation based on the topic and the students' course of study:

- Panel discussion Digital Transformation 3/11/2022 - Stringing
- Panel discussion with companies in the mechanical sector as part of the training initiation process for third-year mechanical engineering students 11/04/2022
- Energy & Sustainability Career Talks 18/03/2022

Among other projects aimed at improving Tesmec's attractiveness on the labour market, other initiatives were promoted during 2022 in collaboration with the partner Manpower. In particular, two Digital Speed Dates were organised to assess the profiles of young people who had recently graduated or were about to complete their studies in the engineering field.

In December 2022, a three-year project for the “certification of skills” was launched with ITIS Paleocapa. The aim of the Project work is to give Tesmec the opportunity to contribute, through school and company meetings, as well as curricular internships in the summer, to accompany the students of ITS Paleocapa and Marconi of Dalmine, at the end of the fifth year, to take the Skills Test, 2D and 3D Technical Drawing, in particular.

Tesmec S.p.A. participated, both for the year 2021 and for the year 2022, in the opportunity sponsored by Confindustria Lecco and Sondrio and by the Fondazione per la Salvaguardia della Cultura Industriale - A. Badoni (for the premises of Sirone) and by the Patronato San Vincenzo (for the premises of Grassobbio and Endine) concerning the promotion of a job placement process with the aim of helping interested young people obtain a High School Diploma and a certificate of Higher Technical Specialisation. In this context, four resources were employed under the apprenticeship contract for vocational qualification and diploma, high school diploma and higher technical specialisation certificate.

**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. For this reason, the Group has launched a number of initiatives to promote the well-being of its workers, with the aim of raising their awareness on issues including the importance of a balanced diet and physical activity, the risks related to smoking, and psychological support.

In this perspective, in continuity with 2021, the following initiatives were promoted in 2022 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;
- in-house flu vaccination campaign;
- delivery of fuel vouchers.

Moreover, the company Welfare Plan was further strengthened in 2022 through the adoption of a new platform: “Timeswapp”, which makes a wide range of goods and services available to employees and their families.
Finally, the Management decided to grant an additional form of economic support to its employees by disbursing on the Timeswapp Platform an additional bonus, called "Bonus 2022", of Euro 1,000 (according to the accruals of attendance for the year 2022), spendable on all goods and services listed in Article 51, paragraph 3 of the TUIR.

Consistent with 2021, the participation of the company in the WHP (Work and Health Programme) project continued in 2022, as part of a strategy to enhance human resources and their well-being, is of particular importance.
The WHP model, recommended by the WHO (World Health Organization), 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 WHP 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 in 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 of balanced diet among employees

2) PHYSICAL ACTIVITY:
   a) 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;
   b) Relaunch 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;

c) Organisation of sports initiatives.

3) TOBACCO SMOKE:
   a) 26 September 2022: webinar "Regaliamo un’ora di prevenzione" (Let us give away an hour of prevention) in collaboration with LILT and the Lombardy Region, dedicated to disease prevention;
   b) October-November 2022: nine meetings in collaboration with the LILT association of Bergamo, spread over three weeks, to help employees interested in the fight against smoking.

4) 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:

   - ➢ COOKING COURSES
   - ➢ MASTERS OF ONE'S OWN TIME
   - ➢ COPING WITH STRESS
   - ➢ SUPER MUMS AND SUPER DADS: TIME MANAGEMENT

5) 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 2022, Tesmec also promoted an important volunteer project with several initiatives in Italy and abroad:

- Food collection: with the aim of promoting 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. A total of 570 kilos of food was collected;

- Siticibo Project: donation of 3206 surplus meals from the canteen to local communities;

- "Bergamo Network_Noi 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;

- “Teen Not Neet” project, launched in collaboration with the Patronato San Vincenzo of Bergamo, the Antonio Riva Foundation of Naples and Cometa Formazione of Como: training course in mechanics and logistics;

**Corporate social volunteering**

Since July, the Group has activated a total of 10 social volunteer projects in different areas: from school catch-up, job placement and the involvement and improvement of transversal skills of young people in order to curb the NEET phenomenon ("Not in Education, Employment or Training", i.e. people, especially young people, who do not have a job, are not looking for a job and are not attending school, nor a vocational training or refresher course), to the distribution of food and meals to the needy; from the sale of solidarity products to moving and maintenance operations in communities for minors; from animation and socialisation in socio-educational centres, to working in the kitchen and welcoming guests in foster homes, to sharing experiences with families and NEETs living in marginalised situations such as Scampia, to witnessing their own challenges and satisfactions in the work environment, to prisoners involved in vocational integration processes.

Tesmec supported these company volunteer projects to encourage and support the participation of its workers in activities of non-profit organisations. All this with one goal: to make an impact for the company, workers and non-profit organisations. While, on the one hand, the latter can count on the involvement of more volunteers to pursue their social goals, on the other hand, employees of organisations investing in corporate volunteering have the opportunity to learn new skills, get involved and - at the same time - support Third Sector organisations. Tesmec promoted the social initiative of corporate volunteering because it is an experience that makes a difference not only for others but also for oneself in the first place.
Several researchers have measured the positive effects that volunteers receive in terms of psycho-physical wellbeing, and these include increased self-esteem, greater trust in others and increased social interaction, which, in turn, helps to reduce feelings of loneliness.

In its various projects, Tesmec has collaborated with a number of non-profit organisations, such as the Diocesana Patronato San Vincenzo and the Agathà association of Bergamo, the Caritas of Monopoli and the Fondazione Alberto e Franca Riva Onlus, the Scuola del Fare and the non-profit organisation Idee in circolazione of Naples and the Fondazione Theodora Onlus of Milan. To support the latter in particular, Tesmec decided to set up stalls in various locations in Italy, selling various products and investing the proceeds in the adoption of "Dottor Sogni". 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 the stakeholders, customers, 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. Through these initiatives, the Group has also integrated its Sustainability Plan with two new United Nations Sustainable Development Goals: SDG 4, on quality education (i.e. "ensure inclusive and equitable quality education and promote lifelong learning opportunities for all"), and SDG 8, on decent work and economic growth (i.e. "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all"). In this way, once again, Tesmec confirms its objective of promoting and disseminating the principles of social responsibility, as well as its commitment to continuing the important process of sustainable growth undertaken, defining goals and targets in relation to the Sustainable Development Goals drawn up by the UN.

**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 Tesmec Group's Code of Ethics and in the various HSE Policies issued by its main member companies.

For each injury, there are three stages of management in accordance with the procedure issued to all Group companies:

- a dedicated cloud-based application, Incident Reporting, is used to accurately describe the incident; the same application automatically generates a form to be shared with all stakeholders at plant and Group level;
- this is followed by a root cause analysis with the definition of initial corrective actions to be reported in a dedicated and duly shared form;
- each activity and corrective action is listed and described in the incident REPORTING and updated periodically until completed.

The main data collected on Health and Safety at work is summarised below.

It is specified that the main types of injury are related to manual handling of loads and falls from height during work activities. Occupational hazards are generally identified through risk assessments and consultations with workers. In particular, if a worker identifies a dangerous situation that does not allow his or her work to continue, he or she can report it via the Find&Fix system, or verbally to the following persons: his or her supervisor, the factory ASPP, the HSO or, if he or she does not wish to expose himself or herself, the Workers' Safety Representative, who will handle the information in accordance with the rights and powers conferred on him or her by the regulations.

In 2022, the parent company Tesmec S.p.A. achieved very important milestones in the field of injuries, which were the result of the improvement process started in the past years and which started a virtuous circle that is still underway. Some of the achievements include:

- Lowest SEVERITY Index in the history of the Company
- Lowest FREQUENCY Index in the history of the Company
- Sirone: one year and half without an injury (from September 2020 to March 2022)
- Endine: one year without an injury (from July 2021 to July 2022)
- Grassobbio: only one injury in the whole year

In total, there were 20 employee injuries in 2022, of which 7 occurred in Italy, 12 in France, 3 in the U.S.A. and 1 in the other countries where the group operates. In 2022, there were also 7 injuries involving external workers and three cases of occupational disease, of which two at Groupe Marais and one at Marais Laying New Zealand.

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).

| | 2022[13] | | 2021[14] | |
|---|---|---|---|---|
| | Employees | External workers | Employees[15] | External workers |
| **Hours worked** | **1,568,823** | **95,725** | **1,586,689** | **102,169** |
| **Number of fatalities** | **-** | **-** | **-** | **-** |
| **Number of high-consequence work-related injuries (excluding fatalities)** | **2** | **-** | **2** | **-** |
| **Number of recordable work-related injuries (excluding fatalities and high-consequence injuries)** | **18** | **7** | **21** | **7** |
| **Rate of fatalities as a result of work-related injuries** | - | - | - | - |
| **Rate of high-consequence work-related injuries (excluding fatalities)** | 1.27 | - | 1.26 | - |
| **Rate of recordable work-related injuries** | 11.47 | 73.13 | 13.24 | 68.51 |

In detail, Tesmec S.p.A. achieved a much better result than in previous years. The only company to present a higher number of work-related injuries, only in terms of incidence, was Tesmec Rail which has however improved in terms of severity. This increase is mainly due to the amount of work and to a structure that is growing very quickly and needs time to assimilate an effective but still demanding system.

All workers are regularly informed about Health, Safety and Environmental aspects and are encouraged to report dangerous conditions to their supervisors or Quality, Health, Safety and Environment Manager (QHSE Manager) via the system called Find & Fix (for now only at the Italian level) 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: Health and Safety Officer (HSO), QHSE Manager, Delegates, Managers and Heads. Moreover, since 2022, the figure of the ASPP (Prevention and Protection Service Officer) was established in all factories: specially qualified internal figures who can therefore play an important "intermediary" role between local personnel and centralised figures such as the HSO and QHSE Manager. 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 Zealand 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.

13 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.

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

15 The data relating to injuries to employees in 2021 is restated following the evolution of the clinical picture of an injury that occurred at the end of the year which led to the employee's absence for more than 6 months.

- 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, 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, at least two monthly meetings were scheduled to circulate information on Health, Safety and Environment:

- HSE Monthly meeting: attended by employers, delegates and all company managers including the HSO and QHSE Manager;
- TALK: held in production departments, managed by the Delegates or their supervisors and attended by all workers.

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 "Talks" lasting half an hour are also organised to raise awareness and a two-way channel of information.

In Italy, training takes place on two parallel levels: on the one hand, the training required by Italian Legislative Decree no. 81 for all company figures such as forklift or crane and gantry crane operators, fire-fighting and first aid teams, supervisors, employers, safety managers, WRS, HSO, ASPP. On the other hand, at the beginning of the year, the HR department starts a survey for training requirements involving all company managers and issues the annual training plan accordingly.

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.

Each year, new practices are introduced and parts of those implemented in previous years are reintroduced.

In 2022, for example, the following were carried out:

- psychological support, which was suggested mainly because of the stress caused by the COVID pandemic;
- meetings to help people stop smoking;
- training sessions for diet;
- meetings and promotions for physical activity.

2022 was characterised by the continuation of the global COVID-19 pandemic. Although the situation improved during the year and the virus became almost endemic in most areas of the world, several activities started in previous years were continued and integrated into the Tesmec Group, such as:

- 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;
- training and information to employees through targeted communications and dedicated meetings.

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

### 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 the figure of the HSO 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 |
|---|---|
| **Responsible management of energy consumption**<br>**Reduction of emissions and fight against climate change**<br>**Raw materials and materials**<br>**Waste and chemicals management** | Risk related to non-compliance with environmental laws and regulations, including those concerning the disposal of waste and other hazardous substances and environmental protection<br>Risk related to the absence of targets to reduce energy consumption and greenhouse gas emissions<br>Risk related to the occurrence of external natural/accidental events<br>Risk related to the lack of suppliers able to guarantee the environmental requirements<br>Risk related to the increase in costs of natural resources |

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. In particular, in 2022, the Control, Risk and Sustainability Committee began monitoring sustainability projects on a quarterly basis in order to verify their objectives and progress.

The certification of many electronic products of Tesmec Automation S.r.l. according to the ISO14067:2018 standard (Greenhouse gases: Carbon footprint) was managed as from 2020. This activity is continuing steadily leading to the certification of new products. To date, more than 85% of the product codes have been certified.

During 2022, for Tesmec S.p.A., following audits and inspections, it was decided to implement an Environmental Adaptation and Improvement project that led to the issuance of technical projects submitted to the Competent Authorities and in the approval phase; this project involved changes to existing layouts, investment such as new emission abatement systems and new chimneys, and a redefinition of effluent management. As a result, action was taken at the Italian level by carrying out environmental audits and training meetings with the support of external technicians.

### 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 in compliance with 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 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 electrical and hybrid 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 for the factory of Grassobbio 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.

A brief description of fuel and energy use in the Tesmec group follows:

- Purchased and self-produced electricity (where photovoltaic system is present): this is mainly used for the operation of machinery and lighting;
- Electricity sold: this is the electricity produced by photovoltaic systems (where present) during the hours or days when there is no work activity;
- Natural gas: it is used for heating the premises;
- Diesel oil: mainly used for company fleets and for testing of manufactured machines such as Trenchers, stringing equipment machines and railway wagons;
- LPG: used to operate certain machines such as oxygen cutting or to heat the premises;
- Petrol is used exclusively for some company cars.

As shown in the Methodological Note to this Statement and as envisaged by the policy defining the criteria for inclusion in the reporting boundary of this non-financial report, the companies Tesmec Guinee SARLU and Marais Cote d'Ivoire SARL left the boundary of environmental data and information in 2022.

As can be seen from the table below, total energy consumption decreased in 2022 compared to the previous year. The following table shows the Group's energy consumption for 2022 and 2021:

| **Energy consumption (GJ)** [16] | **2022**[17] | **2021**[18] |
|---|---|---|
| Natural gas | 17,958 | 24,608[19] |
| Diesel oil for the company fleet | 23,787 | 4,287 |
| Diesel oil (other uses - heating or production) | 36,422 | 53,982[20] |
| Petrol | 2,575 | 962[21] |
| LPG | 546 | 633 |
| Electricity purchased | 16,496 | 18,319 |
| Self-produced electricity | 4,194 | 4,328 |
| *of which from renewable sources* | *4,194* | *4,328* |
| Electricity sold | 728 | 695 |
| **Total consumption** | **101,249** | **106,424** |
| *of which electricity consumed* | **19,962** | **21,952** |

16 With the aim to constantly improving data reporting, the data on diesel consumption for 2021 is restated, dividing it between consumption by the company fleet and other uses.

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

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

19 With the aim to constantly improving data reporting, it was possible to collect the quantities of natural gas consumed by the Fidenza plant of the Tesmec Automation company. Therefore, the 2021 figure has been restated to include these values.

21 It should be noted that data on diesel oil consumed in 2021 by Tesmec USA is excluded from the data reporting boundary.

21 It should be noted that data on diesel oil consumed in 2021 by Tesmec USA is excluded from the data reporting boundary.

In 2022, the Tesmec Group produced energy from photovoltaic renewable sources for 1,165,091 kWh, of which 202,178 kWh were sold to the electricity network, slightly down compared to the previous year notwithstanding the closure of some plants due to the COVID-19 pandemic.

Several Tesmec factories are equipped with photovoltaic systems. On the one hand, this reduces the amount of energy purchased externally and, on the other hand, allows it to be sold to external consortia during the hours when there is no energy consumption.

With the aim of significantly increasing the portion of energy use from renewable sources, i November 2022 started the construction of a new photovoltaic system connected to the electricity distribution network at the Grassobbio headquarters, which will expand and enhance the existing system. The works involve the complete replacement of the panels of the existing system with the latest generation of panels, which will be much more powerful and increase the area covered.

**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 $CO_2$, 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 in 2022 compared to the previous year (+21.2%). This change is mainly due to the increase in the use of diesel oil and natural gas, following the recovery of Group activities after the pandemic.

| **Emissions** | **2022** | **2021** |
|---|---|---|
| **Direct emissions - scope 1 ($tCO_2eq$)** [22] | | |
| emissions from natural gas consumption | 1.009 | 1.252 |
| emissions from consumption of diesel oil for motor vehicles | 1.943 | 3.578 |
| emissions from diesel oil (other uses - heating or production) | 2.795 | 284 |
| emissions from petrol consumption | 291 | 62 |
| emissions from LPG consumption | 55 | 38 |
| emissions from refrigerant gases (R134a) | 227 | 32 |
| ***Total scope 1*** | **6.319** | **5.214** |
| **Indirect emissions - scope 2 ($tCO_2$)** | | |
| Emissions from electricity consumption - location based | 1.418 | 1.574 |
| Emissions from electricity consumption - market based | 1.818 | 2.065 |
| ***Total scope 1 and scope 2 (market based)*** | **8.138** | **7.279** |

22 In line with the restatement of data on diesel consumption for 2021, the data relating to emissions divided between automotive and other uses is restated. For the same reason, the data relating to emissions generated by the consumption of natural gas is also restated.

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**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 2022, 1,935 tonnes of hazardous waste were produced. With regard to the production of non-hazardous waste, the total produced in 2022 is 1,093. Any deviations between 2022 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.

| | Total waste by type and disposal method | | |
|---|---|---|---|
| | Unit of measurement | From 1st January 2022 to 31st December 2022[23]. | From 1st January 2021 to 31st December 2021[24] |
| **Waste produced** | | **Total** | **Total** |
| **Total hazardous waste** | **t** | **1,935** | **346** |
| **Total non-hazardous waste** | **t** | **1,093** | **1,023** |
| **Total Waste** | **t** | **3,028** | **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, 1,045 tonnes of mainly steel and ferrous materials were purchased in 2021, whereas for 2022 the purchase of 951 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. No renewable materials were used.

| **Purchases of materials - non-renewable (tonnes)[25]** | **2022** | **2021** |
|---|---|---|
| Semi-finished steel products (sheets, tubes, rounds) | 699 | 807 |
| Semi-finished aluminium products (sheets, tubes, rounds) | 57 | 38 |
| Semi-finished nylon products (rings, plates) | 43 | 60 |
| Hydraulic oil and lubricants | 143 | 140 |
| **Total** | **951** | **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;

23 It is specified that the indicator "306-3 Waste generated" includes data of the production companies (Tesmec S.p.A.; Tesmec Automation S.r.l.; Tesmec Rail S.r.l.; Tesmec USA, Inc.; Groupe Marais SAS) and of the company Marais Laying NZ Ltd. As mentioned in paragraph "17.1.7 Adopted calculation methods", the production of municipal waste was excluded from the calculation.

24 It is specified that the indicator "306-3 Waste generated" includes data of the production companies (Tesmec S.p.A.; Tesmec Automation S.r.l.; Tesmec Rail S.r.l.; Groupe Marais SAS) and of Marais Laying NZ Ltd, Marais Cote d'Ivoire, Tesmec Guinee SARLU, Tesmec Australia (Pty) Ltd and Tesmec SA. The data from the company Tesmec USA Inc. is excluded from the total of data relating to waste, in that it is not available. As mentioned in paragraph "17.1.7 Adopted calculation methods", the production of municipal waste was excluded from the calculation.

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

- 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.

### 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 |
|---|---|
| **Geopolitical and social background**<br>**Stakeholder engagement**<br>**Customer satisfaction**<br>**Product quality and safety**<br>**Responsible management of the supply chain**<br>**R&D and digital transformation**<br>**Data privacy management** | Risks due to geopolitical crises/wars (e.g. Ukraine) with the impossibility of finding material and/or sudden increase in purchase prices<br>Risks due to very long delivery times of components especially in the hydraulic, diesel engine and electronic segments<br>Risks due to the lack of safety of products sold and marketed<br>Risks due to non-compliance of product information<br>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 labour force<br>Risks due to accidents involving contractors, suppliers and strategic partners<br>Risks related to intellectual property rights<br>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.<br>Risks related to product development, product obsolescence and research and development<br>Risks related to the breach of contracts with regard to delivery time and product quality |

### 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.

The management systems of Tesmec S.p.A, Tesmec Rail S.r.l., Tesmec Automation S.r.l. and Tesmec USA, Inc. MARAIS Laying NZ obtained the ISO 9001:2015 certification 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 was awarded the Ecovadis Gold Medal, placing it in the top 5% of companies assessed by Ecovadis.

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 and in the Code of Ethics for Suppliers.

### 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 2022, the company finalised its policy for qualifying and evaluating new suppliers, which also includes 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 the aim of sharing the ESG commitment with its supply chain, Tesmec prepared the Supplier Code of Ethics in 2022, which was approved by the Board of Directors on 21 December 2022. This document is part of the Tesmec Group's sustainability strategy and aims at responsible supply chain management. It aims to ensure that the Group's suppliers meet environmental standards, provide safe working conditions, treat employees fairly and respectfully, and adopt ethical practices. The Supplier Code of Ethics, together with the New Supplier Assessment Questionnaire, will be shared and sent out as from 2023 to suppliers of goods and services selected on the basis of importance and value provided.

HSE (Health Safety and Environment) audits will also continue to be carried out on Tesmec S.p.A.'s supplier base, where deemed necessary, as already done in 2022.

During 2022, Tesmec Group companies registered a total of 679 new suppliers. Approximately 2% were assessed according to environmental criteria. Specifically, the parent company Tesmec S.p.A. registered 296 new suppliers, 4% of which were assessed according to environmental criteria. The percentage of Group suppliers assessed according to social criteria is not significant. The new supplier qualification and assessment process, already in place since the beginning of 2023, will contribute significantly to increasing the percentage of assessed suppliers and will be extended to all Group companies in the following years.

**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 2021 and 2022, 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. Collaboration agreements with universities and research institutes are of key importance for the Group because they lay the foundation for overcoming innovation challenges with a systemic approach. The fundamental objective is to further strengthen the network of collaborations with leading scientific institutions in order to create an ongoing synergy. To carry out its Research and Development projects, the Group also relies on the technical, technological and scientific skills of highly qualified private partners who provide the company with services and know-how essential to the achievement of project targets.

**Geopolitical and social background**

In 2022, the recovery in economic activity was accompanied by a steady and significant rise in the inflation rate, the latter mainly due to difficulties in supply chains, the Russian-Ukrainian conflict and the rise in energy and commodity prices. Moreover, the main central banks, including the Federal Reserve, planned and/or applied restrictive monetary policies, reducing the injection of liquidity into the economic and financial system and increasing interest rates, in order to contain inflation. Given the current macroeconomic context and the monetary policies implemented, the growth expectations for the global economy have been revised downwards, but still recovering as national plans to support the development of infrastructure projects, energy transition and digitalisation are pursued.

The Tesmec Group was affected by changes in prices and non-recurring costs, but demonstrated its ability to respond to external challenges through sectoral and geographical diversification, adjusting its strategy on the basis of these external changes. In fact, the Group offers integrated solutions with high technological, digital, networked and sustainable content.

Despite macroeconomic uncertainty, the Group is active in sectors that are benefiting from new investments and development policies aimed at strengthening the key infrastructures of the main countries. In fact, the business is concentrated in these strategic sectors that have extremely lively and significant growth prospects. Huge investments are planned in the Trencher segment for the implementation of telecommunications networks and digitalisation as well as for the 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.

**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.

The digital transformation is driving the implementation of new technologies that enable the prompt innovation of products and solutions and the proposition of new business models in response to increasingly rapid market changes, an increasingly fierce competitive landscape and increasingly demanding customer expectations.

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.

**Management of data confidentiality**

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.

In 2021 and 2022, there were no substantiated complaints concerning breaches of customer privacy and losses of customer data.

**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 especially during the COVID-19 pandemic that has significantly restricted the mobility of people globally.

Customer Satisfaction is the main objective of quality management systems according to ISO 9001. 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.

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### 17.8 GRI Content Index

| | |
|---|---|
| **Statement of use** | The Consolidated Non-financial Statement of TESMEC S.p.A. for 2022 [01.01.2022 – 31.12.2022] has been prepared in accordance with the GRI Standards |
| **GRI 1** | GRI 1 Foundation 2021 |
| **Applicable GRI Sector Standards** | Not available for the reference sector |

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| | 2-25 Processes to remediate negative impacts | Pages 80-81<br>Pages 105-107<br>Page 111<br>Pages 114-115 |
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| | 3-2 List of material topics | Page 57 |
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| **GRI 3: Material topics 2021** | 3-3 Management of material topics | Pages 102-105 |
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| | GRI 403-2 Hazard identification, risk assessment, and incident investigation | Pages 102-106 |
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| **Well-being of people** | | |
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| **GRI 401: Employment** | GRI 401-1 New employee hires and employee turnover | Pages 96-98 |
| | GRI 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees | Pages 99-101 |
| **Product and Life Cycle Design and Product Quality and Safety** | | |
| **GRI 3: Material topics 2021** | 3-3 Management of material topics | Pages 112-113 |
| **GRI 416: Customer Health and Safety** | GRI 416-2 Incidents of non-compliance concerning the health and safety impacts of products and services | Page 113 |
| **Reduction of emissions and fight against climate change** | | |
| **GRI 3: Material topics 2021** | 3-3 Management of material topics | Page 108 |
| **GRI 305: Emissions** | GRI 305-1 Direct (Scope 1) GHG emissions | Page 108 |
| | GRI 305-2 Energy indirect (Scope 2) GHG emissions | Page 108 |
| **Raw materials and other materials** | | |
| **GRI 3: Material topics 2021** | 3-3 Management of material topics | Page 109 |
| **GRI 301: Materials** | GRI 301-1 Materials used by weight or volume | Page 109 |
| **Sustainable supply chain management** | | |
| **GRI 3: Material topics 2021** | 3-3 Management of material topics | Pages 110-112 |
| **GRI 308: Supplier Environmental Assessment** | GRI 308-1 New suppliers that were screened using environmental criteria | Page 112 |

| | | |
|---|---|---|
| **GRI 414: Supplier Social Assessment** | GRI 414-1 New suppliers that were screened using social criteria | Page 112 |
| **Waste and chemical product management** | | |
| **GRI 3: Material topics 2021** | 3-3 Management of material topics | Page 109 |
| **GRI 306: Waste** | GRI 306-3 Waste generated | Page 109 |
| **Diversity, fairness and non-discrimination** | | |
| **GRI 3: Material topics 2021** | 3-3 Management of material topics | Pages 90-92 |
| **GRI 405: Diversity and Equal Opportunity** | GRI 405-1 Diversity of governance bodies and employees | Pages 93-94 |
| **GRI 406: Non-discrimination** | GRI 406-1 Incidents of discrimination and corrective actions taken | Page 92 |
| **Management of data confidentiality** | | |
| **GRI 3: Material topics 2021** | 3-3 Management of material topics | Pages 114-115 |
| **GRI 418: Privacy dei clienti** | GRI 418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data | Page 115 |
| **Human rights** | | |
| **GRI 3: Material topics 2021** | 3-3 Management of material topics | Pages 80<br>Pages 91-92 |

# INDEPENDENT AUDITOR'S REPORT

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# 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 11, 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.

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, 2022, is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and the GRI Standards.

Deloitte.



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 30, 2023

*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 YEAR

**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 20 April 2023, at 10:30 at the operational headquarters in Grassobbio (BG), Via Zanica 17/O, 24050, on single call.

**1. Approval of the financial statements as at 31 December 2022 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 2022 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-*bi*s, 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 2023.

The directors' report will be available to the public, together with the draft financial statements of Tesmec as at 31 December 2022, the consolidated financial statements of the Tesmec Group as at 31 December 2022, 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 2022 of Tesmec that closed with a with an operating profit of Euro 4,133,552.

With reference to the results achieved, the Board of Directors proposes that you resolve to carry forward the operating profit and allocate it to the legal reserve for Euro 206,678.

* * *

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 2022 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 2022, 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 2022 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 2022;*

***decides:***

- *to approve the financial statements as at 31 December 2022 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 2022 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 2022;*

***decides:***

- *to carry forward the profit for the year for Euro 3,926,874, and allocate it to the legal reserve for Euro 206,678;*
- *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, 10 March 2023

TESMEC S.p.A.

The Chairman of the Board of Directors
Ambrogio Caccia Dominioni

# CONSOLIDATED FINANCIAL STATEMENTS OF THE TESMEC GROUP

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## Consolidated statement of financial position

| *(Euro in thousands)* | Notes | 31 December 2022 | 2021 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Intangible assets | 7 | 32,293 | 23,896 |
| Property, plant and equipment | 8 | 51,759 | 47,607 |
| Rights of use | 9 | 21,939 | 23,352 |
| Equity investments in associates evaluated using the equity method | 10 | 5,639 | 8,088 |
| Other equity investments | | 28 | 3 |
| Financial receivables and other non-current financial assets | 11 | 10,549 | 6,821 |
| Derivative financial instruments | 23 | 753 | 10 |
| Deferred tax assets | 31 | 16,349 | 15,839 |
| Non-current trade receivables | | 1,754 | 1,761 |
| Other non-current assets | | 1,204 | 1,266 |
| **TOTAL NON-CURRENT ASSETS** | | **142,267** | **128,643** |
| **CURRENT ASSETS** | | | |
| Work in progress contracts | 12 | 24,973 | 15,691 |
| Inventories | 13 | 101,411 | 81,293 |
| Trade receivables | 14 | 56,229 | 54,392 |
| *of which with related parties:* | | *2,027* | *3,510* |
| Tax receivables | 15 | 2,412 | 1,782 |
| Other available-for-sale securities | | - | 2 |
| Financial receivables and other current financial assets | 16 | 17,163 | 16,775 |
| *of which with related parties:* | | *2,596* | *9,270* |
| Other current assets | 17 | 12,252 | 9,365 |
| Cash and cash equivalents | 18 | 50,987 | 50,189 |
| **TOTAL CURRENT ASSETS** | | **265,427** | **229,489** |
| **TOTAL ASSETS** | | **407,694** | **358,132** |
| **SHAREHOLDERS' EQUITY** | | | |
| **SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS** | | | |
| Share capital | 19 | 15,702 | 15,702 |
| Reserves | 19 | 57,290 | 55,670 |
| Group net profit/(loss) | 19 | 7,862 | 1,195 |
| **TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS** | | **80,854** | **72,567** |
| Non-controlling interest in capital and reserves | | 2,469 | 61 |
| Net profit/(loss) for the period attributable to non-controlling interests | | 54 | 14 |
| **TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS** | | **2,523** | **75** |
| **TOTAL SHAREHOLDERS' EQUITY** | | **83,377** | **72,642** |
| **NON-CURRENT LIABILITIES** | | | |
| Medium/long-term loans | 20 | 91,130 | 100,439 |
| *of which with related parties:* | | - | *3,263* |
| Non-current bond issue | 21 | 1,246 | 3,727 |
| Non-current financial liabilities from rights of use | 22 | 16,772 | 18,009 |
| Derivative financial instruments | 23 | - | 49 |
| Employee benefit liability | 24 | 3,958 | 4,564 |
| Deferred tax liabilities | 31 | 7,199 | 6,707 |
| Provisions for non-current risks and charges | | - | - |

| | | | |
|---|---|---|---|
| Other long-term liabilities | | - | 254 |
| **TOTAL NON-CURRENT LIABILITIES** | | **120,305** | **133,749** |
| **CURRENT LIABILITIES** | | | |
| Interest-bearing financial payables (current portion) | 25 | 76,369 | 56,753 |
| *of which with related parties:* | | *4,144* | *2,620* |
| Current bond issue | 26 | 3,717 | 2,467 |
| Current financial liabilities from rights of use | 22 | 7,280 | 6,484 |
| Derivative financial instruments | 23 | - | 50 |
| Trade payables | 27 | 74,178 | 55,966 |
| *of which with related parties:* | | *1,177* | *1,310* |
| Advances from customers | | 12,574 | 2,194 |
| Income taxes payable | 28 | 4,421 | 2,051 |
| Provisions for risks and charges | 29 | 3,759 | 3,171 |
| Other current liabilities | 30 | 21,714 | 22,605 |
| **TOTAL CURRENT LIABILITIES** | | **204,012** | **151,741** |
| **TOTAL LIABILITIES** | | **324,317** | **285,490** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **407,694** | **358,132** |

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## Consolidated income statement

| *(Euro in thousands)* | Notes | Financial year ended 31 December 2022 | 2021 |
|---|---|---|---|
| **Revenues from sales and services** | 32 | **245,245** | **194,286** |
| *of which with related parties:* | | *14,742* | *10,647* |
| Cost of raw materials and consumables | 33 | (97,441) | (78,565) |
| *of which with related parties:* | | *(8)* | *(56)* |
| Costs for services | 34 | (53,783) | (37,738) |
| *of which with related parties:* | | *(120)* | *(239)* |
| Payroll costs | 35 | (60,701) | (56,011) |
| Other operating costs/revenues, net | 36 | (8,101) | (3,256) |
| *of which with related parties:* | | *248* | *160* |
| Amortisation and depreciation | 37 | (22,085) | (22,447) |
| Development costs capitalised | 38 | 10,806 | 8,065 |
| Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method | | (821) | 1,353 |
| **Total operating costs** | | **(232,126)** | **(188,599)** |
| **Operating income** | | **13,119** | **5,687** |
| Financial expenses | 39 | (16,466) | (12,112) |
| *of which with related parties:* | | *(474)* | *(514)* |
| Financial income | 40 | 14,915 | 9,152 |
| *of which with related parties:* | | *136* | *87* |
| Portion of losses/(gains) from associated companies and non-operational Joint Ventures evaluated using the equity method | | 44 | (25) |
| **Pre-tax profit/(loss)** | | **11,612** | **2,702** |
| Income tax | 31 | (3,696) | (1,493) |
| **Net profit/(loss) for the year** | | **7,916** | **1,209** |
| **Profit/(loss) attributable to non-controlling interests** | | **54** | **14** |
| **Group profit/(loss)** | | **7,862** | **1,195** |
| **Basic and diluted earnings/(losses) per share** | | **0.013** | **0.002** |

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## Consolidated statement of comprehensive income

| *(Euro in thousands)* | Notes | Financial year ended 31 December 2022 | 2021 |
|---|---|---|---|
| **NET INCOME FOR THE YEAR** | | **7,916** | **1,209** |
| ***Other components of comprehensive income:*** | | | |
| *Other components of comprehensive income that will be subsequently reclassified to net income/(loss) for the year:* | | | |
| Exchange differences on conversion of foreign financial statements | 19 | (229) | 2,077 |
| *Other components of comprehensive income that will not be subsequently reclassified to net income/(loss) for the year:* | | | |
| Actuarial profit/(loss) on defined benefit plans | 24 | 545 | 152 |
| Income tax | | (130) | (36) |
| | | 415 | 116 |
| **Total other income/(losses) after tax** | | **186** | **2,193** |
| **Total comprehensive income/(loss) after tax** | | **8,102** | **3,402** |
| *Attributable to:* | | | |
| Shareholders of Parent Company | | 8,264 | 3,388 |
| Non-controlling interests | | (162) | 14 |

## Statement of consolidated cash flows

| *(Euro in thousands)* | Notes | Financial year ended 31 December 2022 | 2021 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Net profit/(loss) for the year | | 7,916 | 1,209 |
| *Adjustments to reconcile net income for the year with the cash flows generated by* | | | |
| Amortisation and depreciation | 37 | 22,085 | 22,447 |
| Provisions for employee benefit liability | 24 | 388 | 423 |
| Provisions for risks and charges/inventory obsolescence/doubtful accounts | 13-14-29 | 3,203 | 3,092 |
| Employee benefit payments | 24 | (449) | (367) |
| Payments/use of provisions for risks and charges | 29 | (168) | (453) |
| Net change in deferred tax assets and liabilities | 31 | (109) | (221) |
| Change in fair value of financial instruments | 23 | (842) | (81) |
| *Change in current assets and liabilities:* | | | |
| Trade receivables | 14 | 6,079 | 1,578 |
| *of which with related parties:* | | *1,483* | *(1,920)* |
| Inventories | 13 | (28,747) | (10,494) |
| Trade payables | 27 | 18,053 | (5,590) |
| *of which with related parties:* | | *(133)* | *(155)* |
| Other current assets and liabilities | | (2,458) | (2,462) |
| **NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)** | | **24,951** | **9,081** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Investments in property, plant and equipment | 8 | (12,280) | (17,525) |
| Investments in intangible assets | 7 | (13,467) | (9,989) |
| Investments in rights of use | 9 | (7,404) | (7,751) |
| (Investments)/disposals of financial assets | | (3,409) | (5,835) |
| *of which with related parties:* | | *6,674* | *(5,579)* |
| Change in the consolidation area | | (6,954) | (2,462) |
| Proceeds from sale of property, plant and equipment, intangible assets and rights of | 7-8-9 | 8,163 | 14,867 |
| **NET CASH FLOW USED IN INVESTING ACTIVITIES (B)** | | **(35,351)** | **(28,695)** |
| **NET CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Disbursement of medium/long-term loans | 20 | 25,549 | 35,381 |
| *of which with related parties:* | | *(3,263)* | *-* |
| Recognition of financial liabilities from rights of use | 22 | 8,645 | 9,411 |
| Repayment of medium/long-term loans | 20-21 | (19,378) | (33,095) |
| Repayment of financial liabilities from rights of use | 22 | (8,638) | (6,992) |
| Net change in short-term financial debt | 22-25-26 | 1,833 | (5,581) |
| *of which with related parties:* | | *1,524* | *(168)* |
| Other changes | 19 | - | (208) |
| Change in the consolidation area | 19 | 2,633 | - |
| **NET CASH FLOW GENERATED BY/(USED IN) FINANCING ACTIVITIES (C)** | | **10,644** | **(1,084)** |
| **TOTAL CASH FLOW FOR THE YEAR (D=A+B+C)** | | **244** | **(20,698)** |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)** | | 554 | 461 |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (F)** | 18 | 50,189 | 70,426 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (G=D+E+F)** | | **50,987** | **50,189** |
| **Additional information:** | | | |
| Interest paid | | 7,414 | 4,464 |
| Income tax paid | | 1,145 | 1,242 |

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## Statement of changes in consolidated shareholders' equity

| *(Euro in thousands)* | **Share capital** | **Legal reserve** | **Share premium reserve** | **Reserve of Treasury Shares** | **Translation reserve** | **Other reserves** | **Profit/(loss) for the period** | **Total shareholders' equity attributable to Parent Company shareholders** | **Total shareholders' equity attributable to non-controlling interests** | **Total shareholders' equity** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2021** | **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** |
| Profit/(loss) for the period | - | - | - | - | - | | 7,862 | 7,862 | 54 | 7,916 |
| Other profits/(loss) | - | - | - | - | (13) | 415 | - | 402 | (216) | 186 |
| **Total comprehensive income/(loss)** | | | | | | | | **8,264** | **(162)** | **8,102** |
| Allocation of profit for the period | - | - | - | - | - | 1,195 | (1,195) | - | - | - |
| Change in the consolidation area | | | | | | 23 | | 23 | 2,610 | 2,633 |
| **Balance as at 31 December 2022** | **15,702** | **2,141** | **39,215** | **(2,341)** | **3,873** | **14,402** | **7,862** | **80,854** | **2,523** | **83,377** |

## Explanatory notes

## Accounting and reporting standards adopted in preparing the consolidated financial statements as at 31 December 2022

### 1. Company information

The Parent Company Tesmec S.p.A. (hereinafter "Parent Company" or "Tesmec") 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 "Tesmec Group") is in Milan, Piazza S. Ambrogio 16.

The publication of Tesmec's consolidated financial statements for the year ended as at 31 December 2022 was authorised by means of the resolution of the Directors on 10 March 2023.

### 2. Reporting standards

The consolidated financial statements of the Tesmec Group as at 31 December 2022 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 year ended 31 December 2021, 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 have been prepared on a going-concern basis, as the Directors have verified the ability of the Company and the Group to meet their obligations in the foreseeable future of at least 12 months, developing for this purpose alternative forecast scenarios in which the effects of possible slowdowns in the business compared to what was foreseen in the plan were reflected, to take into account the context of general uncertainty associated with the increase in procurement costs not immediately recovered through the increase in sales prices and the rigidities of the supply chain and logistics, further complicated by the Russian-Ukrainian conflict, as well as any pandemic resurgence. As a result of this analysis, the Directors concluded that the assumption of business continuity adopted for the preparation of the financial statements is adequate, as there are no significant uncertainties regarding the business continuity. Performances that differ from company forecasts, with particular reference to increases in procurement costs exceeding the scenarios of further prudence incorporated in the aforementioned forecasts, could lead to the achievement of results lower than expected, with possible effects currently unpredictable on the capacity of the Company and the Group to comply with the 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 year 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 year.
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 year are consolidated using the equity method for the period in which the joint control was exercised.

As at 31 December 2022, the consolidation area changed with respect to that as at 31 December 2021:

- on 14 June 2022, Tesmec Energy was established as a wholly-owned subsidiary of Groupe Marais SAS. The company is based in Algiers (Algeria) and will be active in the marketing and rental business for the trencher segment;

- on 8 September 2022, by virtue of a share capital increase, the parent company Tesmec S.p.A. increased its shareholding in Tesmec Saudi Arabia LLC to 65% of the share capital. Consequently, Tesmec Saudi Arabia LLC was consolidated on a line-by-line basis as from that date. The difference emerging from the acquisition of the original share, dating back to June 2021, and this last share capital increase were allocated to Goodwill in the total amount of Euro 3,014 thousand; the effects and methods of the acquisition of control and the related recognition were described in the report on operations, in paragraph *4.1 Effects of the acquisition of an additional 16% of the share capital of Tesmec Saudi Arabia LLC*;

- on 1 December 2022, the parent company Tesmec S.p.A. entered into a series of agreements with the partner Fusion Middle East Services WLL under which it acquired de facto control of the shareholding in Tesmec Peninsula WLL, a company operating in the business of renting and selling trenchers. Consequently, Tesmec Peninsula WLL was consolidated on a line-by-line basis as from that date; the effects and methods of the acquisition of control and the related recognition were described in the report on operations, in paragraph *4.2 Effects of the acquisition of de facto control of Tesmec Peninsula WLL*;

- the company R and E Contracting (Pty) Ltd., originally 20% owned by Tesmec SA (Pty) Ltd. has been removed from the consolidation area as it is in the process of being cancelled from the local register of companies;

- the companies Innova 70 Consorzio Stabile and Primis Group S.r.l. were excluded from the scope of consolidation as they were no longer considered strategic.

**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 | Percentage held 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% | - |
| Tesmec Peninsula WLL | Doha (Qatar) | Qatar Riyal | 7,300,000 | 99.00% | - |
| 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% | - |
| Tesmec Saudi Arabia LLC | Riyad (Saudi Arabia) | Saudi Riyal | 30,800,000 | 65.00% | - |
| 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 (Côte d'Ivoire) | 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% |
| Tesmec Energy | Algiers (Algeria) | Algerian Dinar | 1,520,000 | - | 100.00% |

**ASSOCIATED COMPANIES**

**(consolidated with the equity method)**

| Name | Registered office | Currency | Share capital Currency unit | Percentage held Directly | Percentage held 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% | - |

| JOINT VENTURES (consolidated with the equity method) | | | | | |
|---|---|---|---|---|---|
| | | | | Percentage held | |
| **Name** | **Registered office** | **Currency** | **Share capital Currency unit** | **Directly** | **Indirectly** |
| Condux Tesmec Inc | Mankato (Minnesota) | US Dollar | 2,500,000 | 50.00% | - |

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 year 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 year.
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 year 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 year ended 31 December | | End-of-period exchange rate as at 31 December | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| US Dollar | 1.0530 | 1.1827 | 1.0666 | 1.1326 |
| Russian Rouble | 72.1509 | 87.153 | 75.6553 | 85.300 |
| Qatari Riyal | 3.8543 | 4.305 | 3.8824 | 4.123 |
| South African Rand | 17.2086 | 17.477 | 18.0986 | 18.063 |
| Renminbi | 7.0788 | 7.628 | 7.3582 | 7.195 |
| Australian Dollar | 1.5167 | 1.575 | 1.5693 | 1.562 |
| Algerian Dinar | 149.6452 | 159.653 | 146.5049 | 157.408 |
| New Zealand Dollar | 1.6582 | 1.672 | 1.6798 | 1.658 |
| Tunisian Dinar | 3.2509 | 3.288 | 3.3221 | 3.260 |
| CFA Franc | 655.957 | 655.957 | 655.957 | 655.957 |
| GNF Franc | 9,159.5115 | 11,545.83 | 9,127.3344 | 10,354.31 |
| Saudi Riyal | 3.7987 | 4.435 | 3.9998 | 4.247 |
| Moroccan dirham | 10.678 | 10.626 | 11.158 | 10.483 |

## 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 year. 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 as 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 as 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 year 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 year; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting year.

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 year; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting year.

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 year 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 year 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 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 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 year, 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 years; 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 year, 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 arise. 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 year 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 Tesmec Saudi Arabia since 2021), 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 with non-similar 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 recognised in the income statement. 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 the income statement for the year.
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 year.

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 "indirect factoring" or 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 indebtedness is disclosed pursuant to the "Guidance on Disclosure Requirements under 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 year, 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 year 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 year. 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 Tesmec 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 year, 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 year 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 years, 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 year and in prior financial years; 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 years 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 year:

- 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 year when they relate to goods and services sold or consumed during the same year or when it is not possible to identify their future use.

Labour 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 year.

**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 year. 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 years 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 year 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 year 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 year 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 year 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 year.
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 year. 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 2022.**

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

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.

The adoption of these amendments did not have any effect on the Group's 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 2022**

- 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 Group's consolidated financial statements through the adoption of this standard.
- 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 Group's consolidated financial statements through the adoption of these amendments.

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

As 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 Group's consolidated financial statements through the adoption of this amendment.

- 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 Group's 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 Group's 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/Group 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 year as well as the amounts of income and expenses during the reporting year. 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 year. 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.

***Discretionary assessments in determining the de facto control***

In the entities in which the Group does not have the majority of voting rights in the respective shareholders' meetings, the Group assesses at its discretion whether there is a situation of de facto control over said entities, with regards to the following items:

- dispersion of shareholding structure: number of voting rights held by the Group relative to the number of rights held respectively by the other vote holders and their dispersion;
- voting patterns at shareholders' meetings: the percentages of voting rights exercised by the Group at shareholders' meetings in recent years;
- governance agreements: representation in the governing bodies with strategic and operational decision-making powers over the relevant activities, as well as the rules for appointing key management personnel;
- contractual relationships and material transactions.

As at 31 December 2022, the Group holds 49% of the share capital of Tesmec Peninsula WLL, based in Doha (Qatar), with Fusion Middle East Services WLL, a company incorporated under Qatari law, holding the remaining 51%. In view of the Qatari "Foreign Investment Law", under which the majority of the capital of an entity governed by Qatari law must remain under ownership of a local shareholder, the Tesmec Group is unable to hold more than 50% of the share capital of the entity. However, based on corporate agreements, the entity is managed by a sole director (General Manager) who is exclusively appointed and dismissed by Tesmec Group and to whom the broadest powers of direction and supervision of the entity's activity are delegated. Furthermore, the agreements for the distribution of any profits provide that 99% of the same pertains to Tesmec Group and 1% pertains to the local shareholder. Therefore, the Group considers that it exercises de facto control over the entity, based on an IFRS 10 criteria analysis.

## 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 2022, 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 14.94 million, with a positive equivalent value of Euro 753 thousand.

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.

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 2022 financial period (compared to 2021) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 2022 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 2022 financial period (compared to 2021) 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 2022 financial period (compared to 2021).
- 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 2022, 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 2023 financial period of Euro 103 thousand, offset by an increase of Euro 8 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 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.

| | **Interests** | | | | | |
|---|---|---|---|---|---|---|
| | **31 December 2022** | | | **31 December 2021** | | |
| *(Euro in thousands)* | **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 | 221,681 | (103) | 72 | 189,160 | (92) | 28 |
| **Total Loans** | **221,681*** | **(103)** | **72** | **189,160*** | **(92)** | **28** |
| | | | | | | |
| *Euro in thousands)* | **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 | 14,937 | 8 | (2) | 26,062 | 1 | (1) |
| **Total Derivative instruments** | **14,937** | **8** | **(2)** | **26,062** | **1** | **(1)** |
| | | | | | | |
| **Total** | | **(95)** | **70** | | **(91)** | **27** |

* The residual debt is considered gross of amortized costs

| | Fair value sensitivity of derivatives | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Financial period ended 31 December 2022** | | | | | | | | | |
| *(Euro in thousands)* | **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** |
| Derivative instruments hedging cash flows | 14,937 | 753 | (755) | (761) | (761) | - | 755 | 761 | 761 | - |
| **Total** | **14,937** | **753** | **(755)** | **(761)** | **(761)** | **-** | **755** | **761** | **761** | **-** |
| | **Financial period ended 31 December 2021** | | | | | | | | | |
| *(Euro in thousands)* | **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** |
| Derivative instruments hedging cash flows | 26,062 | (90) | 117 | 180 | 180 | - | (117) | (180) | (180) | - |
| **Totale** | **26,062** | **(90)** | **117** | **180** | **180** | **-** | **(117)** | **(180)** | **(180)** | **-** |

With reference to the situation as at 31 December 2022, 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 761 thousand, with an impact on the Income Statement of the 2023 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 755 thousand, with an impact only on the Income Statement of the 2023 financial period.

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.

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 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Financial payables | | Bonds | | Trade payables | Financial instruments | Total |
| | Capital* | Interests | Capital* | Interests | | | |
| *(Euro in thousands)* | a | b | c | d | e | f | g=a+b+c+d+e+f |
| Within 12 months | 80,491 | 3,712 | 3,716 | 301 | 74,178 | - | **162,398** |
| Between one and two years | 39,659 | 2,727 | 1,247 | 33 | - | - | **43,666** |
| Between two and three years | 30,570 | 1,921 | - | - | - | (441) | **32,050** |
| Between three and five years | 33,212 | 1,410 | - | - | - | (312) | **34,310** |
| Between five and seven years | 3,226 | 52 | - | - | - | - | **3,278** |
| After more than 7 years | 5,186 | 243 | - | - | - | - | **5,429** |
| **Total** | **192,344*** | **10,065** | **4,963*** | **334** | **74,178** | **(753)** | **281,131** |

| Maturity | 31 December 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Financial payables | | Bonds | | Trade payables | Financial instruments | Total |
| | Capital* | Interests | Capital* | Interests | | | |
| *(Euro in thousands)* | a | b | c | d | e | f | g=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

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 2022 and 31 December 2021).

**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 2022 financial period (compared to 2021) 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 2022 financial period (compared to 2021 calculated) produced by a shock of the exchange-rate market, by using internal measurement models, based on the general acceptance approach.

| | 2022 Exposure in foreign currency (USD) | | | 2022 Sensitivity | |
|---|---|---|---|---|---|
| **Exposure with regard to equity items** | 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 | 15,847 | - | 15,847 | (743) | 743 |

| | | | | | |
|---|---|---|---|---|---|
| Financial receivables | - | (2,466) | (2,466) | 116 | (116) |
| Trade payables | 2,862 | - | 2,862 | (134) | 134 |
| **Total gross exposure with regard to equity items** | **18,709** | **(2,466)** | **16,243** | **(761)** | **761** |
| Derivative instruments | - | - | - | - | - |

| | 2021 Exposure in foreign currency (USD) | | | 2021 Sensitivity | |
|---|---|---|---|---|---|
| **Exposure with regard to equity items** | **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 | 7,462 | | 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 | - | - | - | - | - |

| | 2022 Exposure in foreign currency (ZAR) | | | 2022 Sensitivity | |
|---|---|---|---|---|---|
| **Exposure with regard to equity items** | **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)** |
| Trade receivables | 4,560 | - | 4,560 | (13) | 13 |
| Financial receivables | - | - | - | - | - |
| Trade payables | 79,585 | - | 79,585 | (220) | 220 |
| **Total gross exposure with regard to equity items** | **84,145** | **-** | **84,145** | **(233)** | **233** |
| Derivative instruments | - | - | - | - | - |

| | 2021 Exposure in foreign currency (ZAR) | | | 2021 Sensitivity | |
|---|---|---|---|---|---|
| **Exposure with regard to equity items** | **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)** |
| 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 | - | - | - | - | - |

| | 2022 Exposure in foreign currency (AUD) | | | 2022 Sensitivity | |
|---|---|---|---|---|---|
| **Exposure with regard to equity items** | **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)** |
| Trade receivables | 3,961 | - | 3,961 | (126) | 126 |
| Financial receivables | - | (40) | (40) | 1 | (1) |
| Trade payables | 22,273 | - | 22,273 | (710) | 710 |

| | | | | | |
|---|---|---|---|---|---|
| **Total gross exposure with regard to equity items** | **26,234** | **(40)** | **26,194** | **(835)** | **835** |
| 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 exchange rate EUR/AUD +5% (EUR/000)** | **Income statement exchange rate EUR/AUD -5% (EUR/000)** |
| 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 | - | - | - | - | - |

| Exposure with regard to equity items | 2022 Exposure in foreign currency (CNY) | | | 2022 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)** |
| Trade receivables | 349 | - | 349 | (2) | 2 |
| Financial receivables | 349 | (1) | 348 | (2) | 2 |
| Trade payables | 9,303 | - | 9,303 | (63) | 63 |
| **Total gross exposure with regard to equity items** | **10,001** | **(1)** | **10,000** | **(67)** | **67** |
| 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)** | **Conto economico cambio EUR/CNY +5% (EUR/000)** | **Conto economico cambio EUR/CNY -5% (EUR/000)** |
| 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 | - | - | - | - | - |

| Exposure with regard to equity items | 2022 Exposure in foreign currency (RUB) | | | 2022 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)** |
| Trade receivables | - | - | - | - | - |
| Financial receivables | - | - | - | - | - |
| Trade payables | 47,684 | - | 47,684 | (33) | 33 |
| **Total gross exposure with regard to equity items** | **47,684** | **-** | **47,684** | **(33)** | **33** |
| Derivative instruments | - | - | - | - | - |

| Exposure with regard to equity items | 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) |
| 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 | 2022 Exposure in foreign currency (NZD) | | | 2022 Sensitivity | |
|---|---|---|---|---|---|
| | Assets (NZD/000) | Liabilities (NZD /000) | Net (NZD /000) | Income statement exchange rate EUR/NZD +5% (EUR/000) | Income statement exchange rate EUR/NZD -5% (EUR/000) |
| Trade receivables | 31 | - | 31 | (1) | 1 |
| Financial receivables | - | - | - | - | - |
| Trade payables | 401 | - | 401 | (12) | 12 |
| **Total gross exposure with regard to equity items** | **432** | **-** | **432** | **(13)** | **13** |
| Derivative instruments | - | - | - | - | - |

| Exposure with regard to equity items | 2021 Exposure in foreign currency (NZD) | | | 2021 Sensitivity | |
|---|---|---|---|---|---|
| | Assets (NZD/000) | Liabilities (NZD /000) | Net (NZD /000) | Income statement exchange rate EUR/NZD +5% (EUR/000) | Income statement exchange rate EUR/NZD -5% (EUR/000) |
| Trade receivables | 366 | - | 366 | (11) | 11 |
| Financial receivables | - | - | - | - | - |
| Trade payables | 1,170 | - | 1,170 | (35) | 35 |
| **Total gross exposure with regard to equity items** | **1,536** | **-** | **1,536** | **(46)** | **46** |
| 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.

| (Euro in thousands) | 31 December 2022 | 2021 |
|---|---|---|
| **NON-CURRENT ASSETS:** | | |
| Receivables and other financial assets | 10,549 | 6,821 |
| Derivative financial instruments | 753 | 10 |
| Non-current trade receivables | 1,754 | 1761 |
| **CURRENT ASSETS:** | | |
| Trade receivables | 56,229 | 54,392 |
| Other available-for-sale securities | 0 | 2 |
| Financial receivables | 17,163 | 16,775 |
| Cash and cash equivalents | 50,987 | 50,189 |

| (Euro in thousands) | 31 December 2022 | 2021 |
|---|---|---|
| **NON-CURRENT LIABILITIES:** | | |
| Financial payables | 91,130 | 100,439 |
| Non-current bond issue | 1,246 | 3,727 |
| Non-current financial liabilities and rights of use | 16,772 | 18,009 |
| Derivative financial instruments | - | 49 |
| **CURRENT LIABILITIES:** | | |
| Interest-bearing financial payables (current portion) | 76,369 | 56,753 |
| Current bond issue | 3,717 | 2,467 |
| Current financial liabilities and rights of use | 7,280 | 6,484 |
| Derivative financial instruments | - | 50 |
| Trade payables | 74,178 | 55,966 |
| Advances from customers | 12,574 | 2,194 |

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:

| *(Euro in thousands)* | Loans and receivables/payables at amortised cost | Cash and cash equivalents | Fair value recognised in the income statement |
|---|---|---|---|
| ***Financial assets:*** | | | |
| Financial receivables | 10,549 | - | - |
| Derivative financial instruments | - | - | 753 |
| Non-current trade receivables | 1,754 | - | - |
| **Total non-current** | **12,303** | **-** | **753** |
| Trade receivables | 54,202 | - | - |
| Trade receivables from related parties | 2,027 | - | - |
| Other available-for-sale securities | 0 | - | - |
| Financial receivables from third parties | 14,567 | - | - |
| Financial receivables from related parties | 2,596 | - | - |
| Cash and cash equivalents | - | 50,987 | - |
| **Total current** | **73,392** | **50,987** | **-** |

| | | | |
|---|---|---|---|
| **Total** | **85,695** | **50,987** | **753** |
| | | | |
| ***Financial liabilities:*** | | | |
| Medium/long-term loans | 91,130 | - | - |
| Bond issue | 1,246 | - | - |
| Non-current financial liabilities from rights of use | 16,772 | - | - |
| Derivative financial instruments | - | - | - |
| **Total non-current** | **109,148** | **-** | **-** |
| | | | |
| Interest-bearing financial payables (current portion) | 72,225 | - | - |
| Financial payables to related parties | 4,144 | - | - |
| Current bond issue | 3,717 | - | - |
| Current financial liabilities from rights of use | 7,280 | - | - |
| Derivative financial instruments | - | - | - |
| Trade payables due to third-parties | 73,001 | - | - |
| Trade payables due to related parties | 1,177 | - | - |
| Advances from customers | 12,574 | - | - |
| **Total current** | **174,118** | **-** | **-** |
| | | | |
| **Total** | **283,266** | **-** | **-** |

**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 2022** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| ***Financial assets:*** | | | | |
| Derivative financial instruments | 753 | - | 753 | - |
| **Total non-current** | **753** | **-** | **753** | **-** |
| | | | | |
| Other available-for-sale securities | - | - | - | - |
| **Total current** | **-** | **-** | **-** | **-** |
| | | | | |
| **Total** | **753** | **-** | **753** | **-** |
| | | | | |
| ***Financial liabilities:*** | | | | |
| Derivative financial instruments | - | - | - | - |
| **Total non-current** | **-** | **-** | **-** | **-** |

| | | | | |
|---|---|---|---|---|
| Derivative financial instruments | - | - | - | - |
| **Total current** | **-** | **-** | **-** | **-** |
| | | | | |
| **Total** | **-** | **-** | **-** | **-** |

## 5. Impairment Test

As envisaged by IAS 36, at least at the end of each reporting year, the Group verifies whether the value of fixed assets may have been impaired, thus estimating the recoverable amount of such assets in such circumstances and any difference from the carrying amount. In assessing the case that one or more CGUs may have suffered an impairment loss, indications deriving from information sources both inside and outside the Group were considered.

For the purposes of preparing these consolidated financial statements, in consideration of the results of the main subsidiaries that correspond to the CGUs identified in the consolidated financial statements, no general indicators of impairment were identified and it was therefore not necessary to update the impairment test carried out for the purpose of preparing the financial statements as at 31 December 2020 in a context in which the uncertainty caused by the COVID-19 pandemic had represented a "trigger event" that had made it necessary to carry out impairment tests on non-current assets.

Finally, as mentioned, the Group holds equity investments in associates and joint ventures, measured using the equity method, which entails 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 arise.

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 2023 Budget and the 2024-2027 Business Plan approved by the Board of Directors on 10 March 2023. 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 supply cost trend 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 end of the reporting year 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 continuation of the pandemic crisis, albeit with less disruptive effects, incorporate the expectations of a gradual economic recovery that, although subject to the risk of further slowdowns due to possible further restrictive measures on travel and certain economic activities, is not affected with reference to the medium/long-term prospects, although the typical risk profiles related to making medium/long-term estimates continue to exist. 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 2022 (Euro thousand) | Carrying amount 2021 (Euro thousand) | WACC 31 December 2022 | WACC 31 December 2021 |
|---|---|---|---|---|
| CGU trencher USA | 46,043 | 49,669 | 14.9% | 10.3% |
| Trencher CGU Australia | 9,758 | 8,108 | 11.5% | 9.0% |
| Tesmec Saudi Arabia (Saudi Arabia) | 5.579 | 2,938 | 15.7% | 10.8% |

The estimate of the WACCs of reference compared with the same estimate made as at 31 December 2021 generally shows an increase in the discount rates adopted, resulting from the increased uncertainty of future scenarios also due to the Russian-Ukrainian conflict. To estimate cash flows beyond the explicit forecast period, the terminal value was determined based on a growth rate *g* of 1% to 2%, depending on the CGU of reference, in order to incorporate, at least in part, the higher medium-term inflation expectations compared to the previous year.

The impairment test did not reveal any impairment losses.

Moreover, it should be noted that the recoverable amount 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.

With reference to CGU O.O.O. Tesmec RUS (Russia), note that its reference market is directly affected by the uncertainties related to the ongoing Russian-Ukrainian conflict. This situation requires management to make a specific assessment in terms of the recoverability of the CGU's net assets. In this regard, note that Tesmec, over the years, has developed a commercial presence and service offering through the subsidiary O.O.O. Tesmec RUS, which, due to its commercial essence, does not have fixed assets and, consequently, is not exposed to their risk of impairment. The value of net assets attributable to operations in Russia totalled a loss of about Euro 0.8 million, including an exposure of the Russian subsidiary to the Group's Italian companies of around Euro 2.1 million. As a result of the specific impairment test for the CGU related to the Russian market, an impairment of approximately Euro 50 thousand was required. With regard to recent events and the consequent sanctions and restrictions on commercial operations with Russia, Tesmec's management team is constantly monitoring the situation in order to be able to make assessments on the future operations of the subsidiary in full compliance with EU and international rules (with respect to which there are no relations with sanctioned parties).

## 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 year, 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 year, 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 2022 and as at 31 December 2021 is indicated in the table below:

| | 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| *(Euro in thousands)* | Historical cost | Accum. amort. | Net value | Historical cost | Accum. amort. | Net value |
| Start-up and expansion costs | 12 | - | 12 | - | - | - |
| Development costs | 78,106 | (64,431) | 13,675 | 72,743 | (57,292) | 15,451 |
| Rights and trademarks | 16,590 | (10,770) | 5,820 | 13,832 | (9,468) | 4,364 |
| Other intangible assets | 78 | (47) | 31 | 86 | (46) | 40 |
| Goodwill | 33,410 | (30,396) | 3,014 | - | - | - |
| Assets in progress | 9,741 | - | 9,741 | 4,041 | - | 4,041 |
| **Total intangible assets** | **137,937** | **(105,644)** | **32,293** | **90,702** | **(66,806)** | **23,896** |

The following table shows the changes in intangible assets for the year ended as at 31 December 2022:

| *(Euro in thousands)* | 1 January 2022 | Increases due to purchases | Reclassifications | Change in the consolidation area | Decreases | Amortisation and depreciation | Exchange rate differences | 31 December 2022 |
|---|---|---|---|---|---|---|---|---|
| Start-up and expansion costs | - | 12 | - | - | - | - | - | 12 |
| Development costs | 15,451 | 3,174 | 1,502 | - | - | (6,535) | 83 | 13,675 |
| Rights and trademarks | 4,364 | 2,880 | 252 | 3 | (269) | (1,407) | (3) | 5,820 |
| Other intangible assets | 40 | - | - | - | (7) | (1) | (1) | 31 |
| Goodwill | - | - | - | 3,014 | - | - | - | 3,014 |
| Assets in progress | 4,041 | 7,401 | (1,695) | - | (6) | - | - | 9,741 |
| **Total intangible assets** | **23,896** | **13,467** | **59** | **3,017** | **(282)** | **(7,943)** | **79** | **32,293** |

As at 31 December 2022, intangible assets net of amortisation totalled Euro 32,293 thousand, up Euro 8,397 thousand due to the following effects:

- development costs, which increased by Euro 3,174 thousand, and amortisation for the period of Euro 6,535 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;
- recognition of goodwill for Euro 3,014 thousand relating to the line-by-line consolidation of the company Tesmec Saudi ArabiaLLC starting from September 2022 as described in the management report, paragraph 4.1 Effectsthe acquisition of a further 16% of the capital of Tesmec Saudi Arabia LLC;
- assets under construction for Euro 7,401 thousand mainly relating to development costs not yet completed e therefore not subject to depreciation. The item includes approximately Euro 2 million relating to research in the field of railway undercarriage diagnostics.

The following table shows the changes in intangible assets for the year ended as at 31 December 2021:

| *(Euro in thousands)* | 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** |

## 8. Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2022 and as at 31 December 2021 is indicated in the table below:

| | 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| *(Euro in thousands)* | Historical cost | Accum. deprec. | Net value | Historical cost | Accum. deprec. | Net value |
| Land | 4,401 | - | 4,401 | 4,536 | (148) | 4,388 |
| Buildings | 24,380 | (9,299) | 15,081 | 23,373 | (8,275) | 15,098 |
| Plant and machinery | 24,344 | (18,342) | 6,002 | 18,833 | (14,965) | 3,868 |
| Equipment | 11,697 | (10,302) | 1,395 | 8,019 | (6,879) | 1,140 |
| Other assets | 51,774 | (30,568) | 21,206 | 54,081 | (32,360) | 21,721 |
| Assets in progress | 3,674 | - | 3,674 | 1,392 | - | 1,392 |
| **Total property, plant and equipment** | **120,270** | **(68,511)** | **51,759** | **110,234** | **(62,627)** | **47,607** |

The following table shows the changes in property, plant and equipment for the year ended 31 December 2022:

| *(Euro in thousands)* | 1 January 2022 | Increases due to purchases | Reclassifications | Change in the consolidation area | Decreases | Amortisation and depreciation | Exchange rate differences | 31 December 2022 |
|---|---|---|---|---|---|---|---|---|
| Land | 4,388 | - | - | - | - | - | 13 | 4,401 |
| Buildings | 15,098 | 339 | 1 | - | - | (668) | 311 | 15,081 |
| Plant and machinery | 3,868 | 1,319 | 2,183 | - | (415) | (1,013) | 60 | 6,002 |
| Equipment | 1,140 | 505 | 355 | 22 | (2) | (619) | (6) | 1,395 |
| Other assets | 21,721 | 7,252 | (1,935) | 3,915 | (5,883) | (4,692) | 828 | 21,206 |
| Assets in progress | 1,392 | 2,865 | (319) | - | (265) | - | 1 | 3,674 |
| **Total property, plant and equipment** | **47,607** | **12,280** | **285** | **3,937** | **(6,565)** | **(6,992)** | **1,207** | **51,759** |

As at 31 December 2022, property, plant and equipment totalled Euro 51,759 thousand, up compared to the previous year by Euro 4,152 thousand.

The change is mainly due to the increase in the item "Assets in progress and advance payments to suppliers" of Euro 2,282 thousand related mainly to the construction, not yet completed, of the prototype for the new diagnostic vehicle of the subsidiary Tesmec Rail S.r.l.

The following table shows the changes in property, plant and equipment for the year ended 31 December 2021:

| *(Euro in thousands)* | 1 January 2021 | Increases | Reclassifications | Decreases | Amortisation and depreciation | Exchange rate differences | 31 December 2021 |
|---|---|---|---|---|---|---|---|
| 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** |

## 9. Rights of use

The breakdown in *Rights of use* as at 31 December 2022:

| | 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| *(Euro in thousands)* | Historical cost | Accum. deprec. | Net value | Historical cost | Accum. deprec. | Net value |
| Industrial Buildings - Right of use | 18,346 | (9,316) | 9,030 | 18,371 | (7,201) | 11,170 |
| Plant and machinery - Rights of use | 248 | (151) | 97 | 487 | (221) | 266 |
| Equipment - Rights of use | 28 | (25) | 3 | 28 | (17) | 11 |
| Other assets - Rights of use | 22,837 | (10,028) | 12,809 | 19,104 | (7,199) | 11,905 |
| **Total rights of use** | **41,459** | **(19,520)** | **21,939** | **37,990** | **(14,638)** | **23,352** |

The following table shows the changes in rights of use for the year ended 31 December 2022:

| *(Euro in thousands)* | 1 January 2022 | Increases due to purchases | Reclassifications | Decreases | Amortisation and depreciation | Exchange rate differences | 31 December 2022 |
|---|---|---|---|---|---|---|---|
| Buildings - rights of use | 11,170 | 1,163 | - | (520) | (2,775) | (8) | 9,030 |
| Plant and machinery - rights of use | 266 | - | (102) | - | (70) | 3 | 97 |
| Equipment - rights of use | 11 | - | - | - | (7) | (1) | 3 |
| Other assets - rights of use | 11,905 | 6,241 | (242) | (796) | (4,298) | (1) | 12,809 |
| **Total rights of use** | **23,352** | **7,404** | **(344)** | **(1,316)** | **(7,150)** | **(7)** | **21,939** |

Rights of use as at 31 December 2022 amounted to Euro 21,939 thousand and decreased by Euro 1,413 thousand compared to the previous year, in relation to the depreciation for the period totalling Euro 7,150 thousand.

The following table shows the changes in rights of use for the year ended 31 December 2021:

| *(Euro in thousands)* | 1 January 2021 | Increases | Reclassifications | Decreases | Amortisation and 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** |

## 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 2022 and 2021 is indicated in the table below:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| ***Associates:*** | | |
| Locavert SA | 707 | 695 |
| Consorzio Innova Stabile 70 | - | 4 |
| Primis Group S.r.l. | - | 18 |
| **Subtotal** | **707** | **717** |
| ***Joint Ventures:*** | | |
| Condux Tesmec Inc | 4,932 | 3,854 |
| Tesmec Peninsula WLL | - | 579 |
| Tesmec Saudi Arabia | - | 2,938 |
| **Subtotal** | **4,932** | **7,371** |
| **Total Equity investments in associates evaluated using the equity method** | **5,639** | **8,088** |

As of financial year 2022, the decrease in this item is due to the line-by-line consolidation of Tesmec Peninsula and Tesmec Saudi Arabia, which were measured using the equity method in 2021. The effects of the consolidation of these equity investments are described in paragraphs 4.1 and 4.2 of the report on operations.

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 2022 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:

| | 31 December 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(Euro in thousands)* | **% 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% | 863 | 25 | 1,040 | 301 | 740 | 707 | - |
| ***Joint Ventures:*** | | | | | | | | |
| Condux Tesmec Inc. | 50.00% | 6,162 | 549 | 7,687 | 2,647 | 5,040 | 4,932 | - |
| Marais Lucas Technologies Pty Ltd. | 50.00% | - | - | 176 | 2,000 | (1,824) | - | 1,824 |

No indicators of impairment were identified with reference to equity investments measured using the equity method.

## 11. Financial receivables and other non-current financial assets

The following table sets forth the breakdown of financial receivables and other non-current assets as at 31 December 2022 and 2021:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Guarantee deposits | 100 | 107 |
| Financial receivables from third parties | 10,449 | 6,714 |
| **Total financial receivables and other non-current financial assets** | **10,549** | **6,821** |

The item *Financial receivables from third parties* increased by Euro 3,728 thousand compared to the previous financial year 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 of Euro 390 thousand due to the partial write-down of certain receivables from certain counterparties in the trencher segment operating in countries in the African area, whose positions had been the subject matter in previous years of the definition of financially onerous payment plans that were not fully or partially fulfilled, also in connection with the operational and financial difficulties of the counterparties themselves due to the pandemic. The residual balance of the financial positions related to these cases, net of recognised write-downs, amounted to Euro 388 thousand. In this regard, actions are underway to recover outstanding receivables as well as - more generally - to monitor 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 2022 and as at 31 December 2021:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Work in progress (Gross) | 59,017 | 31,489 |
| Advances from contractors | (34,044) | (15,798) |
| **Work in progress contracts** | **24,973** | **15,691** |

"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 compared to the corresponding value of the previous year reflects the normal trend of the management of working capital in the Rail and Energy segments 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 2022 compared to 31 December 2021:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Raw materials and consumables | 69,686 | 53,427 |
| Work in progress | 9,663 | 12,452 |
| Finished products and goods for resale | 20,096 | 15,206 |
| Advances to suppliers for assets | 1,966 | 208 |
| **Total inventories** | **101,411** | **81,293** |

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 year.
In total, inventories increased by 24.7% or Euro 20,118 thousand due to a greater use of procurement also to cope with the 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 due to difficulties affecting logistics.

The changes in the provisions for inventory obsolescence for the years ended 31 December 2022 and 2021 are indicated below:

| *(Euro in thousands)* | Financial year ended 31 December 2022 | 2021 |
|---|---|---|
| Value as at 1 January | 6,646 | 5,883 |
| Provisions | 974 | 1,177 |
| Uses | - | (533) |
| Exchange rate differences | 88 | 119 |
| **Total provisions for inventory obsolescence** | **7,708** | **6,646** |

The value of the provision for inventory obsolescence also increases as a result of the increase in inventories.
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 2022 and 2021:

| *(Euro in thousands)* | 31 December 2022 | 2021 |
|---|---|---|
| Trade receivables from third-party customers | 54,202 | 50,882 |
| Trade receivables from related parties | 2,027 | 3,510 |
| **Total trade receivables** | **56,229** | **54,392** |

For terms and conditions relating to receivables from related parties, refer to paragraph 41.

Trade receivables as at 31 December 2022 amounted to Euro 56,229 thousand, up by Euro 1,837 thousand compared to the 2021 financial year associated with revenue growth.

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 years ended 31 December 2022 and 2021 are indicated in the table below:

| *(Euro in thousands)* | Financial year ended 31 December 2022 | 2021 |
|---|---|---|
| Value as at 1 January | 3,754 | 3,147 |
| Change in the consolidation area | 468 | - |
| Provisions | 1,247 | 1,173 |
| Uses | (460) | (646) |
| Reclassifications | 818 | - |
| Exchange rate differences | 48 | 80 |
| **Total provisions for doubtful accounts** | **5,875** | **3,754** |

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 2022 and 2021:

| (Euro in thousands) | 31 December 2022 | 2021 |
|---|---|---|
| IRAP receivables | 321 | 197 |
| IRES receivables | 299 | 323 |
| Other direct income taxes | 1,792 | 1,262 |
| **Total tax receivables** | **2,412** | **1,782** |

The item *tax receivables* increased compared to the previous financial year of Euro 630 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 2022 and 31 December 2021:

| (Euro in thousands) | 31 December 2022 | 2021 |
|---|---|---|
| Financial receivables from related parties | 2,596 | 9,270 |
| Financial receivables from third parties | 14,496 | 7,403 |
| Other current financial assets | 71 | 102 |
| **Total financial receivables and other current financial assets** | **17,163** | **16,775** |

The increase in *current financial assets* from Euro 16,775 thousand to Euro 17,163 thousand is mainly due to the increase in tax receivables from third parties.

Financial receivables from related parties mainly include receivables from Joint Venture Condux Tesmec Inc. of Euro 1,725 thousand and Marais Lucas of Euro 794 thousand.

## 17. Other current assets

The following table sets forth the breakdown of other current assets as at 31 December 2022 and as at 31 December 2021:

| (Euro in thousands) | 31 December 2022 | 2021 |
|---|---|---|
| Prepaid expenses | 3,381 | 2,553 |
| Accrued income | 18 | 3 |
| VAT credit | 4,294 | 3,399 |
| Other receivables | 1,388 | 694 |
| Advance to suppliers for services | 1,621 | 1,110 |
| Withholding tax on interest and dividends | 8 | 10 |
| Other tax receivables | 1,542 | 1,596 |
| **Total other current assets** | **12,252** | **9,365** |

*Other current assets* were considered receivable and therefore were not subject to value adjustment.
*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 2022 and as at 31 December 2021:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Bank and post office deposits | 50,256 | 50,164 |
| Cash on hand | 716 | 8 |
| Other cash | 15 | 17 |
| **Total cash and cash equivalents** | **50,987** | **50,189** |

*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 2022 amounted to Euro 50,987 thousand and increased by Euro 798 thousand.
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 year.
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 2022 and as at 31 December 2021:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Revaluation reserve | 86 | 86 |
| Extraordinary reserve | 36,292 | 37,044 |
| Change in the consolidation area | 39 | 16 |
| Reserve for first-time adoption of IFRS 9 | (491) | (491) |
| Severance indemnity valuation reserve | (148) | (563) |
| Network reserve | 824 | 824 |
| Other reserves | (22,200) | (24,147) |
| **Total other reserves** | **14,402** | **12,769** |

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 415 thousand as at 31 December 2022.

As a result of the resolution of 21 April 2022, with the approval of the 2021 financial statements, the Shareholders' Meeting decided to allocate the loss of Euro 752 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 2022 and as at 31 December 2021, with separate disclosure of total loans and current portion:

| *(Euro in thousands)* | 31 December 2022 | of which current portion | 2021 | of which current portion |
|---|---|---|---|---|
| Domestic fixed-rate bank loans | 38,808 | 10,677 | 39,389 | 3,356 |
| Domestic floating-rate bank loans | 62,314 | 17,520 | 51,926 | 12,279 |
| Foreign fixed-rate bank loans | 1,379 | 428 | 1,147 | 475 |
| Foreign floating-rate bank loans | 16,027 | 3,491 | 17,362 | 2,656 |
| Shareholder loan | 3,263 | 3,263 | 3,263 | - |
| **Total medium/long-term loans** | **121,791** | **35,379** | **113,087** | **18,766** |
| less current portion | (35,379) | | (18,766) | |
| **Non-current portion of medium/long-term loans** | **86,412** | | **94,321** | |
| Medium/long-term loan due to Simest | 6,118 | 1,400 | 7,418 | 1,300 |
| less current portion | (1,400) | | (1,300) | |
| **Medium/long-term loan due to Simest** | **4,718** | | **6,118** | |
| **Total medium/long-term loans** | **91,130** | **36,779** | **100,439** | **20,066** |

Some loan contracts, the residual value of which at the end of the reporting year amounted to Euro 71.9 million, contain financial covenant provisions. In particular, they require that parameters, calculated on the basis of the financial statements of the Group, have to be met; they are verified on an annual basis and their non-compliance could result in the termination of the benefit of the time limit.

In general, covenants are based on compliance with certain levels, which differ between loan agreements, of the following ratios:

- Net Financial Position/EBITDA;
- Net Financial Position/Shareholders' equity;
- Debt Service Coverage Ratio;
- Current Ratio;
- Leverage Ratio;
- Collateral Coverage Ratio.

Based on the results of the financial statements of the Company and of the Tesmec Group, the covenants relating to these loans were observed.

Prospectively, the Directors verified the Company's and the Group's ability to meet their obligations in the foreseeable future of at least 12 months and, in particular, the ability to comply, also for 2023, with the covenants related to the most relevant loans subject to this verification, developing for this purpose alternative forecast scenarios to take into account the effects of possible slowdowns in business compared to what is envisaged in the plan, due to the current macroeconomic context of volatility and uncertainty. As a result of this analysis, the Directors concluded that there are no significant uncertainties regarding compliance with the covenants under review and, consequently, the company's ability to continue as a going concern. Trends differing from company forecasts, with special reference to increases in procurement costs exceeding the scenarios of prudence incorporated in the aforementioned forecasts, could lead to the achievement of results that are lower than expected with possible effects that cannot be foreseen at present on the Company's and the Group's ability to comply with these covenants.

The payable to Simest S.p.A. of Euro 6,118 thousand consists of the amount relative to the capital shares held by Simest S.p.A. in the subsidiaries in Marais Technologies SAS, Tesmec SA Ltd. (Pty) and Tesmec Australia (Pty) Ltd, which, by virtue of Tesmec's obligation to repurchase the corresponding shares at the expiry of the contract, 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 2022, by indicating the portion due within one year, within 5 years and after more than 5 years:

| Description | Residual value as at 31 December 2022 | Portion within 12 months | Portion within 5 years | Portion after more than 5 years |
|---|---|---|---|---|
| Domestic fixed-rate bank loans | 38,808 | 10,677 | 28,131 | - |
| Domestic floating-rate bank loans | 62,314 | 17,520 | 41,912 | 2,882 |
| Foreign fixed-rate bank loans | 1,379 | 428 | 951 | - |
| Foreign floating-rate bank loans | 16,027 | 3,491 | 6,480 | 6,056 |
| Shareholder loan | 3,263 | 3,263 | - | - |
| **Total** | **121,791** | **35,379** | **77,474** | **8,938** |

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 2022, 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 no. 5/21 of 29 April 2021, note that the Group's net financial indebtedness is as follows:

| | **31 December** | | | |
|---|---|---|---|---|
| *(Euro in thousands)* | **2022** | ***of which with related parties and group*** | **2021** | ***of which with related parties and group*** |
| Cash and cash equivalents | (50,987) | | (50,189) | |
| Current financial assets | (17,163) | *(2,596)* | (16,777) | *(9,270)* |
| Current financial liabilities | 80,086 | *4,144* | 59,220 | *2,620* |
| Current financial liabilities from rights of use | 7,280 | - | 6,484 | - |
| Current portion of derivative financial instruments | - | | 50 | |
| **Current financial indebtedness** | **19,216** | ***1,548*** | **(1,212)** | ***(6,650)*** |
| Non-current financial liabilities | 92,376 | - | 104,166 | *3,263* |
| Non-current financial liabilities from rights of use | 16,772 | | 18,009 | |
| Non-current portion of derivative financial instruments | - | | 49 | |
| Trade payables and other non-current payables | - | | 254 | |
| **Non-current financial indebtedness** | **109,148** | **-** | **122,478** | ***3,263*** |
| **Net financial indebtedness pursuant to ESMA 32-382-1138 Communication** | **128,364** | ***1,548*** | **121,266** | ***(3,387)*** |
| Trade payables and other non-current payables | - | | (254) | |
| **Group net financial indebtedness** | **128,364** | ***1,548*** | **121,012** | ***(3,387)*** |

The net financial indebtedness as at 31 December 2022 increased by Euro 7,352 thousand compared to the end of 2021 (6.1%). The net financial indebtedness prior to the application of IFRS 16, as at 31 December 2021, is equal to Euro 104,312 thousand with an increase of Euro 7,793 thousand compared to the end of 2021.

The table below shows the breakdown of the changes:

- increase in current financial indebtedness of Euro 20,428 thousand due to the:
  - increase in cash and cash equivalents and current financial assets of Euro 1,184 thousand;
  - increase in current financial liabilities of Euro 20,866 thousand mainly due to the short-term reclassification to short-term of the portions to be reimbursed in 2023;
- decrease in medium/long-term financial indebtedness of Euro 13,330 thousand relating to the short-term reclassification of new loans of Euro 25,549 thousand.

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 end of the reporting year, all the covenants in place were complied with.

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 should be noted that the amounts relating to reverse factoring not included in the statement on indebtedness, in that the deferment is part of the Group's normal practice, amount to Euro 7,742 thousand.

## 21. Non-current bond issue

The item related to the non-current bond issue amounts to Euro 1,246 thousand and is related to the medium- long-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 2022 the residual debt is Euro 4,963 thousand.

The financial covenants relating to the bond issue have been met. Any failure to comply with these covenants, which in previous years had resulted in the step-up of the interest rate applied, would have no further effect on the outstanding bond issue.

## 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 2022 and 2021:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Non-current financial liabilities from rights of use | 16,772 | 18,009 |
| Current financial liabilities from rights of use | 7,280 | 6,484 |
| **Total financial liabilities from rights of use** | **24,052** | **24,493** |

The balance of financial liabilities from rights of use as at 31 December 2022 amounted to Euro 24,052 thousand and decreased by Euro 441 thousand compared to the previous year following the expiry of 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 2022 and 2021 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** | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | **2022** | **2021** |
| Banco BPM | CAP | Quarterly floating rate 1.5% | 3-month Euribor | 01 February 2019 | 30 June 2025 | 714,286 | 31 | 3 |
| Deutsche Bank | IRS | Fixed interest rate 1.80% | 3-month Euribor | 01 July 2020 | 30 June 2025 | 2,631,579 | 113 | (19) |
| Intesa | IRS | Fixed interest rate 2.00% | 3-month Euribor | 18 May 2020 | 31 March 2025 | 7,500,000 | 298 | (30) |
| INTESA | IRS | Fixed interest rate - 0.18% | 3-month Euribor | 20 July 2021 | 30 June 2027 | 4,090,908 | 311 | 7 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| DEUTSCHE BANK | FLEX | - | - | 06 January 2022 | 10 January 2022 | 2,000,000 | - | (19) |
| BNL | FLEX | - | - | 12 January 2022 | 12 January 2022 | 2,612,103 | - | (23) |
| MPS | FLEX | - | - | 06 October 2021 | 10 January 2022 | 1,724,584 | - | (8) |
| **Assets for derivative instruments within the financial year** | | | | | | | - | - |
| **Assets for derivative instruments beyond the financial year** | | | | | | | **753** | **10** |
| **Liabilities for derivative instruments within the financial year** | | | | | | | - | **(50)** |
| **Liabilities for derivative instruments beyond the financial year** | | | | | | | - | **(49)** |

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 year 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 year ended 31 December 2022 and 31 December 2021 of employee benefits:

| | **Financial year ended 31 December** | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Present value of the liability at the beginning of the period | 4,564 | 4,660 |
| Financial expense | 40 | 14 |
| Benefits accrued | 348 | 409 |
| Benefits paid | (449) | (367) |
| Loss (profit) | (545) | (152) |
| **Present value of the liability at the end of the period** | **3,958** | **4,564** |

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

| | **Financial year ended 31 December** | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Annual discount rate | 3.70% | 1.00% |
| Inflation rate | 2.50% | 1.75% |
| Total annual salary increase rate | 3.30% | 2.92% |

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.

| | **Discount rate** | |
|---|---|---|
| *(Euro in thousands)* | **0.50%** | **-0.50%** |
| Effect on the aggregate current cost of the service and of the financial expenses | 142 | 118 |

| | | |
|---|---|---|
| Reported value for liabilities with respect to defined benefit plans | 3,377 | 3,696 |

Technical and demographic bases

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| 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

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Advance frequency % | 5.00% | 2.00% |
| Turnover frequency % | 18.00% | 13.00% |

## 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 2022 financial year and the financial year as at 31 December 2021:

| | 31 December | |
|---|---|---|
| *18,00%(Euro in thousands)* | **2022** | **2021** |
| Advances from banks against invoices and bills receivables | 32,053 | 27,648 |
| Payables due to factoring companies | 6,295 | 5,957 |
| Current account overdrafts | 8 | - |
| Financial payables due to SIMEST | 1,400 | 1,300 |
| Short-term loans to third parties | 353 | 462 |
| Current portion of medium/long-term loans | 32,116 | 18,766 |
| Financial payables to related parties | 4,144 | 2,620 |
| **Total interest-bearing financial payables (current portion)** | **76,369** | **56,753** |

Interest-bearing financial payables (current portion) increased by Euro 19,616 thousand, mainly due a greater use of the export advance lines of Euro 4,405 thousand and the increase in the current portion of medium/long-term loans of Euro 13,350 due to the short-term reclassification of the portions to be repaid in 2023.
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 3,717 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 2022 the residual debt is Euro 4,963 thousand.

## 27. Trade payables

The breakdown of *Trade payables* as at 31 December 2022 and as at 31 December 2021, respectively, is indicated in the table below:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Trade payables due to third-parties | 73,001 | 54,656 |
| Trade payables due to related parties | 1,177 | 1,310 |
| **Total trade payables** | **74,178** | **55,966** |

*Trade payables* as at 31 December 2022 increased by Euro 18,212 thousand or 32.5% compared to the previous financial year. 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 2022 and as at 31 December 2021, respectively, is indicated in the table below:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Current IRES tax liabilities | 2,695 | 4 |
| Current IRAP tax liabilities | 892 | 287 |
| Current USA tax liabilities | - | 71 |
| Other current taxes | 834 | 1,689 |
| **Total income taxes payable** | **4,421** | **2,051** |

*IRES and IRAP tax liabilities* as at 31 December 2022 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 years and includes both the cost of labour and that for spare parts used. Changes in the item as at 31 December 2022 and as at 31 December 2021 are indicated below:

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Value as at 1 January | 3,171 | 2,968 |
| Provisions | 789 | 600 |
| Reclassifications | (43) | 32 |
| Uses | (168) | (453) |
| Exchange rate differences | 10 | 24 |
| **Value as at 31 December** | **3,759** | **3,171** |

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 also 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 2022 and as at 31 December 2021:

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Due to social security | 2,139 | 2,056 |
| Due to INAIL (National Insurance Institute for Industrial Accidents) | 397 | 349 |
| Due to trade funds | 95 | 548 |
| Due to employees and collaborators | 4,157 | 3,940 |
| Guarantee deposits payable | 155 | 155 |
| VAT debit | 1,351 | 1,160 |
| Due to others | 582 | 629 |
| Accrued expenses and liabilities | 11,561 | 11,830 |
| Other current taxes | 1,277 | 1,938 |
| **Total other current liabilities** | **21,714** | **22,605** |

*Other current liabilities* decreased compared to the prior financial year of Euro 891 thousand and refers to the decrease in other current taxes. This item includes certain past due pension liabilities that were settled after the reporting year.

## 31. Taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2022 and as at 31 December 2021:

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Deferred tax assets | 16,349 | 15,839 |
| Deferred tax liabilities | 7,199 | 6,707 |

The breakdown of net deferred taxes as at 31 December 2022 and 2021 is shown in the following table by type by listing the items that present underlying temporary differences:

| | 31 December | | 31 December | | Financial year ended 31 December | |
|---|---|---|---|---|---|---|
| | Statement of financial position | | Shareholders' equity | | Income statement | |
| *(Euro in thousands)* | **2022** | **2021** | **2022** | **2021** | **2022** | **2021** |
| **Deferred tax assets** | | | | | | |
| Reversals of intangible assets | - | - | - | - | - | (3) |
| Obsolescence fund | 1,649 | 1,534 | 1 | (18) | 114 | 122 |
| Provisions for future risks and charges | 311 | 297 | 55 | 199 | (41) | 2 |
| Unrealised exchange-rate losses | 3,686 | 2,546 | (27) | 26 | 1,167 | 1,348 |
| Tax effect on UCC gain reversals | 32 | 43 | - | - | (11) | (12) |
| Tax effect on inter-company margin adjustments | 2,269 | 1,921 | (1) | (1) | 349 | 342 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Tax losses carried forward | 5,865 | 7,130 | 1,132 | 858 | (2,397) | (2,357) |
| Other temporary differences | 2,537 | 2,368 | (1,122) | (1,493) | 1,291 | 380 |
| **Total deferred tax assets** | **16,349** | **15,839** | **38** | **(429)** | **472** | **(178)** |
| **Deferred tax liabilities** | | | | | | |
| Unrealised exchange rate gains | (4,547) | (3,157) | - | - | (1,390) | (1,637) |
| Difference of value USA building | (140) | (140) | (5) | (11) | 5 | 5 |
| Capitalisation of Development costs Tesmec USA | (256) | (256) | (75) | (22) | 75 | 75 |
| Deferred tax liabilities Tesmec USA | (241) | (241) | - | 1,186 | | - |
| Profits allocated to network reserve | (218) | (218) | - | - | | - |
| Tax effect on inter-company margin adjustments | (52) | (80) | - | 1 | 28 | 16 |
| Deferred tax liabilities of Group Marais | (1,513) | (1,713) | - | 2 | 200 | 238 |
| Other temporary differences | (232) | (902) | (50) | (646) | 720 | 1,714 |
| **Total deferred tax liabilities** | **(7,199)** | **(6,707)** | **(130)** | **510** | **(362)** | **411** |
| **Net effect on Shareholders' Equity** | | | | | | |
| ***Net balance deferred wealth taxes*** | **9,150** | | | | | |
| ***Represented in the income statement as follows:*** | | | | | | |
| ***Deferred tax assets*** | **472** | | | | | |
| ***Deferred tax liabilities*** | **(362)** | | | | | |
| **Deferred tax liabilities, net** | **110** | | | | | |

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 years as at 31 December 2022 and 2021 are summarised below:

| | **Financial year ended 31 December** | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| **Consolidated pre-tax profit/(loss)** | **11,612** | **2,702** |
| **Current taxation:** | | |
| Italy | (3,678) | (291) |
| USA | (8) | (76) |
| Rest of the world | (120) | (1,359) |
| **Deferred tax (liabilities)/assets** | | |
| Italy | (833) | 161 |
| USA | 406 | 244 |
| Rest of the world | 537 | (172) |
| **Total Income taxes** | **(3,696)** | **(1,493)** |

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:

| | **Financial year ended 31 December** | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| **Profit before tax** | **11,612** | **2,702** |
| IRES tax rate in force during the year | 24,00% | 24.00% |
| **Theoretical tax charge** | **(2,787)** | **(648)** |
| **IRAP** | **(892)** | **(282)** |

| | | |
|---|---|---|
| Permanent tax differences | 893 | (57) |
| Effect of different tax rate for foreign companies | (910) | (506) |
| **Total difference** | **(17)** | **(563)** |
| **Total tax charge as per income statement** | **(3,696)** | **(1,493)** |

## Comments to the main items in the income statement

### 32. Revenues from sales and services

In the 2022 and 2021 financial years, revenues from sales and services amounted to Euro 245,245 thousand and Euro 194,286 thousand, respectively. The breakdown is set below:

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Sales of products | 154,638 | 127,391 |
| Services rendered | 62,660 | 53,100 |
| Changes in work in progress | 27,947 | 13,795 |
| **Total revenues from sales and services** | **245,245** | **194,286** |

In 2022, the Group achieved total revenues of Euro 245,245 thousand compared to Euro 194,286 thousand in 2021, recording an increase of 26.2%. The trend of the three segments is shown below:

- **Trencher**
  Revenues of the Trencher segment amounted to Euro 134,049 thousand, increasing by 21.6% compared to Euro 110,283 thousand as at 31 December 2021. This increase is mainly due to the recovery of the American market and, more generally, to the start of the development and recovery plans in the countries in which the Group operates, despite an economic scenario characterised by difficulties in finding materials and increased purchase prices.

- **Energy**
  With regard to the Energy segment, revenues amounted to Euro 58,195 thousand, increasing by 13.8% compared to the figure of Euro 58,118 thousand as at 31 December 2021. In particular, the Stringing Equipment Segment achieved revenues of Euro 37,783 thousand, compared to Euro 34,140 thousand as at 31 December 2021. The Energy-Automation Segment achieved revenues of Euro 20,412 thousand, compared to Euro 16,978 thousand as at 31 December 2021. Growth in this sector was also confirmed for the year despite the difficulties in sourcing electronic components and semiconductors from the Far East.

- **Rail**
  The Rail Segment recorded revenues of Euro 53,001 thousand, increasing by 61.2% compared to Euro 32,885 thousand as at 31 December 2021. The growth confirms the trend of strengthening the business generated by higher value-added projects related to diagnostic products and outside the national perimeter.

### 33. Cost of raw materials and consumables

For the financial years as at 31 December 2022 and 31 December 2021, cost of raw materials and consumables amounted to Euro 97,441 thousand and Euro 78,564 thousand, respectively.
The breakdown of the item is as in the following table:

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Cost for the purchase of raw materials and consumables | 112,174 | 84,969 |
| Change in inventories | (14,733) | (6,404) |
| **Total cost of raw materials and consumables** | **97,441** | **78,565** |

*Cost of raw materials and consumables* increased by Euro 18,876 thousand (24.0%) less than the increase in sales volumes (26.2%).

## 34. Costs for services

The table below shows the breakdown of *costs for services* that amounted in 2022 and in 2021 to Euro 53,783 thousand and Euro 37,738 thousand, respectively.

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Transport, customs and incidental expenses | 10,389 | 7,146 |
| Outsourced work service | 9,429 | 7,318 |
| External production services | 1,388 | 333 |
| Services for legal, tax, technical and other consultancy | 14,274 | 8,301 |
| Banking services | 1,854 | 1,113 |
| Insurance | 1,581 | 1,763 |
| Energy, water, gas, telephone expenses and postage | 2,918 | 1,983 |
| Board and lodging expenses and travelling allowance | 4,281 | 3,355 |
| Directors' and Auditors' fees | 992 | 929 |
| Advertising and other selling expenses | 1,099 | 398 |
| Maintenance services | 1,586 | 1,509 |
| Commissions and additional expenses | 1,528 | 1,430 |
| Other general expenses | 2,464 | 2,160 |
| **Total costs for services** | **53,783** | **37,738** |

The increase in costs for services (42.5%) was mainly due to the increase in *Outsourced work service* of Euro 2,111 thousand in connection with the increase in revenues and *Services for legal, tax, technical and other consultancy* of Euro 5,973 thousand related to some strategic consultancies.
Finally, note the increase in *Energy, water, gas, telephone expenses and postage* of Euro 935 thousands following the general increase of costs, in the last quarter, for the supply of electricity and gas.

## 35. Payroll costs

During the financial years ended 31 December 2022 and 31 December 2021, payroll costs amounted to Euro 60,701 thousand and Euro 56,011 thousand, respectively, up by 8.4%.

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Wages and salaries | 48,332 | 43,998 |
| Social security charges | 9,089 | 8,766 |
| Employee severance indemnity | 1,481 | 1,621 |
| Other personnel costs | 1,799 | 1,626 |
| **Total payroll costs** | **60,701** | **56,011** |

## 36. Other operating (costs)/revenues, net

During the financial years ended 31 December 2022 and 31 December 2021, other operating (costs)/revenues, net amounted to Euro 8,101 thousand and Euro 3,256 thousand, respectively. The breakdown of the item is as follows:

| (Euro in thousands) | Financial year ended 31 December | |
|---|---|---|
| | 2022 | 2021 |
| Provisions for risks and other provisions | 1,974 | 1,731 |
| Rents | 3,555 | 2,691 |
| Hiring | 1,948 | 1,321 |
| Other lease and rental expenses | 438 | (274) |
| Sundry taxes | 1,257 | 776 |
| Other revenues | (4,215) | (5,502) |
| Other | 3,144 | 2,513 |
| **Total other operating revenues, net** | **8,101** | **3,256** |

*Other operating (costs)/revenues, net* increased by Euro 4,845 thousand compared to the previous financial year.
Other revenues include the value of the benefit of the tax credit for 2022 of Euro 779 thousand compared to Euro 2,059 thousand for 2021.

The item Provisions for risks and other net provisions of Euro 1,974 thousand includes the provision to the allowance for short-term doubtful receivables of Euro 1,247 thousand and for long-term doubtful receivables of Euro 23 thousand and a provision for the product guarantee fund to Euro 704 thousand.

The item *Other* increased by Euro 630 thousand and mainly refers to the cost of software licences for the new ERP management system.

## 37. Amortisation and depreciations

During the financial years ended 31 December 2022 and 31 December 2021, depreciations and amortisation amounted to Euro 21,842 thousand and Euro 22,447 thousand, respectively, with a 1.6% decrease.
The breakdown of the item is as follows:

| (Euro in thousands) | Financial year ended 31 December | |
|---|---|---|
| | 2022 | 2021 |
| Amortisation of intangible assets | 7,943 | 8,558 |
| Depreciation of property, plant and equipment | 6,992 | 7,272 |
| Depreciation of right of use | 7,150 | 6,617 |
| **Total amortisation and depreciations** | **22,085** | **22,447** |

## 38. Development costs capitalised

*Development costs capitalised* for the financial years ended 31 December 2022 and 31 December 2021 amounted to Euro 10,806 thousand and Euro 8,065 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 years ended 31 December 2022 and 31 December 2021, financial expenses amounted to Euro 16,466 thousand and Euro 12,112 thousand, respectively. The breakdown of the item is as follows:

| (Euro in thousands) | Financial year ended 31 December | |
|---|---|---|
| | 2022 | 2021 |
| Bank interest expenses | 269 | 502 |
| Interests payable for factoring and billing discounts | 1,476 | 648 |

| | | |
|---|---|---|
| Interests payable on interest-bearing medium/long-term loans and borrowings | 4,225 | 3,144 |
| Interests payable on advance loans on exports | 503 | 292 |
| Other sundry financial expenses | 337 | 1,352 |
| Financial expenses on rights of use | 959 | 973 |
| Realised foreign exchange losses | 731 | 565 |
| Unrealised foreign exchange losses | 7,796 | 4,586 |
| Provision for risks on financial receivables | 170 | - |
| Fair value adjustment of derivative instruments | - | 50 |
| **Total financial expenses** | **16,466** | **12,112** |

*Financial expenses* increased by Euro 4,354 thousand compared to the previous financial year, mainly due to realised and unrealised exchange losses that amounted to Euro 8,527 thousand compared to Euro 5,151 thousand in the previous financial year as well as the partial write-down of certain financial receivables.

## 40. Financial income

During the financial years ended 31 December 2022 and 2021, financial income amounted to Euro 14,915 thousand and Euro 9,152 thousand, respectively. The breakdown of the item is as follows:

| | **Financial year ended 31 December** | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Interests from banks | 13 | 17 |
| Realised foreign exchange gains | 2,192 | 511 |
| Unrealised foreign exchange gains | 10,497 | 7,867 |
| Fair value adjustment of derivative instruments | 842 | 130 |
| Sundry financial income | 270 | - |
| Interest income from customers | 1,101 | 627 |
| **Total financial income** | **14,915** | **9,152** |

*Financial income* increased by Euro 5,763 thousand compared to the previous financial year mainly due to higher realised and unrealised foreign exchange gains totalling Euro 4,311 thousand.

## 41. Segment Reporting

For management purposes, the Tesmec 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 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | | | | | 2021 | | | | |
| *(Euro in thousands)* | Energy | Trencher | Rail | Not allocated | Consolidated | Energy | Trencher | Rail | Not allocated | Consolidated |
| Intangible assets | 11,612 | 10,143 | 10,538 | - | 32,293 | 10,062 | 5,833 | 8,001 | - | 23,896 |
| Property, plant and equipment | 3,148 | 38,731 | 9,880 | - | 51,759 | 2,980 | 36,554 | 8,073 | - | 47,607 |
| Rights of use | 660 | 20,591 | 688 | - | 21,939 | 817 | 21,945 | 590 | - | 23,352 |
| Financial assets | 4,935 | 2,545 | 5,208 | 4,281 | 16,969 | 3,858 | 4,334 | 3,293 | 3,437 | 14,922 |
| Other non-current assets | 1,693 | 7,528 | 639 | 9,447 | 19,307 | 1,936 | 6,595 | 727 | 9,608 | 18,866 |
| **Total non-current assets** | **22,048** | **79,538** | **26,953** | **13,728** | **142,267** | **19,653** | **75,261** | **20,684** | **13,045** | **128,643** |
| Work in progress contracts | 2,908 | - | 22,065 | - | 24,973 | 1,346 | - | 14,345 | - | 15,691 |
| Inventories | 24,903 | 68,744 | 7,764 | - | 101,411 | 17,766 | 59,542 | 3,985 | - | 81,293 |
| Trade receivables | 9,270 | 37,700 | 9,259 | - | 56,229 | 7,657 | 35,734 | 11,001 | - | 54,392 |
| Other current assets | 1,646 | 9,021 | 10,436 | 10,724 | 31,827 | 2,500 | 4,385 | 7,554 | 13,485 | 27,924 |
| Cash and cash equivalents | 3,947 | 8,685 | 14,227 | 24,128 | 50,987 | 5,205 | 9,807 | 7,135 | 28,042 | 50,189 |
| **Total current assets** | **42,674** | **124,150** | **63,751** | **34,852** | **265,427** | **34,474** | **109,468** | **44,020** | **41,527** | **229,489** |
| **Total assets** | **64,722** | **203,688** | **90,704** | **48,580** | **407,694** | **54,127** | **184,729** | **64,704** | **54,572** | **358,132** |
| **Shareholders' equity attributable to parent company shareholders** | - | - | - | **80,854** | **80,854** | - | - | - | **72,567** | **72,567** |
| **Shareholders' equity attributable to non-controlling interests** | - | - | - | **2,523** | **2,523** | - | - | - | **75** | **75** |
| **Non-current liabilities** | **2,536** | **17,760** | **11,474** | **88,535** | **120,305** | **2,983** | **19,414** | **8,338** | **103,014** | **133,749** |
| Current financial liabilities | 3,158 | 5,397 | 13,950 | 57,581 | 80,086 | 2,509 | 4,279 | 10,013 | 42,469 | 59,270 |
| Current financial liabilities from rights of use | 263 | 4,210 | 142 | 2,665 | 7,280 | 276 | 3,531 | 91 | 2,586 | 6,484 |
| Trade payables | 21,760 | 39,611 | 12,807 | - | 74,178 | 14,351 | 33,089 | 8,526 | - | 55,966 |
| Other current liabilities | 1,662 | 8,668 | 18,613 | 13,525 | 42,468 | 1,324 | 8,779 | 11,588 | 8,330 | 30,021 |
| **Total current liabilities** | **26,843** | **57,886** | **45,512** | **73,771** | **204,012** | **18,460** | **49,678** | **30,218** | **53,385** | **151,741** |
| **Total liabilities** | **29,379** | **75,646** | **56,986** | **162,306** | **324,317** | **21,443** | **69,092** | **38,556** | **156,399** | **285,490** |
| **Total shareholders' equity and liabilities** | **29,379** | **75,646** | **56,986** | **245,683** | **407,694** | **21,443** | **69,092** | **38,556** | **229,041** | **358,132** |

| | Financial year ended 31 December | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | | | | 2021 | | | |
| *(Euro in thousands)* | Energy | Trencher | Rail | Consolidated | Energy | Trencher | Rail | Consolidated |
| Revenues from sales and services | 58,195 | 134,049 | 53,001 | 245,245 | 51,118 | 110,283 | 32,885 | 194,286 |
| Operating costs net of depreciation and amortisation | (50,367) | (120,683) | (38,991) | (210,041) | (43,283) | (96,868) | (26,001) | (166,152) |
| **EBITDA** | **7,828** | **13,366** | **14,010** | **35,204** | **7,835** | **13,415** | **6,884** | **28,134** |
| Amortisation and depreciation | (4,835) | (13,283) | (3,967) | (22,085) | (5,274) | (13,259) | (3,914) | (22,447) |
| **Total operating costs** | **(55,202)** | **(133,966)** | **(42,958)** | **(232,126)** | **(48,557)** | **(110,127)** | **(29,915)** | **(188,599)** |
| **Operating income** | **2,993** | **83** | **10,043** | **13,119** | **2,561** | **156** | **2,970** | **5,687** |
| Net financial income/(expenses) | | | | (1,507) | | | | (2,985) |
| **Pre-tax profit/(loss)** | | | | **11,612** | | | | **2,702** |
| Income tax | | | | (3,696) | | | | (1,493) |
| **Net profit/(loss) for the year** | | | | **7,916** | | | | **1,209** |
| Profit/(loss) attributable to non-controlling interests | | | | 54 | | | | 14 |
| **Group profit/(loss)** | | | | **7,862** | | | | **1,195** |

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 year ended 31 December 2022, the breakdown of each related party is indicated below:

| | 31 December | | | | | 31 December | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | | | | | 2021 | | | | |
| *(Euro in thousands)* | 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 |
| ***Associates:*** | | | | | | | | | | |
| Locavert S.A. | 11 | - | - | - | 1 | 20 | - | - | - | - |
| R&E Contracting (Pty) Ltd. | - | - | - | - | - | - | - | - | - | - |
| **Subtotal** | **11** | **-** | **-** | **-** | **1** | **20** | **-** | **-** | **-** | **-** |
| ***Joint Ventures:*** | | | | | | | | | | |
| Condux Tesmec Inc. | 1,284 | 1,725 | - | - | 14 | 2,782 | 1,707 | - | - | 3 |
| Tesmec Peninsula | - | - | - | - | - | 12 | 2,044 | - | 1,089 | 4 |
| Tesmec Saudi Arabia | - | - | - | - | - | 441 | 4,648 | - | - | 7 |
| Marais Lucas | - | 794 | - | - | - | - | 794 | - | - | - |
| **Subtotal** | **1,284** | **2,519** | **-** | **-** | **14** | **3,235** | **9,193** | **-** | **1,089** | **14** |
| ***Related parties:*** | | | | | | | | | | |
| Ambrosio S.r.l. | - | - | - | - | 19 | - | - | - | - | 4 |
| Dream Immobiliare S.r.l. | - | 77 | - | - | 990 | - | 77 | - | - | 1,137 |
| Fi.ind. | - | - | - | - | - | - | - | - | - | |
| TTC S.r.l. | - | - | - | - | - | - | - | - | - | 24 |
| M.T.S. Officine meccaniche S.p.A. | 650 | - | - | 3,050 | 72 | 123 | - | 3,050 | | 63 |
| RX S.r.l. | - | - | - | 1,094 | 71 | - | - | 213 | 1,531 | 34 |
| Triskell Conseil Partner | - | - | - | - | 10 | - | - | - | - | 34 |
| ICS Tech. S.r.l. | 82 | - | - | - | - | 132 | - | - | - | - |
| Comatel | - | - | - | - | - | - | - | - | - | - |
| **Subtotal** | **732** | **77** | **-** | **4,144** | **1,162** | **255** | **77** | **3,263** | **1,531** | **1,296** |
| **Total** | **2,027** | **2,596** | **-** | **4,144** | **1,177** | **3,510** | **9,270** | **3,263** | **2,620** | **1,310** |

| | Financial year ended 31 December | | | | | Financial year ended 31 December | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | | | | | 2021 | | | | |
| *(Euro in thousands)* | 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 |
| ***Associates:*** | | | | | | | | | | |
| Locavert S.A. | 808 | - | (1) | - | - | 160 | - | - | - | - |
| **Subtotal** | **808** | **-** | **(1)** | **-** | **-** | **160** | **-** | **-** | **-** | **-** |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Joint Ventures:*** | | | | | | | | | | |
| Condux Tesmec Inc. | 5,368 | - | (14) | 246 | 53 | 7,520 | - | (3) | 159 | 24 |
| Tesmec Saudi Arabia | - | - | - | - | - | 400 | - | - | - | - |
| Tesmec Peninsula | 6,697 | - | (55) | 8 | 67 | 263 | (55) | - | - | 47 |
| **Subtotal** | **12,065** | **-** | **(69)** | **254** | **120** | **8,183** | **(55)** | **(3)** | **159** | **71** |
| ***Related parties:*** | | | | | | | | | | |
| Ambrosio S.r.l. | - | - | - | (4) | (3) | - | - | - | (2) | - |
| Dream Immobiliare S.r.l. | - | - | - | (15) | (345) | - | - | - | (23) | (398) |
| Fi.ind. | - | - | - | - | - | - | - | - | 29 | - |
| TTC S.r.l. | - | - | (30) | - | - | - | - | (30) | - | - |
| M.T.S. Officine meccaniche S.p.A. | 1,849 | (8) | (2) | 13 | (78) | 2,147 | (1) | (3) | (3) | (65) |
| RX S.r.l. | - | - | - | - | (32) | - | - | - | - | (35) |
| Triskell Conseil Partner | - | - | (18) | - | - | - | - | (203) | - | - |
| ICS Tech. S.r.l. | 17 | - | - | - | - | 109 | - | - | - | - |
| Comatel | 3 | - | - | - | - | 48 | - | - | - | - |
| **Subtotal** | **1,869** | **(8)** | **(50)** | **(6)** | (458) | **2,304** | **(1)** | **(236)** | **1** | **(498)** |
| **Total** | **14,742** | **(8)** | **(120)** | **248** | **(338)** | **10,647** | **(56)** | **(239)** | **160** | **(427)** |

- 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;
- Dream Immobiliare S.r.l.: Financial income and expenses include financial expenses of the rentals for the Building of Grassobbio and Endine of Euro 345 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 2022:*

| 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 | 97,067 | - | 97,067 |
| Caterina Caccia Dominioni | Director | 64,000 | - | 64,000 |
| Lucia Caccia Dominioni | Director | 26,667 | - | 26,667 |
| Paola Durante | Director | 46,667 | - | 46,667 |
| Simone Andrea Crolla | Director | 36,667 | - | 36,667 |
| Emanuela Teresa Basso Petrino | Director | 55,467 | - | 55,467 |
| Guido Luigi Traversa | Director | 36,667 | - | 36,667 |
| Antongiulio Marti | Director | 26,667 | - | 26,667 |
| Nicola Iorio | Director | 20,000 | - | 20,000 |

| 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 |
| Attilio Massimo Marco Francozzi | Statutory Auditor | 17,333 | - | 17,333 |
| Laura Braga | Statutory Auditor | 17,333 | - | 17,333 |

Fees paid to executives with strategic responsibilities in the 2022 financial year amounted to Euro 539 thousand (Euro 353 thousand in the 2021 financial year).

## 44. Legal and tax disputes

At the end of the reporting year, 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.

The scope of assessment of the ongoing tax audits described below is for a total amount of approximately Euro 1.8 million, with respect to which, with the support of the opinion of the appointed tax consultants, provisions of approximately Euro 200 thousand have been set aside.

With reference to the arbitration award obtained at the CIETAC Chinese Commission for International Trade Arbitration in Beijing, after obtaining the final discharge of the amount paid, the Company concluded the recovery action before the ordinary Court of Beijing for the residual accrued interest receivable of approximately Euro 200 thousand and the same was collected.

In April 2018, a debtor company notified the subsidiary Tesmec Rail, following the enforcement by the subsidiary of a 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 did not make any provision on the basis of the opinion expressed by the appointed lawyers, in particular with regard to the lack of adequate allegations in the introductory phase of the judgement by the debtor company. The preliminary investigation procedure is still ongoing; the next hearing for the examination of witnesses is scheduled for ... following adjournment.

During the half-year, the subsidiary Tesmec USA received an unfavourable dismissal ruling quantifying the damage as a maximum risk of approximately USD 1.2 million. The subsidiary promptly lodged an appeal, on the strength of its own evidence and the opinion of the appointed lawyers, based on which it believes it can obtain a fairer result, the best estimate of which has been set aside, together with the estimate of future legal expenses, for the purpose of preparing the interim condensed consolidated financial statements as at 30 June 2022. The estimated duration of the appeal is about two years. As at 31 December 2022, the subsidiary set aside USD 481,544.92, an amount deemed consistent with the status of the dispute.

On 30 June 2022, Amtrak sued Tesmec USA for damages suffered from a fire on 1 July 2019, which affected a maintenance vehicle supplied by the American subsidiary. Amtrak claims that the fire was caused by alleged vehicle faults. On 26 September 2022, Tesmec Usa filed preliminary objections through its lawyers, which led Amtrak to amend its claims and to exclude claims for certain items of damage. On 28 October 2022, Tesmec Usa filed its statement of defence in which, rejecting all opposing claims, it filed a counterclaim for violation of the obligations undertaken by the opposite party in performance of a post-sale settlement agreement. Tesmec opened the claim under the local insurance policy in the US and master in Italy.
The case is still at an early stage and the preliminary investigation is expected to open at the end of March, beginning of April, for the expert inspection of the vehicle.

The tax audit relating to the 2016 tax year, pending from June 2019, was completed in November, for which the Parent Company had received a report of findings in relation to alleged capital losses not deductible for IRES purposes and IRAP. Against an initial assessment perimeter of a total amount of approximately Euro 3.8 million and following a discussion with the

Revenue Agency, Tesmec accepted for deflationary purposes only the proposal to join on a minor relief for Euro 70 thousand by paying the amount to the Treasury.

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 in this by the opinion of its tax advisors, considers its behaviour to be well-founded; however, considering the uncertainty related to the outcome of a judgement before the Administrative Court, a provision was made to mitigate the risk of losing the case.

Following a tax audit for the tax year 2018, on 1 August 2022, the subsidiary Tesmec Automation S.r.l. received the report on findings (PVC) from the Italian Inland Revenue. The inspectors challenged the Company's undue utilisation of R&D credits totalling Euro 1.1 million. The Company believes that it has operated correctly and has mandated its consultants to analyse the documentation and produce their own counterclaims.

## 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 2021 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 years as at 31 December 2022 and 2021, they are summarised as follows:

| | **Financial year ended 31 December** | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Sureties | 170,595 | 121,461 |
| **Total commitments and risks** | **170,595** | **121,461** |

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 2022 and 2021 for auditing services and for services other than audit rendered by the Company Deloitte & Touche S.p.A.

| *(Euro in thousands)* | **Receiver** | **Independent Auditors that supplied the service** | **2022** | **2021** |
|---|---|---|---|---|
| Audit of the financial statements and consolidated financial statements | Tesmec S.p.A. Parent Company | Deloitte & Touche S.p.A. | 150 | 128 |
| | Italian subsidiaries | Deloitte & Touche S.p.A. | 60 | 53 |
| | Foreign subsidiaries and JV | Deloitte network | 134 | 112 |
| 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. | 50 | 38 |
| Certification services | Tesmec S.p.A. Parent Company and Subsidiaries | Deloitte & Touche S.p.A. | 79 | 70 |
| **Total** | | | **501** | **429** |

## 48. Significant events occurred after the reporting year

No significant events occurred after the reporting year.

**Certificate of the Consolidated financial statements pursuant to Article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 as amended**

The undersigned Ambrogio Caccia Dominioni and Ruggero Gambini, 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 2022 financial year.

1. We also certify that:

2.1 the consolidated financial statements as at 31 December 2022:

- 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, 10 March 2023

*Ambrogio Caccia Dominioni*
Chief Executive Officer

*Ruggero Gambini*
Manager responsible for preparing
the Company's financial statements

# INDEPENDENT AUDITOR'S REPORT

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

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

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of 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.

#### 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.

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| *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.<br><br>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.<br><br>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.<br><br>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:<br><br>- gained an understanding of the Group's process and procedures related to revenue recognition in accordance with applicable financial reporting standards;<br><br>- gained an understanding of the key controls implemented by the Group for revenue recognition and tested the operating effectiveness of the same controls;<br><br>- 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;<br><br>- 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 128.4 million (Euro 121.0 million as at December 31, 2021). Certain medium/long-term loan contracts, whose residual value as of the financial statements' date amounts to Euro 71.9 million provide the respect of some financial covenants that, at the financial statements' date, are respected. |

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 2023, 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. 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 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 key 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 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;

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- 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 2023, 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 as at December 31, 2022, to be included in the annual financial report.

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

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

Certain information contained in the notes to the consolidated financial statements when extracted from the XHTML format in an XBRL instance, due to certain technical limitations, may not be reproduced identically to the corresponding information displayed in the consolidated financial statements in XHTML format.

### 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, 2022, 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, 2022 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, 2022 and is prepared in accordance with the law.

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

Deloitte.



**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 30, 2023

*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

| (in Euro) | Notes | 31 December 2022 | 31 December 2021 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Intangible assets | 4 | 8,265,910 | 8,140,673 |
| Property, plant and equipment | 5 | 8,124,681 | 7,609,428 |
| Rights of use | 6 | 8,411,738 | 11,200,473 |
| Equity investments in subsidiaries | 7 | 75,619,968 | 67,009,426 |
| Equity investments in associates | 7 | 1,007,763 | 4,110,491 |
| Other equity investments | | 24,308 | 2,808 |
| Financial receivables and other non-current financial assets | 8 | 22,382,529 | 4,498,000 |
| *of which with related parties:* | | *19,298,087* | *1,500,000* |
| Derivative financial instruments | 18 | 752,958 | 9,736 |
| Deferred tax assets | 26 | 5,581,102 | 4,743,972 |
| Other non-current assets | | 376,717 | 422,362 |
| **TOTAL NON-CURRENT ASSETS** | | **130,547,674** | **107,747,369** |
| **CURRENT ASSETS** | | | |
| Inventories | 9 | 40,629,401 | 38,796,446 |
| Trade receivables | 10 | 44,411,286 | 31,155,851 |
| *of which with related parties:* | | *28,781,183* | *17,588,401* |
| Tax receivables | | 346,606 | 409,829 |
| Other available-for-sale securities | | - | 2,125 |
| Financial receivables and other current financial assets | 11 | 44,439,031 | 66,247,786 |
| *of which with related parties:* | | *43,020,597* | *64,194,154* |
| Other current assets | 12 | 6,425,913 | 3,296,368 |
| *of which with related parties:* | | - | *316,437* |
| Cash and cash equivalents | 13 | 19,616,247 | 21,000,382 |
| **TOTAL CURRENT ASSETS** | | **155,868,484** | **160,908,787** |
| **TOTAL ASSETS** | | **286,416,158** | **268,656,156** |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 14 | 15,702,162 | 15,702,162 |
| Reserves | 14 | 72,384,191 | 73,023,940 |
| Net profit/(loss) for the year | 14 | 4,133,552 | (752,412) |
| **TOTAL SHAREHOLDERS' EQUITY** | | **92,219,905** | **87,973,690** |
| **NON-CURRENT LIABILITIES** | | | |
| Medium/long-term loans | 15 | 66,573,044 | 76,967,416 |
| *of which with related parties:* | | - | *3,263,000* |
| Non-current bond issue | 16 | 1,246,146 | 3,727,346 |
| Non-current financial liabilities from rights of use | 17 | 6,391,239 | 8,928,674 |
| Derivative financial instruments | 18 | - | 49,237 |
| Employee benefit liability | 19 | 1,238,759 | 1,593,570 |
| Deferred tax liabilities | 26 | 4,765,529 | 3,318,365 |
| **TOTAL NON-CURRENT LIABILITIES** | | **80,214,717** | **94,584,608** |
| **CURRENT LIABILITIES** | | | |
| Interest-bearing financial payables (current portion) | 20 | 53,920,742 | 38,058,996 |
| *of which with related parties:* | | *3,788,039* | *1,089,501* |
| Current financial liabilities from rights of use | 17 | 2,616,305 | 2,547,577 |

| | | | |
|---|---|---|---|
| Current bond issue | 21 | 3,716,482 | 2,467,165 |
| Derivative financial instruments | 18 | - | 50,161 |
| Trade payables | 22 | 40,277,431 | 34,604,075 |
| *of which with related parties:* | | *2,447,106* | *2,942,895* |
| Advances from customers | | 4,106,313 | 1,088,057 |
| Income taxes payable | 23 | 2,888,503 | 39,384 |
| Provisions for risks and charges | 24 | 460,000 | 425,000 |
| Other current liabilities | 25 | 5,995,760 | 6,817,443 |
| *of which with related parties:* | | *294,670* | *175,232* |
| **TOTAL CURRENT LIABILITIES** | | **113,981,536** | **86,097,858** |
| **TOTAL LIABILITIES** | | **194,196,253** | **180,682,466** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **286,416,158** | **268,656,156** |

## Income statement

| *(in Euro)* | Notes | Financial year ended 31 December 2022 | 2021 |
|---|---|---|---|
| **Revenues from sales and services** | 27 | **110,775,177** | **91,109,511** |
| *of which with related parties:* | | *48,522,833* | *35,554,909* |
| Cost of raw materials and consumables | 28 | (59,876,739) | (47,896,753) |
| *of which with related parties:* | | *(1,787,106)* | *(2,406,312)* |
| Costs for services | 29 | (22,881,432) | (17,869,167) |
| *of which with related parties:* | | *(1,628,466)* | *(404,374)* |
| Payroll costs | 30 | (21,973,182) | (21,049,115) |
| Other operating costs/revenues, net | 31 | 289,655 | (906,686) |
| *of which with related parties:* | | *2,590,279* | *613,690* |
| Amortisation and depreciation | 32 | (5,916,641) | (6,410,052) |
| Development costs capitalised | 33 | 2,405,530 | 2,612,748 |
| **Total operating costs** | | **(107,952,809)** | **(91,519,025)** |
| **Operating income** | | **2,822,368** | **(409,514)** |
| Financial expenses | 34 | (15,018,063) | (10,153,645) |
| *of which with related parties:* | | *(467,298)* | *(484,554)* |
| Financial income | 35 | 17,362,811 | 9,585,750 |
| *of which with related parties:* | | *3,828,969* | *1,790,401* |
| **Pre-tax profit/(loss)** | | **5,167,116** | **(977,409)** |
| Income tax | 26 | (1,033,564) | 224,997 |
| **Net profit/(loss) for the year** | | **4,133,552** | **(752,412)** |

EMARKET SDIR CERTIFIED

## Comprehensive income statement

| (in Euro) | Notes | Financial year ended 31 December 2022 | 2021 |
|---|---|---|---|
| **NET PROFIT/(LOSS) FOR THE YEAR** | | **4,133,552** | **(752,412)** |
| ***Other components of comprehensive income:*** | | | |
| *Other components of comprehensive income that will not be subsequently reclassified to net income/(loss) for the year:* | | | |
| Actuarial profit/(loss) on defined benefit plans | 19 | 148,241 | 29,864 |
| Income tax | | (35,578) | (7,167) |
| | | 112,663 | 22,697 |
| **Total other income/(losses) after tax** | | **112,663** | **22,697** |
| **Total comprehensive income (loss) after tax** | | **4,246,215** | **(729,715)** |

EMARKET SDIR CERTIFIED

## Cash flow statement

| *(in Euro)* | Notes | Financial year ended 31 December 2022 | 2021 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Net profit/(loss) for the year | | 4,133,552 | (752,412) |
| *Adjustments to reconcile net income for the period with the cash flows generated by (used in) operating activities:* | | | |
| Amortisation and depreciation | 32 | 5,916,641 | 6,410,052 |
| Provisions for employee benefit liability | 19 | 14,827 | 6,006 |
| Provisions for risks and charges/inventory obsolescence/doubtful accounts | 9-10-24 | 755,000 | 917,000 |
| Employee benefit payments | 19 | (221,397) | (196,440) |
| Payments/use of provisions for risks and charges | 24 | - | - |
| Net change in deferred tax assets and liabilities | 26 | 574,456 | (126,808) |
| Change in fair value of financial instruments | 18 | (842,620) | (80,273) |
| *Change in current assets and liabilities:* | | | |
| Trade receivables | 10 | (10,637,179) | (730,065) |
| *of which with related parties:* | | *(11,192,782)* | *(7,955,743)* |
| Inventories | 9 | (1,982,955) | (3,964,023) |
| Trade payables | 22 | 5,673,356 | (1,613,084) |
| *of which with related parties:* | | *(495,789)* | *842,868* |
| Other current assets and liabilities | | (993,241) | (7,667) |
| *of which with related parties:* | | *(2,404,065)* | *36,784* |
| **NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)** | | **2,390,440** | **(137,714)** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Investments in property, plant and equipment | 5 | (1,474,707) | (1,917,444) |
| Investments in intangible assets | 4 | (2,839,749) | (3,064,103) |
| Investments in rights of use | 6 | (200,646) | (734,504) |
| (Investments)/disposals of financial assets | | (1,772,963) | (14,503,081) |
| *of which with related parties:* | | *38,971,644* | *(16,907,291)* |
| Proceeds from sale of property, plant and equipment, intangible assets and rights of use | 4-5-6 | 746,706 | 403,808 |
| **NET CASH FLOW USED IN INVESTING ACTIVITIES (B)** | | **(5,541,359)** | **(19,815,324)** |
| **NET CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Disbursement of medium/long-term loans | 15 | 16,065,605 | 25,295,463 |
| Recognition of financial liabilities from rights of use | 17 | 199,044 | 670,352 |
| Repayment of medium/long-term loans | 15-16 | (13,605,067) | (27,199,854) |
| *of which with related parties:* | | *(3,263,000)* | - |
| Repayment of financial liabilities from rights of use | 17 | (2,667,750) | (2,793,253) |
| Net change in short-term financial debt | 17-20-21 | 1,774,953 | (4,906,067) |
| *of which with related parties:* | | *2,664,735* | *(167,948)* |
| **NET CASH FLOW GENERATED BY/(USED IN) FINANCING ACTIVITIES (C)** | | **1,766,784** | **(8,933,358)** |
| **TOTAL CASH FLOW FOR THE YEAR (D=A+B+C)** | | **(1,384,135)** | **(28,886,396)** |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)** | | - | - |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (F)** | 13 | 21,000,382 | 49,886,778 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (G=D+E+F)** | | **19,616,247** | **21,000,382** |
| **Additional information:** | | | |
| Interest paid | | 4,177,963 | 3,525,631 |
| Income tax paid | | - | 587,989 |

## Statement of changes in shareholders' equity

| *(in Euro)* | Share capital | Legal reserve | Share premium reserve | Reserve of Treasury Shares | Other reserves | Profit/(loss) for the period | Total shareholders' equity |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2021** | **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 year | - | - | - | - | - | (752,412) | (752,412) |
| Other changes | - | - | - | - | 22,697 | - | 22,697 |
| **Total comprehensive income/(loss)** | | | | | **22,697** | **(752,412)** | **(729,715)** |
| Allocation of profit for the year | - | - | - | - | (454,999) | 454,999 | - |
| **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** |
| | | | | | | | - |
| Net profit/(loss) for the year | - | - | - | - | - | 4,133,552 | 4,133,552 |
| Other changes | - | - | - | - | 112,663 | - | 112,663 |
| **Total comprehensive income/(loss)** | | | | | **112,663** | **4,133,552** | **4,246,215** |
| Allocation of profit for the year | - | - | - | - | (752,412) | 752,412 | - |
| **Balance as at 31 December 2022** | **15,702,162** | **2,141,680** | **39,215,221** | **(2,340,969)** | **33,368,260** | **4,133,552** | **92,219,905** |

## Explanatory notes

## Accounting policies adopted in preparing the financial statements as at 31 December 2022

## 1. Company information

The Tesmec S.p.A. Parent Company (hereinafter "Parent Company", "Tesmec" 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 year ended 31 December 2022 was authorised by means of the resolution of the Board of Directors on 10 March 2023.

## 2. Reporting standards

The financial statements of Tesmec S.p.A. as at 31 December 2022 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 2022. 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 year ended 31 December 2021, 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 have been prepared on a going-concern basis, as the Directors have verified the ability of the Company and the Group to meet their obligations in the foreseeable future of at least 12 months, developing for this purpose alternative forecast scenarios in which the effects of possible slowdowns in the business compared to what was foreseen in the plan were reflected, to take into account the context of general uncertainty associated with the increase in procurement costs not immediately recovered through the increase in sales prices and the rigidities of the supply chain and logistics, further complicated by the Russian-Ukrainian conflict, as well as any pandemic resurgence. As a result of this analysis, the Directors concluded that the assumption of business continuity adopted for the preparation of the financial statements is adequate, as there are no significant uncertainties regarding the business continuity. Performances that differ from company forecasts, with particular reference to increases in procurement costs exceeding the scenarios of further prudence incorporated in the aforementioned forecasts, could lead to the achievement of results lower than expected, with possible effects currently unpredictable on the capacity of the Company and the Group to comply with the 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 year 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 19 July 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 year. 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 year; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting year.

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 year; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting year.

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 as 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 as 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 year 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 as 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 year 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 year 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 year, 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 clash-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 years; 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 year, 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 recognised in the income statement. 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 the income statement.
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 year.

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 indebtedness is disclosed pursuant to the "Guidance on Disclosure Requirements under 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 year, 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 year 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 year. 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 year, 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 year 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 years, 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 year and in prior financial years; 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 years 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 year:

- 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**

Costs are recognised in the year when they relate to goods and services sold or consumed during the same year or when it is not possible to identify their future use.

Labour 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 year.

**Dividends**

Dividends are recorded when the right of the shareholders to receive the payment arises, coinciding with the time in which they are decided.

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### 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 year. 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 years 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 year 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 year 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 year 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 year 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 year.
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 year. 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 2022:

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.

The adoption of these amendments 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 2022**

- 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 Group's consolidated financial statements through the adoption of this standard.
- 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 Group's consolidated financial statements through the adoption of these amendments.

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

As 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 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 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 year as well as the amounts of income and expenses during the reporting year. 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 year. 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.

***Discretionary assessments in determining the de facto control***

In the entities in which the Company does not have the majority of voting rights in the respective shareholders' meetings, the Group assesses at its discretion whether there is a situation of de facto control over said entities, with regards to the following items:

- dispersion of shareholding structure: number of voting rights held by the Company relative to the number of rights held respectively by the other vote holders and their dispersion;
- voting patterns at shareholders' meetings: the percentages of voting rights exercised by the Company at shareholders' meetings in recent years;
- governance agreements: representation in the governing bodies with strategic and operational decision-making powers over the relevant activities, as well as the rules for appointing key management personnel;
- contractual relationships and material transactions.

As at 31 December 2022, the Group holds 49% of the share capital of Tesmec Peninsula WLL, based in Doha (Qatar), with Fusion Middle East Services WLL, a company incorporated under Qatari law, holding the remaining 51%. In view of the Qatari "Foreign Investment Law", under which the majority of the capital of an entity governed by Qatari law must remain under ownership of a local shareholder, Tesmec is unable to hold more than 50% of the share capital of the entity. However, based on corporate agreements, the entity is managed by a sole director (General Manager) who is exclusively appointed and dismissed by Tesmec and to whom the broadest powers of direction and supervision of the entity's activity are delegated. Furthermore, the agreements for the distribution of any profits provide that 99% of the same pertains to Tesmec and 1% pertains to the local shareholder. Therefore, the Group considers that it exercises de facto control over the entity, based on an IFRS 10 criteria analysis.

## 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 2022, 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 14.94 million, with a negative equivalent value of Euro 753 thousand.

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.

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 2022 financial period (compared to 2022) 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 2022 financial period (compared to 2021) 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 2022, 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 2023 financial period of Euro 85 thousand, offset by an increase of Euro 8 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 accruad in the 2023 financial period of Euro 25 thousand, more than offset by a decrease of Euro 2 thousand in the collected spread for the existing derivatives

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.

| | Interests | | | | | |
|---|---|---|---|---|---|---|
| | 31 december 2022 | | | 31 december 2021 | | |
| *(Euro in thousands)* | **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 | 134,920 | (85) | 25 | 133,783 | (75) | 23 |
| **Total Loans** | **134,920*** | **(85)** | **25** | **133,783 *** | **(75)** | **23** |

| (Euro in thousands) | 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 | 14,937 | 8 | (2) | 26,062 | 1 | (1) |
| **Total Derivative instruments** | **14,937*** | **8** | **(2)** | **26,062 *** | **1** | **(1)** |
| | | | | | | |
| **Total** | | **(77)** | **23** | | **(74)** | **22** |

* The residual debt is considered before amortised costs..

| | Fair value sensitivity of derivatives | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Financial period ended 31 December 2022 | | | | | | | | | |
| (Euro in thousands) | 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 |
| Derivative instruments hedging cash flows | 14,937 | 753 | (755) | (761) | (761) | - | 755 | 761 | 761 | - |
| **Total** | **14,937** | **753** | **(755)** | **(761)** | **(761)** | **-** | **755** | **761** | **761** | **-** |
| | Financial period ended 31 December 2021 | | | | | | | | | |
| (Euro in thousands) | Notional valuee | 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 |
| Derivative instruments hedging cash flows | 26,062 | (90) | 117 | 180 | 180 | - | (117) | (180) | (180) | - |
| **Total** | **26,062** | **(90)** | **117** | **180** | **180** | **-** | **(117)** | **(180)** | **(180)** | **-** |

With reference to the situation as at 31 December 2022, 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 761 thousand, with an impact on the Income Statement of the 2023 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 755 thousand, with an impact only on the Income Statement of the 2023 financial period.

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.

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 2022 and to 2021 financial periods, with regard to financial instruments, by residual maturity, is set out below.

| Maturity | 31 December 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | 53,340 | 3,053 | 3,716 | 301 | 40,277 | - | **100,687** |
| Between one and two years | 26,803 | 2,307 | 1,247 | 33 | - | - | **30,390** |
| Between two and three years | 22,704 | 1,636 | - | - | - | (441) | **23,899** |
| Between three and five years | 25,651 | 1,203 | - | - | - | (312) | **26,542** |
| Between five and seven years | 1,459 | 10 | - | - | - | - | **1,469** |
| After more than 7 years | - | - | - | - | - | - | **-** |
| **Total** | **129,957*** | **8,209** | **4,963*** | **334** | **40,277** | **(753)** | **182,987** |

* The residual debt is considered before amortised costs.

| 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.

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 2022 and 31 December 2021).

### 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 2022 financial period (compared to 2021 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 2022 financial period (compared to 2021) produced by a shock of the exchange-rate market, by using internal measurement models, based on the general acceptance approach.

| | 2022 Exposure in foreign currency (USD) | | | 2022 Sensitivity | |
|---|---|---|---|---|---|
| **Exposure with regard to equity items** | **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 | 15,847 | - | 15,847 | (743) | 743 |
| Financial receivables | - | (2,413) | (2,413) | 113 | (113) |
| Trade payables | 2,862 | - | 2,862 | (134) | 134 |
| **Total gross exposure with regard to equity items** | **18,709** | **(2,413)** | **16,296** | **(764)** | **764** |
| Derivative instruments | - | - | - | - | - |

| | 2021 Exposure in foreign currency (USD) | | | 2021 Sensitivity | |
|---|---|---|---|---|---|
| **Exposure with regard to equity items** | **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 | - | - | - | - | - |

| | 2022 Exposure in foreign currency (ZAR) | | | 2022 Sensitivity | |
|---|---|---|---|---|---|
| **Exposure with regard to equity items** | **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 | 4,560 | - | 4,560 | (13) | 13 |
| Financial receivables | - | - | - | - | - |
| Trade payables | 79,585 | - | 79,585 | (220) | 220 |
| **Total gross exposure with regard to equity items** | **84,145** | **-** | **84,145** | **(233)** | **233** |
| Derivative instruments | - | - | - | - | - |

| | 2021 Exposure in foreign currency (ZAR) | | | 2021 Sensitivity | |
|---|---|---|---|---|---|
| **Exposure with regard to equity items** | **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 | - | - | - | - | - |

| | 2022 Exposure in foreign currency (AUD) | | | 2022 Sensitivity | |
|---|---|---|---|---|---|
| **Exposure with regard to equity items** | **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 | 3,961 | - | 3,961 | (126) | 126 |
| Financial receivables | - | (40) | (40) | 1 | (1) |
| Trade payables | 22,273 | - | 22,273 | (710) | 710 |

| | | | | | |
|---|---|---|---|---|---|
| **Total gross exposure with regard to equity items** | **26,234** | **(40)** | **26,194** | **(835)** | **835** |
| 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 | 2022 Exposure in foreign currency (CNY) | | | 2022 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 | 349 | - | 349 | (2) | 2 |
| Financial receivables | 349 | - | 349 | (2) | 2 |
| Trade payables | 9,303 | - | 9,303 | (63) | 63 |
| **Total gross exposure with regard to equity items** | **10,001** | **-** | **10,001** | **(67)** | **67** |
| 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 | 2022 Exposure in foreign currency (RUB) | | | 2022 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 | - | - | - | - | - |
| Financial receivables | - | - | - | - | - |
| Trade payables | 47,684 | - | 47,684 | (33) | 33 |
| **Total gross exposure with regard to equity items** | **47,684** | **-** | **47,684** | **(33)** | **33** |
| Derivative instruments | - | - | - | - | - |

| Exposure with regard to equity items | 2021 Exposure in foreign currency (RUB) Assets (RUB/000) | Liabilities (RUB/000) | Net (CNY/000) | 2021 Sensitivity 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 | 2022 Exposure in foreign currency (NZD) Assets (NZD /000) | Liabilities (NZD /000) | Net (NZD /000) | 2022 Sensitivity Income statement EUR/ NZD exchange rate +5% (EUR/000) | Income statement EUR/ NZD exchange rate -5% (EUR/000) |
|---|---|---|---|---|---|
| Trade receivables | 31 | - | 31 | (1) | 1 |
| Financial receivables | - | - | - | - | - |
| Trade payables | 401 | - | 401 | (12) | 12 |
| **Total gross exposure with regard to equity items** | **432** | **-** | **432** | **(13)** | **13** |
| Derivative instruments | - | - | - | - | - |

| Exposure with regard to equity items | 2021 Exposure in foreign currency (NZD) Assets (NZD /000) | Liabilities (NZD /000) | Net (NZD /000) | 2021 Sensitivity Income statement EUR/ NZD exchange rate +5% (EUR/000) | Income statement EUR/ NZD exchange rate -5% (EUR/000) |
|---|---|---|---|---|---|
| Trade receivables | 366 | - | 366 | (11) | 11 |
| Financial receivables | - | - | - | - | - |
| Trade payables | 1,170 | - | 1,170 | (35) | 35 |
| **Total gross exposure with regard to equity items** | **1,536** | **-** | **1,536** | **(46)** | **46** |
| 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.

| (Euro in thousands) | 31 December 2022 | 2021 |
|---|---|---|
| **NON-CURRENT ASSETS:** | | |
| Receivables and other financial assets | 22,383 | 4,498 |
| Derivative financial instruments | 753 | 10 |
| **CURRENT ASSETS:** | | |
| Trade receivables | 44,411 | 31,156 |
| Other available-for-sale securities | - | 2 |
| Financial receivables | 44,439 | 66,248 |
| Cash and cash equivalents | 19,616 | 21,000 |

| (Euro in thousands) | 31 December 2022 | 2021 |
|---|---|---|
| **NON-CURRENT LIABILITIES:** | | |
| Medium/long-term loans | 66,573 | 76,967 |
| Non-current bond issue | 1,246 | 3,727 |
| Non-current financial liabilities and rights of use | 6,391 | 8,929 |
| Derivative financial instruments | - | 49 |
| **CURRENT LIABILITIES:** | | |
| Interest-bearing financial payables (current portion) | 53,921 | 38,059 |
| Current financial liabilities and rights of use | 2,616 | 2,548 |
| Current bond issue | 3,716 | 2,467 |
| Derivative financial instruments | - | 50 |
| Trade payables | 40,277 | 34,604 |
| Advances from customers | 4,106 | 1,088 |

The following table shows the book values for each class of financial assets and liabilities:

| *(Euro in thousands)* | **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** |
|---|---|---|---|---|---|
| ***Financial assets:*** | | | | | |
| Financial receivables from third parties | 3,081 | - | - | - | - |
| Financial receivables from related parties | 19,298 | 4 | - | - | - |
| Derivative financial instruments | - | - | - | - | 753 |
| **Total non-current** | **22,379** | **4** | **-** | **-** | **753** |
| Trade receivables | 15,630 | - | - | - | - |
| Trade receivables from related parties | 28,781 | - | - | - | - |
| Other available-for-sale securities | - | - | - | - | - |
| Financial receivables from third parties | 1,418 | - | - | - | - |
| Financial receivables from related parties | 43,021 | - | - | - | - |
| Cash and cash equivalents | - | - | 19,616 | - | - |
| **Total current** | **88,850** | **-** | **19,616** | **-** | **-** |

| | | | | | |
|---|---|---|---|---|---|
| **Total** | **111,229** | **4** | **19,616** | **-** | **753** |
| | | | | | |
| ***Financial liabilities:*** | | | | | |
| Medium/long-term loans | 66,573 | - | - | - | - |
| Medium/long-term loans due to related parties | - | - | - | - | - |
| Non-current bond issue | 1,246 | - | - | - | - |
| Non-current financial liabilities from rights of use | 6,391 | - | - | - | - |
| Derivative financial instruments | - | - | - | - | - |
| **Total non-current** | **74,211** | **-** | **-** | **-** | **-** |
| | | | | | |
| Interest-bearing financial payables (current portion) | 50,133 | - | - | - | - |
| Interest-bearing financial payables (current portion) due to related parties | 3,788 | - | - | - | - |
| Current financial liabilities from rights of use | 2,616 | - | - | - | - |
| Current bond issue | 3,716 | - | - | - | - |
| Derivative financial instruments | - | - | - | - | - |
| Trade payables | 40,277 | - | - | - | - |
| Trade payables due to related parties | 0 | - | - | - | - |
| Advances from customers | 4,106 | - | - | - | - |
| **Total current** | **104,637** | **-** | **-** | **-** | **-** |
| | | | | | |
| **Total** | **178,849** | **-** | **-** | **-** | **-** |

**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 2022** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| | | | | |
| ***Financial assets:*** | | | | |
| Derivative financial instruments | 753 | - | 753 | - |
| **Total non-current** | **753** | **-** | **753** | **-** |
| | | | | |
| Other available-for-sale securities | - | - | - | - |
| **Total current** | **-** | **-** | **-** | **-** |
| | | | | |
| **Total** | **753** | **-** | **753** | **-** |
| | | | | |
| ***Financial liabilities:*** | | | | |
| Derivative financial instruments | - | - | - | - |

| | | | | |
|---|---|---|---|---|
| **Total non-current** | - | - | - | - |
| | | | | |
| Derivative financial instruments | - | - | - | - |
| **Total current** | - | - | - | - |
| | | | | |
| **Total** | - | - | - | - |

## Non-current assets

### 4. Intangible assets

The breakdown of *Intangible assets* as at 31 December 2022 and as at 31 December 2021 is indicated in the table below:

| | 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| *(Euro in thousands)* | Historical cost | Accum. amort. | Net value | Historical cost | Accum. amort. | Net value |
| Start-up and expansion costs | 12 | - | 12 | - | - | |
| Development costs | 29,156 | (25,726) | 3,430 | 28,549 | (24,034) | 4,515 |
| Rights and trademarks | 6,148 | (4,149) | 1,999 | 6,202 | (3,599) | 2,603 |
| Other intangible assets | 19 | (3) | 16 | - | - | - |
| Assets in progress | 2,809 | - | 2,809 | 1,023 | - | 1,023 |
| **Total intangible assets** | **38,144** | **(29,878)** | **8,266** | **35,774** | **(27,633)** | **8,141** |

The following table shows the changes in intangible assets for the year ended as at 31 December 2022:

| *(Euro in thousands)* | 1 January 2022 | Increases | Decreases | Reclassifications | Amortisation and depreciation | 31 December 2022 |
|---|---|---|---|---|---|---|
| Start-up and expansion costs | - | 12 | - | - | - | 12 |
| Development costs | 4,515 | 697 | - | - | (1,782) | 3,430 |
| Rights and trademarks | 2,603 | 326 | (270) | - | (660) | 1,999 |
| Other intangible assets | - | 19 | - | - | (3) | 16 |
| Assets in progress | 1,023 | 1,786 | - | - | - | 2,809 |
| **Total intangible assets** | **8,141** | **2,840** | **(270)** | **-** | **(2,445)** | **8,266** |

As at 31 December 2022, intangible assets net of amortisation totalled Euro 8,266 thousand, up Euro 125 thousand on the previous year.
Increases for the year totalled Euro 2,840 thousand and consist in:

- development costs capitalised of Euro 697 thousand related to the development of new products and equipment that are expected to generate positive cash flows in future financial years, 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 1,786 thousand mainly related to new development projects not yet completed and therefore not subject to amortisation.

At the end of the reporting year, 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 year ended as at 31 December 2021:

| *(Euro in thousands)* | 1 January 2021 | Increases | Decreases | Reclassifications | Amortisation and depreciation | 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 | 3,019 | 1,023 | - | (3,019) | - | 1,023 |
| **Total intangible assets** | **7,739** | **3,065** | **-** | **-** | **(2,663)** | **8,141** |

## 5. Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2022 and as at 31 December 2021 is indicated in the table below:

| | 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| *(Euro in thousands)* | Historical cost | Accum. deprec. | Net value | Historical cost | Accum. deprec. | Net value |
| Land | 2,463 | - | 2,463 | 2,463 | - | 2,463 |
| Buildings | 3,473 | (904) | 2,569 | 3,403 | (801) | 2,602 |
| Plant and machinery | 11,043 | (9,393) | 1,650 | 11,993 | (10,385) | 1,608 |
| Equipment | 4,143 | (3,983) | 160 | 4,067 | (3,881) | 186 |
| Other assets | 2,449 | (1,866) | 583 | 3,111 | (2,361) | 750 |
| Assets in progress | 700 | - | 700 | - | - | - |
| **Total property, plant and equipment** | **24,271** | **(16,146)** | **8,125** | **25,037** | **(17,428)** | **7,609** |

The following table shows the changes in property, plant and equipment for the year ended 31 December 2022:

| *(Euro in thousands)* | 1 January 2022 | Increases | Decreases | Reclassifications | Amortisation and depreciation | 31 December 2022 |
|---|---|---|---|---|---|---|
| Land | 2,463 | - | - | - | - | 2,463 |
| Buildings | 2,602 | 70 | - | - | (103) | 2,569 |
| Plant and machinery | 1,608 | 284 | - | 117 | (359) | 1,650 |
| Equipment | 186 | 76 | - | - | (102) | 160 |
| Other assets | 750 | 345 | (476) | 227 | (263) | 583 |
| Assets in progress | - | 700 | - | - | - | 700 |
| **Total property, plant and equipment** | **7,609** | **1,475** | **(476)** | **344** | **(827)** | **8,125** |

As at 31 December 2022, property, plant and equipment totalled Euro 8,125 thousand, up compared to the previous year by Euro 516 thousand.
Increases for the year amount to Euro 1,475 thousand and refer for Euro 700 thousand to assets in progress and advance payments to suppliers related to the installation, not yet completed, of the new photovoltaic system of the Grassobbio factory.

As at the end of the reporting year, 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 year ended 31 December 2021:

| *(Euro in thousands)* | 1 January 2021 | Increases | Decreases | Reclassifications | Amortisation and depreciation | 31 December 2021 |
|---|---|---|---|---|---|---|
| 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** |

## 6. Rights of use

The breakdown in *Rights of use* as at 31 December 2022:

| | 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| *(Euro in thousands)* | Historical cost | Accum. deprec. | Net value | Historical cost | Accum. deprec. | Net value |
| Industrial Buildings - Right of use | 14,968 | (7,803) | 7,165 | 14,942 | (5,838) | 9,104 |
| Plant and machinery - Rights of use | 107 | (43) | 64 | 316 | (116) | 200 |
| Equipment - Rights of use | 28 | (25) | 3 | 28 | (18) | 10 |
| Other assets - Rights of use | 3,223 | (2,043) | 1,180 | 3,393 | (1,507) | 1,886 |
| **Total rights of use** | **18,326** | **(9,914)** | **8,412** | **18,679** | **(7,479)** | **11,200** |

The following table shows the changes in rights of use for the year ended 31 December 2022:

| *(Euro in thousands)* | 1 January 2022 | Increases | Decreases | Reclassifications | Amortisation and depreciation | 31 December 2022 |
|---|---|---|---|---|---|---|
| Industrial Buildings - Right of use | 9,104 | 26 | - | - | (1,965) | 7,165 |
| Plant and machinery - Rights of use | 200 | - | - | (117) | (19) | 64 |
| Equipment - Rights of use | 10 | - | - | - | (7) | 3 |
| Other assets - Rights of use | 1,886 | 175 | - | (227) | (654) | 1,180 |
| **Total rights of use** | **11,200** | **201** | **-** | **(344)** | **(2,645)** | **8,412** |

As at 31 December 2022, rights of use totalled Euro 8,412 thousand, a decrease of Euro 2,788 thousand compared to the previous year, mainly due to the depreciations for the period of Euro 2,645 thousand.

As at the end of the reporting year, 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 year ended 31 December 2021:

| *(Euro in thousands)* | 1 January 2021 | Increases | Decreases | Reclassifications | Amortisation and depreciation | 31 December 2021 |
|---|---|---|---|---|---|---|
| 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** |

## 7. Equity investments in subsidiaries, associates and joint ventures

The breakdown of *Equity investments in subsidiaries, associates and joint ventures* as at 31 December 2022 and 2021 is indicated in the table below:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | 2022 | 2021 |
| ***Subsidiaries:*** | | |
| Tesmec USA, Inc. | 21,261 | 21,261 |
| Tesmec SA | 6,296 | 6,296 |
| East Trenchers S.r.l. | 265 | 265 |

| | | |
|---|---|---|
| Tesmec Automation S.r.l. | 4,776 | 4,776 |
| Tesmec Peninsula WLL | 798 | - |
| Tesmec Saudi Arabia | 7,813 | - |
| OOO Tesmec RUS | 11 | 11 |
| Tesmec New Technology (Beijing) LTD | 200 | 200 |
| Marais Technologies SA | 10,814 | 10,814 |
| Tesmec Australia Ltd. | 3,766 | 3,766 |
| Bertel S.r.l. | 4,293 | 4,293 |
| Tesmec Rail S.r.l. | 5,606 | 5,606 |
| 4Service S.r.l. | 9,721 | 9,721 |
| **Total equity investments in subsidiaries** | **75,620** | **67,009** |

Equity investments in subsidiaries increased by Euro 8,611 thousand due to the acquisition of control with reference to Tesmec Saudi Arabia and Tesmec Peninsula.

The following table shows the main financial statement items of subsidiaries:

| | 31 December | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2022 | | | | | | |
| *(Euro in thousands)* | % held | Revenues | Net result | Assets | Liabilities | Shareholders' Equity | Book value |
| ***Subsidiaries:*** | | | | | | | |
| Tesmec USA, Inc. | 100.00% | 36,094 | (2,246) | 58,723 | 36,566 | 22,157 | 21,261 |
| Tesmec SA | 51.00% (2) | 1,708 | (958) | 7,466 | 3,539 | 3,927 | 6,296 |
| East Trenchers S.r.l. | 100.00% | 251 | (64) | 381 | 300 | 81 | 265 |
| Tesmec Automation S.r.l. | 100.00% | 20,289 | 464 | 27,783 | 26,663 | 1,120 | 4,776 |
| Tesmec Peninsula WLL | 49.00% (4) | 2,942 | 15 | 11,305 | 9,921 | 1,384 | 798 |
| Tesmec Saudi Arabia | 65.00% | 2,988 | (1,612) | 9,827 | 3,205 | 6,622 | 7,813 |
| OOO Tesmec RUS | 100.00% | 1,089 | (120) | 1,918 | 3,068 | (1,150) | 11 |
| Tesmec New Technology (Beijing) LTD | 100.00% | 732 | (214) | 592 | 2,040 | (1,448) | 200 |
| Marais Technologies SA | 66.04% (1) | - | (2) | 17,949 | 2,972 | 14,977 | 10,814 |
| Tesmec Australia Ltd. | 51.00% (3) | 12,156 | (441) | 12,034 | 19,728 | (7,694) | 3,766 |
| Bertel S.r.l. | 100.00% | - | 356 | 1,221 | 72 | 1,149 | 4,293 |
| Tesmec Rail S.r.l. | 100.00% | 53,094 | 8,039 | 62,291 | 45,659 | 16,632 | 5,606 |
| 4Service S.r.l. | 100.00% | 5,332 | 130 | 18,833 | 11,444 | 7,389 | 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.

(4) The remaining 51% is held by Fusion Middle East Services WLL. By virtue of de facto control for accounting purposes, the equity investment in Tesmec Peninsula WLL is consolidated at 100%.

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 10 March 2023.
In particular, at the end of each reporting year, 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), the uniqueness of business and reference market (Tesmec Automation, considered for the purpose of the impairment test together with its subsidiary Bertel, whose business is operated through a business 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 segment, one in sales, the other in rentals and in the case of Tesmec Australia and its subsidiary Marais Laying NZ - New Zealand, both operating in the trencher segment). 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 2023 Budget and the 2024-2027 Business Plan approved by the Board of Directors on 10 March 2023. 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 supply cost trend 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 end of the reporting year and, in the current context of uncertainty related to the increase in procurement costs and, more generally, to temporary difficulties in the supply chain, they incorporate the expectations of a gradual economic recovery that is not affected with reference to the medium/long-term prospects. 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 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 | |
|---|---|---|
| | **2022** | **2021** |
| Tesmec USA, Inc. and 4 Service USA (United States) | 14.89% | 10.34% |
| Tesmec SA (South Africa) | 18.27% | 15.94% |
| Tesmec Automation S.r.l. and Bertel S.r.l. (Italy) (*) | 11.35% | 9.44% |
| Tesmec New Technology (Beijing) LTD (China) | 10.15% | 10.50% |
| Marais Technologies SA (France) | 11.95% | 7.76% |
| Tesmec Australia (Australia) and Marais Laying NZ (New Zealand) | 11.48% | 8.98% |
| Tesmec Rail S.r.l. (Italy) | 11.29% | 7.44% |
| 4 Service S.r.l. (Italy) | 11.79% | 9.07% |
| East Trenchers S.r.l. (Italy) | 11.79% | 9.05% |
| Tesmec Peninsula WLL (Qatar) | 12.06% | 10.08% |
| Tesmec Saudi Arabia (Saudi Arabia) | 15.68% | 10.81% |

* For the purposes of the impairment test, a single CGU was considered for the subsidiaries Tesmec Automation and Bertel in consideration of the uniqueness of business and reference market, as well as the fact that Bertel's operating activity is managed by Tesmec Automation through a business lease agreement

The estimate of the WACCs of reference compared with the same estimate made as at 31 December 2021 generally shows an increase in the discount rates adopted, resulting from the increased uncertainty of future scenarios also due to the Russian-Ukrainian conflict. To estimate cash flows beyond the explicit forecast period, the terminal value was determined based on a growth rate *g* of 1% to 2%, depending on the CGU of reference, in order to incorporate, at least in part, the higher medium-term inflation expectations compared to the previous year.

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, a sensitivity analysis was carried out to check the change in the equity value of each single cash-generating unit as the discount rate (the weighted average cost of capital, WACC) and the growth rate (g) changed.

As a result of the sensitivity analyses, it can be observed that a 2% increase in the WACC together with the adoption of a growth rate g of zero would result in write-downs of a total amount of less than 2% of the total value of the item equity investments in subsidiaries . When preparing the interim reports expected for the current year, as required by IAS 36, the existence of impairment indicators that could make it necessary to update the impairment test will be checked.

The breakdown of equity investments in associates and joint ventures as at 31 December 2022 and 2021 is indicated in the table below:

| *(Euro in thousands)* | 31 December | |
|---|---|---|
| | **2022** | **2021** |
| ***Associates:*** | | |
| Locavert SA | 52 | 52 |
| Primis Group S.r.l. | - | 1 |
| **Subtotal** | **52** | **53** |
| ***Joint Ventures:*** | | |
| Condux Tesmec Inc | 956 | 956 |
| Tesmec Peninsula | - | 730 |

| | | |
|---|---|---|
| Saudi Tesmec | - | 2,371 |
| **Subtotal** | **956** | **4,057** |
| **Total equity investments in associates** | **1,008** | **4,110** |

Equity investments in associates and joint ventures decreased of Euro 3,102 thousand as a result of:

- Inclusion of the equity investment in Saudi Tesmec among equity investments in subsidiaries, following the attainment of a controlling stake of 65% of the share capital as from 1 September 2022.
- Inclusion of the equity investment in Tesmec Peninsula among equity investments in subsidiaries, following the attainment of a de facto control situation, as from 1 December 2022, with the same equity rights as at 31 December 2021.

The following table shows the main financial statement items of associated companies and joint ventures:

| | 31 December 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(Euro in thousands)* | **% held** | **Revenues** | **Net result** | **Assets** | **Liabilities** | **Shareholders' Equity** | **Equity investment value in the Consolidated Financial Statements** |
| ***Associates:*** | | | | | | | |
| Locavert SA | 38.63% | 863 | 25 | 1,040 | 301 | 740 | 52 |
| ***Joint Ventures:*** | | | | | | | |
| Condux Tesmec Inc. | 50.00% | 6,162 | 549 | 7,687 | 2,647 | 5,040 | 956 |

The Company holds equity investments in associates and joint ventures measured according to the cost method. As for subsidiaries, the Company measures at the end of each reporting year also for associates and joint ventures 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 associated companies or joint ventures, or the differentials present between the higher book value of the equity investment and the corresponding measurement according to the equity method (which corresponds to the book value in the consolidated financial statements), as shown in the table above.

With reference to the financial statements as at 31 December 2022, no impairment indicators were identified in relation to associates and joint ventures, and therefore no impairment test was carried out.

## 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 2022 and 2021:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Guarantee deposits | 4 | 2 |
| Financial receivables from third-party customers | 3,081 | 2,996 |
| Financial receivables from related parties | 19,298 | 1,500 |
| **Total financial receivables and other non-current financial assets** | **22,383** | **4,498** |

As at 31 December 2022, financial receivables and other non-current financial assets totalled Euro 22,383 thousand, up Euro 17,885 thousand on the previous financial year.
The increase mainly refers to the reclassification in the medium/long-term, following changes in the agreement of the outstanding loan granted to the subsidiary Tesmec USA, Inc. for a total of Euro 18,798 thousand.

Financial receivables from third parties are shown net of a write-down of Euro 390 thousand due to the partial write-down of certain receivables from certain counterparties in the trencher segment operating in countries in the African area, whose positions had been the subject matter in previous years of the definition of financially onerous payment plans that were not fully or partially fulfilled, also in connection with the operational and financial difficulties of the counterparties themselves due to the pandemic. The residual balance of the financial positions related to these cases, net of recognised write-downs, amounted to Euro 388 thousand. In this regard, actions are underway to recover outstanding receivables as well as - more generally - to monitor the Group's exposure to this type of counterparty.

## Current assets

## 9. Inventories

The following table provides a breakdown of the item *Inventories* as at 31 December 2022 and 2021:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Advances to Suppliers | 64 | 46 |
| Raw materials and consumables | 30,655 | 26,503 |
| Work in progress | 4,097 | 3,146 |
| Finished products and goods for resale | 5,813 | 9,101 |
| **Total inventories** | **40,629** | **38,796** |

The measurement bases of inventories remained unchanged compared to the prior financial year. The item as a whole increased by 4.7% compared to the prior financial year.

The changes in the provisions for inventory obsolescence for the years ended 31 December 2022 and 2021 are indicated below:

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Value as at 1 January | 3,760 | 3,460 |
| Provisions | 150 | 300 |
| Uses | - | - |
| **Total provisions for inventory obsolescence** | **3,910** | **3,760** |

The value of the provisions for inventory obsolescence increased by Euro 150 thousand compared to the prior financial year. 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 2022 and 2021:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Trade receivables from third-party customers | 15,630 | 13,568 |
| Trade receivables from related parties | 28,781 | 17,588 |
| **Total trade receivables** | **44,411** | **31,156** |

For terms and conditions relating to receivables from related parties, refer to note 35.

*Trade receivables* as at 31 December 2022 amounted to Euro 44,411 thousand and increased by Euro 13,255 thousand compared to the previous year due to the increase in sales in the 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 years ended 31 December 2022 and 2021 are indicated in the table below:

| | **Financial year ended 31 December** | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Value as at 1 January | 1,673 | 1,081 |
| Provisions | 400 | 592 |
| Reclassification | 818 | - |
| Uses | (82) | - |
| **Total provisions for doubtful accounts** | **2,809** | **1,673** |

The value of provisions for doubtful accounts increased by Euro 400 thousand compared to the prior financial year. 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 2022 and 31 December 2021:

| | **31 December** | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Financial receivables from related parties | 43,021 | 64,194 |
| Other current financial assets | 1,418 | 2,054 |
| **Total financial receivables and other current financial assets** | **44,439** | **66,248** |

The decrease in *financial receivables and current financial assets* (Euro 21,809 thousand) is due for Euro 21,173 thousand to the decrease in credit positions relating to specific contracts signed with the related parties on which an interest rate is applied and repayable within 12 months. This decrease mainly concerns the long-term reclassification of the existing loan granted to the subsidiary Tesmec USA, Inc. for a total of Euro 18,798 thousand.

The main financial receivables and related interest rate applied are set below:

- Tesmec Automation S.r.l. of Euro 9,792 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3.5%;
- Tesmec Australia Ltd. of Euro 14,170 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 4,503 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%;

For terms and conditions relating to receivables from related parties, refer to note 35.

## 12. Other current assets

The following table sets forth the breakdown of *other current assets* as at 31 December 2022 and as at 31 December 2021:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Prepaid expenses | 1,131 | 1,227 |
| Accrued income | 18 | 3 |
| VAT credit | 576 | 290 |
| Other tax receivables | 601 | 789 |
| Other receivables | 259 | 278 |
| Receivables from subsidiaries | 2,840 | 316 |
| Advance to suppliers for services | 1,001 | 393 |
| **Total other current assets** | **6,426** | **3,296** |

The item *Other current assets* is considered receivable and therefore was not subject to value adjustment; the item increased by Euro 3,130 thousand compared to the previous financial year. This increase is mainly related to the item "receivables from related parties" of Euro 2,524 thousand due to receivables deriving from the tax consolidation of Italian companies.

## 13. Cash and cash equivalents

The following table sets forth the breakdown of the item as at 31 December 2022 and 2021:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Bank and post office deposits | 19,592 | 20,996 |
| Cash on hand | 20 | 3 |
| Other cash | 4 | 1 |
| **Total cash and cash equivalents** | **19,616** | **21,000** |

*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 2022 amounts to Euro 19,616 thousand and decreased of Euro 1,384 thousand.

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 year.
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 2022 and 2021:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Revaluation reserve | 86 | 86 |
| Extraordinary reserve | 36,292 | 37,044 |
| Reserve for first-time adoption of IFRS 9 | (391) | (391) |
| Severance indemnity valuation reserve | (250) | (362) |

| | | |
|---|---|---|
| Network reserve | 754 | 754 |
| Other reserves | (3,123) | (3,123) |
| **Total other reserves** | **33,368** | **34,008** |

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 21 April 2022, with the approval of the 2021 financial statements, the Shareholders' Meeting decided to allocate the loss of Euro 752 thousand to the *extraordinary reserve*.

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 years.

| **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 | 36,292 | A, B, C | 36,292 | - | - |
| Reserve for first-time adoption of IFRS 9 | (391) | | | | |
| Severance indemnity valuation reserve | (250) | | | | |
| Network reserve | 754 | | | | |
| Other reserves | (3,123) | B | | | |
| Profit/(loss) for the period | 4,134 | | | | |
| **Total** | **92,220** | | **75,593** | **-** | **-** |

(*) 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

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## 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 2022 and as at 31 December 2021, with separate disclosure of total loans and current portion:

| | 31 December | | | |
|---|---|---|---|---|
| *(Euro in thousands)* | **2022** | **of which current portion** | **2021** | **of which current portion** |
| Domestic fixed-rate bank loans | 33,699 | 8,803 | 34,796 | 1,896 |
| Domestic floating-rate bank loans | 51,338 | 14,379 | 45,250 | 10,564 |
| Shareholder loan | 3,263 | 3,263 | 3,263 | - |
| **Total medium/long-term loans** | **88,300** | **26,445** | **83,309** | **12,460** |
| less current portion | (26,445) | | (12,460) | |
| **Non-current portion of medium/long-term loans** | **61,855** | | **70,849** | |
| Medium/long-term loan due to Simest | 6,118 | 1,400 | 7,418 | 1,300 |
| less current portion | (1,400) | | (1,300) | |
| **Medium/long-term loan due to Simest** | **4,718** | | **6,118** | |
| **Total medium/long-term loans** | **66,573** | **27,845** | **76,967** | **13,760** |

Some loan contracts, the residual value of which at the end of the reporting year amounted to Euro 55.9 million, contain financial covenant provisions. In particular, they require that parameters, calculated on the basis of the financial statements of the Group, have to be met; they are verified on an annual basis and their non-compliance could result in the termination of the benefit of the time limit.

In general, covenants are based on compliance with certain levels, which differ between loan agreements, of the following ratios:

- Net Financial Position/EBITDA
- Net Financial Position/Shareholders' equity

Based on the results of the financial statements of the Company and of the Tesmec Group, the covenants relating to these loans were observed.

Prospectively, the Directors verified the Company's and the Group's ability to meet their obligations in the foreseeable future of at least 12 months and, in particular, the ability to comply, also for 2023, with the covenants related to the most relevant loans subject to this verification, developing for this purpose alternative forecast scenarios to take into account the effects of possible slowdowns in business compared to what is envisaged in the plan, due to the current macroeconomic context of volatility and uncertainty. As a result of this analysis, the Directors concluded that there are no significant uncertainties regarding compliance with the covenants under review and, consequently, the company's ability to continue as a going concern. Trends differing from company forecasts, with special reference to increases in procurement costs exceeding the scenarios of prudence incorporated in the aforementioned forecasts, could lead to the achievement of results that are lower than expected with possible effects that cannot be foreseen at present on the Company's and the Group's ability to comply with these covenants.

The payable to Simest S.p.A. of Euro 6,118 thousand consists of the amount relative to the capital shares held by Simest S.p.A. in the subsidiaries in Marais Technologies SAS, Tesmec SA Ltd. (Pty) and Tesmec Australia Ltd. (Pty), which, by virtue of Tesmec's obligation to repurchase the corresponding shares at the expiry of the contract, 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 2022, by indicating the portion due within one year, within 5 years and after more than 5 years:

| Description | Residual value as at 31 December 2022 | Portion within 12 months | Portion within 5 years | Portion after more than 5 years |
|---|---|---|---|---|
| Domestic fixed-rate bank loans | 33,699 | 8,803 | 24,896 | - |
| Domestic floating-rate bank loans | 51,338 | 14,379 | 34,112 | 2,847 |
| Shareholder loan | 3,263 | 3,263 | - | - |
| **Total** | **88,300** | **26,445** | **59,008** | **2,847** |

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 2022, 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** | | | |
|---|---|---|---|---|
| *(Euro in thousands)* | **2022** | ***of which with related parties and group*** | **2021** | ***of which with related parties and group*** |
| Cash and cash equivalents | (19,616) | | (21,000) | |
| Current financial assets | (44,439) | *(43,021)* | (66,250) | *(64,194)* |
| Current financial liabilities | 57,637 | *3,788* | 40,526 | *1,090* |
| Current financial liabilities from rights of use | 2,616 | | 2,547 | |
| Current portion of derivative financial instruments | - | | 50 | |
| **Current financial indebtedness** | **(3,802)** | ***(39,233)*** | **(44,127)** | ***(63,104)*** |
| Non-current financial liabilities | 67,819 | - | 80,695 | *3,263* |
| Non-current financial liabilities from rights of use | 6,391 | | 8,929 | |
| Non-current portion of derivative financial instruments | | | 49 | |
| **Non-current financial indebtedness** | **74,210** | **-** | **89,673** | ***3,263*** |
| **Net financial indebtedness pursuant to ESMA 32-382-1138 Communication** | **70,408** | ***(39,233)*** | **45,546** | ***(59,841)*** |

Net indebtedness stood at Euro 70,408 thousand as at 31 December 2022, an increase from Euro 24,862 thousand as at 31 December 2021.

We also report the following changes:

- increase in current financial indebtedness of Euro 40,325 thousand due to the:
  - decrease in cash and cash equivalents and current financial assets of Euro 23,195 thousand mainly related to the reclassification under non-current financial assets of the financial receivable from the subsidiary Tesmec USA mentioned above;
  - increase in current financial liabilities of Euro 17,111 thousand mainly due to the short-term reclassification to short-term of the portions to be reimbursed in 2023;
- decrease in medium/long-term financial indebtedness of Euro 15,463 thousand relating to the short-term reclassification of new loans of Euro 16,265 thousand.

Pursuant to "Guidance on Disclosure Requirements under the Prospectus Regulation" published by ESMA, it should be noted that the amounts relating to reverse factoring not included in the statement on indebtedness, in that the deferment is part of the Company's normal practice, amount to Euro 2,820 thousand.

## 16. Non-current bond issue

The item related to the non-current bond issue amounts to Euro 1,246 thousand and is related to the medium- long-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 4,963 thousand.

The financial covenants relating to the bond issue have been met. Any failure to comply with these covenants, which in previous years had resulted in the step-up of the interest rate applied, would have no further effect on the outstanding bond issue.

## 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 2022 and 2021:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Non-current financial liabilities from rights of use | 6,391 | 8,929 |
| Current financial liabilities from rights of use | 2,616 | 2,548 |
| **Total financial liabilities from rights of use** | **9,008** | **11,476** |

Overall, financial liabilities from rights of use decreased by Euro 2,469 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 2022 and 2021 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 | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | **2022** | **2021** |
| Banco BPM | CAP | Quarterly floating rate 1.5% | 3-month Euribor | 01 February 2019 | 30 June 2025 | 714,286 | 31 | 3 |
| Deutsche Bank | IRS | Fixed interest rate 1.80% | 3-month Euribor | 01 July 2020 | 30 June 2025 | 2,631,579 | 113 | (19) |
| Intesa | IRS | Fixed interest rate 2.00% | 3-month Euribor | 18 May 2020 | 31 March 2025 | 7,500,000 | 298 | (30) |
| INTESA | IRS | Fixed interest rate -0.18% | 3-month Euribor | 20 July 2021 | 30 June 2027 | 4,090,908 | 311 | 7 |
| DEUTSCHE BANK | FLEX | - | - | 06 January 2022 | 10 January 2022 | 2,000,000 | - | (19) |
| BNL | FLEX | - | - | 12 January 2022 | 12 January 2022 | 2,612,103 | - | (23) |
| MPS | FLEX | - | - | 06 October 2021 | 10 January 2022 | 1,724,584 | - | (8) |
| **Assets for derivative instruments within the financial year** | | | | | | | - | - |
| **Assets for derivative instruments beyond the financial year** | | | | | | | **753** | **10** |
| **Liabilities for derivative instruments within the financial year** | | | | | | | - | **(50)** |
| **Liabilities for derivative instruments beyond the financial year** | | | | | | | - | **(49)** |

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 year 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 year ended 31 December 2022 and 31 December 2021 of employee benefits:

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Present value of the liability at the beginning of the period | 1,594 | 1,814 |
| Financial expense | 14 | 6 |
| Benefits paid | (221) | (196) |
| Financial loss (profit) | (148) | (30) |
| **Present value of the liability at the end of the period** | **1,239** | **1,594** |

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

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Annual discount rate | 3.70% | 1.00% |
| Inflation rate | 2.50% | 1.75% |
| Total annual salary increase rate | 3.30% | 2.92% |

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.

| | Discount rate | |
|---|---|---|
| *(Euro in thousands)* | **0.50%** | **-0.50%** |
| Effect on the aggregate current cost of the service and of the financial expenses | 50 | 41 |
| Reported value for liabilities with respect to defined benefit plans | 1,196 | 1,284 |

Technical and demographic bases

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| 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

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | 2022 | 2021 |
| Advance frequency % | 5.00% | 2.00% |
| Turnover frequency % | 1.57% | 5.32% |

## 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 2022 and 2021 financial years:

| 1.57 | 31 December | |
|---|---|---|
| *(Euro in thousands)* | 2022 | 2021 |
| Advances from banks against invoices and bills receivables | 21,735 | 18,849 |
| Financial payables due from affiliated companies | 3,754 | 1,090 |
| Payables due to factoring companies | 3,850 | 4,360 |
| Financial payables due to SIMEST | 1,400 | 1,300 |
| Current portion of medium/long-term loans | 23,182 | 12,460 |
| **Total interest-bearing financial payables (current portion)** | **53,921** | **38,059** |

The current portion of medium- and long-term loans increased mainly due to the reclassification to short-term of the portion contractually due after one year.
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 3,717 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 2022 the residual debt is Euro 4,963 thousand.

### 22. Trade payables

The breakdown of *Trade payables* as at 31 December 2022 and as at 31 December 2021, respectively, is indicated in the table below:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | 2022 | 2021 |
| Trade payables due to third-parties | 37,830 | 31,661 |
| Trade payables due to related parties | 2,447 | 2,943 |
| **Total trade payables** | **40,277** | **34,604** |

*Trade payables* as at 31 December 2022 increased compared to the previous financial year by Euro 5,673 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.

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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 2022 and as at 31 December 2021, respectively, is indicated in the table below:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Current IRES tax liabilities/ | 2,695 | - |
| Current IRAP tax liabilities | 194 | 39 |
| **Total income taxes payable** | **2,889** | **39** |

The item *IRES and IRAP taxes payable* as at 31 December 2022 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 year.
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 2,840 thousand from the following subsidiaries for the 2022 IRES tax pertaining to the latter:

| | | |
|---|---|---|
| Tesmec Automation – IRES 2022 | Euro | 72 thousand |
| Tesmec Rail – IRES 2021 | Euro | 6 thousand |
| Tesmec Rail – IRES 2022 | Euro | 2.630 thousand |
| 4 Service – IRES 2022 | Euro | 132 thousand |
| Total | Euro | 2,840 thousand |

- "Other current liabilities" of the statement of financial position, which includes the payable of Euro 295 thousand from the following subsidiaries for the 2022 IRES tax pertaining to the latter:

| | | |
|---|---|---|
| East Trenchers - minor benefit 2021 use tax loss | Euro | -2 thousand |
| East Trenchers - benefit of using tax loss 2021 | Euro | 7 thousand |
| East Trenchers - benefit of using tax loss 2022 | Euro | 20 thousand |
| Bertel - benefit of using the ACE 2022 deduction | Euro | 14 thousand |
| Tesmec Automation - minor benefit 2021 use tax loss | Euro | -32 thousand |
| Tesmec Automation - benefit of using tax loss 2022 | Euro | 254 thousand |
| 4 Service - benefit of using tax loss 2022 | Euro | 34 thousand |
| Total | Euro | 295 thousand |

The tax result for the 2022 financial year referring to the tax consolidation consists, in summary, of the following:

| | Financial year ended 31 December |
|---|---|
| *(Euro in thousands)* | **2022** |
| Tax income (loss) of the consolidating company Tesmec S.p.A. | 2,725 |
| Tax income (loss) of the consolidated company Tesmec Rail S.r.l. | 10,958 |
| Tax income (loss) of the consolidated company Tesmec Automation s.r.l. | 298 |
| Tax income (loss) of the consolidated company East Trenchers S.r.l. | (82) |
| Tax income (loss) of the consolidated company Bertel S.r.l. | - |
| Tax income (loss) of the consolidated company 4 Service s.r.l. | 552 |
| **Total consolidated tax income (loss)** | **14,451** |
| Use of non-deductible interest expense | (2) |
| Excess use of ACE deductions | (60) |
| Use of tax losses carried forward | (3.160) |
| **Group net comprehensive income** | **11.229** |

## 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 years and includes both the cost of labour and that for spare parts used.
Changes in *Provisions for risks and charges* as at 31 December 2022 and 2021 are indicated below:

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Value as at 1 January | 425 | 400 |
| Provisions | 35 | 25 |
| **Value as at 31 December** | **460** | **425** |

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 2022 and 2021:

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Due to social security | 1,484 | 2,691 |
| Due to INAIL (National Insurance Institute for Industrial Accidents) | 299 | 294 |
| Due to trade funds | 266 | 489 |
| Due to employees and collaborators | 2,191 | 2,403 |
| Due to others | 32 | 8 |
| Payables due to related parties | 295 | 175 |
| Accrued expenses and liabilities | 1,429 | 757 |
| **Total other current liabilities** | **5,996** | **6,817** |

*Other current liabilities* decreased compared to the previous year by Euro 821 thousand and mainly refer to the decrease in Due to social security following the settlement of 2021 payables in 2022.

## 26. Taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2022 and 2021:

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Deferred tax assets | 5,581 | 4,744 |
| Deferred tax liabilities | 4,766 | 3,318 |

The breakdown of net deferred taxes as at 31 December 2022 and 2021 is shown in the following table by type by listing the items that present underlying temporary differences:

| | 31 December | | 31 December | | Financial year ended 31 December | |
|---|---|---|---|---|---|---|
| | Statement of financial position | | Shareholders' equity | | Income statement | |
| *(Euro in thousands)* | **2022** | **2021** | **2022** | **2020** | **2022** | **2021** |
| **Deferred tax assets** | | | | | | |
| Reversals of intangible assets | - | - | - | - | - | (3) |
| Obsolescence fund | 1,091 | 1,049 | - | - | 42 | 84 |
| Provisions for future risks and charges | 3,687 | 2,520 | - | - | 1,167 | 1,348 |
| Unrealised exchange-rate losses | 32 | 43 | - | - | (11) | (12) |
| Tax effect on UCC gain reversals | 323 | 302 | - | - | 21 | 109 |
| Provision for bad debts | 290 | 290 | - | - | - | 290 |
| Write-down of financial receivables | 158 | 132 | - | - | 26 | 6 |
| Other temporary differences | - | 408 | - | - | (408) | (48) |
| **Total deferred tax assets** | **5,581** | **4,744** | **-** | **-** | **837** | **1,774** |
| **Deferred tax liabilities** | | | | | | |
| Unrealised exchange rate gains | (4,547) | (3,157) | - | - | (1,390) | (1,637) |
| Profits allocated to network reserve | (199) | (199) | - | - | - | - |
| Other temporary differences | (20) | 38 | (36) | (7) | (22) | (10) |
| **Total deferred tax liabilities** | **(4,766)** | **(3,318)** | **(36)** | **(7)** | **(1,412)** | **(1,647)** |
| **Net effect on Shareholders' Equity** | | | | | | |
| ***Net balance deferred wealth taxes*** | **815** | **1,426** | | | | |
| *Represented in the income statement as follows:* | | | | | | |
| ***Deferred tax assets*** | **837** | **1,774** | | | | |
| ***Deferred tax liabilities*** | **(1,412)** | **(1,647)** | | | | |
| **Deferred tax liabilities, net** | **(575)** | **127** | | | | |

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 years as at 31 December 2022 and 2021 are summarised below:

| (Euro in thousands) | Financial year ended 31 December | |
|---|---|---|
| | 2022 | 2021 |
| **Pre-tax profit/(loss)** | **5,167** | **(977)** |
| Current taxation | (459) | 98 |
| Deferred tax liabilities/(assets) | (575) | 127 |
| **Total taxes** | **(1,034)** | **225** |

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:

| (Euro in thousands) | | Financial year ended 31 December 2022 | | |
|---|---|---|---|---|
| | | IRES | IRAP | Totale |
| **Profit before tax** | **A** | **5,167** | **5,167** | |
| Difference in taxable income between IRES and IRAP | B | - | (1,174) | |
| | C=A+B | 5,167 | 3,993 | |
| Nominal rate (%) | D | 24,0% | 3,9% | |
| **Theoretical taxes** | **E=C*D** | **1,240** | **156** | **1,396** |
| Tax effect on permanent differences | F | (426) | 34 | (392) |
| Tax effect on temporary differences | G | (120) | - | (120) |
| Tax effect on the re-absorption of temporary differences | H | (40) | 4 | (36) |
| **Current taxation posted to the income statement** | **I=E+F+G+H** | **654** | **194** | **848** |
| Deferred tax liabilities | L | 1,412 | - | 1,412 |
| Deferred tax assets | M | (833) | (4) | (837) |
| Taxes related to prior financial years | N | 46 | - | 46 |
| Income from tax consolidation | O | (435) | - | (435) |
| **Aggregate tax posted to the income statement** | **P=I+L+M+N+O** | **844** | **190** | **1,034** |

## Comments to the main items in the income statement

## 27. Revenues from sales and services

In the 2022 and 2021 financial years, revenues from sales and services amounted to Euro 110,775 thousand and Euro 91,110 thousand respectively, an increase of 21.6%. The breakdown is set below:

| (Euro in thousands) | Financial year ended 31 December | |
|---|---|---|
| | 2022 | 2021 |
| Sales of products | 103,405 | 84,715 |
| Services rendered | 7,370 | 6,395 |
| **Total revenues from sales and services** | **110,775** | **91,110** |

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 years as at 31 December 2022 and 2021, cost of raw materials and consumables amounted to Euro 59,877 thousand and Euro 47,897 thousand, respectively. The breakdown of the item is as follows:

| (Euro in thousands) | Financial year ended 31 December | |
|---|---|---|
| | **2022** | **2021** |
| Cost for the purchase of raw materials and consumables | 61,684 | 51,752 |
| Change in inventories | (1,807) | (3,855) |
| **Total cost of raw materials and consumables** | **59,877** | **47,897** |

*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 2022 and in 2021 to Euro 22,881 thousand and Euro 17,869 thousand, respectively.

| (Euro in thousands) | Financial year ended 31 December | |
|---|---|---|
| | **2022** | **2021** |
| Transport, customs and incidental expenses | 3,001 | 2,003 |
| Outsourced work service | 4,911 | 4,253 |
| Services for legal, tax, technical and other consultancy | 5,568 | 4,003 |
| External production services | 329 | 259 |
| Banking services | 1,510 | 981 |
| Insurance | 719 | 757 |
| Energy, water, gas, telephone expenses and postage | 1,768 | 1,369 |
| Board and lodging expenses and travelling allowance | 778 | 391 |
| Directors' and Auditors' fees | 960 | 906 |
| Advertising and other selling expenses | 588 | 132 |
| Maintenance services | 572 | 429 |
| Commissions and additional expenses | 764 | 924 |
| Other general expenses | 1,413 | 1,462 |
| **Total costs for services** | **22,881** | **17,869** |

The increase in costs for services was mainly due to the increase in *Transport, customs and incidental expenses* of Euro 998 thousand and *Outsourced work service* of Euro 658 thousand both in connection with the increase in revenues and *Services for legal, tax, technical and other consultancy* of Euro 1,565 thousand related to some strategic consultancies.
Finally, note the increase in *Energy, water, gas, telephone expenses and postage* of Euro 399 thousands following the general increase of costs, in the last quarter, for the supply of electricity and gas.

## 30. Payroll costs

In the financial years ended 31 December 2022 and 2021, labour costs amounted to Euro 21,973 thousand and Euro 21,049 thousand, respectively, an increase of 4.4% due to the adjustment of the workforce and the absence of the reduction in labour costs that occurred last year during the lockdown period.

| (Euro in thousands) | Financial year ended 31 December | |
|---|---|---|
| | **2022** | **2021** |
| Wages and salaries | 16,993 | 16,265 |
| Social security charges | 3,604 | 3,591 |
| Employee severance indemnity | 1,071 | 1,013 |
| Other personnel costs | 305 | 180 |
| **Total payroll costs** | **21,973** | **21,049** |

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## 31. Other operating (costs)/revenues, net

During the financial years ended 31 December 2022 and 2021, *other operating (costs)/revenues, net* amounted to Euro (290) thousand and Euro 907 thousand, respectively.
The breakdown of the item is as follows:

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Provisions for risks and other net provisions | 400 | 592 |
| Rents | 431 | 540 |
| Hiring | 375 | 303 |
| Other lease and rental expenses | 1 | 1 |
| Sundry taxes | 168 | 202 |
| Other revenues | (3,609) | (1,995) |
| Income for Research and Development tax credits | (289) | (820) |
| Contingent assets/liabilities/losses | (199) | 242 |
| Other expenses | 2,432 | 1,842 |
| **Total other operating revenues, net** | **(290)** | **907** |

The item *other operating (costs)/revenues, net* decreased by Euro 1,197 thousand compared to the previous year, mainly due to the increase in the item "Other expenses" of Euro 3,397 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 400 thousand includes the provision to the allowance for doubtful receivables.

## 32. Amortisation and depreciations

During the financial years ended 31 December 2021 and 2020, amortisation and depreciations amounted to Euro 5,917 thousand and Euro 6,410 thousand respectively, in line with the previous financial year. The breakdown of the item is as follows:

| | Financial year ended 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Amortisation of intangible assets | 2,445 | 2,663 |
| Depreciation of property, plant and equipment | 827 | 1,045 |
| Depreciation of right of use | 2,645 | 2,702 |
| **Total amortisation and depreciations** | **5,917** | **6,410** |

## 33. Development costs capitalised

*Development costs capitalised* for the financial years ended 31 December 2022 and 31 December 2021 amounted to Euro 2,406 thousand and Euro 2,613 thousand, respectively.
During the financial year, 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 decreased from 2.9% for the 2021 financial year to 2.2% for the 2022 financial year.

## 34. Financial expenses

During the financial years ended 31 December 2022 and 2021, financial expenses amounted to Euro 15,018 thousand and Euro 10,154 thousand, respectively, with an increase of Euro 4,864 thousand. The breakdown of the item is as follows:

| (Euro in thousands) | Financial year ended 31 December | |
|---|---|---|
| | 2022 | 2021 |
| Bank interests expenses | - | 81 |
| Interests payable for factoring and billing discounts | 910 | 380 |
| Interests payable on interest-bearing medium/long-term loans and borrowings | 3,235 | 2,651 |
| Interests payable on advance loans on exports | 349 | 221 |
| Other sundry financial expenses | 328 | 1,316 |
| Financial expenses on rights of use | 431 | 522 |
| Realised foreign exchange losses | 667 | 404 |
| Unrealised foreign exchange losses | 8,928 | 4,529 |
| Fair value adjustment of derivative instruments | - | 50 |
| Provision for risks on financial receivables | 170 | - |
| **Total financial expenses** | **15,018** | **10,154** |

*Financial expenses* worsened by Euro 4,864 thousand mainly due to exchange losses (realised and unrealised) of Euro 4,662 thousand as well as the partial write-down of certain financial receivables.

## 35. Financial income

During the financial years ended 31 December 2022 and 2021, financial income amounted to Euro 17,363 thousand and Euro 9,586 thousand, respectively. The breakdown of the item is as follows:

| (Euro in thousands) | Financial year ended 31 December | |
|---|---|---|
| | 2022 | 2021 |
| Interests from banks | - | 1 |
| Realised foreign exchange gains | 1,686 | 309 |
| Unrealised foreign exchange gains | 9,951 | 6,820 |
| Fair value adjustment of derivative instruments | 843 | 130 |
| Sundry income | 4,883 | 2,326 |
| **Total financial income** | **17,363** | **9,586** |

*Financial income* increased by Euro 7,777 thousand mainly due to the increase in exchange rate gains (realised and unrealised) of Euro 4,508 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:

| | 31 December | | | | | | | | 31 December | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | | | | | | | | 2021 | | | | | | |
| (Euro in thousands) | 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. | 18,798 | 2,194 | 947 | - | - | - | 158 | - | - | 2,113 | 17,714 | - | - | - | 308 |
| East Trencher S.r.l. | - | 34 | 243 | - | - | - | - | 25 | - | 37 | 180 | - | - | - | - |
| Tesmec Peninsula | - | 7,172 | 57 | - | - | - | 113 | - | - | 12 | 2,044 | - | 1,090 | - | 4 |
| Tesmec SA | - | 254 | 2,832 | - | - | - | 6 | - | - | 377 | 1,974 | - | - | - | - |

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Tesmec RUS | - | 1,253 | 661 | - | - | - | - | - | - | 1,710 | 586 | - | - | - | - |
| Bertel S.r.l. | - | 5 | 39 | - | - | - | - | 14 | - | 7 | 267 | - | - | - | - |
| Tesmec Automation S.r.l. | - | 343 | 9,792 | 72 | - | - | 307 | 222 | - | 88 | 8,320 | - | - | - | 25 |
| Tesmec New Technology (Beijing) | - | 47 | 1,264 | - | - | - | 60 | - | - | 25 | 1,193 | - | - | - | 153 |
| Tesmec Rail S.r.l. | 500 | 9,038 | 4,503 | 2636 | - | - | 122 | - | 1,500 | 5,544 | 7,015 | 292 | - | - | 150 |
| 4SERVICE S.r.l. | - | 216 | - | 132 | 491 | - | 459 | 34 | - | 1,250 | 967 | 24 | - | - | 329 |
| Tesmec Saudi Arabia | - | 1,765 | 11 | - | - | - | 37 | - | | 40 | 4,648 | - | - | - | 7 |
| Marais Technologies SAS | - | 23 | 1,853 | - | - | - | - | - | - | 8 | 1,973 | - | - | - | - |
| Group Marais SAS | - | 1,902 | 3,043 | - | - | - | 60 | - | - | 1,987 | 761 | - | - | - | 737 |
| Tesmec Australia Ltd. | - | 2,525 | 14,170 | - | - | - | 26 | - | - | 831 | 13,596 | - | - | - | 25 |
| Marais Laying Tech. Ltd. NZ | - | 18 | 239 | - | - | - | - | - | - | 221 | 706 | - | - | - | - |
| MIR SA | - | 4 | 187 | - | - | - | - | - | - | 4 | - | - | - | - | - |
| Marais Cote d'Ivoire | - | 5 | - | - | - | - | - | - | - | - | 270 | - | - | - | 3 |
| Tesmec Guinee | - | 37 | 1,378 | - | - | - | - | - | - | 279 | 196 | - | - | - | 21 |
| 4SERVICE USA LLC | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Subtotal** | **19,298** | **26,835** | **41,219** | **2840** | **491** | **-** | **1,348** | **295** | **1,500** | **14,533** | **62,410** | **316** | **1,090** | **-** | **1,762** |
| ***Associates:*** | | | | | | | | | | | | | | | |
| Locavert S.A. | - | 11 | - | - | - | - | - | - | - | 20 | - | - | - | - | |
| **Subtotal** | **-** | **11** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **20** | **-** | **-** | **-** | **-** | **-** |
| ***Joint Ventures:*** | | | | | | | | | | | | | | | |
| Condux Tesmec Inc. | - | 1,284 | 1,725 | - | - | - | 14 | - | - | 2,781 | 1,707 | - | - | - | 3 |
| **Subtotal** | **-** | **1,284** | **1,725** | **-** | **-** | **-** | **14** | **-** | **-** | **2,781** | **1,707** | **-** | **-** | **-** | **3** |
| ***Related parties:*** | | | | | | | | | | | | | | | |
| Ambrosio S.r.l. | - | - | - | - | - | - | 19 | - | - | - | - | - | - | - | 4 |
| Dream Immobiliare S.r.l. | - | - | 77 | - | - | - | 982 | - | - | - | 77 | - | - | - | 1,083 |
| TTC S.r.l. | - | - | - | - | - | - | | - | - | - | - | - | - | - | 24 |
| RX S.r.l. | - | - | - | - | 213 | - | 12 | - | - | - | - | - | - | 213 | 4 |
| Fi.ind. | - | - | - | - | - | - | | - | - | - | - | - | - | - | |
| M.T.S. Officine meccaniche S.p.A. | - | 650 | - | - | 3,050 | - | 72 | - | - | 121 | - | - | - | 3,050 | 63 |
| ICS Tech. S.r.l. | - | 1 | - | - | - | - | - | - | - | 133 | - | - | - | - | - |
| **Subtotal** | **-** | **651** | **77** | **-** | **3,263** | **-** | **1,085** | **-** | | **254** | **77** | **-** | **-** | **3,263** | **1,178** |
| **Total** | **19,298** | **28,781** | **43,021** | **-** | **3,788** | **-** | **2,447** | **-** | **1,500** | **17,588** | **64,194** | **316** | **1,090** | **3,263** | **2,943** |

| | **Financial year ended 31 December** | | | | | **Financial year ended 31 December** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2022** | | | | | **2021** | | | | |
| *(Euro in thousands)* | **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** |
| ***Subsidiaries:*** | | | | | | | | | | |
| Tesmec USA, Inc. | 9,672 | (104) | (180) | 501 | 640 | 4,040 | (347) | (73) | 97 | 436 |
| East Trencher S.r.l. | 33 | - | (40) | 10 | 8 | 78 | - | - | 8 | 4 |
| Tesmec SA | 565 | (5) | (1) | 10 | 195 | 1,789 | - | (7) | 10 | 71 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Tesmec RUS | 282 | (252) | - | 3 | - | 1,815 | - | (11) | 3 | 43 |
| Tesmec Automation S.r.l. | 159 | - | - | 175 | 377 | 60 | (236) | (1) | 123 | 268 |
| Tesmec New Technology (Beijing) | 8 | (260) | (158) | 2 | 77 | 28 | (176) | (200) | - | 72 |
| Tesmec Rail S.r.l. | 13,955 | (717) | - | 962 | 1,282 | 9,354 | (397) | - | 727 | 267 |
| Marais Technologies SAS | - | - | - | - | 38 | - | - | - | - | 32 |
| Group Marais SAS | 4,251 | (440) | (42) | 920 | 44 | 4,661 | (1,194) | (24) | (7) | 1 |
| Tesmec Australia Ltd. | 2,092 | - | (26) | 27 | 890 | 1,706 | - | (28) | 21 | 400 |
| Marais Laying Tech. Ltd. NZ | 81 | - | - | 6 | 10 | 976 | - | - | 6 | 19 |
| Marais Cote d'Ivoire | - | - | - | 1 | 9 | 29 | - | - | (15) | - |
| Marais Guinee SARLU | 6 | - | - | 1 | 46 | 279 | - | (19) | 1 | - |
| Bertel S.r.l. | - | - | - | 3 | 9 | - | - | - | 3 | 26 |
| 4Service S.r.l. | 819 | - | - | (324) | (17) | 1,412 | - | - | (519) | 42 |
| 4SERVICE USA LLC | 1 | - | - | 35 | - | 1 | - | - | - | - |
| MIR SA | - | - | - | - | - | - | - | (5) | 3 | - |
| **Subtotal** | **31,924** | **(1,778)** | **(447)** | **2,332** | **3,608** | **26,228** | **(2,350)** | **(368)** | **461** | **1,681** |
| ***Associates:*** | | | | | | | | | | |
| Locavert S.A. | 808 | - | - | - | - | 160 | - | - | - | - |
| **Subtotal** | **808** | **-** | **-** | **-** | **-** | **160** | **-** | **-** | **-** | **-** |
| ***Joint Ventures:*** | | | | | | | | | | |
| Condux Tesmec Inc. | 5,368 | - | (14) | 246 | 53 | 7,520 | - | (3) | 159 | 24 |
| Tesmec Peninsula | 7,671 | - | (1,109) | 14 | 76 | 263 | (55) | - | - | 47 |
| Tesmec Saudi Arabia | 902 | (1) | (26) | - | 50 | (872) | - | - | (7) | 16 |
| **Subtotal** | **13,941** | **(1)** | **(1,149)** | **260** | **179** | **6,911** | **(55)** | **(3)** | **152** | **87** |
| ***Related parties:*** | | | | | | | | | | |
| Ambrosio S.r.l. | - | - | - | (4) | (3) | - | - | - | (2) | - |
| Dream Immobiliare S.r.l. | - | - | - | (11) | (342) | - | - | - | (22) | (393) |
| RX S.R.L. | - | - | - | - | (4) | - | - | - | - | (4) |
| TTC S.r.l. | - | - | (30) | - | - | - | - | (30) | - | - |
| Fi.ind. | - | - | - | - | - | - | - | - | 29 | - |
| M.T.S. Officine meccaniche S.p.A. | 1,849 | (8) | (2) | 13 | (76) | 2,147 | (1) | (3) | (4) | (65) |
| ICS Tech. S.r.l. | 1 | - | - | - | - | 109 | - | - | - | - |
| **Subtotal** | **1,850** | **(8)** | **(32)** | **(2)** | **(425)** | **2,256** | **(1)** | **(33)** | **1** | **(462)** |
| **Total** | **48,523** | **(1,787)** | **(1,628)** | **2,590** | **3,362** | **35,555** | **(2,406)** | **(404)** | **614** | **1,306** |

- 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 2022:*

| 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 | 97,067 | - | 97,067 |
| Caterina Caccia Dominioni | Director | 64,000 | - | 64,000 |
| Lucia Caccia Dominioni | Director | 26,667 | - | 26,667 |
| Paola Durante | Director | 46,667 | - | 46,667 |
| Simone Andrea Crolla | Director | 36,667 | - | 36,667 |
| Emanuela Teresa Basso Petrino | Director | 55,467 | - | 55,467 |
| Guido Luigi Traversa | Director | 36,667 | - | 36,667 |
| Antongiulio Marti | Director | 26,667 | - | 26,667 |
| Nicola Iorio | Director | 20,000 | - | 20,000 |

| 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 |
| Attilio Massimo Marco Francozzi | Statutory Auditor | 17,333 | - | 17,333 |
| Laura Braga | Statutory Auditor | 17,333 | - | 17,333 |

Fees paid to executives with strategic responsibilities in the 2022 financial year amounted to Euro 539 thousand (Euro 353 thousand in the 2021 financial year).

## 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 2022 and 2021 for auditing services and for services other than audit rendered by the Company Deloitte & Touche S.p.A.

| (Euro in thousands) | Independent Auditors that supplied the service | Receiver | Accrued amount | |
|---|---|---|---|---|
| | | | 2022 | 2021 |
| Audit of the financial statements and consolidated financial statements | Deloitte & Touche S.p.A. | Tesmec S.p.A. | 150 | 128 |
| 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. | 50 | 38 |
| Certification services | Deloitte & Touche S.p.A. | Tesmec S.p.A. | 42 | 36 |
| **Total** | | | **230** | **230** |

## 39. Legal and tax disputes

At the balance sheet date, the Company is a party to some civil disputes. For these disputes, the Company, based on the opinions obtained from its lawyers, has deemed that the hypothesis of losing is possible or remote and therefore has not set aside any provisions in the financial statements against any liabilities deriving from them, in accordance with the reference accounting standards which prescribe the provision of liabilities for probable and quantifiable risks. See the details below.

With reference to the arbitration award obtained from the CIETAC Chinese Commission for International Trade Arbitration in Beijing, having obtained the definitive release of the liquidated amount, the Company continued in the recovery action before the Ordinary Court of Beijing for the accrued interest income and of which it received the definitive collection during the year for Euro 210 thousand, while it should be remembered that the principal portion of the receivable, equal to Euro 1,506 thousand, was already collected in April 2021.

The tax audit relating to the 2016 tax year, pending from June 2019, was concluded in November, for which the Company had received a report of findings in relation to alleged capital losses not deductible for IRES purposes and IRAP. Against an initial assessment perimeter of a total amount of approximately Euro 3.8 million and following a discussion with the Revenue Agency, the Company accepted for deflationary purposes only the proposal to join on a minor relief for Euro 70 thousands, paying the amount to the Treasury.

## 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 2022 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 years as at 31 December 2022 and 2021, they are summarised as follows:

| | 31 December | |
|---|---|---|
| *(Euro in thousands)* | **2022** | **2021** |
| Sureties | 164,723 | 119,791 |
| **Total commitments and risks** | **164,723** | **119,791** |

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 year

No significant events occurred after the reporting year.

**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 Ruggero Gambini, 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 2022 financial year.

2. We also certify that:

2.1 the financial statements as at 31 December 2022:

   - 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, 10 March 2023

*Ambrogio Caccia Dominioni*
Chief Executive Officer

*Ruggero Gambini*
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 2022, 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"), "Remuneration and Appointments Committee", 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.

The Board of Statutory Auditors in office was appointed by the Shareholders' Meeting of 21 April 2022 in compliance with current legal, regulatory and statutory provisions and will end its mandate with the Shareholders' Meeting to approve the financial statements at 31 December 2024. The Board of Statutory Auditors is composed by dr. Simone Cavalli, President, Dr. Laura Braga and Dr. Attilio Marcozzi, statutory auditors. Dr Laura Braga and Dr. Attilio Marcozzi are newly appointed, while the President, Dr. Simone Cavalli, has been reconfirmed. Also during 2022, some meetings of the Board of Directors and of the Board of Statutory Auditors were held remotely as part of the measures to counter 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;
- upon appointment, we proceeded to verify that its members met the independence, integrity and professionalism

requirements pursuant to the law. Following the meeting, unanimously, with the interested parties abstaining from time to time, on the basis of the information provided and the declarations made by each Statutory Auditor, the Board of Statutory Auditors:

- ✓ assessed that all standing members of the Board of Statutory Auditors met the independence requirements established by art. 148, paragraph 3, of the TUF as well as referred to in recommendation no. 7 of the Corporate Governance Code;
- ✓ with a view to the prevalence of form over substance, did not consider that the mere continuation of Dr. Cavalli's office affects the presence of the independence requirements of the same, having rather to consider the experience gained by the same an advantage for the benefit of society.

- during the meeting held on 23 February 2023, the Board of Statutory Auditors verified the continuation of the independence requirements of the Statutory Auditors, already ascertained before their appointment, based on the criteria established by law and by the Corporate Governance Code and sent the outcome of these checks to the Board of Directors; it also complied with the limit on the accumulation of offices established by the Articles of Association and by art. 144-terdecies of the Issuers' Regulation, fulfilling, where required, the related Consob disclosure obligations during the year;
- during the same meeting, the Board of Statutory Auditors carried out the self-assessment activity aimed at verifying the suitability of its regular members and of the Board as a whole, as required by the "Rules of Conduct of the Board of Statutory Auditors of Listed Companies" issued by the National Council of Chartered Accountants and Accounting Experts. The self-assessment process also took into account the Diversity Policy on diversity in relation to the composition of the administrative and control bodies, approved by the Company's Board of Directors on 1 March 2018, in relation to aspects such as age , gender composition and educational and professional background. The Board of Statutory Auditors then informed the Company's Board of Directors that no shortcomings emerged from this investigation either in relation to each standing member or its composition;
- 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. In this regard, it should be noted in particular that on 4 August 2022 the parent company Tesmec S.p.A. appointed Dr. Marco Paredi, former Chief Financial Officer of the Group, as Director of the Trencher Business Unit and Dr. Ruggero Gambini as the new Chief Financial Officer of the Group and Executive in Charge. Mr. Paredi will continue to hold the role of Investor Relations Manager of Tesmec;
- 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.

- among the significant events mentioned by the Company in the Report on Operations, we note the following transactions carried out during the 2022 financial year:
    - ✓ on 13 April 2022 the subsidiary Tesmec Rail S.r.l. acquired definitively from the company Advanced Measuring Group S.r.l. (AMG) the company branch that was managed under lease since July 2019;
    - ✓ on 8 September 2022, by virtue of a capital increase operation by the associate Tesmec Saudi Arabia LLC, the parent company Tesmec S.p.A. increased its stake in the same to 65% of the share capital, subscribed for Euro 5,310 thousand, while the remaining 35% continues to be represented by a local third party operator, the company SAS Machineries. The operation aims to directly oversee the area by increasing the presence of Tesmec in the Middle Eastern market;
    - ✓ on 1 December 2022, the parent company Tesmec S.p.A. defined a series of agreements with the shareholder Fusion Middle East Services WLL by virtue of which it acquired the de facto control of the shareholding in the company Tesmec Peninsula WLL, a company operating in the trencher rental and sale business. The content of the agreements is commented on in note 3.5 Discretionary valuations and significant accounting estimates of the Explanatory Notes to the Consolidated Financial Statements;
- 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 11 March 2022, 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 Indipendent Auditors of the Group, Deloitte & Touche S.p.A., during the year ended December 31, 2022, 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 and on training costs 4.0 in view of fees of Euro 79 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 30 March 2023 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 30 March 2023, 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 2022.

  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 2022, 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 2022 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. Some information contained in the explanatory notes to the consolidated financial statements when extracted from the XHTML format in an XBRL instance, due to certain technical limitations may not be reproduced in the same way as the corresponding information displayed in the consolidated financial statements in XHTML format;
  - issued the opinion on the Financial Statements at 31 December 2022 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 30 March 2023 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 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 by GRI - Global Reporting Initiative ("GRI Standards");
- 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;
- during the financial period, we attended the Shareholders' meeting for the approval of the balance sheet on 21 April 2022, 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 as subsequently amended, supplemented and extended, and 13 meetings of the current Board of Directors. During the same period, the Board of Statutory Auditors met 16 times including 7 in joint session with the Control, Risk and Sustainability Committee. These meetings have normally been attended by all members;
- 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 have examined the letter of 25 January 2023 from the Chairman of the Corporate Governance Committee, as well as the evaluations made and the decisions taken by the Company regarding the recommendations contained therein, without particular comments on this;
- 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 13 February 2023 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

EMARKET SDIR CERTIFIED

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 2022 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;
- from 24 February 2022 with the beginning of the Russian-Ukrainian conflict, the Company has provided to activate all necessary actions in order to mitigate the impact of this conflict and has therefore limited its operations on Russian territory while preserving the operation of the subsidiary and its garrison essentially commercial, while offering a limited contribution to the Group's consolidated turnover. Nevertheless, the Company is constantly monitoring the situation in order to be able to make assessments about the future operation of the Russian subsidiary in full compliance with EU and international rules (in respect of which there are in particular no relationships with subjects subject to sanctions), nor are there any sales of products and categories of goods not allowed.

With regards to the Shareholders' meeting, called on 20 April 2023, the Board of Statutory Auditors notes that Law Decree 18/2020 "Cura Italia" recently converted with modification to Law no. 198 of 2022, converted with amendments in Law n. 14 of 24 February 2023 authorizes the to take place "behind closed doors" "of the orderly and extraordinary assemblies, 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 2022, 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.

Milan, 30 March 2023

The Board of Statutory Auditors

Simone Cavalli - Chairman

Laura Braga - Statutory Auditor

Attilio Marcozzi - Statutory Auditor

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

# INDEPENDENT AUDITOR'S REPORT

Deloitte.

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

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

### Basis for Opinion

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

### Key Audit Matters

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

| *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.<br><br>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.<br><br>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.<br><br>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:<br><br>- gained an understanding of the Company's process and procedures related to revenue recognition in accordance with applicable financial reporting standards;<br><br>- gained an understanding of the key controls implemented by the Company for revenue recognition and tested the operating effectiveness of the same controls;<br><br>- 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;<br><br>- verified the disclosures provided by the Company in the financial statements in accordance with applicable accounting standards. |

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| Compliance with financial covenants provided in financial loan contracts | |
|---|---|
| **Description of the key audit matter** | The Company's net financial indebtedness amounts to Euro 70.4 million (Euro 45.5 million as at December 31, 2021). Certain medium/long-term loan contracts, whose residual value as of the financial statements' date amounts to Euro 55.9 million, provide the respect of some financial covenants that, at the financial statements' date, are respected.<br><br>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 2023, 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. 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.<br><br>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.<br><br>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:<br><br>- understanding of the process and key controls put in place by the Company to verify compliance with the economic and financial covenants set forth in the loan agreements;<br><br>- assessed loan contracts with particular reference to the covenants contained therein and the other main contractual clauses;<br><br>- reviewed the accuracy of the covenants' calculations prepared by the Management of the Company based on the criteria provided in the loan contracts;<br><br>- 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 2023, 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 75.6 million and Investments in affiliated companies for Euro 1.0 million as at December 31, 2022.<br><br>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, 2022 at no more than their recoverable amount.<br><br>The recoverable value of the investments was determined by discounting the expected cash flows deriving from the 2023-2027 Business Plan.<br><br>As a result of the Impairment Test, approved by the Board of Directors on March 10, 2023, 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.<br><br>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).<br><br>The key variables in estimating future cash flow are:<br><br>- market trends where the Company's subsidiaries and affiliated companies operate, influenced especially by the realization of infrastructural investments;<br><br>- 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;<br><br>- discount and growth rates estimated by Management.<br><br>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 1%, would result in write-downs of a total amount of less than 2% of the total value of the caption investments in subsidiaries.<br><br>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.<br><br>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:<br><br>- 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;<br><br>- developed an understanding of the Company's relevant controls on the impairment test process;<br><br>- performed a reasonableness analysis of the key assumptions used for the future cash flow estimate, and through information obtained from Management;<br><br>- 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;<br><br>- analyzed the reasonableness of the discount rate (WACC) and assumptions used for the terminal value calculation;<br><br>- reviewed the mathematical accuracy of the model used for the estimate of the value in use of the investments; |

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- 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 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 financial statements as at December 31, 2022, to be included in the annual financial report.

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

In our opinion, the financial statements as at December 31, 2022 have been prepared in XHTML format and have been prepared, in all material respects, in accordance with the provisions of the Delegated Regulation.

**Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98**

The Directors of 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, 2022, 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, 2022 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, 2022 and are prepared in accordance with the law.

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

DELOITTE & TOUCHE S.p.A.

Signed by
**Lorenzo Rossi**
Partner

Milan, Italy
March 30, 2023

*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.*

# ENCLOSURES

## Enclosure A

List of investments held as at 31 December 2022 by Tesmec S.p.A. and statement of changes during the financial year.
The following is the list of investments held as at 31 December 2022, 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 YEAR ENDED 31 DECEMBER 2022**

| | **31 December 2021** | | **Increases** | **Decreases** | **Other changes** | **31 December 2022** | |
|---|---|---|---|---|---|---|---|
| Company | % | Value | Cost | Cost | Write-down Revaluation | % | Value |
| *Investments in consolidated subsidiaries* | | | | | | | |
| Tesmec USA Inc. | 100.00% | 21,261,434 | - | - | - | 100.00% | 21,261,434 |
| OOO Tesmec Rus | 100.00% | 10,590 | - | - | - | 100.00% | 10,590 |
| Tesmec SA (Pty) Ltd. | 51.00% (1) | 6,295,785 | - | - | - | 51.00% [(1)] | 6,295,785 |
| East Trenchers S.r.l. | 100.00% | 265,000 | - | - | - | 100.00% | 265,000 |
| Tesmec Automation S.r.l. | 100.00% | 4,775,600 | - | - | - | 100.00% | 4,775,600 |
| Tesmec Peninsula WLL | 0.00% | - | 798,273 | - | - | 49.00 [(4)] | 798,273 |
| Tesmec Saudi Arabia | 0.00% | - | 7,812,268 | - | - | 65.00% | 7,812,268 |
| 4 Service S.r.l. | 100.00% | 9,721,252 | - | - | - | 100.00% | 9,721,252 |
| Tesmec New Technology (Beijing) | 100.00% | 200,000 | - | - | - | 100.00% | 200,000 |
| Marais Technologies | 66.04% (2) | 10,813,664 | - | - | - | 66.04% [(2)] | 10,813,664 |
| Tesmec Australia (Pty) Ltd. | 51.00% (3) | 3,766,984 | - | - | - | 51.00% [(3)] | 3,766,984 |
| Bertel S.r.l. | 100.00% | 4,293,235 | - | - | - | 100.00% | 4,293,235 |
| Tesmec Rail S.r.l. | 100.00% | 5,605,882 | - | - | - | 100.00% | 5,605,882 |
| **Total** | | **67,009,426** | **8,610,542** | **-** | **-** | | **75,619,968** |
| *Investments in associates consolidated under the equity method* | | | | | | | |
| Tesmec Peninsula WLL | 49.00% | 729,748 | - | 729,748 | - | 0.00% | - |
| Locavert S.A. | 38.63% | 52,000 | - | - | - | 38.63% | 52,000 |
| Condux Tesmec Inc. | 50.00% | 955,763 | - | - | - | 50.00% | 955,763 |
| Tesmec Saudi Arabia | 49.00% | 2,371,865 | - | 2,371,865 | - | 0.00% | - |
| Primis Group S.r.l. | 10.03% | 1,115 | - | 1,115 | - | 0.00% | - |
| **Total** | | **4,110,491** | **-** | **3,102,728** | **-** | | **1,007,763** |

(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.

(4) The remaining 51% is held by Fusion Middle East Services WLL. By virtue of de facto control for accounting purposes, the equity investment in Tesmec Peninsula WLL is consolidated at 99%.

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Tesmec S.p.A.

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