



(Translation from the Italian original which remains the definitive version)

# Italferr S.p.A.

**Financial statements as at and for the year ended  
31 December 2022**

(with independent auditors' report thereon)

KPMG S.p.A.

20 March 2023



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**(This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)**

## **Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010**

*To the sole shareholder of  
Italferr S.p.A.*

### **Report on the audit of the financial statements**

#### **Opinion**

We have audited the financial statements of Italferr S.p.A. (the "company"), which comprise the statement of financial position as at 31 December 2022, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Italferr S.p.A. as at 31 December 2022 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

#### **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 "*Auditors' responsibilities for the audit of the financial statements*" section of our report. We are independent of the company in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Other matters**

As required by the law, the company disclosed the key figures from the latest financial statements of the company that manages and coordinates it in the notes to its own financial statements. Our opinion on the financial statements of Italferr S.p.A. does not extend to such data.



**Italferr S.p.A.**

*Independent auditors' report*

*31 December 2022*

### ***Responsibilities of the company's directors and board of statutory auditors ("Collegio Sindacale") for the financial statements***

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the company's financial reporting process.

### ***Auditors' 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 auditors' 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 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 ISA Italia, we exercise professional judgement and maintain professional scepticism 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 director;
- conclude on the appropriateness of the directors' 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 auditors' 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 auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern;



**Italferr S.p.A.**

*Independent auditors' report*

*31 December 2022*

- 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 the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## **Report on other legal and regulatory requirements**

### ***Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10***

The company's directors are responsible for the preparation of a directors' report at 31 December 2022 and for the consistency of such report with the related financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the company's financial statements at 31 December 2022 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the company's financial statements at 31 December 2022 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Rome, 20 March 2023

KPMG S.p.A.

(signed on the original)

Gabriele de Gennaro  
Director of Audit

**Italferr S.p.A.**

**2022 ANNUAL REPORT**

**Italferr S.p.A.**

Single-member company managed and coordinated by Ferrovie dello Stato Italiane S.p.A.

Share capital: €14,186,000, fully paid up

Registered office: Via Vito Giuseppe Galati 71, 00155 Rome

Tax code and company registration no.: 06770620588

REA no.: 541241

VAT number: 01612901007

Website: [www.italferr.it](http://www.italferr.it)

## **MISSION**

Italferr is the Ferrovie dello Stato Italiane group's engineering company with over 38 years of consolidated experience in large infrastructural projects for traditional and high-speed railways, underground and road transport and the design of ports and stations in Italy and abroad.

Its mission is to build infrastructure in accordance with high quality standards, deadlines and the budget, covering all technical and management activities for the planning, design, execution, inspection and commissioning of the works.

Italferr offers innovative, high-tech services ranging from design to contracting, works management and supervision, inspection and commissioning of lines, stations and intermodal and interport hubs, project management, organisational consultancy, training and the transfer of specialised, avant-garde know-how.

## COMPANY OFFICERS

### Board of directors:

Chairwoman

Paola Firmi

CEO

Andrea Nardinocchi

Director

Francesca Bartoli

Director

Claudia Eccher<sup>1</sup>

Director

Franco Fenoglio

### Board of statutory auditors:

Chairwoman

Micol Marisa

Standing statutory auditor

Annamaria Madeo

Standing statutory auditor

Michele Farese

Alternate statutory auditor

Monica Petrella

Alternate statutory auditor

Luca Provaroni

### INDEPENDENT AUDITORS

KPMG S.p.A.

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<sup>1</sup> In office until 23 January 2023



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## CHAIRWOMAN'S LETTER

Dear Shareholder,

The company ended 2022 with strong results in terms of its financial and operating performance.

With respect to financial performance, for the first time in its history, Italferr surpassed the milestone of €300 million in revenue, reaching €336 million. Although this growth in revenue was forecast in the budget, actual revenue in the year exceeded the budget target by 3%. Furthermore, the company achieved substantial savings in operating costs (-5% compared to the budget) and the combined effect of these changes boosted the operating profit by 37% over Italferr's original forecasts.

As for operating performance, a crucial factor was the support that Italferr has provided to RFI in the latter's pursuit of the objectives of the national recovery and resilience plan (NRRP) for 2022. Indeed, Italferr designed projects underlying tenders totalling roughly €13 billion. The main tenders called for NRRP projects include those for various lots of the HS/HC Palermo-Catania-Messina route, the Trento railway bypass and the Battipaglia-Romagnano route, the first lot of the new HS/HC Salerno-Reggio Calabria line.

In addition to the work performed for tenders, Italferr assisted RFI in achieving an ambitious objective: winning two framework agreements within the terms set by the NRRP for the development of the European Rail Traffic Management System (ERTMS) plan. Furthermore, during the year, the company worked on the design of 25 projects and opened the first two multidisciplinary technological construction sites in Sicily.

This excellent performance for the year just ended is the result of Italferr's growth in size, the continuation of work to digitalise processes and the FS Italiane group's reorganisation.

The company managed to grow through a sweeping recruiting campaign that led to the signing of 707 new employment contracts and, net of outgoing employees and the permanent hiring of temporary workers, expanded Italferr's workforce by 508 resources. Following the new hires, equal to one-third of the previous workforce, and employee turnover, the average age of personnel is 41 at the end of 2022.

Italferr pursued digitalisation initiatives, delivering a few key projects that apply business information modelling (BIM) to RFI, using digital twinning which Italferr has developed on an ad hoc basis and applying innovative technologies, even in construction sites, and, in particular, in the field of works supervision and management.

Italferr has achieved a degree of technological and engineering know-how that has enabled it to maintain and even expand its operations abroad again in 2022. The company is currently active mostly in Europe, India, Central Asia, the Middle East and South America.

During the year, it strengthened its presence in strategic countries like the Baltic states, Saudi Arabia and Uzbekistan, and extended its footprint in countries like France and Canada, winning important contracts for a total of €32.9 million.

The group's ten-year business plan was approved in 2022 with an internal reorganisation and the rationalisation of the group's operations in business divisions. As part of this reorganisation, Italferr was placed in the Infrastructure division headed by RFI, to reflect the company's central role in designing infrastructure and supporting their operation to fast-track investments.

The group's business plan focuses on the development and integration of different infrastructures and modes of transport for sustainability and innovation.

The pillars of the plan match perfectly with the company's strengths: the know-how gained in close to four decades designing and overseeing the construction of large railway and other transport infrastructure, always focusing on its environmental impact, and its dynamic approach to new digital technologies to speed up its industrial processes. And this is fully demonstrated by the results achieved in 2022, which surpassed the targets set for the first year of the plan.

## **Directors' report**

## KEY AND GLOSSARY

### ALTERNATIVE PERFORMANCE INDICATORS (NON-IFRS MEASURES)

Below is a description of the criteria used to determine the alternative performance indicators used in this report, which differ from the criteria applied to the IFRS financial statements. Management finds these indicators useful in monitoring the company's performance and believes they reflect the financial performance of its business:

**Other assets, net:** these reflect the sum of grants, deferred tax assets, other current and non-current assets and other current and non-current liabilities.

**Other provisions:** these are the sum of post-employment benefits and other employee benefits, the provision for litigation with employees and third parties, the provision for contractual risks, reflecting expected future losses on contracts with negative outcomes, and deferred tax liabilities.

**Working capital: this is the sum of net operating working capital and other assets, net.**

**Net operating working capital:** this is the sum of construction contracts, current and non-current trade receivables and current and non-current trade payables.

**Net non-current assets:** these reflect the sum of property, plant and equipment, intangible assets and equity investments.

**Net invested capital (NIC):** this is the sum of working capital, net non-current assets and other provisions.

**Operating profit margin – ROS (return on sales):** this sales profitability indicator is calculated as the ratio of operating profit to revenue.

**Gross operating profit (loss) margin:** this profitability indicator is calculated as the ratio of gross operating profit to operating revenue.

**Debt/equity ratio:** this indicator is used to measure the company's debt. It is calculated as the ratio between net financial debt and equity.

**Gross operating profit:** this is an indicator of the performance of operations and reflects the company's core business only. It is calculated as the difference between revenue and operating costs.

**Equity (E):** this is a financial statements indicator calculated as the sum of share capital, reserves, retained earnings (losses carried forward) and the profit (loss) for the year.

**Net financial position (NFP):** this is a financial indicator calculated as the sum of non-current bank loans and borrowings and the current portion thereof, current bank loans and borrowings, current and non-current loans and borrowings from other financial backers, cash and cash equivalents and current and non-current loan assets.

**Operating profit:** this is an indicator of the performance of operations and is calculated as the sum of gross operating profit and amortisation and depreciation, impairment losses (impairment gains) and provisions.

**ROE (return on equity):** this is a profitability indicator for equity and is calculated as the ratio of profit (loss) for the year and average equity, using the average of opening equity (including the profit (loss) for the previous year) and closing equity (net of the profit (loss) for the year).

**ROI (return on investment):** this is a profitability indicator for invested capital through core business operations. It is calculated as the ratio of operating profit to average NIC (the average of opening and closing NIC).

**Net asset turnover:** this is an efficiency indicator that expresses invested capital's ability to transform into sales revenue. It is calculated as the ratio of operating revenue to average NIC (the average of opening and closing NIC).

## Glossary

The following terms are frequently used in this report in relation to the company's operations:

**Computerised interlocking system/Multistation computerised interlocking system:** this is a central management system for control and signalling and station safety.

**HS/HC (High speed/High capacity):** this is the system of lines and means specifically developed for high speed and/or high capacity transport.

**BIM (Building Information Modelling):** this digital information system integrates multidisciplinary structured data to create a digital picture of an asset over its entire life cycle, from planning and design to construction and placement in service.

**European Rail Traffic Management System (ERTMS):** this is the system that integrates the various railway networks in the EU from a functional and operational standpoint and provides for the European Train Control System.

**FTE (Full time Equivalent):** the number of resources needed for a company to meet its objectives assuming every resource works full time.

**TEFS (Technical-Economic Feasibility Study):** this contains all the information needed to define the features of a project, i.e., all the surveys and diagnostics carried out to determine the engineering and safety characteristics and the sustainability report.

**Project Management Consultancy (PMC):** this is a one-stop-shop specialist assistance service used to manage suppliers and contractors throughout a project from its start to its completion.

**PPP (Public Private Partnership):** this is a form of cooperation between public and private entities to fund and operate services of infrastructure of public interest that could not be provided or built with solely public sector investments .

**Doubling:** this is the transformation of a single track to a double track.

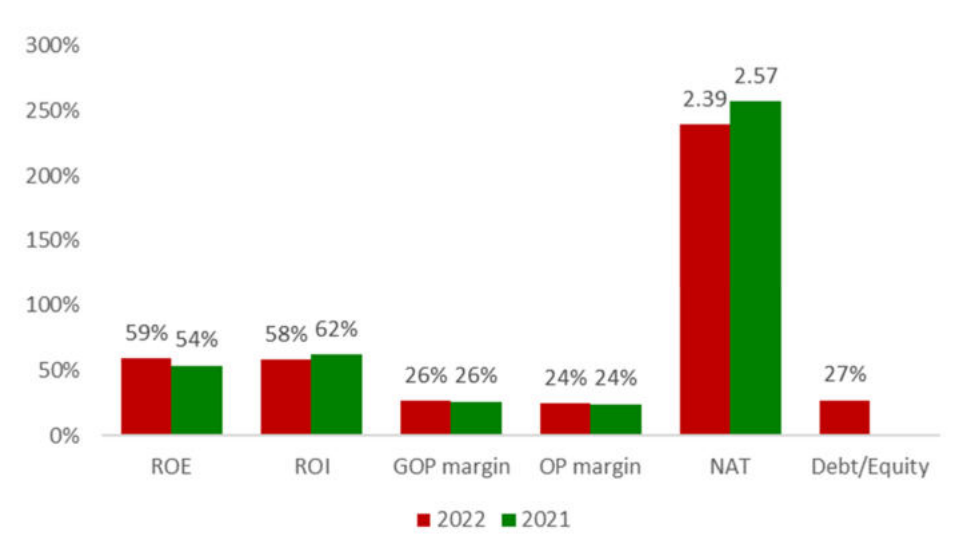
**Trans-European Transport Network (TEN-T):** this is all the linear infrastructure (railways, roads and waterways) and points (urban hubs, ports, terminals and airports) that are deemed relevant to the EU.

**PPO (Prevention and Protection Officer):** this is the person who, from inside or outside the company, is appointed by an employer to perform the duties pursuant to article 33 of Legislative decree no. 81/08 and coordinates prevention and protection, i.e., all the people, systems and vehicles inside or outside the company for the prevention and protection of occupational risks for workers.

## 2022 RESULTS

As described in more detail further on, the company grew in terms of both production volumes and profit margins in 2022, thanks to RFI's sharp spike in demand for services, mainly for the design of the railway works provided for by the NRRP and the National Supplementary Fund.

The growth in size following this rise in operations led the company to increase invested capital, choosing to finance it, but only partially, with debt to keep profitability ratios high, as reflected in the performance ratios reported in the chart and table below.



|                          |             | 2022 | 2021 |
|--------------------------|-------------|------|------|
| ROE                      | P/E*        | 59%  | 54%  |
| ROI                      | OP/ANIC*    | 58%  | 62%  |
| GOP margin               | GOP/R       | 26%  | 26%  |
| OP margin                | OP/R        | 24%  | 24%  |
| NAT (net asset turnover) | R/ANIC*     | 2.39 | 2.57 |
| Debt/Equity              | Debt/Equity | 27%  | n/a  |

### KEY

**ANIC\***: Average net invested capital (average of the opening and closing balances)

**OP**: Operating profit

**GOP**: Gross operating profit

**E\***: Average equity (average of the opening and closing balances) net of the profit for the year

**E**: Equity

**NFD**: Net financial debt

**R**: Revenue

**P**: Profit for the year

## MAIN EVENTS OF THE YEAR

### REGULATORY CHANGES

#### July

- **15 July:** the "Aiuti" decree law was converted into Law no. 91/2022. Under this legislation, the works performed in 2022 and awarded following bids submitted by 31 December 2021 were eligible for the price adjustment mechanisms to provide relief for the cost increases, particularly those in construction materials, fuels and energy, driven by the war in Ukraine, and inflation. These mechanisms enabled the contracting bodies to raise the additional amounts due to contractors which were unforeseen in the bidding phase, ensuring the continuation of infrastructural investments, including those financed by the NRRP.

### INTERNATIONALISATION INITIATIVES

#### January

- **4 January:** a contract was signed with AECOM for the design of rolling stock depots for the futuristic NEOM HS line in Saudi Arabia. In addition to the first contract, further design service contracts were assigned to Italferr in the year.
- **19 January:** in partnership with SYSTRA and EGIS, Italferr was awarded a contract for the provision of engineering services to prepare, procure and supervise the construction of the control, command and signalling subsystem for Rail Baltica. The subsystem is the result of a joint project between three EU member states – Estonia, Latvia and Lithuania – and relates to the development of a 870-km railway line, equipped with ERTMS and interoperable with the TEN-T network in the rest of Europe.
- **31 January:** the Italferr - Altinok joint venture was dissolved when certification was obtained from the Turkish offices that all social security contributions and taxes had been regularly paid. The joint venture had been set up following the assignment of the contract for works management on the Eurasia Tunnel.

#### March

- **7 March:** Italferr was awarded the PMC contract in the tender called by O'zbekiston Temir Yo'llari (JSC) for the updating of the electrified Angren-Pap-Kokand-Andjian railway line in Uzbekistan.  
The line, which runs along the east-west Corridor 2 between China and the Caucasus is connected to the HS line between the capital, Tashkent and the cities of Samarcanda and Bukhara.
- **29 March:** the consortium headed by Italferr with Systra France and Pini Group was awarded works management and high surveillance of two lots on the HS/HC Turin – Lyon section on the Italian side. The contract includes the Susa-Bussoleno tunnel and the international station in Susa.

#### April

- **22 April:** in a consortium with the subsidiary I.E.S. and Signalling Solutions, Trioprojekt and Kosovoprojekt, Italferr was awarded the tender called by the Republic of Serbia's Ministry of Finance for works management on the "*Modernisation and Rehabilitation of the Railway Section Niš-Brestovac*" project financed by the EU. This contract consolidates Italferr's position and strengthens its subsidiary I.E.S.'s foothold in Serbia, as both have already successfully worked on a variety of other projects in the country.



## May

- **13 May:** the consortium headed by Setec, with Systra, Pini Swiss and Italferr was awarded the contract for works management on two lots, as part of the construction of the cross-border section of the HS/HC Turin – Lyon line on the French side.

## August

- **24 August:** Engineering News-Record (ENR) released its new ranking, naming Italferr 144th in the *Top225 International Design Firms*, among global engineering companies ranked by the revenue they generate abroad, and 118th in the *Top150 Global Design Firms* for global revenue. ENR is an authoritative American weekly magazine for the construction, engineering and architecture industry. Its rankings reflect the companies' reputation and quality based on their design services.

## October

- **25 October:** Italferr signed an initial contract with Mobilinx Hurontario Contractor, a joint venture set up by Webuild, Astaldi, Amico and BOT for the design, construction and operation of the Hurontario light rail in Mississauga (Greater Toronto Area), in Canada.  
After the signing of this first contract, additional agreements are now under negotiation for the continuation of operations until July 2025.

## November

- **10 November:** during a workshop held in Adis Abeba, Italferr presented the highlights of the Ethiopia master plan to the main technical and institutional stakeholders. It had prepared the master plan in a joint venture with SPT. The preparation work totalled €1.6 million and took 24 months.

## OTHER EVENTS

### January

- **25 January:** the extraordinary commissioner in charge of the anti-seismic works to secure the A24 and A25 motorways and the extraordinary commissioner in charge of securing the Gran Sasso water system signed a contract with Italferr for the coordination of the technical activities to secure the Gran Sasso tunnel.

### June

- **1 June:** the FS Italiane group's new organisational structure became official with the establishment of four divisions, each responsible for its own business area. Specifically:
  - ✓ Infrastructure (consisting of RFI S.p.A. as division head and its subsidiaries, plus Anas S.p.A., Italferr S.p.A. and the railway infrastructure part of Ferrovie del Sud Est S.r.l.), with the mission of designing, building, operating and maintaining infrastructure networks for railway, road and motorway transport nationally and internationally;
  - ✓ Passenger Transport (with Trenitalia as division head), responsible for the passenger transport sector in Italy and abroad;
  - ✓ Logistics (with Mercitalia Logistics as division head), covering the logistics and freight transport sector in Italy and abroad;
  - ✓ Urban (with FS Sistemi Urbani as division head), handling real estate activities and urban regeneration, intermodal solutions and logistics in urban areas at the first and last mile of the supply chain.

Completing the group structure are the companies that provide shared services (Ferservizi S.p.A., Fercredit S.p.A., Italcertifer S.p.A., FSTechnology S.p.A., FS Security S.p.A. and FS International S.p.A.), that are cross-sectional to all four business segments and contribute to the pursuit of the group's objectives.

In line with its new structure, the group has adopted a governance model consisting of two separate levels of management and coordination:

- ✓ the first level, in which the parent provides strategic guidance and financial support (defining and coordinating the implementation of the group's business model), by managing and coordinating the division heads and the shared service companies;
- ✓ the second level, in which the division heads provide guidance, coordination and technical-operational control (including risk management) over the companies in their division, by managing and coordinating them as owner or on the basis of contracts.

This model is implemented on the basis of:

- ✓ a Group Regulation, which provides for the two aforementioned levels of governance;
- ✓ the adoption of the Group Regulation and respective Division Regulations by the division heads, which have updated their business purposes accordingly;
- ✓ management and coordination agreements which the heads of the group's divisions have signed with the companies in their respective divisions.

## July

- **11 July:** the results of the "Digital Star - Technological Companies" study by Istituto Tedesco Qualità e Finance (ITQF) were released, awarding Italferr in the Engineering, Construction and Infrastructure category with the "DIGITAL STAR 2022/2023" seal and thereby including the company in the ranking of Italy's 300 most digital companies.

## December

- **23 December:** the digital twin of San Peter's Cathedral was presented, developed by Italferr to monitor the building's structure by analysing its reaction to static and dynamic stress for future maintenance.  
Italferr worked on behalf of Fabbrica di San Pietro gathering, with its initial surveys, over 3.1 terabytes of data, which the company harnessed - using its digital know-how - to develop the BIM and the digital twin.  
The objective is to include in the digital twin the data from the sensoring defined in the monitoring project and give Fabbrica di San Pietro a complete picture of the soundness of the cathedral's structures.

## HUMAN RESOURCES

In 2022, the company ramped up efforts to increase the number and quality of its workers in the pursuit of the objectives in the new business plan and in response to market challenges.

The company's total workforce grew by a net 508.

| HDC <sup>1</sup> | 31.12.2022   | 31.12.2021   | Changes    |
|------------------|--------------|--------------|------------|
| Managers         | 72           | 66           | 6          |
| Junior managers  | 711          | 608          | 103        |
| White collars    | 1,825        | 1,388        | 437        |
| <b>Employees</b> | <b>2,608</b> | <b>2,062</b> | <b>546</b> |
| Seconded         | (8)          | (8)          | 0          |
| Temporary staff  | 33           | 71           | (38)       |
| <b>TOTAL</b>     | <b>2,633</b> | <b>2,125</b> | <b>508</b> |

Taking account of the trend in promotions and employee turnover and excluding seconded employees, the company's workforce at the reporting date breaks down as follows:

| Actual HDC <sup>1</sup> | 31.12.2021   | New hires  | Departures   | Hiring of temporary staff | Total changes | 31.12.2022   |
|-------------------------|--------------|------------|--------------|---------------------------|---------------|--------------|
| Employees               | 2,062        | 611        | (161)        | 96                        | 546           | 2,608        |
| Seconded                | (8)          | (2)        | 2            |                           | 0             | (8)          |
| Temporary staff         | 71           | 69         | (11)         | (96)                      | (38)          | 33           |
| <b>Total workforce</b>  | <b>2,125</b> | <b>678</b> | <b>(170)</b> | <b>0</b>                  | <b>508</b>    | <b>2,633</b> |

The average number of employees in 2022 was 2,349, as illustrated in the table below<sup>1</sup>:

| Average HDC     | 2022         | 2021         | Change     |
|-----------------|--------------|--------------|------------|
| Managers        | 66           | 65           | 1          |
| Junior managers | 663          | 596          | 67         |
| White collars   | 1,565        | 1,235        | 330        |
| Seconded        | (9)          | (8)          | (1)        |
| Temporary staff | 64           | 56           | 8          |
| <b>Total</b>    | <b>2,349</b> | <b>1,944</b> | <b>405</b> |

Temporary staff remained a pool for hires on an open-ended basis, in addition to providing flexibility.

### Relationships with trade unions

In 2022, practically no employees abstained from work to participate in strikes.

A few meetings were held with the national trade unions to present the organisational changes and hiring plan and to describe the action plan and progress in the year.

<sup>1</sup> HDT: the number of resources working at the company either full or part time.

## Recruitment, management and development

In 2022, in preparation for the challenges of the business plan and NRRP, the company launched a recruitment crash programme focused in particular on hiring resources to meet the new needs of the line departments. This resulted in 776 new hires (707 candidates recruited on the market or temporary workers hired on a permanent basis and 69 new temporary work contracts).

To facilitate the induction of these new hires, they were immediately introduced to their respective HR business partners and they received onboarding training to learn about the company structures and business processes. In addition, a senior colleague was assigned as a buddy to each new hire.

Furthermore, to protect the company's know-how and keep it highly attractive by developing the skills of people already working at the company, Italferr implemented an extensive plan of raises and promotions and launched three-year stability pacts during the year.

Moreover, in 2022, to encourage "agile working", the work-from-home policy was extended, involving works assistants as well.

## Organisational structure

In 2022, Italferr completely redefined its organisational structure with the adoption of the FS Italiane group's new governance and organisational model. The adoption process consisted of carefully analysing the existing model and gaps in terms of organisation, operations and sustainability considering the characteristics and objectives of the business lines, establishing the consequent customisations. The reorganisation took place in three stages, each in a four-month period of the year, and was formalised with the release of 74 organisational documents.

## Training

In 2022, 2,500 resources were trained, for a total of over 90,000 hours of which more than 65% was for technical and professional training and refresher courses, confirming the company's vocation and investment in lifelong learning. In addition, through training courses, the company's core professionals - e.g., engineers, geologists, architects, project managers, BIM professionals and ERTMS experts - earned credits and national and international certifications.

Italferr also kicked off stage one of the managerial training upgrade to support the management positions that will grapple with growing complexities. This included having the managers participate in group-wide courses.

Lastly, again in 2022, the company continued providing qualified training to the group companies, especially RFI, and to third parties to drive professional growth in the engineering sector.

## Safety training required by Legislative decree no. 81/08

In 2022, the company carried out many compliance activities, which also included organisational changes and the appointment of new prevention and protection officers.

4,590 employees received occupational safety training for a total of 23,294 hours. Most of the trainers were external.

The following mandatory procedures were performed during the year:

- the annual evacuation drills for the first time after a pause due to the pandemic, with the participation of all employees in the offices at the time;
- the regular meetings required by article 35 of Legislative decree no. 81/2008 and the inspections required by article 25 of Legislative decree no. 81/08;

- the medical check-ups as part of the health screening programme, which involved 1,394 employees, in addition to 208 tetanus vaccinations.

In addition to the internal audits at the Rome, Verona and Genoa offices, in early November, the company renewed its ISO 45001:2018 certification with Quaser, an independent certification body which did not report any non-conformities nor any observations of any kind.

## THE ENVIRONMENT

### Sustainability

In line with the FS Italiane group's strategies and the guidelines set out in the EU Green Deal for achievement of the Sustainable Development Goals (SDGs), several years ago, Italferr began integrating sustainability more effectively into its infrastructure projects. This led the company to develop and fine-tune a systematic and multi-disciplinary approach to infrastructure projects in order to identify solutions that protect the environment, use resources efficiently as part of the circular economy, protect and enhance Italy's cultural heritage, landscapes, the environment and biodiversity, build more resilient infrastructure and create new sustainable mobility and value scenarios for the local communities.

To this end, as Italferr is aware of the determinant role that engineering can play in taking tangible actions to help reduce CO<sub>2</sub> emissions, it has, for several years, voluntarily applied the UNI ISO 14064 standard to measure and report on the greenhouse gas emissions of its new transport infrastructure design and construction activities. Its adoption of a carbon footprint measurement model in accordance with the standard is certified by an external body and enables the company to calculate each project's carbon footprint, becoming an effective operating tool that directs designers in the development of design solutions and drives contracting companies to use the most sustainable materials in construction.

In connection with this model, in 2022, the company consolidated its systemic use of the CO<sub>2</sub> rate scale, which was also integrated in the STR Vision 4AS software for an automated inventory of the CO<sub>2</sub> equivalent emissions of materials, transport and processing in the construction of infrastructure. This makes it possible to rapidly assess the impacts of works on climate change. The CO<sub>2</sub> rate scale was certified in accordance with the ISO 14064 standard by the certifying body following the audits of the TEFS "Lot 1b Romagnano - Buonabitacolo of the new HS Salerno Reggio Calabria line".

In the pursuit of virtuous choices for the construction of the infrastructure, the company devoted particular attention to the management and reuse of the excavated earth and rocks to decrease CO<sub>2</sub> emissions, while also preferring deposit areas for the excavation materials that are near railway lines, to reduce traffic at construction sites.

Italferr has adopted the Envision certification protocol, the first rating system and certified holistic sustainability assessment tool that genuinely supports companies, designers, public administrations and residents in design infrastructure.

It has applied the Envision protocol to assess the sustainability of both hub and line infrastructure for the preparation of both the TEFS and the definitive project.

Furthermore, the application of this protocol entailed the preparation of a preliminary assessment to direct decision-makers and engineers towards the most sustainable design choices.

The attention devoted to sustainability issues translates into the ongoing protection of the environment in the construction of the infrastructure and in the monitoring of the relevant environmental components.

Italferr's model complies with the recent guidance issued by the Ministry of Infrastructure and Sustainable Mobility both about the projects in the scope of the NRRP and the public debate.

Therefore, in 2022, in accordance with this guidance, Italferr drafted the "Guidelines for the preparation of the technical and economic feasibility study as the basis for the public contracting of NRRP and Supplementary National Plan works", the sustainability reports for the planned works within the scope of the NRRP to give a clear picture of the infrastructure projects' potential of generating value for the community. These studies and reports measured the sustainability indicators and show the benefits in terms of economic, environmental, social and tourist development of the areas where the works will take place, including by considering the specific characteristics of these areas.

Specific assessments of the environmental objectives set out in Regulation (EU) 2020/852 (the Taxonomy Regulation) were made to ensure application of the Do No Significant Harm (DNSH) principle for the TEFS of the NRRP.

Furthermore, a territorial impact assessment model was developed for the TEFS, to assess the benefits of infrastructure projects in terms of territorial cohesion. This model is based on a set of performance indicators measuring the efficiency, quality and territorial identity (Espoo, 2006) of the objectives laid down in the Europe 2020 strategy (Smart Growth, Sustainable Growth and Inclusive Growth) and the priority objectives of the 2021-2027 Cohesion Policy.

The company worked on structuring a stakeholder engagement process in 2021 to create a broad support network throughout the regions touched by infrastructure projects. In this regard, the company employed a sentiment analysis platform which enables social media monitoring of strategic infrastructure projects.

The platform allows active listening to help gauge opinions. It processes huge quantities of data gathered from online texts (websites, social networks, blogs or forums) and provides an insight into perceptions on key issues of interest to stakeholders.

### **Environmental management system**

The company's focus on the environment, the essence of its sustainable approach to design, means having the contractors adopt specific UNI EN ISO 14001 environmental management systems in the construction of works.

Italferr requires the companies responsible for construction to plan and implement, for the entire duration of the works, an environmental management system for on-site activities that provides the company and environmental protection authorities with objective evidence of the environmental controls performed in the course of the works by the contractors' qualified personnel.

Specifically, the environmental management system requires that, prior to the start of the works, contractors carry out an initial environmental analysis of site activities in the preparation of the environmental plan for the preparation of the construction site. The analysis is meant to identify the significant environmental aspects to be managed during construction and to define the operating procedures for the site's correct environmental monitoring, in accordance with the applicable regulatory requirements.

Italferr constantly checks the actual implementation of environmental management systems by contractors through regular on-site monitoring.

The environmental management system is part of the integrated quality, environment, health and safety management system (ISO 9001, ISO 14001 and ISO 45001), which was successfully certified by the SGS certification body again in 2022.

## CUSTOMERS

For several years, Italferr has been digitalising its processes so that performance meets the expectations of the group companies and its customers. This process is perfectly in line with the FS Italiane group's business plan, in which the digitalisation of processes is a key factor for the improvement of infrastructure.

In accordance with the objectives of the plan, in 2022, the company delivered to RFI a few key projects that apply BIM and began implementing the use of digital twinning to a significant extent, a technique that Italferr has developed on an ad hoc basis as an opportunity to engage local and industry stakeholders and as a strategic tool for authorisation processes.

In addition, the company has launched a series of projects to digitalise and innovate works supervision and management processes so they are more efficient. This has entailed various upgrades for integrated contracts, non-captive contracts and technological projects like the ERTMS.

To improve and diversify the services offered to customers, Italferr has begun developing BIM and digital twin models to use in the monitoring of structures' capacity to respond to static and dynamic stress, as a way of supporting maintenance.

Specifically, in 2022, on behalf of Fabbrica di San Pietro, the company mapped the Vatican cathedral using digital technologies. This mapping, based on over two months of surveys using drones and balloons, 15,000 photographs and more than two months of post-survey processing, resulted in the BIM and digital twin of the cathedral. The data from the sensing defined in the monitoring project will flow into this map for future maintenance.

The digitalisation results achieved confirm Italferr's position as a BIM and digital twin centre of excellence and will be used for a wide array of applications, not only in the monitoring of existing works but in mass transit as well and, in general, over the entire life cycle of infrastructure, from design to maintenance, for overall sustainability.

## THE MACROECONOMIC CONTEXT<sup>1</sup>

After the robust rebound in 2021, the international economy showed signs of a widespread slowdown in major countries. The main factors for this slump in global growth were persistently high inflation and weakening financial conditions, which gradually led to a downturn in consumption and investments. However, the global economic cycle was also penalised by other critical aspects, such as the uncertainty created by the conflict in Ukraine, the weak Chinese economy and supply chain disruptions, which were especially acute in the first half of the year.

The Russian-Ukrainian war that broke out on 24 February 2022 has, in particular, exacerbated the rising inflation trends that began with the cyclical recovery of 2021, after the first year of the pandemic.

The supply of natural gas supply in Europe, which had relied heavily on Russian suppliers, compressed, and the price of natural gas in Europe reached a record-smashing peak of €236/mwh on average in August, before falling back in recent months thanks to exceptionally favourable weather conditions which made it possible to replenish stocks. By late December, the price of natural gas had fallen below the €100/mwh threshold, where it had stood just before the war. Over the past decade, prices had hovered at around €20/mwh<sup>2</sup>.

Even the Brent price rocketed at the start of the Russian invasion in Ukraine, although more modestly due to the greater diversification of procurement sources compared to natural gas. Starting the year at USD70 per barrel, prices then rose to USD130 in the early days of the conflict, before slipping back to under USD80 in December.

<sup>1</sup> Source: Prometeia macroeconomic data, December 2022

<sup>2</sup> On 19 December 2022, the European Union approved a cap on natural gas prices of €180/mwh effective as from 15 February 2023.

Higher energy prices, combined with the limited supply of other commodities and semi-finished products used further down the production process gradually translated into higher consumer prices and, pushed even higher by consumption, inflation continued to rise in 2022, hitting levels not seen for decades. Near the end of the year, while in the US signs indicated that inflation had stabilised, prices appeared to be still climbing in the EU<sup>1</sup>.

The Euro weakened considerably against the US dollar, constituting yet another driver of inflation in Europe in 2022, although the trend seemed to be turning around in the fourth quarter of the year as the single currency recouped some of its losses against the greenback.

The current inflationary spiral, the strongest we have seen since the 1970s, caused central banks to tighten monetary policy. In line with the Fed's stance, starting in July 2022, the ECB approved three interest rate hikes, the last of which in December, and additional increases are expected in 2023.

China's economic slowdown added another dose of complexity to the international scenario. Widespread lockdowns under the country's zero-Covid policy continued in 2022, wreaking havoc on GDP growth and creating supply chain bottlenecks. Although the Chinese authorities announced a less aggressive pandemic containment policy near the end of the year, it does yet seem sufficient to disperse fears of weak growth.

| <b>International trade data</b>        | <b>2021</b> | <b>2022</b> |
|--|-------------|-------------|
| <b>GDP (% change on previous year)</b> |             |             |
| <b>World</b>                           | <b>6.3</b>  | <b>3</b>    |
| <b>Advanced countries</b>              | <b>5.2</b>  | <b>2.6</b>  |
| US                                     | 5.9         | 2           |
| Japan                                  | 1.7         | 1.2         |
| Eurozone                               | 5.3         | 3.4         |
| <b>Emerging countries</b>              | <b>6.9</b>  | <b>3.1</b>  |
| China                                  | 8.1         | 3.3         |
| India                                  | 8.3         | 6.7         |
| Latin America                          | 6.3         | 2.4         |
| <b>Oil (USD per barrel)</b>            | <b>70.8</b> | <b>99.3</b> |
| <b>International trade</b>             | <b>9.5</b>  | <b>3.5</b>  |

*Source: Prometeia, December 2022*

In this context, according to Prometeia estimates, growth in global GDP and trade respectively came to +3.0% and +3.5% in 2022, down sharply on 2021.

Growth projections for 2023 suggest another sharp decline in the global GDP growth rate (+1.8%), with industrialised nations slowing the most (+0.3%), alongside emerging countries (+2.8).

In the United States, after two consecutive quarters of decline, GDP sped up in the third quarter thanks to exports, while household consumption gradually slowed as inflation eroded purchasing power. A few economic indicators like the manufacturing PMI<sup>2</sup> and consumer confidence are down, but price trends are positive, as, according to the most recent data, they are stabilising, thanks in part to the drop in energy prices. Conditions on the job market are less reassuring; the Fed does not believe that the growth in hourly wages is consistent with target inflation.

<sup>1</sup> According to the most recent Prometeia estimates, in 2022, the harmonised index of consumer prices (HICP) for the Eurozone showed inflation of 8.6% while the HICP for the US showed price increases of 8.0%.

<sup>2</sup> The composite Purchasing Managers Index is an indicator of the health of manufacturing in a country.



In Japan, domestic demand remained stable and only partly offset the negative contribution of net exports, which, despite the heavy depreciation of yen, struggled especially in Asia, where China significantly scaled back demand. PMIs and industrial production declined near the end of the year, highlighting the weak economic situation, despite the Bank of Japan's extremely expansionary monetary policy.

In China, the economic slowdown was evident especially in the second quarter of the year, and was mainly caused by the zero-Covid lockdowns in populous areas of the countries that are crucial for logistics and local production sites. Weak domestic demand reflected on imports, with real imports down in 2022, contributing to the weakening of international trade. PMIs confirm a negative outlook in the months ahead and the risk of another wave of infections remains, in China as in the rest of the world. At the tail-end of the year, following a backlash of protests and uprisings, the Chinese authorities announced the easing of the anti-Covid policy, while vaccines might cover only a small part of the population or be ineffective.

The Eurozone enjoyed a positive economic cycle in the first six months of the year, which remained sound in the third quarter despite the continuous significant increases in prices as a result of the energy crisis. This strong performance was mostly attributable to household spending, as consumers jumped at the opportunity to go out and travel after nearly all the pandemic restrictions had been lifted. A sharp decrease could be seen across all major European countries in construction, probably due to the shortages of materials and lack of skilled labour.

The comparison of European countries shows the growth in economic activity in Italy (+3.9%) exceeding that of France (2.6%), Germany (1.9%) and the EU average (3.4%), but coming in second to Spain (+4.6%).

Inflation in the Eurozone was 8.6%, up dramatically on 2021.

| (% change on previous year) | 2021       | 2022       | 2021       | 2022       |
|-----------------------------|------------|------------|------------|------------|
|                             | GDP        |            | Inflation  |            |
| <b>Eurozone</b>             | <b>5.3</b> | <b>3.4</b> | <b>2.6</b> | <b>8.6</b> |
| Germany                     | 2.9        | 1.9        | 3.2        | 8.9        |
| France                      | 6.8        | 2.6        | 2.1        | 5.9        |
| Italy                       | 6.7        | 3.9        | 1.9        | 8.1*       |
| Spain                       | 5.5        | 4.6        | 3          | 8.3        |

Source: Prometeia, December 2022

\*source ISTAT, January 2023

Economic growth in Italy in 2022 far surpassed the forecasts released in the spring after the Russian invasion of Ukraine. The main driver was domestic demand, which surged as a reflection of robust household spending and the positive contribution of capital expenditure. Construction, on the other hand, fell back after six consecutive quarters of strong growth. Foreign demand also contracted in the wake of dynamic imports and weak exports, particularly services.

On the supply side, the growth was almost exclusively due to trade and hospitality and catering services, while manufacturing began to grow sluggish.

In 2022, Italian GDP growth came to 3.9% on the previous year. The consumer price index for all of Italy showed growth of 8.1% on 2021.

| (% change on previous quarter)                            | 2022 |      |      |      |
|---|------|------|------|------|
|   | Q1   | Q2   | Q3   | Q4   |
| <b>2022 GDP and main components</b>                       |      |      |      |      |
| <b>GDP</b>  | 0.2  | 1.1  | 0.5  | 0    |
| <b>Domestic demand</b>                                    | -0.3 | 1.1  | 1.8  | -0.3 |
| <b>Spending by households and private not-for-profits</b> | -1.2 | 2.5  | 2.5  | -0.6 |
| <b>Public administration spending</b>                     | 0.6  | -1.2 | -0.2 | 0    |
| <b>Gross fixed investments</b>                            | 3.8  | 1.5  | 0.8  | -1   |
| - construction  | 4.6  | 0.8  | -1.3 | -0.3 |
| - other durable goods                                     | 3.1  | 2.2  | 2.9  | -1.1 |
| <b>Exports of goods and services</b>                      | 5.2  | 2.1  | 0.1  | -0.6 |
| <b>Imports of goods and services</b>                      | 3.8  | 2.1  | 4.2  | -1.5 |

Source: Prometeia, December 2022

## MARKET PERFORMANCE

### Italy

The construction market surged in 2022 thanks to government programmes financed by EU funds (NRRP) and dedicated MIMS funds (National Supplementary Fund).

In particular, these programmes provided for a total of €31.5 billion in investments for infrastructure in sustainable mobility, allocated to HS/HC rails, safe roads and underground rails.

### Europe

Europe remains a growing economic area characterised by countries whose risk rating is low or medium-low (six of the 10 safest countries in the world are European) and that easily attract investments and business prospects (seven of the 10 top countries in the world are European).

There are many, extensive customer plans and financed projects in the transport sector, particularly railway transport.

The European market was heavily affected by Covid-19, with a drop in GDP across the continent. However, the EU and its member states were able to contain the effects of the pandemic by taking decisive action.

The European Community launched NextGenerationEU, a sizeable investment package of €806.9 billion to help repair the damage to the economy caused by the pandemic. The aim is to make Europe greener and more digital.

Through the Recovery and Resilience Facility of NextGenerationEU, the European Community has allocated substantial investments to the member states for the transport sector, assigning the funds to 140 key projects, including 55 railway projects, such as the Rail Baltica TEN-T project (850 km of new HS line to connect the Baltic countries of Estonia, Latvia, Lithuania to the rest of the European continent) for which Italferr is currently developing two major contracts consisting of the design, procurement support and works supervision for the energy and signalling subsystems.

### North America

#### US

The effects of the infrastructure bill allocating USD1,200 billion to rebuild key infrastructure and finance new climate resilience and broadband projects are beginning to be seen in the country, attracting increasingly bigger industrial players. Planned investments in the transport sector include:

- upgrading American roads and bridges for USD115 billion;
- modernising public transit for USD105 billion, USD85 billion of which to upgrade existing fleets and create new transit agencies to service peaks in future demand for public transit;
- building new passenger and freight railways or updating existing lines for about USD80 billion, with a special focus on the Amtrack network, the US company that manages the national passenger railways, building new or upgraded railway corridors (especially the NEC - North East Corridor) and measures to improve safety levels.

## Canada

Thanks to the considerable federal funds earmarked to extend and upgrade its passenger transit systems, especially in the mass transit sector, Canada presents interesting opportunities with projects already under way or in the procurement stage worth more than CAD70 billion (approximately €50 billion) in all its main urban areas (Vancouver in British Columbia, Calgary and Edmonton in Alberta, Montreal and Quebec City in Quebec and, especially, Toronto in Ontario). In addition, a new high frequency rail connection is planned between Quebec City and Toronto.

## Latin America

The Latin American recovery plan is still incomplete and inconsistent, more extensive in countries with stronger institutions and more tax leverage, like Chile, Colombia and Brazil. Indeed, the Brazilian government has announced investments of BRL133 billion – the equivalent of just under €54 billion - and new railway and motorway concessions in the next 25 years.

## Middle East

The easing of Covid-19 restrictions and rise in hydrocarbon prices have started to re-energise a market that had been lethargic for many years. The ending of the embargo on Qatar triggered a vigorous recommencement of investment plans by many states, including the United Arab Emirates, Bahrain and, especially, Saudi Arabia.

Indeed, Saudi Arabia is continuing its updating process, which has entailed massive investments in infrastructure for the modernisation of the country unavoidable, in line with the objectives outlined in "Vision 2030", the plan that calls on all major players to design and build the infrastructure. Initiatives like NEOM (the smart city designed to evolve without harming the planet) are bright examples of the general technological and specific railway innovation in progress.

## Central Asia

The consequences of the serious political tension and social inequality in this region are provoking internal turmoil and cross-border conflicts and scuppering the possibility of recovery as the pandemic restrictions are relaxed. In particular, on 6 July 2022, the EU and Uzbekistan signed the new EPCA (Enhanced Partnership and Cooperation Agreement), which will create a new, modern and ambitious framework to strengthen their commercial, technical and energy partnership with specific regard to sustainability and the green transition.

The conflict between Russia and Ukraine is progressively reshaping Central Asian alliances with Russia, as the central republics distance themselves. In this context, the EU is stepping in to reinforce the pacts in place, driving updated and strengthened infrastructural investment plans.

## India

The infrastructure sector is a key factor in the Indian economy and, indeed, the local government puts significant emphasis on this sector as a crucial lever for the country's overall growth and seeks to ensure that adequate infrastructure is built on schedule.

For 2018-2030, the Indian government has planned investments in railway infrastructure of €750 billion. Despite the difficulties that all countries have faced and are facing in putting the pandemic behind them, the Indian infrastructure sector has seen considerable growth, becoming a significant driver of India's economic activity.

Indeed, the Indian market has confirmed the main customers' plans thanks to a solid financing system supported by several sources of financing, including premier international and regional investment banks.

Although the country's operational complexities have not diminished, investment plans for the Indian railways have moved forward, and with them the planned infrastructural developments. The growth rate of the Indian economy remains one of the highest in the world, as much in railway as in mass transit, freight transport and even roads.

## Australia and Far East

**Far East countries** continue to promote projects linked to the Belt and Road Initiative but they come with high risks of interruptions in the financing due to the pandemic.

On the other hand, on the back of the growing economic and commercial integration of its Indo-Pacific region, strengthened by the signing of the Trans Pacific Partnership agreements, **Australia** continues to roll out large investment programmes for the infrastructure and transport sectors.

In mid-2022, federal elections were held with a change of party in the executive branch. The new prime minister, in keeping with his track record, continues to support, reinforce and promote investment plans at local level in infrastructure and, in particular, the transport sector. In addition, the arrival of the new prime minister has opened back up the possibility of a HS railway network connecting Australia's main cities, establishing a dedicated authority that will handle the updating of studies commenced in the 1980s and the subsequent implementation of the projects.

In addition, the Australian states have substantial investment plans for local transport, to connect the suburbs of major cities with the urban centres where production and business are concentrated.

Generating another positive effect, the preparations for the 2032 Brisbane Olympics are beginning, with progressively larger investments.

## Africa

The African continent is compensating the negative effects of the pandemic with higher commodities prices and this has enabled it to resume direct investments in mining and the related infrastructure (rails and ports). Compounding this, inflation began rising in the last few months of 2022.

The macro trends show a deceleration in Chinese investments and an upturn in initiatives funded by the multilateral banks, such as Asian Development Bank, World Bank, European Bank for Reconstruction and Development and the European Investment Bank, as well as directly by the industrialised countries, like those in Europe and Canada, which offer a higher degree of certainty for the performance of services and works.

Given the continent's vast size and its heterogeneous geographic, demographic and economic conditions, Africa presents certain areas with significant political instability and other areas where the development process is picking up speed with the implementation of HS corridors or requests for transport surveys and master plans for future projects.

## Performance by business segment

### Intragroup

In Italy, Italferr mainly operates with the FS Italiane group companies. In 2022, it signed contracts with them for a total of €504 million, including €487 million with RFI (roughly 96.6% of total contracts).

The significant value of the contracts with RFI was mostly due to those for checks of executive designs and the performance of works management on Lot 3a of the Trento bypass as part of the project to lay quadruple tracks on the Franzensfeste - Verona railway line (€35 million), Lots 2 and 3 of the Termoli - Ripalta line as part of the laying of double tracks on the Pescara - Bari railway line (€24 million) and Lots 4b and 5 of the new Palermo - Catania - Messina connection (€24 and €21 million, respectively).

In addition to the contracts to check executive designs and perform works management, in 2022, RFI awarded Italferr the contracts to develop the base project for the works under the "ERTMS development and implementation plan for the Italian railway network" (€36 million), the definitive project to complete and lay double tracks on the Andora - Finale Ligure section of the Genoa-Ventimiglia line (€12 million), the technical and economic feasibility study for the laying of double tracks on the 228 Castelplanio control line with Albacina bypass (€11 million) and Lot 0 Salerno - Battipaglia of the new HS/HC Salerno

- Reggio Calabria line (€7 million) and the “enhanced” technical and economic feasibility study for Lot 1a Battipaglia - Romagnano (€5 million).

Furthermore, in 2022, Italferr received a contract from a new customer, Metropark, to design upgrades for compliance with regulations and to develop FS Sistemi Urbani’s new sites leased to Metropark (€4 million). This contract will see Italferr involved until 2030 in the executive design and support for the completion of the authorisation procedures.

The table below shows the value of contracts acquired in the year, broken down by customer and service type.

(in millions of Euros)

| Customer             | Service type |            |                  | Total      | % of total    |
|----------------------|--------------|------------|------------------|------------|---------------|
|                      | Consultancy  | Design     | Works management |            |               |
| RFI                  | 54           | 206        | 227              | 487        | 96.6%         |
| Ferrovie del Sud Est | 1            | 4          | 3                | 8          | 1.6%          |
| Trenitalia           |              | 1          | 1                | 2          | 0.5%          |
| Sistemi Urbani       | 1            |            |                  | 1          | 0.2%          |
| Trenord              |              | 1          | 1                | 2          | 0.4%          |
| Metropark            |              | 4          |                  | 4          | 0.7%          |
| <b>Total</b>         | <b>56</b>    | <b>216</b> | <b>232</b>       | <b>504</b> | <b>100.0%</b> |

At year end, the contract backlog amounts to €1,477 million.

Furthermore, at year end, negotiations are underway for additional contracts worth a total of €93 million. The contractual documentation for these projects has already been sent to customers.

The bids that Italferr has submitted, which should lead to the execution of contracts in 2023, are detailed by customer and service type in the table below:

(in millions of Euros)

| Customer     | Service type |             |                  | Total        |
|--------------|--------------|-------------|------------------|--------------|
|              | Consultancy  | Design      | Works management |              |
| RFI          | 32.3         | 63.8        | 125.8            | 221.9        |
| Trenitalia   |              | 0.3         | 3.0              | 3.3          |
| Ferservizi   | 0.1          |             |                  | 0.1          |
| Trenord      |              | 0.1         |                  | 0.1          |
| <b>Total</b> | <b>32.4</b>  | <b>64.2</b> | <b>128.8</b>     | <b>225.4</b> |

## The market

On the non-captive **Italian market**, Italferr continued to diversify its business, increasingly focusing on urban and metropolitan public transport projects, large railway projects and its entrance into new markets.

During the year, the company drew up designs for urban public transport projects that were awarded in 2021, including the Genoa underground and the Bergamo trolleybus line.

In addition to focusing on the local public transport market, Italferr deepened its commitment on cross-border projects with additional implementation orders relating to TELT contracts for the Turin-Lyon line on both the French and Italian sides.

In early 2022, the company completed its technical management support and the feasibility study on the A24 and A25 motorway and was awarded the contract to build the smart road under the A24 concession. Furthermore, it delivered the design for “Seismic upgrades on 15 viaducts and the Colledara exit” and the TEFS for the upgrade of the Gran Sasso water system.

In **Europe**, efforts continued to enter the highly competitive Nordic and British markets.

In the Baltic states, the company continued its PMC activities on the energy subsystem for the entire "Rail Baltica", a HS railway line that extends for 870 km, which will connect **Estonia, Latvia** and **Lithuania** and, recently, its PMC work on the command and control / ERTMS subsystem for the entire network.

In the **UK**, Italferr collaborated on the preparation of a bid for the Design Delivery Partner tender for the HS2 line and, supporting a team of top international contractors, the Design & Build tender for the same line. Both bids were submitted in 2022 and the firms are awaiting the results.

In the **Balkans**, Italferr completed the "Design Review Unique Dispatch Centre for Railway Traffic Management of Serbian Networks", continues to provide works supervision services on the Stara Pazova-Novi Sad section of the line and, in 2022, was awarded works supervision on the Nis-Brestovac section.

In the **US**, Italferr participated in the DBFOM Track and Systems tender for the California HS rail, but the authority cancelled the tender at year end. At the same time, activities continued on the project for the HS Houston – Dallas line in Texas, but the project is still on stand-by in connection with the close of the financing.

In **Canada**, following the work in the past two years, Italferr began initial operations in the country for the Mobilinx consortium to build the Hurontario trolley car line (Toronto). At the same time, the tender activities were completed on the Ontario Line underground with the awarding of the RSSOM project, for which Italferr will provide design and advisory services starting in 2023.

In **Latin America**, Italferr continued its only Colombian project for the first underground line in Bogotá. With local and international financing, it has explored opportunities for additional projects in Colombia and analysed developments in the Brazilian market.

In the **Middle East**, Italferr is focused on the Saudi market, having won contracts for the futuristic NEOM project to build a new, resilient and sustainable city. It has also designed projects for bids for constructors.

The **Indian market** remains a top priority for the company in terms of production and, through the offices in New Delhi and Mumbai, continued working on projects (mainly PMC) that it had acquired in previous years. In recent years in India, the pandemic had substantially increased the cost of labour for international experts, and it has not fallen back to pre-pandemic levels. Available experts are also much more difficult to find.

In **Central Asia**, Italferr was active on the Uzbek market where it was awarded the PMC contract with the Uzbek railways (financed by ADB) to update the Angren-Pap-Kokand-Andijan section, and it signed the contract and started performance in the first quarter of 2022, thereby consolidating its position in this country.

In **Australia**, Italferr completed the project for the bid as designer by a group of contractors in a PPP tender for the section of the line from Gowrie to Kagaru (126 km) which was awarded the contract for performance of the works.

The detailed design stage is currently in progress.

Overall, new orders in 2022 totalled €32.9 million and the non-captive contract backlog amounts to €63.9 million at year end (including €61.3 million in foreign contracts).

### **Performance of main competitors**

At the end of the first quarter of 2022, the priorities of companies operating in the global engineering market and those of their customers shifted, as certain sectors surged and others fell into a slump.












The reason for this change lies in the different ways in which the various countries around the world have responded to the global climate crisis, inflation and the economic effects of the conflict between Russia and Ukraine, and which consisted of boosting investments in infrastructure as a lever to drive the economic recovery and a more sustainable future.

The governments' responses have been, in the US, the Infrastructure Investment and Jobs Act, with a USD1,200 billion price tag, in China, a USD1,100 billion plan to stimulate the economy, in Saudi Arabia, Vision 2030 and in Europe, the NEXT Generation EU, worth USD800 billion.

These initiatives have had a positive effect on the engineering services market. According to the 2022 ranking by the US magazine *ENR Engineering News-Record*, the percentage of engineering firms posting profits is up by 89.4% and 66.4% of these generated more revenue abroad than in 2020.

The global engineering service market consists of large, mostly Anglo-Saxon, multi-national players, whereas the Italian market is still dominated by medium-small companies. In this context, Italferr is making its way, having reached first place in Guamari's 2022 ranking of the top 200 engineering companies operating in Italy (the chart below shows the highlights of the top 15), 29th in Europe and 144th in the world.



| 2022 ranking | 2021 ranking | Company   | 2021 revenue (€ millions) |
|--------------|--------------|---|---------------------------|
| 1            | 2            |  <b>ITALFERR</b><br>GRUPPO FERROVIE DELLO STATO ITALIANO | 269                       |
| 2            | 1            |  <b>RINA</b>   | 129                       |
| 3            | 3            |  <b>eni progetti</b>                                     | 120                       |
| 4            | 4            | <b>ITALCONSULT</b>  | 113                       |
| 5            |              |  <b>aceq</b><br>Ingegneria e servizi                     | 112                       |
| 6            | 129          |  <b>TECNE</b>  | 94                        |
| 7            | 5            |  <b>PROGER</b>   | 89                        |
| 8            | 7            | <b>SINA</b>   | 89                        |
| 9            | 6            | <b>DBA GROUP</b>  | 80                        |
| 10           | 9            |  <b>SIPAL</b><br>Your global engineering partner       | 52                        |
| 11           | 11           |  <b>AGRICONSULTING</b>                                 | 46                        |
| 12           | 10           | <b>Jacobs</b>   | 42                        |
| 13           | 16           |  <b>MM</b><br>Your engineering partner                 | 39                        |
| 14           | 17           |  <b>FSM</b><br>ingegneria                              | 37                        |
| 15           | 14           |  <b>Manens-Tifs</b>                                    | 37                        |

## FINANCIAL POSITION AND PERFORMANCE

For the purposes of describing its financial position and performance, the company prepared reclassified financial statements in addition to those required by the IFRS adopted by the FS Italiane group (as detailed in the notes). The reclassified financial statements comprise alternative performance indicators which differ from those directly derived from the financial statements and which management deems useful in monitoring the company's performance and in presenting the financial results of the business. Reference should be made to the section "Key and glossary" for a description of the methods used to calculate these indicators.

### Reclassified income statement

| (€'000)  | 2022             | 2021             | Changes         |            |
|--|------------------|------------------|-----------------|------------|
|  |                  |                  | Amount          | %          |
| Revenue from engineering services                | 335,838          | 268,702          | 67,136          | 25%        |
| Other revenue                                    | 473              | 283              | 190             | 67%        |
| <b>Revenue and income</b>                        | <b>336,311</b>   | <b>268,985</b>   | <b>67,326</b>   | <b>25%</b> |
| <b>Operating costs</b>                           | <b>(247,923)</b> | <b>(199,105)</b> | <b>(48,818)</b> | <b>25%</b> |
| Personnel expense                                | (139,915)        | (121,239)        | (18,676)        | 15%        |
| Raw materials                                    | (417)            | (344)            | (73)            | 21%        |
| Services   | (99,158)         | (72,331)         | (26,827)        | 37%        |
| Other costs                                      | (8,433)          | (5,191)          | (3,242)         | 62%        |
| <b>Gross operating profit</b>                    | <b>88,388</b>    | <b>69,880</b>    | <b>18,508</b>   | <b>26%</b> |
| Amortisation, depreciation and impairment losses | (6,874)          | (5,385)          | (1,489)         | 28%        |
| <b>Operating profit</b>                          | <b>81,514</b>    | <b>64,495</b>    | <b>17,019</b>   | <b>26%</b> |
| Net financial income (expense)                   | (1,101)          | 1,039            | (2,140)         | >200%      |
| Income taxes                                     | (23,966)         | (20,404)         | (3,562)         | 17%        |
| <b>Profit for the year</b>                       | <b>56,447</b>    | <b>45,130</b>    | <b>11,317</b>   | <b>25%</b> |

With the deployment of the NRRP investments, 2022 was undoubtedly a year of change: investments in infrastructure resumed, ushering in growth in demand for engineering services by Italferr's customers, particularly RFI. The year saw a rise in designs to be submitted for tenders, which boosted revenue on the previous year (+25%), even slightly over the budget forecast (+3%).

The company had planned to significantly expand its workforce in order to keep pace with the government's investment programme. However, despite achieving the net increase of 508 in the number of employees between the start of 2022 and the year end, Italferr fell short of its initial growth target in the budget, mostly because the labour market in the infrastructure and construction sector is saturated due to the government incentives that have boosted production.

Therefore, to meet its own production targets, Italferr had to boost internal productivity above budget forecasts.

In addition to this, the renewal of the national collective bargaining agreement for the railway sector signed on 22 March 2022 established lower costs for the collective interim pay guarantee than the company had estimated, benefiting personnel expense, which, along with the increased productivity and higher value of works on which Italferr's service considerations are based, influenced the average profitability of contracts in the year, translating into a considerable improvement.

The above-described trend in revenue and costs explains the company's higher operating profit for the year.

Net financial expense, despite having worsened mainly due to the unrealised financial expense of post-employment benefits and right-of-use assets as interest rates rose, only had a limited impact on the pre-tax profit.

Specifically, **revenue from engineering services** may be broken down as follows by customer and geographical segment:

| (€'000)                                  | 2022           |             | 2021           |             | Changes       |            |
|--|----------------|-------------|----------------|-------------|---------------|------------|
|  | Amount         | % of total  | Amount         | % of total  | Amount        | % of total |
| RFI                                      | 301,529        | 90%         | 238,392        | 89%         | 63,137        | 26%        |
| Other group companies                    | 9,772          | 3%          | 10,584         | 4%          | (812)         | -8%        |
| Other Italian customers                  | 4,578          | 1%          | 3,940          | 1%          | 638           | 16%        |
| <b>Total Italy</b>                       | <b>315,879</b> | <b>94%</b>  | <b>252,916</b> | <b>94%</b>  | <b>62,963</b> | <b>25%</b> |
| EU countries                             | 1,537          | 0%          | 806            | 0%          | 731           | 91%        |
| Non-EU countries                         | 18,422         | 5%          | 14,980         | 6%          | 3,442         | 23%        |
| <b>Total abroad</b>                      | <b>19,959</b>  | <b>6%</b>   | <b>15,786</b>  | <b>6%</b>   | <b>4,173</b>  | <b>26%</b> |
| <b>Revenue from engineering services</b> | <b>335,838</b> | <b>100%</b> | <b>268,702</b> | <b>100%</b> | <b>67,136</b> | <b>25%</b> |

In terms of costs, **personnel expense** grew by 15% on the previous year, entirely because of the larger workforce (+408 average FTEs), since the average per capita cost led to savings compared to the previous year as a result of the different mix of resources and the national collective bargaining agreement renewal.

**Services**, up by a total of €26,827 thousand (+37%) on 2021, were affected by the rise in outsourced engineering services (+€18,269 thousand, +45%), the increase in travel and accommodation (+€2,036 thousand, +59%) as the Covid-19 restrictions were lifted and the growth in ICT and facilities costs (+€2,410 thousand and +€1,830 thousand, respectively) following the rise in ongoing services and spaces managed for the larger workforce.

**Other operating costs** were negatively impacted by the fact that, based on the expected trend of contracts showing losses, the company recognised a provision for contractual risks of €5,456 thousand (+€2,045 thousand on 2021) and that, due to the growth in the workforce, the contribution paid to Trenitalia for free employee transport was €951 thousand higher than in 2021.

Amortisation and depreciation increased due to the purchase of IT equipment (laptops and notebooks) for new hires and to the right-of-use assets mainly consisting of the new Rome office.

### Reclassified statement of financial position

At year end, the company's financial position included a significant increase in net operating working capital due to greater progress on design activities than the related payments on account. This is because Italferr cannot contractually invoice the balance for the design services until a significant percentage of plans have been delivered, despite the fact that production is linear.

The company's statement of financial position at 31 December 2022 is as follows:

| (€'000)  | 31.12.2022      | 31.12.2021      | Changes       |                 |
|--|-----------------|-----------------|---------------|-----------------|
|  |                 |                 | Amount        | %               |
| Net operating working capital                        | 181,584         | 137,901         | 43,683        | 32%             |
| Other assets, net                                    | (28,972)        | (28,576)        | (396)         | 1%              |
| <b>Net working capital</b>                           | <b>152,612</b>  | <b>109,325</b>  | <b>43,287</b> | <b>40%</b>      |
| Non-current assets                                   | 37,566          | 32,657          | 4,909         | 15%             |
| Equity investments                                   | 18,652          | 18,652          | 0             | 0%              |
| <b>Net non-current assets</b>                        | <b>56,218</b>   | <b>51,309</b>   | <b>4,909</b>  | <b>10%</b>      |
| Post-employment benefits                             | (13,448)        | (16,363)        | 2,915         | -18%            |
| Other provisions                                     | (29,996)        | (28,195)        | (1,801)       | 6%              |
| <b>Post-employment benefits and other provisions</b> | <b>(43,444)</b> | <b>(44,558)</b> | <b>1,114</b>  | <b>-3%</b>      |
| <b>NET INVESTED CAPITAL</b>                          | <b>165,386</b>  | <b>116,076</b>  | <b>49,310</b> | <b>42%</b>      |
| Current net financial (position) debt                | 15,588          | (17,978)        | 33,566        | -187%           |
| Non-current net financial debt                       | 19,611          | 16,310          | 3,301         | 20%             |
| <b>Net financial (position) debt</b>                 | <b>35,199</b>   | <b>(1,668)</b>  | <b>36,867</b> | <b>&gt;200%</b> |
| <b>Equity</b>  | <b>130,187</b>  | <b>117,744</b>  | <b>12,443</b> | <b>11%</b>      |
| <b>TOTAL COVERAGE</b>                                | <b>165,386</b>  | <b>116,076</b>  | <b>49,310</b> | <b>42%</b>      |

With the growth in net operating working capital at year end, the company's net financial debt totalled €35,199 thousand, compared to a net financial position at the previous year end. However, over half of the debt is non-current and, overall, the debt/equity ratio is 27%, far below the threshold for concern.

## RISK FACTORS

- **Environmental/context risks:** these are external risks the occurrence of which is beyond the company's control, although they could compromise its ability to achieve objectives. They include risks relating to a country's macroeconomic and socio-political trends.

Italferr's main environmental/context risks relate to those arising from the political, economic and social context in the countries (i.e., "country risk") where it operates.

On one hand, country risk derives from the possible suspension of operations abroad, with repercussions on the profitability of contracts and the recoverability of credit, while on the other, it could expose employees to the risk of war/unrest or health risks.

With respect to the former, the company is taking action in line with the geographical de-risking guidelines issued by the parent, which define the target markets and countries. Accordingly, Italferr's policy is to focus on the European countries that, as illustrated in the earlier paragraph on market performance, are the safest in the world and very attractive for business, as well as on advanced economies like Australia and Canada, without overlooking countries undergoing dramatic economic expansion with adequate financing plans, such as India.

In this context, Italferr has accelerated its activities given the proliferation of geopolitical tensions around the world and the pandemic's negative effects on the economies of the African and Latin American countries.

Moreover, the services that Italferr offers do not entail fixed investments in the countries where its customers are based: even when local legislation requires a permanent establishment, the company's policy is to use flexible legal/tax structures that enable it to meet local requirements in the short term and up to the date of contract completion.

Environmental/context risks include the ongoing Russian-Ukrainian conflict, which requires careful analysis as various risk factors are rising to the fore, particularly risks related to commodities and energy prices and those created by the restrictions on financial and cooperation agreements.

However, the company does not operate directly in the countries involved in the conflict.

Considering that the company mainly operates in Italy and the above critical factors in relation to its foreign operations, Italferr has used these criteria to assemble a backlog mainly in countries/geographical segments that combine significant business opportunities with country risk that is below the alert thresholds, as illustrated in the map below.

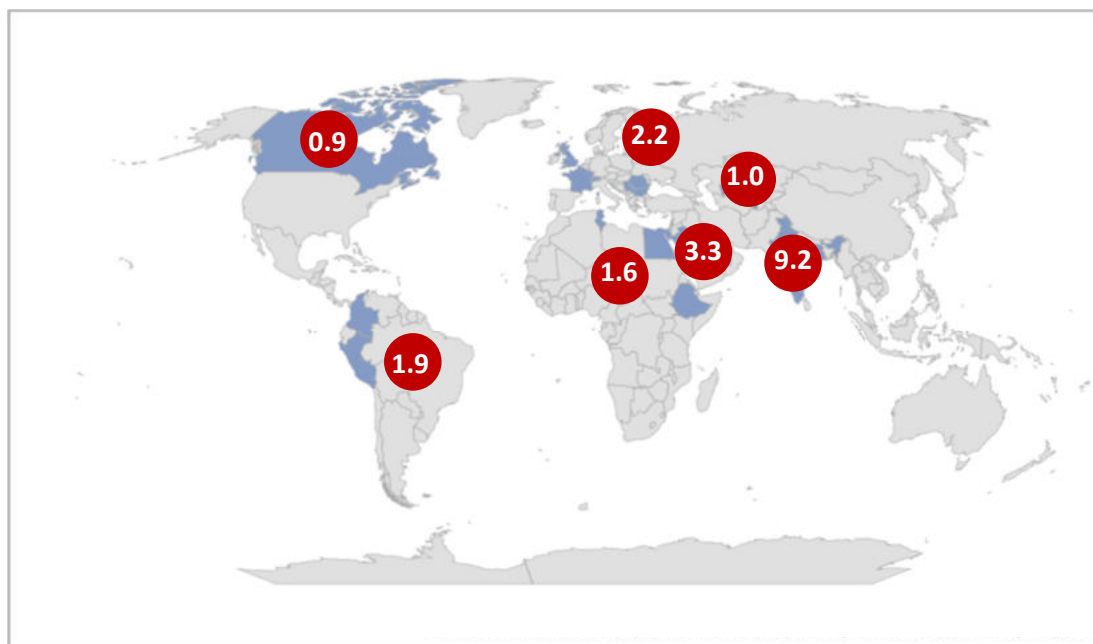
*millions of Euros*

| Area          | Backlog      | % of total  | Political risk <sup>1</sup> |
|---------------|--------------|-------------|-----------------------------|
| India         | 27.00        | 44%         | 44/100                      |
| Europe        | 19.20        | 31%         | 20/100                      |
| Latin America | 9.80         | 16%         | 47/100                      |
| Central Asia  | 2.70         | 4%          | 55/100                      |
| Africa        | 1.70         | 3%          | 74/100                      |
| Middle East   | 0.50         | 1%          | 26/100                      |
| North America | 0.40         | 1%          | 1/100                       |
| <b>Total</b>  | <b>61.30</b> | <b>100%</b> | <b>38/100</b>               |

For the sake of providing complete information, Italferr's revenue generated abroad of €20.6 million is broken down by geographical segment below.

<sup>1</sup> Weighted average of the political risk indicators of the countries where Italferr operates, published by SACE (country risk map)

millions of Euros



To protect its employees' health and safety, some years ago, Italferr signed an agreement with International SOS, a global leader in assistance and healthcare emergency services and security services to better protect employees assigned to international projects in places with complex geopolitical situations.

Since 2020, the services in the contract have included access to a specific Covid-19 section on the International SOS website.

- **Strategic risks:** these are the risks arising from management's business and organisational decisions which could compromise company performance. They include risks related to the business model or organisational model that Italferr uses to operate, inefficient management of the order backlog or risks relating to key counterparties. Italferr establishes its strategies in accordance with the group guidelines and coordination and on the basis of a preliminary assessment of the decisions that it could make to weigh the risks and opportunities.

- **Operational risks:** Italferr is exposed to operational risks due to the type of business that it conducts, including, in particular, those related to design and works management/high surveillance activities (risks of accidents, fire, damage to third parties during the performance of work, environmental risks, etc.). To contain these risks, the company follows procedures and provides information and training in accordance with its legal obligations and to maintain specific certifications. It has also adopted the group risk management framework within the larger internal control and risk management system (ICRMS), in line with national and international best practices.

Considering Italferr's significant commitment in connection with the NRRP investment programme, the company applied the specific project risk management model to NRRP projects in 2022. It had developed this model in 2021 with FS Italiane S.p.A. and RFI.

The risk analysis under the new model requires limited time and resources (one analyst and about 300 hours of work per year per project).

Furthermore, during the year, it finalised the immediate output risk analysis model - referred to as Project MARIO - which the risk managers can independently use. It is based on qualitative assessments of the information that project managers already have.

- **Legal and compliance risks:** these risks relate to the handling of legal matters or compliance with laws and regulations, including any risks arising from potential fraud, whether within the company or outside of it, and, in

general, risks arising from non-compliance with the procedures and policies that the company has established to govern the work of its structures.

Armed with the knowledge that an adequate governance structure is crucial to achieve short- and long-term strategic objectives, in 2021, the company introduced a single anti-corruption framework, consisting of the 231 model, which it supplemented on a voluntary basis with an anti-bribery & corruption management system (the "ABC system") to reinforce its internal anti-corruption controls, already embedded in the 231 model, thus extending its scope.

After year end, the board of directors revisited the model to implement the following changes:

- introduction of certain updates and new legislation relating to the types of predicate crimes within the scope of Legislative decree no. 231/2001;
- changes to some of the departments and organisational units;
- updates of company documents.

During the year, Italferr's supervisory body held periodic meetings on matters for which it is responsible and did not report any significant critical issues arising from its checks to the board of directors.

In 2020, Italferr set up a specific compliance unit to support business decisions through a preventive analysis of legal compliance and the reputation of third parties engaged with the company for commercial initiatives, partnerships and strategic and marketing projects.

As for the legal risks relating to the dissemination of personal data, in 2022, the company appointed its own Data Protection Officer (DPO) in accordance with the group order and organisational communication, implementing the personal data protection management model. The DPO is responsible for ensuring that the operating methods and information flows are compliant with the group's data protection framework.

- **Risks related to the spread of infectious diseases:** until the end of the emergency created by the Covid-19 pandemic, which was declared on 31 March 2022, Italferr adopted a model compliant with all the measures to contain the spread of infections established by government regulations over time and with the more restrictive protection measures ordered by the FS Italiane group. This required careful planning and the management of resources in the workplaces to ensure a fair distribution of personnel in line with the scheduled activities, compatible with the social distancing protocols.  
Moreover, Covid-19 kits continued to be distributed to all personnel travelling and assigned to off-site activities in the same period and, upon specific and reasoned request, until the end of 2022 as well.

## INVESTMENTS

In 2022, Italferr invested a total of €11,732 thousand. Most of these investments (€10,394 thousand) related to right-of-use assets for properties under lease and cars leased on a long-term basis, namely the lease for the company's new offices in Rome, via San Martino della Battaglia (€7,110 thousand), the expansion of the leased spaces for the Genoa offices (€987 thousand), the increase in the lease payment for the Bari offices (€467 thousand), the lease of flats for Italferr personnel in Taskent, Uzbekistan (€296 thousand), the lease of construction site offices for works management of the ERTMS projects (€82 thousand), the lease of offices in India (€77 thousand), the lease of the Catania office from RFI (€65 thousand) and the long-term leases of motor vehicles for the offices in Italy (€889 thousand), India (€287 thousand) and Uzbekistan (€134 thousand).

The remainder of the investments consisted of:

- purchases of laptops and notebooks for employees in Italy and abroad (€631 thousand);

- furniture, cabinetry, partitions and accessories for the Rome offices (€551 thousand) and other Italian offices (€146 thousand);
- small office equipment (€10 thousand).

## RESEARCH AND DEVELOPMENT

In 2022, Italferr carried out the following testing activities for the development and consolidation of the digitalisation process and the application of BIM to the separate stages in the life cycle of railway infrastructure:

- structuring the process for the use of RFI's single physical infrastructure model to unify the georeferenced maps of the railway network;
- scouting new solutions for the management and integration of data in the digital twin for the maintenance of railway infrastructure;
- creating an information flow model for the data related to the individual infrastructure projects for each stage of the design, from the TEFS to as-built;
- using the project BIM to verify the physical and financial progress of the works. Testing was conducted at the construction site for the computerised interlocking system in La Storta and on a viaduct and man-made tunnel on the Bicocca-Catenanuova section;
- applying software to digitalise quality, environment and security control processes for works management. The purpose of the testing is to be able to monitor, track and manage activities directly from mobile devices like tablets;
- developing the digital twin of Saint Peter's Cathedral starting with on-site surveys and the development of the BIM;
- development of the digital twin of a railway viaduct using data gathered in the field from the systems of sensors installed on the viaduct;
- integrating the life cycle assessment (LCA) in the BIM to compare the different design solutions and support the assessment of the most sustainable technical solutions in the various stages of the design. The testing is part of the BIM for the Rail-LCA - MISE tender, developed as part of the smart factory tender and promoted by the Ministry of Economic Development. It was started in the year following the completion of 18-months of industrial research.

Before describing the other fields in which Italferr has conducted research, it is worth mentioning that in 2022, the certification body ICMQ confirmed the company's BIM management system certification in accordance with UNI/reference policy no. 74:2019.

In addition to the testing on the development of BIM, in 2022, Italferr carried out the following research projects:

- Open Innovation – Open Italy 2022 programme, in which Italferr worked on the following projects:
  - ✓ DIGISITE: the testing related to the centralised management of construction sites in a simple, rapid manner, making it possible for works management, via a chat, to create instant reporting, sign documents and track the work, certifying its authenticity, using blockchain technology;
  - ✓ RAIL: the purpose of the testing is to develop an algorithm to monitor works for the mitigation of hydrogeological instability in railways. This system makes it possible to map the elements of containment works and identify any irregularities to predict critical events for predictive maintenance.
- Horizon Europe, in which Italferr worked on the following projects:



- ✓ "RECONMATIC - Automated tools for the valorisation of construction waste": this project relates to the management and use of waste resulting from construction and demolition and is meant to test, validate and integrate solutions and innovative instruments that take into account the entire life cycle of buildings and infrastructure;
- ✓ "MOST-H2 - Novel metal-organic framework absorbents for efficient storage of hydrogen": the aim of this project is to develop technologies for the storage of hydrogen using absorbent materials, i.e., materials that can remove organic micro-pollutants and that are capable of operating in certain conditions and ensuring high performance, low costs and a small environmental footprint.
- Europe's Rail Joint Undertaking partnership: the FS Italiane group is a founding member of the partnership that establishes financing for research and innovation projects in the railway sector. The initiatives commenced in 2022 included those in which Italferr was involved in the following two intelligent & integrated asset management projects:
  - ✓ "ERJU – IAM4RAIL – Climate": research into the resilience of railway infrastructure to extreme climate events;
  - ✓ "ERJU – IAM4RAIL – Blockchain", development of a framework for the management of railway infrastructure certification using blockchain.
- DGAP "Drone and GNSS for Applications to Professional Surveys" – ESA tender: this project, which ended in 2022, was developed as part of the ESA's Space4Rail project in order to develop a system based on satellite technology to support construction site activities.

In addition to the in-house research, during the year, Italferr also co-financed testing with regard to railway engineering and the digital methodologies based on specific agreements with the main Italian universities.

As these activities do not generate original methodologies and software, but merely entail the adjustment of existing solutions to railway requirements, Italferr did not capitalise the research expenditure incurred (€1,358 thousand, including the cost of 22,511 hours of specialist personnel) in 2022, like in previous years.

## PERFORMANCE OF SUBSIDIARIES

### Cremonesi Workshop – CREW S.r.l.

CREW is an engineering and architectural company with 35 years of experience. It provides its customers with integrated architectural design, civil engineering and plant engineering services. Italferr acquired 80% of this company in 2018.

In 2022, the company seized the opportunities on the market thanks to the positive effects of government intervention to bolster the economy (NRRP and 110% tax deductibility for energy efficiency projects in buildings), generating a significant increase in production volumes on the previous year (+33%), which outperformed the budget, although to a lesser extent (6%).

As for contracts acquired in the year, in a consortium with Italferr, CREW formalised a framework agreement with RFI for engineering, PMC and works management services for the redevelopment and upgrade of 128 stations. The contract, which relates to customers' investments financed by the NRRP, has a four-year term and is worth a maximum amount of €60 million.

During the year, CREW acquired another contract with RFI for the redevelopment of a building at the HS Milan Rogoredo station and continued (and expanded) its work for FS Italiane S.p.A. to support various projects for the rationalisation of spaces and buildings in Rome.

As for the non-captive market:

- in a consortium with Italferr and Proger, CREW won the first lot of the tender called by EAV (Ente Autonomo Volturno) for the redevelopment of the regional railways in Campania. The assignment is a four-year framework agreement worth a total of more than €34 million, 27% of which relates to CREW;
- the company received two contracts from ATM (Azienda Transport Milanese) to design the first depot for the Milan municipal authority's full-electric buses: the contract is strategic for both the project's sustainability and because CREW is also handling the architectural impact of the depot, which will be built in the Porta Romana area in the heart of historic Milan;
- in the second half of 2022, CREW formalised a few contracts with contractors for 110% tax deductions relating to the commercial activities carried out in the previous year;
- abroad, the company continued work on the Riga station project thanks to the signing of an addendum worth over €1 million with the Belgian contractor Besix.

In response to the increase in managed contracts, CREW had to expand its workforce (+9 in the average number of resources compared to 2021) and outsource more engineering services (+21% compared to the budget and +86% on the previous year).

Since the growth in the workforce was less than expected, due to the difficulties in finding the professionals needed, and considering the short time dictated by the NRRP implementation plan, the company managed to keep the pace by boosting productivity. The consequence was an improvement in the operating profit and the profit for the year above initial forecasts and the previous year (the operating profit was 36% higher than the budget and 65% higher than in 2021, while the profit for the year was +75% higher than the 2022 budget and 40% higher than the actual profit for 2021).

At the end of 2022, CREW showed an increase in net operating working capital over the budget, mainly due to the fact that the balance on major design services was not recognised until the end of 2022 with the consequent concentration of invoices near year end with collection in the subsequent year. This affected the company's net financial position, which decreased to below forecasts.

The subsidiary's 2022 performance and financial results are summarised below with comparative prior year figures:

|                                    | (€'000)    |            |           |           |
|------------------------------------|------------|------------|-----------|-----------|
|                                    | 2022       | 2021       | Changes   | %         |
| Revenue from engineering services  | 1.492      | 1.100      | 392       | 36%       |
| Operating costs                    | (1.300)    | (930)      | (370)     | 40%       |
| Gross operating profit             | 192        | 170        | 22        | 13%       |
| Operating profit                   | 185        | 167        | 18        | 11%       |
| <b>Profit for the year</b>         | <b>152</b> | <b>142</b> | <b>10</b> | <b>7%</b> |
| Invested capital                   | 748        | 760        | (12)      | -2%       |
| Net financial debt                 | (205)      | (38)       | (167)     | <200%     |
| Average number of employees (FTEs) | 21         | 16         | 5         | 31%       |

### I.E.S. - Infrastructure Engineering Services d.o.o.

Abroad, Italferr also operates through Infrastructure Engineering Services (I.E.S.), a Serbian company based in Belgrade that it wholly owns.

I.E.S. carries out structural and architectural support activities, works supervision and operating support for Italian and foreign contracts on its parent's behalf.

Since 2019, it began diversifying its backlog, acquiring contracts from customers on the Serbian market.

The company's production in 2022 included, first and foremost, the following activities under the framework agreement that Italferr signed in 2019 (as leader of a consortium including I.E.S. and Proger) with RZD International (Belgrade) on behalf of Serbian Railways:

- works supervision on the technological systems (excluding the ERTMS and GSMR) on the Stara Pazova-Novi Sad section of the Belgrade-Budapest line;
- check of the design of the new command and control station in Belgrade for the entire Serbian railway network. Work was completed in August.

The company's production in 2022 also included work on the following contracts directly between RZD International and I.E.S.:

- check and management of load bearing tests on the bridges and viaducts in the Stara Pazova-Novi Sad section of the Belgrade-Budapest line. The work was completed in July;
- drafting of the specifications for the validation of traction systems and the maintenance handbooks for works on the Stara Pazova-Novi Sad section of the Belgrade-Budapest line. Work was completed in November.

In May 2022, the company began activities for a new contract with the Serbian Ministry of Finance for works supervision on Niš-Brastovac. The contract was awarded to a consortium consisting of Italferr (head company) and I.E.S. and the activities are expected to continue until 2024.

In 2022, I.E.S.'s total revenue grew by 36% on the previous year. Revenue from non-captive customers came to 23%.

The growth in I.E.S.'s non-captive portfolio helped consolidate the company's experience and capabilities in civil engineering and works supervision and has enabled the company to continue training a group of specialists in technology, electric traction, substations and telecommunications.

It hired employees during the year to meet the higher production volumes and the need to diversify the specialisations of its staff for a workforce of 21 resources at year end.

The contract backlog with the Serbian Ministry of Finance, combined with the expected increase in Italferr' support activities for non-captive customers and under the NRRP, enable I.E.S. to forecast slight growth in production volumes and profit margins in 2023 on the previous year. The company has therefore planned to expand its workforce to 24 resources.

In addition to the backlog, bids have also grown on the previous year, including those that I.E.S. drafted to support tenders in which Italferr was participating and that, in the event of a favourable outcome, could further improve the company's growth prospects.

The following table shows the main financial statements highlights of IES for 2022 and comparative prior year figures:

|                                    | (€'000)    |            |           |           |
|------------------------------------|------------|------------|-----------|-----------|
|                                    | 2022       | 2021       | Changes   | %         |
| Revenue from engineering services  | 1,492      | 1,100      | 392       | 36%       |
| Operating costs                    | (1,300)    | (930)      | (370)     | 40%       |
| Gross operating profit             | 192        | 170        | 22        | 13%       |
| Operating profit                   | 185        | 167        | 18        | 11%       |
| <b>Profit for the year</b>         | <b>152</b> | <b>142</b> | <b>10</b> | <b>7%</b> |
| Invested capital                   | 748        | 760        | (12)      | -2%       |
| Net financial debt                 | (205)      | (38)       | (167)     | <200%     |
| Average number of employees (FTEs) | 21         | 16         | 5         | 31%       |

## TREASURY SHARES

During the year, the company neither held nor sold treasury shares or shares of its parent, Ferrovie dello Stato Italiane S.p.A., directly or indirectly.

## RELATED PARTY TRANSACTIONS

Transactions between Italferr and the FS Italiane group companies and their transactions with other related parties are carried out correctly in terms of substance and to the parties' mutual financial benefit based on normal market conditions which are defined with the assistance of independent experts, when necessary. Intragroup transactions are carried out in the pursuit of the common goal of improving efficiency and therefore creating value for the entire FS Italiane group.

These processes and transactions are carried out in accordance with sector regulations, the Italian Civil Code and tax laws, in line with the group's and its own administrative/accounting procedures and considering the specific characteristics of the activities performed by many group companies.

## OTHER INFORMATION

### Branches

Italferr operates in Italy with local units in Bari, Bologna, Florence, Genoa, Milan, Naples, Palermo, Reggio Calabria, Rome, Turin and Verona.

The company has nine foreign branches in Bogotá (Colombia), Bron (France), Brisbane (Australia), Bucharest (Romania), Doha (Qatar), Cairo (Egypt), Istanbul (Turkey), Lima (Peru) and New Delhi (India), as well as three offices in Riyadh (Saudi Arabia), Addis Abeba (Ethiopia) and Tashkent (Uzbekistan).

### Litigation and disputes

#### *Introduction*

This section details the most significant criminal proceedings at the reporting date. Unless otherwise indicated, up to the date of preparation of this report, no information had arisen that would indicate that the company is exposed to contingent liabilities or losses of any amount, nor is any information known with a potentially material impact on the company's financial position and financial performance. Furthermore, where appropriate, the company has joined the criminal proceedings as a civil party claiming damages.

Specifically:

In 2022, following criminal proceedings initiated by the public prosecutors against former or current company representatives, there were no definitive rulings against senior management (company officers or general managers) for any of the following:

- particularly serious fraudulent crimes entailing substantial damage to the company or leading to the application of restrictive measures;
- fraudulent crimes covered by Legislative decree no. 231/2001;
- additional negligent criminal acts covered by Law no. 190/2012.

Furthermore, reference should be made to the notes to the financial statements for details on material disputes and proceedings in place with employees, third party suppliers of services and/or contractors, the tax authorities, the regions, etc., and for which, where necessary, accruals were made to specific provisions for risks and charges. Details on contingent assets and liabilities, as defined in the group's policies, are also provided in the notes to the financial statements.

#### **Criminal proceedings pursuant to Legislative decree no. 231/2001**

On 23 January 2020, as part of criminal proceedings no. 3556/2019 in the general register of crimes, pending the preliminary investigation with the Public Prosecutor of the Brindisi Court, Italferr was notified of a "Notice of indictment for administrative violation due to a crime" in connection with the fatal accident that occurred in Brindisi, on 9 July 2019, during the performance of work by the sub-contractor HI.TEC Italia S.r.l., the victim's employer, as part of a contract commissioned by RFI. HI.TEC Italia S.r.l. and Italferr, which were carrying out, on RFI's behalf, inter alia, works management, works oversight and safety coordination during execution, were charged with an administrative violation due to the crime covered by article 25-septies.2 of Legislative decree no. 231/2001.

The Public Prosecutor subsequently arraigned the coordinator of Italferr's works in addition to the other accused parties of the subcontractor (the first-level criminal proceedings are currently pending), and filed a motion to acquit Italferr and its managers, charged with administrative liability pursuant to Legislative decree no. 231/2001.

The aggrieved party appealed against the motion to acquit. On 8 July 2021, the hearing in the judge's chambers took place to decide on this appeal.

With the order filed with the court clerk on 20 October 2022, the preliminary investigation judge of the Brindisi court allowed the Public Prosecutor's motion and ordered the acquittal of the managers of Italferr and Italferr, among others.

### Other significant criminal proceedings

Notwithstanding the above, regardless of how contingent liabilities and assets are defined based on materiality, in **2022**, there were no criminal proceedings and updates to proceedings already reported in previous years that have resulted in definitive rulings against former and current senior management (company officers or general managers) for any of the following:

- fraudulent crimes covered by Legislative decree no. 231/2001;
- additional negligent crimes covered by Law no. 190/2012;
- particularly serious fraudulent crimes entailing substantial damage to the company or leading to the application of restrictive measures.

In **2022**, there were no criminal proceedings and updates to proceedings already reported in previous years that have resulted in definitive rulings against former and current senior management (company officers or general managers) following serious railway incidents (that led to the death or serious injuries to employees or customers).

### Directors' fees

|                                 |  | €                  |
|---------------------------------|--|--------------------|
| <b>Chairwoman</b>               |  | <b>Annual fees</b> |
| Fixed remuneration              |  | 45,000             |
| <b>CEO and general director</b> |  | <b>Annual fees</b> |
| Fixed fee for the position:     | fee for the position of CEO pursuant to article 2389.3 of the Italian Civil Code | 50,000             |
| Fixed fee for the position:     | position as general manager  | 230,000            |
| Performance-based fee:          | position as general manager  | 100,000            |

### Participation in the national tax consolidation scheme

As Italferr meets the requirements of the Consolidated income tax act (article 117 and subsequent articles of Presidential decree no. 917 of 22 December 1986), it has opted to participate in the national tax consolidation scheme (as consolidated company) with FS Italiane S.p.A. (as consolidator).

The board of directors extended the option, which it has opted to exercise for all three-year periods since 2004, for 2019 - 2021 as from 2019. This option is renewable by tacit agreement for another three years, unless revoked.

### Disclosure required by article 2497-ter of the Italian Civil Code

During the year, the company did not take any decisions explicitly covered by article 2497-ter of the Italian Civil Code, although it passed resolutions in the spirit of complete agreement with the guidelines of the sole shareholder, Ferrovie dello Stato Italiane S.p.A..

## OUTLOOK

From a macroeconomic standpoint, the government's renewal of measures to support the construction sector, the roll-out of the public investment plan under the NRRP and timid signs that business confidence is recovering should drive the domestic economy and offset the negative signs generated by weakening liquidity forecasts, higher production costs and expectations of less accommodating monetary policy in 2023.

Furthermore, according to ISTAT (the national statistics institute), the ratio of investments to GDP will be 21.5% in 2023.

More specifically regarding the company, its 2022 performance once again demonstrates its resilience and solidity despite the geopolitical tension, the rising cost of energy and the surge in inflation.

As in previous years, in 2022, Italferr fully achieved the objectives it had set in the business plan.

At year end, the backlog totalled €1,541 million, while RFI confirmed its investment plan and, most importantly, compliance with the NRRP within the deadlines, and forecasts for international tenders in 2023 of interest to Italferr could potentially bring the company's backlog of projects abroad to €257 million.

Italferr updated its ten-year business plan for 2023-2032 on this basis. The update:

- confirms the company's contribution, in terms of production and profit margins, to RFI's investment plan, first and foremost because it managed to deliver the projects for RFI's launch of new tenders for the construction of strategic and NRRP works projects;
- reflects the ongoing lack of suitable candidates on the job market and, therefore, revises the planned growth of the workforce over the term of the plan, focusing instead on streamlining processes and reducing the amount of time needed to design and check the construction of works;
- emphasises the company's interest in focusing on digitalisation as a key element in its human resources policy and an enabler for expansion on new markets, above all the infrastructure monitoring market;
- continues the de-risking policy for the foreign backlog, focusing on the regions that present the lowest risk and offer interesting opportunities thanks to growing demand for rails and mass transit (North America, Australia and India);
- continues to pursue sustainability objectives, prioritising projects that can reduce CO<sub>2</sub> emissions while ensuring increasingly higher safety standards.

Substantially, net of the effects, which cannot currently be foreseen, due to the public health emergency's potential repercussions and the escalation of the military conflict between Russia and Ukraine - where, in any case, the company does not operate – Italferr confirms its forecasts and expects to maintain its growth and performance targets.

Rome, 6 March 2023

**Financial statements as at and for the year ended 31 December 2022**



## **Financial statements**

**Income statement**

|   |      | in Euros             |                      |
|---|------|----------------------|----------------------|
|   | Note | 2022                 | 2021                 |
| <b>Revenue and income</b>                                   |      | <b>336,311,615</b>   | <b>268,985,452</b>   |
| Revenue from sales and services                             | (4)  | 335,859,788          | 268,719,172          |
| Other income  | (5)  | 451,827              | 266,280              |
| <b>Operating costs</b>                                      |      | <b>(254,798,004)</b> | <b>(204,490,647)</b> |
| Personnel expense   | (6)  | (139,915,519)        | (121,239,394)        |
| Raw materials, consumables, supplies and goods              | (7)  | (416,810)            | (343,852)            |
| Services  | (8)  | (99,157,558)         | (72,331,294)         |
| Other operating costs                                       | (9)  | (8,433,255)          | (5,191,380)          |
| Amortisation/depreciation, provisions and impairment losses | (10) | (6,874,861)          | (5,384,726)          |
| <b>Operating profit</b>                                     |      | <b>81,513,612</b>    | <b>64,494,806</b>    |
| <b>Net financial income (expense)</b>                       |      | <b>(1,101,135)</b>   | <b>1,038,958</b>     |
| Financial income  | (11) | 1,777,092            | 2,475,704            |
| Financial expense   | (12) | (2,878,226)          | (1,436,746)          |
| <b>Pre-tax profit</b>                                       |      | <b>80,412,477</b>    | <b>65,533,764</b>    |
| Income taxes  | (13) | (23,965,554)         | (20,403,578)         |
| <b>Profit for the year</b>                                  |      | <b>56,446,923</b>    | <b>45,130,186</b>    |

**Statement of comprehensive income**

|  |      | in Euros          |                   |
|--|------|-------------------|-------------------|
|  | Note | 2022              | 2021              |
| <b>Profit for the year</b>   |      | <b>56,446,923</b> | <b>45,130,186</b> |
| <b>Items that will not be reclassified to profit or loss, net of the tax effect:</b> |      |                   |                   |
| Net actuarial losses   | (23) | (1,476,918)       | (1,167,890)       |
| Tax effect   | (23) | 354,460           | 280,293           |
| <b>Comprehensive income</b>  |      | <b>55,324,465</b> | <b>44,242,589</b> |

**Statement of financial position**

(€'000)

|   | Note      | 31/12/2022         | 31/12/2021         |
|---|-----------|--------------------|--------------------|
| <b>Assets</b>                                       |           |                    |                    |
| <b>Non-current assets</b>                           |           |                    |                    |
| Property, plant and equipment                       | (14);(15) | 37,561,750         | 32,649,335         |
| Intangible assets                                   | (16)      | 4,251              | 7,750              |
| Equity investments                                  | (18)      | 18,652,244         | 18,652,402         |
| Financial assets (including derivatives)            | (19)      | 963                | 2,046              |
| Deferred tax assets                                 | (17)      | 9,845,114          | 8,500,155          |
| Other assets  | (20)      | 309,731            | 288,412            |
| <b>Total</b>  |           | <b>66,374,054</b>  | <b>60,100,100</b>  |
| <b>Current assets</b>                               |           |                    |                    |
| Financial assets (including derivatives)            | (19)      | 14,513,612         | 13,738,728         |
| Cash and cash equivalents                           | (22)      | 10,838,396         | 8,788,678          |
| Trade receivables and service contracts             | (21)      | 320,225,488        | 261,643,772        |
| Other assets  | (20)      | 10,316,232         | 10,179,570         |
| <b>Total</b>  |           | <b>355,893,728</b> | <b>294,350,748</b> |
| <b>Total assets</b>                                 |           | <b>422,267,782</b> | <b>354,450,849</b> |
| <b>Equity</b>                                       |           |                    |                    |
| Share capital                                       | (23)      | 14,186,000         | 14,186,000         |
| Reserves  | (23)      | 56,285,277         | 55,158,299         |
| Retained earnings                                   | (23)      | 3,269,445          | 3,269,445          |
| Profit for the year                                 | (23)      | 56,446,923         | 45,130,186         |
| <b>Total</b>  |           | <b>130,187,644</b> | <b>117,743,930</b> |
| <b>Liabilities</b>                                  |           |                    |                    |
| <b>Non-current liabilities</b>                      |           |                    |                    |
| Loans and borrowings                                | (24)      | 7,500,000          | 9,000,000          |
| Employee benefits                                   | (25)      | 13,448,144         | 16,363,135         |
| Provisions for risks and charges                    | (26)      | 29,942,955         | 28,104,161         |
| Financial liabilities (including derivatives)       | (27)      | 12,112,104         | 7,310,596          |
| Deferred tax liabilities                            | (17)      | 53,204             | 91,031             |
| Other liabilities                                   | (28)      | 4,309,803          | 4,166,075          |
| <b>Total</b>  |           | <b>67,366,210</b>  | <b>65,034,998</b>  |
| <b>Current liabilities</b>                          |           |                    |                    |
| Current portion of non-current loans and borrowings | (24)      | 36,500,000         | 1,500,000          |
| Financial liabilities (including derivatives)       | (27)      | 4,439,899          | 3,050,947          |
| Tax liabilities                                     | (30)      | 989,986            | 1,334,991          |
| Trade payables                                      | (29)      | 138,933,525        | 124,261,858        |
| Other liabilities                                   | (28)      | 43,850,517         | 41,524,125         |
| <b>Total</b>  |           | <b>224,713,927</b> | <b>171,671,921</b> |
| <b>Total liabilities</b>                            |           | <b>292,080,138</b> | <b>236,706,919</b> |
| <b>Total equity and liabilities</b>                 |           | <b>422,267,782</b> | <b>354,450,849</b> |

## Statement of changes in equity

| in Euros                                   | Reserves          |                  |                       |                |                    | Total reserves    | Retained earnings | Profit for the year | Total equity       |
|--|-------------------|------------------|-----------------------|----------------|--------------------|-------------------|-------------------|---------------------|--------------------|
|  | Share capital     | Legal reserve    | Extraordinary reserve | Other reserves | Actuarial reserve  |                   |                   |                     |                    |
| <b>Balance at 1 January 2021</b>           | <b>14,186,000</b> | 2,837,200        | 47,715,354            | 676,643        | (4,857,020)        | <b>46,372,177</b> | <b>3,269,445</b>  | <b>32,243,645</b>   | <b>96,071,267</b>  |
| Profit for the year                        |                   |                  |                       |                |                    |                   |                   | 45,130,186          | 45,130,186         |
| Profit recognised directly in equity       |                   |                  |                       |                | (887,597)          | (887,597)         |                   |                     | (887,597)          |
| <b>Comprehensive income</b>                | <b>0</b>          | <b>0</b>         | <b>0</b>              | <b>0</b>       | <b>(887,597)</b>   | <b>(887,597)</b>  | <b>0</b>          | <b>45,130,186</b>   | <b>44,242,589</b>  |
| Allocation of profit for the previous year |                   |                  | 9,673,719             |                |                    | <b>9,673,719</b>  |                   | (9,673,719)         | 0                  |
| Dividend distribution                      |                   |                  |                       |                |                    |                   |                   | (22,569,926)        | (22,569,926)       |
| <b>Balance at 31 December 2021</b>         | <b>14,186,000</b> | <b>2,837,200</b> | <b>57,389,073</b>     | <b>676,643</b> | <b>(5,744,617)</b> | <b>55,158,299</b> | <b>3,269,445</b>  | <b>45,130,187</b>   | <b>117,743,930</b> |
| <b>Balance at 1 January 2022</b>           | <b>14,186,000</b> | <b>2,837,200</b> | <b>57,389,073</b>     | <b>676,643</b> | <b>(5,744,617)</b> | <b>55,158,299</b> | <b>3,269,445</b>  | <b>45,130,187</b>   | <b>117,743,930</b> |
| Profit for the year                        |                   |                  |                       |                |                    |                   |                   | 56,446,923          | 56,446,923         |
| Profit recognised directly in equity       |                   |                  |                       |                | 1,122,457          | <b>1,122,457</b>  |                   |                     | 1,122,457          |
| <b>Comprehensive income</b>                |                   |                  |                       |                |                    |                   |                   |                     |                    |
| Allocation of profit for the previous year |                   |                  | 4,520                 |                |                    | <b>4,520</b>      |                   | (4,520)             | 0                  |
| Dividend distribution                      |                   |                  |                       |                |                    |                   |                   | (45,125,666)        | (45,125,666)       |
| <b>Balance at 31 December 2022</b>         | <b>14,186,000</b> | <b>2,837,200</b> | <b>57,393,593</b>     | <b>676,643</b> | <b>(4,622,160)</b> | <b>56,285,276</b> | <b>3,269,445</b>  | <b>56,446,923</b>   | <b>130,187,644</b> |

## Statement of cash flows

|   |           | in Euros            |                     |
|---|-----------|---------------------|---------------------|
|   | Note      | 2022                | 2021                |
| <b>Profit for the year</b>  |           | <b>56,446,923</b>   | <b>45,130,186</b>   |
| Income taxes  | (13)      | 23,965,554          | 20,403,578          |
| Financial (income)/expense  | (11);(12) | 1,101,135           | (1,038,958)         |
| Amortisation and depreciation                                       | (10)      | 6,603,219           | 5,440,959           |
| Accruals  | (26)      | 12,306,369          | 14,819,210          |
| Impairment losses   | (10)      | 2,489               | (6,269)             |
| Accruals for employee benefits                                      | (25)      | 16,624              | 18,953              |
| Gains (losses) on sales   | (5)       |                     | (246)               |
| Change in trade receivables   | (21)      | (58,581,716)        | (53,621,980)        |
| Change in trade payables  | (29)      | 14,671,668          | 19,210,735          |
| Change in other liabilities   | (28)      | 4,980,965           | 4,073,463           |
| Change in other assets  | (20)      | 408,809             | (1,126,803)         |
| Utilisation of the provisions for risks and charges                 | (26)      | (10,467,575)        | (7,966,578)         |
| Payment of employee benefits  | (25)      | (2,111,927)         | (3,449,435)         |
| Income taxes paid, net of reimbursed tax assets                     | (13)      | (28,523,408)        | (15,297,618)        |
| Net financial income received/(expense paid)                        | (11);(12) | (678,060)           | 606,893             |
| <b>Net cash flows generated by operating activities</b>             |           | <b>20,141,068</b>   | <b>27,196,090</b>   |
| Increases in property, plant and equipment                          | (14)      | (1,338,349)         | (1,755,857)         |
| Increases in intangible assets                                      | (16)      |                     | (10,395)            |
| Increases in equity investments                                     | (18)      | (1)                 |                     |
| <b>Investments, before grants</b>                                   |           | <b>(1,338,350)</b>  | <b>(1,766,252)</b>  |
| Decreases in property, plant and equipment                          | (14);(15) | 187,002             |                     |
| Decreases in equity investments                                     | (18)      | 158                 | 0                   |
| <b>Decreases</b>  |           | <b>187,160</b>      | <b>0</b>            |
| <b>Net cash flows used in investing activities</b>                  |           | <b>(1,151,190)</b>  | <b>(1,766,252)</b>  |
| Lease payments (net of contributions) - Change in lease liabilities | (27)      | (4,540,695)         | (2,838,937)         |
| Repayment of non-current loans                                      | (24)      | (1,500,000)         | (1,500,000)         |
| Disbursement and repayment of current loans                         | (24)      | 35,000,000          | 0                   |
| Change in other financial assets                                    | (19)      | 1,083               | (1,446)             |
| Dividends   | (23)      | (45,125,666)        | (22,569,926)        |
| <b>Net cash flows used in operating activities</b>                  |           | <b>(16,165,277)</b> | <b>(26,910,308)</b> |
| <b>Total cash flows</b>   |           | <b>2,824,601</b>    | <b>(1,480,470)</b>  |
| <b>Opening cash and cash equivalents</b>                            |           | <b>22,527,406</b>   | <b>24,007,877</b>   |
| <b>Closing cash and cash equivalents</b>                            |           | <b>25,352,007</b>   | <b>22,527,407</b>   |
| <i>of which: intragroup current account:</i>                        |           | <i>25,352,008</i>   | <i>13,738,728</i>   |

## **Notes to the financial statements**

## 1 Introduction

Italferr S.p.A. (the “company” or “Italferr”) was set up in accordance with Italian law and is based in Italy. Its registered office is in Via Vito Giuseppe Galati 71, Rome.

The company is managed and coordinated by Rete Ferroviaria Italiana S.p.A. by contract.

The directors approved the publication of these financial statements on 6 March 2023 and they will be submitted to the shareholders for approval and subsequently filed within the terms of law.

The shareholders have the power to make changes to these financial statements.

The consolidated financial statements are prepared by FS Italiane S.p.A. which is Italferr’s direct parent.

This company has its registered office in Piazza della Croce Rossa 1, Rome, and the consolidated financial statements can be obtained at the above address in accordance with the terms and methods set out in the current regulations.

KPMG S.p.A. was assigned the engagement to carry out the statutory audit of the financial statements.

## 2 Basis of preparation

These financial statements have been prepared in accordance with IFRS (which include the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Union pursuant to Regulation (EC) no. 1606/2002 and in effect at the reporting date (“IFRS”). Specifically, the company consistently applies the IFRS to all periods presented in these financial statements.

Furthermore, these financial statements have been prepared on the basis of the best knowledge of IFRS and best practices. Any future interpretation guidelines and updates will be reflected in subsequent years, in accordance with the procedures provided for by the IFRS over time.

The financial statements have been prepared and presented in Euro, which is the company’s functional currency, i.e., the currency of the primary economic environment in which it operates. All amounts included in the tables of the following notes, except as otherwise specified, are expressed in thousands of Euros.

These financial statements comprise a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and the notes thereto; specifically:

- the statement of financial position has been prepared by classifying assets and liabilities as “current/non-current”, with the specific separation of assets/liabilities held for sale or included in a disposal group;
- the income statement has been prepared by classifying operating costs by nature, indicating the profit (loss) from continuing operations separately from any profit (loss) from discontinued operations;
- the statement of comprehensive income includes the profit (loss) for the year and other changes in equity attributable to transactions that are not carried out with owners in their capacity as owners;
- the statement of changes in equity shows the profit (loss) for the year separately from any other changes not through profit or loss;
- the statement of cash flows has been prepared by presenting cash flows from operating activities using the indirect method.

The annual report also includes the directors' report accompanying the financial statements.

These financial statements have been prepared on a going-concern basis, as the directors established that there are no financial or operational indicators or any other indications of critical issues about the company's ability to meet its obligations in the foreseeable future and, specifically, in the next twelve months.

Reference should be made to note 31 - Financial risk management for a description of the company's financial risk management procedures.

The financial statements have been prepared on the historical cost basis, except for those items which are measured at fair value, as required.

Furthermore, "current" refers to the 12 months immediately after the reporting date, while "non-current" refers to periods more than 12 months after the reporting date.

These financial statements have been prepared using the same accounting policies applied when drawing up the financial statements at 31 December 2021, except for that set out below.

The corresponding figures have been reclassified to comply with new model adopted during the year.

### **3 Accounting policies**

The most significant accounting policies applied to the preparation of these financial statements are described below.

#### **Property, plant and equipment**

Property, plant and equipment are recognised at purchase or production cost, net of accumulated depreciation and impairment losses, if any. The purchase or production cost includes any charges that are directly incurred to make assets available for use, as well as dismantlement and removal charges, if any, that will be incurred as a result of contractual obligations that require the asset to be returned to its original conditions. Any financial expense that is directly attributable to the acquisition, construction or production of qualifying assets is capitalised and depreciated on the basis of the useful life of the asset to which it refers. Leasehold improvements or costs to upgrade and transform property, plant and equipment are recognised under assets.

Any charges incurred for ordinary maintenance and repairs are directly charged to profit or loss when incurred. Costs to expand, upgrade or improve the structural elements owned or used by third parties are capitalised when they meet the requirements for separate recognition as assets or as parts of an asset, applying the component approach, whereby a component must be accounted for separately if its useful life can be measured independently.

Depreciation is charged systematically and on a straight-line basis using rates that reflect the assets' useful life.

The useful lives of property, plant and equipment and their residual value are reviewed and updated, where necessary, at least at each reporting date.



The depreciation rates and useful lives are as follows:

|   | Depreciation rate   |
|---|---------------------|
| Owner-occupied buildings                          | 3%                  |
| Leasehold improvements                            | Residual lease term |
| Ordinary office equipment and furniture           | 12%                 |
| Furnishings                                       | 15%                 |
| Machinery, devices and sundry equipment           | 15%                 |
| Electromechanical and electronic office equipment | 40%                 |
| Mobile phones                                     | 40%                 |
| Cars, motor vehicles and similar                  | 25%                 |

### Leased assets

#### i. Identification

At the inception date of the lease (i.e., the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease) and, subsequently, the company reassesses whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed. In particular, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For a contract that is, or contains, a lease, the company accounts for each lease component within the contract as a lease separately from non-lease components of the contract, which are accounted for in accordance with other standards.

The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee. It is determined by assessing the length of the non-cancellable period of a lease, i.e., the period in which the contract is enforceable, including any rent-free periods provided to the lessee by the lessor. In addition to this term, the company considers:

- the period covered by the option to renew the lease if the company is reasonably certain to exercise the renewal option;
- periods after the termination option if the company is reasonably certain not to exercise the option.

Options to terminate the lease held only by the lessor are not considered.

The company has opted not to recognise short-term leases (i.e., those with a term of 12 months or less) or leases for low-value assets (i.e., assets that, when new, are worth €10,000 and leases with a total contractual value of €10,000 or less) in accordance with IFRS 16. The company recognises the lease payments associated with these types of leases as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

#### ii. Subsequent measurement

At the commencement date of a lease, the company recognises the right-of-use asset under the relevant non-current assets caption depending on the nature of the asset subject to the lease contract and the lease liability in current and non-current financial liabilities. The right-of-use asset is initially measured at cost, including the amount of the initial measurement of the lease liability, adjusted by any lease payments made at or before the commencement date, plus any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, less any lease incentives received.

The company measures the lease liability at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate if it cannot. The lease payments included in the measurement of the lease liability include fixed payments, variable lease payments that depend on an index or a rate, any residual value guarantees, the exercise price of a purchase option (if the company is reasonably certain to exercise that option), the exercise price of an extension option (if the company is reasonably certain to exercise that option) and payments of penalties for terminating the lease (if the lease term reflects the lessee exercising an option to terminate the lease).

The right-of-use asset is subsequently depreciated on a straight-line basis over the entire term of the contract, unless the contract provides for the transfer of ownership at the end of the lease or the cost of the lease reflects the fact that the purchase option will be exercised. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, the company depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are calculated using the same depreciation requirements as those for the relevant intangible assets or property, plant and equipment. Furthermore, the right-of-use asset is recognised net of any impairment losses on the cash-generating unit (CGU) to which it has been allocated and is adjusted to reflect the remeasurement of the lease liability. The lease liability is subsequently measured at amortised cost using the effective interest method and is remeasured whenever there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, a change in the amount that the company expects to be payable under a residual value guarantee or when the company changes its assessment of an option to purchase the underlying asset or extend or terminate the lease. If the lease liability is remeasured, the company adjusts the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero, any remaining amount is recognised in profit or loss.

In the statement of financial position, the company includes right-of-use assets within the same captions as that within which the corresponding assets would be presented if they were owned, and the lease liabilities in other financial liabilities. In the income statement, interest expense on the lease liability is a component of financial expense and is presented separately from the depreciation charge for the right-of-use asset.

### **Intangible assets**

Intangible assets are identifiable, non-monetary assets without physical substance, that can be controlled and can generate future economic benefits. They are recognised at purchase and/or production cost, including any directly-attributable expenses incurred to make the asset available for use, net of accumulated amortisation (except for intangible assets with an indefinite useful life) and impairment losses, if any. Interest expense, if any, that accrues during and for the development of intangible assets, is considered part of the purchase cost. Amortisation begins when the asset is available for use and is charged on a straight-line basis over its estimated useful life. Specifically, the company has the following main intangible assets:

*(a) Concessions, licences and trademarks*

They are amortised on a straight-line basis over their term.

Costs of software licences, including any expenses incurred to make the software available for use, are amortised on a straight-line basis over the licence term. Any costs relating to software maintenance are expensed when incurred.

*(b) Research and development costs*

Research costs are expensed when incurred, while development costs are recognised among intangible assets if all of the following conditions are met:

- the project is clearly identified and the relevant costs can be reliably identified and measured;

- the technical feasibility of the project is proven;
- the intention to complete the project and sell the intangible assets generated thereby is proven;
- there is a potential market or, in the case of internal use, the usefulness of the intangible asset for producing the intangible assets generated by the project is proven;
- the technical and financial resources needed to complete the project are available.

Any development costs recognised among intangible assets are amortised starting from when the result generated by the project can be used. They are amortised over five years.

If the research and development stages of an internal project to produce an intangible asset cannot be separated, the relevant cost is fully expensed as though it were exclusively incurred in the research stage.

The gain or loss arising from the derecognition of an intangible asset is equal to the difference between the net disposal proceeds and the carrying amount of the asset. It is recognised in profit or loss when the asset is derecognised.

### **Impairment losses on intangible assets and property, plant and equipment**

#### *Intangible assets and property, plant and equipment with a finite useful life*

At each reporting date, a test is carried out to check if there is any evidence that property, plant and equipment and intangible assets may be impaired. For this purpose, account is taken of both external and internal sources of information. With respect to internal sources of information, the following must be considered: the obsolescence of or physical wear and tear of the asset, significant changes, if any, in the use of the asset and the economic performance of the asset with respect to expectations. As regards external sources of information, the following must be considered: the trend in the market prices of the assets, any changes in technology, markets or laws, the trend in market interest rates or in the cost of capital used to measure investments.

If any such indication exists, the company estimates the recoverable amount of the asset, recognising the impairment loss in profit or loss. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use, i.e., the present value of the future cash flows expected to be derived from the asset. In calculating value in use, the expected future cash flows are discounted using a discount rate which reflects the time value of money, compared to the investment period and risks specific to the asset. The recoverable amount of an asset that does not generate largely independent cash flows is calculated in relation to the cash-generating unit to which this asset belongs.

Impairment losses are recognised in profit or loss when the carrying amount of the asset, or of the related cash-generating unit to which the asset is allocated, exceeds its recoverable amount. Impairment losses on cash-generating units are first allocated to reduce the carrying amount of the goodwill, if any, allocated to the cash-generating unit and then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit and within the limits of the related recoverable amount. If the reasons behind the impairment loss cease to exist, the carrying amount of the asset is reversed through profit or loss without exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years and had the related amortisation or depreciation been charged.

#### *Goodwill and intangible assets not yet available for use*

The recoverable amounts of goodwill and intangible assets not yet available for use are tested for impairment annually or more frequently if there is an indication that the asset may be impaired. However, if the reasons for an impairment loss no longer apply, the original amount of goodwill is not reinstated.

## Investments in subsidiaries, associates, joint arrangements and other investments

Investments in subsidiaries, associates and joint arrangements are measured at cost, including directly-attributable costs, adjusted for impairment.

The company's investments in companies that are neither subsidiaries nor associates nor joint ventures and which are not listed in an active market and for which the use of an appropriate measurement model is not reliable, are in any case measured at cost, which is considered the best estimate of the fair value of the investment. The investments are subsequently measured at fair value through profit or loss.

Impairment losses on investments measured at cost are recognised in profit or loss. If the reasons for an impairment loss no longer apply, the carrying amount of the investment is reinstated up to its original cost. Impairment gains are recognised in profit or loss.

## Financial instruments

### i. Classification and measurement of financial assets

The company's financial assets are classified and measured considering both the business model used to manage such assets and their contractual cash flow. The business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The company performs SPPI (Solely Payment of Principal and Interest) tests on each instrument to determine whether these contractual cash flows are solely payments of principal and interest (in which case the SPPI test is passed).

Financial assets are classified in one of the following categories at initial recognition:

- at amortised cost (AC);
- at fair value through other comprehensive income (FVOCI);
- at fair value through profit or loss (FVTPL).

#### *(a) Financial assets measured at amortised cost*

This category includes all financial assets that meet both of the following conditions:

- the financial asset is held solely to collect contractual cash flows (HTC - Held To Collect - business model); and
- the contractual cash flows are solely payments of principal and interest (SPPI test passed). In this category, financial instruments are initially recognised at fair value, inclusive of transaction costs, and subsequently measured at amortised cost. Interest, calculated using the effective interest method, impairment losses (impairment gains), exchange gains (losses) and gains (losses) on derecognition are recognised in profit or loss.

#### *(b) Financial assets at fair value through other comprehensive income (FVTOCI)*

This category includes all financial assets that meet both of the following conditions:

- the asset is held to collect not only contractual cash flows but also the cash flows generated from its sale (HTC&S model); and
- the contractual cash flows are solely payments of principal and interest (SPPI test passed).

In this category, the financial assets are initially measured at fair value, inclusive of transaction costs. Interest (calculated using the effective interest method), impairment losses (impairment gains), exchange gains (losses) and gains (losses) on derecognition are recognised in profit or loss. Other fair value gains or losses are recognised in OCI. Upon derecognition, all cumulative gains or losses previously recognised in OCI will be reclassified to profit or loss.

For information about equity instruments which fall under the scope of IFRS 9, reference should be made to the paragraph on Investments in subsidiaries, associates, joint arrangements and other investments.

(c) Financial assets at fair value through profit or loss (FVTPL)

This category includes all financial assets that are not classified as measured at amortised cost or at FVOCI.

They are initially and subsequently measured at fair value. Transaction costs and fair value gains and losses are recognised in profit or loss.

ii. Classification and measurement of financial liabilities

Loans and borrowings, trade payables and other financial liabilities are initially recognised at fair value, net of directly-attributable costs, and are subsequently measured at amortised cost, applying the effective interest method. When there is a change in the estimated expected cash flows, the carrying amount of the liabilities is recalculated to reflect this change on the basis of the present value of the new expected cash flows and of the effective internal rate as initially determined. Loans and borrowings, trade payables and other financial liabilities are classified under current liabilities, except for those with a contractual term of more than twelve months after the reporting date and those for which the company has an unconditional right to defer their settlement for at least twelve months after the reporting date. Loans and borrowings, trade payables and other financial liabilities are derecognised when repaid and when the company has transferred all risks and charges related to the instrument.

iii. Classification and measurement of derivatives

The company has opted to continue applying hedge accounting to derivatives, as permitted by IAS 39 until the IASB completes the macro-hedging project to simplify the accounting treatment of hedges.

The company uses derivatives as part of its hedging strategies to mitigate the risk of fair value gains or losses on recognised assets or liabilities or firm commitments (fair value hedges) or changes in cash flows expected from firm commitments or highly probable transactions (cash flow hedges). The effectiveness of hedges is documented and tested from the inception of the hedge which is periodically (at least at each annual or interim reporting date) measured by comparing the fair value gains or losses on the hedging instrument to those on the hedged item (dollar offset ratio) or, with respect to more complex financial instruments, through statistical analyses based on risk changes.

Fair value hedges: fair value gains or losses on derivatives designated as fair value hedges and which qualify as such are recognised in profit or loss, similarly to fair value gains or losses on hedged assets or liabilities attributable to the hedged risk.

Cash flow hedges: fair value gains or losses on derivatives designated as cash flow hedges and which qualify as such are recognised, only to the extent of the effective portion, in other comprehensive income in the hedging reserve. They are subsequently reclassified to profit or loss when the underlying hedged item affects profit or loss. Fair value gains or losses related to the ineffective portion are immediately recognised in profit or loss. Should the underlying transaction no longer be considered highly probable, the related portion of the hedging reserve is immediately reclassified to profit or loss. Conversely, should the derivative be sold, expire or no longer qualify as an effective hedge of the risk for which the transaction was created, the related portion of the hedging reserve is maintained until the underlying item affects profit or loss. Recognition of the hedge as a cash flow hedge is discontinued prospectively.

iv. Subsequent measurement: impairment losses

The company applies the expected credit loss (ECL) model to determine impairment losses, which entails a significant assessment level of the impact of the changes in economic factors on the ECL, which are probability-weighted.

Loss allowances are measured using the general deterioration method and the simplified approach. Specifically:

- under the general deterioration method, the financial instruments are to be classified in three stages which reflect the level of deterioration from the moment the financial instrument is acquired and provide for a different ECL calculation method;
- under the simplified approach, some simplifications may be applied to trade receivables, contract assets and lease assets so that the entities are not required to monitor credit risk changes, as required instead by the general approach. Under the simplified approach, lifetime expected credit losses are recognised, therefore, no stage allocation is necessary. Losses are calculated over the residual life of the asset or receivable, which does not generally exceed 12 months.

As mentioned earlier, when the general deterioration method applies, financial instruments are classified into three stages based on the deterioration of credit quality between initial recognition and the measurement date:

- Stage 1: includes all financial assets under assessment on the date of initial recognition regardless of qualitative indicators (e.g., ratings) and except for situations with objective evidence of impairment. Upon subsequent measurement, all financial instruments whose credit risk has not increased significantly since the date of initial recognition or whose credit risk at the reporting date is low, remain in Stage 1. For these exposures, 12-month ECL are provided for to represent the ECL resulting from default events that are possible within the 12 months after the reporting date. Interest on Stage 1 financial instruments is calculated on the gross carrying amount (without deducting the loss allowance).
- Stage 2: includes the financial instruments whose credit risk has increased significantly since the date of initial recognition, which, however, do not show objective evidence of impairment. For these assets, only lifetime ECL are provided for, i.e., ECL that result from all possible default events over the expected life of a financial instrument. Interest on Stage 2 financial instruments is calculated on the gross carrying amount (without deducting the loss allowance);
- Stage 3: includes financial assets with objective evidence of impairment at the reporting date. For these assets, only lifetime ECL are provided for, i.e., ECL that result from all possible default events over the expected life of a financial instrument.
- In order to identify the methodological approach to be applied to the assets that are in scope of the impairment requirements and, specifically, the correct probability of default, the company defined a conventional cluster segmentation based on counterparty:
  - Public administration: all loans and receivables with the government, regions, provinces, municipalities, the EU or related bodies;
  - Intragroup: all loans and receivables with subsidiaries;
  - Deposits: all deposits with banks;
  - Amounts from third parties: loans and receivables other than those above, with non-financial companies, producers and consumers.
- Furthermore, the company opted to apply the low credit risk exemption allowed by IFRS 9 to assets other than trade receivables that are rated investment grade (between AAA and BBB-). Accordingly, there is no stage allocation: in fact these assets are directly allocated to Stage 1 with a one-year provision.
- Therefore, the application of the impairment model entails the following steps:
  - Separation between loans and trade receivables: this distinction isolates the scope of the assets subject to the stage allocation criteria, i.e., all loans. Conversely, these criteria do not apply to trade receivables following the application of the simplified approach whereby expected credit losses are always classified on a lifetime basis;
  - Calculation of expected credit losses - loans: the expected credit loss is calculated for each cluster, once the relevant stage has been identified;

- Calculation of expected credit losses - trade receivables: for each cluster, trade receivables are broken down by due date (specifically, falling due, past due up to one year, past due up to two years, past due by more than two years). The expected credit losses are then calculated accordingly.

### **Fair value estimates**

The fair value of instruments quoted on an active market is calculated based on the bid price at the reporting date, while that of instruments not quoted on an active market is determined using financial valuation techniques: specifically, the fair value of interest rate swaps is measured by discounting expected cash flows, while that of currency forwards considers closing rates and the expected differentials of the relevant currencies. Financial assets and financial liabilities measured at fair value are classified using the following three levels of the fair value hierarchy, based on the relevance of the inputs used to determine fair value. Specifically:

- Level 1: financial assets and financial liabilities whose fair value is calculated based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the company can access at the measurement date;
- Level 2: financial assets and financial liabilities whose fair value is calculated based on inputs other than quoted prices included within Level 1 that are observable directly or indirectly;
- Level 3: financial assets and financial liabilities whose fair value is calculated based on unobservable inputs.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and available bank deposits and any other forms of short-term investment, with an initial maturity of three months or less, net of impairment losses calculated in accordance with IFRS 9. At the reporting date, current account overdrafts are classified in the statement of financial position as loans and borrowings under current liabilities. Cash and cash equivalents are measured at fair value, which normally coincides with their nominal amount, through profit or loss.

### **Employee benefits**

#### Short-term benefits

Short-term benefits comprise wages, salaries, related social security contributions, holidays paid and incentives paid out in the form of bonuses payable in the twelve months after the reporting date. These benefits are accounted for as personnel expense components in the period in which the employees provide their service.

#### Defined benefit and defined contribution plans

The company has both defined benefit and defined contribution plans in place. The defined contribution plans are managed by third-party fund managers, in relation to which there are no legal or any other obligations to pay additional contributions if the fund does not have sufficient assets to meet the commitments with employees. With respect to the defined contribution plans, the company pays contributions, either voluntarily or as required by contract, into public and private insurance pension funds. Contributions are recognised as personnel expense on an accruals basis. Advance payments for contributions are recognised as an asset that will be repaid or offset against future payments, if due.

A defined benefit plan is a plan that cannot be classified as a defined contribution plan. Under defined benefit plans, the amount of the benefit to be paid to the employee can be quantified only after the termination of the employment relationship, and is linked to one or more factors, such as age, years of service and remuneration. Therefore, defined benefit obligations are determined by an independent actuary using the projected unit credit method. The present value of defined benefit plans is determined by discounting future cash flows at an interest rate equal to that of (high-quality corporate) bonds issued in the foreign currency in which the liability will be settled and that takes account of

the term of the related pension plan. Actuarial gains and losses are fully recognised in equity in the relevant year, taking account of the related deferred tax effect.

Specifically, the company manages a defined benefit plan that consists of post-employment benefits (Italian "TFR"). Italian companies are required to accrue a provision pursuant to article 2120 of the Italian Civil Code, which is treated as deferred remuneration and is based on employees' duration of service and the remuneration they receive during that time. Starting from 1 January 2007, Law no. 296 of 27 December 2006, the "2007 Finance Act" and subsequent decrees and regulations introduced significant amendments to TFR regulations, including the employees' right to choose to transfer the TFR being accrued either to supplementary pension funds or to the "Treasury Fund" managed by INPS (the Italian Social Security Institute). Consequently, the obligation to INPS and the contributions paid into supplementary pension funds are now treated, pursuant to IAS 19 - Employee benefits, as defined contribution plans, while the amounts recognised under post-employment benefits at 1 January 2007 are still treated as defined benefit plans.

The company also has a defined benefit pension plan in place, the "Free Travel Card" that gives current and retired employees and their relatives, the right to use – free of charge or, in some cases, for an admission fee – Trenitalia's railway services.

Consequently, in accordance with the above-mentioned actuarial techniques, a provision is recognised which reflects the discounted charge for retired employees entitled to benefits, and the benefits accrued for employees in force to be disbursed at the end of the employment. The same accounting treatment is applied to the Free Travel Card benefits and the effects arising from actuarial gains and losses as for post-employment benefits.

### **Provisions for risks and charges**

Provisions for risks and charges are recognised to cover specific liabilities that are certain or probable, but whose amount and/or due date is unknown at the reporting date. A provision is recognised when there is a present obligation (legal or constructive), as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation. The provisions are stated as the best estimate of the expenditure required to settle the obligation. The discount rate used to determine the present value of the liability reflects current market values and considers the risk specific to each liability.

Where the effect of the time value of money is material and the settlement dates of obligations can be estimated reliably, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Risks for which a liability is only possible are disclosed in the specific section on contingent liabilities without accruing any provisions.

### **Revenue from contracts with customers**

#### **i. Initial recognition and subsequent measurement**

Revenue is recognised using the five step model, which entails: i) identifying the contract with the customer; ii) identifying the performance obligations in the contract; iii) determining the transaction price; iv) allocating the transaction price to the performance obligations in the contract; and v) recognising revenue.

Revenue is measured considering the contract terms and the commercial practices usually applied to transactions with customers. The transaction price is the amount of consideration (which may include fixed or variable amounts, or both) to which the company expects to be entitled in exchange for transferring promised goods or services to a customer.



Control refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset (good/service). The total consideration of contracts for the provision of services is allocated among all services based on the selling prices of the related services as if they had been sold separately. For each contract, the reference element for the recognition of revenue is the single performance obligation. For each performance obligation, the company recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. For performance obligations satisfied over time, revenue is recognised over time, assessing the progress towards complete satisfaction of the performance obligation at each reporting date. The company measures progress in accordance with an input method (cost-to-cost method). Accordingly, revenue is recognised based on the inputs used to satisfy the obligation up to the reporting date, compared to the total inputs assumed to satisfy the entire obligation. When the inputs are distributed consistently over time, the company recognises the corresponding revenue on a straight-line basis. In some circumstances, when the company is unable to reasonably measure the outcome of a performance obligation, revenue is recognised only to the extent of the costs incurred.

The nature and timing of performance obligations and the significant terms for the satisfaction of performance obligations are summarised below for the company's main contracts with customers:

Italferr carries out design, works management and supervision and project management consulting (PMC) activities. Each activity is governed by a separate contract whereby the performance obligation coincides with the contractually-agreed performance.

Italferr's contracts are generally of a long-term nature.

Design contracts, which normally last two years, provide for the transfer of ownership to the customer upon final delivery of all the works comprising the project.

When carrying out this activity, revenue is recognised using the cost-to-cost method and progress payments are made in accordance with contract agreements.

In general, design contracts provide for an initial invoice issued when the contracts are signed.

At year end, Italferr compares the value of the activities carried out with that of the initial progress payment invoices issued and, where the latter exceed the former and it is not reasonable to expect that production will reach or exceed the value of the progress payments in the next 12 months, the company considers the difference as a significant financing component in the contract.

With respect to works management and supervision contracts, the performance obligation is satisfied at the end of the relevant work site activities. Therefore, the contractually-agreed invoicing is considered a progress payment in this case as well.

Since these contracts allow Italferr to issue invoices based on the work progress approved by customers, progress payments are never of a financial nature.

PMC contracts generally consist of consulting services for design and assistance in procurement, construction and interface management, and sometimes also include testing and commissioning. These are complex services mainly requested by foreign public bodies which lack specific know-how in tenders and/or management of investments in large infrastructure works.

Although they comprise a series of different activities, each activity cannot be considered a separate performance obligation because customers requesting PMC services do not consider them useful individually, but only as a whole. Indeed, in PMC contracts, the individual contract obligations are not separate and independent.

PMC contracts are of a long-term nature. They are normally invoiced following the same pattern as for design contracts.

ii. Existence of a significant financing component

When a significant financing component exists, revenue is adjusted, both when companies are financed by their customer (advance collection) and when they finance it (deferred collection). The existence of a significant financing component is identified when the contract is signed by comparing expected revenue against the payments to be received. It is not recognised if the period between when the entity transfers a promised good or service and when the customer pays for that good or service is one year or less.

### **Government grants**

Government grants, when formally assigned and, in any case, when the right to their disbursement is deemed definitive as it is reasonably certain that the company will comply with any conditions attached to the grant and that the grants will be received, are recognised on an accruals basis in direct correlation with the costs incurred.

*Grants related to assets:* they refer to amounts paid by the government and other public authorities to the company for initiatives to build, recondition and expand property, plant and equipment. They are recognised as a direct reduction in the cost of the assets to which they refer and decrease the depreciation rates.

*Grants related to income:* they refer to amounts paid by the government or other public authorities to the company to offset costs and charges incurred. They are recognised under "Revenue from sales and services" and "Other income".

### **Dividends**

They are recognised in profit or loss when the shareholder's right to receive payment arises, which usually coincides with the shareholder's resolution approving dividend distribution.

Dividends distributed to the company's shareholder are presented as a change in equity and recognised under liabilities when their distribution is approved by the shareholder.

### **Cost recognition**

Costs are recognised when they relate to goods and services acquired or consumed in the year or by systematic allocation.

### **Income taxes**

Current taxes are calculated based on estimated taxable profit and in accordance with ruling tax legislation. Deferred tax assets, related to carry forward tax losses, are recognised when it is probable that future taxable profit will be available against which these losses can be recovered. Deferred tax assets and liabilities are calculated using the tax rates that are expected to be applied in the years in which the differences will be realised or settled.

Current taxes, deferred tax assets and liabilities are recognised in profit or loss, except for those relating to items recognised under other comprehensive income and directly taken to equity. In the latter cases, deferred tax assets are recognised under the "Tax effect" caption under other comprehensive income or directly in equity, respectively. Deferred tax assets and liabilities are offset when they are levied by the same tax authorities, there is a legally enforceable right to set off the recognised amounts and a settlement on a net basis is expected.

Taxes other than income taxes, such as indirect taxes and duties, are included in profit or loss under Other operating costs.

### **Translation of foreign currency amounts**

Any transactions in a currency other than the company's functional currency are recognised at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in a currency other than the Euro are subsequently adjusted at the closing rate. Non-monetary assets and liabilities denominated in a currency other than the Euro are recognised at historical cost using the exchange rate prevailing at the date of initial recognition. Exchange differences are taken to profit or loss.

### **NEW STANDARDS**

#### **First-time adoption of standards, amendments and interpretations**

The following new standards are effective for annual periods beginning on or after 1 January 2022.

#### ***Amendments to IFRS 3, IAS 16, IAS 37, Annual Improvements 2018-2020***

On 14 May 2020, the IASB issued amendments to the following standards:

- IFRS 3 Business combinations: the amendment updates IFRS 3 so that it refers to the revised Conceptual framework, without affecting the provisions of this standard;
- IAS 16 Property, plant and equipment: the amendment prohibits a company deducting from the cost of an item of PPE any proceeds from selling items produced while making that item of PPE available for its intended use. Consequently, a company would recognise such sales proceeds directly in profit or loss;
- IAS 37 Provisions, contingent liabilities and contingent assets: the amendment clarifies what is included as the cost of fulfilling a contract when assessing whether a contract is onerous;
- Annual improvements 2018-2020: the amendments refer to IFRS 1 First-time adoption of International Financial Reporting Standards, IFRS 9 Financial instruments, IAS 41 Agriculture and the illustrative examples accompanying IFRS 16 Leases.

The amendments are all effective for annual periods beginning on or after 1 January 2022. Given their nature, these amendments, where applicable, had no material impacts on these financial statements.

#### **Standards, amendments and interpretations recently endorsed by the European Union not yet applied**

#### **Amendments to IAS 1 Presentation of financial statements and IFRS Practice Statement 2: disclosure of accounting policies; and Amendments to IAS 8 Accounting policies, changes in accounting estimates and errors: definition of accounting estimates**

On 12 February 2021, the IASB issued amendments to the following standards:

- Disclosure of accounting policies - Amendments to IAS 1 and IFRS Practice Statement 2;
- Definition of accounting estimates - Amendments to IAS 8.

The amendments improve accounting policy disclosures so that they provide more useful information to investors and other primary users of the financial statements and distinguish changes in accounting estimates from changes in accounting policies.

All amendments are effective from 1 January 2023.

### **Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12)**

On 7 May 2021, the IASB issued amendments to IAS 12 Income taxes clarifying how companies should account for deferred tax on certain transactions such as leases and decommissioning obligations.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Early adoption is permitted.

### **Standards, amendments and interpretations not yet endorsed by the European Union**

#### **Amendments to IAS 1 Presentation of financial statements: classification of liabilities as current or non-current and classification of liabilities as current or non-current – Deferral of effective date**

On 23 January 2020, the IASB issued amendments to IAS 1 Presentation of financial statements: classification of liabilities as current or non-current which clarify how to classify liabilities as current or non-current. The amendments were initially meant to go into force as from 1 January 2022, but the IASB postponed the effective date to 1 January 2024 with the issue of a second document on 15 June 2020.

#### **Lease liability in a sale and leaseback (Amendments to IFRS 16)**

On 22 September 2022, the IASB issued Lease liability in a sale and leaseback (Amendments to IFRS 16) which clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.

All amendments are effective from 1 January 2024.

### **USE OF ESTIMATES AND JUDGEMENTS**

In preparing the financial statements, the directors applied standards and methods, which in some circumstances rely on difficult and subjective valuations and estimates based on past experience and on assumptions that are from time to time considered to be reasonable and realistic depending on the circumstances. Therefore, the actual amounts of certain financial statements captions calculated according to the above estimates and assumptions may differ in the future, even materially, from those reported in the financial statements, because of the uncertainty that characterises the assumptions and conditions on which the estimates are based - including, at present, the impact of the Covid-19 pandemic, which is still unfolding, the Russian invasion of Ukraine, the macroeconomic situation and the energy crisis, which may trigger scenarios with varied and diverse effects. Estimates and assumptions are reviewed periodically and the effects of any changes are recognised in profit or loss when they affect the year only. If the revision affects both current and future years, the change is recognised in the year the revision is made and in the related future years.

Therefore, actual results may differ, even materially, from these estimates following possible changes in the factors considered in the determination of these estimates.

The following accounting standards require the most subjectivity from the directors in the preparation of estimates and would have a material impact on the financial figures if there were a change in the conditions underlying the assumptions used:

#### **Fair value measurement**

Controlling investments acquired at cost are tested for impairment annually to check that the acquisition cost matches the fair value, i.e., the subsidiaries' ability to generate future results in line with the expectations underlying the acquisition cost. Italferr calculates the fair value of controlling investments acquired at cost using the discounted cash

flow method. These cash flows are estimated based on the latest approved plan of the subsidiaries. Since the current macroeconomic context (the pandemic, inflation, interest rate increases) can affect the reliability of business plans, Italferr has checked that the plans used for impairment testing purposes were prepared on a prudent basis.

### **Impairment losses on property, plant and equipment and intangible assets**

Property, plant and equipment and intangible assets with a finite life are tested for impairment. Impairment losses are recognised when there is evidence that it will be difficult to recover the related carrying amount through the use or sale of the asset. Impairment tests require the directors to make subjective valuations based on the information available within the company and in the market, as well as from past experience. Furthermore, when a potential impairment loss exists, the company calculates such loss using suitable valuation techniques. The correct identification of impairment indicators and the estimates for calculating them depend on factors that may vary over time, thus affecting valuations and estimates made by the directors.

### **Provisions for risks and charges**

Provisions are accrued against legal and tax risks which represent the risk of a negative outcome. The recognised provisions relating to these risks reflect the best estimate made by the directors at the reporting date. This estimate entails the adoption of assumptions that depend on factors which may vary over time and which may have significant effects compared to the current estimates made by the directors for the preparation of the company's financial statements.

### **Taxes**

Deferred tax assets are recognised based on the income expected in future years. The valuation of any expected income for the purposes of the recognition of deferred taxes depends on factors that may vary over time and determine significant effects on the measurement of deferred tax assets.

### **OPERATING SEGMENTS**

At the date of these financial statements, the company had no debt instruments or shares quoted on a regulated market and was included in the scope of consolidation of the FS Italiane group, which provides information on its operating segments in the notes to the consolidated financial statements, in accordance with IFRS 8.2 b.

## **4 Revenue from sales and services (€335,860 thousand)**

Revenue from sales and services amount to €335,860 thousand in 2022 and may be analysed as follows:

|  | 2022           | 2021           | Changes       |
|--|----------------|----------------|---------------|
|  |                |                | €'000         |
| Revenue from contracts with customers        | 335,838        | 268,702        | 67,136        |
| Other revenue from sales and services        | 22             | 17             | 5             |
| <b>Total revenue from sales and services</b> | <b>335,860</b> | <b>268,719</b> | <b>67,141</b> |

Revenue from sales and services entirely relate to the engineering services that are the company's core business. They increased by €67,136 thousand on the previous year: part of this increase is attributable to the higher production volumes, while the remainder was due to the improved profitability of the contracts performed during the year.

Italferr's engineering services are generally of a long-term nature. Furthermore, ownership of the right to use the results of the services provided is transferred upon completion. Consequently, over the life of the acquired contracts,

Italferr recognises the progress of the work performed and issues progress bills to customers. The difference between the progress made and the invoiced amount results in contract assets or liabilities.

The table below shows contract assets and liabilities:

|                      | €'000             |                   |
|----------------------|-------------------|-------------------|
|                      | <b>31.12.2022</b> | <b>31.12.2021</b> |
| Contract assets      | 268.301           | 196.367           |
| Contract liabilities | (104.846)         | (92.170)          |

The table below shows the significant changes that production and revenue had on contract assets and liabilities during the year:

| 2022   | Contract assets |                |                | Contract liabilities |                |                  | Income statement |               |                |
|--|-----------------|----------------|----------------|----------------------|----------------|------------------|------------------|---------------|----------------|
|  | Intragroup      | Third parties  | Total          | Intragroup           | Third parties  | Total            | Intragroup       | Third parties | Total          |
| <b>1 January</b>   | <b>188,470</b>  | <b>7,896</b>   | <b>196,367</b> | <b>(87,523)</b>      | <b>(4,647)</b> | <b>(92,170)</b>  |                  |               |                |
| Revenue recognised during the year which was included in the opening balance of contract liabilities | 45,916          | 28,100         | 74,017         | 4,575                | 422            | 4,997            | 50,492           | 28,522        | 79,014         |
| Increases in contract liabilities, net of the amounts released to revenue during the year            | (154,033)       | (20,139)       | (174,172)      | (97,882)             | (4,525)        | (102,407)        |                  |               |                |
| Increases in contract assets due to the provision of services  | 165,232         | (9,234)        | 155,998        | 72,168               | 4,928          | 77,096           | 237,400          | (4,306)       | 233,094        |
| Increases in contract assets due to changes in the assessment of the percentage of completion        | 16,579          | (486)          | 16,093         | 7,291                | 347            | 7,638            | 23,870           | (140)         | 23,731         |
| <b>31 December</b>   | <b>262,165</b>  | <b>6,137</b>   | <b>268,301</b> | <b>(101,371)</b>     | <b>(3,475)</b> | <b>(104,846)</b> | <b>311,762</b>   | <b>24,076</b> | <b>335,838</b> |
| <b>Change in assets/liabilities</b>  | <b>73,694</b>   | <b>(1,760)</b> | <b>71,935</b>  | <b>(13,847)</b>      | <b>1,172</b>   | <b>(12,676)</b>  |                  |               |                |

| 2021   | Contract assets |              |                | Contract liabilities |                |                 | Income statement |               |                |
|--|-----------------|--------------|----------------|----------------------|----------------|-----------------|------------------|---------------|----------------|
|  | Intragroup      | Terzi        | Total          | Intragroup           | Terzi          | Total           | Intragroup       | Terzi         | Total          |
| <b>1 January</b>   | <b>140,491</b>  | <b>7,775</b> | <b>148,266</b> | <b>(77,634)</b>      | <b>(2,957)</b> | <b>(80,591)</b> |                  |               |                |
| Revenue recognised during the year which was included in the opening balance of contract liabilities | 69,891          | 7,911        | 77,802         | 32,025               | 16,831         | 48,857          | 101,917          | 24,742        | 126,659        |
| Increases in contract liabilities, net of the amounts released to revenue during the year            | (107,874)       | 3,411        | (104,463)      | (102,921)            | (24,797)       | (127,718)       |                  |               |                |
| Increases in contract assets due to the provision of services  | 58,696          | (10,844)     | 47,853         | 52,068               | 6,424          | 58,493          | 110,765          | (4,419)       | 106,345        |
| Increases in contract assets due to changes in the assessment of the percentage of completion        | 27,266          | (358)        | 26,909         | 8,938                | (149)          | 8,789           | 36,204           | (506)         | 35,698         |
| <b>31 December</b>   | <b>188,470</b>  | <b>7,896</b> | <b>196,367</b> | <b>(87,523)</b>      | <b>(4,647)</b> | <b>(92,170)</b> | <b>248,886</b>   | <b>19,816</b> | <b>268,702</b> |
| <b>Change in assets/liabilities</b>  | <b>47,979</b>   | <b>121</b>   | <b>48,100</b>  | <b>(9,889)</b>       | <b>(1,690)</b> | <b>(11,579)</b> |                  |               |                |

The next table gives a breakdown of revenue from sales and services by geographical segment and moment of recognition:

|  | €'000          |                |               |
|--|----------------|----------------|---------------|
|  | 2022           | 2021           | Changes       |
| <b>Geographical segment</b>                  |                |                |               |
| Italy  | 315,879        | 252,656        | 63,223        |
| Europe                                       | 1,537          | 904            | 633           |
| Non-EU                                       | 18,422         | 15,142         | 3,280         |
| <b>From contracts with customers</b>         | <b>335,838</b> | <b>268,702</b> | <b>67,136</b> |
| <b>Moment of recognition</b>                 |                |                |               |
| Over time                                    | 335,838        | 268,702        | 67,136        |
| <b>From contracts with customers</b>         | <b>335,838</b> | <b>268,702</b> | <b>67,136</b> |
| <b>Other revenue from sales and services</b> | <b>22</b>      | <b>17</b>      | <b>5</b>      |
| <b>Total revenue from sales and services</b> | <b>335,860</b> | <b>268,719</b> | <b>67,141</b> |

Other revenue from sales and services of €22 thousand entirely relates to fees for professional refresher courses organised by the company during the year.

## 5 Other income (€452 thousand)

Other income is detailed in the table below:

|                          | €'000      |            |            |
|--------------------------|------------|------------|------------|
|                          | 2022       | 2021       | Changes    |
| Indemnities              | 27         | 16         | 11         |
| Supplier vetting         | 89         | 62         | 27         |
| Grants related to income | 280        | 82         | 198        |
| Repayments               | 30         | 78         | (48)       |
| Other                    | 26         | 28         | (2)        |
| <b>Other income</b>      | <b>452</b> | <b>266</b> | <b>186</b> |

The increase of the year is mainly due to grants related to income (€198 thousand) disbursed for the DGAP (Drone and GNSS for Applications for Professional Surveys) project which is part of the ESA Programme aimed at developing a satellite technology-based system to support work site activities.

The grants disbursed during the year related to the launch of two new projects within the EU Horizon Europe framework, specifically Most-H2 and Reconmatic. The aim of these projects is to develop efficient and safe hydrogen storage and transport technologies and sustainable and circular management of construction and demolition waste, respectively, using the BIM methodology.

## 6 Personnel expense (€139,915 thousand)

This caption can be analysed as follows:

|   | €'000          |                |               |
|---|----------------|----------------|---------------|
|   | 2022           | 2021           | Changes       |
| Wages and salaries  | 97,628         | 79,332         | 18,296        |
| Social security charges                                   | 24,542         | 21,536         | 3,006         |
| Other expense for employees                               | 6,962          | 4,976          | 1,986         |
| Post-employment benefits                                  | 6,394          | 5,294          | 1,100         |
| Post-employment benefits/Free Travel Card service costs   | 17             | 15             | 2             |
| Net accruals/releases for employees                       | (2,653)        | 3,609          | (956)         |
| <b>Employees</b>  | <b>132,890</b> | <b>114,762</b> | <b>23,434</b> |
| Wages and salaries  |                |                | 0             |
| Social security charges                                   |                | 14             | (14)          |
| <b>Consultants and freelancers</b>                        | <b>0</b>       | <b>14</b>      | <b>(14)</b>   |
| Temporary workers, seconded employees and work experience | 3,233          | 2,716          | 517           |
| Other expense   | 3,792          | 3,747          | 45            |
| <b>Other costs</b>  | <b>7,025</b>   | <b>6,463</b>   | <b>562</b>    |
| <b>Total</b>  | <b>139,915</b> | <b>121,239</b> | <b>23,982</b> |

Personnel expense increased by €23,982 thousand on the previous year. As shown in the above table, the increase is essentially due to the rise in personnel expense for employees (+400 FTE) offset, in part, by the prior year income generated by the settlement of the collective interim pay guarantee following the renewal of the national collective bargaining agreement, for an amount lower than the provision accrued in the previous year (€2,650 thousand).

The table below gives a breakdown of the company's average number of employees by category:

|                             | average FTE  |              |            |
|-----------------------------|--------------|--------------|------------|
|                             | 2022         | 2021         | Changes    |
| Managers                    | 64           | 64           | (0)        |
| Junior managers             | 656          | 587          | 69         |
| White collars               | 1,560        | 1,229        | 331        |
| <b>Total employees</b>      | <b>2,280</b> | <b>1,880</b> | <b>400</b> |
| Temporary workers           | 64           | 56           | 8          |
| <b>Total flexible staff</b> | <b>64</b>    | <b>56</b>    | <b>8</b>   |
| <b>Total</b>                | <b>2,344</b> | <b>1,936</b> | <b>408</b> |

## 7 Raw materials, consumables, supplies and goods (€417 thousand)

They can be analysed as follows:

|                           | €'000      |            |           |
|---------------------------|------------|------------|-----------|
|                           | 2022       | 2021       | Changes   |
| Materials and consumables | 417        | 344        | 73        |
| <b>Total</b>              | <b>417</b> | <b>344</b> | <b>73</b> |



The caption includes the cost incurred to purchase raw materials and consumables and those related to accident prevention equipment used in operations.

## 8 Services (€99,158 thousand)

This caption can be analysed as follows:

|   | €'000         |               |               |
|---|---------------|---------------|---------------|
|   | 2022          | 2021          | Changes       |
| Engineering services                                  | 58,867        | 40,598        | 18,269        |
| Administrative and IT services                        | 16,972        | 14,527        | 2,445         |
| Facilities  | 5,424         | 3,594         | 1,830         |
| Travel and accommodation                              | 5,505         | 3,469         | 2,036         |
| Insurance   | 2,392         | 2,209         | 183           |
| Professional services                                 | 2,547         | 2,001         | 546           |
| Utilities   | 1,866         | 1,331         | 535           |
| Services provided by the parent                       | 1,462         | 1,194         | 268           |
| External communications and advertising expense       | 167           | 226           | (59)          |
| Lease payments, building expense and registration tax | 1,221         | 863           | 358           |
| Hires and other                                       | 1,437         | 935           | 502           |
| Other   | 1,298         | 1,384         | (86)          |
| <b>Total</b>  | <b>99,158</b> | <b>72,331</b> | <b>26,827</b> |

This caption rose by 37% on the previous year mainly as a result of the following cost components:

- costs for outsourced engineering services which increased based on the mix of contract types and production volumes of the year (+€18,269 thousand);
- costs for administrative and IT services (€2,445 thousand) which rose due to the increase in ICT services received from the group company FSTechnology, mainly as a result of the higher volume of ongoing services related to the growth in the workforce;
- travel and accommodation costs which increased (€2,036 thousand) on the previous year as a result of the growth in the workforce and also because 2021, unlike 2022, was still affected by a slowdown in employee mobility due to the pandemic restriction measures;
- facility costs which increased by €1,830 thousand, mainly to set up offices according to the new My Office model, which reorganises working environments for individual, coworking and remote working arrangements in a flexible and functional manner.

## 9 Other operating costs (€8,433 thousand)

Other operating costs are detailed in the table below:

|                                    | €'000        |              |              |
|------------------------------------|--------------|--------------|--------------|
|                                    | 2022         | 2021         | Changes      |
| Contribution for Free Travel Cards | 1,748        | 797          | 951          |
| Membership fees                    | 345          | 112          | 233          |
| Entertainment expenses             | 13           | 10           | 3            |
| Other                              | 330          | 323          | 7            |
| Net accruals                       | 5,456        | 3,411        | 2,045        |
| Local taxes and duties             | 541          | 538          | 3            |
| <b>Total</b>                       | <b>8,433</b> | <b>5,191</b> | <b>3,242</b> |

The contribution for the Free Travel Card is the amount paid to Trenitalia for the free transport of Italferr employees.

Net accruals/releases rose on 2021 and may be analysed as follows:

- the probable liabilities for litigation in case they lose the case, which the company estimated by considering pending litigation (€202 thousand);
- the net accrual to the provision for losses on contracts (€5,254 thousand), net of releases based on contract progress and, therefore, net of the realised loss.

## 10 Amortisation/depreciation, impairment losses and accruals (€6,875 thousand)

It may be analysed as follows:

|  | €'000        |              |              |
|--|--------------|--------------|--------------|
|  | 2022         | 2021         | Changes      |
| <b>Amortisation</b>  | <b>3</b>     | <b>3</b>     | <b>0</b>     |
| Depreciation of property, plant and equipment                | 2,325        | 2,135        | 190          |
| Depreciation of leased assets                                | 4,275        | 3,303        | 972          |
| <b>Depreciation</b>  | <b>6,600</b> | <b>5,438</b> | <b>1,162</b> |
| <b>Total amortisation/depreciation</b>                       | <b>6,603</b> | <b>5,441</b> | <b>1,162</b> |
| Impairment losses on property, plant and equipment           | 187          |              | 187          |
| Net impairment (gains) losses on financial assets            | 83           | (51)         | 32           |
| Impairment losses on cash and cash equivalents               | 2            | (5)          | (3)          |
| <b>Net impairment (gains) (losses)</b>                       | <b>272</b>   | <b>(56)</b>  | <b>216</b>   |
| <b>Total amortisation/depreciation and impairment losses</b> | <b>6,875</b> | <b>5,385</b> | <b>1,490</b> |

Amortisation/depreciation amount to €6,603 thousand. For additional information, reference should be made to notes 14, 15 and 16.

Impairment losses, which increased by €216 thousand, include €187 thousand related to the write-off of costs for work in progress on the Via Galati offices, capitalised in previous years, following the change of plans affecting the company's offices.

**11 Financial income (€1,777 thousand)**

This caption can be analysed as follows:

|                        | €'000        |              |              |
|------------------------|--------------|--------------|--------------|
|                        | 2022         | 2021         | Changes      |
| Other financial income | 45           | 50           | (5)          |
| Dividends              | 567          | 941          | (374)        |
| Exchange gains         | 1,165        | 1,484        | (319)        |
| <b>Total</b>           | <b>1,777</b> | <b>2,475</b> | <b>(698)</b> |

The decrease is due to the exchange gains (€319 thousand), mostly on transactions in US dollars, the Indian rupee and the Qatari rial.

Dividends are down by €374 thousand. In 2021, the caption also included the dividends distributed by the Italferr/Altinok Turkish joint venture which ceased operations during the year.

**12 Financial expense (€2,878 thousand)**

Financial expense is detailed in the table below:

|                                    | €'000        |              |              |
|------------------------------------|--------------|--------------|--------------|
|                                    | 2022         | 2021         | Changes      |
| Interest cost on employee benefits | 9            | 4            | 5            |
| Other financial expense            | 1,699        | 819          | 880          |
| Exchange losses                    | 1,170        | 614          | 556          |
| <b>Total</b>                       | <b>2,878</b> | <b>1,437</b> | <b>1,441</b> |

The increase in interest cost on post-employment benefits and redundancy pay increased by €650 thousand on 2021 and depends on the trend of the rates applied, which reflects the increase in the inflation rate.

Interest to parents increased on the previous year as a result of the interest on the short-term revolving credit line granted by FS Italiane to Italferr in early 2022.

Exchange losses also increased on the previous year (+€556 thousand) due to a less favourable trend in exchange rates, mainly the US dollar and the Indian rupee.

**13 Income taxes, current and deferred (€23,966 thousand)**

Income taxes can be analysed as follows:

|  | €'000         |               |              |
|--|---------------|---------------|--------------|
|  | 2022          | 2021          | Changes      |
| IRAP                                   | 3,845         | 3,477         | 368          |
| IRES                                   | 20,683        | 17,092        | 3,591        |
| Current foreign taxes                  | 691           | 311           | 380          |
| Deferred taxes                         | (1,737)       | (913)         | (824)        |
| Adjustments to prior year income taxes | 484           | 436           | 48           |
| <b>Total</b>                           | <b>23,966</b> | <b>20,403</b> | <b>3,563</b> |

The above table shows that the caption increased by €3,563 thousand in 2022, mostly as a result of the higher taxable profit achieved thanks to the rise in production volumes and average contract profitability.

A reconciliation of taxes calculated using the theoretical and effective tax rates is reported below:

| Reconciliation of the actual tax rate           | 2022           |              | 2021          |              |
|---|----------------|--------------|---------------|--------------|
|   | Amount         | %            | Amount        | %            |
| Profit for the year                             | 56,447         |              | 45,130        |              |
| Total income taxes                              | 23,966         |              | 20,404        |              |
| Pre-tax profit                                  | 80,413         |              | 65,534        |              |
| <b>IRES theoretical tax (national tax rate)</b> | <b>19,299</b>  | <b>24.0%</b> | <b>15,728</b> | <b>24.0%</b> |
| <b>Lower taxes</b>                              |                |              |               |              |
| Other decreases                                 | (2,974)        | -4.5%        | (2,335)       | -3.6%        |
| <b>Higher taxes</b>                             |                |              |               |              |
| Accruals to provisions                          | 2,999          | 4.6%         | 2,690         | 4.1%         |
| Prior year expense                              | 231            | 0.4%         | 185           | 0.3%         |
| Other increases                                 | 1,128          | 1.7%         | 824           | 1.3%         |
| <b>Total current income taxes (IRES)</b>        | <b>20,683</b>  | <b>31.6%</b> | <b>17,092</b> | <b>26.1%</b> |
| <b>IRAP</b>                                     | <b>3,845</b>   | <b>5.9%</b>  | <b>3,477</b>  | <b>5.3%</b>  |
| <b>Foreign taxes</b>                            | <b>691</b>     | <b>1.1%</b>  | <b>311</b>    | <b>0.5%</b>  |
| <b>Difference on estimated prior year taxes</b> | <b>484</b>     | <b>0.7%</b>  | <b>435</b>    | <b>0.7%</b>  |
| <b>Total deferred tax</b>                       | <b>(1,737)</b> | <b>-2.7%</b> | <b>(912)</b>  | <b>-1.4%</b> |
| <b>Total</b>                                    | <b>23,966</b>  | <b>36.6%</b> | <b>20,403</b> | <b>31.1%</b> |

## 14 Property, plant and equipment (€37,562 thousand)

The opening and closing balances of property, plant and equipment and changes therein are shown in the table below.

The assets' estimated useful lives did not change during the year.

|  | Land and buildings | Other assets | Assets under construction and payments on account | Total         | €'000 |
|--|--------------------|--------------|---|---------------|-------|
| Historical cost                        | 36,476             | 20,236       | 98  | 56,810        |       |
| Depreciation and impairment losses     | (9,292)            | (15,990)     |   | (25,282)      |       |
| <b>Balance at 1.1.2021</b>             | <b>27,184</b>      | <b>4,246</b> | <b>98</b>   | <b>31,528</b> |       |
| Investments                            | 3,238              | 2,406        | 89  | 5,733         |       |
| Depreciation                           | (3,613)            | (1,824)      |   | (5,437)       |       |
| Exchange differences                   | (10)               | (6)          |   | (16)          |       |
| Disposals and divestments <sup>1</sup> | (220)              | (345)        |   | (565)         |       |
| Other changes <sup>2</sup>             | 1,422              | (15)         |   | 1,407         |       |
| <b>Total changes</b>                   | <b>817</b>         | <b>216</b>   | <b>89</b>   | <b>1,122</b>  |       |
| Historical cost                        | 40,305             | 22,120       | 187   | 62,612        |       |
| Depreciation and impairment losses     | (12,305)           | (17,658)     |   | (29,963)      |       |
| <b>Balance at 31.12.2021</b>           | <b>28,000</b>      | <b>4,462</b> | <b>187</b>  | <b>32,649</b> |       |
| Investments                            | 9,084              | 2,648        | 0   | 11,732        |       |
| Depreciation                           | (4,345)            | (2,255)      |   | (6,600)       |       |
| Exchange differences                   | (9)                |              |   | (9)           |       |
| Disposals and divestments              | (6)                | (17)         |   | (23)          |       |
| Other changes                          |                    |              | (187)   | (187)         |       |
| <b>Total changes</b>                   | <b>4,724</b>       | <b>376</b>   | <b>(187)</b>                                      | <b>4,913</b>  |       |
| Historical cost                        | 48,889             | 24,353       |   | 73,242        |       |
| Depreciation and impairment losses     | (16,165)           | (19,515)     |   | (35,680)      |       |
| <b>Balance at 31.12.2022</b>           | <b>32,724</b>      | <b>4,838</b> | <b>0</b>  | <b>37,562</b> |       |

The above table shows, inter alia, changes in right-of-use assets, which are broken down and commented on in note 15 "Right-of-use assets".

Excluding right-of-use assets:

- the investments for the year total €1,338 thousand and relate to the purchase of laptops and notebooks for Italian and foreign employees (€631 thousand), furniture for the new Rome office, the smart office at Via Galati (€551 thousand) and the other Italian offices (€146 thousand). Finally, small office equipment was also purchased (€10 thousand);
- disposals and decreases refer to the disposal of furniture (€52 thousand) and PCs (€27 thousand) of Italferr's office in Algiers, following its closure, and to the sale of obsolete PCs which were replaced (€249 thousand). All assets disposed of/sold were entirely depreciated. The sale of hardware generated a €5 thousand gain;
- the costs for work in progress on the Via Galati office, which were capitalised in previous years (€187 thousand), were written off following the change of plans affecting the company's offices.

At 31 December 2022, there are no mortgages or liens on property, plant and equipment.

## 15 Right-of-use assets

### Lessee

Changes in right-of-use assets are analysed below.

|                                    | €'000              |              |               |
|------------------------------------|--------------------|--------------|---------------|
|                                    | Land and buildings | Other assets | Total         |
| Historical cost                    | 10,735             | 1,677        | 12,412        |
| Depreciation and impairment losses | (3,123)            | (439)        | (3,562)       |
| <b>Total changes</b>               | <b>7,612</b>       | <b>1,238</b> | <b>8,850</b>  |
| Investments                        | 3,238              | 740          | 3,978         |
| Depreciation                       | (2,944)            | (359)        | (3,303)       |
| Exchange differences               | (10)               | (6)          | (16)          |
| Contract termination               | (220)              | (345)        | (565)         |
| Other changes                      | 1,422              |              | 1,422         |
| <b>Total changes</b>               | <b>1,486</b>       | <b>30</b>    | <b>1,516</b>  |
| Historical cost                    | 14,564             | 3,008        | 17,572        |
| Depreciation and impairment losses | (5,466)            | (679)        | (6,145)       |
| <b>Balance at 31.12.2021</b>       | <b>9,098</b>       | <b>2,329</b> | <b>11,427</b> |
| Investments                        | 9,084              | 1,310        | 10,394        |
| Depreciation                       | (3,676)            | (599)        | (4,275)       |
| Exchange differences               | (9)                |              | (9)           |
| Contract termination               | (6)                | (18)         | (24)          |
| <b>Total changes</b>               | <b>5,393</b>       | <b>693</b>   | <b>6,086</b>  |
| Historical cost                    | 23,148             | 3,154        | 26,302        |
| Depreciation and impairment losses | (8,657)            | (1,207)      | (9,864)       |
| <b>Balance at 31.12.2022</b>       | <b>14,491</b>      | <b>1,947</b> | <b>16,438</b> |

In 2022, new leases of land and buildings relate to property leases amounting to €9,084 thousand. They may be analysed as follows:

- lease of Italferr's new offices in Rome, Via San Martino della Battaglia (€7,110 thousand);
- lease of additional space for the Genoa offices (€987 thousand);
- increase in the lease of the Bari offices (€467 thousand);
- lease of flats for Italferr personnel in Taskent, Uzbekistan (€296 thousand);
- the lease of construction site offices for works management of the ERTMS project (€82 thousand);
- lease of new offices in India (€77 thousand);
- lease of the Catania offices from RFI (€65 thousand).

Investments in other assets relate entirely to long-term leases of motor vehicles for the Italian (€889 thousand), Indian (€287 thousand) and Uzbekistan (€134 thousand) offices.

Lease liabilities and the related changes of the year are shown below:

|  | €'000         |
|--|---------------|
|  | <b>2022</b>   |
| <b>Lease liabilities - 1 January</b>   | <b>10,362</b> |
| New right-of-use assets                | 10,393        |
| Financial expense                      | 339           |
| Payments                               | (4,542)       |
| <b>Lease liabilities - 31 December</b> | <b>16,552</b> |

The following table shows the impacts on profit or loss:

|  | €'000        |
|--|--------------|
|  | <b>2022</b>  |
| Depreciation of right-of-use assets            | 4,275        |
| Interest expense on lease liabilities          | 338          |
| Costs related to leases not covered by IFRS 16 | 2,658        |
| <b>Total impact on profit or loss</b>          | <b>7,271</b> |

### Extension/termination options

At the commencement date of each lease, the company assesses if it is reasonably certain that it will exercise the extension/termination options and subsequently updates its assessment if a significant event or a significant change in circumstances under its control occurs.

The table below shows potential future payments:

|                          | €'000                        |  |
|--------------------------|------------------------------|--|
| <b>Lease liabilities</b> | <b>Future lease payments</b> | <b>Historical rate of exercise of the extension option</b> |
| 16,552                   | (4,541)                      | 85%  |

## 16 Intangible assets (€4 thousand)

The table below shows the opening and closing balances of intangible assets and changes in the year.

|                                    | €'000  |
|------------------------------------|--|
|                                    | <b>Industrial patents<br/>and intellectual<br/>property rights</b> |
| Historical cost                    | 3  |
| Amortisation and impairment losses | (3)  |
| <b>Balance at 1.1.2021</b>         | <b>0</b>   |
| Investments                        | 10   |
| Amortisation                       | (3)  |
| <b>Total changes</b>               | <b>7</b>   |
| Historical cost                    | 13   |
| Amortisation and impairment losses | (6)  |
| <b>Balance at 31.12.2021</b>       | <b>7</b>   |
| Investments                        | 0  |
| Amortisation                       | (3)  |
| <b>Total changes</b>               | <b>(3)</b>   |
| Historical cost                    | 13   |
| Amortisation and impairment losses | (9)  |
| <b>Balance at 31.12.2022</b>       | <b>4</b>   |

Following the demerger of the ICT business unit in 2019, all software owned by Italferr was transferred to FSTechnology, except for that purchased by foreign offices. In 2022, no new investments were made in the foreign offices of Italferr.

## 17 Deferred tax assets and deferred tax liabilities (€9,845 thousand)

The table below shows deferred tax assets and deferred tax liabilities at 31 December 2022 and changes of the year due to the main temporary differences between carrying amounts and the related tax amounts.

|                                  | €'000        |   |                                |              |
|----------------------------------|--------------|---|--------------------------------|--------------|
|                                  | 31.12.2021   | Incr. (decr.) through profit<br>or loss | Incr. / (decr.)<br>through OCI | 31.12.2022   |
| <b>Deferred tax assets:</b>      | <b>8,500</b> | <b>1,699</b>                            | <b>(354)</b>                   | <b>9,845</b> |
| Provisions for risks and charges | 6,958        | 1,520                                   |                                | 8,478        |
| Employee benefits                | 280          |   | (354)                          | (74)         |
| Other items                      | 1,262        | 179                                     |                                | 1,441        |
| <b>Deferred tax liabilities</b>  | <b>(91)</b>  | <b>38</b>                               | <b>0</b>                       | <b>(53)</b>  |
| Other items                      | (91)         | 38                                      |                                | (53)         |

The main change of 2022 relates to deferred tax assets recognised on accruals to the provision for contractual risks, while changes in deferred tax liabilities relate to unrealised exchange gains.



## 18 Equity investments (€18,652 thousand)

The tables below show the opening and closing balances of equity investments, broken down by category, and changes in 2022 and 2021.

|                        | €'000         |               |            |
|------------------------|---------------|---------------|------------|
|                        | 31.12.2022    | 31.12.2021    | Changes    |
| <b>Investments in:</b> |               |               |            |
| Subsidiaries           | 18,652        | 18,652        | (0)        |
| Joint arrangements     | 0             | 1             | (1)        |
| <b>Total</b>           | <b>18,652</b> | <b>18,653</b> | <b>(1)</b> |

The only change of the year refers to the investment in the Italferr/Altinok joint venture (-€1 thousand) which ceased its operations in January 2023.

The company measured the investment in CREW considering it to be a cash generating unit (CGU) and estimated its value in use by discounting future cash flows using the provisional 2023 budget figures and long-term projections (the 2023-2032 business plan).

The terminal value was estimated in accordance with the unlimited capitalisation model of the prospective cash flows of the last year of the explicit forecast, using normalised growth rates.

To this end, average growth rates were considered in line with the rates of the long-term forecast of the inflation rate of 1.

A weighted average cost of capital (WACC) of 7.78% was applied, while the compound annual growth rate (CAGR) of the gross operating profit was equal to -1.2%. Indeed, the first four years of the plan benefit from strong growth, in terms of production and profit margins, generated by the assets covered by investments financed by the NRRP. On the other hand, a return to the current profit margins is prudently expected for the second half of the plan.

The tables below show Italferr's investees and their changes in 2022 and 2021, respectively:

|  | Carrying amount<br>31.12.2021 | Changes in the year    |                              |                  | Carrying amount<br>31.12.2022 | Accumulated<br>loss allowance |
|--|-------------------------------|------------------------|------------------------------|------------------|-------------------------------|-------------------------------|
|  |                               | Acquis./<br>subscript. | Impairment<br>losses/(gains) | Other<br>changes |                               |                               |
| <b>Investments in subsidiaries</b>             |                               |                        |                              |                  |                               |                               |
| CREW - Cremonesi Workshop                      | 18,302                        |                        |                              | 18,302           |                               |                               |
| I.E.S.   | 350                           |                        |                              | 350              |                               |                               |
| <b>Investments in joint arrangements</b>       |                               |                        |                              |                  |                               |                               |
| Turkey (Italferr - Altinok and Italferr - SWS) | 1                             |                        |                              | (1)              | 0                             |                               |
| <b>Non-controlling interests</b>               |                               |                        |                              |                  |                               |                               |
| Consorcio Supervisor Plmb <sup>1</sup>         |                               |                        |                              |                  |                               |                               |

<sup>1</sup> Colombian consortium (set up with Metropolitana Milanese, the Spanish Ayesa and the Colombian MAB Ingeniería de Valor). Italferr's share is 25% and as the consortium does not have a consortium fund, the equity investment was recognised at a symbolic amount of €1.

€'000

|  | Carrying amount<br>31.12.2020 | Changes in the year    |                              |                  | Carrying amount<br>31.12.2021 | Accumulated<br>loss allowance |
|--|-------------------------------|------------------------|------------------------------|------------------|-------------------------------|-------------------------------|
|  |                               | Acquis./<br>subscript. | Impairment<br>losses/(gains) | Other<br>changes |                               |                               |
| <b>Investments in subsidiaries</b>             |                               |                        |                              |                  |                               |                               |
| CREW - Cremonesi Workshop                      | 18,302                        |                        |                              |                  | 18,302                        |                               |
| I.E.S.   | 350                           |                        |                              |                  | 350                           |                               |
| <b>Investments in joint arrangements</b>       |                               |                        |                              |                  |                               |                               |
| Turkey (Italferr - Altinok and Italferr - SWS) | 1                             |                        |                              |                  | 1                             |                               |
| <b>Non-controlling interests</b>               |                               |                        |                              |                  |                               |                               |
| Consorcio Supervisor Plmb <sup>1</sup>         |                               |                        |                              |                  |                               |                               |

The following table compares the carrying amounts of investments in subsidiaries, associates and joint arrangements with the corresponding interests in equity:

€'000

|  | Registered<br>office | Share/<br>quota<br>capital | Profit for<br>the year | Equity at<br>31.12.202<br>2 | Investment<br>% | Share of<br>equity (a) | Carrying<br>amount at<br>31.12.2022<br>(b) | Difference<br>(b-a) |
|--|----------------------|----------------------------|------------------------|-----------------------------|-----------------|------------------------|--|---------------------|
| <b>Investments in subsidiaries</b>       |                      |                            |                        |                             |                 |                        |  |                     |
| CREW - Cremonesi Workshop S.r.l.         | Brescia - Italy      | 100                        | 1,513                  | 5,448                       | 80%             | 4,359                  | 18,302                                     | 13,943              |
| I.E.S.                                   | Belgrade -<br>Serbia | 338                        | 152                    | 953                         | 100%            | 953                    | 350  | (603)               |
| <b>Investments in joint arrangements</b> |                      |                            |                        |                             |                 |                        |  |                     |
| Italferr - SWS joint venture             | Istanbul -<br>Turkey | 0                          | 86                     | 189                         | 50.0%           | 94                     |  | (94)                |

The following is a summary of the financial statements highlights of the subsidiaries, associates and joint arrangements.

€'000

| 31.12.2022   | % of<br>investment | Current<br>assets | Non-<br>current<br>assets | Total<br>assets | Current<br>liabilities | Non-current<br>liabilities | Total<br>liabilities | Revenue | Costs   | Profit for<br>the year |
|--|--------------------|-------------------|---------------------------|-----------------|------------------------|----------------------------|----------------------|---------|---------|------------------------|
| <b>Investments in subsidiaries</b>                 |                    |                   |                           |                 |                        |                            |                      |         |         |                        |
| CREW - Cremonesi Workshop S.r.l.                   | 80%                | 10,628            | 324                       | 10,952          | 5,749                  | (245)                      | 5,504                | 8,454   | (6,941) | 1,513                  |
| I.E.S.   | 100%               | 1,131             | 49                        | 1,180           | 204                    | 23                         | 227                  | 1,492   | (1,340) | 152                    |
| <b>Investments in joint arrangements</b>           |                    |                   |                           |                 |                        |                            |                      |         |         |                        |
| Italferr-SWS & Italferr Adi Ortakligi joint ventur | 50.0%              | 121               | 75                        | 196             | 7                      | 0                          | 7                    | 82      | 4       | 86                     |

## 19 Non-current and current financial assets (€14,515 thousand)

The following table shows the composition of financial assets at 31 December 2022, compared to 31 December 2021:

€'000

|                               | 31.12.2022  |               |               | 31.12.2021  |               |               | Changes     |            |            |
|-------------------------------|-------------|---------------|---------------|-------------|---------------|---------------|-------------|------------|------------|
|                               | Non-current | Current       | Total         | Non-current | Current       | Total         | Non-current | Current    | Total      |
| Amounts attached by banks     | 0           |               | <b>0</b>      | 1           |               | <b>1</b>      | (1)         | 0          | <b>(1)</b> |
| Securities                    | 1           |               | <b>1</b>      | 2           |               | <b>2</b>      | (1)         | 0          | <b>(1)</b> |
| Intragroup current account    |             | 14,514        | <b>14,514</b> |             | 13,739        | <b>13,739</b> | 0           | 775        | <b>775</b> |
| <b>Total financial assets</b> | <b>1</b>    | <b>14,514</b> | <b>14,515</b> | <b>3</b>    | <b>13,739</b> | <b>13,742</b> | <b>(2)</b>  | <b>775</b> | <b>773</b> |

The increase of the year is entirely due to the balance of the intragroup current account held with the parent of €775 thousand.

Securities include Astaldi shares and the participating financial instruments assigned to Italferr, as unsecured creditor, after the completion of Astaldi S.p.A.'s composition with creditors procedure. The decrease in securities is due to the year-end adjustment carried out on the basis of their market price.

## 20 Other non-current and current assets (€10,626 thousand)

These consist of the following:

€'000

|  | 31.12.2022  |               |               | 31.12.2021  |               |               | Changes     |            |              |
|--|-------------|---------------|---------------|-------------|---------------|---------------|-------------|------------|--------------|
|  | Non-current | Current       | Total         | Non-current | Current       | Total         | Non-current | Current    | Total        |
| Other assets from group companies              |             | 1,721         | <b>1,721</b>  |             | 1,353         | <b>1,353</b>  |             | 368        | <b>368</b>   |
| VAT assets                                     |             | 2,728         | <b>2,728</b>  |             | 3,066         | <b>3,066</b>  |             | (338)      | <b>(338)</b> |
| Sundry assets                                  | 310         | 4,956         | <b>5,266</b>  | 288         | 4,715         | <b>5,003</b>  | 22          | 241        | <b>263</b>   |
| Advances to suppliers                          |             | 292           | <b>292</b>    |             | 519           | <b>519</b>    |             | (227)      | <b>(227)</b> |
| Prepayments and accrued income - third parties |             | 1,082         | <b>1,082</b>  |             | 994           | <b>994</b>    |             | 88         | <b>88</b>    |
| <b>Total</b>                                   | <b>310</b>  | <b>10,779</b> | <b>11,089</b> | <b>288</b>  | <b>10,647</b> | <b>10,935</b> | <b>22</b>   | <b>132</b> | <b>154</b>   |
| Loss allowance                                 |             | (463)         | <b>(463)</b>  |             | (468)         | <b>(468)</b>  |             | 5          | <b>5</b>     |
| <b>Total net of the loss allowance</b>         | <b>310</b>  | <b>10,316</b> | <b>10,626</b> | <b>288</b>  | <b>10,179</b> | <b>10,467</b> | <b>22</b>   | <b>137</b> | <b>159</b>   |

VAT assets refer to the residual advances paid to the tax authorities (€5,693 thousand) in 2017, net of the monthly payments made in the subsequent years to date.

Other assets from group companies include the amount due from the subsidiary CREW for undistributed dividends (€1,020 thousand).

Sundry assets - non-current include guarantee deposits for the lease of buildings and other assets, while the current portion (€4,956 thousand) comprises amounts due from personnel and social security institutions (€103 thousand) and other assets (€4,853 thousand), specifically VAT and other tax assets related to foreign offices (€4,062 thousand).

Advances to suppliers (€292 thousand) are for engineering service engagements assigned to third parties.

Prepayments and accrued income increased by €88 thousand due to the lease of the offices in Rome, via San Martino della Battaglia.

The following table gives a breakdown of other non-current and current assets by geographical segment:

|  | €'000         |               |            |
|--|---------------|---------------|------------|
|  | 31.12.2022    | 31.12.2021    | Changes    |
| Italy                                  | 5,345         | 5,632         | (287)      |
| Eurozone                               | 53            | 0             | 53         |
| Other European countries (non-Euro EU) | 13            | 78            | (65)       |
| Other countries                        | 5,215         | 4,757         | 458        |
| <b>Total net of the loss allowance</b> | <b>10,626</b> | <b>10,467</b> | <b>159</b> |

## 21 Trade receivables (€320,226)

Trade receivables may be analysed as follows:

|   | 31.12.2022     | 31.12.2021     | Changes       |
|---|----------------|----------------|---------------|
| Ordinary customers                                  | 12,135         | 12,776         | (641)         |
| Government authorities and other public authorities | 349            | 590            | (241)         |
| Group companies                                     | 46,247         | 58,645         | (12,398)      |
| Contract assets                                     | 268,532        | 196,583        | 71,949        |
| <b>Carrying amount</b>                              | <b>327,263</b> | <b>268,594</b> | <b>58,669</b> |
| Loss allowance                                      | (7,037)        | (6,950)        | (87)          |
| <b>Total net of the loss allowance</b>              | <b>320,226</b> | <b>261,644</b> | <b>58,582</b> |

Amounts due from group companies decreased by €12,398 thousand due to the increase in collected amounts and a more regular year-end invoicing trend to counterparties.

Amounts due from third-party customers decreased by €641 thousand, despite the increase in turnover on the previous year end, due to an improvement in average collection times.

Contract assets increased by €71,949 thousand both due to the growth in production volumes, especially with RFI, and because a portion of the contracts in progress failed to reach the contractual milestones at year end.

Contract assets are broken down by the main types of assets and counterparty below.

|                               | 31.12.2022       |                                |                       | 31.12.2021       |                                |                       |
|-------------------------------|------------------|--------------------------------|-----------------------|------------------|--------------------------------|-----------------------|
|                               | Work in progress | Advances and progress billings | Total contract assets | Work in progress | Advances and progress billings | Total contract assets |
| RFI                           | 1,456,538        | (1,206,856)                    | 249,682               | 1,288,326        | (1,111,137)                    | 177,189               |
| Other group companies - Italy | 30,576           | (17,928)                       | 12,648                | 32,584           | (21,176)                       | 11,408                |
| Third parties                 | 10,290           | (8,761)                        | 1,529                 | 13,112           | (11,185)                       | 1,927                 |
| <b>Total Italy</b>            | <b>1,497,404</b> | <b>(1,233,545)</b>             | <b>263,859</b>        | <b>1,334,022</b> | <b>(1,143,498)</b>             | <b>190,524</b>        |
| Third parties                 | 50,902           | (46,229)                       | 4,673                 | 30,528           | (24,469)                       | 6,059                 |
| <b>Total abroad</b>           | <b>50,902</b>    | <b>(46,229)</b>                | <b>4,673</b>          | <b>30,528</b>    | <b>(24,469)</b>                | <b>6,059</b>          |
| <b>Total contract assets</b>  | <b>1,548,306</b> | <b>(1,279,774)</b>             | <b>268,532</b>        | <b>1,364,550</b> | <b>(1,167,967)</b>             | <b>196,583</b>        |

The maximum exposure to credit risk, broken down by geographical segment, is as follows:

|  | €'000          |                |               |
|--|----------------|----------------|---------------|
|  | 31.12.2022     | 31.12.2021     | Changes       |
| Italy                                  | 312,187        | 252,549        | 59,638        |
| Eurozone                               | 213            | 0              | 213           |
| Other European countries (non-Euro EU) | 56             | 70             | (14)          |
| Other non-EU European countries        | 330            | 507            | (177)         |
| Other countries                        | 7,440          | 8,518          | (1,078)       |
| <b>Total net of the loss allowance</b> | <b>320,226</b> | <b>261,644</b> | <b>58,582</b> |

## 22 Cash and cash equivalents (€10,838 thousand)

As shown in the table below, this caption basically comprises cash deposited with bank and postal accounts not transferred to the intragroup current account held with the parent.

|  | €'000         |              |              |
|--|---------------|--------------|--------------|
|  | 31.12.2022    | 31.12.2021   | Changes      |
| Bank and postal accounts               | 10,828        | 8,775        | 2,053        |
| Cash and cash equivalents              | 20            | 22           | (2)          |
| <b>Total</b>                           | <b>10,848</b> | <b>8,797</b> | <b>2,051</b> |
| Loss allowance                         | (10)          | (8)          | (2)          |
| <b>Total net of the loss allowance</b> | <b>10,838</b> | <b>8,789</b> | <b>2,049</b> |

## 23 Equity (€130,188 thousand)

Changes in the main equity captions in 2022 and 2021 are analysed in the table at the beginning of these notes.

### Share capital

The company's entirely subscribed and paid-up share capital on 31 December 2022 consists of 14,186 ordinary shares with a nominal amount of €1,000 each, for a total of €14,186,000;

**Legal reserve:** this reserve did not change during the year, as in 2007 it reached the legal minimum of 20% of share capital and amounts to €2,837 thousand;

**Extraordinary reserve:** this reserve amounts to €57,394 thousand. The increase on the previous year end is due to the undistributed portion of the profit for 2021.

### Other reserves

These consist of the following:

- *Reserve as per article 13 of Legislative decree no. 124/1993 (€33 thousand):* this reserve includes the portions of profit for the year accrued up to 2000 and equal to 3% of post-employment benefits transferred to supplementary pension funds. Pursuant to article 13.6 of Legislative decree no. 124/1993, an amount not exceeding 3% of the annual accrual of post-employment benefits transferred to supplementary pension funds was deductible for income tax purposes, provided that the deductible amount was accrued in a specific equity reserve. Article 13.6 was repealed by article 3.1.c).1 of Legislative decree no. 47/2000;

- **Translation reserve (€644 thousand):** this reserve includes net unrealised exchange gains which, pursuant to article 2426.8-bis of the Italian Civil Code, must be taken to a non-distributable reserve until they are realised.

**Actuarial reserve:** this reserve has a negative balance of €4,622 thousand and includes the actuarial losses on employee benefits taken directly to equity, net of the €1,122 thousand tax effect.

**Retained earnings:** this reserve amounts to €3,269 thousand. It was set up in 2010 upon the first-time adoption of the IFRS and includes the adjustments to the opening balances (1 January 2009) of post-employment benefits, the Free Travel Card and non-current assets, net of the related tax, as well as the change in the profit for 2009 due to the restatement of balances for the first-time adoption of the IFRS.

### Profit for the year

The profit for 2022 from continuing operations amounts to €56,447 thousand.

The origin, availability and distribution of equity captions, as well as their use in the past three years, are shown below:

€'000

| Origin  | Balance at<br>31.12.2022<br>(a+b) | Unavailable<br>portion (a) | Available<br>portion (b) | Possibility<br>of use | Summary of uses in the past three<br>years |                       |           |
|---|-----------------------------------|----------------------------|--------------------------|-----------------------|--|-----------------------|-----------|
|   |                                   |                            |                          |                       | Capital<br>increase                        | Coverage<br>of losses | Dividends |
| <b>Share capital</b>                          | <b>14,186</b>                     |                            |                          |                       |  |                       |           |
| <b>Income-related reserves:</b>               |                                   |                            |                          |                       |  |                       |           |
| Legal reserve                                 | 2,837                             | 2,837                      |                          |                       |  |                       |           |
| Extraordinary reserve                         | 57,394                            |                            | 57,394                   | A,B,C                 |  |                       |           |
| Reserve as per art. 13 Leg. decree no. 124/93 | 33                                |                            | 33                       | B                     |  |                       |           |
| Translation reserve                           | 644                               | 220                        | 424                      | A,B,C                 |  |                       |           |
| IFRS reserve                                  | (4,622)                           | (4,622)                    |                          |                       |  |                       |           |
| Retained earnings                             | 3,269                             | 3,269                      |                          |                       |  |                       |           |
| <b>TOTAL</b>                                  | <b>73,741</b>                     | <b>1,704</b>               | <b>57,850</b>            |                       | <b>0</b>                                   | <b>0</b>              | <b>0</b>  |

A: capital increase

B: coverage of losses

C: dividends

## 24 Non-current and current loans and borrowings (€44,000 thousand)

They can be analysed as follows:

€'000

| Non-current loans and borrowings, net of current<br>portion | 31.12.2022   | 31.12.2021   | Changes        |
|---|--------------|--------------|----------------|
| Loans and borrowings from group companies                   | 7,500        | 9,000        | (1,500)        |
| <b>Total</b>  | <b>7,500</b> | <b>9,000</b> | <b>(1,500)</b> |

The amount shown in the above table reflects the residual portion, net of the current portion, of the loan obtained from the parent in 2018 to acquire an investment in CREW. The loan is repayable in half-year instalments in arrears at a fixed rate of 3.65%.

€'000

| Current portion of non-current loans and<br>borrowings         | 31.12.2022    | 31.12.2021   | Changes       |
|--|---------------|--------------|---------------|
| Loans and borrowings from group companies (current<br>portion) | 36,500        | 1,500        | 35,000        |
| <b>Total</b>   | <b>36,500</b> | <b>1,500</b> | <b>35,000</b> |

The current portion at 31 December 2022 includes the utilisation of the revolving credit line which was granted by the parent to meet the company's liquidity needs (€35,000 thousand). The credit line, on which interest accrues at a variable rate, was granted in January 2022 for 12 months and can be extended for another six months.

The characteristics of the outstanding loans are shown in the table below.

€'000

| Creditor                             | Currency | Nominal interest rate | Year of expiry | 31.12.2022    |                 | 31.12.2021    |                 |
|--------------------------------------|----------|-----------------------|----------------|---------------|-----------------|---------------|-----------------|
|                                      |          |                       |                | Nom. amount   | Carrying amount | Nom. amount   | Carrying amount |
| Ferrovie dello Stato Italiane S.p.A. | €        | 3.65%                 | 2028           | 15,000        | 9,000           | 15,000        | 10,500          |
| Ferrovie dello Stato Italiane S.p.A. | €        | Variable rate         | 2023           | 60,000        | 35,000          | 0             | 0               |
| <b>Total loans and borrowings</b>    |          |                       |                | <b>75,000</b> | <b>44,000</b>   | <b>15,000</b> | <b>10,500</b>   |

The reconciliation between the total changes in financial assets and liabilities broken down by monetary and non-monetary items is given below.

€'000

| Cash flows used in operating activities                                  | 31.12.2021   | Monetary items (statement of cash flows) | Non-monetary items |                | 31.12.2022    |
|--|--------------|--|--------------------|----------------|---------------|
|  |              |  | New leases         | Other          |               |
| Disbursement (repayment) of current and non-current loans and borrowings | 10,500       | 33,500                                   |                    |                | 44,000        |
| Change in other financial assets   | (13,740)     | (775)                                    |                    | 1              | (14,514)      |
| Change in other financial liabilities                                    | 10,362       |  | 10,393             | (4,203)        | 16,552        |
| <b>Total</b>   | <b>7,122</b> | <b>32,725</b>                            | <b>10,393</b>      | <b>(4,202)</b> | <b>46,038</b> |

The table below provides an analysis of the net financial position, shown in the reclassified statement of financial position, as presented in the 2022 directors' report compared with 31 December 2021:

€'000

| Net financial position                      | 31.12.2022      | 31.12.2021      | Changes         |
|---|-----------------|-----------------|-----------------|
| <b>Current net financial position</b>       |                 |                 |                 |
| Cash and cash equivalents                   | 10,838          | 8,789           | 2,049           |
| Intragroup current account                  | 14,514          | 13,739          | 775             |
| Other financial liabilities                 | (36,500)        | (1,500)         | (35,000)        |
| Other                                       | (4,440)         | (3,050)         | (1,390)         |
| <b>Total current net financial position</b> | <b>(15,588)</b> | <b>17,978</b>   | <b>(33,566)</b> |
| <b>Non-current net financial debt</b>       |                 |                 |                 |
| Other financial liabilities                 | (7,500)         | (9,000)         | 1,500           |
| Other                                       | (12,111)        | (7,310)         | (4,801)         |
| <b>Non-current net financial debt</b>       | <b>(19,611)</b> | <b>(16,310)</b> | <b>(3,301)</b>  |
| <b>Net financial position</b>               | <b>(35,199)</b> | <b>1,668</b>    | <b>(36,867)</b> |

## 25 Employee benefits (€13,448 thousand)

Changes in the present value of liabilities for defined benefit obligations are shown in the table below:

|  | €'000         |               |                |
|--|---------------|---------------|----------------|
|  | 31.12.2022    | 31.12.2021    | Changes        |
| Present value of post-employment benefit obligations | 13,087        | 15,899        | (2,812)        |
| Present value of Free Travel Card obligations        | 361           | 464           | (103)          |
| <b>Total present value of obligations</b>            | <b>13,448</b> | <b>16,363</b> | <b>(2,915)</b> |

|   | €'000         |               |                |
|---|---------------|---------------|----------------|
|   | 31.12.2022    | 31.12.2021    | Changes        |
| Opening balance                               | 16,363        | 18,625        | (2,262)        |
| Service costs (*)                             | 17            | 15            | 2              |
| Interest cost (*)                             | 657           | 4             | 653            |
| Actuarial (gains) losses recognised in equity |               |               | 0              |
| - changes in demographic assumptions          |               | 0             | 0              |
| - changes in financial assumptions            | (2,309)       | 204           | (2,513)        |
| - past experience                             | 832           | 964           | (132)          |
| Advances/utilisations and other changes       | (2,112)       | (3,449)       | 1,337          |
| <b>Closing balance</b>                        | <b>13,448</b> | <b>16,363</b> | <b>(2,915)</b> |

(\*) through profit or loss

Starting from 1 January 2007, the post-employment benefits being accrued are transferred either to INPS (the Italian Social Security Institute) or to supplementary pension funds. Consequently, the post-employment benefit obligation set out above solely includes amounts vested up to 31 December 2006, which are remeasured each year in accordance with the IAS 19 requirements for defined benefit plans, as both the Italian post-employment benefits and use of free travel cards are considered as such.

Italferr measured its liability to each employee by discounting the post-employment benefits that it will be required to pay upon termination of employment (uncertain).

In its measurement, the company considered demographic-actuarial factors, such as its employees' mortality and invalidity rates, employee turnover and historical figures of advances paid.

In addition to the actuarial gains or losses on post-employment benefits and free travel card benefits recognised in equity, Italferr recognised the following in profit or loss:

- the service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current year;
- the interest cost, which is the interest accrued on post-employment benefits and free travel card benefits.



## Actuarial assumptions

The main assumptions for the actuarial estimate process are described below:

|   | 31.12.2022  | 31.12.2021 |
|---|---|------------|
| Discount rate (post-employment benefits)                        | 3.57%   | 0.29%      |
| Discount rate (Free Travel Card)                                | 3,77%   | 0.98%      |
| Annual increase rate of post-employment benefits                | 3.23%   | 2.81%      |
| Inflation rate (post-employment benefits)                       | 2.30%   | 1.75%      |
| Inflation rate (Free Travel Card)                               | 2.30%   | 1.75%      |
| Expected turnover rate for employees (post-employment benefits) | 3.00%   | 3.00%      |
| Expected turnover rate for employees (Free Travel Card)         | 3.00%   | 3.00%      |
| Expected rate of advances (post-employment benefits)            | 2.00%   | 2.00%      |
| Mortality   | RG48 mortality rate published by the General Accounting Office  |            |
| Disability  | INPS tables broken down by gender and age                       |            |
| Retirement age  | 100% upon meeting the compulsory general insurance requirements |            |

The following table shows the results of the sensitivity analysis performed to assess the effects that would have been recorded in terms of changes in the present value of liabilities for defined benefit obligations, following reasonably possible changes in actuarial assumptions.

The last table shows the average duration of the defined benefit obligations and the disbursements provided by the plan.

|   | TFR        | FREE TRAVEL CARD |
|---|------------|------------------|
| Inflation rate +0.25%                   | 13,188,257 | 370,816          |
| Inflation rate -0.25%                   | 12,987,549 | 351,341          |
| Discount rate +0.25%                    | 12,931,752 | 350,531          |
| Discount rate -0.25%                    | 13,246,793 | 371,757          |
| Turnover rate +1%                       | 13,117,969 |                  |
| Turnover rate -1%                       | 13,054,020 |                  |
| Plan duration                           | 5.6        | 17               |
| Estimated future payments - first year  | 1,921,893  | 21,380           |
| Estimated future payments - second year | 1,717,788  | 21,831           |
| Estimated future payments - third year  | 3,047,676  | 23,137           |
| Estimated future payments - fourth year | 1,347,319  | 23,041           |
| Estimated future payments - fifth year  | 392,559    | 23,883           |

## 26 Provisions for risks and charges (€29,943 thousand)

The following table shows the opening and closing balances and changes in the year of the provisions for risks and charges. There are no current portions.

| Provisions for risks and charges                           |               |               |                   |                              |                                | €'000         |
|--|---------------|---------------|-------------------|------------------------------|--------------------------------|---------------|
|  | 31.12.2021    | Accruals      | Reclassifications | Release of excess provisions | Utilisations and other changes | 31.12.2022    |
| Litigation with employees                                  | 381           |               | (170)             | (3)                          |                                | 208           |
| Litigation with third parties                              | 5,100         | 202           | 170               | (5)                          |                                | 5,467         |
| Employee remuneration to be defined                        | 3,609         |               |                   | (2,650)                      | (959)                          | 0             |
| Provision for losses on contracts                          | 19,014        | 12,104        |                   | (6,850)                      | 0                              | 24,268        |
| <b>Utilisation of the provisions for risks and charges</b> | <b>28,104</b> | <b>12,306</b> | <b>0</b>          | <b>(9,508)</b>               | <b>(959)</b>                   | <b>29,943</b> |

In 2022, the provision for litigation with employees decreased by €208 thousand as a result of the settlement of some disputes or out-of-court agreements with the company's counterparties or their waiver of their right to proceed with the proceedings.

The provision for litigation with third parties increased by €202 thousand as a result of new claims for compensation of damage brought against the company in the year, including as jointly and severally liable with customers and/or RFI.

Employee remuneration to be defined which, in 2021, included the estimated costs to renew the national collective bargaining agreement of €3,609 thousand, was zeroed as the agreement was renewed during the year, with, inter alia, the settlement of the collective interim pay guarantee.

The provision for losses on contracts relates to the measurement of the lifetime profit or loss of contracts in progress required by IAS 37. The increase of €5,254 thousand includes the accruals made for expected future losses on contracts with a negative outcome, mostly acquired during the year, net of releases for losses accrued during the year in line with progress made on contracts with a negative outcome.

## 27 Non-current and current liabilities (including derivatives) (€16,552 thousand)

Financial liabilities solely comprise lease liabilities related to the lease of Italferr's offices and cars as follows:

|                              | €000          |              |               |              |              |               |              |              |              |
|------------------------------|---------------|--------------|---------------|--------------|--------------|---------------|--------------|--------------|--------------|
|                              | 31.12.2022    |              |               | 31.12.2021   |              |               | Changes      |              |              |
|                              | Non-current   | Current      | Total         | Non-current  | Current      | Total         | Non-current  | Current      | Total        |
| <b>Financial liabilities</b> |               |              |               |              |              |               |              |              |              |
| Lease liabilities            | 12,112        | 4,440        | 16,552        | 7,310        | 3,050        | 10,360        | 4,802        | 1,390        | 6,192        |
| <b>Total</b>                 | <b>12,112</b> | <b>4,440</b> | <b>16,552</b> | <b>7,310</b> | <b>3,050</b> | <b>10,360</b> | <b>4,802</b> | <b>1,390</b> | <b>6,192</b> |

The table below shows the interest rates used to discount future payments.

| Engineering         | 1Y    | 2Y    | 3Y    | 4Y    | 5Y    | 6Y    | 7Y    | 8Y    | 9Y    | 10Y   |
|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| First quarter 2022  | 0.90% | 1.16% | 1.54% | 1.77% | 2.02% | 2.20% | 2.44% | 2.57% | 2.75% | 2.86% |
| Second quarter 2022 | 1.70% | 2.54% | 3.07% | 3.42% | 3.66% | 3.74% | 4.02% | 4.17% | 4.36% | 4.45% |
| Third quarter 2022  | 3.07% | 3.60% | 4.08% | 4.26% | 4.58% | 4.71% | 4.92% | 5.08% | 5.22% | 5.37% |
| Fourth quarter 2022 | 4.26% | 4.49% | 4.88% | 4.99% | 5.32% | 5.36% | 5.53% | 5.65% | 5.77% | 5.91% |

**28 Other non-current and current liabilities (€48,161 thousand)**

€'000

|  | 31.12.2022   |               |               | 31.12.2021   |               |               | Changes     |              |                |
|--|--------------|---------------|---------------|--------------|---------------|---------------|-------------|--------------|----------------|
|  | Non-current  | Current       | Total         | Non-current  | Current       | Total         | Non-current | Current      | Total          |
| Social security charges payable                            |              | 18,216        | <b>18,216</b> |              | 15,300        | <b>15,300</b> |             | 2,916        | <b>2,916</b>   |
| Other liabilities with group companies                     |              | 3,468         | <b>3,468</b>  |              | 5,699         | <b>5,699</b>  |             | (2,231)      | <b>(2,231)</b> |
| Other liabilities and accrued expenses and deferred income | 4,310        | 22,167        | <b>26,477</b> | 4,166        | 20,525        | <b>24,691</b> | 144         | 1,642        | <b>1,786</b>   |
| <b>Total</b>   | <b>4,310</b> | <b>43,851</b> | <b>48,161</b> | <b>4,166</b> | <b>41,524</b> | <b>45,690</b> | <b>144</b>  | <b>2,327</b> | <b>2,471</b>   |

Social security charges payable (€18,216 thousand) include the accrued 14th month pay and holidays accrued but not yet taken, along with the amount due to Inarcassa of €9,129 thousand.

Other liabilities with group companies include the liability for the tax consolidation scheme and specifically the IRES payments on account transferred to the parent (€3,188 thousand), net of current taxes.

The current portion of Other liabilities, amounting to €22,167 thousand, includes:

- amounts due to personnel for remuneration accrued but not yet paid (€12,289 thousand);
- holidays accrued but not yet taken at 31 December 2021 (€1,770 thousand);
- tax liabilities for withholdings applied to employees and freelancers (€3,607 thousand).

The non-current portion of Other liabilities refers to the present value of the call option (€4,310 thousand) for the remaining 20% of CREW, which the company may exercise as from 1 January 2023, as provided for by the quotaholders' agreements.

**29 Non-current and current trade payables (€138,934 thousand)**

The company's trade payables are solely current and may be broken down as follows:

€'000

|                      | 31.12.2022     | 31.12.2021     | Changes       |
|----------------------|----------------|----------------|---------------|
| Suppliers            | 24,110         | 20,025         | 4,085         |
| Group companies      | 9,978          | 12,067         | (2,089)       |
| Contract liabilities | 104,846        | 92,170         | 12,676        |
| <b>Total</b>         | <b>138,934</b> | <b>124,262</b> | <b>14,672</b> |

The main change in this caption relates to contract liabilities for contract work in progress and is mainly attributable to the higher production volumes with RFI, which translate into higher progress billings.

Contract liabilities are broken down by counterparty below:

€'000

|                             | 31.12.2022     | 31.12.2021    | Changes       |
|-----------------------------|----------------|---------------|---------------|
| RFI                         | 96,144         | 81,941        | 14,203        |
| Other group companies       | 5,227          | 5,582         | (355)         |
| Third parties               | 3,475          | 4,647         | (1,172)       |
| <b>Contract liabilities</b> | <b>104,846</b> | <b>92,170</b> | <b>12,676</b> |

### 30 Tax liabilities (€990 thousand)

This caption includes the 2022 IRAP (regional production tax) liability, net of advances paid during the year (€3,646 thousand), and foreign tax liabilities of €792 thousand due by the foreign branches.

|                         | €'000      |              |              |
|-------------------------|------------|--------------|--------------|
|                         | 2022       | 2021         | Changes      |
| IRAP                    | 198        | 934          | (736)        |
| Foreign tax liabilities | 792        | 401          | 391          |
| <b>Tax liabilities</b>  | <b>990</b> | <b>1,335</b> | <b>(345)</b> |

### 31 Financial risk management

The company's activities expose it to various types of risk as a result of its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk, and interest risk and currency risk in particular.

Financial assets and financial liabilities measured in accordance with IFRS 9 may be analysed as follows.

|   | €'000          |                |
|---|----------------|----------------|
|   | 2022           | 2021           |
| Trade receivables at amortised cost           | 320,226        | 261,643        |
| Cash and cash equivalents at amortised cost   | 10,838         | 8,767          |
| Other assets at amortised cost                | 10,626         | 9,475          |
| Other financial assets at amortised cost      | 14,515         | 13,741         |
| Other financial assets at FVTPL               | 18,652         | 18,653         |
| <b>Total financial assets</b>                 | <b>374,856</b> | <b>312,279</b> |
| Loans and amortised cost                      | 44,000         | 10,500         |
| Trade payables at amortised cost              | 138,934        | 124,261        |
| Other liabilities at amortised cost           | 48,160         | 45,690         |
| Other financial liabilities at amortised cost | 16,552         | 10,362         |
| <b>Total financial liabilities</b>            | <b>247,645</b> | <b>190,813</b> |

This section provides information on the company's exposure to each of the risks listed above, the objectives, policies and processes for the management of these risks and the methods used to assess them, as well as capital management. These financial statements also include additional quantitative information. The company's risk management focuses on the volatility of financial markets and is aimed at minimising, where possible, potential undesired effects on its financial position and results of operations.

The carrying amounts of financial assets and liabilities, other than tax assets and equity investments, in the statement of financial position match those determined in accordance with IFRS 7.

#### CREDIT RISK

Italferr's financial assets increased on the previous year (+€61,476 thousand, +20.9%) not because of worsening average collection times (indeed, past due amounts were lower than in the past), but due to the increase in production

volumes during the year, which resulted in larger contract assets with group companies, offset by a reduction in trade receivables from third parties.

Consequently, this trend does not represent a risk as it is due to the different performance of the company's production with respect to progress billings as provided for in the contracts with customers.

With regard to credit risk deriving from investing activities, the company applies a liquidity investment policy which is managed by the parent and defines:

- the minimum requirements of the financing counterparty in terms of creditworthiness and the related concentration thresholds; and
- the types of financial products that can be used.

With respect to the derivatives used for hedging purposes and which can potentially generate credit exposure to counterparties, the company has a specific policy that defines concentration thresholds by counterparty and credit rating.

With respect to the assessment of customers' credit risk, the company manages and analyses the risk of all new significant customers, regularly checks their commercial and financial exposure and monitors the collection of the amounts due from the public administration within the contractually-agreed timeframe.

The following tables show the company's exposure to credit risk at 31 December 2022 and 2021, broken down by category and counterparty. For information about the gross balance and the loss allowance, reference should be made to the notes to the relevant captions.

|   | €'000        |                          |                           |                    |                |
|---|--------------|--------------------------|---------------------------|--------------------|----------------|
| 31.12.2022                                | PA           | Third party<br>customers | Financial<br>institutions | Group<br>companies | Total          |
| Current and non-current trade receivables | 1,559        | 11,471                   |                           | 307,195            | 320,226        |
| Other non-current and current assets      | 43           | 5,061                    |                           | 4,439              | 9,544          |
| Current and non-current financial assets  |              | 1                        |                           | 14,514             | 14,515         |
| Cash and cash equivalents                 |              |                          | 10,818                    |                    | 10,818         |
| <b>Total financial assets</b>             | <b>1,602</b> | <b>16,533</b>            | <b>10,818</b>             | <b>326,148</b>     | <b>355,102</b> |

|   | €'000        |                          |                           |                    |                |
|---|--------------|--------------------------|---------------------------|--------------------|----------------|
| 31.12.2021                                | PA           | Third party<br>customers | Financial<br>institutions | Group<br>companies | Total          |
| Current and non-current trade receivables | 2,235        | 12,332                   |                           | 247,076            | 261,643        |
| Other non-current and current assets      | 124          | 4,941                    |                           | 4,410              | 9,475          |
| Current and non-current financial assets  |              |                          | 2                         | 13,739             | 13,741         |
| Cash and cash equivalents                 |              |                          | 8,767                     |                    | 8,767          |
| <b>Total financial assets</b>             | <b>2,359</b> | <b>17,273</b>            | <b>8,769</b>              | <b>265,225</b>     | <b>293,626</b> |

The tables below give a breakdown of financial assets and trade receivables at 31 December 2022 and 2021 by past due brackets:

| 31.12.2022   | Not past due   | Past due     |           |            |            | Total          |
|--|----------------|--------------|-----------|------------|------------|----------------|
|  |                | 0-180        | 181-360   | 360-720    | >720       |                |
| Public administration, Italian government and regions (gross)      | 1.563          | 83           |           |            | 154        | 1.800          |
| Loss allowance   | (1)            | (83)         |           |            | (114)      | (198)          |
| <b>Public administration, Italian government and regions (net)</b> | <b>1.562</b>   | <b>0</b>     | <b>0</b>  | <b>0</b>   | <b>40</b>  | <b>1.602</b>   |
| Group companies  | 325.288        | 770          | 53        | 31         | 211        | 326.353        |
| Loss allowance   | (204)          | (0)          | (0)       | (0)        | (0)        | (205)          |
| <b>Group companies (net)</b>                                       | <b>325.084</b> | <b>769</b>   | <b>53</b> | <b>31</b>  | <b>211</b> | <b>326.148</b> |
| Third party customers  | 16.383         | 713          | 308       | 303        | 5.924      | 23.630         |
| Loss allowance   | (587)          | (373)        | (267)     | (198)      | (5.672)    | (7.097)        |
| <b>Third party customers (net)</b>                                 | <b>15.795</b>  | <b>339</b>   | <b>41</b> | <b>105</b> | <b>253</b> | <b>16.533</b>  |
| Financial institutions   | 10.829         |              |           |            |            | 10.829         |
| Loss allowance   | (10)           |              |           |            |            | (10)           |
| <b>Financial institutions (net)</b>                                | <b>10.818</b>  | <b>0</b>     | <b>0</b>  | <b>0</b>   | <b>0</b>   | <b>10.818</b>  |
| <b>Total exposure, net of the loss allowance</b>                   | <b>353.260</b> | <b>1.108</b> | <b>94</b> | <b>136</b> | <b>504</b> | <b>355.102</b> |

| 31.12.2021   | Not past due   | Past due     |            |              |             | Total          |
|--|----------------|--------------|------------|--------------|-------------|----------------|
|  |                | 0-180        | 181-360    | 360-720      | >720        |                |
| Public administration, Italian government and regions (gross)      | 2.311          | 7            |            | 2            | 152         | 2.472          |
| Loss allowance   | (2)            |              |            |              | (111)       | (113)          |
| <b>Public administration, Italian government and regions (net)</b> | <b>2.309</b>   | <b>7</b>     | <b>0</b>   | <b>2</b>     | <b>41</b>   | <b>2.359</b>   |
| Group companies  | 260.014        | 3.250        | 683        | 830          | 624         | 265.401        |
| Loss allowance   | (173)          | (2)          |            | (1)          |             | (176)          |
| <b>Group companies (net)</b>                                       | <b>259.841</b> | <b>3.248</b> | <b>683</b> | <b>829</b>   | <b>624</b>  | <b>265.225</b> |
| Third party customers  | 16.262         | 1.665        | 239        | 388          | 5.846       | 24.400         |
| Loss allowance   | (765)          | (306)        | (118)      | (51)         | (5.887)     | (7.127)        |
| <b>Third party customers (net)</b>                                 | <b>15.497</b>  | <b>1.359</b> | <b>121</b> | <b>337</b>   | <b>(41)</b> | <b>17.273</b>  |
| Financial institutions   | 8.777          |              |            |              |             | 8.777          |
| Loss allowance   | (8)            |              |            |              |             | (8)            |
| <b>Financial institutions (net)</b>                                | <b>8.769</b>   | <b>0</b>     | <b>0</b>   | <b>0</b>     | <b>0</b>    | <b>8.769</b>   |
| <b>Total exposure, net of the loss allowance</b>                   | <b>286.416</b> | <b>4.614</b> | <b>804</b> | <b>1.168</b> | <b>624</b>  | <b>293.626</b> |

The total exposure and the impairment losses of each category were reclassified by risk class at 31 December 2022 and 2021, as per Standard&Poors's rating, are shown below:

€'000

| 31.12.2022                    | TOTAL          | AMORTISED COST                  |                         |                     |
|-------------------------------|----------------|---------------------------------|-------------------------|---------------------|
|                               |                | 12-month expected credit losses | Lifetime - not impaired | Lifetime - impaired |
| from AAA to BBB-              | 329.340        | 114                             | 329.226                 |                     |
| from BB to BB+                | 33.273         | 3.760                           | 26.659                  | 2.853               |
| <b>Gross carrying amounts</b> | <b>362.612</b> | <b>3.874</b>                    | <b>355.885</b>          | <b>2.853</b>        |
| <b>Loss allowance</b>         | <b>(7.510)</b> | <b>(3.874)</b>                  | <b>(783)</b>            | <b>(2.853)</b>      |
| <b>Carrying amount</b>        | <b>355.102</b> | <b>0</b>                        | <b>355.102</b>          | <b>0</b>            |

€'000

| 31.12.2021             | TOTAL          | AMORTISED COST                  |                         |                     |
|------------------------|----------------|---------------------------------|-------------------------|---------------------|
|                        |                | 12-month expected credit losses | Lifetime - not impaired | Lifetime - impaired |
| from AAA to BBB-       | 267.873        | 112                             | 267.761                 |                     |
| from BB to BB+         | 33.178         | 3.372                           | 26.953                  | 2.853               |
| Gross carrying amounts | 301.051        | 3.483                           | 294.715                 | 2.853               |
| <b>Loss allowance</b>  | <b>(7.425)</b> | <b>(3.483)</b>                  | <b>(1.089)</b>          | <b>(2.853)</b>      |
| <b>Carrying amount</b> | <b>293.626</b> | <b>0</b>                        | <b>293.626</b>          | <b>0</b>            |

Changes in impairment losses and gains on financial assets are detailed below. The company does not have financial assets measured at FVTPL or FVOCI at year end.

€'000

| 2022                                    | 12-month expected credit losses | Lifetime - not impaired | Lifetime - impaired | TOTAL        |
|---|---------------------------------|-------------------------|---------------------|--------------|
| <b>Balance at 31 December 2021</b>      | <b>3,484</b>                    | <b>1,089</b>            | <b>2,853</b>        | <b>7,426</b> |
| Net impairment loss                     | 391                             | (256)                   |                     | 135          |
| Transfer to lifetime ECL – not impaired |                                 |                         |                     | 0            |
| Utilisation of the allowance            |                                 | (51)                    |                     | (51)         |
| <b>Balance at 31 December 2022</b>      | <b>3,875</b>                    | <b>782</b>              | <b>2,853</b>        | <b>7,510</b> |

€'000

| 2021                                    | 12-month expected credit losses | Lifetime - not impaired | Lifetime - impaired | TOTAL        |
|---|---------------------------------|-------------------------|---------------------|--------------|
| <b>Balance at 31 December 2020</b>      | <b>4,009</b>                    | <b>644</b>              | <b>2,853</b>        | <b>7,506</b> |
| Net impairment loss                     | 51                              | 80                      |                     | 131          |
| Transfer to lifetime ECL – not impaired | (472)                           | 472                     |                     | 0            |
| Utilisation of the allowance            | (104)                           | (108)                   |                     | (212)        |
| <b>Balance at 31 December 2021</b>      | <b>3,484</b>                    | <b>1,088</b>            | <b>2,853</b>        | <b>7,425</b> |

## LIQUIDITY RISK

Liquidity risk is the risk that an entity may have difficulties in complying with the obligations associated with financial liabilities to be settled by delivering cash or another financial asset. Italferr's cash flows, cash requirements and the liquidity are monitored by it and the parent and the latter's Finance & Investor Relations division to ensure efficient and effective management of financial resources. The company's objective is the prudent management of the liquidity risk arising from ordinary operations. This requires maintaining adequate cash and cash equivalents and uncommitted credit lines. To this end, the parent uses uncommitted credit lines agreed with major banks.

At 31 December 2022, Italferr does not have current loans and borrowings relating to the revolving credit facility granted by the parent, while non-current loans and borrowings reflect the residual amount due to the parent for the loan obtained to acquire its investment in CREW at the end of 2018.

The following tables show the due dates of contractual financial liabilities at 31 December 2022 and 2021, including interest to be paid:

€'000

| 31.12.2022                                  | 6 months or less | 6 - 12 months  | 1 - 2 years  | 2 - 5 years   | After 5 years | Contractual cash flows |
|---|------------------|----------------|--------------|---------------|---------------|------------------------|
| Shareholder loans                           | 35,000           | 1,818          | 3,474        | 4,791         |               | 45,083                 |
| Lease liabilities                           | 1,879            | 2,561          |              | 10,402        | 1,710         | 16,552                 |
| <b>Non-derivative financial liabilities</b> | <b>36,879</b>    | <b>4,379</b>   | <b>3,474</b> | <b>15,193</b> | <b>1,710</b>  | <b>61,635</b>          |
| <b>Trade payables</b>                       | <b>34,087</b>    | <b>104,846</b> |              |               |               | <b>138,933</b>         |
| <b>TOTAL FINANCIAL LIABILITIES</b>          | <b>70,966</b>    | <b>109,225</b> | <b>3,474</b> | <b>15,193</b> | <b>1,710</b>  | <b>200,568</b>         |

€'000

| 31.12.2021                                  | 6 months or less | 6 - 12 months | 1 - 2 years  | 2 - 5 years   | After 5 years | Contractual cash flows |
|---|------------------|---------------|--------------|---------------|---------------|------------------------|
| Shareholder loans                           | 943              | 931           | 1,818        | 5,126         | 3,138         | 11,956                 |
| Lease liabilities                           | 1,579            | 1,473         |              | 6,884         | 426           | 10,362                 |
| <b>Non-derivative financial liabilities</b> | <b>2,522</b>     | <b>2,404</b>  | <b>1,818</b> | <b>12,010</b> | <b>3,564</b>  | <b>22,318</b>          |
| <b>Trade payables</b>                       | <b>32,091</b>    | <b>92,170</b> |              |               |               | <b>124,261</b>         |
| <b>TOTAL FINANCIAL LIABILITIES</b>          | <b>34,613</b>    | <b>94,574</b> | <b>1,818</b> | <b>12,010</b> | <b>3,564</b>  | <b>146,579</b>         |



For completeness of disclosure purposes, the following tables show the repayments of non-derivative financial liabilities and trade payables within one year, 1-5 years and after five years:

€'000

| 31.12.2022                                  | Carrying amount | Within one year | 1 - 5 years   | After 5 years |
|---|-----------------|-----------------|---------------|---------------|
| Shareholder loans                           | 44,000          | 36,500          | 7,500         | 0             |
| Lease liabilities                           | 16,552          | 4,440           | 10,402        | 1,710         |
| <b>Non-derivative financial liabilities</b> | <b>60,552</b>   | <b>40,940</b>   | <b>17,902</b> | <b>1,710</b>  |
| <b>Trade payables</b>                       | <b>138,933</b>  | <b>138,933</b>  |               |               |

€'000

| 31.12.2021                                  | Carrying amount | Within one year | 1 - 5 years   | After 5 years |
|---|-----------------|-----------------|---------------|---------------|
| Shareholder loans                           | 10,500          | 1,500           | 7,500         | 1,500         |
| Lease liabilities                           | 10,362          | 3,052           | 6,884         | 426           |
| <b>Non-derivative financial liabilities</b> | <b>20,862</b>   | <b>4,552</b>    | <b>14,384</b> | <b>1,926</b>  |
| <b>Trade payables</b>                       | <b>124,261</b>  | <b>124,261</b>  |               |               |

## MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate following changes in market prices, due to changes in exchange rates, interest rates or prices of equity instruments.

In the performance of its operations, the company is mostly exposed to the risks of fluctuations in exchange rates and, to a lesser extent, fluctuations in interest rates.

The objective of market risk management is to keep the company's exposure to this risk within acceptable levels, while optimising returns on investments.

Market risk includes both interest rate risk and currency risk as detailed below.

### Interest rate risk

The company meets its cash needs using a credit facility granted by the parent at a variable interest rate while, as was described for liquidity risk, its sole non-current loan, again from the parent for the acquisition of an investment in CREW, bears a fixed interest rate.

The company's objective, in line with the group policies, is to limit the cash flow fluctuations associated with financing transactions in place and, where possible, to exploit the opportunities of optimising borrowing costs offered by the indexing of variable-rate debt.

The table below shows loans and borrowings:

€'000

| 31.12.2022                         | Carrying amount | Contractual cash flows | Current portion | 1-2 years    | 2-5 years    | After 5 years |
|------------------------------------|-----------------|------------------------|-----------------|--------------|--------------|---------------|
| Variable rate                      | 35,000          | 35,000                 | 35,000          |              |              |               |
| Fixed rate                         | 9,000           | 9,000                  | 1,500           | 3,000        | 4,500        |               |
| <b>Balance at 31 December 2022</b> | <b>44,000</b>   | <b>44,000</b>          | <b>36,500</b>   | <b>3,000</b> | <b>4,500</b> |               |

€'000

| 31.12.2021                         | Carrying amount | Contractual cash flows | Current portion | 1-2 years    | 2-5 years    | After 5 years |
|------------------------------------|-----------------|------------------------|-----------------|--------------|--------------|---------------|
| Variable rate                      |                 |                        |                 |              |              |               |
| Fixed rate                         | 10,500          | 10,500                 | 1,500           | 3,000        | 6,000        | 0             |
| <b>Balance at 31 December 2021</b> | <b>10,500</b>   | <b>10,500</b>          | <b>1,500</b>    | <b>3,000</b> | <b>6,000</b> | <b>0</b>      |

## CURRENCY RISK

The company is mainly active in Italy and in Eurozone countries. Therefore, the risk arising from the different currencies in which it operates is very limited.

Italferr's main contracts in foreign currencies at year end were those acquired in Egypt, India, Uzbekistan and Colombia. All contracts are in local currency, except for the contracts in Uzbekistan, which are in US dollars and part of the contracts in India, which are in Euros. This contributes to further reducing currency risk.

The following table shows the notional amount of Italferr's exposure to currency risk at 31 December 2022 and 2021:

| 31.12.2022        |                             | Foreign currency for €1 | Balance in foreign currency |  |                   | Equivalent amount in € |
|-------------------|-----------------------------|-------------------------|-----------------------------|--|-------------------|------------------------|
| Currency          | Exchange rate at 31.12.2022 | Trade receivables       | Trade payables              | Gross exposure in statement of fin pos | Net exposure in € |                        |
| <b>AED</b>        | United Arab Emirates        | 3.92                    |                             | 23                                     | (23)              | <b>(6)</b>             |
| <b>AUD</b>        | Australian dollar           | 1.57                    | 34                          | 58                                     | (24)              | <b>(15)</b>            |
| <b>CAD</b>        | Canadian dollar             | 1.44                    | 807                         |  | 807               | <b>559</b>             |
| <b>CHF</b>        | Swiss franc                 | 0.98                    |                             | 27                                     | (27)              | <b>(27)</b>            |
| <b>COP</b>        | Colombian peso              | 5,172.47                | 0                           | 3,904,205                              | (3,904,205)       | <b>(755)</b>           |
| <b>DZD</b>        | Algerian dinar              | 146.51                  |                             | 491                                    | (491)             | <b>(3)</b>             |
| <b>EGP</b>        | Egyptian pound              | 26.40                   |                             | 429                                    | (429)             | <b>(16)</b>            |
| <b>ETB</b>        | Ethiopian birr              | 57.16                   |                             | 14                                     | (14)              | <b>(0)</b>             |
| <b>GBP</b>        | British pound               | 0.89                    | 77                          |  | 77                | <b>87</b>              |
| <b>INR</b>        | Indian rupee                | 88.17                   | 192,567                     | 42,490                                 | 150,077           | <b>1,702</b>           |
| <b>KWD</b>        | Kuwaiti dinar               | 0.33                    |                             |  | 0                 | <b>0</b>               |
| <b>PEN</b>        | Peruvian nuevo sol          | 4.05                    | 1,377                       | 3                                      | 1,373             | <b>339</b>             |
| <b>QAR</b>        | Qatari riyal                | 3.88                    | 368                         | 131                                    | 237               | <b>61</b>              |
| <b>RON</b>        | Romanian new leu            | 4.95                    |                             | 22                                     | (22)              | <b>(4)</b>             |
| <b>SAR</b>        | Saudi Arabian riyal         | 4.00                    |                             | 488                                    | (488)             | <b>(122)</b>           |
| <b>TRY</b>        | Turkish lira                | 19.96                   |                             | 47                                     | (47)              | <b>(2)</b>             |
| <b>USD</b>        | US dollar                   | 1.07                    | 532                         | 424                                    | 108               | <b>101</b>             |
| <b>UZS</b>        | Uzbekistani som             | 11,977.03               |                             | 176,019                                | (176,019)         | <b>(15)</b>            |
| <b>Total in €</b> |                             |                         |                             |  |                   | <b>1,883</b>           |

| 31.12.2021        |                             | Foreign currency for €1 | Balance in foreign currency |  |                   | Equivalent amount in € |
|-------------------|-----------------------------|-------------------------|-----------------------------|--|-------------------|------------------------|
| Currency          | Exchange rate at 31.12.2021 | Trade receivables       | Trade payables              | Gross exposure in statement of fin pos | Net exposure in € |                        |
| <b>AED</b>        | United Arab Emirates        | 4.16                    |                             | 7                                      | (7)               | <b>(2)</b>             |
| <b>AUD</b>        | Australian dollar           | 1.56                    |                             | 66                                     | (66)              | <b>(42)</b>            |
| <b>CAD</b>        | Canadian dollar             | 1.44                    | 649                         |  | 649               | <b>451</b>             |
| <b>COP</b>        | Colombian peso              | 4,598.68                | 2,699,091                   | 4,625,976                              | (1,926,885)       | <b>(419)</b>           |
| <b>DZD</b>        | Algerian dinar              | 157.41                  |                             | 1,643                                  | (1,643)           | <b>(10)</b>            |
| <b>EGP</b>        | Egyptian pound              | 17.80                   | 36                          | 300                                    | (264)             | <b>(15)</b>            |
| <b>ETB</b>        | Ethiopian birr              | 56.11                   |                             | 7                                      | (7)               | <b>(0)</b>             |
| <b>INR</b>        | Indian rupee                | 84.23                   | 162,652                     | 29,896                                 | 132,757           | <b>1,576</b>           |
| <b>KWD</b>        | Kuwaiti dinar               | 0.34                    | 35                          | 22                                     | 13                | <b>37</b>              |
| <b>PEN</b>        | Peruvian nuevo sol          | 4.52                    | 1,377                       | 4                                      | 1,373             | <b>304</b>             |
| <b>QAR</b>        | Qatari riyal                | 4.12                    | 1,960                       | 285                                    | 1,675             | <b>406</b>             |
| <b>RON</b>        | Romanian new leu            | 4.95                    |                             | 22                                     | (22)              | <b>(4)</b>             |
| <b>SAR</b>        | Saudi Arabian riyal         | 4.25                    |                             | 409                                    | (409)             | <b>(96)</b>            |
| <b>TRY</b>        | Turkish lira                | 15.23                   | 1                           | 44                                     | (43)              | <b>(3)</b>             |
| <b>USD</b>        | US dollar                   | 1.13                    | 372                         | 331                                    | 41                | <b>36</b>              |
| <b>UZS</b>        | Uzbekistani som             | 12,253.83               |                             | 190,869                                | (190,869)         | <b>(16)</b>            |
| <b>Total in €</b> |                             |                         |                             |  |                   | <b>2,203</b>           |

## CAPITAL MANAGEMENT

The company's objective is to safeguard its ability to continue as a going concern in order to ensure returns to the shareholder and benefits to the other stakeholders.

It also aims to maintain an optimal capital structure in order to reduce the cost of debt.

## 32 Additional information

### • Contingent assets and contingent liabilities

The company has not recognised any contingent assets.

Contingent liabilities mainly relate to claims for damages and/or compensation filed by railway contractors or third parties as a result of the performance of railway works (e.g., buildings occupied, expropriated or damaged during the performance of work). The maximum amount of these liabilities, which, at present, can only be based on the claim, net of revaluation and interest, amounts to approximately €12.3 million.

With respect to Italferr's third-party liability in the criminal proceedings pending before the Court of Florence, described in the notes to the 2021 financial statements, the outcome of the first-level ruling on the claims recognised in respect of the contractor Nodavia for the construction of the Florence hub confirmed that the lawsuit was notified to Italferr only as a third party (*litis denuntiatio*), because the claims relate to RFI only.

### • Audit fees

Pursuant to article 37.16 of Legislative decree no. 39/2010 and article 2427.16-bis of the Italian Civil Code, the total fees due to the independent auditors are €91 thousand, including the fees paid for non-audit services (€11 thousand).

- **Directors' and statutory auditors' fees**

The following fees were paid to directors and statutory auditors for the performance of their duties:

|                    | 2022       | 2021       | Changes   |
|--------------------|------------|------------|-----------|
|                    |            |            | €'000     |
| Directors (*)      | 151        | 135        | 16        |
| Statutory auditors | 41         | 42         | (1)       |
| <b>Total</b>       | <b>192</b> | <b>177</b> | <b>15</b> |

(\*) These include all fees for the positions of chairman and CEO, including any performance-based amounts, according to the arrangement. The amount also includes the fees for the other directors.

In addition to the above fees, the independent members of the Supervisory Body received fees of €45 thousand for 2022.

- **Management and coordination**

The new governance model adopted by the FS Italiane group in May 2022 identifies the group's division heads, i.e., companies directly controlled by the parent and selected to perform, either through investments or on the basis of contracts, management and technical, organisational and operational coordination for the companies operating in the aforementioned divisions, including risk management models, systems and protocols.

Based on the new model and considering its business activities, Italferr has been included in the Infrastructure division headed by RFI.

Since RFI is the head of its division, the highlights of the financial statements of RFI at 31 December 2021 are shown below.

| €'000                                    |                   |                   |
|--|-------------------|-------------------|
| Statement of financial position          | 31.12.2021        | 31.12.2020        |
| <b>Assets</b>                            |                   |                   |
| Total non-current assets                 | 39,615,861        | 39,850,295        |
| Total current assets                     | 4,221,683         | 3,842,992         |
| Assets held for sale and disposal groups |                   |                   |
| <b>Total assets</b>                      | <b>43,837,544</b> | <b>43,693,287</b> |
| <b>Equity</b>                            |                   |                   |
| Share capital                            | 31,528,425        | 31,528,425        |
| Reserves                                 | -6,173            | (3,104)           |
| Retained earnings                        | 2,134,844         | 2,098,467         |
| Profit for the year                      | 274,649           | 38,291            |
| <b>Total equity</b>                      | <b>33,931,745</b> | <b>33,662,079</b> |
| <b>Liabilities</b>                       |                   |                   |
| Total non-current liabilities            | 3,437,404         | 3,093,501         |
| Total current liabilities                | 6,468,395         | 6,937,707         |
| <b>Total liabilities</b>                 | <b>9,905,799</b>  | <b>10,031,208</b> |
| <b>Total equity and liabilities</b>      | <b>43,837,544</b> | <b>43,693,287</b> |

| €'000                          |                |               |
|--------------------------------|----------------|---------------|
| Income statement               | 2021           | 2020          |
| Revenue                        | 3,057,006      | 2,491,514     |
| Operating costs                | (2,604,660)    | (2,158,755)   |
| Amortisation and depreciation  | (110,746)      | (90,142)      |
| Net impairment gains           | (69,350)       | (44,513)      |
| Accruals                       |                | (127,000)     |
| Net financial income (expense) | 2,400          | (32,812)      |
| Income taxes                   |                | (0)           |
| <b>Profit for the year</b>     | <b>274,649</b> | <b>38,291</b> |

- **Transactions with key managers**

The general conditions that govern transactions with key managers and the parties related to them are not more favourable than those applied, or that could have been reasonably applied, to similar transactions with managers other than key managers associated with the same entities at market conditions.

Key managers' remuneration are as follows:

| €'000                    |              |              |
|--------------------------|--------------|--------------|
|                          | 2022         | 2021         |
| Short-term benefits      | 2,108        | 2,842        |
| Post-employment benefits | 192          | 244          |
| Other long-term benefits |              |              |
| <b>Total</b>             | <b>2,300</b> | <b>3,086</b> |

The short-term benefits paid during the year do not include the variable portion of remuneration which, indicatively, does not exceed €620 thousand. It will be paid in 2023 after checking that the group's 2022 goals have been achieved.

During the year, no other long-term benefits were paid to key managers considered as related parties.

- **Other related party transactions**

The main transactions between the company and its related parties, which were all carried out on an arm's length basis, are described below.

**Trade and other transactions:**

|                                      |   | Assets | Liabilities   |
|--------------------------------------|---|--------|---|
| <b>Subsidiaries</b>                  |   |        |   |
| I.E.S. d.o.o.                        |   |        | Trade and other: provision of services                        |
| Italferr - Altinok joint arrangement | Trade; Financial: shareholder loan                                    |        |   |
| Italferr-SWS joint arrangement       | Trade; Financial: shareholder loan                                    |        |   |
| CREW Cremonesi Workshop S.r.l.       | Trade; Financial: shareholder loan                                    |        |   |
| <b>Parent</b>                        |   |        |   |
| Ferrovie dello Stato Italiane        | Trade and other: engineering services; funding of training; group VAT |        | Trade and other: provision of services, group VAT; guarantees |
|                                      | Financial: intragroup current account                                 |        | Financial: intragroup current account                         |
| <b>Other companies</b>               |   |        |   |
| ANAS                                 | Trade and other: provision of services                                |        |   |
| BBT                                  | Trade and other: provision of services                                |        |   |
| Busitalia Rail Service               |   |        | Trade and other: provision of services                        |
| Fercredit                            |   |        | Trade and other: factoring                                    |
| Ferrovie del Sud Est                 | Trade and other: engineering services                                 |        |   |
| Ferservizi                           |   |        | Trade and other: leases and provision of services             |
| FS Sistemi Urbani                    | Trade and other: engineering services                                 |        | Trade and other: leases                                       |
|                                      | Financial: guarantee deposits   |        |   |
| Grandi Stazioni Immobiliare          |   |        | Trade and other: leases                                       |
| Grandi Stazioni Rail                 | Trade and other: engineering services                                 |        | Trade and other: leases                                       |
| Italcertifer                         | Trade and other: engineering services                                 |        |   |
| Mercitalia Shunting & Terminal       |   |        | Trade and other: provision of services                        |
| Mercitalia Logistic                  |   |        | Trade and other: provision of services                        |
| Metropark                            |   |        | Trade and other: provision of services                        |
| RFI                                  | Trade and other: engineering services                                 |        | Trade and other: leases                                       |
|                                      | Financial: guarantee deposits   |        |   |
| TELT                                 | Trade and other: provision of services                                |        |   |
| Trenitalia                           | Trade and other: engineering services                                 |        | Trade and other: provision of services                        |

| Assets                          |  | Liabilities                            |
|---------------------------------|--|--|
| <b>Other related parties</b>    |  |  |
| ENI group                       |  | Trade and other: provision of services |
| Enel group                      |  | Trade and other: provision of services |
| Cassa Depositi e Prestiti group | Trade and other: provision of services | Trade and other: employee benefits     |
| IPZS group                      |  | Trade and other: employee benefits     |
| RAI group                       |  | Trade and other: employee benefits     |
| Eurofer                         |  | Trade and other: employee benefits     |
| Expo2015                        |  | Trade and other: provision of services |
| Previdai                        |  | Trade and other: provision of services |
| Other provisions                |  | Trade and other: employee benefits     |

The table below summarises the statement of financial position and income statement balances as at and for the year ended 31 December 2022 generated by related party transactions:

#### Trade and other transactions:

|                                    | 31.12.2022     |                  |            |             | 2022            |                |
|------------------------------------|----------------|------------------|------------|-------------|-----------------|----------------|
|                                    | Assets         | Liabilities      | Guarantees | Commitments | Costs           | Revenue        |
| <b>Parent</b>                      | <b>4,288</b>   | <b>(5,750)</b>   |            |             | <b>(2,142)</b>  | <b>540</b>     |
| Ferrovie dello Stato Italiane      | 4,288          | (5,750)          |            |             | (2,142)         | 540            |
| <b>Subsidiaries</b>                | <b>1,076</b>   | <b>(387)</b>     |            |             | <b>(796)</b>    | <b>18</b>      |
| I.E.S. doo                         |                | (149)            |            |             | (488)           |                |
| Cremonesi Workshop                 | 1,060          | (238)            |            |             | (308)           | 18             |
| <b>Joint arrangements</b>          | <b>8</b>       | <b>0</b>         |            |             | <b>0</b>        | <b>8</b>       |
| SWS & ITALFERR                     | 8              |                  |            |             |                 | 8              |
| <b>Other group parties</b>         | <b>307,462</b> | <b>(108,780)</b> |            |             | <b>(25,375)</b> | <b>311,248</b> |
| Anas                               | 13             | (1)              |            |             | 141             | 41             |
| BBT                                | 165            |                  |            |             | 443             | 486            |
| Busitalia Rail Service             |                | (58)             |            |             | (75)            |                |
| Ferservizi                         | 25             | (3,762)          |            |             | (5,892)         | 15             |
| FE1 FSE Infrastruttura             | 4,813          | (4,138)          |            |             | (18)            | 2,853          |
| FS Sistemi Urbani                  | 1,391          | (63)             |            |             | (4)             | 1,235          |
| FS Technology S.p.A.               | 7              | (39)             |            |             | (16,702)        |                |
| FS International                   |                |                  |            |             |                 | (111)          |
| Grandi Stazioni Rail               | 66             | (48)             |            |             | (4)             | 2              |
| Grandi Stazioni Immobiliare        |                | (88)             |            |             | (301)           |                |
| Italcertifer                       |                |                  |            |             |                 |                |
| Mercitalia Rail                    |                | (41)             |            |             | (41)            |                |
| Metropark                          |                |                  |            |             | (4)             |                |
| RFI                                | 290,757        | (97,542)         |            |             | (714)           | 301,550        |
| T.E.L.T. Sas (formerly L.T.F. Sas) | 1,021          | (48)             |            |             |                 | 874            |
| Trenitalia                         | 9,204          | (2,952)          |            |             | (2,204)         | 4,303          |

€'000

|                                 | 31.12.2022 |              |            |             | 2022           |          |
|---------------------------------|------------|--------------|------------|-------------|----------------|----------|
|                                 | Assets     | Liabilities  | Guarantees | Commitments | Costs          | Revenue  |
| <b>Other related parties</b>    | <b>730</b> | <b>(552)</b> |            |             | <b>(1,337)</b> | <b>0</b> |
| Enel group                      |            | (4)          |            |             | (12)           |          |
| ENI group                       |            | (12)         |            |             | (47)           |          |
| Cassa Depositi e Prestiti group | 730        | (80)         |            |             | (130)          |          |
| IPZS group                      |            | (1)          |            |             | (16)           |          |
| RAI group                       |            |              |            |             | (1)            |          |
| Eurofer                         |            | (33)         |            |             | (506)          |          |
| EXPO2015                        |            | (24)         |            |             |                |          |
| Previndai                       |            | (361)        |            |             | (525)          |          |
| Other pension funds             |            | (37)         |            |             | (100)          |          |

### Financial transactions

€'000

|                               | 31.12.2022    |             |            |             | 2022     |           |
|-------------------------------|---------------|-------------|------------|-------------|----------|-----------|
|                               | Assets        | Liabilities | Guarantees | Commitments | Costs    | Income    |
| <b>Parent</b>                 |               |             |            |             |          |           |
| Ferrovie dello Stato Italiane | 14,514        |             |            |             |          | 42        |
| <b>TOTAL</b>                  | <b>14,514</b> | <b>0</b>    | <b>0</b>   | <b>0</b>    | <b>0</b> | <b>42</b> |

### Guarantees and commitments

The company has neither issued nor received collateral. However, it has issued the following sureties to group companies and third parties as guarantees:

- bank sureties of €17,336 thousand, including, in particular:
  - ✓ €15,000 thousand to guarantee the negotiation and signing of contracts for derivative transactions carried out through FS Italiane and not yet released by the latter at the end of 2022;
  - ✓ €1,050 thousand as a direct and independent commitment to FS Italiane to guarantee the loan it granted to CREW Cremonesi Workshop S.r.l., a subsidiary of Italferr;
  - ✓ €1,134 thousand to guarantee the Rome and Naples leases.
- bid bonds in the form of bank and insurance sureties of €13,669 thousand to contracting authorities and/or third party customers in order to participate in calls for bids or for the payment of advances and performance bonds.

In turn, Italferr received performance bonds for awarded contracts in the form of sureties of €28,343 thousand.

### Public funding

The following table provides the information required by article 1.125-129 of Law no. 124/2017 as reformulated by article 35 of Law decree no. 34/2019 (converted into Law no. 58/2019).

In 2022, the company obtained a European Union (HADEA) grant of €272 thousand to launch two projects aimed at developing safe technologies for the storage and transport of hydrogen, and for the sustainable management of construction and demolition waste through the use of BIM, in addition to further funding of €8 thousand from the ESA (European Space Agency) to develop a satellite-technology based system to support work site activities.



|  |                          | €'000          |
|--|--------------------------|----------------|
| Provider   |                          | Amount         |
| HADEA (European Health and Digital Executive Agency) |                          | 271,838        |
| ESA (European Space Agency)                          | Grants related to assets | 8,100          |
| <b>Total</b>   |                          | <b>279,938</b> |

### 33 Events after the reporting date

- **15 February 2023:** the first engagement letter for preliminary activities related to the Inland Rail project in Australia was signed. The letter covers an initial contract for the commencement of the main contract (Inland Rail Gowrie to Kagaru PPP).

### 34 Proposed allocation of the profit for the year

The company's financial statements as at and for the year ended 31 December 2022 show a profit for the year of €56,446,923.

We propose:

- distributing a dividend of €56,318,420.00, or €3,970 to each of the 14,186 shares;
- allocating the residual profit for the year, equal to €128,503.00, to the extraordinary reserve.

Rome, 6 March 2023

Chairman

Chief Executive Officer