ANNUAL FINANCIAL REPORT
YEAR 2022

Board of Directors
of March 28, 2023

KME Group S.p.A.
Registered and Administrative Office:
Foro Buonaparte, 44 - 20121 Milan - Italy
Share capital € 200,072,198.28, fully paid-up
Tax Code and Milan Business
Register no. 00931330583
www.itkgroup.it

Please note that the accompanying document is a translation of the financial statements of KME Group S.p.A. and does not constitute an official version, as it has not been prepared in accordance with the provisions of the Commission Delegated Regulation (EU) 2019/815.

Contents

Social commitment

For 16 years, Dynamo Camp has been working to guarantee the right to happiness for children and young people with serious or chronic illnesses and their families. The programmes offered by the Foundation are entirely free and structured according to the **Dynamo® Recreational Therapy** model, based on fun and discovery. The objective of this method is to promote everyone's ability to renew **self-confidence and hope**, with **real and long-term benefits on the quality of life**.

When the Camp, located in a unique and wonderful natural environment in the province of Pistoia, reached its maximum capacity, **Dynamo is committed to bringing the programs to other realities, involving children and young people with diseases in numerous cities throughout the country**, in order to make **Dynamo Recreational Therapy even more accessible and inclusive** and **continuous**.

Making a Recreational Therapy experience live again or even offering continuity, as in the case of **City Camps** and **Dynamo Programmes**, increases the benefits for children, teenagers and their families in terms of quality of life.

In 2022, the City Camp project was carried out in Rome, Florence and Milan for all 12 months of the year, in order to continuously offer a free service to families both in summer and in the afternoons during the school period. The feedback from parents was an important signal that demonstrated a **real need in the area** and in the city even during the school months, where families often struggle to find activities aimed at the needs of their children.

These **are the numbers of the 2022 impact:** 12,868 guests and participants in Dynamo programmes, and more precisely:

- in **Soli Camper** programmes (751), dedicated to children and young people independently from their parents;
- in **Families** programmes (1,014), aimed at the entire household with parents and brothers and sisters;
- in **Extraordinary Sessions** (232) dedicated to disabled adults or minors in conditions of economic and social hardship;

in **Dynamo Programmes** (10,871) dedicated to children, siblings, parents and, to a lesser extent, disabled adults in nursing homes for the disabled.

These numbers have far exceeded pre-COVID levels, in which there were approximately 9,000 beneficiaries.

Company Bodies

Board of Directors *(appointed by the shareholders' meeting of June 8, 2021)*

Chairman	Vincenzo Manes [B]
Deputy Chairpersons	Diva Moriani [B]
	Marcello Gallo [B]
Directors	James Macdonald
	Ruggero Magnoni
	Francesca Marchetti [A, C]
	Alessandra Pizzuti[C]
	Serena Porcari
	Alberto Previtali
	Luca Ricciardi [A, C]

A. Independent Director
B. Executive Director
C. Member of the Control and Risk Committee *(Chairman: Luca Ricciardi)*

Board of Statutory Auditors *(appointed by the shareholders' meeting of June 8, 2021)*

Chairman	Silvano Crescini
Standing Auditors	Marco Lombardi
	Giovanna Villa
Alternate Auditors	Elena Beretta
	Cristina Sorrentino

Manager in charge of Financial Reporting	Giuseppe Mazza
Independent Auditors *(appointed by the shareholders' meeting of May 31, 2016)*	Deloitte & Touche S.p.A.
Common Representative of Savings Shareholders *(appointed by the special shareholders' meeting of June 8, 2021)*	Andrea Santarelli
Common Representative of the "KME Group S.p.A. 2020/2025 Bonds" Holders	Rossano Bortolotti
Common Representative of the "KME Group S.p.A. 2022/2027 Bonds" Holders	Rossano Bortolotti

2022 Directors' Report on operations

Dear Shareholders,

The year 2022 represented an extremely important year for your company, which saw the start of a strategic path, announced by the Board of Directors on April 22, 2022, intended to focus its activities on the industrial management of the investment in KME SE, specialised in the laminates sector. To make this strategic change even more evident, the company name was changed from Intek Group S.p.A. to KME Group S.p.A., which took place on September 23, 2022.

Indeed, in recent years the Company's activities have focused on managing the shareholding in KME SE and its subsidiaries, carrying out several acquisitions and disposal operations that have created a new strategic configuration of the copper sector, focused mainly on the rolled products ("Copper"). At the same time, these transactions led to a significant reduction in the indebtedness of the KME Group, which was able to repay its € 300 million bond early in 2022.

The Copper sector also offers interesting development prospects, both in terms of profitability and cash generation, reinforced by the increased competitive positioning of KME SE, in line with the expectations of most relevant markets.

Other investments included the one in CULTI Milano S.p.A., albeit less significant in terms of size, which has reached interesting levels both in terms of profitability and cash generation that are not yet fully reflected in the listing of the stock on the Euronext Growth Milan market ("**EGM**", formerly AIM Italia).

The Board of Directors, in the context described, believes that the best way to enhance the Company's assets is to focus on the management of the shareholding in KME SE, which will develop strategic and long-lasting value compared to other investments. This process is the best way to benefit from the favourable prospects of the Copper sector described above and thus maximise the creation of value for shareholders.

The other investments (CULTI Milano S.p.A., Ducati Energia S.p.A. and those, mainly minority interests, held indirectly through Intek Investimenti S.p.A.) will subsequently be focused on creating value through disposal to third parties or assignment to the shareholders of the Company. In this regard, it should be noted that for the investment in CULTI Milano, negotiations are underway for its sale.

In such a renovated configuration of the strategic arrangements, it is considered that the new structure of the Group, even with the expected increased cash generation capacity, requires a lower level of capital endowment. In this regard, three Voluntary Public Exchange Offers were carried out between July and September 2022 on ordinary shares, savings shares and warrants.

In addition in March 2023, the Company received a binding offer from investment funds managed by JP Morgan Asset Management (UK) Limited ("**JPM**"), aimed at financing a transaction that envisages among other things, subject to obtaining the necessary authorizations and subject to the occurrence of certain conditions indicated below, the promotion by KME of Public Tender Offers ("**2023 Offers**") totally or partially on KME ordinary shares, and totally on savings shares and warrants, to be settled with consideration in cash, as part of a project aimed at the de-listing of the aforementioned financial instruments, if the conditions are met.

The delisting is considered by the Company functional to the objective of concentrating its activities in the industrial management of the KME Group and of offering the Company greater flexibility in the pursuit of strategies aimed at strengthening its market position, also through external growth, taking into account that the listing does not allow the KME Group to be adequately valued. Furthermore, the Company believes that the delisting, in addition to representing a corporate simplification with related cost savings, may make it possible to implement, with greater effectiveness, any opportunities for reorganization of the KME Group aimed at further strengthening it, more easily pursued as an unlisted company.

Taking into account current market prices, the 2023 Offers would allow recipients who intend to participate to benefit, with equal treatment for all, from the possibility of liquidating their investment at a certain price, in cash, at a premium with respect to the securities average prices of the last few months.

These latest offers replace those announced in February 2023, which envisaged a Public Tender and Voluntary Exchange Offer on ordinary shares and subsequently a Voluntary Public Exchange Offer on the warrants.

In this Report, given the recent launch of the new strategic process, whose effects on investment management have still not fully materialized, as well as to ensure better comparability and understanding, analysis continued to be focussed on the Parent Company, on the individual investments and their results, in continuity with the disclosure presented in the previous financial reports.

The main events that characterized the operations of the Parent Company and its investees in 2022 and in the first months of 2023, until the date on which this Report was drafted are described below:

(i) Voluntary Public Exchange Offers

Starting from July 25, 2022, the three public exchange offers on ordinary shares, savings shares and warrants that had been announced on April 22, 2022 took place. The offer period ended on September 13 for savings shares and warrants and on September 16 for ordinary shares. A total of 82.3 million ordinary shares, 1.1 million savings shares and 20.2 million warrants were tendered. In exchange, 63,533,259 "KME Group S.p.A. 2022 - 2027" Bonds were issued as consideration, for a total nominal value of € 63.5 million.

(ii) Copper sector

In this area, in the course of 2022 and the early months of 2023, important transactions were carried out in order to implement the KME SE group's strategy of concentrating on copper and copper alloy rolled products, in which the group is the European leader and in which it intends to focus its energy and grow in the future, given the attractive growth rates expected for the main reference markets:

- in January 2022, the agreement was executed with Paragon Partners GmbH ("**Paragon**"), a German private equity fund, for the transfer of control of the Special Products business. The agreement called for the creation of a company 55% held by Paragon and 45% by KME SE, to which the above-mentioned business was transferred. This transaction allowed KME SE to cash in around € 200 million, plus the repayment of around € 20 million in intragroup loans, relating to working capital, and after a € 32 million loan was granted to the newly-established company;
- an additional disposal was completed in February 2022 with the sale of the Wires business (cables), which entered into the KME portfolio with the acquisition of MKM in 2019. This transaction allowed a total cash in of approximately € 20 million, plus the value of inventory;
- in July 2022, the acquisition of part of the flat rolled products production segment of Aurubis AG was completed. The scope of the transaction includes the FRP plant in Zutphen (Netherlands) and the slitting centres in Birmingham (United Kingdom), Dolný Kubín (Slovakia) and Mortara (Italy). The consideration for the transaction was € 8 million, in addition to the repayment to Aurubis of an intercompany loan of € 63 million corresponding to the value of the net working capital of the acquired companies;
- in December 2022, the contract (signed in September) for the sale and lease back regarding a transaction on the Osnabrück plant was executed, which allowed the cash in of € 90 million. The related lease agreement, which provides for rent of € 7.08 million, has a duration of 30 years with a 10-year extension that can be exercised twice. A repurchase option is also envisaged at the end of 2026;
- additionally in December 2022, a contract was signed by KME SE for the sale of its 50% interest in the KMD joint venture ("KMD (HK) Holdings Limited") and one for the repurchase of 100% of the share capital of KMD Connectors Stolberg GmbH ("Stolberg"), which had been transferred by KME to the KMD joint venture in 2014. The sale price of 50% of the KMD joint venture is approximately USD 50 million and Stolberg's repurchase price is approximately USD 17 million. In addition, KME SE will collect the intercompany positions and the shareholder loan currently in place for a total amount of approximately USD 20 million. The transaction is expected to close in the coming months.

Revenues from sales amounted to € 2,082.5 million (+4.4% compared to 2021 on a like-for-like basis), while those net of the value of raw materials totalled € 437.6 million (+30.6% compared to

2021, again on a like-for-like basis). This performance allowed for a significant improvement in EBITDA, up to € 112.6 million compared to € 95.5 million in the previous year.

The cash in of the extraordinary transactions enabled a significant improvement in KME SE's net financial position (from € 249.5 million as of December 31, 2021 to € 102.4 million as of December 31, 2022, of which € 90.0 million deriving from the effects of recognition pursuant to IFRS of the sale and lease back transaction) and allowed the early redemption of the KME SE Bond for a total of € 300 million maturing in 2023.

(iii) CULTI Milano S.p.A.

Also in 2022, CULTI Milano and its subsidiaries recorded significant commercial growth, confirming their differentiation and complementary channel strategy. The CULTI Milano group has also been involved with its subsidiary Bakel S.r.l. in the market launch of the revolutionary BAKEL® 3D technology, which allows a much higher absorption than traditional cosmetics.

In 2022, the CULTI Milano group achieved revenues of € 23.1 million and an EBITDA of € 5.1 million, an improvement compared to the same indicators in 2021, equal to € 20.9 million and € 5.0 million, respectively.

Public Exchange Offers on Ordinary Shares, Savings Shares and Warrants 2022

On April 22, 2022, the Company's Board of Directors announced the promotion of three separate public exchange offers on the Company's ordinary shares, savings shares and warrants (the "Exchange Offers"). These offers are the result of the fact that the new configuration of the Group, even with the expected increased cash generation capacity, requires a lower level of capital endowment. The purpose of the Exchange Offers was to allow the holders of the financial instruments covered by the offers themselves to benefit from the possibility of transforming their investment, represented by ordinary shares, savings shares and/or warrants, into a financial instrument characterized by a lower degree of risk and a value that incorporates a premium compared to the average prices of said securities in the last few months.

The Exchange Offers related in particular to:

- up to 133,674,937 of the Intek Group S.p.A. ordinary shares outstanding;
- all of the 16,325,063 Intek Group S.p.A. savings shares outstanding;
- up to 72,000,000 of the "Intek Group S.p.A. 2021-2024 Warrants" outstanding.

The consideration for the Exchange Offers was represented by newly issued "KME Group S.p.A. 2022 - 2027" bonds (the "2022 Bonds"), with a nominal value of € 1.00, with a duration of 5 years and with a nominal gross annual rate fixed by the Board of Directors to a degree equal to 5%. The 2022 Bonds are listed on the MOT (Electronic Bond and Securities Market), are not secured by collateral or personal guarantees and are not expected to be assigned a rating.

The expected payments were initially equal to a total of € 107.7 million, determined as follows:

- 3 2022 Bonds for every 5 ordinary shares tendered for a maximum value of approximately € 80.2 million;
- 4 2022 Bonds for every 5 savings shares tendered for a maximum value of approximately € 13.1 million;
- 1 2022 Bond for every 5 warrants tendered for a maximum value of approximately € 14.4 million.

The Ordinary Shares Exchange Offer could have been increased up to a maximum of 179,441,687 Ordinary Shares, corresponding to a value of € 107.7 million, in consideration of a potential reduced level of participation in the Exchange Offer on the Saving Shares and the Exchange Offer on the Warrants.

The considerations for the ordinary shares and the warrants were increased during the execution of the Exchange Offers becoming equal to:

- 7 2022 Bonds for every 10 ordinary shares tendered for a maximum value of approximately € 93.6 million;
- 1 2022 Bond for every 4 warrants tendered for a maximum value of roughly € 18.0 million.

Following these increases, the total considerations could be equal to € 124.7 million.

The 2022 Bonds were approved by the Board of Directors on May 9, 2022 for a total amount of a maximum of € 130.0 million. Also on that date, the Board of Directors approved a condensed separate interim financial report as of April 30, 2022, prepared pursuant to article 2357, paragraph 1 of the Italian Civil Code, to highlight the available reserves and called the ordinary and extraordinary shareholders' meeting of the Company regarding: the authorization to purchase and subsequently cancel ordinary treasury shares, own savings shares and warrants; amendments to the articles of association subject to the possible purchase and cancellation of all savings shares, where tendered to the relative offer; the change of company name and of other statutory clauses; the reduction of the share capital through allocation to the available reserve of € 135 million. The latter became effective in November 2022.

The Shareholders' Meeting of the Company was held on June 16, 2022, and on the same date the Company promoted the three Offers pursuant to Article 102 of the Consolidated Law on Finance (TUF). On June 20 the Offer Document pursuant to Article 102 of the TUF was presented to Consob, which approved it together with the Information Prospectus on the 2022 Bonds on July 20. On the same date, Borsa Italiana instead admitted the 2022 Bonds to listing.

The period for the Exchange Offers initially ran from July 25, until September 6, for the savings shares and warrants and until September 9 for the ordinary shares and was then extended until September 13 and 16, respectively as a result of the changes in the consideration.

As a result of the Exchange Offers, the following were tendered:

- 82,302,194 ordinary shares representing 61.6% of the ordinary shares initially subject of the relative offer (48.5% considering the ordinary shares deriving from the claw-back mechanism) for a value of € 57.6 million;
- 1,078,558 savings shares representing 6.6% of the savings shares subject of the relative offer for a value of € 0.9 million;
- 20,235,530 warrants representing 28.1% of the warrants involved in the relative offer and 11.7% of the outstanding warrants for a value of € 5.1 million;

for a total consideration consisting of 63,533,259 2022 Bonds for a value of € 63.5 million.

Starting from September 23, 2022, the payment date of the consideration, the 2022 Bonds are listed on the MOT; on the same date, the Company cancelled the ordinary shares, savings shares and warrants tendered, as well as changed the company name to KME Group S.p.A.

Public Exchange and Tender Offers on Ordinary Shares, Savings Shares and Warrants 2023

On March 28, 2023, a binding offer from investment funds managed by JP Morgan Asset Management (UK) Limited ("**JPM**"), was received, which aimed at financing a transaction that envisages among other things, subject to obtaining the necessary authorizations and subject to the occurrence of certain conditions indicated below, the promotion by KME of public tender offers (the "**2023 Offers**") on ordinary shares, savings shares and KME warrants, to be settled with consideration in cash, as part of a project aimed at the de-listing of the aforementioned financial instruments, if the conditions are met and in particular:

- a total or partial, as indicated below, public tender offer on ordinary shares of KME Group S.p.A. at a unit price of € 1.00 (the "**Public Tender Offer on Ordinary Shares**");
- a total public tender offer on KME Group S.p.A. savings shares at a unit price of € 1.20 (*cum dividend of € 0.21723*) (the "**Public Tender Offer on Savings Shares**");
- a total public tender offer on "*KME Group S.p.A. 2021 - 2024*" warrants at a unit price of € 0.45 (the "**Public Tender Offer on Warrants**").

The Public Tender Offer on Ordinary Shares will be promoted:

- in total ("**Total Public Tender Offer on Ordinary Shares**"), where the necessary consents have been received in good time from the current lending banks of the KME Group pursuant to the existing loan agreements ("**Waiver**"); or
- in partial form on 130,000,000 ordinary shares of KME Group S.p.A. (the "**Partial Public Tender Offer on Ordinary Shares**"), if the necessary Waivers have not been received in due time.

The offers were considered significantly improved compared to the offers proposed in the press release of February 28, 2023 (*see below*), as they all provide for a consideration to be paid in cash, they are also extended to savings shareholders and warrant holders, and for ordinary shares, they provide for an increase in consideration and a higher number of securities to be included in the offer.

The transaction and the 2023 Offers are conditional on the achievement of an amount of subscriptions of no less than a total value of € 120.0 million. In consideration of the total value of the individual offers (indicated below), the fulfilment of the aforementioned condition will largely depend on the amount of ordinary shares tendered for the Public Tender Offer on Ordinary Shares.

In addition, the transaction and, consequently, the promotion of the 2023 Offers are subject to approval by the Shareholders' Meeting of the Company of the authorization to purchase treasury shares and warrants pursuant to article 2357 of the Italian Civil Code and article 132 of the Consolidated Law on Finance (TUF), as well as obtaining all necessary authorizations, including regulatory authorizations, including those related to the obligations pursuant to Italian Law Decree 21/2012 as subsequently supplemented and amended ("**Golden Power**") and related implementing provisions.

Taking into account that delisting is the purpose of the overall transaction, this objective can be achieved through:

i. in the event of the promotion of the Total Public Tender Offer on Ordinary Shares, where the conditions are met, the fulfilment of the purchase obligations pursuant to art. 108 of the Consolidated Law on Finance and the exercise of the right to purchase pursuant to art. 111 of the Consolidated Law on Finance on ordinary shares, by KME as a party acting in concert with Quattroduedue S.p.A.;

ii. in the event of the promotion of the Partial Public Tender Offer on Ordinary Shares, the possible promotion of additional tender offers on ordinary shares, including in full after obtaining the Waivers;

iii. following the Public Tender Offer on Savings Shares, any proposed conversion of the savings shares into ordinary shares;

iv. following the Public Tender Offer on Warrants, the promotion of a voluntary public exchange offer on the Warrants still outstanding, at a ratio of one ordinary share for every 2.3 Warrants subscribed; and/or

v. the possible proposal to the Shareholders' Meeting to proceed to a merger, for the purpose of delisting.

To cover the financial requirements deriving from the payment obligations connected to the 2023 Offers, equal - in the case of full acceptance of the same - to a total maximum of € 203.4 million (ex-dividend) in the event of a Total Public Tender Offer on Ordinary Shares or a maximum total of € 179.0 million (ex-dividend) in the event of a Partial Public Tender Offer on Ordinary Shares, the Company will mainly use amounts deriving from an intercompany loan (the "**Intercompany Loan**") to be disbursed by the wholly-owned direct subsidiary KMH S.p.A. (hereinafter also "**KMH**").[11] The financial resources underlying the Intercompany Loan will in turn refer to the issue of bonds (for a maximum of € 135.1 million) and a capital increase (for a maximum of € 70.0 million) which will be approved by KMH and fully subscribed, for a total amount of up to € 205.1 million, by JPM.

The transaction provides for the signing of an investment agreement aimed at regulating relations between KME and JPM in relation to the project, in which Quattroduedue S.p.A. will also participate in relation to certain specific agreements relating to KME. Quattroduedue, as an additional recipient of the binding offer, accepted the same in order to support the Company in the overall transaction.

Furthermore, in relation to the project, among other things, the signing is envisaged of an agreement containing some shareholders' pacts, typical of similar transactions, between KME and JPM in relation to KMH.

As already indicated, the 2023 Offers exceed those announced on February 28, which included:

i. the promotion of a partial voluntary public tender and exchange offer on up to 100,000,000 ordinary shares of KME Group S.p.A. ("KME Ordinary Shares") at a unit price of € 0.90 (the "2023 Public Tender Offers");

ii. after the conclusion of the 2023 Public Tender Offers, the promotion of a voluntary public exchange offer on the "KME Group S.p.A. 2021 - 2024" warrants that would have been outstanding at the date of promotion of the same, at a ratio of 1 KME Ordinary Share every 2.3 Warrants tendered (the "2023 Public Exchange Offers").

The consideration of the 2023 Public Tender Offers would have been represented by:

- € 0.50 in cash for each KME Ordinary Share, for a total value of € 50 million;
- 0.0174 CULTI Milano shares ("CULTI Milano shares") for every 1 KME Ordinary Share, for a total maximum amount of 1,740,000 CULTI Milano shares. The "monetary" value of the consideration in shares was calculated by referring to the weighted average of the official prices of the CULTI Milano Share in the period 3 months prior to February 27, 2023 and, applying this criterion, the implicit monetary value of the consideration in shares was equal to € 0.40 for each no. 0.0174 CULTI Milano share.

The Company is in negotiations for the sale of its entire investment in CULTI Milano ("Sale of CULTI Milano Shares") and if, before the conclusion of the 2023 Public Tender Offer period, a preliminary agreement had to be signed for the sale of the CULTI Milano Shares, the consideration in shares would be converted into cash by increasing the cash consideration by an amount equal to the portion of the consideration attributable to the CULTI Milano Shares subject to the offer collected by the Company as part of the Sale of the CULTI Milano Shares, it being understood that:

- as part of the Sale of the CULTI Milano Shares, if the CULTI Milano Shares were valued at a higher price than the Monetary Value of the Consideration in Shares attributed for the purposes of the 2023 Public Tender Offers (i.e. if for each 0.0174 CULTI Milano Share the Company had received an amount greater than € 0.40), this higher value would have been reflected in the

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[1] *equivalent value calculated taking into account the distribution of a dividend to savings shares for a total of € 0.3 million*

conversion of the consideration into shares into cash, increasing the value of the Unit Monetary Value of the Consideration;

- in the event that, as part of the Sale of the CULTI Milano Shares, the CULTI Milano Shares had been valued at a value lower than the Monetary Value of the Consideration in Shares attributed for the purposes of the Offer, the Consideration could not in any case have been lower than the Unit Monetary Value, i.e. € 0.90 for each KME Ordinary Share.

The financial resources underlying the transaction would come from a bank loan agreement signed by the direct subsidiary KMH S.p.A. with Goldman Sachs Bank Europe SE, for a total maximum amount of € 90 million.

The 2023 Public Exchange Offers would have been promoted by the Company after the conclusion of the 2023 Public Tender Offers, according to the methods and timing determined by the Board of Directors, and would have had as its object (without prejudice to what is indicated below on the availability of the Ordinary Shares) all of the Warrants outstanding at that date.

To each member of the 2023 Public Exchange Offers, the Offerer would have recognized 1 KME Ordinary Share for each 2.3 Warrants subscribed and purchased.

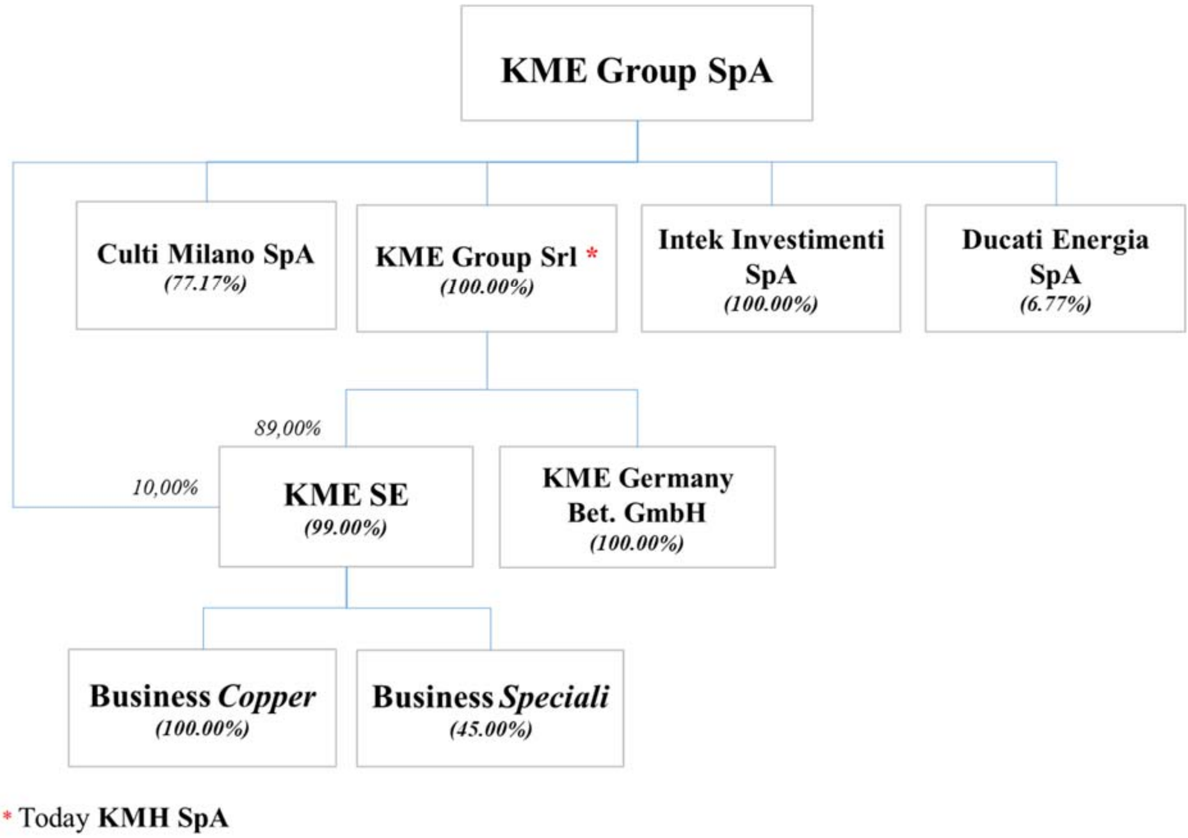
As consideration for the 2023 Public Exchange Offers, the ordinary treasury shares acquired in the 2023 Public Tender Offers would have been used, to which the treasury shares already held by the Company could have been added, if necessary.

The ordinary treasury shares acquired in the 2023 Public Tender Offers and not allocated as consideration for the 2023 Public Exchange Offers would have been cancelled. At the end of the 2023 Public Exchange Offers, the Warrants acquired through the 2023 Public Exchange Offers and any treasury shares deriving from the 2023 Public Tender Offers and not used as consideration for the 2023 Public Exchange Offers would have been cancelled.

In order to obtain the necessary authorizations, the Ordinary and Extraordinary Shareholders' Meeting of the Company was called for April 3 and 4, 2023 on first and second call, respectively. On March 28, the Board of Directors revoked the call of this shareholders' meeting, providing for its necessary convening to obtain the preparatory authorizations for the promotion of the 2023 Offers.

Summary of the Group's corporate structure

The Group structure as of December 31, 2022 can be represented as follows:



In 2022, in addition to the transfer by KME SE of 55% of the Special Products business, the newco KME Group S.r.l. was set up, wholly-owned by the Company, to which (partly through contribution and partly through sale) 89% of the stake in KME SE and 100% of the stake in KME Germany Bet GmBH were transferred.

In particular, 82.17% of the investment in KME SE was transferred to KME Group Srl, against a capital increase for a total of € 480 million, including the share premium. The transfer took place at the fair value as of December 31, 2021, in view of continuity of values since it is a corporate rationalisation operation (under common control) and, therefore, has no economic impact on the Company's financial statements. The additional stake in KME SE, equal to 6.83%, was instead sold by the Company to KME Group S.r.l. at a price of € 39.9 million, while the sale of KME Germany Bet. GmbH was completed on June 9, 2022 for a consideration of € 1.7 million. The sale transactions also took place at carrying amounts. In 2023, KME Group S.r.l. was transformed into a joint-stock company, taking on the name of KMH S.p.A.

It should be remembered that KME SE is the head of a global leading group in the production and marketing of semi-finished products in copper and its alloys focused on the Copper sector, following the transfer of control of the special products business of which it retains 45%. KME Germany Bet. GmbH acts as general partner/administrator of KME Real Estate GmbH & Co. KG, the company that owns the Osnabrück plant (Germany), the historic production site of KME SE.

On the other hand, there were no changes regarding the investments in:

- *CULTI Milano S.p.A.*: company listed on the EGM market, increasingly geared towards personal well-being, in addition to the consolidation of its traditional business in the environmental fragrance segment;
- *Intek Investimenti S.p.A.*: corporate vehicle in which the investment and private equity activities of the Company have been concentrated in the last few years;

- *Ducati Energia S.p.A.:* a non controlling investment (6.77% of the share capital through all special shares) active in a number of attractive business segments (condensers, industrial power factor correction, railway signalling, measurement tools, sustainable mobility, Intelligent Transportation Systems).

Macroeconomic Framework - The conflict between Russia and Ukraine

Within an economic framework still grappling with the complex repercussions of the pandemic crisis, at the beginning of February 2022, a Russian military operation was launched in Ukraine, which triggered a conflict the outcomes of which are still uncertain today.

The Group is not directly exposed to countries affected by the conflict, as it does not have significant commercial relations with Russia and Ukraine. The Group does not have operating activities in Ukraine and Russia and the revenues achieved in the two countries have always been extremely low.

In any case, the Group is carefully monitoring the evolution of the situation to consider any changes in the geopolitical context that may require a review of the corporate strategies already defined and/or the adoption of mechanisms to safeguard its competitive positioning, investments, company performance and its resources.

The worsening of the situation in Ukraine risks actually significantly changing the global macroeconomic scenario with profound consequences. Russia, in fact, plays a central role in the global energy supply (it produces about 18% of natural gas and 12% of oil) and is also a primary supplier of many industrial metals and agricultural raw materials.

The extent of the impact will undoubtedly depend on the way the conflict evolves, the severity of sanctions by Western countries and Russia's possible retaliatory actions: the economies of developed countries are still managing the complex fallout from the pandemic crisis, and Europe is structurally vulnerable to energy price shocks. The situation of the conflict is uncertain and at present it is difficult to predict the evolution of the geopolitical framework and also to quantify the impacts of the crisis in Ukraine.

The persistence of conditions of instability and tension on commodity prices could intensify the increase in inflationary pressures and damage growth by eroding consumers' purchasing power.

However, it seems that the most recent macroeconomic forecasts are less pessimistic than the previous ones, even if the global economy is confirmed to be slowing down for the year 2023. The International Monetary Fund reports growth of 3.4% for 2022, with a decline to 2.9% for 2023 and a recovery to 3.1% in 2024. A more marked slowdown is expected for the economies of advanced countries: from + 2.7% in 2022 to 1.2% over 2023 and to 1.4% over 2024.

According to the IMF "*Risks remain, but have decreased compared to the WEO in October 2022. A stronger push in demand and a faster decline in inflation in many economies are plausible. However, concerns are increased by the pandemic situation in China, which could slow the recovery, the potential escalation of the conflict in Ukraine and the more restrictive global financial conditions that could worsen the situation of sovereign debts.*"

It is therefore a priority in most economies to pay attention to the public debts of the most indebted states due to the more restrictive monetary conditions and lower growth that could affect the financial stability of these countries. It is equally important to accelerate vaccinations against COVID-19 in China, which would safeguard the recovery with positive global repercussions. Tax support should be targeted at those most affected by high food and energy prices, while more general tax relief measures should be withdrawn.

As regards the Eurozone, the IMF expects growth of 0.7% in 2023 and 1.6% in 2024. The European economy will tend to grow in all the main Western countries, except in the United Kingdom, where according to the IMF, GDP will decrease by 0.6% in 2023 (down compared to the WEO in October 2022, expected at +0.3%).

The Eurozone Composite Production for small and medium enterprise (SME) in January 2023 increased for the third consecutive month, indicating a marginal increase in economic activity and hinting at a return to growth after the contraction that began in June 2022. The increased confidence indicates a strong improvement in business outlook in the next twelve months, while orders show a reduced rate of contraction. Employment growth has also gained momentum, with companies preparing for a better year than previously expected.

The ECB's global activity index, based on high-frequency indicators, also signals a further slowdown in economic activity in the final quarter of the year. The weakening of global growth in the fourth quarter followed the strong expansion observed in the previous quarter, in which world GDP increased by 1.7% compared to the previous period, driven by the recovery in the United States and China. In December 2022, however, the index reported an improvement to some extent, thanks to more positive data from the labour market and financial markets. This indicates a possible, gradual recovery at the beginning of 2023, which could be further boosted during the year by the reopening of the Chinese economy.

Effect of climate change

The National Climate Change Adaptation Plan presented in December 2022 underlines how the industrial sector (with the exception of the energy sector and the sectors that are large consumers of water resources) is not commonly perceived as an economic sector particularly vulnerable to climate change, as on the contrary prevailing consideration is given to the new opportunities that the actions necessary to combat climate change and support the ecological transition may offer to some businesses.

From this point of view, the copper industry (which processes an essential material for the energy transition (renewable energies, energy efficiency, electric mobility etc.) and therefore closely connected to new technologies and new markets) is certainly among those that can most seize the development opportunities related to the ecological and digital transition. With reference to this scenario, the KME Group has further focused its strategy on the copper sector. No less important are the opportunities related to the transition to a circular economy, which is a necessary condition for reducing greenhouse gas emissions and achieving the goal of climate neutrality but also a factor of greater efficiency and economic competitiveness for companies.

However, as the Climate Change Adaptation Plan points out, climate change also entails multiple risks for this sector as well as for the entire economic system. Authoritative evidence of how awareness of the importance of climate and environmental risks has increased is also provided by the "Global Risks" report prepared by the World Economic Forum (a global community of leaders and political decision-makers from the economic, political, academic and international organizations) as well as an increasing number of analyses and reports of financial authorities, economic entities, study centres and scientific institutions.

In addition to a series of risks related to higher costs that may affect competitiveness, including forms of emission taxation, the most significant risks are linked to the increase in the frequency and intensity of extreme weather events (violent rainfall, floods and landslides, droughts and forest fires) that can directly affect industrial activities and infrastructures located in the most vulnerable areas. According to data collected in the insurance sector and reported by the European Environment Agency, the number of natural disasters in EU countries shows an increasing trend since 1980. Around two thirds of the economic losses attributable to natural disasters were caused by floods and hurricanes. Although it is currently difficult to accurately determine the proportion of losses attributable to climate change, in light of the current and expected impacts and risks, an increase is expected, with particular regard to losses attributable to floods. Climate change can also affect the quantitative and qualitative status of water resources, altering the hydrogeological cycles and systems; global warming will have the effect of intensifying the hydrological cycle and increasing the frequency of flood events in a large part of Europe.

Therefore, also for the copper industries, the strategy of adaptation to climate change must be based on a set of complementary approaches and measures for the management of the greater risks associated with the increase in extreme weather events. The companies of the KME Group that manage the production plants, after verifying the risks to which they are potentially exposed from this point of view, will define possible prevention interventions in line with the adaptation plans prepared by public bodies. By way of example, it should be noted that KME Italy has already carried out some works along an embankment of the Serchio river near the town of Fornaci di Barga. At the same time, as already mentioned, the KME Group has adopted strategies for the reduction of emissions and the de-carbonisation of industrial processes, in line with the objectives of the 2015 Paris Agreement and with the Business Plan for the European Union Green Deal.

Climate action

The transformation of production methods and related operating processes is at the heart of the strategy aimed at climate neutrality. KME's commitment is structured on several levels:

- reduction of direct emissions generated by its industrial activities;
- reduction of indirect emissions related to electricity purchased and consumed;
- CO2 offsetting measures;
- innovative technologies and projects for de-carbonisation;
- use of secondary raw materials from recycling and development of circularity;
- partnerships and shared initiatives.

The Holding KME Group S.p.A.

In the past, KME Group S.p.A. has invested with a medium-term time-frame, combining its entrepreneurial approach with a solid financial structure.

The current allocation of resources involves a strong concentration in the investment in the KME group (90% of total assets). Within this group, for a few years now the most high-performing and promising sectors have been privileged, while instead favouring a departure from segments that have lower growth outlooks. Furthermore, a particularly active role was played in contributing to the phenomenon of progressive concentration carried out in recent years by major Copper sector players.

In light of the strategy defined in April 2022, in the future there will be a further concentration of the activity in the copper sector with the gradual exit, through sale or assignment to shareholders, from other investments.

Financial position and results of operations of the Parent Company

The Parent Company's financial highlights as of December 31, 2022, compared to December 31, 2021, are summarized below: [2]

Condensed separate statement of financial position				
(in € thousand)	*31 Dec 2022*		*31 Dec 2021*	
KME SE investment	*58,410*		*578,300*	
KME Group Srl investment	*480,000*		*-*	
Receivables from KME Group Srl	*43,723*		*-*	
KME Germany Bet GmbH investment	*-*		*1,700*	
Other	*2,528*		*1,546*	
Total KME	584,661	89.47%	581,546	90.43%
CULTI Milano	37,980	5.81%	28,904	4.49%
Ducati Energia	16,700	2.56%	16,700	2.60%
Intek Investimenti	12,694	1.94%	11,984	1.86%
Other investments	2,070	0.32%	1,995	0.31%
Other assets/liabilities	(660)	-0.10%	1,990	0.31%
Net investments	**653,445**	**100.00%**	**643,119**	**100.00%**
Outstanding bonds (*)	160,469		95,988	
Net cash	(1,316)		(4,572)	
Holding company net financial debt	**159,153**	**24.36%**	**91,416**	**14.21%**
Total equity	**494,292**	**75.64%**	**551,703**	**85.79%**

Notes:

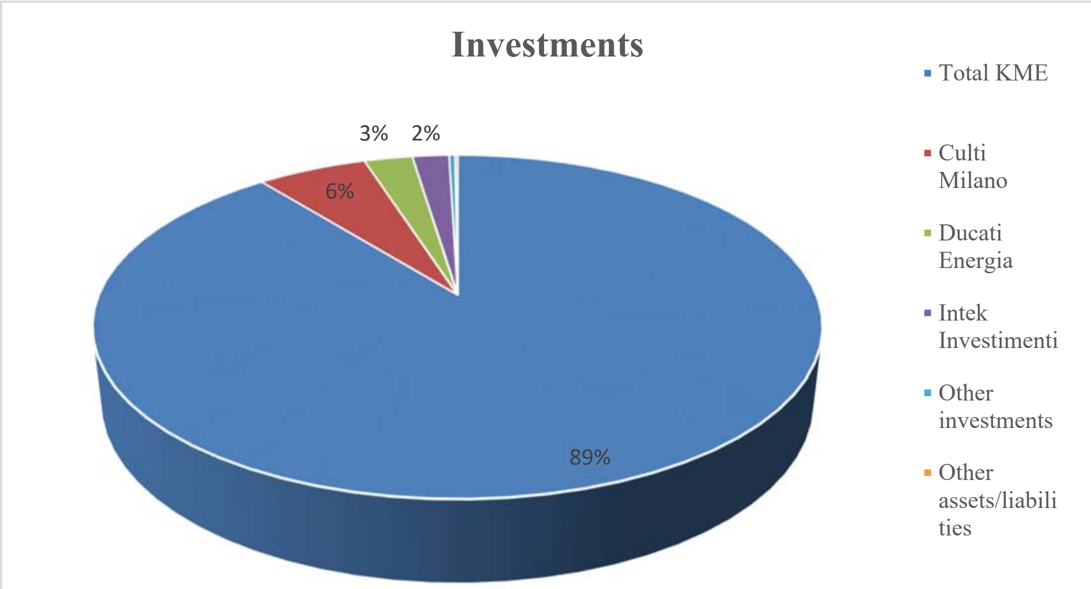
- *Investments are expressed net of any financial receivable/payable transactions outstanding with the Company.*
- *It should be noted that the values of the investments held by the Company until April 22, 2022, based on the Company's qualification of investment entity, represented investments determined according to the fair value method; as a result of the change of status of "investment entity", the fair value method was replaced by the cost method.*

(*) Including accruing interest.

[2] *The report on operations uses certain indicators identified as "Alternative Performance Indicators" ("APIs") pursuant to the Consob communication of December 3, 2015, which incorporated the "ESMA" ("European Securities and Markets Authority") guidelines of October 5, 2015. APIs are financial indicators of financial performance, financial position or historical or future cash flows other than the financial indicators defined or specified in the applicable rules on financial reporting. APIs are calculated by adding or subtracting amounts from the data presented in the financial statements drafted in compliance with the rules applicable to financial reporting. The APIs have been consistent over time and were not redefined compared to preceding years.*

Net investments

The Net investments held by the Company amounted to € 653.4 million as of December 31, 2022 (€ 643.1 million at the end of 2021), of which around 90% concentrated in KME SE.



Equity

The holding company's equity amounted to € 494.3 million, compared to € 551.7 million as of December 31, 2021; the most significant change is related to the effects of the Public Exchange Offers (€ 64.7 million, including transaction costs).

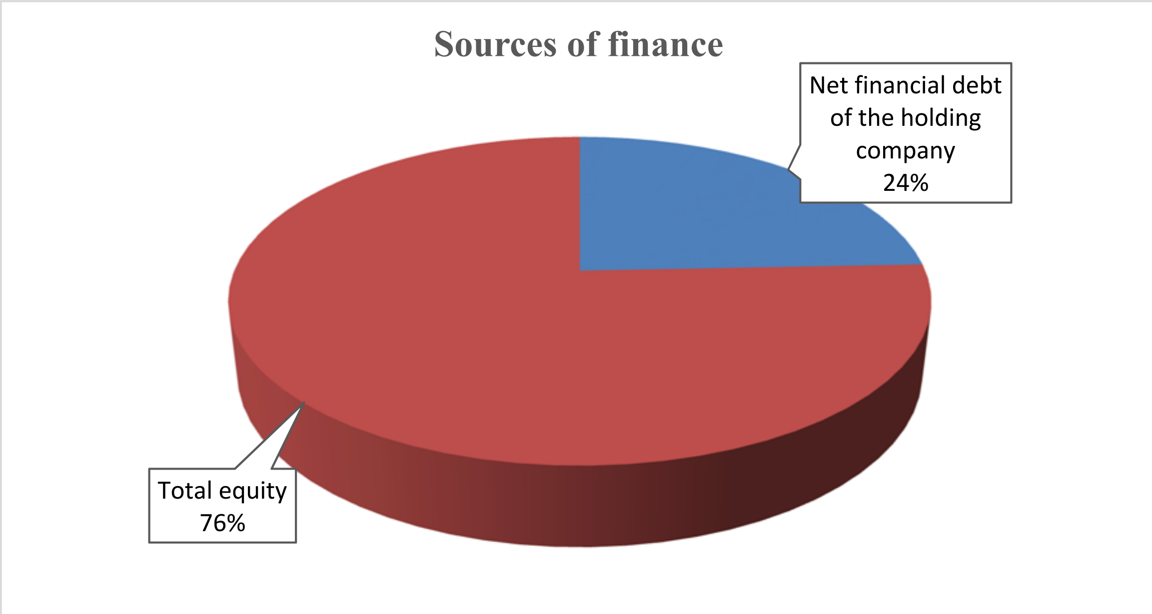
As of December 31, 2022, the share capital amounted to € 200,070,087.67 and was divided into 322,183,576 shares of which 306,937,071 were ordinary shares and 15,246,505 savings shares. The share capital decreased compared to December 31, 2021 by € 135,000,000.00 due to the reduction in reserves pursuant to article 2445 of the Italian Civil Code and increased by € 876.77 following the exercise of 87,677 warrants.

During 2022 a total of 83,380,752 shares were cancelled, of which 82,302,194 were ordinary shares and 1,078,558 savings shares, tendered to the respective Exchange Offers. The cancellation did not have any effects on share capital.

In the first months of 2023, as a result of the exercise of an additional 211,061 warrants, an equal number of ordinary shares were also issued, with a share capital increase of € 2,110.61.

As of the date of preparation of this Report, the share capital is composed of 322,934,637 shares, of which 307,148,132 ordinary shares and 15,246,505 savings shares; the 6,937,311 ordinary treasury shares held in the portfolio account for 2.26% of the ordinary capital.

The structure of KME's sources of finance can be summarized as follows:



Financial management

Net financial debt of the holding company (excluding intra-group loans and lease liabilities) totalled € 159.2 million as of December 31, 2022. The balance as of December 31, 2021 was € 91.4 million. The increase is due to the issue of the "KME Group S.p.A. 2022 - 2027" Bond as part of the Public Exchange Offers.

The Parent Company's financial debt as of December 31, 2022, compared to December 31, 2021, can instead be broken down as follows:

Financial debt			
	(in € thousand)	*31 Dec 2022*	*31 Dec 2021*
A	Cash and cash equivalents	508	4,698
B	Cash equivalents	-	-
C	Other financial assets	66,294	1,067
D	**Cash and cash equivalents (A+B+C)**	**66,802**	**5,765**
E	Current financial debt	4,607	3,954
F	Current portion of non current financial debt	20,584	603
G	**Current financial debt (E+F)**	**25,778**	**4,557**
H	**Net current financial debt (G-D)**	**(41,024)**	**(1,208)**
I	Non current financial debt	2,026	2,441
J	Debt instruments	155,991	92,372
K	Trade payables and other non current payables	-	-
L	**Non current financial debt (I + J + K)**	**158,017**	**94,813**
M	**Total financial debt (H + L)**	**116,993**	**93,605**

Liabilities to banks as of December 31, 2021 are shown net of sums restricted to secure them.

The reconciliation between financial debt and net financial debt of the holding company to third parties is provided below:

Reconciliation of Net financial position		
(in € thousand)	*31 Dec 2022*	*31 Dec 2021*
Reclassified net financial position	**116,993**	**93,605**
Current financial receivables from subsidiaries	45,466	831
IFRS 9 adjustment on receivables from subsidiaries	22	24
Financial payables to subsidiaries	(715)	-
Long-term financial payables for leases	(2,026)	(2,441)
Short-term financial payables for leases	(587)	(603)
Net financial debt of the holding company to third parties	**159,153**	**91,416**

Cash flows

Cash flows for the years 2022 and 2021 can be summarized as follows:

Statement of cash flows – indirect method			
(in € thousand)		*2022*	*2021*
(A) Cash and cash equivalents at the beginning of the period		**4,698**	**15,286**
Profit before tax		4,334	63,851
Depreciation and amortization		671	658
Impairment/(Reversal of impairment) of current and non current financial assets		(9,078)	(72,912)
Change in pension funds, post-employment benefits (TFR) and stock options		2,121	714
Change in provisions for risks and charges		(291)	-
Change in investments		47	2
Change in other financial investments		-	(268)
Change in financial payables to related companies		716	(536)
Change in financial receivables from related companies		(23,355)	(311)
Dividends received		-	-
Change in current receivables		3,718	(208)
Change in current payables		(2,718)	(613)
(B) Cash flow from operating activities		**(23,835)**	**(9,623)**
Proceeds from non current tangible and intangible assets		(444)	(363)
Payments for non current tangible and intangible assets		17	193
Payments on/proceeds from other non current assets/liabilities		(113)	(609)
(C) Cash flow from investing activities		**(540)**	**(779)**
(Purchase) sale of treasury shares		-	(128)
Exercise of warrants		32	-
Payments on/proceeds from current and non current financial payables		(4,707)	(3,413)
Payments on/proceeds from current and non current financial receivables		24,860	3,355
(D) Cash flow from financing activities		**20,185**	**(186)**
(E) Change in cash and cash equivalents	**(B) + (C) + (D)**	**(4,190)**	**(10,588)**
(F) Cash and cash equivalents at the end of the period	**(A) + (E)**	**508**	**4,698**

Reclassified income statement

The reclassified income statement, in a format including sub-totals, shows the formation of the net profit for the year by indicating the figures commonly used to provide a summary representation of business results.

It should be noted that, following the aforementioned change in strategy in April 2022 and the consequent method of preparing the financial statements with the abandonment of the fair value measurements of the investments, the results of 2022 are not immediately comparable with those of the previous year.

Reclassified income statement		
(in € thousand)	*2022*	*2021*
Fair value changes and other gains/losses from investment management	10,290	74,185
Investment management costs	(105)	(279)
Gross profit/(loss) from investments	**10,185**	**73,906**
Guarantee fees assets (a)	862	865
Net operating costs (b)	(5,420)	(5,180)
Overheads (a) - (b)	*(4,558)*	*(4,315)*
Reclassified operating profit	**5,627**	**69,591**
Net financial expense	**(3,239)**	**(3,934)**
Profit before tax and non-recurring items	**2,388**	**65,657**
Non-recurring income/(expenses)	1,946	(1,806)
Profit before tax	**4,334**	**63,851**
Taxes for the year	840	1,455
Net result for the year	**5,174**	**65,306**

"Non-recurring income/(expenses)" include the depreciation of rights of use relating to leases from subsidiaries linked primarily to the Milan property at Foro Buonaparte 44, the registered office of the Company and of other investees. During the year under review, they benefited from commissions received on extraordinary transactions of the subsidiary KME SE.

The *"Reclassified operating profit"* is defined as the result from the management of investments net of overheads and excludes net financial expense, non-recurring income/(expenses) and taxes for the year.

Business outlook

The business outlook will be correlated with the performance of the investments and their increase in value, both dependant on the recovery of demand at global level and the measures undertaken by the various governments to support global economic activity and that Eurozone in particular.

Trend in investments

The trend in investments in place as of December 31, 2022 is outlined hereunder, represented specifically by KME SE and CULTI Milano.

* * *

KME SE

The investment in KME SE, holding company of a group global leader in the production and marketing of semi-finished products in copper and copper alloys, has for years now, as detailed previously, represented the Group's biggest industrial investment.

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*
KME SE investment	58,410	578,300
KME Group Srl investment	480,000	-
Receivables from KME Group Srl	43,723	-
KME Bet. GmbH investment	-	1,700
Other	2,528	1,546
Total KME SE	**584,661**	**581,546**

Shown below are the effects of the transfer and sale transactions which involved the transfer of 89% of the investment in KME SE and 100% of KME Germany Bet GmbH to the newly established wholly-owned subsidiary KME Group Srl. Receivables of € 43.7 million relate to the deferred payment granted until June 30, 2023 on the occasion of the sale transactions and on which interest accrues at 7%.

The KME SE group boasts a vast range of copper and copper-alloy products, as well as a highly structured and complex global organizational and production structure.

In the course of the last few years, the KME SE Group was committed to several strategic transactions with the objective of both creating and consolidating several businesses in a sector which for some years now has been affected by a process of rationalisation and concentration of the various markets undertaken by major global players.

In particular, the KME SE group's strategy is to concentrate on copper and copper-alloy rolled products, in which the group is the European leader and intends to focus its energy and future growth, given the appealing growth rates expected for the main reference markets. Another fundamental objective of the group is progressive deleveraging.

The main events that characterized the year 2022 are outlined below:

- the transfer of control of the Special Products business to Paragon Partners GmbH ("*Paragon*"), a German private equity fund which manages roughly € 1.2 billion in assets, the closing of which took place in January 2022. This agreement, which resulted in the creation of a company, 55% owned by Paragon and 45% by KME SE, to which the aforementioned business was transferred, allowed KME to cash in around € 200 million, plus the reimbursement of approximately € 20 million in intragroup loans, relating to working capital, and after a € 32 million loan was granted to the newly-established company. KME's Special Products business had produced revenues of approximately € 282 million in 2021 and EBITDA of approximately € 48 million. The transaction with Paragon also substantially contributes to pursuing the group's progressive deleveraging target, while enabling it to share pro rata in the future value creation of the Special Products business;
- the disposal of the Wires business, completed in February 2022, which became part of KME portfolio following the acquisition of MKM. This transaction, which followed the signing of a contractual agreement in November 2021, allowed the cash in of a total amount of around € 20 million plus the value of inventory. The Wires business recorded a turnover of approximately € 87 million in 2021 and employs approximately 190 people in the Hettstedt plant;
- in July 2022, the purchase of part of the flat rolled production segment of Aurubis AG. The scope of the transaction includes the FRP plant in Zutphen (Netherlands) and the slitting centres in

Birmingham (United Kingdom), Dolný Kubín (Slovakia) and Mortara (Italy), for total turnover of roughly € 280 million and 360 employees. The consideration for the transaction was approximately € 12 million and includes € 4 million of estimated cash from the target companies at the closing date; therefore, the equity value of the transaction was equal to € 8 million. At the closing, KME also repaid an intragroup loan of € 63 million to Aurubis, corresponding to an equal amount of working capital present in the target companies at the closing date;

- in December 2022, the contract (signed in the earlier month of September) for the sale and lease back regarding the transaction on the Osnabrück plant was executed, which allowed the cash in of € 90 million. The related lease agreement, which provides for rent of € 7.08 million, has a duration of 30 years with a 10-year extension that can be exercised twice. A repurchase option is also envisaged at the end of 2026;
- additionally in December 2022, a contract was signed by KME SE for the sale of its 50% interest in the KMD joint venture ("KMD (HK) Holdings Limited") and one for the repurchase of 100% of the share capital of KMD Connectors Stolberg GmbH ("Stolberg"), which had been transferred by KME to the KMD joint venture in 2014. The sale price of 50% of the KMD joint venture is approximately USD 50 million and Stolberg's repurchase price is approximately USD 17 million. In addition, KME will collect the intercompany credit positions and the shareholder loan currently in place for a total amount of approximately USD 20 million. The transaction is expected to close in the coming months.

Operating performance

The European area and the Eurozone is KME's main outlet market, followed by the United States, the Middle East and other parts of the world.

KME recorded important results in the first half of 2022, in continuity with the 2021 trend. The main macroeconomic, political and economic developments of 2022 did not really affect KME's business; however, there were decreases in some business sectors around July/August, which continued until the end of the year. Most of these were caused by market contractions (partly expected) in the automotive sector, which influenced the flow of orders at some of the KME sites. Most of the other sectors, especially "pure" copper, continued to remain strong during the year.

Below is a summary of the main projects launched by KME in 2022 as part of its commercial transformation:

- second revision of the pricing policy for the Rolled Products and Bars divisions in January;
- third revision of the pricing policy for the Rolled Products and Bars divisions in July;
- introduction, in September, of a "standardisation of the metal formula" - with the aim of having a standard, transparent and simple rule for calculating the price of metals, within the general structure of prices applied to customers;
- further detailed analyses and correlations were carried out between the sales prices and the cost structure of KME in the third and fourth quarters, defining the objectives for the 2023 budget in terms of EBITDA;
- performance, in the third quarter, of most of the preparatory activities for the start of the integration and commercial transformation of the four sites acquired from Aurubis. The process of effectively implementing these changes in customer relations began in the fourth quarter.

Copper and raw materials price trends

During 2022, most commodity sectors continued their upward trend.

The average price of crude oil reached USD 100/b (compared to USD 70/b in 2021), as a result of the conflict in Ukraine; the peak was reached in March and June 2022, with a price of around USD 120/b, then dropped to around USD 80/b at the end of the year.

The most significant impact on the trend in energy prices was for natural gas, with a very strong volatility of the reference cost. The cost was approximately € 36 per MWh in June 2021, which rose to € 226 per MWh in March 2022 and then decreased to approximately € 145 per MWh at the end of the first half of 2022; in

August, the peak of € 336 per MWh was reached, with a gradual reduction to € 80 per MWh at the end of the year (very close to the price of € 76 per MWh in the pre-conflict period).

This reduction was favoured by the ability of the major European economies to gradually obtain other sources of natural gas to replace the lack of supplies from Russia, as well as by a rather mild winter. This also had an impact on the price of electricity in Europe. The expectation for 2023 is that these prices will remain stable, with a potential downward trend.

With reference to the price of copper, it remained within the range of USD 7,200 per tonne and USD 10,700 per tonne on the LME market. This wide gap can also be explained by the general uncertainty that characterizes European and global economic development, the tightening of monetary policies and the fears of recession that have continued to disturb the commodity markets.

In the fourth quarter of 2022, the average commodity price of copper decreased by 17.50% in USD compared to the same period of the previous year (from USD 9,700 per tonne to USD 8,002 per tonne) and by 7.50% in Euro (from € 8,480 per tonne to € 7,844 per tonne). In terms of trend, average metal prices increased by 3.31% in USD compared to those in the third quarter of 2022 (from USD 7,746 per tonne to USD 8,002 per tonne) and by 2.00% in Euro (from € 7,693 per tonne to € 7,844 per tonne). Compared to the 2021 average, there was instead a decrease of 14.12% in USD (from USD 9,318 per tonne to USD 8,002 per tonne) and of 0.50% in Euro (from € 7,885 per tonne to € 7,844 per tonne).

Key results of the copper sector

The main results of KME SE for the year 2022, compared to the previous year, can be summarized as follows:

Main financial figures for the copper sector

(in € million)	*2022*		*2021*		*Change*
Revenues	2,082.5		2,172.5		-4.1%
Revenues (net of raw materials)	485.7	100.0%	537.1	100.0%	-9.6%
EBITDA	112.6	23.2%	95.5	17.8%	17.9%
EBIT	73.9	15.2%	56.8	10.6%	30.1%
Result before non-recurring items	41.1	8.5%	12.3	2.3%	234.1%
Non-recurring income/(expenses)	103.9		(19.1)		
Effect of IFRS measurement of inventories	(3.8)		24.6		
Result of the investees at equity	(10.8)		(5.9)		
Result from assets held for sale	(26.5)		(8.7)		
Group result	(121.5)		2.7		
Comprehensive income items	29.1		15.5		
Comprehensive income	150.6		18.2		
Net debt*	102.4		249.5		
Group equity*	303.8		160.6		

Consolidated revenues as of December 31, 2022 totalled € 2,082.5 million, down 4.1% compared to the previous year (€ 2,172.5 million). Net of the value of raw materials, revenues was down by 9.6%, from € 537.1 million to € 485.7 million.

Analysing the same magnitude on a like-for-like basis, i.e. taking into account the sale of the Specials business and the Wires business and the acquisition of the former Aurubis business, total revenues increased by 4.4%, from € 1,803.9 million to € 1,883.9 million, while those net of raw materials increased from € 335.9 million to € 437.6 million, up 30.6%.

Gross operating income (**EBITDA**) as of December 31, 2022 came to € 112.6 million, 17.9% up compared to the figures in 2021 (€ 95.5 million), which also included the contribution of the businesses sold. There was therefore a significant improvement in EBITDA, thanks to the improvement in margins deriving from the revision of the policies for hedging the cost of raw materials and determining the sale prices of the products.

EBIT stood at € 73.9 million (€ 56.8 million in 2021).

Result before non-recurring items was € 41.1 million (€ 12.3 million in 2021).

During the year under review, non-recurring components had a positive impact of € 103.9 million.

The valuation of inventories and forward agreements net of taxes had a negative impact of € 3.8 million compared to a positive impact of € 24.6 million recorded in 2021.

Net group result is positive for € 121.6 million (profit of € 2.7 million in 2021) was recorded.

The components of the comprehensive income items were positive for € 29.1 million (€ 15.5 million in 2021).

The **comprehensive income** is positive for € 150.5 million (€ 18.2 million in 2021).

Financial management

The **Net financial position** as of December 31, 2022 is significantly improved, from € 249.4 million to € 102.4 million, including a liability of € 90 million linked to the recognition pursuant to IFRS 16 of the sale and lease back transaction on the Osnabrück property.

During 2022, the Bond of € 300 million issued in 2018 by KME SE was also fully repaid.

As of December 31, 2022, there is a residual amount of € 20 million of a credit facility originally of € 110 million obtained from Goldman Sachs Bank USA expiring in October 2023.

The duration of the banks pool facility, coordinated by Deutsche Bank, was extended until November 2023, with a renewal option for another three years. The credit facilities of the pool loan were used through letters of credit for € 324.9 million (€ 394.9 million as of December 31, 2021) as a means of payment to metal suppliers. The relative supplier liabilities are recognized under trade payables or other payables.

At beginning of March 2022, KME Italy S.p.A. and Serravalle Copper Tubes Italy S.r.l. (the Italian operating companies of KME), entered into a 6-year loan agreement for a total of € 75 million, with a pool of Italian banks supported by a SACE guarantee. The amortisation of the loan is expected in equal instalments starting from the first quarter of 2023 until the end of 2027.

KME Italy S.p.A. also signed two additional loan agreements with a duration of 6 years: the first, in July 2022, for a total amount of € 15 million, supported by a SACE guarantee and expected amortisation in constant instalments starting from the first quarter of 2023 until the end of 2027; the second on November 30, 2022, for a total amount of € 59 million, also backed by a SACE guarantee. The amortisation of the loan is expected in equal instalments starting from the fourth quarter of 2023 until the end of the third quarter of 2028.

As of December 31, 2022, the subsidiary KME Mansfeld GmbH has still outstanding the Tranche B loan for a total of € 18.8 million, maturing in the third quarter of 2024 with a run-off period starting from the third quarter of 2022.

The loans mentioned above contain similar financial covenants, subject to quarterly verification.

As of December 31, 2022, the KME SE group had fully respected all covenants.

Equity as of December 31, 2022 amounted to € 303.8 million (€ 160.6 million as of December 31, 2021).

Total Investments amounted to € 19.1 million (€ 19.8 million in 2021).

The number of **Employees** as of December 31, 2022 was 2,870 after the exit of the special products and wires businesses (3,959 at the end of 2021).

* * *

CULTI Milano S.p.A.

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*
CULTI Milano S.p.A. investment	37,990	28,904
Total CULTI	**37,990**	**28,904**

The Company holds 77.17% of the share capital of CULTI Milano S.p.A. (hereinafter also "**CULTI**"), a company whose shares have been traded on the EGM Italia market managed by Borsa Italiana since July 2017. The investment has not changed compared to last year. It should be noted that in the last part of 2022, through a public tender offer, CULTI acquired 359,000 treasury shares. An additional 750 treasury shares were acquired through a buy-back programme launched after this offer. The percentage held by KME is 87.64%, net of treasury shares held by CULTI.

The Company, as announced as part of the Offer on Ordinary Shares announced on February 28, had entered as exchange consideration a part of its investment in CULTI, for the sale of which negotiations are underway with third parties.

The business of CULTI, which traditionally operated at domestic and international level in the manufacture and distribution of high-end environmental fragrances, a specific luxury market segment, has recently extended to the perfumes and cosmetics sector, evolving from a fragrance company to a personal well-being business: from fragrance for spaces (home, car, boat etc.) to personal products (perfume, personal hygiene, cosmetics).

The openings of *CULTI Houses* in retail have performed a dual function: 1) the strengthening of brand awareness in the domestic market by covering areas of greatest commercial interest, and 2) the possibility of introducing the new personal and cosmetics collections, thus creating a link with the "personal well-being" market segment. Particular attention was dedicated to the international sales network which covers the main markets and is present in more than 60 countries.

This includes the acquisitions, in 2019 and 2020 respectively, of 50.01% of the share capital of Bakel S.r.l., a company whose business focuses on cosmetics products made from natural active ingredients, and 51% of Scent Company S.r.l., a company active in olfactory branding. In February 2023, the remaining 49% of Scent Company S.r.l. was also acquired through the early exercise of the mandatory call option, with an outlay of € 2.8 million.

In the course of 2020, a joint venture was launched in Hong Kong (CULTI Milano Asia Ltd.), in addition to a subsidiary in Shanghai (CULTI Milano China Ltd.), which have made it possible to consolidate CULTI Milano's already significant presence in the East, thus laying the foundations for greater penetration of Scent Company as well, in addition to launching Bakel's commercial activities in those geographical areas. The joint venture began operating in the early months of 2021. The company relies on highly structured commercial know-how and is ready to intercept domestic growth in the Chinese and Hong Kong markets with a view to intensifying the efforts made in recent years at distribution level, with the aim of being increasingly recognized as a leading brand in environmental fragrances.

The main consolidated indicators can be summarized as follows:

- **total sales**: € 23.1 million (€ 20.9 million in 2021) with a 10% increase;
- **sales completed on the domestic market**: € 8.4 million (+18% compared to 2021, when they came to € 7.1 million);
- **sales achieved on international markets** (equal to 64% of total turnover): € 14.7 million (+6% compared to 2021, when they came to € 13.8 million);
- **EBITDA** of € 5.1 million (€ 5.0 million in 2021);
- **EBIT** of € 4.3 million (€ 4.6 million in 2021), a decrease of 6% due to significant investments made to support new commercial activities;
- **net profit**: € 2.3 million, down compared to 2021 when it was € 2.7 million. The reduction is mainly due to commercial and marketing investments;
- **net financial position**: negative for € 2.7 million. This indicator was positive for € 5.1 million in 2021 and decreased (i) due to the investment relating to the purchase of treasury shares of CULTI Milano S.p.A. and partially financed for € 5.2 million through a specific credit facility and (ii) for the investments in the new 3D project of the subsidiary Bakel S.r.l., linked to the product development and its promotion, especially on the American market of significant strategic importance.

With regard to CULTI Milano, the retail sector was particularly significant in 2022 with the opening of two CULTI Houses in October in Hong Kong (in the prestigious Hollywood Road) and in Kuwait City. As regards the domestic market there was a growth in turnover, also supported by the renovation of the CULTI House in Milan in August. With reference to the wholesale activities in the domestic territory, there was a growth thanks to the complementarity of the channels and the collaboration with customers of the calibre of QC Terme and Villa d'Este, while in the international one the presence was strengthened in certain territories. A new distribution contract was signed in Saudi Arabia in addition to the collaboration in Qatar, with the fragrance of the new Printemps department store, where a CULTI Milano shop will also be opened.

In the Asian market, a CULTI corner has recently been opened at F1rster shopping mall (part of King Power Group). The Chinese market instead suffered from the resurgence of COVID-19 in the central months of the year, with the total closure of activities in April and May and a sharp slowdown in commercial activities in the second half of the year. The capsule project has stepped up the release of some limited series of new fragrances. Olfactory branding projects were also launched with the Getty Museum and Lamborghini, which generated excellent feedback from the market resulting in sold out products. On the collections front, positive results have been achieved since the introduction of the "persona" line, which was the subject of an expansion of the soap and cream range.

Bakel has intensified the path towards multi-channelling, strengthening the commercial networks of outlet channels (perfumery and pharmacy). The expansion proceeded by balancing brick & mortar development (consultancy vehicle) with digital (contact and information vehicle). The pharmacy channel on the Italian market has doubled in terms of number of doors and value.

On the collections front, Bakel launched JALU-3D, the first cosmetic product in the world made with 3D technology. This technology, covered by five world patents, was presented exclusively in May within the setting of the first edition of the Milan Beauty Week, attracting significant interest and approval from the community of cosmetics professionals and arousing the curiosity of the broader public of end consumers. At the end of June, the JALU-3D digital sales platform was inaugurated (specific for the US market), whose sales activities are planned during the 2023 financial year.

For the summer period, a tonic eye treatment with visible and instant results (characterized by a smart price) was successfully launched, with the aim of bringing new consumers closer to the brand. Lastly, despite the limitations imposed by the pandemic, a commercial expansion project was launched in foreign countries where the group has already consolidated commercial relations. In particular, activities towards the Baltic countries were launched towards the end of the year.

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Intek Investimenti SpA

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*
Intek Investimenti investment	11,200	11,200
Financial receivables/payables from/to Intek Investimenti	1,494	784
Total Intek Investimenti	**12,694**	**11,984**

Intek Investimenti is a sub-holding company, making predominantly non controlling investments into which the previous private investments of the Company were transferred by means of transfers and contributions of shareholdings.

The financial statements of Intek Investimenti are drawn up in accordance with Italian accounting principles and the investments are recognized at cost, thus not reflecting any unexpressed capital gains.

Intek Investimenti holds an investment worth € 2.1 million, equal to 8.81% of the share capital, of Natural Capital Italia S.p.A. Benefit Company (formerly Immobiliare Agricola Limestre Srl), following the contribution in the shareholding in Oasi Dynamo Società Agricola S.r.l., of which Intek Investimenti held 42.86% (the remaining stake was already held by Natural Capital Italia S.p.A.). The acquisition of total control of Oasi Dynamo Società Agricola S.r.l. will allow Natural Capital Italia S.p.A. to better pursue its development activity in the hospitality sector, for the management of prestigious hotels surrounded by nature, and agriculture and conservation, concentrated on the carrying out of agricultural activities with traditional methods and on the conservation of natural heritage.

Another investment of Intek Investimenti is represented by the 60.72% stake in Isno 3 S.r.l. in liquidation, a company in which the residual assets of the I2 Capital Partners fund have been concentrated and which include:

- *Nuovi Investimenti SIM S.p.A.*

  During 2022, a receivable of € 0.4 million was collected from some of the purchasers of Nuovi Investimenti SIM S.p.A., for which a dispute was pending, and the ownership of some low-value real estate located in Biella.

- *Benten S.r.l.*

  As of December 31, 2022, the assets of Benten S.r.l. (30% held) still to be realized consist only of tax credits subject to disputes with the Italian Revenue Agency for a total of € 13.7 million.

Intek Investimenti is also the owner, for a value of € 0.3 million, of a 31.13% stake in the capital of Il Post Srl, an Italian online newspaper.

* * *

Ducati Energia S.p.A.

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*
Ducati Energia investment	16,700	16,700
Total Ducati Energia	**16,700**	**16,700**

The investment in Ducati Energia consists of 100% of the category B special shares, constituting 6.77% of its share capital. These shares enjoy a 2% premium over the ordinary shares in the event of a dividend distribution. Moreover, if control of Ducati Energia is given up, these shares will be converted into ordinary shares with the same rights as those afforded to the transferring shareholders.

Ducati Energia approves its financial statements by June 30; the data below therefore refer to 2021. From the initial indications received, performance in 2022 was positive, as are expectations for the current year.

The Ducati Energia group closed its consolidated financial statements for 2021 with an EBITDA of approximately € 26.5 million.

Ducati Energia and its subsidiaries have roughly 1,400 employees distributed at 9 plants all over the world and operate in various business segments with applications that are currently particularly interesting, such as: condensers, industrial power factor correction and power electronics, alternators and ignition systems for endothermic engines, electric vehicles and recharging stations, energy analysers, systems for the remote control of electricity grids, railway signalling, motorway and public transport systems and equipment, and wind power generators.

In 2021, the Ducati Energia group achieved consolidated revenues of € 241.7 million (€ 218.7 million in 2020), of which € 176.4 million in Italy (€ 170.7 million in 2020) and the remainder abroad. The Energy Division contributed € 184.9 million to revenues (€ 156.6 million in 2020) and the Systems Division € 49.7 million (€ 57.1 million in 2020).

EBITDA for the year 2021 amounted to approximately € 26.5 million, compared to € 27.1 million in the previous year, while EBIT totalled € 20.4 million compared to € 20.1 million in 2020.

Net consolidated profit totalled € 20.7 million in 2021, higher than 2020, when the figure was € 12.7 million, benefiting from lower financial expense and a reduced incidence of taxes.

In relation to the individual business sectors, it should be noted that the Condensers sector recorded a significant increase in sales compared to the previous year (+42%) thanks to an overall increase in demand and the acquisition of new market shares. Expectations for 2022 are for stabilisation of growth resulting from the common policy of many customers to anticipate orders at the end of 2021 to avoid the risk of stock outages, production halts and price increases in the event that supply problems persist and get worse on the commodity market during the course of 2022.

The restrictions and uncertainties that have characterized the last two years as a result of the COVID-19 pandemic have instead had a negative impact on the power factor correction sector, which recorded a drop in sales revenues of about 10% compared to 2020 and for which a similar trend is expected in 2022.

The Generators division recorded a 30% increase in sales compared to 2020, returning to the sales volumes of the periods prior to the health emergency, especially in the recreational sector as well as in two-wheeled vehicles and diesel engines. Thanks to the marketing of new recreational products on all vehicle platforms and the acquisition of new market shares, a confirmation of the sector's growth trend is expected also in 2022.

The Electric Vehicles sector recorded a notable reduction in sales due to many customers' postponement of the orders initially planned for delivery in 2021. Thanks to already defined supply contracts, it is believed that 2022 could be characterized by the return of sales volumes to the levels of 2020.

As far as the Motorway sector is concerned, 2021 was characterized by an extension of the delivery times of the works mainly due to requests from clients, which led to a significant decrease in turnover. The first signs of 2022 indicate a gradual resumption of work that will allow the sector in question to return to its usual sales levels thanks also to the acquisition of new orders both in Italy and abroad.

The Energy sector in 2021 was characterized by different trends in the sales of the various products that make it up. An increase of about 35% in revenues for energy distribution products was offset by a significant reduction in sales in the transmission and recharging tools sector, due to delays in the start-up of new projects and the unavailability of some electronic components on the market. Expectations for 2022 are currently conflicting as, on the one hand, a sales boost is expected thanks to the availability of funds from the National Recovery and Resilience Plan while, on the other hand, it is believed that the conflict that has broken out in Ukraine may aggravate problems related to the availability of raw materials and energy and their cost.

The Meters sector has substantially confirmed the volumes of previous years which are expected to be maintained also in the next few years thanks to the award of new contracts.

In 2021, the railway sector recorded a decrease in revenues of about 10% compared to the previous year; also with regard to this sector, it is believed that the impetus injected by National Recovery and Resilience Plan (PNRR) funds may produce positive effects, in terms of turnover increases, as early as 2022.

In 2021, the Ducati Energia group continued to make investments in development, in part already completed, with the other part due to be completed in 2022, which will help to expand and modernise the range of new products and the entry into new markets, with healthy prospects for an increase in revenues in the coming three years.

In 2022, the order portfolio recorded in the first four months a billable amount in the current year of roughly € 159 million with options and deliveries for the subsequent four-year period for a further roughly € 240 million, thanks primarily to the continuation of the production of electricity consumption measurement instruments.

As regards the traditional components sectors (condensers, power factor correction and generators), the analysis of the expected revenues for the year 2022 shows a forecast increase compared to the levels reached in 2021, while in the meters sector revenues are expected to be substantially in line with the previous year.

* * *

Other investments

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*
Fime assets/liabilities	1,493	1,386
Former ErgyCapital assets/liabilities	25	82
Other	552	527
Total other investments	**2,070**	**1,995**

The item includes assets and liabilities linked primarily to previous investments.

The previous real estate assets have been completely built on the former Fime activities. During the year, a total of € 0.2 million was collected. In the first few months of 2023, a further € 0.6 million was collected thanks to a settlement agreement on a credit position that will allow additional collections of € 0.2 million in the next twenty-four months.

The only remaining ex-ErgyCapital asset is the investment in Ergyca Tracker 2, which distributed part of its reserves during 2022.

* * *

Group results

The new strategic process announced by the Company on April 22, 2022 has rendered the consolidation set forth in IFRS 10 for investment entities no longer applicable, with the subsequent obligation of line-by-line consolidation of controlling interests to be carried out prospectively from the date on which the change of status is verified.

The resulting consolidated financial statements, which at the income statement and cash flow level only include eight months of operations of the consolidated subsidiaries, are not only limitedly comparable with the values expressed in the previous financial statements, which as of December 31, 2021 only included the Parent Company, but also partially representative of the operating results of the Parent Company and the consolidated subsidiaries.

Invested Capital

The **Consolidated net invested capital** was as follows:

Consolidated net invested capital		
(in € thousand)	*31 Dec 2022*	*31 Dec 2021*
Net non current assets	1,115,405	640,663
Net working capital	(114,067)	4,813
Net deferred tax	(29,274)	541
Provisions	(134,996)	(709)
Net invested capital	**837,068**	**645,308**
Total equity	569,537	551,703
Net financial position	267,531	93,605
Sources of finance	**837,068**	**645,308**

"Net invested capital" is a financial indicator which is not defined by IFRS and should not be considered as an alternative to the indicators defined by IFRS. Its components are given here below:

- *"Net non current assets" consist of the sum of non current assets except for deferred tax assets.*
- *"Net working capital" consists of the sum of the items "Trade receivables" net of "Trade payables" and "Other current assets/liabilities", except for the items considered in the definition of "Net financial debt".*
- *"Provisions" include the items "Retirement benefits" and "Provisions for risks and charges".*

Income Statement

The **consolidated income statement** can be summarized as follows:

(in € thousand)	*2022*	*2021*
Revenues from sales and services	1,400,584	-
Change in inventories of finished and unfinished products	53,991	-
Own work capitalized	373	-
Other income	10,862	1,007
Purchases and change in raw materials	(1,131,320)	
Personnel cost	(123,405)	(1,867)
Depreciation, amortization and impairments	(43,497)	(658)
Other operating costs	(159,010)	(4,801)
Operating result (EBIT)	**8,578**	**(6,319)**
Financial income	51,583	1,157
Financial expense	(33,557)	(4,375)
Net financial expense	*18,026*	*(3,218)*
Result of investments	(195)	73,388
Profit before tax	**26,409**	**63,851**
Current taxes	(7,536)	1,893
Deferred taxes	26,846	(438)
Total income taxes	**19,310**	**1,455**
Result from continuing operations	**45,719**	**65,306**
Result from discontinued operations	(10,261)	-
Net result for the year	**35,458**	**65,306**
Other comprehensive income:		
Measurement of employee defined benefits	*16,053*	*(12)*
Taxes on other comprehensive income	*(4,120)*	-
Items that will not be reclassified to profit or loss	**11,933**	**(12)**
Foreign currency translation gains/(losses)	*1,506*	-
Net change in cash flow hedge reserve	*694*	-
Taxes on other comprehensive income	*(149)*	-
Items that may be reclassified to profit or loss	**2,051**	**-**
Total other comprehensive income, net of tax effect:	**13,984**	**(12)**
Total OCI for the year	**49,442**	**65,294**
Net result for the year attributable to:		
- non controlling interests	*2*	-
- parent company's shareholders	*35,456*	*65,306*
Net result for the year	**35,458**	**65,306**
Total OCI attributable to:		
- non controlling interests	*824*	-
- parent company's shareholders	*48,618*	65,294
Total OCI for the year	**49,442**	**65,294**

Consolidated financial debt

The Group's financial debt as of December 31, 2022, compared to December 31, 2021, can instead be broken down as follows:

	(in € thousand)	*31 Dec 2022*	*31 Dec 2021*
A	Cash and cash equivalents	128,844	4,698
B	Cash equivalents	-	-
C	Other financial assets	109,829	1,067
D	**Cash and cash equivalents (A+B+C)**	**238,673**	**5,765**
E	Current financial debt	45,584	3,954
F	Current portion of non current financial debt	63,871	603
G	**Current financial debt (E+F)**	**109,455**	**4,557**
H	**Net current financial debt (G-D)**	**(129,218)**	**(1,208)**
I	Non current financial debt	240,758	2,441
J	Debt instruments	155,991	92,372
K	Trade payables and other non current payables	-	-
L	**Non current financial debt (I + J + K)**	**396,749**	**94,813**
M	**Total financial debt (H + L)**	**267,531**	**93,605**

The total financial debt includes a liability of € 90 million linked to the accounting, pursuant to IFRS 16, of the sale and lease back transaction on the KME SE property in Osnabrück.

(*) Determined in compliance with the provisions of ESMA Document 32-382-1138 of March 4, 2021 – Guidelines regarding disclosure obligations pursuant to the prospectus regulation, as highlighted in CONSOB warning notice 5/21 of April 29, 2021.

Reconciliation of the Consolidated Financial Statements/Parent Company Financial Statements

The reconciliation of Group equity and result and that of KME Group is the following:

(in € thousand)	*31 Dec 2022*
Result of the separate financial statements of the Parent Company	**5,174**
Result of consolidated companies	33,129
Cancellation of effect of IFRS 16 on intra-group transactions	18
Cancellation of effect of IFRS 9 on intra-group transactions	46
Reclassification of property to tangible fixed assets	(198)
Other consolidated entries	(2,711)
Group result	**35,458**
of which Net result attributable to third parties	*2*
of which Net result attributable to the parent company's shareholders	*35,456*

(in € thousand)	*31 Dec 2022*
Parent company's equity (including result for the period)	**494,292**
Recognition of the equity of consolidated shareholdings	766,451
Elimination of carrying amount of fully consolidated investments	(1,085,063)
Difference between the equity of consolidated companies and their carrying amount	365,260
Share of equity of consolidated companies to be attributed to third parties	(3,324)
Consolidation adjustments	(2,625)
Equity of the parent company's shareholders	**534,991**

Additional information

Related party transactions

Related party transactions, including intra-group transactions, were neither atypical nor unusual, in that they were part of the Group companies' day-to-day business and were all conducted on an arm's length basis or according to standard criteria or normal market conditions. In 2022, there were no transactions that could be qualified as of greater importance pursuant to the "Procedure applicable to related party transactions".

As of December 31, 2022, KME Group S.p.A. had financial receivables against KME Group S.r.l. (now KMH S.p.A.) for € 64.3 million and trade receivables from KME SE and its subsidiaries for € 3.7 million, mainly for services rendered and fees charged for guarantees.

With respect to financial relationships, please note the two corresponding current accounts, the first with a credit balance of € 1.5 million with Intek Investimenti and the second with a negative credit balance of € 0.7 million with respect to Immobiliare Pictea.

Lastly, due to the application of IFRS 16, financial liabilities with regard to Immobiliare Pictea are recognized in the financial statements for the lease of the Foro Buonaparte - Milan properties, for a total of € 2.5 million, of which € 0.5 million is current.

The breakdown of transactions with subsidiaries and parent companies, and with related parties in general, is included in the Notes to the separate and consolidated financial statements.

Disputes

Below is an update on the most significant litigation involving KME Group.

Disputes with certain holders of savings shares which were pending from the first half of 2016 are still under way.

Four of these cases were resolved with a ruling at the first degree, all in favour of the Company, of which three were challenged and heard before the competent Courts of Appeal (Bari and Rome), while one was considered final as it was not appealed.

In particular, of the three appeals, aside from one which will be dealt with at the scheduled hearing on May 8, 2023 due to successive deferments by the Rome Court of Appeals, two concluded before the Bari Court of Appeals and the Rome Court of Appeals respectively, with rulings that confirmed the decisions in the first instance and therefore against the appellant savings shareholders, who were also ordered to pay KME Group's legal costs. These rulings became final and the related costs were collected.

The other four cases, pending before the Court of Bari for the same subject-matter, have been further postponed and to date, as all the preliminary enquiries formulated by the counterparties have been rejected, hearings have been scheduled for June 14, 2023 (RG 8669/16 - RG 18730/16) and July 5, 2023 (RG 15306/16 - RG 13341/16) for the definition of the conclusions, which had already been previously scheduled and subsequently postponed several times due to the excessive load of the assignee's judge.

The KME Group, in the certainty that it has always acted in full respect of the rights and prerogatives of the Company and its own shareholders, as well as of its Articles of Association, the law and the regulations, opposed the initiatives thus started by these savings shareholders, with the intention of taking the most effective measures in order to protect its interests and its reputation.

Finally, a civil suit is pending at the Court of Messina (RG 4419/2016), currently in the preliminary phase, introduced by the Bazia Gardens bankruptcy against Futura Funds Sicav PLC, Demetrio Porcino and Fabio Porcino, where the integration of the adversarial process was requested and obtained in respect of the KME Group and Immobiliare Pictea as parties to a credit transfer that would have been the basis of the sale of the property (of which it is judge) located in Taormina between the defendants Porcino and Futura Funds and of which the Bankruptcy plaintiff asks for annulment by simulation/declaration of ineffectiveness by revocation. In the judgement no direct questions are formulated against KME Group and/or Immobiliare Pictea.

At Group level, there are no pending disputes that could have significant effects on the Group's equity and economic results.

Parent company and ownership structure

The Company is controlled by Quattroduedue Holding BV, which is based in Amsterdam - Duivendrecht (Netherlands), Entrada 306, 5th Floor, through wholly owned subsidiary Quattroduedue S.p.A.

As of December 31, 2021, Quattroduedue Holding BV indirectly held through Quattroduedue S.p.A. 182,778,198 KME Group ordinary shares (46.97% of the company's ordinary share capital) and 1,424,032 savings shares (8.72% of the shares in this category). During the 2022 financial year, Quattroduedue S.p.A. accepted the Exchange Offer on 37,000,000 ordinary shares. As of December 31, 2022, due to the outcomes of the Exchange Offers, as well as the share capital increases deriving from the exercise of the warrants, these percentages became 47.49% respectively (48.59% net of treasury shares held by KME Group), and 9.34%.

Due to the increase in voting rights, Quattroduedue S.p.A. held a percentage of voting rights equal to 61.65% as of December 31, 2021, which rose to 63.62% as of December 31, 2022. This percentage is equal to 64.60% net of treasury shares held by the Company.

The KME Group holds no shares or units of the parent company and during 2022 it made no purchases or sales of such shares or units.

It should be noted that, in May 2022, the Company received a declaration from Intesa Sanpaolo SpA with reference to the extinction of the financial instruments (mandatory convertible bonds) previously held by the bank.

For any other information regarding the ownership structures, the Company's governance and the fulfilment of any other obligations, including compliance with title VI of the market regulations, refer to the specific report prepared pursuant to article 123 bis of Legislative Decree 58/98, which is an integral part of this Annual Financial Report.

Treasury shares

As of December 31, 2022, the Company held 6,937,311 ordinary treasury shares (equal to 1.78% of the shares in said category). During the year, the Company purchased and then cancelled, following the Exchange Offers, 82,302,194 ordinary shares and 1,078,558 savings shares. As a result of the aforementioned cancellation of ordinary shares, the percentage of ordinary treasury shares rose to 2.26% of the shares in this category.

Governance updates

As in previous years, we believe it is advisable to update the corporate governance information provided with the financial statements as of December 31, 2021 and the half-year financial statements as at June 30, 2022 with additional and specific details in the Report on corporate governance and ownership structures.

* * *

The Shareholders' Meeting of May 9, 2022 approved the Board of Directors' report on operations and the financial statements closed as of December 31, 2021 as well as the proposed allocation of profit for the year of € 65,306,021 for 5%, equal to € 3,265,301, to the legal reserve, and for the remainder of € 62,040,720, to an unavailable reserve, pursuant to Article 6 of Italian Legislative Decree 38/2005, for profits deriving from the application of the fair value approach.

The Shareholders' Meeting also resolved to approve the Report on Remuneration drawn up pursuant to art. 123-ter of Legislative Decree 58/98, with reference only to section II on the remuneration paid, in consideration of the fact that section I relating to the Remuneration Policy had already been approved by the shareholders' meeting of June 8, 2021 for the financial years 2021-2023.

* * *

As regards the share capital, in the course of 2022:

- 82,302,194 ordinary shares and 1,078,558 savings shares purchased as a result of the Exchange Offers were cancelled, without reducing the share capital;

- 87,677 ordinary shares were issued as a result of the exercise, of the same number of KME Group 2021-2024 Warrants, thus bringing the total ordinary shares issued to 306,937,071. The share capital therefore increased by € 876.77;
- the share capital was reduced, pursuant to Article 2445 of the Italian Civil Code, of € 135 million in execution of the resolution of June 16, 2022 effective from November 2022, following the expiry of the term for the opposition of creditors.

As a result of these transactions, as of December 31, 2022, the share capital therefore amounted to € 200,070,087.67, represented by 322,183,576 shares, with 306,937,071 ordinary shares and 15,246,505 savings shares.

After December 31, 2022 and up to the date of this Report, further 211,061 warrants were exercised with the issue of the same number of ordinary shares, which resulted in a share capital increase of a further € 2,110.61. As of the date on which this Report, the share capital therefore amounted to € 200,072,198.28, represented by 322,394,637 shares, with 307,148,132 ordinary shares and 15,246,505 savings shares.

* * *

We would remind you that the Transparency Directive (Legislative Decree 25/2016) came into effect on March 18, 2016. Among other things, it amended paragraph 5 of article 154-ter of the TUF, eliminating the obligation to publish interim reports, thereby granting a longer period of time for approval of the consolidated half-year report. Since 2016, and in consideration of its specific businesses, the Company has opted not to publish interim financial statements as of March 31 and September 30.

The Company's Board of Directors, at its meeting of September 14, 2012, decided, among other things, to apply the exception envisaged by articles 70, paragraph VIII, and 71-*bis* of the Issuers' Regulation, which exempts the Company from publishing an Information Document in the case of significant mergers, demergers, share capital increases through transfers in kind, acquisitions and sales.

The Company has adopted the Organizational Model required by Legislative Decree 231/01 and the related Code of Ethics, most recently updated during March 2023.

Compliance with Section VI of the Market Regulation - Consob Regulation no. 16191/2007

With reference to the provisions of articles 36, 37, and 38 of the Regulation in question, it should be noted that:

- with regard to the provisions of Article 36, the KME Group does not hold relevant investments, pursuant to Article 151 of Consob Issuers' Regulation, in non-EU Countries;
- although a subsidiary of Quattroduedue Holding B.V., the Company considers itself not to be subject to management and coordination as defined in articles 2497 et seq. of the Italian Civil Code and article 37 of the Market Regulation, insofar as that:
    - it has autonomous powers of negotiation with respect to contractual arrangements with customers and suppliers;
    - it does not participate in any centralized treasury arrangements operated by the parent Quattroduedue Holding B.V. or any other company under the parent's control;
- with regard to the provisions of article 38, the Company does not fall within its scope of application, as its corporate purpose does not exclusively envisage investment activity in accordance with predetermined limits.

Non-financial information (pursuant to Legislative Decree 254/2016)

The Company, exceeding in 2022 due to the expansion of the scope of consolidation, the size parameters envisaged by the regulation with reference to the number of employees and the volume of revenues, has prepared the Non-Financial Statement of this document, which will be made public in accordance with the law and regulations.

Research and development activities

Given the type of activity carried out by the Company, no research and development activities were carried out during 2022.

Personnel

As of December 31, 2022, the KME Group had 15 employees, of whom 3 were executives, 11 were office workers and middle managers, and 1 was a worker.

On the other hand, at the consolidated level the total number was 2,963, of which 544 were executives, 987 were office workers and middle managers, and 1,922 were workers.

* * *

As for the economic treatment and all other aspects of the remuneration of Key management personnel, reference should be made to the specific Report on the remuneration policy and on the remuneration paid, prepared in compliance with the specific provisions issued by Consob and which will be published within the legal and regulatory terms.

Main risks and uncertainties to which KME Group S.p.A. is exposed and financial risk management

In its position as a holding company, the KME Group is directly exposed to risks connected with investments and disinvestments. The Company's financial results mainly depend on these transactions and on the dividends distributed by its investees and therefore, in addition to the financial performance, they also reflect the investment and dividend distribution policies of the subsidiaries.

Corporate investments are by their nature investments that carry a certain level of risk. Indeed, these types of investments do not provide the certainty that the invested capital will be refunded in full or they could produce cash flows that are insufficient for remuneration of the capital investment or in any case result in performances that could trail behind market performances.

Furthermore, the disinvestment process could require more time than expected and/or be carried out on the basis of terms and conditions that are not fully satisfactory or remunerative, also due to contingent market situations. In particular, regarding investments in unlisted companies, whether held directly or indirectly, the absence of risks connected mainly to the liquidability of these investments and their valuation cannot be guaranteed, in consideration: (a) of the possible absence in these companies of control systems similar to those required of companies with listed shares, with the possible consequent unavailability of information flows that are at least equal, insofar as quantity and quality, to the ones available for companies with listed shares; and (b) of the difficulties inherent in carrying out independent audits of the companies and therefore assessing the completeness and accuracy of the information they provide. For non controlling investments, whether in listed or unlisted companies, the possibility of influencing the management of the investments in order to promote their growth, including through a relationship with the management and the shareholders of the investee, could be limited.

This Report contains some data and forecasts regarding the objectives set by the KME Group and some assumptions regarding the financial, equity and economic development of the Parent Company and of the subsidiaries.

The data and the forecasts on the activities and expected results of the Company and of the subsidiaries are based on the Company's estimates and assumptions regarding future and uncertain events, including the economic trend in the main European countries where the Group operates, the occurrence of which could lead, also with reference to the particular situation of economic activity caused by the spread of COVID-19 and the restrictive measures adopted to contain it, and developments related to the situation in Ukraine, to potentially significant discrepancies with the forecasts made. It is not possible to guarantee that what has been forecast and is expected to happen will in fact happen. The KME Group is furthermore exposed to market fluctuations insofar as the shares held in its portfolio. The final results of the KME Group could be different from those forecasts owing to known and unknown risks, uncertainty and other factors.

Types of risk:

a) credit risk: there are no significant geographical concentrations of credit. Existing guidelines guarantee adequate assessment of customers' creditworthiness. This is achieved by selecting customers on the basis of historical experience and equity and/or financial position;

b) liquidity risk: it can arise from difficulties in raising finance for operating activities as and when required. The Group expects to meet its cash requirements for the repayment of short-term financial payables and capital expenditure through cash from operating activities, cash on hand and fresh or renewed bank borrowings;

c) currency risk: the Group is exposed to the risk that the fair value of the investments outside the Euro area will fluctuate with changes in the exchange rates;

d) interest rate risk: the interest rate risk to which the Group is exposed originates mainly from non current financial liabilities. Floating rate liabilities expose the Group to a cash flow risk, while fixed rate liabilities entail assumption of the risk of a change in fair value;

e) risk of fluctuation of the share value: the Group is exposed to market fluctuations insofar as the listed shares it holds in its portfolio and changes in the market parameters used for determination of the value of investments through valuation techniques. The risk of fluctuations in the values of these equity interests, recognized under the item "Investments in equity interests and fund units" is not actively managed using financial hedging instruments.

* * *

Significant events after December 31, 2022

Please refer to the body of the present Report on operations.

Proposal to approve the 2022 financial statements

Approval of the Financial Statements for the year ended December 31, 2022; Directors' Report on the Company's situation and operating performance, also including the Report on Corporate Governance and Ownership Structures; Report of the Board of Statutory Auditors; Independent Auditors' Report. Presentation of the consolidated financial statements as of December 31, 2022 and the Consolidated Non-Financial Statement for 2022:

"*The Ordinary Shareholders' Meeting of KME Group S.p.A. in its ordinary meeting, having acknowledged the Reports of the Board of Statutory Auditors and the Independent Auditors, and after having heard and approved the report of the Board of Directors*

resolves

to approve the Board of Directors' Report on operations for the year ended as of December 31, 2022 and the financial statements as a whole, and their individual entries and records with the provisions and uses proposed, which show a net profit for the year of € 5,173,722.40."

* * *

Allocation of profit for the year; inherent and consequent resolutions

"*The Ordinary Shareholders' Meeting of KME Group S.p.A. in its ordinary meeting, having regard to the results for the year as of December 31, 2022,*

resolves

1. *to allocate the profit for the year of € 5,173,722 as follows:*
   - *5% equal to € 258,686 to the legal reserve;*
   - *through distribution, pursuant to Article 8 of the Articles of Association, of a dividend of € 0.21723 for each of the 15,246,505 savings shares, for a total of € 3,311,998;*
   - *by carrying forward the residual amount of the profit, equal to € 1,603,038;*
2. *to establish that the payment of the dividend (coupon no. 6 for savings shares) takes place on May 24, 2023, with an ex-dividend date of May 22, 2023 and a record date of May 23, 2023;*
3. *to authorize the Chairman and each of the Deputy Chairpersons, separately from each other, to implement this resolution, with the right to acknowledge and implement the reduction or increase in the amount of the residual profit to be allocated to the reserve, in dependence on the increase or decrease in the number of ordinary treasury shares in the portfolio at the record date.*"

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES

PURSUANT TO ARTICLE 123-BIS OF LEGISLATIVE DECREE NO. 58 OF February, 24 1998

YEAR 2022

Board of Directors
of March 28, 2023

KME Group S.p.A.
Registered and Administrative Office:
Foro Buonaparte, 44 - 20121 Milan - Italy
Share capital € 200,072,198.28, fully paid-up
Tax Code and Milan Business
Register no. 00931330583
www.itkgroup.it

Glossary

Corporate Governance Code/Code:	the new Corporate Governance Code approved on a definitive basis by the Committee and published on its website (*https://www.borsaitaliana.it/comitato-corporate-governance/codice/2020.pdf*) on January 31, 2020 and in force as of the first financial year after December 31, 2020.
Civil Code/C.C.:	the Italian Civil Code approved by Royal Decree no. 262 of March 16, 1942 - XX as amended.
Committee:	the Corporate Governance Committee, the composition of which was defined in June 2011 by the Business associations (ABI, ANIA, Assonime, Confindustria) and the association of professional investors (Assogestioni), as well as Borsa Italiana S.p.A.
Issuer/Company/KME Group:	KME Group S.p.A. (until September 23, 2022 Intek Group S.p.A.)
Financial Year:	the financial year ended as of December 31, 2022, to which this Report refers.
Model:	the organization and management model adopted by the Company pursuant to Italian Legislative Decree no. 231 of 2001.
Issuers' Regulation:	the Regulation issued by Consob with its resolution no. 11971 of 1999 (as subsequently amended) regarding issuers.
Market Regulation:	the Regulation issued by Consob with its resolution no. 16191 of 2007 (as subsequently amended) regarding markets.
Related Parties Regulation:	the Regulation issued by Consob with its resolution no. 17221 of 2010 (as subsequently amended) regarding related party transactions.
Report:	the Report on corporate governance and ownership structures that the companies are required to prepare pursuant to article 123-*bis* of the Consolidated Law on Finance.
Report on Remuneration:	the Report on the remuneration policy and on the remuneration paid that companies are required to prepare pursuant to article 123-*ter* of the Consolidated Law on Finance.
Consolidated Law on finance/TUF:	Italian Legislative Decree no. 58 dated February, 24 1998 as amended.

Foreword

The Board of Directors of KME Group S.p.A. ("**KME Group**", or the "**Company**") in its meeting held on March 28, 2023, approved the Report on corporate governance and ownership structures for the 2022 reporting year (the "**Financial Year**"), together with the draft financial statements for said Financial Year.

This Report has been drafted in compliance with the provisions of article 123-bis of Italian Legislative Decree no. 58 of February, 24 1998 (hereinafter the "**TUF**") as amended by Italian Legislative Decree no. 254 of December 30, 2016 and the other criteria set forth in article 89-bis of the Issuers' Regulation, as well as the instructions in the Market Regulation issued by Borsa Italiana S.p.A.

The Report shall be understood as referring to the requirements of the Corporate Governance approved on a definitive basis and published on the website (https://www.borsaitaliana.it/comitato-corporate-governance/codice/2020.pdf)of the Committee on January 31, 2020 and in force as of the first financial year beginning subsequent to December 31, 2020.

The structure of this Report complies with the Format (ninth edition of January 2022, which may be consulted on the website of Borsa Italiana at https://www.borsaitaliana.it/comitato-corporate-governance/documenti/format2022.pdf), prepared by Borsa Italiana to verify the nature and content of the information to be included in the Report on corporate governance and ownership structures and/or for the controls under the responsibility of the board of statutory auditors (article 149, paragraph 1, letter c-bis of the TUF).

In any event, please recall that the use of the Format (the first edition of which dates back to 2008) is in no manner compulsory for the purpose of meeting the above-mentioned obligations.

To this end, it is specified that pursuant to the second paragraph of article 123-bis of the TUF, the requested information which is contained in this Report is disclosed to the public both by attaching this Report to the financial statements for the Financial Year and through publication on the Company's website (www.itkgroup.it).

In compliance with the provisions set forth in article 89-*bis* of the Issuers' Regulation, the Report provides specific information regarding the criteria of "comply or explain":

i. compliance with each Code provision;

ii. the reasons for any failure to comply with the Code's provisions;

iii. any conduct adopted other than as provided in the Code.

In regard to the latter, considering that the companies with shares listed on regulated markets are required to present to the shareholders' meeting called for the approval of the financial statements a Report on Remuneration containing the items required by the Consob Issuers' Regulation, and in order to avoid providing redundant information, the pertinent information (see Sect. 9) will be provided by referring to the relevant parts of the Report on Remuneration, as it was done for the Report presented for past financial years.

This Report aims to illustrate the corporate governance model that the KME Group adopted in 2022, taking into account the specificities of the Company, which aims to obtain its essential alignment with the principles contained in the Code which, since its introduction, the Company has declared it will comply with introduction of the previous Corporate Governance Code, as well as the Control Authority's relative recommendations, in relation to the small dimension and corporate structure of KME Group.

The Company has continually improved the quality and quantity of the information it has been providing on corporate governance every year ever since the presentation of the financial statements at June 30, 2000.

The individual Reports within the financial statements of the respective financial years are available on the website www.itkgroup.it, beginning from the financial year ended December 31, 2006.

Finally, this Report takes into account the contents of the letter dated January 23, 2023 (the "Letter"), addressed by the Chairman of the Committee to the Chairpersons of the Boards of Directors (and for information to the Managing Directors and the Chairpersons of the Control Bodies) of Italian listed companies, which contains the Committee's recommendations for 2023 (the "Recommendations") in conjunction with the Tenth Annual Report on the Application of the Code (the "Report") for 2022.

The Recommendations, drawn up taking into account that 2022 represented the first year in which companies had to communicate the methods of adhering to the new Code, are aimed at supporting the companies in the process of adhering to the new Code and at the same time highlighting the opportunity for a correct adjustment process, giving evidence in any case of the criticalities that emerged from previous monitoring.

The Recommendations concern:

i. **dialogue with shareholders**, inviting the companies (i) to adopt a policy of dialogue with shareholders that also provides for the possibility that this is initiated on the initiative of investors, defining graded methods and procedures, based on the principle of proportionality and the characteristics of the company in terms of size and ownership structure and (ii) to evaluate the opportunity to provide information, in its report on corporate governance, on the most significant issues that have been the subject of the dialogue with the shareholders and on any initiatives adopted to take into account the indications that have emerged;

ii. **dialogue with other relevant** stakeholders, inviting companies to provide, in their Report on Corporate Governance, adequate information on the criteria and methods with which the management body has promoted dialogue with other relevant stakeholders;

iii. **the assignment of management powers to the chairman**, inviting the companies in which the chairman is assigned significant management powers to provide, in the Report on Corporate Governance, adequate reasons for this choice, even if the chairman is not qualified as CEO;

iv. **pre-board disclosure**, inviting the administrative bodies to provide for procedures for the management of pre-board disclosure that do not contemplate generic exemptions to the timeliness of disclosure for reasons of confidentiality of data and information and to provide, in the Report on Corporate Governance, company, detailed information on any failure to comply with the notice period indicated in the procedures for sending board documentation, explaining the reasons and illustrating how adequate in-depth analysis was ensured at the board meeting;

v. **the participation of managers in board meetings**, inviting the companies to define, in the regulations adopted for the functioning of the management body and its committees, the methods by which said bodies can access the competent corporate functions according to the subject matter discussed, under the coordination of the Chairman of the Board of Directors or the Committee, respectively in agreement with or informing the CEO. The Committee also invites companies to provide, in the Report on Corporate Governance, information on the actual participation of managers in the meetings of the board and committees, indicating the functions involved and the frequency of involvement;

vi. **the guidelines on optimal composition**, reiterating the importance that the management body, at least in companies other than those with concentrated ownership, expresses, in view of its renewal, an orientation on the optimal composition of the body and invites companies to publish this approach well in advance, so as to allow those presenting the lists of candidates to be able to take them into account for the purposes of the composition of the list;

vii. **the criteria** for assessing the significance of the relationship that may influence the independence of the director, reiterating the importance of defining ex-ante and disclosing in the Report on Corporate Governance the quantitative parameters and qualitative criteria to assess the significance of any commercial, financial or professional relationships and any additional remuneration for the purposes of the independence of a director. The Committee invites companies to evaluate the opportunity to provide quantitative parameters, also defined in monetary terms or as a percentage of the remuneration attributed for the office and for participation in committees recommended by the Code;

viii. **the transparency of the remuneration policies on the weight of the variable components**, inviting the companies to include in the remuneration policy of the CEO and the other executive directors an *executive summary*, in table form, showing the composition of the remuneration package, with an indication of the characteristics and the weight of the short-term fixed, variable and long-term variable components with respect to the total remuneration, at least with reference to the achievement of the target objective of the variable components;

ix. **long-term horizons in remuneration policies**, inviting companies to include a variable component with a multi-year horizon in their remuneration policies, in line with the strategic objectives of the company and the pursuit of sustainable success;

x. **the ESG parameters for the remuneration of directors**, inviting companies that provide incentive mechanisms for the CEO and other executive directors linked to sustainability objectives to provide a clear indication of the specific performance objectives to be achieved.

1. Issuer Profile

Starting from the second four-month period of the Financial Year (see the press release of April 22, 2022), the Company, closing its previous path as an investment entity and holding company with diversified interests, has decided:

i. to focus on the industrial management of the shareholding in KME SE, in the light of the growth expectations of the copper laminates sector and the strengthening of the overall competitive position resulting from the extraordinary operation carried out in the previous year, and

ii. to initiate a process for the enhancement of other investments through disposal to third parties or assignment to the Company's shareholders.

In order to give greater prominence to the strategic change, the Company has also changed its company name from Intek Group S.p.A. to KME Group S.p.A.

a) <u>*Governance Model adopted by the Issuer*</u>

The Company has maintained its corporate governance structure over time, based on the traditional model pursuant to articles 2380-bis et seq. of the Italian Civil Code, composed of the Shareholders' Meeting, Board of Directors and Board of Statutory Auditors.

Legally-required audit activities are performed by the independent auditors.

The attributions and rules of functioning of the corporate bodies are governed by provisions of law and regulations in force over time as well as the Articles of Association and a series of principles and procedures, which are periodically updated as regulations, case law and legal theory and the orientations and guidelines of the Board evolve.

In its meeting of June 8, 2021, the Board of Directors which was held immediately after the Shareholders' Meeting that determined its duration for the years 2021 - 2023, resolved to establish only the Control and Risk Committee, the members of which are three Directors, two of whom are independent.

Indeed, as has already taken place in previous years, the Company decided not to establish the Appointments Committee or the Remuneration Committee.

For the reasons that led to this decision and for the remedies that are provided, please see chapter 8 of this Report and the Report on Remuneration.

With regard to the subsidiaries, it should be noted that the governance of KME SE, a German company, the main investment of KME Group, is organized according to the monistic system since September 15, 2021 and therefore the company is now governed by a Board of Directors.

In order to guarantee an effective and transparent breakdown of the roles and responsibilities of its corporate bodies and, in particular, the proper balance between the management and control functions, the Issuer has adopted a corporate governance system which, aside from being constantly aligned with the continuous evolution of regulations and national and international best practices, is inspired by the principles and application criteria recommended by the Code.

b) <u>*Statement on the Issuer's classification as an SME*</u>

At the date of this Report, the Issuer is qualified as an SME pursuant to article 1, paragraph 1, letter w-quater.1) of the TUF and article 2-ter of the Consob Issuers' Regulation, considering the values of its average market capitalisation in the course of 2022 of € 199.6 million.

On the other hand, as a result of the change in the scope of consolidation, the turnover limit of € 1,400 million has been exceeded.

In particular, the above-mentioned TUF rule establishes that an issuer is an SME when at least one of the following requirements is met, to be calculated on the basis of the instructions provided by article 2-ter of the Issuers' Regulation: (i) turnover, even prior to the admission to listing of shares, lower than € 300 million; (ii) market capitalisation below € 500 million. Moreover, the Company would no longer be categorised as an SME, for the purposes of the provisions referred to above, if both of the above-mentioned limits (regarding turnover and average market cap) are surpassed for three consecutive financial or calendar years.

Indeed, the Company is included on the list (January 2023) published by Consob (http://www.consob.it/web/area-pubblica/emittenti-quotati-pmi) amongst those businesses which are SMEs, on the basis of the capitalisation and turnover data in Consob's possession, pursuant to article 2-ter of Consob Regulation no. 11971/1999, as amended by Consob Resolution no. 20621 of October 10, 2018.

In light of the foregoing, the relevant threshold for the communication obligations pursuant to article 120 of the TUF is 5% of the share capital.

2. Information on Ownership Structure as of March 28, 2023

a) <u>Share capital structure (pursuant to article 123-bis, paragraph 1, letter a), of the Consolidated Law on Finance (TUF))</u>

At the date of approval of this Report, the share capital of KME Group was € 200,072,198.28, and consisted of 322,394,637 shares, of which 307,148,132 were ordinary shares, equal to 95.27% of the share capital, and 15,246,505 were savings shares, equal to 4.73% of the share capital, all of which with no par value.

It should be noted that in January and February 2023 211,061 ordinary shares were issued with respect to December 31, 2022, following the exercise of a total of 211,061 KME Group S.p.A. 2021 - 2024 warrants.

Again at the date of approval of this Report, the Issuer has 6,937,311 ordinary treasury shares in its portfolio.

The total 307,148,132 existing ordinary shares do not attribute rights different or additional to those envisaged by the legislation and the Articles of Association.

Each share carries unrestricted voting rights (one vote per share) unless otherwise provided by law.

Votes may also be cast by mail in accordance with the dedicated procedure set forth in article 11 of the Articles of Association.

In 2015, as mentioned in another part of this Report, the Company amended the Articles of Association to include the increase of the voting right for shareholders who possess the requirements set by the law and so expressly request by registration in the appropriate special register.

Similarly, the overall 15,246,505 existing savings shares do not entail rights different or additional to those envisaged by legislation and the Articles of Association.

The rights of the Holders of Savings Shares are listed in articles 145 et seq. of the TUF and articles 5, 8 and 28 of the Articles of Association.

The Common Representative of the savings shareholders, who can participate with the right to participate in the Meetings of shareholders holding ordinary shares and whose rights are indicated in article 26 of the Statute, is Andrea Santarelli, appointed for the 2021/2023 financial years by the Special Meeting of Savings Shareholders held on June 8, 2021.

The savings shares confer the following privileges:

- the right to a preferential dividend up to a maximum of € 0.07241 per share per annum subject to the right to other dividends increased by € 0.020722 per share compared to ordinary shares. This, however, is without prejudice to the prorated increase in the preferential dividend in each of the two years following the payment of a preferential dividend of less than € 0.07241 per share per annum;

- in the event the Company is wound up, a preferred right to the liquidation proceeds of € 1.001 per share.

* * *

Based on the new configuration of the strategic structures regarding the Group's structure and in consideration of the expected greater cash generation capacity, the Issuer decided to start a process to achieve a lower level of capital endowment

In this context, three exchange offers were made during the Financial Year, to allow the holders of the financial instruments covered by the offers to benefit (indiscriminately and on equal terms) from the possibility of transforming their investment, represented by ordinary shares, savings shares and/or warrants into a financial instrument characterized by a lower degree of risk and by a value incorporating a premium compared to the average price of such securities in the previous months, also allowing the adherents to benefit from the increased value of the KME Group, not reflected in the stock market prices, following the extraordinary transactions carried out and the positive market expectations in the segments of the Copper segment overseen by KME SE.

The aforementioned offers included:

- a voluntary partial public exchange offer on 133,674,937 Intek Group S.p.A. outstanding ordinary shares (the "**Ordinary Shares**"), with consideration consisting of a maximum of 80.2 million new "**Intek Group 2022-2027 bonds**" (the "**2022 Bonds**"), for a total of € 80.2 million to be listed on the MOT (the "Exchange Offer on Ordinary Shares");
- a voluntary total public exchange offer on 16,325,063 Intek Group S.p.A. savings shares outstanding (the **"Savings Shares"**), with consideration represented by approximately maximum 13.1 million 2022 Bonds for a total value of € 13.1 million, to be listed on the MOT (the **"Exchange Offer on Savings Shares**");
- a voluntary partial public exchange offer on a maximum of 72,000,000 outstanding "Intek Group S.p.A. 2021 - 2024 Warrants" (the "**Warrants**"), with consideration represented by approximately a maximum of 14.4 million 2022 Bonds for a total of € 14.4 million, to be listed on the MOT (the **"Exchange Offer on Warrants**" and, together with the Exchange Offer on Ordinary Shares and the Exchange Offer on Savings Shares, the "**Exchange Offers**").

The Exchange Offers therefore provided for the issuance of a maximum of approximately 107.7 million Bonds and were not conditional upon the achievement of a minimum number of acceptances, except for the listing of the Bonds on the MOT.

Ordinary Shares and Savings Shares purchased by Intek as part of the respective Exchange Offers were cancelled.

In the event of subscriptions to the Exchange Offer on Ordinary Shares for a total amount of shares exceeding the maximum number of Ordinary Shares covered by this offer, the allotment took place according to the proportional method, according to which Intek purchased from all shareholders participating in the Exchange Offer on Ordinary Shares the same proportion of Ordinary Shares as they contributed to the offer.

The same allotment mechanism was also provided for the Exchange Offer on Warrants.

The 2022 Bonds have a duration of 5 years from the issue date and accrued interest at a fixed annual gross nominal rate of 5%.

Starting from the end of the second year from the issue date, KME will have the right to fully or partially redeem the 2022 Bonds. The redemption price of the 2022 Bonds (without prejudice to the payment of interest accrued and not yet paid until the early redemption date) is equal to:

i. from the end of the second year, 102% of the portion of nominal value subject to repayment;

ii. from the end of the third year, 101% of the portion of nominal value subject to repayment; and

iii. from the end of the fourth year, 100% of the portion of nominal value subject to repayment.

The 2022 Bonds are not backed by collateral or personal guarantees.

No rating was expected to be assigned to the 2022 Bonds.

The newly issued bond loan, to service the three public exchange offers (the "**KME Group S.p.A. 2022-2027 Bonds**" - ISIN code IT0005503393) (hereinafter the "**2022 Bonds**") whose characteristics are shown on the Company's website at https://www.itkgroup.it/it/obbligazioni-2022-2027, added to the one already outstanding (the "**KME Group S.p.A. 2020-2025 Bonds**", ISIN code: IT0005394884) (hereinafter the "**2020 Bonds**") for an amount of € 92.8 million, expiring in February 2025, the characteristics of which, already illustrated in previous Reports, are shown on the Company's website at https://www.itkgroup.it/it/obbligazioni-2020-2025.

The Exchange Offer on Ordinary Shares had 133,674,937 Ordinary Shares outstanding, without nominal value, representing 34.34% of the share capital represented by Ordinary Shares and 32.96% of the total capital.

Each participant in the Exchange Offer on Savings Shares were offered 3 x 2022 Bonds from the Issuer, with a unit nominal value of € 1.00, in exchange for every 5 Ordinary Shares tendered (the "**Consideration for Ordinary Shares**").

The Exchange Offer on Ordinary Shares was increased by the Issuer up to a maximum of 179,441,687 Ordinary Shares, corresponding to a turnover of € 107.7 million, in consideration of a potential reduced level of subscription to the Exchange Offer on the Saving Shares and to the Exchange Offer on Warrants. In such event, the Ordinary Shares subject to the Offer represented 46.10% of the share capital of Ordinary Shares and 44.25% of the total capital.

The Consideration for Ordinary Shares incorporated a premium of 24.6% compared to the official price of the Ordinary Shares recorded on April 21, 2022 (last open exchange day prior to the announcement date to the market of the transaction), as well as a premium of 22.0%, 28.4%, 28.6% and 35.7% compared to the weighted average of the official prices of Ordinary Shares respectively in the periods of 1 month, 3 months, 6 months and 12 months before April 21, 2022.

The Exchange Offer on Ordinary Shares was promoted by Intek, pursuant to article 102 of the TUF, following the Shareholders' Meeting called to decide on the authorization to purchase the Ordinary Shares and to cancel them, and subject to conditions in line with market practice.

As a result of the Offer in question, no changes to the existing control structure were envisaged.

The Exchange Offer on Savings Shares covered a total of 16,325,063 Savings Shares outstanding, without nominal value.

Each participant in the Exchange Offer on Savings Shares was offered 4 x 2022 Bonds from the Issuer, with a unit nominal value of € 1.00, for every 5 Savings Shares tendered (the "**Consideration for Savings Shares**").

The Consideration for Savings Shares incorporated a premium of 28.7% compared to the official price of the Intek Group Savings Shares recorded on April 21, 2022 (last open market day prior to the announcement date to the market of the transaction) as well as a premium of 26.3%, 30.2%, 34.5% and 52.4% compared to the weighted average of the official prices of Savings Shares respectively in the periods of 1 month, 3 months, 6 months and 12 months prior to April 21, 2022.

The Exchange Offer on Savings Shares, also aimed at simplifying the capital structure and the withdrawal of these shares from listing on Euronext Milan was promoted by the Company, pursuant to article 102 of the TUF, following the Shareholders' Meeting called to decide on the authorization to purchase and cancel the Savings Shares and was subject to conditions in line with market practice.

The Exchange Offer on Warrants had 72,000,000 Warrants outstanding, without nominal value, which correspond to approximately 41.8% of the Warrants outstanding.

Each participant in the Exchange Offer on Warrants was offered 1 x 2022 Bond from the Issuer, with a unit nominal value of € 1.00, in exchange for every 5 Warrants tendered and purchased (the "**Consideration for Warrants**").

The Consideration for the Warrants incorporated a premium of 42.0% compared to the official price of the Intek Group 2021/2024 Warrants registered on April 21, 2022 (last open market day prior to the market announcement date of the transaction), as well as a premium of 44.8%, 54.8%, 76.5% and 102.2% compared to the weighted average of the official prices of the Intek Group 2021/2024 Warrants respectively in the periods of 1 month, 3 months, 6 months before April 21, 2022 and from the date of listing of the instruments (June 28, 2021).

The Exchange Offer on Warrants was promoted by the Company, pursuant to article 102 of the TUF, following the Shareholders' Meeting called to decide on the authorization to purchase the Ordinary Shares and Saving Shares and to cancel them and subject to conditions in line with market practice.

The Shareholders' Meeting of June 16, 2022 adopted the resolutions functional to the execution of the Offers, authorizing the purchase to be carried out through voluntary public exchange offers with the KME Group S.p.A. 2022 - 2027 Bonds as consideration for the ordinary shares, savings shares and warrants subject to the Exchange Offers.

The same shareholders' meeting then approved:

i. the cancellation of all the ordinary shares and all the savings shares that the Company would have held as treasury shares at the time of the closure of the voluntary public exchange offers with the 2022 Bonds as consideration and consequent amendment of article 4 (Capital) of the Articles of Association;

ii. the cancellation of all the warrants that the Company would have held at the time of the closing of the voluntary partial public exchange offer with the 2022 Bonds as consideration and the revocation of the related share capital increase for the part serving the Warrants that would have been purchased and cancelled, with consequent amendment of article 4 (Capital) of the Articles of Association;

iii. the consequent amendments to the following articles of the Articles of Association: article 5 (Identification of Shareholders and categories of shares); article 8 (Profit for the year); article 12 (Chairmanship of the Shareholders' Meeting); article 26 (Rights of Common Representatives); article 28 (Liquidation of the Company), subject to the possible purchase and cancellation of all outstanding savings shares, where tendered in the exchange offer;

iv. the amendment of articles 1 (Name: with change from "Intek Group S.p.A." to "KME Group S.p.A."), 10 (Calling, constitution and resolutions of the Shareholders' Meeting), 11-bis (Increased voting rights), 18 (Meetings of the Board of Directors), 19 (Validity of Board meetings), 23 (Board meetings) and 24 (Statutory audit) of the Articles of Association in order to give greater evidence of the new strategy and to simplify the procedures for convening and holding the Board of Directors (in addition to correcting certain typos and graphic inconsistencies);

v. the reduction of the share capital through allocation to the available reserve pursuant to and for the purposes of article 2445 of the Italian Civil Code, for the nominal amount of € 135,000,000.00, without cancellation of shares.

On July 20, 2022, Consob approved (i) the information prospectus relating to the offer of the 2022 Bonds to be used as consideration for the Exchange Offers and their admission to listing on the MOT (the "**Prospectus**") and (ii) the Offer Document relating to the Exchange Offers, incorporating by reference the Prospectus, all documents that the Company made available to the public on July 21, 2022.

The terms for subscription to the Exchange Offers were set as follows:

i. for subscription to the Exchange Offer on Ordinary Shares, from July 25, 2022 to September 9, 2022 (inclusive), unless extended (the "**Subscription Period for the Exchange Offer on Ordinary Shares**");

ii. for subscription to the Exchange Offer on Savings Shares and the Exchange Offer on Warrants, from July 25, 2022 to September 6, 2022 (inclusive), unless extended (the "**Subscription Period for the Exchange Offers on Savings Shares and Warrants**").

The provision for a longer duration of the Subscription Period for the Exchange Offer on Ordinary Shares, compared to the Subscription Period for the Exchange Offers on Savings Shares and Warrants, was justified because, through the claw back mechanism, the 2022 Bonds offers as consideration for the Savings Shares and for the Warrants, which would have had to remain in the event of non-full subscription to these offers by the end of the Subscription Period for the Exchange Offers on Savings Shares and Warrants, could have been included in the Exchange Offer on Ordinary Shares, thus making it possible to increase the number of Ordinary Shares subject to this offer and the relative consideration.

On September 5, 2022, the Company's Board of Directors resolved to increase the Consideration for the Exchange Offers from a maximum of 107,665,009 2022 Bonds up to a maximum of 124,632,499 2022 Bonds, for a total value of € 124.7 million.

In this way, the consideration for the Ordinary Shares was increased to a maximum of 93,572,451 2022 Bonds (instead of a maximum of 80,204,961 2022 Bonds), to be offered to participants in the offer in the ratio of 7 2022 Bonds for each 10 Ordinary Shares (instead of 3 x 2022 Bonds for every 5 Ordinary Shares), for a total value of approximately € 93.6 million (instead of € 80.2 million), which can be increased by the Issuer up to a maximum amount of 124,632,499 2022 Bonds (instead of a maximum of 107,665,009 2022 Bonds), for a total nominal value of approximately € 124.7 million (instead of € 107.7 million), in consideration of the possible reduced level of subscription to the Exchange Offer on Savings Shares and the Exchange Offer on Warrants and consequent increase in the number of Ordinary Shares subject to the Exchange Offer on Ordinary Shares (the **"New Consideration for Ordinary Shares"**).

The New Consideration for Ordinary Shares was thus 16.7% higher than the previous one, incorporating a premium of:

i. 45.3% compared to the official price of the Ordinary Shares recorded on April 21, 2022 (last open exchange day prior to the announcement date to the market of the Exchange Offers), as well as a premium of 42.3%, 49.8%, 50.1% and 58.4% compared to the weighted average of the official prices of Ordinary Shares respectively in the periods of 1 month, 3 months, 6 months and 12 months before April 21, 2022;

ii. 31.9%, compared to the official price of the Ordinary Shares recorded on June 15, 2022 (last trading day prior to the promotion, pursuant to article 102, paragraph 1, of the TUF, of the Exchange Offers), as well as a premium of 27.6%, 33.7%, 39.4% and 48.4% compared to the weighted average of the official prices of Ordinary Shares respectively in the periods of 1 month, 3 months, 6 months and 12 months before June 15, 2022.

On that occasion, the consideration for the Warrants was increased to a maximum of 18,000,000 2022 Bonds (instead of a maximum of 14,400,000 2022 Bonds), to be offered to participants in the offer in the ratio of 1 x 2022 Bond for every 4 Warrants (instead of 1 x 2022 Bond for every 5 Warrants), for a total value of approximately € 18.0 million (instead of € 14.4 million), (the "**New Consideration for Warrants**" and together with the New Consideration for Ordinary Shares, the "**New Considerations**").

The New Consideration for Warrants was 25.0% higher than the previous one, incorporating a premium of:

i. 77.6%, compared to the official price of the Warrants recorded on April 21, 2022 (last trading day before the date of announcement to the market of the Exchange Offers), as well as a premium of 81.0%, 93.6%, 120.7% and 152.8% compared to the weighted average of the official prices of the Warrants respectively in the periods of 1 month, 3 months, 6 months and 12 months before April 21, 2022;

ii. 38.9%, compared to the official price of the Warrants recorded on June 15, 2022 (last trading day prior to the promotion, pursuant to article 102, paragraph 1, of the Consolidated Law on Finance (TUF), of the Exchange Offers), as well as a premium of 35.8%, 53.3%, 72.3% and 124.7% compared to the weighted average of the official prices of the Warrants respectively in the periods of 1 month, 3 months, 6 months and 12 months before June 15, 2022.

The Consideration for Savings Shares (already subject to a public exchange offer in 2021) did not undergo any change, and therefore remained fixed at a maximum of 13,060,048 x 2022 Bonds to be offered as consideration for the Exchange Offer on Savings Shares, in the ratio of 4 x 2022 Bonds for each 5 Savings Shares, for a total nominal value of € 13.1 million.

For further information, please refer to Chapter E of the Offer Document and the related supplement.

Against the New Considerations and the number of 2022 Bonds to be issued, the maximum total value of the Exchange Offers, in the event of full subscription to the same, was therefore increased to € 124.6 million.

Also on that occasion, the agreed extension with Borsa Italiana of the Subscription Period for the Exchange Offer on Ordinary Shares and the Subscription Period for the Exchange Offers on Savings Shares and Warrants - whose final terms were originally scheduled for September 9, 2022 and September 6, 2022 respectively, was announced.

As a result of this extension:

i. the deadline for subscribing to the Exchange Offer on Ordinary Shares was deferred to 5:30 pm on September 16, 2022 (inclusive) - the "**New Subscription Period for the Exchange Offer on Ordinary Shares**" - thus setting, as September 16, 2022, the closing date of the Exchange Offer on Ordinary Shares, and September 23, 2022, the exchange date (the "**Exchange Date**");

ii. the deadline for subscribing the Exchange Offer on Savings Shares and the Exchange Offer on Warrants was deferred to September 13, 2022 (inclusive) - the "**New Subscription Period for the Exchange Offers on Savings Shares and Warrants**" and, together with the New Subscription Period for the Exchange Offer on Ordinary Shares, the "**New Subscription Periods**"), thus setting, as September 13, 2022, the closing date of the Exchange Offer on Savings Shares and of the Exchange Offer on Warrants, with full coincidence of the Exchange Date with that of the Exchange Offer on the Ordinary Shares, i.e. September 23, 2022.

The effectiveness of the Exchange Offers, as per the Offer Document, was subject to:

i. the MOT Condition, i.e. the publication by Borsa Italiana, by the fourth Trading Day following the close of the Subscription Period for the Exchange Offer on Ordinary Shares, of the notice on the start of trading of the 2022 Bonds; and

ii. the MAC Condition, which can be waived by the Issuer, concerning the non-occurrence of a series of facts, events or circumstances (as indicated in the Offer Document) outside the sphere of control of the Company and unforeseeable at the Document Date of the Offer, likely to have a significant negative impact on the Exchange Offers and/or on the economic, equity and financial situation of KME Group and/or its subsidiaries.

On the basis of the final results, as of September 20, 2022, they were:

i. tendered in the Exchange Offer on Ordinary Shares, 82,302,194 Ordinary Shares, representing 61.6% of the Ordinary Shares initially subject to the relative offer (48.5% considering the Ordinary Shares deriving from the claw back mechanism), 21.1% of the category capital and 22.0% of the Company's share capital;

ii. tendered in the Exchange Offer on Savings Shares, 1,078,558 Savings Shares, representing 6.6% of the Savings Shares subject to the relevant offer, 6.6% of the category capital and 0.3% of the Company's share capital;

iii. tendered in the Exchange Offer on Warrants, 20,235,530 Warrants, representing 28.1% of the Warrants subject to the relevant offer and 11.7% of outstanding Warrants, with a consideration for the Exchange Offer on Warrants represented by a total of 5,058,882 2022 Bonds.

By virtue of these final results of the Exchange Offers, the Company therefore issued a total of 63,533,259 x 2022 Bonds, for a total value of € 63.5 million and, taking into account 6,937,311 Ordinary Treasury Shares held a total of:

- 89,239,505 Ordinary Shares, representing 22.9% of the category capital and 22.0% of the share capital;
- 1,078,558 Savings Shares, representing 6.6% of the category capital and 0.3% of the share capital;
- 20,235,530 Warrants, representing 11.7% of the outstanding Warrants.

The Ordinary Shares, Savings Shares and Warrants tendered in the Offers were therefore cancelled in execution of the resolution of the Extraordinary Shareholders' Meeting of the KME Group of June 16, 2022 without any capital reduction, resulting in an automatic increase of the "implied accounting parity" of the remaining shares.

Since Borsa Italiana S.p.A., on September 21, 2022, had ordered the start of trading of the 2022 Bonds on the MOT and none of the events envisaged by the MAC Condition had occurred, on the same date the Company therefore communicated that the Conditions of the Offers had both been fulfilled and that, therefore, the Exchange Offers could be considered fully effective and to be finalised on the Exchange Date set for September 23, 2022.

By virtue of the provisions of the resolution of the Extraordinary Shareholders' Meeting of June 16, 2022 which had, inter alia, resolved to change the name of the Company to "KME Group S.p.A." with effect from the completion of the Exchange Offers, on the Exchange Date:

i. the Ordinary Shares were called "KME Group" shares;

ii. the Savings Shares were called "KME Group RSP" shares;

iii. the Warrants were called "KME Group S.p.A. 2021 - 2024" warrants;

iv. the 2020 Bonds were called "KME Group S.p.A. 2020 - 2025" bonds;

v. the 2022 Bonds were called "KME Group S.p.A. 2022 - 2027" bonds.

* * *

An annex to the Report includes two tables (Table 2a and Table 2b), the first showing details of the financial instruments issued by the Company and the second showing their performance on the Stock Exchange during the Financial Year.

In this regard, it should be noted that a specific section of the website, on the page https://www.itkgroup.it/it/borsa-italianais available, which is dedicated to the Company's financial instruments and their listing and is continually updated, thus showing the real-time trend in trading.

b) <u>Restrictions on the transfer of securities (pursuant to article 123-bis, paragraph 1, letter b), of the Consolidated Law on Finance (TUF))</u>

The Articles of Association do not contain transfer restrictions pertaining to shares, warrants, the "KME Group S.p.A. 2020 - 2025" Bonds and the "KME Group S.p.A. 2022 - 2027" Bonds, such as for example, limitations on the ownership of securities or the need to obtain the approval of the Issuer or other holders of securities.

c) <u>Significant equity investments (pursuant to article 123-bis, paragraph 1, letter c), of the Consolidated Law on Finance (TUF))</u>

The significant reporting threshold as provided by article 120, paragraph 2 is equal to 5% of the share capital with voting right.

At the date of this Report, the Shareholders that directly or indirectly hold equity investments of more than 5% of the Issuer's share capital, through pyramid structures or cross-investments, according to what is set forth in the communications made pursuant to article 120 of the TUF, are those specified in Table 2.3 attached to this Report.

The Company has 19,000 Shareholders, according to the Shareholders Register.

As of December 31, 2022, the investment of Quattroduedue Holding B.V. in the Company amounted to 145,778,198 ordinary shares, corresponding to 47.494% of the share capital for this category.

This shareholding is held through the wholly-owned subsidiary Quattroduedue S.p.A. insofar as 145,778,192 ordinary shares while the remaining 6 ordinary shares, which do not affect the percentage above, are directly owned by Quattroduedue Holding B.V.

With respect to the entire share capital, the ordinary shares thus held by Quattroduedue Holding B.V. are equal to 45.247% as of December 31, 2022.

Quattroduedue Holding B.V. also holds, through Quattroduedue S.p.A., 1,424,032 savings shares corresponding to 9.340% of the share capital in that category and 0.442% of the entire share capital.

The shareholders of Quattroduedue Holding B.V., Vincenzo Manes, through Mapa S.r.l. (Milan), with a shareholding of 35.12%, Ruggero Magnoni, through Likipi Holding S.A. (Luxembourg), with a shareholding of 32.44% and Hanseatic Europe S.a.r.l. (Luxembourg), with a shareholding of 32.44%, adhere to a shareholders' agreement (the "Agreement") concerning their investments in Quattroduedue Holding B.V., the expiry of which was most recently extended to June 30, 2025, as by communication of July 2, 2022, the content of which was published in the press on the same date and filed with the Milan Business Register.

Neither of the shareholders hold the control of this company or of KME Group pursuant to article 93 of the TUF.

Effective from November 4, 2022, Likipi Holding S.A. (Luxembourg) moved its registered office to Italy and changed its company name to RFM & Partners S.p.A.

The agreement is available on the page https://www.itkgroup.it/it/patti-parasociali of the Company's website.

The Company, as of December 31, 2022, directly held 6,937,311 ordinary treasury shares, equal to 2.260% of the share capital of that category and 2.153% of the total share capital.

In the course of 2023 no ordinary shares were purchased, therefore at the date of this Report, the number of ordinary treasury shares held is unchanged.

d) ***Securities with special control rights (pursuant to article 123-bis, paragraph 1, letter d), of the Consolidated Law on Finance (TUF))***

No securities have been issued conferring special control rights, except as already indicated in another section of this Report, regarding the statutory rules governing the multiple voting rights.

e) ***Employee share scheme, mechanism for the exercise of voting rights (pursuant to article 123-bis, paragraph 1, letter e), of the Consolidated Law on Finance (TUF))***

There is no employee share-option scheme.

f) ***Restrictions on voting rights (pursuant to article 123-bis, paragraph 1, letter f), of the Consolidated Law on Finance (TUF))***

Without prejudice to applicable regulations and the provisions of the Articles of Association, there are no restrictions on voting rights.

In that connection, the Shareholders' Meeting of May 19, 2006 resolved to amend article 4 of the Company Articles of Association in order to allow the Shareholders' Meeting to authorize a share capital increase of up to 10% of the existing share capital without option rights pursuant to article 2441, paragraph 4, second sentence, of the Italian Civil Code.

Furthermore, article 27 of the Articles of Association provides that a resolution to extend the duration of the Company (currently December 31, 2050) gives no withdrawal right pursuant to article 2437 of the Italian Civil Code.

g) ***Shareholders' agreements (pursuant to article 123-bis, paragraph 1, letter g), of the Consolidated Law on Finance (TUF))***

The Company did not receive any communication regarding the existence of shareholders' agreements pursuant to article 122 of the TUF, except as indicated above regarding the agreement existing between the shareholders of Quattroduedue Holding B.V., which expires on June 30, 2025 and is published on the Company's website on the page https://www.itkgroup.it/it/patti-parasociali.

h) Change of control clauses (pursuant to article 123-bis, paragraph 1, letter h), of the Consolidated Law on Finance (TUF)) and provisions of the Articles of Association regarding takeover bids (pursuant to articles 104, paragraph 1-ter, and 104-bis, paragraph 1, of the Consolidated Law on Finance (TUF))

Neither the Company nor its subsidiaries have entered into arrangements on the effectiveness, amendment or termination of which are conditional to a change in the control of the Company.

The Company did not adopt any provisions in its Articles of Association that depart from the provisions of the passivity rule pursuant to article 104, paragraph I and II of the TUF, or provide for application of the neutralisation rules pursuant to the following article 104-bis, paragraph II and III of the TUF in regard to takeover bids or exchanges.

i) Delegated powers regarding share capital increases and the purchase of treasury shares (pursuant to article 123-bis, paragraph 1, letter m), of the Consolidated Law on Finance (TUF))

The Board of Directors was not assigned any powers pursuant to article 2443 of the Italian Civil Code, nor authorizations to purchase treasury shares.

As of the date of this Report, the Company holds 6,937,311 ordinary shares equal to 2.260% of the voting capital and 2.153% of the total share capital.

None of the subsidiaries holds KME Group shares.

j) Management and coordination activity (pursuant to article 2497 et seq. of the Italian Civil Code)

Although a subsidiary of Quattroduedue Holding B.V., through Quattroduedue S.p.A., as indicated above, the Company is not subject to management and coordination pursuant to articles 2497 et seq. of the Italian Civil Code and article 37 of the Market Regulation, insofar as that:

a) it has autonomous powers of negotiation with respect to contractual arrangements with customers and suppliers;

b) it does not participate in any centralised treasury arrangements operated by Quattroduedue Holding B.V. or other companies controlling Quattroduedue Holding B.V. or the KME Group;

c) the number of independent Directors (currently 2 out of 10) is such as to ensure that their opinions have a material influence on board decisions;

d) the Control and Risk Committee consists of 3 Directors, 2 of whom are Independent Directors also pursuant to article 37, paragraph 1-bis of the Market Regulation.

* * *

With reference to the additional information pursuant to article 123-bis of the TUF, please refer to the following paragraphs of this Report, as specified below:

- the information required by article 123-bis, paragraph 1, letter i) of the TUF, relating to agreements between companies and directors, which envisage indemnities in the event of resignation or dismissal without just cause, or if their employment contract should terminate as the result of a takeover bid, is contained in the Report on Remuneration relating to the year 2022;
- the information required by article 123-bis, paragraph 1, letter l) of the TUF relating to the appointment and replacement of directors, as well as amendments to the Articles of Association, is illustrated in Section 4, paragraph 4.1., of this Report, dedicated to the Board of Directors;
- the information required by article 123-bis, paragraph 2, letter b) of the TUF relating to the main characteristics of the risk management and internal control systems, is illustrated in Section 11, paragraph 11.1 of this Report;
- the information required by article 123-bis, paragraph 2, letter c) of the TUF relating to information on the mechanisms for the functioning of the Shareholders' Meeting, its main

powers, Shareholders' rights and procedures for exercising them, is illustrated in Section 16 of this Report dedicated to the Shareholders' Meeting;

- the information required by article 123-bis, paragraph 2, letter d) of the TUF relating to the composition and functioning of the administration and control bodies and their committees, is illustrated in Sections 4, 6, 7, 8, 10 and 13 of this Report;
- the information required by article 123-bis, paragraph 2, letter d-bis) of the TUF is contained in Sections 4 and 14, relating to the description of policies on diversity applied in relation to the composition of the administration, management and control bodies relating to aspects such as the age, gender composition and training and professional background, along with a description of the objectives, implementation methods and results of such policies.

During the self-assessment, the board deemed that the professional skills present on the Board of its components and as a whole, which are evaluated periodically, are adequate.

3. Compliance (pursuant to article 123-bis, paragraph 2, letter a), of the Consolidated Law on Finance (TUF))

The KME Group complies with the Code by promoting the introduction of the relative principles in its own governance system, taking into account the peculiarities of its own structure.

If the standards and application criteria of the Code have not been completely adopted, proper information will be provided on the reasons for the failure to apply it or their partial application.

The text of the Corporate Governance Code is available at Borsa Italiana S.p.A. and can also be viewed on the Corporate Governance Committee website at http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm.

As required by article 149, paragraph 1, letter c.-bis of the TUF, the Board of Statutory Auditors monitors the actual implementation of the rules on corporate governance contained in the Code.

Each year, the Company provides information on its governance system and its adherence to the Code through this Report, drafted also pursuant to article 123-bis of the TUF, which shows the degree of compliance with the principles and the application criteria required by the Code and international best practice.

The Report is made available to the Shareholders with the documentation provided to the Shareholders' Meeting regarding the financial statements and it is also immediately published on the Company's website (www.itkgroup.it) under the section "Governance".

The Committees established within the Board of Directors (see paragraphs 7, 8 and 10 of this Report) pursuant to the Code, meet and perform the functions according to the provisions of this Code.

Examination of the Company's governance structure, as outlined by the Articles of Association, by the procedures adopted and as illustrated in this Report, shows the commitment of the KME Group to comply with commonly shared best practices.

Neither the Company nor its strategically relevant subsidiaries are subject to provisions of laws which are not Italian which influence the structure of the KME Group's corporate governance.

4. Board of Directors

a) Role of the Board of Directors (pursuant to article 123-bis, paragraph 1, letter l), of the Consolidated Law on Finance (TUF))

The Board of Directors has the widest powers for the organization and management as well as the ordinary and extraordinary Company operations for the achievement of its corporate purpose (article 14 of the Company Articles of Association), it determines the strategic lines and pursues their achievement, guarantees the continuity of operations and provides for the attribution of powers to the Executive Directors (articles 15 and 16 of the Articles of Association).

The Board of Directors is also vested with the powers set forth under article 2365, paragraph II of the Italian Civil Code, as provided by article 14 of the Articles of Association, in relation to the resolutions concerning mergers and demergers.

According to the Code, one of the main objectives of the Board of Directors is to create value over the medium-long term, and places emphasis on its duty to establish the nature and level of risk that is consistent with the Company's strategic objectives.

During the Board meetings, detailed information is traditionally provided on the operations and transactions considered to be the most significant in order to disseminate knowledge to the Directors and Statutory Auditors.

During the meeting of the Board of Directors examining this Report, information is also provided on legislative and regulatory amendments that took place during the period which involved the Company's governance.

The Board of Directors financial reporting responsibilities are to present:

- the separate and consolidated financial statements as of December 31;
- the half-year report as of June 30.

b) Appointment and replacement of Directors (pursuant to article 123-bis, paragraph 1, letter l), of the Consolidated Law on Finance (TUF))

The requirements for the appointment and replacement of members of the Board of Directors are those pursuant to applicable laws as supplemented by the Company Articles of Association (article 17). It is hereby noted that the extraordinary Shareholders' Meeting held on June 11, 2014, which resulted in amendments to the Articles of Association, adjusted articles 17 and 22 to the discipline regarding balance between genders in the composition of the administration and control bodies as introduced by Law no. 120 of July 12, 2011 and the relative implementing provisions. Additional amendments to the above-mentioned articles were approved by the Extraordinary Shareholders' Meeting on November 30, 2020 to adapt to new regulatory provisions on gender quotas.

Directors' terms may not be longer than three years and they may be re-elected (article 17 of the Articles of Association).

Upon presentation of a candidate for the position of Director, the candidate's curriculum vitae and a list of the positions held by the candidate at other Companies as director or statutory auditor are provided to the Shareholders' Meeting.

The number of Directors may vary between a minimum of seven and a maximum of eleven.

The appointment procedure pursuant to article 17 of the Articles of Association requires that:

- the lists of candidates must be filed at the registered office and published in compliance with current legislation;
- the lists must be accompanied by:
    i. information relating to the identity of the holders of voting rights who have submitted the lists, with an indication of the percentage of the total shareholding held;
    ii. a declaration of the Shareholders other than those who hold, even jointly, a controlling interest or relative majority, certifying the absence of relationships of connection envisaged by the applicable provisions;
    iii. exhaustive information on the personal and professional characteristics of the candidates, as well as a declaration in which the individual candidates accept their candidacy and certify, under their own responsibility, that there are no causes for ineligibility or incompatibility, and that they meet the requirements envisaged by current legislation and the Articles of Association for the respective offices, with indication of any suitability to qualify as independent pursuant to article 148, paragraph 3, of Italian Legislative Decree no. 58/1998;

- lists with a number of candidates equal to or higher than three must be composed of candidates which belong to both genders, so that a number of candidates at least equal to what is set forth by the laws and applicable regulations inherent to gender balance over time belong to the least represented gender (rounded up);
- a shareholder may not submit or vote for more than one list, even if through a third party or through trust companies. Those belonging to the same group and those who adhere to a shareholders' agreement concerning the shares of the Company may not submit or vote for more than one list, even if through a third party or through trust companies. A candidate may be present on only one list, under penalty of ineligibility;
- those who, alone or together with others, represent the shareholding in the share capital (expressed in ordinary shares that assign voting rights in the shareholders' meeting resolutions concerning the appointment of the members of the administrative bodies) in an amount equal to the highest percentage identified in accordance with the relevant provisions issued by the CONSOB - National Commission for Companies and Stock Exchange;
- the shareholding for the presentation of the lists must be indicated in the notice of call of the Shareholders' Meeting;
- lists for which the aforementioned requirements are not observed must be considered as not submitted;
- the candidates are appointed as Directors, except for the last one in progressive order, on the list that obtains the highest number of votes (the "Majority List"), as well as the first candidate on the minority list that has obtained the highest number of votes and is not connected in any way, not even indirectly, with those who submitted or voted on the list resulting first in terms of number of votes; without prejudice to the fact that, for the purposes of the allocation of the Directors to be elected, the lists submitted by Shareholders who have not obtained a percentage of votes equal to at least half of the percentage required for the presentation of the lists, as indicated above, are not taken into account;
- in the event of an equal number of votes between two or more lists, the candidates of the list submitted by the holders of the largest shareholding at the time of submission of the list, or secondarily, by the largest number of them, shall be elected Directors;
- if the candidates elected with the methods indicated above do not ensure the appointment of a number of Directors meeting the independence requirements set forth in article 148, paragraph 3, of Italian Legislative Decree no. 58/1998, equal to the minimum number established by law in relation to the total number of Directors, the non-independent candidate elected last in progressive order on the Majority List will be replaced by the first independent candidate not elected on the same list according to the progressive order, or failing that, by the first independent candidate according to the sequential order not elected from the other lists, according to the number of votes obtained by each. This replacement procedure will take place until the Board of Directors is composed of a number of members who meet the requirements set out in Article 148, paragraph 3 of Legislative Decree 58/1998 equal to at least the minimum prescribed by law. Finally, if this procedure does not ensure the result indicated above, the replacement will take place by resolution passed by the Shareholders' Meeting by relative majority, subject to the submission of candidates who meet the aforementioned requirements, without prejudice to compliance with the pro tempore regulations in force concerning gender balance;
- if moreover, the composition of the Board of Directors is not in compliance with the pro tempore regulations in force concerning gender balance with the candidates elected with the methods indicated above, the candidate of the most represented gender elected last in progressive order on the Majority List will be replaced by the first candidate of the least represented gender not elected from the same list according to the progressive order. This replacement procedure will take place until the composition of the Board of Directors complies with the pro tempore regulations in force concerning gender balance. Finally, if said procedure does not ensure the result indicated above, the replacement will take place by resolution passed by the Shareholders'

Meeting by relative majority, subject to the presentation of candidates belonging to the least represented gender;

- if only one list is submitted or if no list is submitted, or if the Directors are not appointed for any reason pursuant to the above procedure, the Shareholders' Meeting resolves with the majorities by law, without complying with the procedure envisaged above, in order to ensure (i) the presence of independent Directors pursuant to article 148 of the TUF in the minimum total number required by the pro tempore regulations in force and (ii) compliance with the pro tempore regulations in force concerning gender balance.

If during the year, one or more Directors taken from lists submitted by Shareholders leave the office, for any reason whatsoever, pursuant to article 2386 of the Italian Civil Code, as indicated below:

a) the Board of Directors proceeds with the replacement from among the members of the same list to which the outgoing Director belonged and the Shareholders' Meeting resolves, with the majorities provided for by law, respecting the same criterion;

b) if there are no unelected candidates remaining on the aforementioned list or candidates with the required requisites, or in any case when, for any reason whatsoever, it is not possible to comply with the provisions set out in letter a), the Board of Directors replaces the vacancy and the Shareholders' Meeting decides by majority of votes set forth by law, without a list vote.

In any case, the Board of Directors and the Shareholders' Meeting will make the appointments so as to ensure (i) that the number of independent Directors is at least at the minimum level required by the pro tempore regulations in force and (ii) compliance with the pro tempore regulations in force concerning gender balance.

The entire procedure for the appointment of Directors is set forth in article 17 of the Articles of Association and is also available in a dedicated section of the website www.itkgroup.it.

*c) **Composition of the Board of Directors (pursuant to article 123-bis, paragraph 2, letter d), of the Consolidated Law on Finance (TUF))***

The current Board of Directors was appointed by the Shareholders' Meeting on June 8, 2021 which decided on ten (10) members of the administrative body (as indicated previously, the Articles of Association provide for a variable number of Directors, the minimum being 7 and the maximum 11).

The term of office is three financial years and therefore up to the date of the Shareholders' Meeting called for the approval of the financial statements as of December 31, 2023.

In compliance with the procedure referred to in article 17 of the Articles of Association, the following lists were presented:

- Majority List presented by the majority shareholder Quattroduedue S.p.A. (holding 46.97% of the ordinary share capital);
- Minority list presented by the shareholders Alberto Previtali and Daniela Guatterini (owners overall of 4.53% of the ordinary capital).

The Shareholders' Meeting approved the Quattroduedue S.p.A. proposal by majority vote, with 340,914,306 votes in favour equal to 89.542% of the shares represented at the meeting and 61.673% of the shares with voting rights; the minority list obtained 39,817,371 equal to 10.458% of the shares represented at the meeting and 7.203% of the shares with voting rights.

As of the date of this Report, 10 Directors, of which 9 were taken from the list presented by Quattroduedue S.p.A. and 1 was taken from the minority list.

With reference to the requirements of professionalism of the members of the Board of Directors: (i) on acceptance of their candidacy, each of the directors declared that they meet the requirements of integrity and professionalism set forth by regulations for the office; and (ii) during the annual self-assessment carried out, the directors also deemed adequate in light of the core business of the Company both the skills, experience and professional characteristics of the individual members of the Board, and the size, composition and functioning of the Board itself and its committees, also with reference to the application of diversity criteria.

In 2022 (meeting on March 31, 2022), the Company's Board of Directors also verified that all Directors met regulatory requirements and confirmed that Directors Francesca Marchetti and Luca Ricciardi continued to meet the independence requirements.

Directors are required to provide prompt notice in the event that they no longer meet the integrity requirements pursuant to article 147-quinquies of the TUF.

During 2022, compliance with this requirement was assessed, also pursuant to the Bank of Italy regulation (Italian Legislative Decree no. 469 of November 11, 1998).

As far as the Company is aware, none of the members of the Board of Directors and/or Group Key management personnel have, in the past five years, been found guilty of fraud nor, in the performance of their duties, been associated with bankruptcy proceedings, extraordinary administration or compulsory administrative liquidation, nor, finally, have been formally indicted or sanctioned by public or regulatory authorities (including professional associations) nor prohibited by a court from membership of a Board of Directors, management board or supervisory board of the Company or engaging in the management or administration of any issuer.

The personal and professional characteristics of each Director are presented in their CVs filed at the Company's registered office and available on the Issuer's institutional website in the Governance/Corporate Bodies section (https://www.itkgroup.it/it/organizociali).

For further details, please see Table 4.2 attached to this Report, which includes the names of each member of the Board in office, with a specification of the office held, the year of birth, the length of time in office, the list from which they were taken, whether they are Executive, Non-Executive or Independent Directors, their attendance at Board and Committee meetings during the Financial Year, as well as the number of administration and control offices currently held in other companies listed in regulated markets, in financial companies, banking or insurance companies or companies of significant size.

As of the closing date of the Financial Year, there have been no changes in the composition of the Board.

The names of Directors usually appear at the beginning of the documents prepared for Shareholders' Meetings and in the annual and half-year financial statements.

Diversity criteria and policies

As of the date of this Report, the Company has not applied any specific diversity or gender criteria, nor has it adopted a diversity policy for the Board of Directors, as it deems respect for the requirements laid out by legislation and regulations in force over time as well as the Articles of Association to be sufficient to ensure the adequate composition of the administrative body. Specifically, with reference to the provisions on the "pink quotas", as last amended by Law no. 160 of December 27, 2019, and applicable as of the first re-election of the Issuer's administrative and control bodies subsequent to January 1, 2020, the date of entry into force of the above-mentioned law, please note that:

- pursuant to article 147-ter, paragraph 1-ter of the TUF, directors must be allocated on the basis of a criterion ensuring gender balance; at least two-fifths of the directors elected must belong to the least represented gender;
- pursuant to article 17 of the Articles of Association, in the composition of the Board of Directors balance between the male and female gender must be ensured in compliance with applicable provisions of law and regulations in force over time.

The Board of Directors in office apply article 147-ter, paragraph 1-ter of the TUF, previously in force, according to which at least two-fifths of the elected directors must belong to the least represented gender.

As previously reported, as of the date of this Report and in compliance with the above-mentioned provisions, four of the directors on the Company's Board of Directors out of ten are women, in line with the regulation in force.

This representation is furthermore ensured on the Board of Statutory Auditors by a Standing Auditor and two Alternate Auditors, appointed at the time that the offices were renewed in 2021.

The Issuer did not adopt specific measures during the Financial Year to promote equal treatment and opportunities between the genders within the Company. This being said, the Issuer believes that the current

Company's organization, which is constantly monitored by the Issuer itself, makes it possible to achieve the above-mentioned objectives.

Maximum offices covered in other companies

The Board of Directors considers that it shall not discretionally limit the number of offices that each Director may occupy, without prejudice to the duty of each Director to evaluate the compatibility of the offices of Director and Statutory Auditor held in other companies listed in regulated markets and subject to the rights afforded by the law and regulations, with respect to:

- the personal and professional qualifications of its members;
- the number and significance of the offices listed above;
- the high participation of their own members in the meetings of the Board of Directors.

In the course of the Financial Year, at its meeting held on March 31, 2022, the Board, on the basis of the information received, after the verification of the offices currently held by its Directors in other companies, decided that the number and type of offices held does not interfere and therefore is compatible with an effective performance of the role of Director in the Issuer.

On the basis of the information received from the Directors and in line with the provisions of the Code, please refer to Table 4.2b attached to this Report for the list of administration and control offices held by the Directors in office in joint-stock companies (including those listed in regulated markets, also abroad), partnerships limited by shares and limited liability companies.

Induction Programme

The Company, considering

a) the high level of professionalism of the Directors,
b) the long-term experience gained by nearly all Directors in the sector of activity in which the Issuer operates, as well as
c) the extensive disclosure provided by the Chairman and the Deputy Chairpersons during the Board meetings in relation to any regulatory updates of interest to the Company and based on
d) updates, data and documents periodically provided to the directors themselves in the various Board meetings, where information regarding the performance of the Group's businesses is provided or resolutions of a strategic nature are made,
e) did not believe it was necessary to promote further *ad hoc* initiatives in the course of the Financial Year to increase the knowledge of the Directors of the Company's business segment, company trends and their evolution as well as the reference regulatory framework ("induction programme").

d) Functioning of the Board of Directors (pursuant to article 123-bis, paragraph 2, letter d), of the Consolidated Law on Finance (TUF))

During 2022, the Board of Directors met 10 times.

The average duration of the meetings of the Board of Directors was approximately 1 hour and fifteen minutes.

During the year, the Board of Directors met 3 times.

It is normal practice that the documentation relative to the agenda items is provided to the Directors and the Statutory Auditors prior to each meeting, using e-mail and ensuring that the rules and procedures applicable to confidential documents and information are adhered to.

With reference to Recommendation 12.c, it should be noted that the Secretary and Manager in charge, Giuseppe Mazza, who also performs the role of the Company's Administrative Director, constantly attends the Board meetings.

Other Company or Group managers or professionals, who have been employed to assist the Company in specific matters or transactions, may participate in certain meetings of the Board, upon invitation of the Chairman.

The schedule of the Board meetings is announced to Borsa Italiana as soon as it becomes available, in any case no later than January 30, and it is also available on the Company's website www.itkgroup.it.

Pursuant to the Articles of Association (article 20), the Chairman is the legal representative of the Company, including insofar as representation in the courts, and also has corporate signing powers.

The other Directors shall represent the Company to the extent permitted by the powers conferred on them.

With regard to Recommendation 1.a) of the Code, the Board is exclusively responsible for examining and approving strategic, business, and financial plans and for the corporate governance system.

The KME Group exercises the management and coordination activities over certain of its subsidiaries and in particular over Intek Investimenti S.p.A. and Immobiliare Pictea S.r.l., as announced, pursuant to article 2497-bis of the Italian Civil Code, by the directors of those companies.

Moreover, the Board of Directors determines the appointment and the withdrawal of powers delegated to the executive directors.

The Board assesses the general results of operations when it examines the periodic reports, taking into consideration in particular the information received from the authorized bodies.

The Board is reserved for:

- the examination and approval of the Company's transactions prior to implementation, when these transactions referred to investments, companies or business units with a value in excess of € 20 million;
- the subscription of bonds, including convertible bonds, issued by companies and/or national or foreign entities of an amount in excess of € 20 million;
- the examination and approval of the Company transactions prior to implementation, when these are carried out with related parties: (i) which do not fall under transactions which are exempt from application of the specific procedure relative to related party transactions and (ii) of an amount in excess of € 5 million;
- the signing of contracts involving the exchange, purchase or sale, including through a contribution, of an amount in excess of € 30 million, for each individual transaction, involving securities and financial instruments of any type, which are listed and constitute financial assets, contracts for the sale or purchase of options relative to these securities of an amount in excess of € 30 million per individual transaction calculated on the principal of said transaction;
- the purchase, sale, exchange or contribution to companies or entities which are established or under establishment, of real estate of any type or nature, wherever located, the value of which exceeds € 20 million per each deed.

It is hereby noted that the powers for amounts that are less than required for exclusive competence of the Board to enter into effect are conferred upon the Chairman and the Deputy Chairpersons.

At the end of each six-month period, the Board of Directors examines the report produced by the Control and Risk Committee containing the outcomes of the verifications produced by this committee and its opinion in regard to the adequacy of the Company's internal control system.

On the occasion of its meeting of March 31, 2022, the Board of Directors examined the positive opinion expressed by the aforementioned Committee.

For information on the remuneration policy adopted by the Company and the remuneration received by the Directors and the strategic executives, please see the Report on Remuneration available on the Company's website (www.itkgroup.it) pursuant to the terms and conditions required by the law and the regulation.

With regard to conflicts of interests and related party transactions of the Company and the Group it heads, please see what is described in paragraph 12 below.

It is hereby noted that there are no resolutions of Shareholders' Meetings which provide for derogations to the non-competition restriction applicable to Directors pursuant to article 2390 of the Italian Civil Code.

e) Role of the Chairman

Pursuant to article 20 of the Articles of Association, to which reference should be made for further details, the Chairman is the legal representative of the Company and has full powers to represent the Company in dealings with third parties and in legal proceedings.

Vincenzo Manes was appointed as Chairman of the Board of Directors by the Shareholders' Meeting of June 8, 2021 and the Board of Directors subsequently confirmed the following powers and capacities:

- coordination and guidance of the activities of other Executive Directors in regard of the assigned powers;
- guidance, coordination and control of external communications including communications with Shareholders;
- in particular, including, but not limited to, and consistently with instructions and guidelines decided by the Board of Directors, the Chairman has powers relating to the management of the Company's administrative, financial, control, legal, tax, insurance, human resources and information technology affairs in addition to industrial and commercial matters and services. He has the powers to guide and coordinate all such activities for all Group companies through the relevant operational designees and always within the limits of the strategic policies decided by the Board of Directors.

In exercising such powers, the Chairman may determine rules for the various internal departments, assign responsibilities, appoint attorneys-in-fact as sole or joint signatories in addition to the issue of orders and requirements for the Company organization and operation. Such powers may be delegated with respect to amounts between € 5 million and € 30 million.

f) Executive Directors

The Board of Directors nominated two Deputy Chairpersons (Diva Moriani and Marcello Gallo), both currently in office.

Pursuant to Art. 16 of the Articles of Association, each Deputy Chairperson may replace the Chairman in his temporary absence and/or impediment.

The Board of Directors assigned to the Deputy Chairwoman Diva Moriani and the Deputy Chairman Marcello Gallo the powers for the management of the Company's administrative, financial, control, legal, tax, insurance and information technology affairs in addition to industrial and commercial matters and services and also human resources and internal communication; the Deputy Chairpersons have the powers to guide and coordinate all such activities for Group companies through the relevant operational designees and always within the limits of the strategic policies decided by the Board of Directors and by the Chairman Vincenzo Manes.

In exercising such powers, the Deputy Chairpersons can determine rules for the various internal departments, assign responsibilities, appoint attorneys-in-fact as sole or joint signatories in addition to the issue of orders and requirements for the Company organization and operation.

Such powers may be delegated with respect to amounts between € 2 million and € 15 million.

The Board of Directors did not consider it necessary to establish an Executive Committee, conferring upon the Chairman Vincenzo Manes, the Deputy Chairwoman Diva Moriani and the Deputy Chairman Marcello Gallo the necessary powers.

There are no other directors holding delegated management powers or otherwise were considered executives pursuant to the provisions of the Code.

It is however noted that based on a special power of attorney dated December 19, 2012, which was subsequently supplemented on July 29, 2014, the Chairman attributed to the Administrative Director, Giuseppe Mazza, powers of ordinary administration to be exercised by sole signature for transactions between € 100 thousand and € 500 thousand.

As specified in further detail in paragraph 12 on the section referring to related party transactions, the Board of Directors attributed to the Chairman and the Deputy Chairpersons specific powers in this regard.

The Executive Directors inform periodically the Board of Directors and the Board of Statutory Auditors on the general results of operations and the business outlook as well as regarding the significant transactions carried out by the Company and its subsidiaries.

As noted, these reports will help raise the level of awareness of the Directors and the Statutory Auditors of the situation of the Company and its dynamics.

g) ***Independent Directors and Lead Independent Director***

Independent Directors

The current KME Group Board of Directors is made up of 2 (two) Independent Directors.

Pursuant to the provisions of Recommendation 5 of the Code and in compliance with articles 147-ter, paragraph 4, and 148, paragraph 3 of the TUF and Consob communication DEM/9017893 of February 26, 2009, the Directors Francesca Marchetti and Luca Ricciardi confirmed that they continue to qualify as Independent Directors pursuant to the aforementioned provisions and both the Board of Directors and Statutory Auditors agreed also for 2022.

It is hereby noted that the assessment is made on the date of the respective appointments made by the Shareholders' Meetings and therefore repeated as part of the procedures for approval of the financial statements as of December 31.

It should also be noted that the Company deemed the number of two independent directors sufficient, in consideration of their professionalism, autonomy and the high contribution to the discussion within the Board of Directors.

It is hereby noted that the Independent Directors meet at least once per year to discuss transactions of particular significance whenever necessary, as part of the activities of the Control and Risk Committee, of which all independent directors of the KME Group are members.

Lead Independent Director

Recommendation 14 of the Code underlined the importance of appointing a Lead Independent Director by the Board of Directors given the presence of particular situations relating to the control of the Company and the powers attributed to the Chairman of the Board of Directors.

As for KME Group, pursuant to the agreements within the shareholders of Quattroduedue Holding B.V., which were mentioned previously, Vincenzo Manes is not a controlling shareholder of this company or, therefore, of the KME Group.

Furthermore, the following elements were appropriately assessed:

- the distribution of powers between a Chairman and two Executive Deputy Chairpersons, separately between them;
- the composition of the Control and Risk Committee, which is mainly composed of Independent Directors who can be convened and meet independently including outside the meetings of the Board of Directors.

Due to the above considerations, the Board of Directors did not consider it necessary to appoint a "Lead Independent Director" to coordinate any requests and contributions from Non-Executive Directors.

5. Management of company information

a) Procedure for handling Privileged Information

In order to demonstrate that markets must be promptly, fully, adequately and not selectively notified of corporate actions, the Company adopted the "Code of Conduct regarding Information on Important Corporate Actions" in 2002 as recommended by the "Code" and in compliance with the principles of Borsa Italiana's guidelines for market information.

With this measure, subject to subsequent interventions, the Board decided to develop a procedure for handling privileged information in order to monitor access to and the circulation of privileged information before it is disseminated to the public, ensure respect for the confidentiality requirements set forth by provisions of law and regulations, as well as in order to govern the internal management and external communication of such information.

The subsequent innovations introduced into the section on corporate disclosures of the TUF, as well as by Consob at the regulatory level and therefore by Borsa Italiana S.p.A., required a review to be carried out in March and November of 2006 and again in November 2007.

In particular, we reiterate the new formulation of article 114 of the TUF and, pursuant to the subsequent article 115-bis, the consequent identification of the "relevant parties," who have access to “privileged information” and the establishment of the relative Register beginning from April 1, 2006, in electronic form.

The procedure requires first and foremost that Directors and Statutory Auditors observe the confidentiality of privileged information which is also required of other persons with access to such information due to their functions and ensuring that such information is only processed by persons aware of the nature and need for compliance and who have knowledge of the procedures required by Consob and Borsa Italiana S.p.A.

As noted in article 115-bis of the TUF, its application refers to the entities controlled by the listed issuer, and therefore excludes controlling entities.

The procedure in question is constantly updated based on regulatory and/or legislative amendments introduced over time, in order to make it even more suited to the group's various businesses.

Privileged information is disclosed externally through press releases - or other suitable means pursuant to the law - the content of which is approved by the Chairman.

As a rule, when possible, the text of the releases, approved in draft form, is shared with the Directors and Statutory Auditors during the relative Board meetings.

Once the text of the releases is approved by the competent corporate bodies, it is disclosed without delay by the managers of the administrative functions, in compliance with provisions in force over time, including through timely publication on the Issuer's website, where it remains available at least for the minimum period of time established by the above-mentioned provisions.

For the foregoing purposes, the Company may rely on third parties according to the procedures set forth in the provisions in force.

The Directors, Statutory Auditors, associates and all employees of the Issuer and the subsidiaries are required to maintain any privileged information obtained in performing their duties confidential.

Such parties are also required to immediately report all information for which they have reasonable doubts with respect to its nature as privileged information, and to observe the confidentiality requirements set forth above, until the information is no longer privileged or its nature as such has been ruled out.

The Chairman evaluates the relevance of the information received and, if he considers it Privileged Information, or he has doubts in that regard, he shall immediately prepare one or more press releases along with the manager of the administrative function.

The Issuer may delay the communication to the public of Privileged Information, including that regarding subsidiaries, when the following conditions are met:

- immediate communication would likely jeopardise the legitimate interests of the Issuer;

- delayed communication would likely not have the effect of misleading the public;
- the Issuer is capable of guaranteeing the confidentiality of such information.

The assessment of the existence of the above-mentioned circumstances is under the responsibility of the Chairman.

The procedure for the processing of privileged information is brought to the awareness of all Directors, Statutory Auditors, associates and employees of the Issuer and the subsidiaries with suitable means.

b) Register of people with access to privileged information

Particularly with regard to the obligation for listed issuers to establish and manage a register of people with access to Privileged Information pursuant to the provisions of article 18 of Regulation (EU) no. 596/2014 and the implementing regulations, the procedure for the processing of privileged information adopted by the Issuer calls for the establishment of a register of informed parties (the "**Register**"), whose management is currently entrusted to the Administrative Director of the Company.

For each party with access, on a regular or occasional basis, to privileged information due to their working or professional activities or the functions performed on behalf of the Issuer, the Register contains identifying data and the additional information required by regulations in force over time referring to the Informed Parties listed in the Register.

The Register must be updated if the reason for registration of an informed party changes, or when a new informed party should be registered, or when it is necessary to specify that an informed party no longer has access to privileged information.

The information contained in the Register must be stored for at least 5 (five) years subsequent to the elimination of the circumstances resulting in registration or updating.

The party responsible for managing the Register shall promptly notify the Informed Parties of their inclusion in the Register and all updates of information regarding them, as well as the obligations deriving from having access to privileged information and sanctions relating to (i) the offences of the abuse of privileged information and market manipulation and, more generally, (ii) the unauthorized dissemination of privileged information.

c) *Internal Dealing*

As of April 1, 2006 and following the entry into force of the provisions on internal dealing introduced into the legal system by Law no. 62 of April 18, 2005 and the ensuing amendments set forth in the Issuers' Regulation, the Issuer has a specific "Code of Conduct on Internal Dealing" (subsequently referred to as the "Internal Dealing Procedure"), governing information obligations concerning transactions on financial instruments issued by the Issuer or other financial instruments linked to them carried out by "relevant parties" and/or people with close ties to them, in order to ensure the necessary transparency and uniform disclosure to the market.

The Internal Dealing Procedure, which has been constantly updated over the years based on subsequent regulations on the matter, also in implementation of the regulations set forth in article 114, paragraph 7 of the TUF, as well as article 19 of Regulation (EU) no. 596/2014 and the relative implementing regulations, was most recently amended on January 10, 2022.

The above-mentioned Internal Dealing Procedure is available on the Issuer's website at https://www.itkgroup.it/it/internaldealing.

Aside from identifying "relevant parties", defining their conduct and information obligations and the "party responsible" for the receipt, management and distribution of the information, the Internal Dealing Procedure establishes the prohibition against carrying out transactions on financial instruments of the Company in the following periods: in the 30 (thirty) days prior to the date scheduled for the approval of the draft financial statements; in the 30 (thirty) days prior to the date scheduled for the approval of the half-yearly financial report ("black out periods"). This prohibition became compulsory for "relevant parties" with the entry into force of European Regulation 596/2014 (the so-called MAR).

Communications relating to the relevant transactions pursuant to the rules on Internal Dealing carried out in the course of the Financial Year were provided to the market in compliance with the Internal Dealing Procedure and are available on the Issuer's institutional website at https://www.itkgroup.it/it/internaldealing.

In accordance with the provisions on remuneration, the equity investments held in the Company and its subsidiaries by the Directors, Statutory Auditors and also Group and Company Key management personnel are disclosed in the Report on Remuneration, to which reference should be made.

* * *

The Board of Directors, at its meeting of September 14, 2012, decided, among other things, to apply the exception envisaged by articles 70, paragraph VIII, and 71-bis of the Issuers' Regulation, which exempts the Company from publishing an Information Document in the case of significant mergers, demergers, share capital increases through transfers in kind, acquisitions and sales.

It is hereby noted that, as from March 18, 2016, the new transparency Directive (Italian Legislative Decree 25/2016) entered into effect. Among other things, it amended paragraph 2 of article 154-ter of the TUF, eliminating the obligation to publish the Interim Report on Operations thereby granting a longer time period for approval of the Consolidated Half-Year Report, which must be provided as soon as possible, and in any case within 3 months from the half-year closing date.

Consob has been granted specific powers to establish, through its own regulation, any obligations to publish additional periodic financial information. Pursuant to the results of a public consultation, Consob resolved not to implement any additional obligations, allowing the individual issuers to select whether to publish these updates or not.

In consideration thereof, starting from the report for the first quarter of 2016, the Company decided not to publish the subsequent interim reports on operations as of March 31 and September 30. However, price sensitive information is immediately disclosed.

Following the entry into effect of the aforementioned transparency Directive and the MAR, after careful consideration, the Company decided to update its procedures on internal dealing and privileged information.

6. Committees within the Board of Directors (pursuant to article 123-bis, paragraph 2, letter d), of the Consolidated Law on Finance (TUF))

For the reasons set forth above and reiterated again in this Report, the Company has not established Committees with several functions.

The Control and Risk Committee is composed of Directors, Luca Ricciardi (Chairman), Francesca Marchetti, and Alessandra Pizzuti.

The first two members are Independent Directors with professional experience including in accounting, finance, and risk management matters deemed appropriate by the Board of Directors.

The Control and Risk Committee is in charge of assisting, with appropriate investigations, in the assessment and decisions of the Board of Directors with regard to the internal control and risk management system, and also approval of the periodic financial reports.

In addition, it carries out supporting activities relating to compliance of the procedures regarding related party transactions with the applicable legislative and regulatory measures as well as their observance.

Further information regarding the Committee's activities is contained in the section 10.

At the meeting of March 28, 2023, the Board of Directors extended the responsibilities of the Control and Risk Committee also to sustainability issues: the Committee therefore took on the name of Control, Risk and Sustainability Committee.

Beginning from June 19, 2015, the Company has decided not to establish the Remuneration Committee, putting in place appropriate procedures for determination of the remuneration of the Executive Directors, as better specified in paragraph 8 below and in the Report on Remuneration, to which reference is made.

The Control and Risk Committee of the KME Group is responsible for setting the guidelines and verifying the internal control system for the identification and management of the main risks to which the Company is exposed. It consequently:

- supports the Board of Directors in the performance of its duties with respect to internal control and risk management;
- assesses, together with the Manager in charge of Financial Reporting and the Independent Auditors, the correct application of accounting policies and their consistency also for the purposes of preparing the consolidated financial statements;
- expresses its opinion on specific aspects concerning the identification of the main risks to which the Company is exposed in addition to planning, implementing and managing the internal control system;
- examines the work schedule and the periodic reports prepared by the internal audit function;
- monitors the autonomy, adequacy, efficiency and efficacy of the internal audit function;
- may request the internal audit function to carry out periodic verifications on specific operating areas, concurrently informing the Chairman of the Board of Statutory Auditors;
- reports to the Board, at least every six months, when the annual and half-year financial reports are prepared, on the activities carried out and the adequacy of the internal control and risk management system;
- through appropriate investigation activities, it supports the assessment and decisions of the Board of Directors regarding the risk management in the event of adverse events which the Board of Directors became aware of.

The Committee has access to the corporate information required for its work.

The Chairman Vincenzo Manes, also in his capacity as the Director in charge, and the entire Board of Statutory Auditors are invited to its meetings.

The Committee met 4 times in 2022 (5 in the previous year), and the participation of its members amounted to 100%.

At least one member of the Board of Statutory Auditors always participated in the meetings, at which minutes are taken.

It met once in the current year; its upcoming meetings are not scheduled.

Specific financial resources were not made available to the Committee to allow it to carry out its duties, and the Committee is entitled to use the structures of the Company or request the support of external consultants that it considers appropriate, to be paid for by the Company, as necessary.

In compliance with the Code, the Board of Directors believes that the Company's internal control system is adequate for the types of risks typical of the Company's business and is sufficient to safeguard the Company's assets, the efficiency and effectiveness of its operations, the reliability of financial disclosure and compliance with laws and regulations.

7. Self-assessment and succession of Directors - Appointments Committee

a) Self-assessment and succession of directors

Pursuant to article 147-ter paragraph 4 of the TUF and with reference to the provisions to Recommendation 22 of the Code, the Board of Directors believes that its composition, both with respect to the number of its members and their professional skills, and also to the presence of two Independent Directors is appropriate for the size of the Company and the problems to be handled (with reference to Principle VI - Recommendation 5 of the Code); the same reasoning is also applicable to its Internal Committees.

The Board of Directors also believes that the organizational, administrative and accounting structure of the Company and its strategically important subsidiaries are appropriate particularly as far as the internal control system and the management of conflicts of interest are concerned.

The presence of Executive Directors with specific, thorough, multidisciplinary professional experience in financial, industrial and administrative subjects means that all of the most important aspects of the Company's affairs are satisfactorily covered.

Non-Executive Directors, in turn, make an important contribution to the Board of Directors and the Control and Risk Committee to which they belong, in terms of their professionalism and experience.

The Company has not adopted succession plans for its Executive Directors, neither has considered it necessary due to the composition of the shareholder base and the structure of the powers granted.

Insofar as the guidelines to the shareholders regarding the professionals that must be present on the Board, it has been considered that the composition, experience and attention of the controlling shareholders of the Company do not require the formulation of said guidelines on aspects which these shareholders are completely aware of.

b) Appointments Committee

The Appointments Committee has not been established since, referring to the provisions of Recommendation 5, the Board of Directors has considered that the Independent Directors, equal to one fifth of the members of the Board of Directors, have a significant level of autonomy and independence in decisions and have adequate knowledge of the structures of the Company and the Group.

As a result, the Board of Directors is of the opinion that:

- opinions on the size and composition of the Board of Directors;
- proposals for the appointment of candidates to the position of Director if co-opting is necessary when replacing Independent Directors;
- preparation of a plan for the succession of Executive Directors;
- can be discussed and decided within the meetings and responsibilities of the Board of Directors.

8. Remuneration of the Directors - Remuneration Committee

a) Remuneration of the Directors

For information on the remuneration policy adopted by the issuer and the remuneration received by the Directors, please see the Report on Remuneration which will be available on the Company's website www.itkgroup.it within the time required by law.

b) Remuneration Committee

The Board of Directors appointed by the Shareholders' Meeting of June 8, 2021, like the Board previously in office, decided not to re-establish the Remuneration Committee.

The Board decided that the redefinition by the Company of its strategic mission, its approach to the market and the new governance structure made management of the remuneration policy simpler than it had been in the past, since it refers only to Executive Directors of the Company, while the remuneration of the Directors and Managers of subsidiaries/investee companies which are considered to be investments, are handled exclusively by the administrative bodies of the individual subsidiaries/investee companies, notwithstanding the involvement of the parent company in relation to the extraordinary remuneration connected to the disposal of investments.

The incentive criteria for Executive Directors will be more and more connected to reaching specific asset valuation objectives and portfolio of investment results (dividends and capital gains) - and, therefore will be based on creating "value" for the Company, rather than on performance and/or profitability of the individual subsidiaries, as it had been in the past.

In this new framework, a Remuneration Committee would have an extremely limited operating area, so that it would no longer be functional.

In fact, it is believed that in its entirety, the Board of Directors is an entity that can adequately and efficiently identify and define the incentive criteria (which are connected to the valuation of the assets, as indicated above), based on which to determine the variable component of the remuneration of Executive Directors and Key management personnel and for monitoring that the fixed objectives were indeed reached.

The duties established by the Code insofar as the Remuneration Committee is concerned (see Recommendation 16), can therefore be carried out by the Board of Directors in the case of the KME Group.

In order to allow the administrative body to make an assessment that is as informed and cognizant as possible, the Board of Directors can, as necessary, request the expertise of at least two Independent Directors to be contacted from time to time, for more in-depth information regarding the fixed and variable remuneration to be paid to the Executive Directors.

The experience and independence of such Directors will ensure that the Board receives appropriate support, thereby rendering the appointment of a Remuneration Committee redundant.

9. Control and risk management system

According to the Code, the Control and Risk Management System (hereinafter the "CRMS") is a group of rules, procedures, and organizational structures aimed at identification, measurement, management, and monitoring of the major corporate risks.

An effective CRMS contributes to the company management in compliance with the corporate objectives defined by the Board of Directors, promotes knowledgeable decision-making and helps in safeguarding the company assets, the effectiveness and efficacy of the corporate processes, the reliability of the corporate information and compliance with the laws, regulations and internal procedures.

The KME Group administrative-accounting internal control system, focused on the management of risks inherent financial disclosures, must not be considered separately from the CRMS of which it is an integral part, though it is able to stand autonomously, due to reasons of operating efficiency, as part of the program for compliance with the requirements under article 154-bis of the TUF of the Manager in charge of Financial Reporting.

The purpose of the administrative-accounting internal control system is to assure the reliability, accuracy, transparency and timeliness of financial reporting.

The Company's guidelines for the development, implementation, monitoring and updating of the system over time are based on recognized international best practice and in particular the COSO - Internal Control - Integrated Framework, which defines internal control as a process implemented by the Management of the Company and other associates in order to provide reasonable certainty regarding the achievement of objectives included in three categories (operation, reporting and compliance objectives).1

The principles followed, pursuant to COSO - Internal Control - Integrated Framework, aim to ensure:

- efficacy and efficiency of operations (operations objective);
- the preparation and publication of financial and other reports, for internal and external distribution, containing information which is reliable, timely and transparent as well as compliant with the requirements of the various regulatory entities and organizations that define recognized standards or policies (reporting objectives);
- compliance with the laws and the regulations (compliance objectives).

The COSO Report also sets out the essential components of a system with reference to the following areas:

- *control environment*: the basis of the system characterized by the responsive attitude of the Company's top management to defining procedures and structure (formalisation of roles, tasks, responsibilities, internal communication systems and timeliness of information) consistent with corporate strategies and objectives;
- *risk assessment*: management's identification and analysis of relevant risks involved in the achievement of predefined objectives as well as the determination of risk management methods;

[1] COSO - *Committee of Sponsoring Organizations of the Treadway Commission, Internal Control - Integrated Framework*, May, 2013.

- *control activities*: the methods (processes, procedures and practices) used to define and implement the controls in the organization for the purposes of mitigating risks and ensuring the achievement of targets set by the management;
- *information and communication:* support for all other aspects of control by communicating control responsibilities to personnel and by providing information in the form and at the time required for individuals to continue their work*;*
- *monitoring*: the activity performed by various parties in the company for the ongoing control of the proper functioning of the system in order to overcome critical contingencies and to provide for the maintenance, updating and improvement of the system.

Following are the main steps of a corporate risk management process:

- identification of risks;
- assessment of risks;
- identification of risk management measures;
- assessment of risk management measures.

Description of the main characteristics of the administrative-accounting internal control system

In order to comply with the provisions set forth in article 154-bis of Italian Legislative Decree 58/98 relative to certification of adequacy and the actual application of administrative and accounting procedures for the preparation of the separate and consolidated financial statements of the Company during the Financial Year, the Manager in charge of Financial Reporting has prepared and carried out a program for compliance with the requirements under article 154-bis of the TUF, with the support of the consulting company Operari S.r.l..

The structuring of the compliance programme refers to the COSO - Internal Control - Integrated Framework which has been supplemented with guidelines and best practices such as:

- Consolidated Law on Finance/TUF - Italian Legislative Decree 58/98;
- Consob regulations;
- ANDAF Guidelines;
- International Standards of Auditing;
- International Professional Practices Framework of the Institute of Internal Auditors.

The adoption of standards and regulations, domestically and internationally, has made it possible to construct a work program the purpose of which is to ensure reliability[2], accuracy[3], transparency[4] and timeliness[5] of the financial reporting.

This approach can be summarized as being comprised of the following methodological phases:

- definition of the scope of activity in terms of entities and items which are significant for the purposes of the compliance programme under review (scoping phase);
- analysis and risk assessment of the financial information concerning the items considered to be significant for the purposes of the certification of the 2022 financial statements (risk assessment phase);
- identification and definition of the set of internal controls between the entities which are included in the compliance programme for the Financial Year, through integration of the internal control system of each entity to form a single "internal control system" Model which is uniform

[2] Reliability (of the reporting): information that is characterized by correctness and compliance with the generally accepted accounting principles and fulfils the requirements set by the laws and the applicable regulations
[3] Accuracy (of the reporting): information that is characterized by neutrality and precision. Information is considered neutral if it is free of preconceived distortions which can influence the decision-making process of its users in order to obtain a predetermined result.
[4] Transparency (of the reporting): information that is characterized by clarity and completeness so as to assist investors in making informed decisions. Information is considered clear if it facilitates comprehension of complex aspects inherent in the entity, without being excessive or superfluous.
[5] Timeliness (of the reporting): information that complies with the deadlines set for its publication.

and applicable to the parent company and the subsidiaries involved in the project, characterized by monitoring practices, principles and methodologies for maintenance and assessment of the internal control system which are unique and valid for the entities included in the scoping phase (mapping phase);

- preparation and execution of the compliance test procedures on internal administrative-accounting controls and documentation of the results obtained, as the basis for the opinion regarding their efficacy and actual application by the entities during the reference period and throughout the processes included in the scope of the project (compliance testing phase);
- sharing with the management of any opportunities for improvement as these arise from the tests carried out in order to promote improvements in the internal control system.

Phases of the risk management and internal control systems in relation to the financial reporting process

The compliance programme begins from definition, using quantitative analysis, of the scope of activity and therefore the entities involved and the significant items associated with the business cycles, including the process of closing and preparing the separate and consolidated financial statements, as an active part of the control system.

The process of identifying and assessing the main risks connected to the accounting information was conducted for the Parent Company and the entities involved in the scope of activity, using a risk-based approach.

The administrative-accounting risk assessment activity led to identification of the significant accounting item associated with the relative accounting process/flow, for each entity included in the analysis. Each item was subjected to a qualitative evaluation of inherent risk through association and subsequent assessment of financial statement assertions[6] referring to the significant accounting items.

The risks and control activities identified were integrated into a specific framework which was populated by specific control objectives classified using the standard CAVR ([7]) and directly correlated with the aforementioned financial statement assertions.

The controls used in the Group can be classified under two main categories in accordance with international best practices:

- *entity level control*, at Group or individual subsidiary level (assignment of responsibilities, powers and mandates, separation of duties and assignment of privileges and rights to access IT applications);
- *process level control*, at process level (authorizations, reconciliations, verifications of consistency, etc.) with respect to operational processes, closing the books and so-called "cross-segment" controls relating to the Group's IT services.

These controls can be either preventive or detective in nature, depending on whether they are intended to prevent or detect unintentional or fraudulent irregularities in the financial statements; and either manual or automatic such as the validations run by software supporting the business systems.

In order to express a professional opinion on the actual execution and efficiency of the administrative-accounting internal controls in the Financial Year and based on the results of the follow-up, the compliance test procedures were updated and implemented, with documentation of the relative results through requests to the company representatives for records relating to the internal controls expected, the data and the transactions carried out and in general their willingness to prove that the controls were actually implemented and/or that no errors occurred with regard to the transactions which were selected. During the compliance tests set forth in the compliance programme described above, the consulting company Operari S.r.l. provided updates on the

[6] **Existence and occurrence (E/O)**: the assets and liabilities of the company exist as of a certain date and the transactions recorded represent events that actually took place during a specific period of time;
Completeness (C): all the transactions, assets and liabilities to be recognized have actually been included in the financial statements;
Rights and obligations (R/O): the assets and liabilities of the company respectively represent its rights and obligations as of a certain date;
Valuation and accuracy (V/A): the assets, liabilities, equity, revenues and costs are recorded in the financial statements at their correct amounts, pursuant to the reference accounting standards;
Presentation and disclosure (P/D): the items are correctly named, classified and explained.

[7] Completeness, Accuracy, Validity and Restricted access.

activity, its progress and the final outcomes to the Manager in charge of Financial Reporting who in turn informed the top management and the Director in charge, the Control and Risk Committee, which in turn reported to the Company's Board of Directors and Board of Statutory Auditors.

Based on the results of this compliance program, the Chairman and the Manager in charge of Financial Reporting certified the adequacy and efficacy of the internal control system for the Financial Year by the deadlines and in the form required by the CONSOB Issuers' Regulation.

The Internal Control and Risk Management System was further strengthened starting from 2014 with the development of the Internal Audit Plan, which is based on an assessment of the risks relating to KME Group S.p.A., which was carried out by the Internal Auditing Function. Indeed, this risk assessment was in support of the Control and Risk Committee under the Director in charge or the Board of Directors as a whole, and the internal control supervisors to the extent of their responsibilities within the internal control and risk management system, allowing the major risks to be identified, in addition to those in the administrative-accounting area and regarding compliance with Legislative Decree 231/2001, setting the basis for the risks to be adequately measured, managed and monitored, determining the compatibility of these risks with the risk profile in place.

After the reference area of the Internal Audit process was defined, it was possible to carry out the risk assessment which the Plan shall be based on in line with the provisions of the mandate to be issued for the Internal Auditing Function and to apply the standards (including ISO 31000 on Risk Management specifically for identification and assessment of risks) and the best practices. The area thus outlined consists of business and support processes existing within KME Group, each of which is characterized by its own specific objectives and the relative uncertainties (risks) that could compromise or, vice versa, facilitate achievement of these objectives.

The risk assessment carried out focused on the objectives (and risks) belonging to the operations and compliance areas, excluding from the latter area the particular portions which are already covered by specific assessment processes and the risk management area in general (e.g. Law 231/2001; 81/08, etc.). Similarly, as indicated above, the administrative-accounting area was excluded from the internal audit process as it is already covered in terms of risk assessment and internal controls through the specific program supporting the statement of the Manager in charge of Financial Reporting pursuant to article 154-bis of the TUF.

In accordance with standard ISO 31000, risk assessment is a process and as such the Company has planned its completion and continued updating, also based on the results of the verifications carried out and depending on of the changes in the reference environment.

Roles and functions involved

KME Group clearly identifies the roles and functions involved in the design, implementation, monitoring and revision of the CRMS particularly with respect to the officers involved (Manager in charge of Financial Reporting, Head of Internal Audit, Process Owner, Control Owner, Tester) who directly report to the Director in charge.

The Manager in charge of Financial Reporting monitors the risk management and internal control system relating to financial reporting and is responsible for the identification and valuation phases of the financial reporting risks and the identification and valuation of the controls in place for the risks identified.

Each of the phases above corresponds to a specific system output: risk details, assessment thereof in terms of the inherent risk, list of controls and mapping of the risk and item controls (control framework), valuation of the controls, valuation of the residual risk and identification of any improvement actions.

The risk valuation phase and the adequacy and efficacy of the relative controls is carried out by the Manager in charge of Financial Reporting who is supported by the consulting company Operari S.r.l.

Based on the assessment of the inherent risk and the relative controls, the Manager in charge of Financial Reporting assesses the residual risk, carries out any further framework updating activities and solves and monitors any non-compliance.

a) <u>Chief Executive Officer</u>

The Board has entrusted the Chairman Vincenzo Manes, in his capacity as Chief Executive Officer, with the task of setting up and maintaining the internal control and risk management system (the "**Director in Charge**") - Recommendation 32.b) of the Code.

As part of his duties, the Director in charge supervised the identification of the main corporate risks (strategic, operating, financial and compliance) taking into account the characteristics of the activities carried out by the Company and its subsidiaries and periodically submitted them for examination by the Board (Recommendation 34.a).

He furthermore implemented, together with the internal control supervisors, and based on the guidelines defined by the Board, the internal control and risk management system, following its design, realization and management and constantly verifying its adequacy and efficiency.

He followed the adaptation of the system to the dynamics of the operating conditions and the legislative and regulatory scenario.

As part of the mandate conferred upon him, the Director in charge is entitled to request the Head of Internal Audit to carry out verifications on specific operating areas and on the compliance with the rules and internal procedures in the execution of corporate operations, concurrently reporting to the Chairman of the Control and Risk Committee and the Chairman of the Board of Statutory Auditors.

Finally, where this became necessary, he immediately reported to the Control and Risk Committee and the Board of Directors regarding any problems or critical areas which arose during the execution of his work or which he became aware of, so that the Committee (or the Board) could take the appropriate actions.

b) <u>Control and Risk Committee</u>

The Control and Risk Committee is composed of non-executive Directors, Luca Ricciardi (Chairman), Francesca Marchetti, and Alessandra Pizzuti.

For further details, please refer to paragraph 6 above.

In compliance with the Code, the Board of Directors believes that the Company's internal control system is adequate for the types of risks typical of the Company's business and is sufficient to safeguard the Company's assets, the efficiency and effectiveness of its operations, the reliability of financial disclosure and compliance with laws and regulations.

c) <u>Head of Internal Audit</u>

The Head of Internal Audit is responsible for internal audit.

The Head of Internal Audit is appointed by the Board of Directors upon proposal of the Chairman, to whom the Head reports on a constant basis without any established schedule. Organizationally, the Head of Internal Audit is independent of all operational units and, in turn, has no operational responsibilities. He also reports to the Internal Control Committee and to the Board of Statutory Auditors.

His activity is an internal audit activity, thus complying with the relative provision contained in the new Code text.

The Head of Internal Audit has direct access to all information required for the performance of his duties which are the verification and assessment of the adequacy and effectiveness of the Company's internal control system and the compliance of the various corporate functions' operations with procedures, corporate policies, laws and regulations as may be in force from time to time, particularly with respect to the reliability and integrity of information processed, the safeguard of the Company's equity and the adequacy and consistency of accounting standards for the purposes of presenting financial statements, to be carried out together with the Manager in charge of Financial Reporting.

As required under article 6, Recommendation 33, letter a) of the Code, the Board of Directors defines the guidelines for the internal control and risk management system, in such a manner as to ensure that the main risks to which the Company and its subsidiaries are exposed are correctly identified and monitored in accordance with sound management practices.

Due to the changed size and structure of KME Group and the emphasis on the holding of the equity investments, the internal control function underwent reorganization which was concluded with the outsourcing of that task, entrusted to a party with adequate professionalism and experience.

On June 8, 2021, the Board of Directors, with the favourable opinion of the Control and Risk Committee and after consulting with the Board of Statutory Auditors, assigned the internal audit engagement for the years 2021-2023 to Operari S.r.l., which already supports the Company in audits of the procedures set forth under Italian Law 262/2005.

The head of this function is Vittorio Gennaro, Partner and Managing Director of Operari S.r.l., already appointed as the third member of the Supervisory Board pursuant to Italian Legislative Decree 231/2001 as well.

d) <u>Organizational Model pursuant to Italian Legislative Decree 231/2001</u>

The Company has adopted an "Organization and management model pursuant to Legislative Decree 231/01" (the "Model"), which is updated in accordance with the amendments made over time to the reference law, taking into account the prevention of crime risks in the sensitive areas of the Company's operation (referring in particular to corporate crimes and market abuse).

The Model was most recently updated by the Board of Directors on March 28, 2023, so as to take into account the new regulations introduced since its previous revision and the changed company organization.

The Model consists of the following parts:

- *"General Part"*, which illustrates the content of Italian Legislative Decree 231/2001, the function of the organization, management and control model, the duties of the Supervisory Board, the disciplinary system and, in general, the principles, logics and structure of the Model itself;
- "*Special Parts*", which refer to the specific types of crime analysed and the sensitive activities identified, in order to prevent the crimes set forth in Italian Legislative Decree 231/2001; these special parts specifically regard: crimes in relations with the Public Administrations; crimes on occupational health and safety; corporate crimes; crimes of corruption between private parties; the crimes of market abuse and manipulation; the crimes of receiving, laundering and using money from unlawful activity; cyber crimes;
- Code of Ethics;
- the annexes referred to in the individual parts.

The rules set forth in the Model apply to everyone who carries out, even de facto, management, administration, direction or control functions in KME Group, their subordinates, both employees and associates, as well as all consultants, agents, attorneys-in-fact and, more generally, third parties who act even de facto on behalf of the Company, within the limits of the powers assigned to them and relating to the scope of activities identified as "at risk".

The Board of Directors also appointed a Supervisory Board with autonomous powers of initiative and control with the function of supervising the effectiveness and updating of the model and/or its constituent elements.

The Supervisory Board should in particular:

- verify the effectiveness, consistency and adequacy of the Model adopted, proposing to the responsible corporate functions any necessary amendments and additions;
- report to the Board of Directors at least on an annual basis, concerning the status of the Model's implementation and functioning;
- promote, in concert with the responsible corporate functions, training/information and internal communications programmes with reference to the Model, standards of conduct and the procedures adopted pursuant to Italian Legislative Decree 231/2001;
- establish internal reporting mechanisms which systematically make information from the various corporate functions available to perform the model validity monitoring function;

- adequately respond to demonstrations of bad conduct, proposing to the responsible corporate functions the application of internal disciplinary systems.

At the date of this Report, the Supervisory Board, appointed by the Board of Directors at its meeting on June 8, 2021, is in office for the years 2021, 2022, and 2023 and consists of two external professionals, Attorney Fabio Ambrosiani (Chairman) and Attorney Elena Pagliarani and the Head of Internal Audit, Mr Vittorio Gennaro.

The Issuer did not take advantage of the right to assign the functions of the Supervisory Board to the Board of Statutory Auditors. Specifically, also considering the current control system implemented by KME Group and best practices on the matter, it is deemed that the duties assigned by law to the Supervisory Board may be more effectively pursued through an ad hoc supervisory board with multiple members with a range of different skills and professional backgrounds, thus making the activities of the Supervisory Board more effective and incisive.

An extract of the Model can be viewed on the website www.itkgroup.it in the profile section.

e) Independent Auditors

Deloitte & Touche S.p.A. (hereinafter referred to as "**Deloitte**") has been appointed to perform the audit, pursuant to articles 155 et seq. of the TUF, of the consolidated and separate financial statements as well as the condensed consolidated half-year report of KME Group S.p.A.

Deloitte is the "Primary Auditor". The current mandate was approved by the Shareholders' Meeting on May 31, 2016 at the recommendation of and for the reasons cited by the Board of Statutory Auditors, and will end with the financial statements as of and for the year ending December 31, 2024.

The person in charge of the mandate for the Independent Auditors is Giuseppe Avolio. Article 17, paragraph IV of Italian Legislative Decree no. 39 of January 27, 2010 (the "**Consolidated Audit Law**") sets the maximum duration for such an office at 6 financial years.

The total fees paid by the Company in 2022 amounted to € 311 thousand.

Also in 2022, the total fees paid at the level of the subsidiaries were € 1,459 thousand.

During the Financial Year the Independent Auditors and firms belonging to the same network were assigned further mandates by KME and its subsidiaries, amounting to € 68 thousand.

Please refer to the notes to the separate financial statements relating to the Financial Year in question for further information.

As part of its supervisory duties, the Board of Statutory Auditors is also responsible for monitoring the independence of the Independent Auditors.

f) Manager in charge of Financial Reporting and other corporate roles and functions

In its meeting on May 14, 2013, the Board of Directors, based on the favourable opinion of the Board of Statutory Auditors, appointed the Administrative Director Giuseppe Mazza in consideration of the professional requirements, characteristics and skills he offers, granting him the appropriate powers and means to exercise the duties assigned to him as the new Manager in charge of Financial Reporting.

In its meeting of June 8, 2021, the Board of Directors renewed the term of office of Giuseppe Mazza.

The term of office is the same as that for the Board of Directors, in other words until the date of the Shareholders' Meeting convened to approve the financial statements as of and for the year ending December 31, 2023.

The Manager in charge of Financial Reporting provides periodic reports to the Director in charge, the Control and Risk Committee and the Board of Statutory Auditors on his work and has an ongoing relationship with the Independent Auditors.

g) Coordination between the individuals involved in the internal control and risk management system

The sharing of information generated in the various areas of activity is ensured through a structured information flow which all individuals with duties within the internal control system and the risk management system can actively participate in, including insofar as the functions carried out by the Control and Risk Committee, the Board of Statutory Auditors and the Director in charge.

This information flow will be coordinated on the occasion of the meetings of the Control and Risk Committee, which all involved corporate functions participate in.

To this end, we note the activity of the Manager in charge of Financial Reporting who, together with the Chairman, provides the certification required by paragraph 5 of article 154-bis of the TUF.

10. Interests of directors and related party transactions

The Directors with powers report to the Board of Directors and the Board of Statutory Auditors on transactions with reference to which they have a personal interest, not necessarily in conflict with the interests of the Company.

The Procedure applicable to related party transactions (hereinafter the "**Procedure**"), adopted in March 2003, was updated several times over the years, the last time being on July 1, 2021.

This procedure takes Consob recommendations into account, substantiates the statutory regulation and is compliant with the relevant Regulation adopted by Consob with its resolution no. 17221 of March 12, 2010 (hereinafter the "**Related Parties Regulation**") which requires, in particular, that related party transactions, whether carried out directly or through subsidiaries, must take place in compliance with the principles of:

- transparency;
- correctness in substance;
- correctness in procedures.

The Board of Directors believes that these procedures are sufficient to manage any conflicts of interest.

Here below are the most important provisions of the Procedure whose unabridged version is available in the specific section of the Company's website https://www.itkgroup.it/assets/files/tb/file/particorrelate/proc_parti_corr_300621.pdf.

The related parties are those which are defined and indicated by CONSOB.

The Directors and the Statutory Auditors of the Company and its subsidiaries, as identified above, where they have an interest in a transaction, either on their own behalf or on that of third parties, shall inform the Board of Directors, in the person of its Chairman, detailing its nature, terms, origin and extent. Those Directors who have such an interest are also obliged to abstain from voting on the issue and they shall not participate in the related discussion, except in the case where a different and unanimous resolution is passed by the Board of Directors on the issue.

An internal procedure is envisaged to draw up, manage and maintain the list of related parties which is updated every six months taking into account the information received from the Directors and the Statutory Auditors, as well as from the other key management personnel.

Group subsidiaries are required to comply with the Procedure, where applicable, and ensure the flow of information to the Company.

"Related party transactions" means any transfers of resources, services or obligations between related parties, regardless of the fact that the action has been carried out for a consideration.

This includes:

- merger, demerger or strictly non-proportional demerger transactions, if carried out with related parties;
- any decision on the allocation of remuneration and economic benefits, in whatever form, for members of the administrative and control bodies and key management personnel.

In compliance with the CONSOB Regulation and its annexes, transactions are divided into:

- transactions of greater importance;
- transactions of lesser importance;

- regulations-exempt transactions.

The Control and Risk Committee, to which the functions of the related parties committee are assigned:

- oversees that the procedures regarding related party transactions comply with the applicable legislative and regulatory measures as well as their observance;
- provides the Board of Directors with its opinion regarding the Company's interest in undertaking related party transactions as well as regarding the cost-effectiveness and correctness in substance of the related conditions.

Regarding transactions of greater importance, the Committee must be involved already in the negotiation and examination stages through the complete and prompt receipt of all the related information.

The Committee has the discretionary power of requiring information and making its comments to the delegated bodies and the parties assigned to carry out the related negotiations, as well as being assisted by its own independent experts, at the Company's expense, for the purpose of evaluating the characteristics of the transaction.

The resolutions of the Committee are validly passed by majority and specific alternative procedures are envisaged for transactions in which members of the Committee are related parties.

The minutes of the Committee meetings are taken by the Secretary to the Board of Directors and, where applicable, shall contain the reasons of the Company's interest in carrying out the transaction, as well on the basic appropriateness and correctness of the related conditions.

Transactions of a greater importance are submitted for the prior approval of the Board of Directors that passes resolutions on the issue in compliance with the procedures laid down by article 19 of the Articles of Association, after having heard the reasoned opinion of the Control and Risk Committee on the Company's interest in carrying out the transaction, as well as on the basic appropriateness and correctness of the related conditions.

The Committee's opinion is binding, i.e. transactions of a greater importance that have not had prior approval from the Committee cannot be carried out by the Board of Directors.

If the Board of Directors intends to carry out such a transaction without prior approval, it shall convene an ordinary Shareholders' Meeting, without delay, putting the approval of said transaction on the meeting agenda. The Shareholders' Meeting passes valid resolutions on the issue with the majorities laid down by the Articles of Association.

The transaction is held to be not approved and, therefore, cannot be carried out, only if the majority of the voting non-related shareholders cast their votes against the transaction and if the non-related shareholders present at the Shareholders' Meeting represent at least 10% of the share capital with voting rights.

The transactions of lesser importance referred to in article 11 of the Internal Regulation are examined and resolved upon by the competent Company body in accordance with the related procedures currently in force.

According to the Procedure, the Chairman and, in the case of his absence or impediment, or as a matter of urgency, each Deputy Chairperson and as long as they, individually, have no conflict of interest regarding the transaction in question, have the power to approve related party transactions of the Company and its subsidiaries for an amount not exceeding € 5 million.

Furthermore, the corresponding transactions of an amount in excess of € 5 million as well as those of a lesser amount for which a conflict of interest situation exists involving both the Chairman and the Deputy Chairpersons concurrently, must be submitted for the prior approval of the Company's Board of Directors.

In both cases, transactions must be submitted for the prior, non-binding and reasoned opinion of the Control and Risk Committee regarding the interest in carrying out the transaction, as well as regarding the basic appropriateness and correctness of the related conditions.

For transactions that require decisions that can be made only by the Chairman (or the Deputy Chairpersons) on which the Committee has expressed a justified negative opinion, the Chairman will inform the other members of the Board of Directors without delay. Each one of the non-executive members of the

Board of Directors, excluding the members of the Control and Risk Committee, has the faculty to call a meeting of the Board, within three days, for the purpose of passing a resolution regarding the approval of this type of transactions.

The Internal Regulation is not applicable to the following:

i. resolutions regarding the compensation of those Directors vested with special duties, which fall within the total amount approved, in advance, by the Shareholders' Meeting pursuant to article 2389, paragraph 3, of the Italian Civil Code;

ii. other transactions lower than € 100,000.00 with natural persons and no higher than € 500,000.00 (in both cases the amounts are understood to be on an annual basis and therefore can be cumulative) with other entities;

iii. the so called "Remuneration plans", based on financial instruments approved by the Shareholders' Meeting pursuant to article 114-bis of the TUF and the related executive transactions;

iv. resolutions regarding the remuneration of Directors vested with special duties, other from those in point 1 above, but only in the case where the conditions laid down by the measures regarding this issue as set out in article 13, paragraph 3, letters a) and b) of the Related Parties Regulation are observed;

v. ordinary transactions finalised at conditions equivalent to normal market conditions, or standard practice;

vi. transactions with, or between, subsidiaries, as well as transactions with associates as long as, within such subsidiaries or associates there are no interests, qualified as significant pursuant to the Internal Regulation, of other related parties of the Company.

Since transactions of greater importance are not subject to preparation of the "Information Document" pursuant to the applicable provisions, the Company shall:

i. communicate to CONSOB, within the timeframes laid down by the applicable measures, the name of the party involved, the subject and the amount of the transactions;

ii. show in the Interim and Annual Reports on Operations which transactions, subject to disclosure obligations, have been finalised while taking advantage of the exclusion condition.

In order to assess the non-applicability of the Internal Regulation, the following shall not be considered to be "significant interests":

i. the mere sharing of one or more directors, or key management personnel, between the Company and its subsidiaries and associates;

ii. the existence of relations of an equity nature, excluding those referred to in the following point 3 and, in general, those arising from the remuneration of key management personnel that is no greater than € 200,000.00, calculated also cumulatively on a yearly basis, between subsidiaries and associates, on the one hand, and other related parties of the Company, on the other hand, and that, in any case, impact, or are impacted by, the transaction in question;

iii. the existence of Incentive Plans based on financial instruments or, in any case, on variable remuneration, which depend upon the results achieved by the subsidiaries or associates with which the transaction has been carried out and whose beneficiaries are Directors or key management personnel, also of the Company, and when the transaction in question is less than 5% of the results achieved by the subsidiaries and associates, on which the incentives are calculated;

iv. when the party that controls the Company holds investments in the subsidiary or associate, if the effective weight of that equity investment is not higher than the effective weight of the equity investment owned by the same party in the Company.

Should a series of similar transactions be carried out with specific categories of related parties within the same year, they can all be authorized by the Board of Directors by means of a "Framework Resolution".

The Company supplies information, in its Interim and Annual Reports on Operations, as required by article 154-ter of the TUF, regarding the following issues:

i. on the individual transactions of greater importance finalised during the reporting period;

ii. on any other individual related party transactions, as defined pursuant to article 2427, paragraph 2, of the Italian Civil Code, also finalised during the accounting period, which have had a relevant impact on the financial position or on the results of operations of the Company;

iii. on any change or development regarding related party transactions, which were described in the last Annual Report and that have had a relevant impact on the financial position or on the results of operations of the Company, during the accounting period.

In the case of a negative opinion by the Committee regarding a transaction of lesser importance, the Company shall make publicly available, within 15 days from the closing date of each quarter of the financial year and in compliance with the conditions, terms and methodologies of the CONSOB Regulation, a "Document" containing the description of the aforesaid transaction.

On a quarterly basis both the Board of Directors and the Board of Statutory Auditors shall receive from the Executive Directors of the Company, a specific information report regarding related party transactions that are not subject to the prior approval of the Board of Directors.

The information report must explain the nature of the relationship, the conditions, specifically the economic conditions, the methodologies and the timeframes for the completion of the transaction, the evaluation procedure followed, the interest and the reasons underlying it.

Furthermore, a specific information document regarding performance of those transactions that have had the prior approval of the Board of Directors, also through "Framework Resolutions", shall also be supplied.

When transactions of greater importance take place, also when carried out by Italian and foreign subsidiaries, pursuant to article 114, paragraph 5, of the TUF, an "Information Document" is drawn up in compliance with Annex 4 of the Related Parties Regulation, and is attached to the Internal Regulation as letter c) forming an integral part of such Regulation.

The Board of Directors will periodically check the effectiveness of the procedure that has been put in place and, in any case, is charged with reviewing it together with the Board of Statutory Auditors every three years, without prejudice to the possibility of promptly making amendments, for the purpose of ensuring the highest possible level of efficiency of such Regulation.

Articles 10 (Calling Shareholders' Meetings) and 14 (Management of the Company) of the Articles of Association allow the Board of Directors to carry out related party transactions immediately, in accordance with the terms provided in the Related Parties Regulation, if it is urgent and does not require submission to the Shareholders' Meeting for approval.

If the transaction is then carried out by a subsidiary, the Board of Directors must be informed at its next meeting following the transaction under review. In addition, in case of transactions of an urgent nature and which are connected to critical situations in the Company requiring submission to the Shareholders' Meeting for approval, the transaction may be carried out by the Board of Directors by way of exception to the relevant provisions, provided that, at the subsequent Shareholders' Meeting called to pass resolutions on this issue, the provisions for such situations of the Related Parties Regulation are applied.

11. Board of Statutory Auditors

a) <u>Appointment of Statutory Auditors</u>

The Board of Statutory Auditors oversees compliance with the law and the Company Articles of Association with respect to good governance and, particularly, the adequacy of the organizational, administrative and accounting structure of the Company and as it actually functions.

Article 22 of the Articles of Association, which is entirely dedicated to the Board of Statutory Auditors, sets out the requirements of personal integrity and professionalism for its members as well as the procedure for their appointment which includes:

- the submission of a list for the appointment and the curriculum vitae of each candidate at least 25 days before the Shareholders' Meeting on first call and so made available at least 21 days before at the Company offices, on the Company's website and through Borsa Italiana SpA. The list must be accompanied by information on the identity of the shareholders that present it, the overall relevant proportion held and a declaration by shareholders other than those who hold, including jointly, controlling interest or plurality interest, confirming the absence of connected relations. It must furthermore contain exhaustive information on their personal and professional characteristics, together with a declaration that they accept the candidacy.
- if only one list or lists that are linked in accordance with current regulations have been submitted within this deadline, other lists may be filed up to the third day after the deadline for submission at the registered office. In this case, the threshold is reduced by one half;
- the presence in the list of one Alternate Auditor designated by minority Shareholders as a substitute, if required, for the Auditor also selected from a non-controlling shareholder list, should the latter no longer be in office;
- in the event that two or more lists obtain the same number of votes, the auditors in the list submitted by the Shareholder with the largest shareholding or, subordinately, the highest number of Shareholders, shall be deemed elected;
- shareholders who, alone or together with others, hold an equity investment, in ordinary shares, equal to the highest percentage identified in article 147-ter, paragraph 1 of the TUF, in respect of the provisions issued by Consob, can submit lists. Based on article 144-quater, paragraph 2 of the TUF, the applicable percentage is 2.5% of the ordinary capital pursuant to the provisions set forth by Consob with its determination no. 76 of January 30, 2023;
- lists with a total number of candidates equal to or higher than three must be composed of candidates which belong to both genders, so that a number of candidates at least equal to what is set forth by laws and regulations applicable over time belong to the least represented gender (rounded up). This applies to Standing as well as Alternate auditors;
- in the event of the replacement of an Auditor, the replacing Alternate Auditor must belong to the same list as the departing Auditor, pursuant to the gender balance laws applicable from time to time.

In particular, it is noted that in accordance with articles 148-bis of the TUF and 144-terdecies of the Regulation, Statutory Auditors may not hold more than five positions as Statutory Auditor in issuers.

The provisions of the Articles of Association relative to the appointment of the Board of Statutory Auditors are available in the specific section of the website https://www.itkgroup.it/it/statuto and we reiterate that the procedure has been updated and made compliant with the new applicable provisions, the latest based on the resolution of the extraordinary Shareholders' Meeting held on November 30, 2020.

b) Composition and operation of the Board of Statutory Auditors (pursuant to article 123-bis, paragraph 2, letter d) and d-bis), of the Consolidated Law on Finance (TUF))

The current Board of Statutory Auditors was appointed by the Shareholders' Meeting of June 8, 2021 for the financial years 2021, 2022, and 2023 and will therefore expire at the Shareholders' Meeting called to approve the financial statements as of December 31, 2023.

In compliance with the procedure referred to in article 22 of the Articles of Association, the following lists were presented:

- Majority List presented by the majority shareholder Quattroduedue S.p.A. (holding 46.97% of the ordinary share capital);
- Minority list presented by the shareholders Alberto Previtali and Daniela Guatterini (owners overall of 4.53% of the ordinary capital).

The Shareholders' Meeting approved the Quattroduedue S.p.A. proposal by majority vote, with 340,845,692 votes in favour, equal to 89.524% of the shares represented at the meeting and 61.661% of the shares with voting rights; the minority list obtained 39,885,985 votes in favour, equal to 10.476% of the shares represented at the meeting and 7.216% of the shares with voting rights.

It should be noted that the following were appointed from the list submitted by a non-controlling Shareholder (which, pursuant to article 22 of the Articles of Association, would be the highest in accordance with articles 147-ter, paragraph 1 of the TUF and 144-quater of the Issuers' Regulation), the Chairman of the Board of Statutory Auditors, Silvano Crescini and the Alternate Auditor, Cristina Sorrentino.

It is hereby noted that this composition is compliant with the provisions regarding the "gender quotas" due to the presence of the Standing Auditor, Giovanna Villa and the Alternate Auditors, Elena Beretta and Cristina Sorrentino.

The names of all members of the Board of Statutory Auditors in office during 2022 are listed in the attached Table 14a. A brief curriculum vitae of each of them is available in the appropriate section of the website https://www.itkgroup.it/it/organizociali.

* * *

As far as the Company is aware, none of the members of the Board of Statutory Auditors has, in the past five years, been found guilty of fraud nor, in the performance of their duties, has been associated with bankruptcy proceedings, extraordinary administration or compulsory administrative liquidation, nor, finally, has he/she been formally indicted or sanctioned by public or regulatory authorities (including professional associations) nor has he/she been prohibited by a court from membership of a Board of Directors, management board or supervisory board of the Company or engaging in the management or administration of any issuer.

On appointment to the Board of Statutory Auditors, each member stated that he/she is in possession of the professionalism and integrity requirements required by regulations and the Articles of Association and that he/she is not subject to any of the impediments listed in article 148 of the TUF and undertakes to notify the Company within 30 days of any changes.

The Board of Directors and the Board of Statutory Auditors verify every year that each of their members still qualifies as independent in accordance with the law and article 2, Recommendation 6 and 9 of the Code.

These verifications in 2022 involved the position of Statutory Auditors Marco Lombardi and Elena Beretta as they sit, as Standing Auditors, on other Boards of Statutory Auditors belonging to other Group companies and investees as listed below.

To this end, it is considered that these situations do not limit their independence due to their personal characteristics and as such do not represent "significant" professional relations in the overall context of their activities.

The Board of Statutory Auditors announced the findings of the verification that was also conducted for the purposes of article 149, paragraph 1, letter c-bis of the TUF requiring supervision of the actual implementation of the Code.

Other positions as Board Directors and Statutory Auditors held by the Company's Statutory Auditors at other companies and in the Group are shown in Table 14b, attached to this Report, and were provided to the Shareholders' Meeting when the Statutory Auditors were appointed.

Their current number and relevance for each Auditor are below the thresholds envisaged by CONSOB and the aforementioned ethical conventions.

The Board of Statutory Auditors carries out functions and responsibilities according to the Italian Civil Code.

Pursuant to article 2402, paragraph 1, of the Italian Civil Code, the Board of Statutory Auditors oversees compliance with the law and the Articles of Association with respect to good governance and, particularly, the adequacy of the organizational, administrative and accounting structure of the Company and as it actually functions.

The Board of Statutory Auditors regularly carries out its activities and constantly takes part in the meetings of the Board of Directors and the other Committees, coordinating its activities with the internal audit function in particular, and with the Control and Risk Committee. Furthermore, the Board of Statutory Auditors has over time acquired, developed and maintained on the occasion of the changes in its membership, the possibility of constantly being in contact with the offices of the Company which it contacts directly and in full independence.

Its relationship with the Independent Auditors is collaborative and entails the exchange of data and information.

Furthermore, in this context, the Board of Statutory Auditors monitors the independence of the Independent Auditors.

In accordance with the provisions on remuneration, payments made to the Statutory Auditors are shown in the table drawn up in accordance with CONSOB provisions (or "Model 1" of Annex 3C of the Issuers' Regulation) contained in the Report on Remuneration; they have been deemed to be commensurate with the commitment required, the relevance of the role held, the size of the Company and the sector in which it operates.

During the Financial Year, the Board of Statutory Auditors met 11 times (7 in 2021); participation in the meetings by the members was 97% (95% in the previous year). The average duration of the meetings of the Statutory Auditors was approximately 2 hours.

During this year, the Board of Statutory Auditors met once.

During the Financial Year, at least two members of the Board of Statutory Auditors participated in all the meetings of the Control and Risk Committee.

Participation in these meetings also provides the opportunity for coordinating information flows to the extent of the respective functions and activities of the Board itself, the Head of Internal Audit, the Director in charge, the Independent Auditors and the Executive Managers of the Company.

As mentioned elsewhere in this Report, the Company has not adopted policies to ensure diversity of the composition of its control bodies, as each individual chosen to fulfil these roles is assessed at nomination in relation to his or her education and experience.

12. Investor Relations

At all Shareholders' Meetings, the relevant documentation is made available to all shareholders on the website. The quality and timeliness of public announcements, which are fundamental for the provision of information to Shareholders and the market, have been assured also through the development and use of the website https://www.itkgroup.it/it.

Up to November 30, 2012, the company's website www.kme.com contained legal and financial information about the company (KME Group S.p.A.) as well as information on the business and products of the Group's industrial companies.

On December 1, 2012, following the change of the name to Intek Group, the Company adopted a new website https://www.itkgroup.it/it, to which visitors to the website www.kme.com, which now contains only information about the industrial operations of the investee company KME SE, and the website www.itk.it, are directed.

Access to the site is unrestricted and all information can be easily found, with the most recent pieces of news being highlighted. In particular, the reference to the web page containing the information is properly specified.

The site is updated as and when information is released through the electronic system which, up to May 28, 2012, consisted of the NIS (Network Information System) managed by Borsa Italiana S.p.A., and then by the "SDIR/NIS".

From that date, following the implementation of Directive 2004/109/EC (the "Transparency Directive"), CONSOB, with resolution no. 18159 of April 4, 2012, amended the previous situation, authorizing the operation of the system for the disclosure of regulated information now named "eMarketSDIR". The use of this service is signalled on the homepage of the Company's website.

The system allows disclosure to the public of press releases issued by the Company by sending them to the press agencies connected to the system, as well as to Borsa Italiana S.p.A., which in turn publishes a notice containing them, and to CONSOB.

The site reports historical, documentary, accounting and financial information (annual, half-year and quarterly financial statements, and other statements and documents produced over time) as well as information on corporate events (e.g., annual calendar of corporate events, corporate governance and Report on Remunerations, terms and conditions for the exercise of rights, details regarding the calling of meetings and how to participate in them, the procedures for the appointment of the Board of Directors and the Board of Statutory Auditors).

There is a section on the website dedicated to stock market information, displaying the real-time market prices of all the financial instruments issued by the Company, together with the relevant charts.

A large section of the website is dedicated to corporate governance (corporate bodies, characteristics of securities issued, Regulations for bonds, Internal Codes and Procedures, minutes of the Shareholders' Meetings), with specific areas dedicated to any extraordinary transactions underway.

A considerable amount of information is also available in English, particularly press releases, financial statements and interim reports.

During 2022, the website www.itkgroup.it, which is available in Italian as well as in English, had over 290 thousand hits by over 266 thousand visitors with over 696 thousand pages viewed. The peak of access to the site is concentrated in September and November 2022.

It is possible to send requests to the Company by e-mail at investor.relations@itk.it.

The information role of investor relations is performed by the individual company units for their respective areas of expertise.

This decision takes account of the current internal resources and structures of the Company and ensures that information is provided as and when required.

For each Shareholders' Meeting, the website includes a specific section where it is possible to find all the documentation on the items on the Agenda as well as on how ordinary Shareholders can participate in the relevant Meetings, as required also by article 125 quater of the TUF.

A similar initiative was taken for the holders of saving shares, as well as holders of bonds.

The Board of Directors believes that a website accessible without restrictions and updated in a timely way improves and enhances the quality and quantity of information about the Company and the Group, thereby providing the Shareholders, as well as the holders of other financial instruments issued by the Company and the market, with a crucial instrument for assessing the company and its initiatives.

The speed and procedures with which the information regarding the transactions that took place during 2020 were made available confirmed the soundness of this choice and the intention to increasingly focus in the future on communication, as well as organizing and updating the Company's website, an element that is becoming more and more strategic, in order to allow everyone, without any restrictions, to find information about the Company as broadly and fast as possible.

By virtue of the measures thus adopted which makes it possible to provide easily accessible information and the contained size of the Company, a special structure in charge of managing shareholder relations has not been established, as the information provided by the administrative offices of the Company which are from time to time put in charge of requests from the shareholders has been effective to this end.

The website will be updated as a result of the changed strategic orientation.

13. Meetings (pursuant to article 123-bis, paragraph 2, letter c), of the Consolidated Law on Finance (TUF))

The Shareholders' Meeting's powers and responsibilities are those set out in the Italian Civil Code and the TUF.

The implementation of EU Directive no. 36/2007, commonly known as the "Shareholders' rights directive", has profoundly changed the provisions regarding the involvement of Shareholders in the activities of listed companies. Additional changes were introduced by Italian Legislative Decree no. 91 of June 18, 2012, as subsequently amended.

The Shareholders' Meeting now consists of those who have voting rights and whose communication, sent by authorized intermediaries, has reached the Company, pursuant to the provisions in force, on the basis of the accounting records relating to the end of the accounting day on the seventh day of trading prior to the date set for the Shareholders' Meeting on first call, and which has reached the Company within the legal deadlines.

The resulting changes have already been introduced in the Articles of Association and internal procedures, and are aimed at confirming and ensuring equality of treatment to all the Shareholders in the same position as regards their participation and the exercise of the right to vote at Shareholders' Meetings.

The Articles of Association (articles 2 and 14) empower the Board of Directors to determine the registered and any secondary offices, to approve mergers and demergers of subsidiaries, to reduce share capital in the event of a withdrawal by a Shareholder and to comply with new regulatory provisions and to retain authority over particular cases regarding related party transactions, naturally in compliance with the exceptions allowed by the laws in force.

It should be noted that according to article 10 of the Articles of Association, the Shareholders' Meeting shall be convened through specific notice published on the Company's website, and in the Official Gazette when required, but that it has also been decided to still publish the related notice in a newspaper (currently: "Il Sole 24 Ore" - "MF/Milano Finanza" - "Italia Oggi"), also in an abridged form.

During 2012, as part of the aforementioned provisions, the provisions of article 125-bis of the TUF regarding the preparation of Shareholders' Meetings notices were further amended.

In any case, it should be noted that the website www.itkgroup.it contains a specific area dedicated to corporate governance, which is constantly renewed and updated. For the Shareholders' Meetings, part of the website has been dedicated to the related documentation, including not only the documentation on the items on the Agenda but also that for the exercise of Shareholders' rights as envisaged by article 125-quater of the TUF, such as, for example, the form for proxy voting, the documentation for the appointment of the Appointed Representative, and that for voting by correspondence. The procedures to ask questions during a Shareholders' Meeting and how to ask for additions to be made to the Agenda are shown in the same area.

With respect to provisions relating to the submission of shares for participation in the Shareholders' Meeting, article 11 (Attendance and representation at Shareholders' Meeting) of the Articles of Association implements the "record date"; in practice participation in the Shareholders' Meetings is now connected to the accounting entries as of the seventh day of trading prior to the date set for the Shareholders' Meeting on first call.

Pursuant to the new rules regarding the Shareholders' Meetings, the provisions were extended also to the Special Meetings of holders of other financial instruments issued by the Company which are traded on a regulated market, and therefore to holders of savings shares and bonds.

The provisions regarding the issue of proxies and their electronic notification which are also contained in article 11 of the Articles of Association are also worth noting. The above-mentioned article in the Articles of Association also includes the provisions on how to exercise the vote by correspondence.

The other methods of participating in Shareholders' Meetings are contained in article 10 (Calling of Shareholders' Meetings) of the Articles of Association, particularly with reference to the protection of minority shareholders with respect to the appointment of Directors and Statutory Auditors.

As a departure from the Code, the Company has decided to do without specific "Shareholders' Meeting Regulation" due to the existence of the provisions of Chapter III of the Articles of Association, available on the Company's website https://www.itkgroup.it/it in the Profile/Articles of Association section.

Greater details on participation at the specific meeting and the right to ask questions can be found in the Governance/Shareholders' Meetings section with reference to upcoming Shareholders' Meetings.

Within this framework, article 12 (Chairmanship of the Shareholders' Meeting) of the Articles of Association expressly requires the Chairman of the Shareholders' Meeting to ensure the correctness of the proceedings by directing and regulating discussions and limiting the length of individual contributions.

Owners of saving shares or bonds are not entitled to participate in the meetings of the holders of ordinary shares.

Each share carries unrestricted voting rights (one vote per share) unless otherwise provided by law.

The extraordinary Shareholders' Meeting of June 19, 2015 introduced articles 11-bis, 11-ter and 11-quater, establishing the increased voting right for Shareholders that are eligible pursuant to the requirements set by the law that so request by registering the in the special register that the Company has established. Two shareholders are currently registered.

During the 2022 financial year, the following shareholders' meetings were held:

- on May 9, 2022, the Ordinary Shareholders' Meeting to approve the financial statements as of December 31, 2021 and the Report on Remuneration relating to that year;
- on June 16, 2022, the Ordinary and Extraordinary Shareholders' Meeting for the approval of the resolutions functional to the already described Exchange Offers (Authorization to purchase the ordinary and savings shares and the warrants used in subscription to the aforementioned offers, with their consequent cancellation), amendments to Articles 1, 5, 8, 10, 11-bis, 12, 18, 19, 23, 24, 26 and 28 of the Articles of Association, reduction of share capital pursuant to Articles 2445 of the Italian Civil Code without cancellation of shares.

In 2023, at the date of this Report, no meeting has been held yet.

Unless otherwise provided by the applicable legislative provisions, the Articles of Association shall not be amended unless approved by the Shareholders' Meeting in the manner, quorums and with the majority prescribed by law.

The Articles of Association contain provisions for the protection of the non-controlling Shareholders in regard to the convening of the Shareholders' Meeting and additions to its Agenda (article 10), appointment of the Board of Directors (article 17) and the Board of Statutory Auditors (article 22), in relation to the possibility of collecting voting proxies and the right to vote by correspondence (article 11) and the disclosure obligations of the Executive Directors to the other directors and the Board of Statutory Auditors (articles 14 and 18) and the Common Representative of Savings Shareholders (article 26).

In particular, Articles 17 (Appointment and composition of the Board of Directors, and duration of the office of its members) and 22 (Board of Statutory Auditors) were amended in 2007, with the introduction of the voting list method for minorities and in 2014 and 2020, by adaptation thereof to the regulations on gender balance insofar as the composition of the administration and control bodies, as introduced by Italian Law 120/2011.

Furthermore, articles 5 and 13 of the Articles of Association which respectively establish the right to request the identification of shareholders (art. 83-duodecies of the TUF) and entitle shareholders to submit questions prior to the Shareholders' Meetings (article 125-bis, para. 4. b), no. 1) of the TUF) are to be noted.

It should be noted that the provisions which became effective in 2012 require that the notice indicate the deadline by which questions can be put forward prior to the meeting, and that this deadline cannot be earlier than three days prior to the Shareholders' Meeting on the first or single call or five days if the notice provides for that the Company will give a response prior to the meeting. In this case, the answers must be provided at least two days prior to the meeting, including through publication in the special section of the Company's website.

Legitimacy of asking questions is the responsibility of the individuals with the voting rights and not the shareholders.

Additions to the Agenda and presentation of new resolution proposals

Article 10 of the Articles of Association highlights, in compliance with article 126-bis of the TUF, that shareholders who represent at least one fortieth of the share capital may ask, within 10 days of publication of the Shareholders' Meeting notice, for an addition to the list of items to be addressed. The request must be presented in writing and must contain an indication of the items to be addressed.

Agenda items may not be added with respect to issues on which Shareholders resolve as per the law, upon proposal by Directors or based on a project or report put forward by Directors, other than those specified in article 125 ter, paragraph 1 of the TUF.

Following the 2012 amendments, this provision was extended in order to allow Shareholders with a similar stake, again within 10 days of publication of the notice and according to a procedure similar to that provided for the addition to the Agenda items, to put forward resolution proposals on issues already on the Agenda.

In any case, any persons with voting rights can individually put forward resolution proposals to the Shareholders' Meeting.

Pursuant to the law, the requests for additions and/or submission of a new resolution proposal shall be made using that same procedures as provided for the convening of the Shareholders' Meeting at least fifteen days prior to the date set for the meeting, making the Report available to the shareholders, accompanied by any assessments by the Board of Directors.

Request to call Shareholders' Meeting

Article 10 of the Articles of Association, in accordance with the provisions of article 2367 of the Italian Civil Code, provides that Shareholders who represent at least one twentieth of the share capital in terms of ordinary shares can ask the Chairman of the Board of Directors to call a Shareholders' Meeting.

The request shall be made by registered letter and shall contain the list of the items to be included in the Agenda and the detailed list of those requesting the meeting, together with a copy of the suitable communication issued by the authorized intermediaries who certify ownership of the shares and their number.

14. Other corporate governance issues

The Issuer, aside from the Organizational Model pursuant to Italian Legislative Decree 231/2001 and the accounting control procedures illustrated in Section 11 of the Report, does not adopt corporate governance practices other than those set forth in legislative and regulatory standards.

15. Changes after the year end

As of the end of the Financial Year, there were no changes in the corporate governance structure other than those indicated in the specific sections.

16. Considerations on the letter from the Chairman of the Corporate Governance Committee of January 23, 2023

During the meeting of March 28, 2023, the aforementioned Letter from the Chairman of the Committee containing the aforementioned Recommendations was brought to the attention of the Board of Directors.

In this regard the Company considers, with reference:

i. **to the dialogue with the shareholders**, to have verified that the current structure of the investor relater function has proved to be suitable and sufficient to fulfil, within the limits permitted by law and company policies, the disclosures and clarifications requested by the shareholders;

ii. **to the dialogue with other relevant stakeholders**, that the adopted information system is mainly focused on the constant updating of the contents of the website;

iii. **to the assignment of management powers to the Chairman**, to have provided suitable indications in the dedicated section of this Report, to which reference is expressly made;

iv. **to the pre-meeting disclosure**, that this requirement has been suitably satisfied by making the documentation relating to each board meeting available in advance;

v. **to the participation of managers in board meetings**, that the limited company structure, in which the management is substantially represented by the executive directors, is correctly pursued;

vi. **to the guidelines on the optimal composition**, that the current composition of the administrative body is optimal in relation to the activities of the Company;

vii. **to the criteria for assessing the significance of the relationship that may affect the independence of the director**, that the emoluments attributed to independent directors, or otherwise different from the executive ones and the absence of other relations with them, do not cover in any respect significant elements such as to be able to influence their independence or autonomy of judgement;

viii. **to the transparency of the remuneration policies on the weight of the variable components**, which as illustrated in the Report on Remuneration (to which reference is made), the policy adopted by the Company adequately responds to the subject covered by the specific recommendation;

ix. **to the long-term horizons in the remuneration policies**, which also in this respect, as illustrated in the Report on Remuneration (to which reference is made), the policy adopted by the Company adequately responds to the subject of the specific recommendation;

x. **to the ESG parameters for the remuneration of directors**, which in this regard, although these parameters are not applicable to the Company for its main financial activity, they constitute a significant element within the group for the structuring of the remuneration policies in the companies with mainly production activity.

Tables

Table 2a: Information on the structure of share capital and on financial instruments

SHARE CAPITAL STRUCTURE			
Shares issued	ISIN Code	No. of utstanding Shares	% of total share capital
Ordinary shares	IT0004552359	306,937,071	95.27%
Unregistered savings shares	IT0004552367	15,246,505	4.73%
Registered savings shares	IT0004552375		
Total shares		322,183,576	100.00%

OTHER FINANCIAL INSTRUMENTS		
	ISIN Code	No. of outstanding instruments
"KME Group S.p.A. 2021-2024" Warrants	IT0005503393	152,527,101
"*KME Group S.p.A. 2020-2025*" Non-convertible Bonds	IT0005394884	4,297,158
"*KME Group S.p.A. 2022-2027*" Non-convertible Bonds	IT0005503393	63,533,259

* * *

Table 2b: Share performance in 2022

PERFORMANCE OF SECURITIES				
	Maximum value		***Minimum value***	
	Month	***Price***	***Month***	***Price***
Ordinary shares	September	0.6541	February	0.3987
Savings shares	August	0.8242	March	0.5497
KME Group S.p.A. 2021-2024 Warrants	September	0.2400	February	0.1079
KME Group SpA 2020-2025 Bonds	January	102.8626	September	97.1207
KME Group SpA 2022-2027 Bonds	December	98.5009	September	90.0729

Investor relations:
phone: 02 806291
FAX: 02 8062940
Email: info@itk.it
Website: www.itkgroup.it

Table 2.3: Significant equity investments (shareholders exceeding 5%)

SIGNIFICANT EQUITY INVESTMENTS			
Declarant	**Direct shareholder**	**% Share of ordinary capital**	**% Share of voting capital**
Quattroduedue Holding B.V.	Quattroduedue S.p.A.	47.46%	63.60%

Table 4.2 a: Structure of the Board of Directors and its Committees

BOARD OF DIRECTORS													CONTROL AND RISK COMMITTEE		REMUNERATION COMMITTEE (***)	
Office	**Members**	**Year of birth**	**Date of first appointment ***	**Serving from**	**Serving until**	**List ****	**Executive**	**Non-Executive**	**Independent as per Code**	**Independent as per TUF**	**Attendance (*)**	**Number of other positions *****	**(**)**	**Attendance (*)**	**(**)**	**% (*)**
Chairman	**Vincenzo Manes**	**1960**	**14.02.2005**	**08.06.2021**	**31.12.2023**	**M**	**X**				***10/10***	***3***		**n/a**	**n/a**	**n/a**
Deputy Chairperson	**Diva Moriani**	**1968**	**27.04.2005**	**08.06.2021**	**31.12.2023**	**M**	**X**				***10/10***	***3***		**n/a**	**n/a**	**n/a**
Deputy Chairperson	**Marcello Gallo**	**1958**	**14.02.2005**	**08.06.2021**	**31.12.2023**	**M**	**X**				***10/10***	***-***		**n/a**	**n/a**	**n/a**
Director	**James Macdonald**	**1951**	**30.04.2013**	**08.06.2021**	**31.12.2023**	**M**		**X**			***10/10***	***4***		**n/a**	**n/a**	**n/a**
Director	**Ruggero Magnoni**	**1951**	**31.05.2016**	**08.06.2021**	**31.12.2023**	**M**		**X**			***10/10***	***7***		**n/a**	**n/a**	**n/a**
Director	**Francesca Marchetti**	**1963**	**08.05.2018**	**08.06.2021**	**31.12.2023**	**M**		**X**	**X**	**X**	***10/10***	***-***	**M**	***3/3***	**n/a**	**n/a**
Director	**Alessandra Pizzuti**	**1962**	**19.06.2015**	**08.06.2021**	**31.12.2023**	**M**		**X**			***10/10***	***-***	**M**	***3/3***	**n/a**	**n/a**
Director	**Maria Serena Porcari**	**1971**	**08.06.2021**	**08.06.2021**	**31.12.2023**	**M**		**X**			***10/10***	***2***		**n/a**	**n/a**	**n/a**

Director	**Alberto Previtali**	**1959**	**08.06.2021**	**08.06.2021**	**31.12.2023**	**m**		**X**			***10/10***	***2***		**n/a**	**n/a**	**n/a**
Director	**Luca Ricciardi**	**1973**	**30.04.2013**	**08.06.2021**	**31.12.2023**	**M**		**X**	**X**	**X**	***10/10***	**-**	**M/C**	***3/3***	**n/a**	**n/a**

Number of meetings held during the Financial Year	***BoD: 10***	***CRC: 4***	***RC: N/A***
Indicate the *quorum* required for presentation of lists by the minority shareholders for election of one or more members (pursuant to article 147-ter of the TUF): 2.5%			

Notes

Attendance at meetings for which minutes were taken is reported in the table. It should be remembered that all the member of the Committees and those invited at the meetings, regardless of whether or not they actually attend, receive documentation and information regarding items on the Agenda with due notice, and take part in their discussion in preparation for the passing of resolutions.

* Date of first appointment for each Director means the date on which the Director was appointed for the first time (in an absolute sense) by the Issuer's BoD.

** This column indicates the list from which each Director was selected ("M" majority list; "m" minority list; "BoD" list presented by the BoD).

*** This column indicates the number of positions as Director or Statutory Auditor held by the person concerned in other companies listed on regulated markets, in Italy or abroad, as well as in financial, banking, insurance or other companies of considerable size. Table 4.2b includes the list of these companies with reference to each Director, specifying whether or not the company in which the position is held is part of the Group of which the Issuer is the parent or part.

(*) This column indicates the attendance of directors at the meetings of the Board and the committees, respectively (no. of attendances/no. of meetings held during the effective term of office of the person concerned).

(**) This column indicates the position of the Director within the Committee: "C" if Chairman; "M" if a member.

(***) The committee is no longer established pursuant to the resolutions of the BoD of June 19, 2015, on May 8, 2018 and June 8, 2021.

Table 4.2 b: Administration and control offices held by the Directors

A table showing positions as Director or Statutory Auditor held by each Director as of December 31, 2022 in other joint-stock companies, partnerships limited by shares and private limited companies, as well as foundations and associations, is set out below.

Name	Company	Office
Vincenzo Manes		
	Nextep S.r.l. Benefit Company (1)	Chairman of the Board of Directors
	Quattroduedue Holding B.V.	Member of the Supervisory Board
	KME SE (1)	Executive Chairman
	Tod's Group (2)	Member of the Board of Directors and the Remuneration and CO/Risk Committees
	Compagnia Immobiliare Azionaria (CIA) S.p.A. (2)	Member of the Board of Directors
	Class Editori S.p.A. (2)	Member of the Board of Directors
	Fondazione Dynamo - Motore di Filantropia	Chairman of the Board of Directors
	Fondazione Dynamo Camp ETS	Chairman of the Board of Directors
	Dynamo Academy S.r.l. Social Company (1)	Member of the Board of Directors
	Fondazione Adriano Olivetti	Member of the Board of Directors
	Fondazione Italia Sociale	Chairman
	Lotteria Filantropica Italia Philanthropic Entity	Chairman
	Fondazione Donor Italia Onlus	Member of the Board of Directors
	Robert Kennedy Human Rights	Member of the Board of Directors

Name	Company	Office
Diva Moriani		
	Nextep S.r.l. Benefit Company (1)	Managing Director
	Dynamo Academy S.r.l. Social Company (1)	Member of the Board of Directors
	KME SE (1)	Executive Vice Chairwoman of the Board of Directors and Chief Transformation Officer (CTO)
	KME Germany GmbH (1)	Chairwoman of the Supervisory Board
	KME Mansfeld GmbH (1)	Chairwoman of the Supervisory Board
	KME S.r.l. (1)	Member of the Board of Directors
	KME Netherlands BV	Chairwoman of the Supervisory Board
	KME Special Products & Solutions GmbH	Director
	Moncler S.p.A. (2)	Independent member of the Board of Directors Chairwoman of the Remuneration and Appointments Committee and member of the Related Party Committee

	Assicurazioni Generali (2)	Independent member of the Board of Directors Chairwoman of the Remuneration and Appointments Committee and member of the Related Party Committee
	CULTI Milano S.p.A. (1)	Member of the Board of Directors
	Fondazione Dynamo - Motore di Filantropia	Member of the Board of Directors

Marcello Gallo		
	Intek Investimenti S.p.A. (1)	Managing Director
	Immobiliare Pictea S.r.l. (1)	Chairman of the Board of Directors
	ISNO 3 S.r.l. being wound up (1)	Liquidator
	Benten S.r.l.	Member of the Board of Directors
	KME SE (1)	Member of the Board of Directors
	KME Germany Bet. GmbH (1)	Member of the Supervisory Board
	KME Italy S.p.A. (1)	Member of the Board of Directors
	Dynamo Academy S.r.l. Social Company (1)	Member of the Board of Directors
	Fondazione Dynamo - Motore di Filantropia	Member of the Board of Directors
	Fondazione Vita	Chairman of the Board of Directors
	Fondazione Dynamo Camp ETS	Member of the Board of Directors
	Fondazione Donor Italia Onlus	Chairman
	Vita Società Editoriale S.p.A.	Senior Deputy Chairman of the Board of Directors
	Lexcapital S.r.l. Benefit Company	Member of the Board of Directors

James Macdonald		
	Hanseatic Americas Ltd	Director
	Hanseatic Europe Sarl	Manager
	Hansabay Pty. Ltd.	Director
	Abolango Stiftung	Director

Ruggero Magnoni		
	Compagnie Financiere Rupert SCA	General Partner and Member of the Board of Directors
	FMSI Social Investment S.r.l. Social Company	Member of the Board of Directors
	IMMSI S.p.A. (2)	Member of the Board of Directors
	Omniainvest S.p.A.	Member of the Board of Directors
	M&M Capital Ltd.	Chairman
	Quattroduedue Holding B.V.	Supervisor Director
	IFM Investors	Senior Advisor to IFM Global Infrastructure Fund
	RFM & Partners S.p.A.	Chairman
	Autostrade Lombarde S.p.A.	Member of the Board of Directors

	Società di Progetto Brebemi S.p.A.	Member of the Board of Directors
	Fondazione Dynamo - Motore di Filantropia	Member of the Board of Directors
	Fondazione Giuliano e Maria Carmen Magnoni Onlus	Founding Member and Chairman
	Fondazione Laureus Sport for Good Italia Onlus	Founding Member and Chairman
	Fondazione Cologni dei Mestieri d'Arte	Member of the Board of Directors
	Trilantic Capital Partners Europe	Senior Advisor and Member of the Advisory Council
	Lehman Brothers Foundation Europe	Trustee

Alessandra Pizzuti		
	KME SE (1)	Member of the Board of Directors
	KME Germany GmbH (1)	Member of the Supervisory Board
	KME Mansfeld GmbH (1)	Member of the Supervisory Board

Luca Ricciardi	-	-

Francesca Marchetti		
	Riantima Immobiliare S.r.l.	Single Auditor

Alberto Previtali		
	Gum Consulting S.p.A.	Member of the Board of Directors
	Diurno S.r.l.	Sole Director

Maria Serena Porcari		
	Fondazione Dynamo - Motore di Filantropia	Managing Director
	Fondazione Dynamo Camp ETS	Managing Director
	Dynamo Academy S.r.l. Social Company (1)	Chairwoman and Managing Director
	CIR S.p.A.	Independent member of the Board of Directors
	CP Energy Crispiano S.r.l.	Member of the Board of Directors
	CP Energy & Finance S.r.l.	Member of the Board of Directors
	Seriousfun Children Network USA	Member of the Board of Directors
	Fondazione Cassa di Risparmio di Pistoia e Pescia	Member of the General Council
	Fondazione Hospice Isabella Seragnoli	Member of the Board of Directors
	Università Commerciale Luigi Bocconi	Member of the Board of Directors
	Natural Capital Italia S.p.A. Benefit Company (1)	Member of the Board of Directors

(1) company controlled by KME Group S.p.A.;
(2) company listed in a regulated market.

* * *

Table 14 a: Structure of the Board of Statutory Auditors

BOARD OF STATUTORY AUDITORS

Office	Members	Year of birth	Date of first appointment *	Serving from	Serving until	List **	Independence as per Code	Attendance ***	Number of other positions ****
Chairman	**Silvano Crescini**	**1958**	**08.06.2021**	**08.06.2021**	**31.12.2023**	**m**	**x**	***11/11***	***2***
Standing Auditor	**Giovanna Villa**	**1966**	**08.05.2018**	**08.06.2021**	**31.12.2023**	**M**	**x**	***10/11***	***3***
Standing Auditor	**Marco Lombardi**	**1959**	**01.09.2008**	**08.06.2021**	**31.12.2023**	**M**	**x**	***11/11***	***4***
Alternate Auditor	**Elena Beretta**	**1969**	**19.06.2015**	**08.06.2021**	**31.12.2023**	**M**	**x**	***n/a***	**-**
Alternate Auditor	**Cristina Sorrentino**	**1969**	**08.06.2021**	**08.06.2021**	**31.12.2023**	**m**	**x**	***n/a***	***1***

Number of meetings held during the Financial Year: ***11***
Indicate the *quorum* required for presentation of lists by the minority shareholders for election of one or more members (pursuant to article 148 of the TUF): 2.5%

Notes

*Date of first appointment for each Statutory Auditor means the date on which the Statutory Auditor was appointed for the first time (in an absolute sense) by the Issuer's Board of Statutory Auditors.

** This column indicates the list from which each Statutory Auditor was selected ("M" majority list; "m" minority list).

*** This column indicates the participation of the statutory auditors in the meetings of the Board of Statutory Auditors (no. of attendances during the period during which the individual was in office)

**** This column indicates the number of positions as director or statutory auditor held by the person concerned which are relevant under article 148-*bis* of the TUF and the relative implementing provisions contained in the Consob Issuers' Regulation. The complete list of offices is published by Consob on its own website pursuant to article 144-quinquiesdecies of the Consob Issuers' Regulation.

Table 14 b: Administration and control offices held by the Statutory Auditors

Below is a table showing the Director or Statutory Auditor positions held by each Statutory Auditor at December 31, 2022 in other joint-stock companies, partnerships limited by shares and limited liability companies.

Name	Company	Office
Silvano Crescini		
	Altachiara S.r.l.	Chairman of the Board of Statutory Auditors
	De Gasperi S.r.l.	Sole Auditor
	Sial S.r.l.	Chairman of the Board of Statutory Auditors
	Calise S.r.l.	Sole Auditor
	Bracca Acque Minerali S.p.A.	Standing Auditor
	Fonti Pineta S.p.A.	Standing Auditor
	Hera Società Fiduciaria e di Revisione S.p.A.	Standing Auditor
	Cogefin S.r.l.	Sole Director
	Rondo Schio S.r.l.	Standing Auditor
Giovanna Villa		
	Lenovo Italy S.r.l.	Sole Auditor and Member of the SB
	Lenovo Global Technology S.r.l.	Sole Auditor and Member of the SB
	Elfit S.p.A.	Member of the SB
	Cortem S.p.A.	Member of the SB
	Italian Gasket S.p.A.	Member of the SB
	BFF Bank S.p.A.	Independent Member of the Board of Directors - Chairwoman of the Remuneration Committee and Member of the Related Party Committee
Marco Lombardi		
	Brandini S.p.A.	Chairman of the Board of Statutory Auditors
	KME Italy S.p.A. (1)	Chairman of the Board of Statutory Auditors
	Natural Capital Italia S.p.A. (1)	Chairman of the Board of Statutory Auditors
	First Capital S.p.A.	Standing Auditor
	Value First Sicaf S.p.A.	Standing Auditor
	Palomar S.p.A.	Standing Auditor
	Fondazione Angeli del Bello	Member of the Board of Auditors
	Klab Kids	Auditor
Elena Beretta		
	Carcano Antonio S.p.A.	Alternate Auditor
	EB Neuro S.p.A.	Alternate Auditor

	Fratelli Consolandi S.r.l.	Standing Auditor
	Impresa Costruzioni Grassi e Crespi S.r.l.	Alternate Auditor
	Intek Investimenti S.p.A. (1)	Standing Auditor
	Quattroduedue S.p.A.	Standing Auditor
	Romeo Maestri & Figli S.p.A.	Alternate Auditor
Cristina Sorrentino		
	MG Equity Securities S.p.A.	Chairwoman of the Board of Statutory Auditors
	Simplex Rapid S.r.l.	Chairwoman of the Board of Statutory Auditors
	Imbo S.p.A.	Chairwoman of the Board of Statutory Auditors
	Cortec S.p.A.	Chairwoman of the Board of Statutory Auditors
	Tecma S.p.A.	Chairwoman of the Board of Statutory Auditors
	Tecnutensil S.r.l.	Chairwoman of the Board of Statutory Auditors
	Daq-lan S.r.l. unipersonale	Auditor

(1) company controlled by KME Group S.p.A.;

(2) company listed in a regulated market.

REPORT ON THE REMUNERATION POLICY
FOR THE 2021-2023 FINANCIAL YEARS
AND ON THE REMUNERATION PAID FOR THE 2022 FINANCIAL YEAR

Prepared pursuant to article 123-ter of the TUF and article 84-quater of Consob Resolution no. 11971 of May 14, 1999 as amended

Board of Directors
of March 28, 2023

KME Group S.p.A.
Registered and Administrative Office:
20121 Milan - Foro Buonaparte, 44
Share capital € 200,072,198.28, fully paid-up
Tax Code and Milan Business
Register no. 00931330583
www.itkgroup.it

Dear Shareholders,

This document illustrates the implementation of the pay policies in force and therefore of the remuneration paid in the year 2022 (the "**Report on Remuneration**" or only the "**Report**").

These fees were paid on the basis of the Remuneration Policy for the years 2021 - 2023 (hereinafter the "**Policy**" or the "**2021-2023 Policy**") proposed by the Board of Directors of KME Group S.p.A. (hereinafter the "**KME Group**" or the "**Company**") of May 7, 2021 and approved by the Shareholders' Meeting of the Company on June 8, 2021.

Given the three-year validity of the Policy, which will therefore expire with the approval of the financial statements for the year ending December 31, 2023, Section I envisaged by Annex 3A, scheme 7 *bis*, of the Issuers' Regulation has not been prepared, referring to the document prepared on the occasion of its approval, available on the Company's website.

The Report on the remuneration paid

The "Report on Remuneration" shall be approved by the Board of Directors, prepared in accordance with Annex 3A, Scheme no. 7-*bis*, Section II of the Issuers' Regulation, filed with the Company's registered offices and published on its website at least 21 days prior to the Shareholders' Meeting called to approve the annual financial statements. The Report refers to the year 2022 and in particular is focused, including through the use of specific tables, on the analytical presentation of the remuneration paid to Directors, Statutory Auditors, General Managers and Key management personnel in the course of that year.

In continuity with previous years and following guidelines provided in the layout document issued by Borsa Italiana S.p.A. (IX edition, January 2022) concerning the "Report on corporate governance and ownership structures" ("**Report on Governance**"), disclosure required by the Corporate Governance Code (the "**Code**") was included in this Report in order to avoid providing duplicate information. Mention has been given in the aforementioned Report on Governance as well.

Again, in accordance with the aforementioned indications, the Report on Governance and this Report are available also from the registered office of the Company and the governance section of the website www.itkgroup.it. Due to their respective contents and the numerous reciprocal overlapping, it is recommended that they be read and examined jointly.

The "Report on Remuneration" was approved by the Board of Directors in the meeting held on March 28, 2023.

1 Section II - Report on the remuneration paid in the financial year 2022

1.1 Part one - Information on the remuneration items

This Section II illustrates, with reference to the financial year 2022, the second year of application of the 2021-2023 Policy, the remuneration received by the members of the management and control bodies (with specific indication of names for the Executive Directors).

1.1.1 The Board of Directors

1.1.1.1 Remuneration as per the Company Articles of Association and following decision by the Shareholders' Meeting.

Based on article 8 of the Company Articles of Association, all Directors, whether executive or not, shall receive 2% of profits for the year after allocation to the legal reserve has been made.

Article 21 of the Articles of Association allows the Shareholders' Meeting the possibility to provide Directors with a fixed fee.

The shareholders' meeting of June 8, 2021 determined, for the 2021-2023 period, compensation of € 16,500 per annum for each Director, plus 50% for Directors who serve on the Committees established by the Company.

1.1.1.2 Remuneration of Directors with specific powers.

Article 21 of the Articles of Associations foresees that the remuneration of Executive Directors is decided by the Board of Directors, after hearing the Board of Statutory Auditors; Executive Directors are the Chairman Vincenzo Manes, the Deputy Chairwoman Diva Moriani and the Deputy Chairman Marcello Gallo.

In its meeting of June 8, 2021, the Board of Directors resolved to allocate to the Chairman Vincenzo Manes a fixed remuneration of € 700,000 per annum for the period from June 8, 2021 until the Shareholder's Meeting date called for the approval of the financial statements for the period ending 31 December 2023. The Deputy Chairpersons Diva Moriani and Marcello Gallo were attributed a fixed remuneration of € 100,000 each per annum for the same period.

The Executive Directors did not receive any variable remuneration in 2022.

Therefore, the total remuneration paid during the 2022 financial year to the Executive Directors including the statutory compensation approved by the shareholders' meeting on June 8, 2021, was as follows:

- to the Chairman, **Vincenzo Manes**: € 716,500, only as a fixed amount;
- to the Deputy Chairwoman **Diva Moriani**: € 116,500, only as a fixed amount;
- to the Deputy Chairman **Marcello Gallo**: € 116,500, only as a fixed amount.

For calculation details, see Table 1 of this Section II.

During 2022, as part of the "KME 2021-2024 Executive Directors Incentive Plan" approved by the Ordinary Shareholders' Meeting of June 8, 2021, a total of 12,500,000 Management Warrants were freely attributed, as follows:

- 5,000,000 Warrants to the Chairman Vincenzo Manes;
- 6,000,000 Warrants to Deputy Chairwoman Diva Moriani;
- 1,500,000 Warrants to the Deputy Chairman Marcello Gallo.

These Management Warrants are in addition to 25,000,000 already assigned in 2021 as follows:

- 11,250,000 Warrants to the Chairman Vincenzo Manes;
- 10,000,000 Warrants to Deputy Chairwoman Diva Moriani;
- 3,750,000 Warrants to the Deputy Chairman Marcello Gallo.

1.1.1.3 Remuneration of Non-Executive Directors within Committees.

The remuneration of Non-Executive Directors is supplemented due to their involvement in the Committees (increased by 50%).

The compensation attributed to them and other Directors pursuant to the Articles of Association, is subject to the year positive results and allows them to participate, albeit not significantly, in the Company's financial results.

1.1.2 Remuneration of Key management personnel and other Managers.

The Company, at present, has identified the Manager in charge of Financial reporting Giuseppe Mazza as another key management personnel, specifying that, in compliance with Article 7 of the Code, he does not receive any additional remuneration for this role.

1.1.3 Stock option plan

It should be noted that at the moment only the "*KME 2021-2024 Executive Directors Incentive Plan*" is in place, which provides for the assignment of Management Warrants.

1.1.4 The Board of Statutory Auditors

The remuneration of the Chairman of the Board of Statutory Auditors and the two Standing Auditors was determined on an annual basis and for the entire term of office (2021-2022-2023) by the Shareholders' Meeting upon appointment.

For the sake of completeness, it should be noted that regarding fulfilment of the independence requirement for the members of the Board of Statutory Auditors, the "essential situations" of the individual relations between the Statutory Auditors and the Group (the overall existing economic relations) are taken into consideration; to this end, reference should be made to the paragraph on the Board of Statutory Auditors in the Report on Corporate Governance.

1.1.5 Information in the event of termination of the office of Directors

During the 2022 financial year, no member of the Board of Directors appointed by the Shareholders' Meeting terminated their mandate early.

With reference to the fiscal years 2021-2023, there are also no end of office indemnity in favour of Directors.

Moreover, no compensation/indemnity is paid pursuant to "non-competition agreements" nor are any non-monetary benefits assigned or maintained or consultancy contracts concluded following the termination of the relationship.

1.1.6 Information relating to exceptions in the application of the 2021-2023 Policy in the 2022 financial year

There were no cases in the 2022 financial year.

1.1.7 Information relating to the application of ex post correction mechanisms for variable components

There were no cases in the 2022 financial year.

1.1.8 Additional information on 2019, 2020, 2021 and 2022 financial years

Further information relating to the years 2019, 2020, 2021 and 2022 is provided below, with reference to:

a) remuneration of the Executive Directors:

(in €)	**Reporting company**			**Total compensation**		
Executive Director	**Vincenzo Manes**	**Diva Moriani**	**Marcello Gallo**	**Vincenzo Manes**	**Diva Moriani**	**Marcello Gallo**
Year 2019	736,899	116,500	116,500	1,141,899	551,942	491,200
Year 2020	736,899	116,500	116,500	1,152,241	555,222	541,340
Year 2021	736,899	116,500	307,090	1,144,694	607,856	517,612
Year 2022	736,899	116,500	370,763	1,591,899	1,189,070	503,683

b) Company results

Equity per share

Year 2019	1.15
Year 2020	1.17
Year 2021	1.38
Year 2022	1.57

c) average gross annual remuneration based on the full-time employees of the KME Group, other than subjects whose remuneration is indicated by name in this Section II.

Gross annual remuneration

Year 2019	€ 62,401
Year 2020	€ 63,674
Year 2021	€ 62,927
Year 2022	€ 61,660

As is well known, the Company has been, since 2014, configured as a holding company of diversified investments through active and dynamic management of investments and assets in the portfolio, aiming at their best valorisation, and qualified as an investment company under IFRS 10.

On April 22, 2022, the Board of Directors resolved to focus its activities on the industrial management of KME SE, an investment with strategic and long-lasting value, making provision for the progressive increase in value of additional assets in the portfolio, in the time and manner required to achieve the best results for the same Company. As a result of this, the investments are no longer consolidated at fair value, based on IFRS 10 relating to Investment companies, but on a full-line basis.

The Board believes that, with reference to this Policy, it is preferable to adopt a continuity criterion with respect to that adopted in previous years, highlighting the data relating solely to the Parent Company and not also to the companies included in the scope of consolidation. This, both for informational consistency, making the data comparable to the reader with respect to those presented in previous years, and for the difficulty of reading and intelligibility of the information, in the case of use of data also relating to other Group companies: first and foremost in fact, the change in the financial statements approach took place in 2022.

1.1.9 ***<u>Information on how the vote expressed by the shareholders' meeting on the second section of the Report of the previous year was taken into consideration</u>***

The shareholders' meeting called to approve the previous Report did not provide ideas that need to be considered, nor did the Company receive any requests or communications from shareholders from the date of the meeting to today's date. Should this occur in the future, the Company will take these elements into consideration when drafting and approving future Remuneration Policies.

1.2 Part two - Tables

1.2.1 Remuneration to members of management and control bodies

The breakdown of remuneration paid to Directors in 2022, including subsidiaries' Directors, is shown in the table below which has been prepared pursuant to CONSOB provisions ("Scheme no. 7 *bis*" – Table 1 – included in Annex 3A of the Issuers' Regulation).

Remuneration paid to members of management and control bodies and to key management personnel

(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Office	Period of office	Expiry of term of office	Fixed remuneration	Remuneration for participation in committees (*)	Non-equity variable remuneration		Non-monetary benefits	Other remuneration	Total	*Fair Value* of equity remuneration	Indemnity for end of office or termination of employment relationship
						Bonus and other incentives	Profit-sharing					
Vincenzo Manes (1)	*Chairman*	*01/01/2022 - 31/12/2022*	*Approval of 2023 financial*									
(I) Remuneration in the company drafting the financial statements				716.500	-	-	-	20.399	-	736.899	*661.280*	-
(II) Remuneration from subsidiaries and associates				855.000	-	-	-	-	-	855.000	-	-
(III) Total				1.571.500	-	-	-	20.399	-	1.591.899	*661.280*	-
Diva Moriani (2)	*Deputy Chairwoman*	*01/01/2022 - 31/12/2022*	*Approval of 2023 financial*									
(I) Remuneration in the company drafting the financial statements				116.500	-	-	-	-	-	116.500	*638.748*	-
(II) Remuneration from subsidiaries and associates				1.067.300	-	-	-	5.270	-	1.072.570	-	-
(III) Total				1.183.800	-	-	-	5.270	-	1.189.070	*638.748*	-
Marcello Gallo (3)	*Deputy Chairman*	*01/01/2022 - 31/12/2022*	*Approval of 2023 financial*									
(I) Remuneration in the company drafting the financial statements				358.179	-	-	-	6.292	-	364.471	*213.236*	-
(II) Remuneration from subsidiaries and associates				132.920	-	-	-	-	-	132.920	-	-
(III) Total				491.099	-	-	-	6.292	-	497.391	*213.236*	-
Duncan James McDonald (4)	*Director*	*01/01/2022 - 31/12/2022*	*Approval of 2023 financial*									
(I) Remuneration in the company drafting the financial statements				17.100	-	-	-	-	-	17.100	-	-
(II) Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
(III) Total				17.100	-	-	-	-	-	17.100	-	-
Ruggero Magnoni (5)	*Director*	*01/01/2022 - 31/12/2022*	*Approval of 2023 financial*									
(I) Remuneration in the company drafting the financial statements				19.500	-	-	-	-	-	19.500	-	-
(II) Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
(III) Total				19.500	-	-	-	-	-	19.500	-	-
Francesca Marchetti (6)	*Director*	*01/01/2022 - 31/12/2022*	*Approval of 2023 financial*									
(I) Remuneration in the company drafting the financial statements				16.500	8.250	-	-	-	-	24.750	-	-
(II) Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
(III) Total				16.500	8.250	-	-	-	-	24.750	-	-
Alessandra Pizzuti (7)	*Director*	*01/01/2022 - 31/12/2022*	*Approval of 2023 financial*									
(I) Remuneration in the company drafting the financial statements				16.500	8.250	-	-	-	-	24.750	-	-
(II) Remuneration from subsidiaries and associates				159.085	-	-	-	4.849	-	163.934	-	-
(III) Total				175.585	8.250	-	-	4.849	-	188.684	-	-
Maria Serena Porcari (8)	*Director*	*01/01/2022 - 31/12/2022*	*Approval of 2023 financial*									
(I) Remuneration in the company drafting the financial statements				16.500	-	-	-	-	-	16.500	-	-
(II) Remuneration from subsidiaries and associates				5.000	-	-	-	-	-	5.000	-	-
(III) Total				21.500	-	-	-	-	-	21.500	-	-
Alberto Previtali (9)	*Director*	*01/01/2022 - 31/12/2022*	*Approval of 2023 financial*									
(I) Remuneration in the company drafting the financial statements				18.900	-	-	-	-	-	18.900	-	-
(II) Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
(III) Total				18.900	-	-	-	-	-	18.900	-	-
Luca Ricciardi (10)	*Director*	*01/01/2022 - 31/12/2022*	*Approval of 2023 financial*									
(I) Remuneration in the company drafting the financial statements				17.700	-	-	-	-	-	17.700	-	-
(II) Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
(III) Total				17.700	-	-	-	-	-	17.700	-	-
Silvano Crescini (11)	*Chairman of the Board of Statutory*	*01/01/2022 - 31/12/2022*	*Approvazione bilancio 2023*									
(I) Remuneration in the company drafting the financial statements				49.600	-	-	-	-	-	49.600	-	-
(II) Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
(III) Total				49.600	-	-	-	-	-	49.600	-	-
Marco Lombardi (12)	*Standing Auditor*	*01/01/2022 - 31/12/2022*	*Approvazione bilancio 2023*									
(I) Remuneration in the company drafting the financial statements				32.200	-	-	-	-	-	32.200	-	-
(II) Remuneration from subsidiaries and associates				33.500	-	-	-	-	-	33.500	-	-
(III) Total				65.700	-	-	-	-	-	65.700	-	-
Giovanna Villa (13)	*Standing Auditor*	*01/01/2022 - 31/12/2022*	*Approvazione bilancio 2023*									
(I) Remuneration in the company drafting the financial statements				32.800	-	-	-	-	-	32.800	-	-
(II) Remuneration from subsidiaries and associates				-	-	-	-	-	-	-	-	-
(III) Total				32.800	-	-	-	-	-	32.800	-	-
Other key executives		*01/01/2022 - 31/12/2022*	*Approvazione bilancio 2023*									
(I) Remuneration in the company drafting the financial statements				189.231	-	-	-	-	-	189.231	-	-
(II) Remuneration from subsidiaries and associates				60.000	-	-	-	-	-	60.000	-	-
(III) Total				249.231	-	-	-	-	-	249.231	-	-

Notes

(1) € 16,500 for the fixed remuneration decided upon by the Shareholders' Meeting, € 700,000 for the office of Chairman of KME Group S.p.A.
€ 855,000 as a member of the Board of KME SE.
The non-monetary benefits (€ 20,399) are paid for the office of KME Group S.p.A. Chairman.

(2) € 16,500 for the fixed remuneration decided upon by the Shareholders' Meeting, € 100,000 for the office of Deputy Chairman of KME Group S.p.A.
€ 800,000 as a member of the Board of KME SE.
€ 6,000 as a member of the Supervisory Board of KME Germany GmbH and € 6,000 as a member of the Supervisory Board of KME Mansfeld GmbH.
€ 5,000 as a member of the board of directors of Culti Milano S.p.A.
€ 250,300 for the office of KME S.r.l. Manager (including € 300 for lump-sum reimbursements).
The non-monetary benefits (€ 5,270) are paid for the office of KME S.r.l. Manager.

(3) € 16,500 for the fixed remuneration decided upon by the Shareholders' Meeting, € 100,000 for the office of Deputy Chairman and € 241,679 as Manager of KME Group S.p.A.
€ 35,000 as liquidator of Isno 3 S.r.l. in liquidation, € 45,000 as Chief Executive Officer of Intek Investimenti S.p.A. and € 20,000 as Chairman of Immobiliare Pictea S.r.l.
€ 30,000 as a member of the Board of KME SE and € 2,920 for the office of Director of KME Italy S.p.A.
The non-monetary benefits (€ 6,292) are paid for the office of KME Group S.p.A. Manager.

(4) € 16,500 as fixed remuneration decided upon by the Shareholders' Meeting, in addition to attendance fee of € 600.

(5) € 16,500 as fixed remuneration decided upon by the Shareholders' Meeting, in addition to attendance fee of € 3,000.

(6) € 16,500 for fixed remuneration approved by the Shareholders' Meeting and € 8,250 for the position of member of the Control and Risk Committee.

(7) € 16,500 for fixed remuneration approved by the Shareholders' Meeting and € 8,250 for the position of member of the Control and Risk Committee.
€ 123,085 as a Manager of KME S.r.l., € 30,000 for the position of member of the Board of KME SE.
€ 3,000 as a member of the Supervisory Board of KME Germany GmbH, € 3,000 as a member of the Supervisory Board of KME Mansfeld GmbH.
The non-monetary benefits (€ 4,849) are paid for the office of KME S.r.l. Manager.

(8) € 16,500 as fixed remuneration decided upon by the Shareholders' Meeting.
€ 5,000 for the office of Director of Natural Capital Italia S.p.A. Benefit Company.

(9) € 16,500 as fixed remuneration decided upon by the Shareholders' Meeting, in addition to attendance fee of € 2,400.

(10) € 16,500 as fixed remuneration decided upon by the Shareholders' Meeting, in addition to attendance fee of € 1,200.

(11) € 46,000 as fixed remuneration decided upon by the Shareholders' Meeting, in addition to attendance fee of € 3,600.

(12) € 31,000 as fixed remuneration decided upon by the Shareholders' Meeting, in addition to attendance fee of € 1,200.
€ 23,000 remuneration as Chairman of the Board of Statutory Auditors of KME Italy S.p.A. and € 10,500 remuneration as Chairman of the Board of Statutory Auditors of Natural Capital Italia S.p.A. Benefit Company.

(13) € 31,000 as fixed remuneration decided upon by the Shareholders' Meeting, in addition to attendance fee of € 1,800.

(*) € 8,250 for the Control and Risk Committee on a pro-rata basis for the duration of the term of office

1.2.2 __Stock Options__

As already indicated above, there are no longer any instruments of this type.

Stock options granted to members of the management body, general managers and other key management personnel

			Options held at the start of the year			Options assigned during the year						Options exercised during the year			Options expired during the year	Options held at the end of the year	Options attributable to the year
(A)	(B)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15) = (2) + (5) - (11) -(14)	(16)
Name and surname	Office	Plan	Number of options	Strike price	Period of possible exercise (from - to)	Number of options	Strike price	Period of possible exercise (from - to)	Fair value at the assignment date	Assignment date	Market price of the underlying shares at the assignment of options	Number of options	Strike price	Market price of the underlying shares at the exercise date	Number of options	Number of options	Fair value

1.2.3 Other non-monetary plans other than stock options

Non-monetary incentive plans other than stock options in favour of members of the management body, general managers and other key management personnel

			Financial instruments assigned in previous years not vested during the year		Financial instruments assigned during the year					Financial instruments vested during the year and not assigned	Financial instruments vested during the year and attributable		Financial instruments pertaining to the year
(A)	(B)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Name and surname	Office	Plan	Number and type of financial instruments	Vesting period	Number and type of financial instruments	Fair value at the assignment date	Vesting period	Assignment date	Market price on assignment	Number and type of financial instruments	Number and type of financial instruments	Value at the vesting date	Fair value
Vincenzo Manes	**Chairman of the Board of Directors**												
(I) Remuneration in the company drafting the financial statements		08/06/2021	11.250.000 Warrant Intek Group	24 mesi	-	-	-	-	-	-	-	-	485.980
		08/06/2021	-	-	5.000.000 Warrant Intek Group 2021/2024	876.500	-	31/05/2022	-	-	-	-	175.300
(II) Remuneration from subsidiaries and associates													
(III) Total		-	-	-		876.500			-				661.280
Diva Moriani	**Deputy Chairwoman**												
(I) Remuneration in the company drafting the financial statements		08/06/2021	10.000.000 Warrant Intek Group	24 mesi	-	-	-	-	-	-	-	-	428.388
		08/06/2021	-	-	6.000.000 Warrant Intek Group 2021/2024	1.051.800	-	31/05/2022	-	-	-	-	210.360
(II) Remuneration from subsidiaries and associates		-	-	-						-			
(III) Total		-	-	-		1.051.800			-				638.748
Marcello Gallo	**Deputy Chairman**												
(I) Remuneration in the company drafting the financial statements		08/06/2021	3.750.000 Warrant Intek Group	-	-	-	-	-	-	-	-	-	160.646
		08/06/2021	-	-	1.500.000 Warrant Intek Group 2021/2024	262.950	-	31/05/2022	-	-	-	-	52.590
(II) Remuneration from subsidiaries and associates		-	-	-						-			
(III) Total		-	-	-		262.950			-				213.236
(III) Total		-	-	-		2.191.250			-				1.513.264

1.2.4 Monetary incentive plan

The table below contains the monetary incentive plan in the form required by Table 3B in Scheme 7-bis in Annex 3A of the Issuers' Regulation.

Monetary incentive plans in favour of members of the management body, general managers and other key management personnel

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(A)	(B)	(1)	(2)			(3)			(4)
Name and surname	Office	Plan	Bonus for the year			Bonus of previous years			Other bonuses
			(A)	(B)	(C)	(A)	(B)	(C)	
			Disbursable/Disbursed	Deferred	Reference period	No longer disbursable	Disbursable/Disbursed	Still deferred	
Vincenzo Manes	*Chairman*								
(I) Remuneration in the company drafting the financial statements			-	-	-	-	-	-	-
(II) Remuneration from subsidiaries and associates			-	-	-	-	-	-	-
(III) Total			-	-		-	-	-	-
Diva Moriani	*Deputy Chairwoman*								
(I) Remuneration in the company drafting the financial statements			-	-	-	-	-	-	-
(II) Remuneration from subsidiaries and associates			-	-	-	-	-	-	-
(III) Total			-	-		-	-	-	-
Marcello Gallo	*Deputy Chairman*								
(I) Remuneration in the company drafting the financial statements			-	-	-	-	-	-	-
(II) Remuneration from subsidiaries and associates			-	-	-	-	-	-	-
(III) Total			-	-		-	-	-	-

1.2.5 ***Investments held by members of the management and control bodies and key management personnel***

The investments held by members of the management and control bodies and Key management personnel are presented in this Report pursuant to CONSOB provisions ("Scheme 7-ter - Table 1 - Annex 3A of the Issuers' Regulation").

Investments held by members of the management and control bodies and general managers

Name and surname	Office	Investee	Number of shares held at the end of 2021	Number of shares purchased during 2022	Number of shares sold during 2022	Number of shares held at the end of 2022
Vincenzo Manes	Director	KME Group S.p.A. - Ordinary shares	197,261	-	(197,261)	-
Marcello Gallo	Director	KME Group S.p.A. - Ordinary shares	835,931	-	-	835,931
Alberto Previtali*(*)*	Director	KME Group S.p.A. - Ordinary shares	17,798,740	1,000,000	-	18,798,740
Luca Ricciardi	Director	KME Group S.p.A. - Savings shares	121,081	-	-	121,081

(*) jointly with the spouse

Investments of other key management personnel

Number of key management personnel	Investee	Number of shares held at the end of 2021	Number of shares purchased during 2022	Number of shares sold during 2022	Number of shares held at the end of 2022
1	-	-	-	-	-

Separate financial statements as of December 31, 2022

KME Group S.p.A.
Registered and Administrative Office:
Foro Buonaparte, 44 - 20121 Milan - Italy
Share capital € 200,072,198.28, fully paid-up
Tax Code and Milan Business
Register no. 00931330583
www.itkgroup.it

KME Group - Separate financial statements as of December 31, 2022

Statement of financial position - Assets

(in €)	*Ref. Note*	*31-Dec-22*	*of which related parties*	*31-Dec-21*	*of which related parties*
Investments in subsidiaries	*4.1*	587,631,631	*587,631,631*	620,201,471	*620,201,471*
Investments in other companies	*4.1*	16,922,003		16,922,008	
Non current financial assets	*4.2*	10,641	*762*	4,709	*4,709*
Property, plant and equipment	*4.3*	3,251,257	-	3,492,672	-
Investment property	*4.4*	32,289	-	32,289	-
Intangible assets	*4.5*	9,899	-	12,033	-
Other non current assets	*4.6*	2,961	-	2,961	-
Deferred tax assets	*4.20*	2,093,098	-	2,761,882	-
Total non current assets		**609,953,779**		**643,430,025**	
Current financial assets	*4.7*	67,070,610	*66,563,606*	26,444,454	*1,066,913*
Trade receivables	*4.8*	5,421,291	*3,930,092*	5,039,105	*2,051,776*
Other receivables and current assets	*4.9*	1,719,379	*989,655*	5,679,530	*2,494,704*
Cash and cash equivalents	*4.10*	508,479	-	4,698,297	-
Total current assets		**74,719,759**		**41,861,386**	
Total assets		**684,673,538**		**685,291,411**	

The notes are an integral part of these financial statements.

Details of related party transactions are disclosed in explanatory note 7.12.

KME Group - Separate financial statements as of December 31, 2022

Statement of financial position - Liabilities

(in €)	*Ref. Note*	*31-Dec-22*	*of which related parties*	*31-Dec-21*	*of which related parties*
Share capital		200,070,088	-	335,069,211	-
Other reserves		288,555,772	-	97,029,465	-
Treasury shares		(2,133,266)	-	(2,133,266)	-
Retained earnings		-	-	53,840,132	-
Stock option reserve		2,624,934	-	2,591,879	-
Net result		5,173,722	-	65,306,021	-
Total equity	*4.11*	**494,291,250**		**551,703,442**	
Retirement benefits	*4.12*	428,952	-	417,892	-
Deferred tax liabilities	*4.20*	851,870	-	2,220,870	-
Non current financial payables and liabilities	*4.13*	2,026,521	*2,015,751*	2,445,502	*2,394,789*
Bonds	*4.14*	155,991,336	-	92,371,656	-
Other non current liabilities	*4.15*	-	-	113,141	-
Provisions for risks and charges	*4.16*	-	-	290,937	-
Total non current liabilities		**159,298,679**		**97,859,998**	
Current financial payables and liabilities	*4.17*	26,555,437	*1,229,812*	29,676,656	*463,530*
Trade payables	*4.18*	1,989,201	*772,784*	2,238,515	*537,677*
Other current liabilities	*4.19*	2,538,971	*1,041,394*	3,812,800	*1,316,035*
Total current liabilities		**31,083,609**		**35,727,971**	
Total liabilities and equity		**684,673,538**		**685,291,411**	

The notes are an integral part of these financial statements.

Details of related party transactions are disclosed in explanatory note 7.12.

KME Group - Separate financial statements as of December 31, 2022

Income statement and statement of comprehensive income

(in €)	*Ref. Note*	*2022*		*2021*	
			of which related parties		*of which related parties*
Net income from management of investments	*6.1*	10,090,137	*9,335,535*	73,388,243	*72,336,450*
Commissions on guarantees issued	*6.2*	862,134	*862,134*	865,210	*865,210*
Other income	*6.3*	5,513,796	*4,622,911*	1,006,925	*130,458*
Personnel cost	*6.4*	(2,129,532)	*(452,313)*	(1,866,861)	*(365,906)*
Depreciation, amortization and impairments	*6.5*	(672,941)	-	(657,504)	-
Other operating costs	*6.6*	(6,220,592)	*(1,593,081)*	(4,801,989)	*(1,489,394)*
Operating result (EBIT)		**7,443,002**		**67,934,024**	
Financial income	*6.7*	2,922,780	*2,775,947*	291,794	*202,713*
Financial expense	*6.7*	(6,032,253)	*(161,452)*	(4,375,043)	*(179,559)*
Net financial expense		*(3,109,473)*		*(4,083,249)*	
Profit before tax		**4,333,529**		**63,850,775**	
Current taxes	*6.8*	139,972	-	1,893,559	-
Deferred taxes	*6.8*	700,221	-	(438,313)	-
Total income taxes		**840,193**		**1,455,246**	
Result from continuing operations		**5,173,722**		**65,306,021**	
Result from discontinued operations		-		-	
Net result for the year		**5,173,722**		**65,306,021**	
Other comprehensive income:					
Measurement of employee defined benefits		25,092		(11,825)	
Taxes on other comprehensive income		-		-	
Items that will not be reclassified to profit or loss		25,092		(11,825)	
Items that may be reclassified to profit or loss		-		-	
Other comprehensive income:		25,092		(11,825)	
Total OCI for the year		**5,198,814**		**65,294,196**	

The notes are an integral part of these financial statements.

Details of related party transactions are disclosed in explanatory note 7.12.

KME Group - Separate financial statements as of December 31, 2022

Statement of changes in equity as of December 31, 2021

(in € thousand)	*Share capital*	*Other reserves*	*Treasury shares*	*Retained earnings*	*Stock option reserve*	*Net result*	*Total equity*
Equity as of December 31, 2020	**335,069**	**94,390**	**(2,012)**	**71,142**	**2,052**	**3,289**	**503,930**
Allocation of prior year's result	-	3,289	-	-	-	(3,289)	-
Purchase of treasury shares	-	-	(128)	-	-	-	(128)
Purchase and cancellation of savings treasury shares (OPS)	-	(638)	7	(17,302)	-	-	(17,933)
Warrant management	-	-	-	-	540	-	540
Actuarial gains/losses on pension funds	-	(12)	-	-	-	-	(12)
Comprehensive income items	-	(12)	-	-	-	-	(12)
Net result	-	-	-	-	-	65,306	65,306
Total OCI	-	(12)	-	-	-	65,306	65,294
Equity as of December 31, 2021	**335,069**	**97,029**	**(2,133)**	**53,840**	**2,592**	**65,306**	**551,703**
Reclassification of treasury shares	(2,133)	-	2,133	-	-	-	-
Equity as of December 31, 2021	**332,936**	**97,029**	**-**	**53,840**	**2,592**	**65,306**	**551,703**

As of December 31, 2021, Intek Group directly held 6,937,311 ordinary shares without par value. All the shares were then fully reclassified as a deduction from share capital.

The notes are an integral part of these financial statements.

KME Group - Separate financial statements as of December 31, 2022

Statement of changes in equity as of December 31, 2022

(in € thousand)	*Share capital*	*Other reserves*	*Treasury shares*	*Retained earnings*	*Stock option reserve*	*Mandatory convertible loan*	*Net result*	*Total equity*
Equity as of December 31, 2021	**335,069**	**97,029**	**(2,133)**	**53,840**	**2,592**	**-**	**65,306**	**551,703**
Allocation of prior year's result	-	65,306	-	-	-	-	(65,306)	-
Purchase of treasury shares	-	-	-	-	-	-	-	-
Exercise of warrants	1	31	-	-	-	-	-	32
Purchase and cancellation of savings treasury shares (OPS)	-	(8,835)	-	(53,840)	(2,052)	-	-	(64,727)
Reduction of share capital	(135,000)	135,000	-	-	-	-	-	-
Warrant management (2021 - 2024)	-	-	-	-	2,085	-	-	2,085
Actuarial gains/losses on pension funds	-	25	-	-	-	-	-	25
Comprehensive income items	-	25	-	-	-	-	-	25
Net result	-	-	-	-	-	-	5,174	5,174
Total OCI	-	25	-	-	-	-	5,174	5,199
Equity as of December 31, 2022	**200,070**	**288,556**	**(2,133)**	**-**	**2,625**	**-**	**5,174**	**494,292**
Reclassification of treasury shares	(2,133)	-	2,133	-	-	-	-	-
Equity as of December 31, 2022	**197,937**	**288,556**	**-**	**-**	**2,625**	**-**	**5,174**	**494,292**

As of December 31, 2022, Intek Group directly held 6,937,311 ordinary shares without par value. All the shares were then fully reclassified as a deduction from share capital.

The notes are an integral part of these financial statements.

KME Group - Separate financial statements as of December 31, 2022

Statement of cash flows - indirect method

(in € thousand)		*2022*	*2021*
(A) Cash and cash equivalents at the beginning of the period		**4,698**	**15,286**
Profit before tax		4,334	63,851
Depreciation and amortization		671	658
Impairment/(Reversal of impairment) of current and non current financial assets		(9,078)	(72,912)
Change in pension funds, post-employment benefits (TFR) and stock options		2,121	714
Change in provisions for risks and charges		(291)	-
Change in investments		47	2
Change in other financial investments		-	(268)
Change in financial payables to related companies		716	(536)
Change in financial receivables from related companies		(23,355)	(311)
Change in current receivables		3,718	(208)
Change in current payables		(2,718)	(613)
(B) Cash flow from operating activities		**(23,835)**	**(9,623)**
Proceeds from non current tangible and intangible assets		(444)	(363)
Payments for non current tangible and intangible assets		17	193
Payments on/proceeds from other non current assets/liabilities		(113)	(609)
(C) Cash flow from investing activities		**(540)**	**(779)**
(Purchase) sale of treasury shares		-	(128)
Exercise of warrants		32	-
Payments on/proceeds from current and non current financial payables		(4,707)	(3,413)
Payments on/proceeds from current and non current financial receivables		24,860	3,355
(D) Cash flow from financing activities		**20,185**	**(186)**
(E) Change in cash and cash equivalents	**(B) + (C) + (D)**	**(4,190)**	**(10,588)**
(F) Cash and cash equivalents at the end of the period	**(A) + (E)**	**508**	**4,698**

The notes are an integral part of these financial statements.

KME Group - Separate financial statements as of December 31, 2022

Notes

1. *General information*

KME Group is a Joint-Stock Company (Società per Azioni) registered in Italy with the Milan Companies Register under no. 00931330583 and its shares are listed on the *Euronext Milan* market organised and managed by Borsa Italiana S.p.A.

KME Group ("KME" or the "Company") is a holding company, whose objective was directed until April 22, 2022 to manage its portfolio of assets and investments with a dynamic entrepreneurial perspective, and to focus on cash generation and growth in the value of investments over time, also through sales functional to the development strategies.

On April 22, 2022, the Company's Board of Directors resolved to adopt a strategy aimed at concentrating its activities on the industrial management of the investment in KME SE and in particular in the copper laminates sector; this investment has therefore become a lasting investment. For the other investments, it was defined to identify the best opportunities for valorisation, either through disposal to third parties or allocation to shareholders.

In line with the new strategy, on September 23, 2022 the Company changed its company name from Intek Group S.p.A. to KME Group S.p.A.

The Separate financial statements as of December 31, 2022 (the "Financial Statements") were approved by the Board of Directors on March 28, 2023.

Although it is owned by Quattroduedue Holding B.V. through the wholly-owned subsidiary Quattroduedue S.p.A., KME Group S.p.A. is not subject to management and coordination as defined in articles 2497 et seq. of the Italian Civil Code and article 37 of the Market Regulation, insofar as:

- it has autonomous powers of negotiation with respect to contractual arrangements with customers and suppliers;
- it does not participate in any centralised treasury arrangements operated by the parent or any other company under the parent's control.

2. *Accounting policies*

2.1. Qualification of investment entity

The aforementioned change in strategy, which resulted in the focus of the activity in the industrial management of the investment in KME SE, has nullified the commercial purpose of the Company aimed at obtaining returns for shareholders exclusively from the capital appreciation and from investment income; this, however, means that fair value is no longer a basis for the calculation and internal evaluation of investments.

These amendments meant the Company no longer satisfied the requisites, set forth in paragraphs 27 and 28 of IFRS 10, to qualify as an "investment entity", on the basis of which the previous financial statements had been drawn up starting from those as of December 31, 2014.

Therefore, the Company ceased to be an "investment entity" as of the date on which the change of status occurred, which was therefore from April 22, 2022. This led, therefore, to the change in the measurement criteria of investments (asset item "Investments in equity interests and fund units") for which the fair value is replaced by the criterion of cost; in this regard, the fair value at the date of loss of the qualification of investment entity represents the new cost. For more details, and further accounting information in accordance with IFRS 12, please refer to the commentary on the financial statement item.

It should be noted that, pursuant to paragraph 30 of IFRS 10, the change in status is accounted for prospectively starting from the date on which this change occurred.

2.2. Basis for preparation

The separate financial statements as of December 31, 2022 were drafted pursuant to article 154 ter of Legislative Decree 58/1998 and conform to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission in accordance with the procedure as set out in article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002 as well as with the provisions issued in implementation of article 9 of Legislative Decree 38/2005 where applicable.

The Separate Financial Statements are composed of the statement of financial position, the income statement and the statement of other comprehensive income, the statement of cash flows, the statement of changes in equity, as well as the Notes thereto. The financial statements and the notes thereto include, besides the amounts relating to the reference period, the corresponding comparative data as of December 31, 2020. There were no changes to the structure of the statements compared to previous presentations.

In accordance with Directive 2004/109/EC (the "Transparency Directive") amended by Directive 2013/50/EU and the Delegated Regulation (EU) 2019/815 (the "ESEF Regulation"), the Italian version of the present financial statements of KME Group S.p.A. are prepared using the XHTML format.

The deposits of the entire document at the competent offices and institutions are made in accordance with the law.

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The statement of financial position has been prepared by separately classifying current and non current assets and current and non current liabilities.

The Company has opted for presentation of a single income statement and statement of other comprehensive income, in which the items of revenue and cost recognized during the reporting period are presented by nature, including finance expense and tax charges. Section "*Other comprehensive income*" provides details on the items which, following the specific provisions of individual IFRSs, are recognized separately from the profit (loss) for the current period. These items are divided into two categories as follows:

- items that will not be subsequently reclassified to profit or loss;
- items that will be subsequently reclassified to profit or loss, when specific conditions are met.

The statement of cash flows is presented using the indirect method, according to which the net result is adjusted for the effects of:

- changes in receivables and payables generated by operations;
- non-cash activities;
- all other items for which the cash effects are cash flows from investing or financing activities.

These Financial Statements were prepared on a going concern basis, as required by IAS 1, as there exist no doubts or uncertainties regarding the Group's ability to pursue its activities and continue to operate as a going concern in the foreseeable future.

In preparing these Financial Statements, the Directors have applied the concepts of accruals, clarity, significance, materiality, reliability, neutrality, prudence and comparability and applied accounting policies consistent with those used for the Financial Statements as of December 31, 2021, and without prejudice to what is stated in the preceding paragraph with regard to investments and except for accounting standards that came into effect on January 1, 2022.

The accounting standards, amendments and interpretations applied for the first time by the Company, which had no effects on equity or the net result are the following:

- On May 14, 2020, the IASB published the following amendments named:
  - Amendments to IAS 16 Property, Plant and Equipment: the amendments aim not to permit the deduction from the cost of property, plant and equipment of the amount received from the sale of goods produced in the asset testing phase. Such sales revenues and the relative costs will therefore be recognized in the income statement.

- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: the amendment clarifies that in the estimate on whether a contract is onerous, all costs directly attributable to the contract must be taken into consideration. As a result, the assessment of whether a contract is onerous includes not only incremental costs (such as the cost of direct material used in processing), but also all costs that the company cannot avoid because it has entered into the contract (such as the portion of the depreciation on the machinery used for the performance of the contract).
- Annual Improvements 2018-2020: the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples of IFRS 16 Leases.

Events and transactions affecting the Company are recognized and presented with respect to their economic substance rather than legal form.

Specific notes contained in the *Report on operations* disclose the content and meaning of the non-IFRS alternative performance indicators, where applicable, in compliance with CESR recommendation 05 - 178b published on November 3, 2005.

These financial statements are presented in Euro, the functional currency of the Company. The statement of financial position and the income statement and the statement of other comprehensive income are provided in units of Euro, while the statement of changes in equity and the statement of cash flows are presented in thousands of Euro. The tables and data in the notes are in thousands of Euro, unless otherwise indicated.

Furthermore, in the context resulting from the COVID-19 epidemic as well as the ongoing conflict between Russia and Ukraine, the interpretative and support documents for the application of the accounting standards issued by the Italian international regulatory and supervisory bodies and standard setters (Consob attention calls and public statements issued by ESMA) were taken into account in the preparation of these Financial Statements.

The amount of the "Financial debt", with the details of the main components, is indicated in the relative table in the *Report on operations*.

2.3. Investments in subsidiaries, associates and joint ventures

The instrumental investments in subsidiaries, associates and joint ventures are measured at cost less any losses.

Subsidiaries are all those companies over which the Company simultaneously has:

- power, i.e. it holds legitimate rights that bestow upon it the actual capacity to manage *relevant activities*, i.e. activities that have a significant effect on returns;
- exposure or rights to variable returns arising from the relationship with the company itself;
- the ability to exercise its power to affect the amount of its returns.

Associates are all companies over which the Company exercises significant influence but not control. Significant influence is presumed when the Company holds, directly or indirectly through subsidiaries, 20% or a greater share of the votes in the shareholders' meeting of the investee.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity.

2.4. Financial assets and liabilities - Determination of impairments

All financial assets and liabilities measured at amortized cost are subject to impairment testing as required by IFRS 9.

A financial asset is impaired when there is objective evidence that one or more events have had an adverse effect on estimated future cash flows generated by that asset.

All impairment losses are recognized in the income statement.

2.5. Other financial assets

Non-derivative financial assets and liabilities, except for equity instruments, with fixed or determinable payments, not listed on an active market and not included in any of the above categories, are classified as "*Loans and receivables*" and are carried at amortized cost using the effective interest method. The amortized cost of current *loans and receivables*, and all short-term trade payables and receivables for which the time value of money is immaterial, is deemed to correspond to their cost.

2.6. Property, plant and equipment

Investments in operating assets

Property, plant and equipment are recorded at purchase or production cost, including directly attributable costs, and are shown net of accumulated depreciation and any impairment losses determined in accordance with the methods set out below. Any item of property, plant and equipment consisting of different components with varying useful lives is accounted for separately.

Property, plant and equipment are measured at cost, net of accumulated depreciation.

Depreciation is accounted for starting from the month in which the asset becomes available for use, or when it is potentially able to provide the economic benefits associated with it. Depreciation is recognized monthly on a straight-line basis until the end of the useful life of the relevant asset or, in the event of disposal, until the last month of use.

The useful life is constantly checked taking into account any changes in the frequency of use of the assets and any changes in depreciation plans are applied prospectively.

Depreciation is calculated based on the following useful lives:

Machinery	from 10 to 40 years
Other equipment	from 4 to 10 years

Leased assets

A contract, or part of it, is classified as a lease if, in exchange for consideration, it gives the right to control the use of a specific asset for a period of time, therefore, if throughout the entire period of use of the asset both of the following rights will be enjoyed:

- the right to substantially obtain all economic benefits deriving from the use of the asset; and
- the right to decide on the use of the asset.

If there is a modification of the terms and conditions of the contract, a new assessment will be performed to determine whether the contract is or contains a *lease*.

The Company does not apply these rules to:

- leases of intangible assets;
- short-term leases (duration of equal to or less than 12 months);
- leases in which the underlying asset is of modest value (asset with a unit value of equal to or lower than Euro 5,000).

Once it is verified whether a contract is a lease, at the start date of the contract, the right-of-use asset and the lease liability are recognized.

The right-of-use asset is initially valued at cost, which includes:

- the amount of the initial valuation of the lease liability;
- the payments due for the lease made at or before the start date net of lease incentives received;
- the initial direct costs incurred by the lessee; and

- the estimate of costs that will need to be incurred for the dismantling and removal of the underlying asset and for the restoration of the site where it is located or for the restoration of the underlying asset to the conditions set forth in the terms and conditions of the lease.

The initial valuation of the lease liability is based on the present value of payments due for the lease not paid at that date. The payments due for the lease are discounted using the rate of financing deemed most representative of the cost of money.

Every lease component is recognized as a lease, separated from the non-lease components.

The duration of the lease is determined as the non-cancellable period of the lease, in addition to both of the following periods:

- periods covered by a lease extension option, if there is reasonable certainty that the option will be exercised; and
- periods covered by the lease termination option, if there is reasonable certainty that the option will not be exercised.

If there is a change in the non-cancellable period of the lease, the duration of the lease will be redetermined.

After the date of initial recognition, the asset is valued by applying the cost model. The right-of-use assets is then amortized on a straight-line basis from commencement date to the end of the lease term.

After the commencement date, the lease liability is valued:

- by increasing the carrying amount to take into account interest on the lease liability;
- by decreasing the carrying amount to take into account the payments made for the lease;
- by redetermining the carrying amount to take into account any new valuations or modifications of the lease or the revision of payments due for the lease.

The interest on the lease liability and the variable payments due for the lease, not included in the valuation of the lease liability, are recognized in the income statement for the year in which the event or circumstance that triggered the payments takes place.

In the financial statements, right-of-use assets are shown separately from other assets, lease liabilities separately from other financial liabilities, and interest expense on the lease liability is recognized as financial expense and separately from depreciation on the right-of-use asset.

Impairment

Property, plant and equipment are tested for impairment whenever there is specific objective evidence thereof ("Impairment test"). The test involves estimating the recoverable amount of the asset, defined as the higher of net selling price and value in use, compared to its carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use is determined by discounting projected cash flows at a pre-tax discount rate that reflects current market estimates of the time value of money and the risks associated with the relevant asset. To the extent that the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount with the difference either being recognized in the income statement or in a revaluation reserve previously created on the revaluation of the relevant asset. Subsequent revaluations are treated in the opposite way. Information regarding impairment tests are contained in the paragraph "*Financial assets and liabilities*".

2.7. Investment property

The item refers to land and buildings held to collect rents, generate returns on the invested capital, or for both of these purposes. These assets are measured at fair value and therefore are not depreciated on a straight-line basis.

2.8. Intangible assets

(a) Goodwill

Goodwill is the difference between the acquisition cost of a business and the current value of the business's assets, liabilities and contingent liabilities on the acquisition date. Goodwill and other intangible assets with indefinite useful lives are not amortized. Recoverability of their carrying amounts is, however, tested annually and whenever there is objective indication of impairment. Any impairment losses recognized are not subsequently reversed.

(b) Other intangible assets with finite useful lives

An intangible asset with a finite useful life is an identifiable asset without physical substance that is controlled by the entity and from which future economic benefits are expected.

The intangible assets are systematically amortized based on their residual useful life, which is the period over which the assets will be used by the Company, generally between 3 and 5 years. Intangible assets are not considered to have any residual value at the end of their useful life.

In addition, they are carried net of any impairment losses, in line with the accounting treatment for "Property, plant and equipment".

2.9. Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits and highly liquid short-term financial investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value (IAS 7 paragraph 7).

2.10. Equity

The Company's share capital consists of ordinary and savings shares, all without par value, fully subscribed and paid up at the balance sheet date, reduced by any share capital to be received. The value of bought back shares is reported in accordance with IAS 32 as a reduction of subscribed share capital. Such adjustments are reported in the notes only, whilst the historical cost of owned treasury shares is recognized separately as a negative figure that reduces equity.

The costs for equity transactions are used directly as a reduction of reserves.

2.11. Receivables and payables

Receivables and payables are recognized at amortized cost. When the difference between present and par value is insignificant, such as for short-term trade receivables and payables, they are recognized at their par value.

2.12. Current and deferred taxes

Tax expense for the year includes both current and deferred taxation. Income taxes are recognized in the income statement, unless they relate to transactions recognized directly in equity, in which case the relevant tax is also recognized directly in equity.

The current tax expense represents the estimated income tax payable computed on taxable income for the period as determined with reference to current tax rates or those substantially in effect at the balance sheet date. Deferred taxes are recognized using the equity method, based on timing differences between the carrying amounts of the assets and liabilities recognized in the financial statements and the corresponding amounts recognized for tax purposes. Deferred taxes are not recognized for the following timing differences: initial recognition of an asset or liability other than in a business combination which, at the time of the transaction, does not affect accounting profit (loss) or taxable profit (loss); differences associated with investments in subsidiaries and interests in joint arrangements, but only to the extent that it is probable that the reversal will not occur in the foreseeable future. The Company also does not recognize deferred tax liabilities arising on the initial recognition of goodwill. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and deferred tax liabilities can only be offset if the entity has the legal right to offset current tax amounts and the deferred tax amounts relate to income taxes and are levied by the same taxation authority on the same entity or different entities that intend to settle current tax amounts on a net basis or realize the asset and settle the liability at the same time.

Deferred tax assets are recognized to the extent that it is likely that there will be sufficient future taxable income to absorb them. Deferred tax assets are tested for impairment at the end of each reporting period and are reduced to the extent that they are not likely to be recovered.

2.13. Retirement benefits

Post-employment benefits (TFR) are payable under plans which, depending on their economic substance, are classified either as a "defined contribution" plan or a "defined benefit" plan. The Company's liability under defined contribution plans is limited to the payment of contributions to a separate legal entity (including the Government or a fund), and consists of contributions due at the balance sheet date. Liabilities under defined benefit plans, such as post-employment benefits (TFR) pursuant to article 2120 of the Italian Civil Code, less any plan assets, are determined on the basis of actuarial assumptions and the attribution of benefits to periods of service. Actuarial gains and losses relating to defined benefit plans arising from changes in actuarial assumptions or plan terms and conditions are recognized in other comprehensive income.

The measurement of defined benefit plans is carried out by independent actuaries.

2.14. Provisions for risks and charges

Provisions for risks and charges are liabilities, the amount or due date of which are uncertain; they are only detected if:

- the Company has a present (legal or implicit) obligation owing to a past event;
- it is probable that resources will be needed to produce economic benefits to meet the obligation;
- the amount of the obligation can be estimated reliably.

The amount recognized as a provision is, therefore, the best estimate of the expenditure required to settle the present obligation at the balance sheet date or transfer it to a third party. Where the time value of money is material, the provision is equal to the present value of expenditures required to settle the obligation.

2.15. Revenue recognition

Revenue is recognized based on the following phases:

- identify the contract (or contracts) with the customer;
- identify the performance obligations;
- determine the transaction price: the transaction price is the amount of the consideration that the company is entitled to in exchange for the transfer of the promised services to the customer;
- allocate the transaction price to the performance obligations in the contract;
- recognize the revenue when the performance obligation is met.

Specifically, revenue can be recognized:

- at a point in time, when the performance obligation has been met by transferring the promised good or service to the customer, or
- over time, as the performance obligation is met by transferring the promised good or service to the customer.

2.16. Dividends

Dividends to be paid are recognized as liabilities only in the year in which they were approved by the Shareholders' Meeting. Dividends to be received are recorded only when the right to receive payment has been established.

2.17. Non current assets held for sale (IFRS 5)

Non current assets are classified in this category when it is expected that their carrying amount will be recovered mainly through sale rather than through continuing use. The sale must be highly probable, within twelve months of classification as held for sale. The losses due to impairment from the initial classification or subsequent measurements are recognized in the income statement of the year in which they occur.

2.18. Earnings/(loss) per share

Pursuant to IAS 33 paragraph 4, this kind of information is presented only for consolidated figures.

2.19. Use of estimates

The preparation of the separate financial statements and notes thereto in accordance with IFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. The estimates were mainly used to determine: the fair value of investments in equities and funds, investment property, the useful life of non current assets and the related recoverable amount, provisions for credit risks, any eventual impairment losses, the cost of retirement benefits, the estimated current and deferred tax charges, the estimated indefinite useful lives of intangible assets and other provisions.

These estimates and assumptions are periodically checked and any variations are immediately recognized in the income statement. At the balance sheet date, the Directors were of the opinion that the estimates and assumptions used were the best indicators of the actual amounts given the information to hand. In addition, the Directors believed that the estimates and assumptions adopted did not imply any material adjustments to carrying amounts of assets and liabilities.

2.20. Accounting standards not yet applied

The following IFRS accounting standards, amendments and interpretations were endorsed by the European Union, not yet applicable on a compulsory basis and not adopted early by the Company as of December 31, 2022:

- On May 18, 2017, the IASB published IFRS 17 - Insurance Contracts, which is set to replace IFRS 4 - Insurance Contracts. The objective of the new standard is to ensure that an entity will provide pertinent information that faithfully represents the rights and obligations arising from the insurance contracts issued by that entity. The IASB developed the standard to eliminate incongruities and weaknesses inherent in the existing accounting standards, providing a single principle-based framework that would take all types of insurance contracts into account, including the reinsurance contracts held by an insurer.

  Given the Company's business, the directors do not expect a significant effect in the separate financial statements from the adoption of this standard.

- On December 9, 2021, the IASB published an amendment called "Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 - Comparative Information". The amendment is a transition option relating to comparative information on financial assets presented at the date of initial application of IFRS 17. The amendment is aimed at avoiding temporary accounting mismatches between financial assets and liabilities of insurance contracts, and therefore at improving the usefulness of comparative information for readers of the financial statements.

  Given the Company's business, the directors do not expect a significant effect in the separate financial statements from the adoption of this standard.

- On February 12, 2021, the IASB published two amendments named "Disclosure of Accounting Policies- Amendments to IAS 1 and IFRS Practice Statement 2" and "Definition of Accounting Estimates- Amendments to IAS 8". The amendments are intended to improve the notice on accounting policies so as to provide more useful information to investors and other primary users of financial statements as well as help companies to distinguish changes in accounting estimates from changes in accounting policies. These amendments will be effective for periods beginning on or after January 1, 2023. Early application is permitted. The adoption of these amendments is not expected to have significant effects on the financial statements.

- On May 7, 2021, the IASB published an amendment named "Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction". The document clarifies how to account for deferred tax liabilities on certain transactions that could generate assets and liabilities of equal amounts, such as leases and decommissioning obligations. These amendments will be effective for periods beginning on or after January 1, 2023. Early application is permitted. The adoption of these amendments is not expected to have significant effects on the financial statements.

As of December 31, 2022, the competent bodies of the European Union had not yet concluded the approval process required for adoption of the amendments and the standards described below:

- On January 23, 2020, the IASB published an amendment entitled "Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non current" and on October 31, 2022 it published an amendment entitled "Amendments to IAS 1 Presentation of Financial Statements: Non current Liabilities with Covenants". The document aims to clarify how to classify payables and other liabilities as current or non current. The amendments enter into force on January 1, 2024; however, early application is permitted.

  The adoption of these amendments is not expected to have significant effects on the financial statements.

- On September 22, 2022, the IASB published an amendment entitled "Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback". The document requires the seller-lessee to measure the lease liability arising from a sale and leaseback transaction so as not to recognize an income or loss that relates to the retained right of use. These amendments will be effective for periods beginning on or after January 1, 2024. Early application is permitted.

  The adoption of these amendments is not expected to have significant effects on the financial statements.

- On January 30, 2014 the IASB published IFRS 14 - Regulatory Deferral Accounts which allows only first-time adopters to continue to recognize the amounts relative to assets subject to regulated fees ("Rate Regulation Activities") according to the previous accounting standards that had been adopted.

  Since the Company is not a first-time adopter, the standard does not apply.

3. *Financial risk management policy*

In its position as a dynamic investment holding company, KME Group is directly exposed to risks connected with investments and disinvestments. The Company's financial results mainly depend on these transactions and on the dividends distributed by its subsidiaries, and therefore, in addition to the financial performance, they also reflect the investment and dividend distribution policies of the subsidiaries.

Corporate investments are by their nature investments that carry a certain level of risk. Indeed, these types of investments do not provide the certainty that the invested capital will be refunded in full or they could produce cash flows that are insufficient for remuneration of the capital investment or in any case result in performances that could trail behind market performances.

Furthermore, the disinvestment process could require more time than expected and/or be carried out on the basis of terms and conditions that are not fully satisfactory or remunerative. In particular, regarding investments in unlisted companies, whether held directly or indirectly, the absence of risks connected mainly to the liquidability of these investments and their valuation cannot be guaranteed, in consideration: (a) of the possible absence in these companies of control systems similar to those required of companies with listed shares, with the possible consequent unavailability of information flows that are at least equal, insofar as quantity and quality, to the ones available for companies with listed shares; and (b) of the difficulties inherent in carrying out independent audits of the company and therefore assessing the completeness and accuracy of the information they provide. For non controlling investments, whether in listed or unlisted companies, the possibility of influencing the management of the investments in order to promote their growth, including through a relationship with the management and the shareholders of the investee, could be limited.

With reference to the impacts of the COVID-19 pandemic and the relative related risks, please refer to what is set forth in the *Report on operations*.

Types of risk:

a) credit risk: there are no significant geographical concentrations of credit. Existing guidelines guarantee adequate assessment of customers' creditworthiness. This is achieved by selecting customers on the basis of historical experience and equity and/or financial position;

b) liquidity risk: it can arise from difficulties in raising finance for operating activities as and when required. All inflows and outflows and cash balances are centrally monitored. The Company intends to meet its cash requirements for the repayment of short-term financial payables and capital expenditure through cash from operating activities, cash on hand and fresh bank borrowings or the roll-over of existing bank credit;

c) currency risk: the Company is exposed to this risk only indirectly due to the risk that the fair value of the investments operating in currencies other than the Euro will be influenced by changes in exchange rates;

d) interest rate risk: the interest rate risk to which the Company is exposed originates mainly from non current financial liabilities. Floating rate liabilities expose the Company to a cash flow risk, while fixed rate liabilities entail assumption of the risk of a change in fair value;

e) risk of fluctuation of the share value: the Company is exposed to market fluctuations insofar as the listed shares it holds in its portfolio and changes in the market parameters used for determination of the value of investments through valuation techniques. The risk of fluctuations in the values of these equity interests, recognized under the item "Investments in equity interests and fund units" is not actively managed using financial hedging instruments.

4. Notes to the statement of financial position

4.1. Investments

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Investments in subsidiaries	587,632	620,201	(32,569)
Investments in other companies	16,922	16,922	-
Investments	**604,554**	**637,123**	**(32,569)**

The breakdown of the item is as follows:

Name	*Registered office*	*Percentage of interest*	*31/12/2022*	*31/12/2021*	*Difference*
KME Group S.r.l.	Milan	100.00%	480,000	-	480,000
KME SE	Osnabrück (D)	99.00%	58,410	578,300	(519,890)
Culti Milano S.p.A.	Milan	77.17%	37,982	28,904	9,078
Intek Investimenti S.p.A.	Milan	100.00%	11,200	11,200	-
KME Germany Bet. GmbH	Osnabrück (D)	100.00%	-	1,700	(1,700)
Ergyca Tracker 2 S.r.l.	Florence	51.00%	24	81	(57)
Newint S.r.l.	Milan	100.00%	10	10	-
Nextep S.r.l. Benefit Company	Milan	60.00%	6	6	-
Investments in subsidiaries			**587,632**	**620,201**	**(32,569)**
Ducati Energia S.p.A.	Bologna		16,700	16,700	-
Vita Società Editoriale S.p.A.	Milan		222	222	-
Investments in other companies			**16,922**	**16,922**	**-**
Investments			**604,554**	**637,123**	**(32,569)**

Details of changes during the year are provided below:

Name	*31/12/2021*	*Increases*	*Decreases*	*Change in fair value*	*31/12/2022*
Subsidiaries					
KME Group S.r.l.	-	480,000		-	480,000
KME SE	578,300	-	(519,890)	-	58,410
Culti Milano S.p.A.	28,904	-	-	9,078	37,982
Intek Investimenti S.p.A.	11,200	-	-	-	11,200
KME Germany Bet. GmbH	1,700	-	(1,700)	-	-
Ergyca Tracker 2 S.r.l.	81	-	(57)	-	24
Newint S.r.l.	10	-	-	-	10
Nextep S.r.l. Benefit Company	6	-	-	-	6
Investments in subsidiaries	**620,201**	**480,000**	**(521,657)**	**9,078**	**587,632**
Ducati Energia S.p.A.	16,700	-	-	-	16,700
Vita Società Editoriale S.p.A.	222	-	-	-	222
Investments in other companies	**16,922**	**-**	**-**	**-**	**16,922**
Investments	**637,123**	**480,000**	**(521,657)**	**9,078**	**604,554**

Carrying amount of investments

It should be noted that since April 22, by virtue of the adoption of a new strategy aimed at the industrial management of the copper sector, the Company has lost the qualification of "investment entity" with the consequent elimination of the exception to the consolidation applied to the financial statements as of December 31, 2014, which envisaged the measurement of investments in subsidiaries at fair value through profit or loss in compliance with IFRS 9 also in the separate financial statements, instead of carrying out line-by-line consolidation.

The effects of the loss of "investment entity" status, applied prospectively (as outlined in paragraph 30 of IFRS 10), require that the date of the change of status be considered as the deemed acquisition date and that the fair value of the subsidiary at the deemed acquisition date represent the deemed consideration transferred for the purpose of identifying the assets and liabilities on which to allocate the "price" of the acquisition with the determination of goodwill or profit resulting from a favourable purchase following the deemed acquisition.

Taking into consideration the aforementioned effects on the consolidated financial statements, at the level of the separate financial statements, starting from the date of change of status of the investment entity, the Company changed the measurement criterion of the financial statement item "Investments in equity interests and fund units" and therefore the fair value criterion was replaced by the cost criterion. In this regard, for existing investments, the fair value at the date of change of status of "investment entity" therefore represents the new recognition cost.

Specifically, with reference to the determination of the fair value as of April 22, 2022 of the 99% stake held - directly and indirectly - in KME SE, which represents approximately 90% of the value of the financial statements item, an update of the information necessary to determine the fair value as of April 22, 2022 to be used in the development of the valuation model according to the Unlevered Discounted Cash Flow method and market and transaction multiples.

The analysis of the endogenous information showed that, compared to the valuation carried out as of December 31, 2021, there had been no changes to the inputs to be used in the model. At the reference date of the valuation, it was noted that:

- there were no changes to the 2022-2026 business plan approved in March 2022 (the "Plan");
- the assumptions underlying the Plan (market growth, effect of revision of KME price policies, change in business model) were still valid even taking into consideration the existing economic situation characterized by the ongoing war between Russia and Ukraine;
- there was no evidence that disavowed the elements characterizing the Plan itself or the feasibility of its components;
- the two extraordinary disposals finalised in the first few months of 2022 (Special and Wires) were carried out at values in line with what was already taken into consideration in the Plan and in the estimate of the fair value as of December 31, 2021.

The updating of external data in the model (such as the discount rate and the market and transaction multiples), and therefore only of some components for which an update was detected at the valuation reference date (applied to a complex valuation model such as that used for KME SE) would not have led to values representative of fair value, but would have produced incomplete results with reduced reliability compared to the results of the valuation previously carried out as of December 31, 2021. Moreover, the analyses carried out on the performance of these data showed a limited deviation in the value of the same with respect to those used in the valuation as of December 31, 2021.

In light of the above considerations, with reference to the determination of the value as of April 22, 2022 of the investment in KME Group S.r.l. and the residual share of the investment in KME SE held directly by the Company, it was concluded that the most reasonable estimate of the fair value was that already carried out with reference to December 31, 2021 and it was considered that the fair value of KME SE recognized as of December 31, 2021 of a total of € 578,300 thousand represented the best estimate of the fair value as of April 22, 2022.

For Culti Milano S.p.A., the stock market listing value as of April 22, 2022 was considered, recording an increase in value of € 9,078 thousand compared to December 31, 2021. With regard to other investments in unlisted investments (level 3 fair value), as no significant events occurred that could have influenced the value of the investments, the fair value as of December 31, 2021 was considered the best estimate of fair value as of April 22, 2022.

For further comments, please refer to what is specified in the introductory part of these explanatory notes (paragraph 2.1).

Impairment test as of December 31, 2022

The carrying amount of the investments was subject to impairment as required by the reference accounting standards, although no specific impairment indicators emerged on the individual investments, either internal or external.

The aforementioned impairment tests were also carried out by taking into account the provisions of IAS 36 and the ESMA and Consob recommendations, and therefore taking into consideration all the potential external effects on the Group's business stemming from the pandemic and the Russia-Ukraine conflict.

The results relating to the main investments held are provided below.

<u>KME Group S.r.l./KME SE</u>

In particular, with regard to the investment held, also through KME Group S.r.l., in KME SE, the impairment test was carried out, with the methodological support of an external consultant, by determining the "value in use" using the method of discounted cash flows (UDCF).

The UDCF method was developed by using, as an information base, economic forecasts and changes in some statement of financial position items included in the KME SE 2023 - 2027 Business Plan (the "Plan", drafted and approved by the administrative bodies of KME SE on March 24, 2023) starting from the flows of the first half of 2023 and taking into account the data reported as of December 31, 2022. The approved Plan reflects the best estimate of the main macroeconomic and economic developments that could affect the business of the KME SE Group.

The terminal value was calculated by assuming the long-term EBITDA equal to the average of the Plan's EBITDA (explicit period, January 1, 2023 - December 31, 2027), with a level of amortization corresponding to investment using a long-term growth rate "g" equal to zero, reaching a WACC of 9.67% (rate of 9.35% in the fair value measurements carried out as of December 31, 2021) taking into account recorded historical data.

The WACC rate was determined on the basis of the following parameters:

- risk free rate: average for the second half of 2022 of ten-year government bonds for each country;
- market risk premium: equal to 5.50%;
- additional equity cost risk 3.05%;
- cost of debt: approximately 2.56%;
- Unlevered Beta: approximately 0.87.

In accordance with the methodological indications provided by accounting standard IAS 36, a sensitivity analysis was also carried out in order to understand how the recoverable amount may vary following changes in the value of EBITDA (decreases of 5% and 10%) on the terminal value. Moreover, in order to better appreciate the sensitivity of the results of the impairment test with respect to the changes in the basic assumptions, at the same growth rate (equal to zero), a sensitivity analysis was also carried out for the purpose of calculating the value in use with respect to the overall WACC discount rate (an increase of 0.5% and 1.0%) used to calculate the terminal value.

Both in the base case and in the case of a joint worsening of the EBITDA and WACC parameters, the impairment test carried out has ascertained that there are no impairment losses on the investments.

<u>CULTI Milano S.p.A.</u>

The impairment test on the investment in CULTI Milano was also carried out on the basis of the UDCF applied to its subsidiaries.

For each party (entity), the terminal value was calculated on the basis of the related historical EBITDA and considering the forecast data (explicit period, January 1, 2023 - December 31, 2025), using a long-term growth rate "g" equal to zero and reaching a specific WACC for each party (entity); taking into account the contribution of each country to the EBITDA Terminal Value, the weighted average discount rate applied is around 10.89%.

Also for the investments in CULTI Milano, for each part, a sensitivity analysis was carried out in order to understand the change in the recoverable amount following changes in the value of the EBITDA (decrease of 5% and 10%) on the terminal value and, at the same growth rate (equal to zero), the total WACC discount rate (increase of 0.5% and 1.0%).

Both in the base case and in the case of a joint worsening of the EBITDA and WACC parameters, the impairment test carried out has ascertained that there are no impairment losses on the investments under review.

In addition, similarly to what was carried out for the purpose of determining the fair value in the separate financial statements drawn up as of December 31, 2021, liquidity and trend analyses on the stock were also conducted, (on the volumes traded, both in terms of the number of shares and the monetary value exchanged), also with reference to comparables. These analyses showed that, during the last year (January 3, 2022 - December 31, 2022), in the various time horizons of 1 month, 3 months, 6 months and one year, the trading volumes of the CULTI Milano stock were in line with those of the comparables and this would therefore suggest that the stock market price method is still a meaningful way of determining the theoretical current value of CULTI Milano for the purposes of the impairment test. This valuation would also be higher than the carrying amount of the investment.

Intek Investimenti S.p.A.

For this company, for the purposes of the impairment test, the recoverable amount was determined on the basis of the adjusted equity value considering the current values of the related assets.

4.2. Non current financial assets

This item consists of the following:

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Guarantee fees receivable	1	5	(4)
Other non current financial assets	10	-	10
Non current financial assets	**11**	**5**	**6**

"*Guarantee fees receivables*" represent the present value of guarantee fees that are receivable in future years, in more than 12 months, for guarantees issued by the Company to banks on behalf of the non-consolidated subsidiaries to which the loans and credit facilities were granted. These receivables are matched by payables of an equal amount.

4.3. Property, plant and equipment

The breakdown of the item is as follows:

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Buildings	2,355	2,766	(411)
Machinery	-	-	-
Other equipment	896	727	169
Property, plant and equipment	**3,251**	**3,493**	**(242)**

Below is the breakdown between owned and leased assets:

(in € thousand)	*Owned*	*Leased*	**Total**
Buildings	-	2,355	**2,355**
Machinery	-	-	**-**
Other equipment	855	41	**896**
Property, plant and equipment	**855**	**2,396**	**3,251**

For owned assets, the changes during the reporting period under review and those of the previous reporting period can be analysed as follows:

(in € thousand)	*Buildings*	*Machinery*	*Other equipment*	*Total*
Cost				
Balance as of December 31, 2020	-	170	2,084	2,254
Increases	-	-	186	186
Disposals	-	-	-	-
Balance as of December 31, 2021	-	170	2,270	2,440
Increases	-	-	237	237
Disposals	-	-	-	-
Balance as of December 31, 2022	-	170	2,507	2,677
Accumulated depreciation				
Balance as of December 31, 2020	-	170	1,588	1,758
Increases	-	-	33	33
Disposals	-	-	-	-
Balance as of December 31, 2021	-	170	1,621	1,791
Increases	-	-	31	31
Disposals	-	-	-	-
Balance as of December 31, 2022	-	170	1,652	1,822
Net carrying amount				
31-Dec-2020	-	-	496	496
31-Dec-2021	-	-	649	649
Dec-31-2022	**-**	**-**	**855**	**855**

Changes in leased assets were as follows:

(in € thousand)		*Buildings*	*Machinery*	*Other equipment*	*Total*
Cost					
Balance as of December 31, 2020		4,456	-	126	4,582
Increases		132	-	37	169
Disposals		(82)	-	(33)	(115)
Balance as of December 31, 2021		4,506	-	130	4,636
Increases		205	-	-	205
Disposals		(16)	-	-	(17)
Balance as of December 31, 2022		4,695	-	130	4,825
Accumulated depreciation					
Balance as of December 31, 2020		1,159	-	41	1,200
Increases		581	-	40	621
Disposals		-	-	(29)	(29)
Balance as of December 31, 2021		1,740	-	52	1,792
Increases		600	-	37	637
Disposals		-	-	-	-
Balance as of December 31, 2022		2,340	-	89	2,429
Net carrying amount					
	31-Dec-2020	3,297	-	85	3,382
	31-Dec-2021	2,766	-	78	2,844
	Dec-31-2022	**2,355**	**-**	**41**	**2,396**

4.4. Investment property

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Investment property	**32**	**32**	**-**

4.5. Intangible assets

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Other	10	12	(2)
Intangible assets	**10**	**12**	**(2)**

The item refers to assets that have a definite useful life and relate to software.

The movements relative to the year under review and the previous year are shown below:

(in € thousand)		*Total*
Cost		
Balance as of December 31, 2020		22
Increases		8
Decreases		-
Balance as of December 31, 2021		30
Increases		2
Decreases		-
Balance as of December 31, 2022		32
Accumulated amortization		
Balance as of December 31, 2020		15
Increases		3
Decreases		-
Balance as of December 31, 2021		18
Increases		4
Decreases		-
Balance as of December 31, 2022		22
Net carrying amount		
	31-Dec-2020	7
	31-Dec-2021	12
	Dec-31-2022	**10**

4.6. Other non current assets

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Other receivables	3	3	-
Other non current assets	**3**	**3**	**-**

The item refers exclusively to guarantee deposits.

4.7. Current financial assets

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Financial receivables due from related companies	65,787	832	64,955
Guarantee fees receivable	777	235	542
Financial assets held for trading	272	257	15
Other current financial assets	235	25,120	(24,885)
Current financial assets	**67,071**	**26,444**	**40,627**

"*Financial receivables due from related companies*" as of December 31, 2022 include receivables from the direct subsidiaries KME Group S.r.l. (now KMH S.p.A.) for € 64,354 thousand, of which € 43,723 thousand as a deferred portion of the consideration for the sale of the investments in KME SE and KME Bet Gmbh and € 1,493 thousand due to Intek Investimenti. These amounts are net of adjustments of € 62 thousand made pursuant to IFRS 9.

"Guarantee fees receivable" are the amount of guarantee fees that are receivable within 12 months, for guarantees issued by the Intek Group to banks on behalf of subsidiaries, in particular KME SE, to which loans and credit facilities were granted. These receivables are matched by payables of an equal amount.

The item *"Other current financial assets"* included as of December 31, 2021 a deposit of € 24,886 thousand pledged to guarantee the outstanding credit facility with Banco BPM, expiring in June 2022. This deposit was subsequently released as part of the loan rescheduling agreements.

In reference to the Consob Communication no. DEM/11070007 of August 5, 2011 which drew on the document issued by the European Securities and Markets Authority (ESMA), it is specified that the Company has no investments in sovereign debt securities.

4.8. Trade receivables

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Receivables - lease and factoring activities	1,491	2,987	(1,496)
Receivables - related companies	3,930	2,052	1,878
Trade receivables	**5,421**	**5,039**	**382**

The "*Receivables - lease and factoring activities*" relate to non-performing loans from the business previously handled by Fime Leasing and Fime Factoring.

The "*Receivables - related companies"* mainly refer to guarantee fees already invoiced as well as consultations and administrative services provided.

4.9. Other receivables and current assets

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Tax receivables	639	643	(4)
Receivables - special situation activities	-	-	-
Prepayments and accrued income	39	109	(70)
Receivables - related companies	990	2,495	(1,505)
Other	51	2,433	(2,382)
Other receivables and current assets	**1,719**	**5,680**	**(3,961)**

The *"Tax receivables"* include receivables for direct taxes of € 455 thousand, of which € 383 thousand and VAT credits of € 461 thousand.

Prepayments and accrued income are due to the recording of prepayments mainly for travel costs and services attributable to subsequent periods.

"*Receivables - related companies*" include positions arising from the tax consolidation.

The item *"Other receivables"* of the last year included pending costs relating to ongoing projects, of which € 2,273 thousand relating to consulting performed as part of extraordinary transactions not yet finalised and which were recovered during the financial year through debits.

All the receivables are due within twelve months.

4.10. *Cash and cash equivalents*

This item consists of bank and postal deposits and cash on hand.

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Bank and postal deposits	503	4,695	(4,192)
Cash on hand	5	3	2
Cash and cash equivalents	**508**	**4,698**	**(4,190)**

For details of the liquidity generated and absorbed during the year, please refer to the Company's statement of cash flows.

4.11. *Equity*

The "*Share Capital*" as of December 31, 2022 is equal to € 200,070,087.67 divided into 306,937,071 ordinary shares (95.27% of the share capital) and 15,246,505 savings shares (4.73% of the share capital). None of the shares have a par value. The share capital was reduced by € 135,000,000 through transfer to the reserve.

	Ordinary shares		*Savings shares*	
	31 Dec 2022	*31 Dec 2021*	*31 Dec 2022*	*31 Dec 2021*
Issued on January 1	389,151,588	389,131,478	16,325,063	50,109,818
Cancelled for OPSC	(82,302,194)	-	(1,078,558)	(33,784,755)
New issue	87,677	20,110	-	-
Issued on December 31	**306,937,071**	**389,151,588**	**15,246,505**	**16,325,063**

During the year, 86,554 ordinary shares following the exercise of warrants were issued and 83,380,752 shares, of which 82,302,194 ordinary shares and 1,078,558 savings shares, were cancelled as a result of the public exchange offer; as of December 31, 2022, the Company holds 6,937,311 ordinary treasury shares equal to 2.26% of the ordinary share capital (2.15% of the total capital). There were no changes in this item during 2022.

The breakdown of the items "*Other reserves*" and "*Retained earnings*" is shown below:

(in €)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Legal reserve	12,352,515	9,087,214	3,265,301
Share premium reserve	4,062,893	4,031,763	31,130
Available reserve (extraordinary)	223,769,165	9,261,714	214,507,451
ErgyCapital merger deficit reserve	-	2,172,157	(2,172,157)
Reserve for treasury shares held	2,133,266	2,133,266	-
Reserve pursuant to Italian Legislative Decree 38/2005	43,946,212	68,696,097	(24,749,885)
Tax suspension reserve	3,484,481	3,484,481	-
Costs associated with a share capital increase	-	(399,111)	399,111
Reserve for 2021 OPSC Costs and Warrants	-	(641,827)	641,827
Reserve for 2012 OPS costs	-	(801,606)	801,606
Reserve for 2022 OPS costs	(1,194,711)	-	(1,194,711)
Reserve for IFRS differences on post-employment benefits	1,951	(23,141)	25,092
Gain/loss reserve for treasury shares	-	28,458	(28,458)
Other reserves	**288,555,772**	**97,029,466**	**191,526,306**
Reserve for adjustment of receivables FTA IFRS 9	-	(1,376,218)	1,376,218
Reserve for deferred taxes FTA IFRS9	-	330,294	(330,294)
Retained earnings	-	54,886,056	(54,886,056)
Retained earnings	**-**	**53,840,132**	**(53,840,132)**

The *"Legal reserve"* can be used to cover losses.

The *"Reserve pursuant to Italian Legislative Decree 38/2005"* was established in previous years based on the results of the fair value measurements of investments held for investment purposes. It refers to € 678,444 to investments valued and still currently recognized at fair value and for € 43,267,768 to investments recognized at cost following the abandonment of the status of "investment entity."

The available *"Extraordinary reserve"* increased due to the reduction in share capital and the release of unavailable reserves due to the transfer and sale of investments in 2022.

Pursuant to Article 2431 of the Italian Civil Code, the available "*Share premium reserve*", which increased due to the exercise of warrants, may be distributed to shareholders subject to a minimum balance on the Legal Reserve of one fifth of share capital.

The *"Tax suspension reserve"* originated as part of the extraordinary transactions of 2012, deriving from the merged company Intek S.p.A.

The items *"ErgyCapital merger deficit reserve"*, *"Costs associated with a share capital increase"*, *"Reserve for 2021 OPSC Costs and Warrants"* and *"Reserve for 2012 OPS costs"* were reclassified to the Extraordinary reserve.

The free and available *"Stock Option Reserve"* arises as a result of the valuation according to IFRS 2 of the remuneration plans.

4.12. Retirement benefits

This item relates to the "*Post-employment Benefits"*; the amount is determined based on the vested benefits at the end of the year, in compliance with law employment contracts and IAS 19, and is composed as follows:

(in € thousand)	*31 Dec 2021*	*Increases*	*Contributions to Funds*	*Decreases*	*31 Dec 2022*
Clerical workers	263	62	(10)	(8)	307
Executives	98	44	(29)	-	113
IFRS Adjustments	57	-	-	(48)	9
Retirement benefits	**418**	**106**	**(39)**	**(56)**	**429**

The main criteria used in the measurement of *"Retirement benefits"* are as follows:

General criteria	*31 Dec 2022*	*31 Dec 2021*
Discount rate	3.77%	0.98%
Rate of increase in future remuneration	1%	1%
Average remaining working life	10.3 years	12.0 years
General criteria		

A discount rate based on the "*Iboxx Eurozone Corporate AA*" index was used also as of December 31, 2022 for the actuarial valuation of post-employment benefits (TFR).

4.13. Non current financial payables and liabilities

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Payables for financial guarantees issued	1	5	(4)
Liabilities to banks	-	-	-
Lease liabilities - related parties	2,016	2,395	(379)
Lease liabilities	10	46	(36)
Non current financial payables and liabilities	**2,027**	**2,446**	**(419)**

The items *"Lease liabilities"* represent financial liabilities, maturing beyond twelve months, recognized in application of IFRS 16 and refer to properties and cars; liabilities to related parties refer to payables to Immobiliare Pictea for the leases of the properties in Foro Buonaparte, Milan.

The item "*Payables for financial guarantees issued*" represents the contra-entry of the item recorded under non current financial assets having the same origin and it represents the fair value of the liabilities assumed against the guarantees issued, having assessed any risk situations and consequently the contingent liabilities, pursuant to the instructions set forth in IAS 37. Since the item refers in its entirety to guarantees connected to loans obtained by subsidiaries, it is considered that the current value of the commissions to be collected, recognized as part of current and non current financial assets, represents the best estimate of fair value of the contingent liabilities in relation to the guarantees issued.

4.14. Bonds

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
KME Group bonds - 4.5% - 2020/2025	92,506	92,372	134
KME Group bonds - 5.0% - 2022/2027	63,485	-	63,485
Bonds	**155,991**	**92,372**	**63,619**

The item refers:

- to the KME Group 2020/2025 bonds, issued in February 2020 with a fixed rate of 4.5%, outstanding for a nominal amount of € 75,854 thousand, to which additional nominal values of € 16,965 thousand were added in 2021 as a result of the public exchange offer on savings shares. The outstanding bonds are therefore equal to € 92,819 thousand;
- to the KME Group 2022/2027 bonds, issued in September 2022 with a fixed rate of 5.0% outstanding for a nominal amount of € 63,533 thousand as a result of the public exchange offers on ordinary shares, savings shares and warrants.

All bonds are shown net of the issue costs, which are deferred along the duration of the security so as to determine a constant effective interest rate.

4.15. Other non current liabilities

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Payables for guarantees issued	-	18	(18)
Liabilities for "special situations"	-	95	(95)
Other non current liabilities	**-**	**113**	**(113)**

"Liabilities for special situations" originated as part of agreements with creditors and referred to advances linked to former Fime Leasing positions.

4.16. Provisions for risks and charges

A summary of the movements relating to the provisions for risks and charges is as follows:

(in € thousand)	*December 31, 2021*			*Increases*	*Released/ Utilized*	*December 31, 2022*		
	Non current	*Current*	*Total*			*Non current*	*Current*	*Total*
Provisions for tax dispute risks	291	-	291	-	(291)	-	-	-
Total	**291**	**-**	**291**	**-**	**(291)**	**-**	**-**	**-**

The *"Provisions for tax dispute risks"* relate to disputes concerning stamp duty and Invim of the Fime group.

At the approval date of these financial statements, as far as the Management is aware, there were no other significant contingent liabilities.

4.17. Current financial payables and liabilities

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Liabilities to banks	19,998	25,223	(5,225)
Bonds	4,478	3,616	862
Payables for financial guarantees issued	777	235	542
Liabilities to related companies	715	-	715
Lease liabilities - related parties	514	465	49
Lease liabilities	73	138	(65)
Current financial payables and liabilities	**26,555**	**29,677**	**(3,122)**

The "*Liabilities to banks"* refers to a € 20,000 thousand credit facility and the relative interest with Banco BPM, with maturity in December 2023, secured by pledge on Culti Milano shares.

The item "*Bonds*", totalling € 4,478 thousand, relates to interest accruing on the *KME Group S.p.A. 2020/2025 Bond* (€ 3,616 thousand) and on the *KME Group S.p.A. 2022/2027 Bond* (€ 862 thousand).

The item "*Payables for financial guarantees issued*" represents the contra-entry of the item with the same origin, entered in the current financial assets. For further details, please refer to comment to paragraphs 4.8 and 4.14.

"Lease liabilities" relate to the short-term share of the registered financial liability in application of IFRS 16.

4.18. Trade payables

The carrying amount of trade payables is believed to approximate their fair value.

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Trade payables - third parties	1,364	1,701	(337)
Trade payables - related parties	625	538	87
Trade payables	**1,989**	**2,239**	**(250)**

4.19. Other current liabilities

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Liabilities to directors for end of office indemnity	793	769	24
Liabilities to former lease customers	-	1,266	(1,266)
Liabilities to employees	200	221	(21)
Tax liabilities	605	126	479
Liabilities to related companies	248	547	(299)
Liabilities to social security	108	91	17
Other liabilities	585	793	(208)
Other current liabilities	**2,539**	**3,813**	**(1,274)**

"*Liabilities to directors for end of office indemnity*" refer to the residual amount due to the Chairman of the Board of Directors for the end of office indemnity accrued to December 31, 2012, the date on which the office ended. The Chairman has allowed the payment due date to be extended to December 31, 2023.

"*Liabilities to former lease customers*" related to sums received by way of advance from customers and not offset with credit entries.

The item *"Liabilities to related companies"* includes the payables to directors for accrued remuneration.

The item *"Liabilities to employees"* mainly refers to amounts which have accrued but have not yet been settled.

The item *"Tax liabilities"* mainly included payables for withholding taxes to be paid as of December 31, 2021, while in the current year it also includes the payable resulting from the group tax consolidation.

4.20. Deferred tax assets and liabilities

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Deferred tax assets	2,093	2,762	(669)
Deferred tax liabilities	(852)	(2,221)	1,369
Deferred tax assets and liabilities	**1,241**	**541**	**700**

Deferred tax assets and liabilities can be broken down by asset and liability item as follows:

(in € thousand)	*Deferred tax assets*		*Deferred tax liabilities*	
	31 Dec 2022	*31 Dec 2021*	*31 Dec 2022*	*31 Dec 2021*
Investment property	9	9	-	-
Investments in equity interests	-	-	533	1,602
Trade receivables	927	1,370	319	619
Current financial assets	16	34	-	-
Other current liabilities	511	515	-	-
Deferred taxes on equity components	630	130	-	-
Deferred taxes on tax loss carryforward	-	704	-	-
Total	**2,093**	**2,762**	**852**	**2,221**

Deferred taxes are computed on timing differences between the amounts of assets and liabilities recognized in the financial statements and the corresponding amounts recognized for tax purposes.

"Deferred taxes on tax loss carryforward" are recognized only when their recovery is highly probable, including in consideration of the tax consolidation, with the KME Group as the Parent Company.

5. Commitments and guarantees

KME Group S.p.A. is the guarantor for KME SE and its main subsidiaries for € 100 million for the loan obtained from a pool of banks and for additional bank credit facilities for € 15.0 million.

A loan disbursed to Tecno Servizi Srl (a company merged into Immobiliare Pictea S.r.l. in 2017) is also subject to a guarantee from Mediocredito originally for € 7.8 million, with a residual value of € 3.6 million.

In December 2015, the Company indicated its willingness to issue a guarantee of up to € 5.0 million for Associazione Dynamo for the granting of a mortgage loan for the renovation of certain buildings located in Limestre. This mortgage is also secured by other collaterals; it amounts to € 1.5 million as of December 31, 2022.

6. <u>*Notes to the income statement*</u>

6.1. Net income from management of investments

This item consists of the following:

(in € thousand)	*2022*	*2021*	*Change*	*% Change*
Measurement of investments at fair value	9,077	72,970	(63,893)	-87.56%
Dividends	1,013	475	538	113.26%
Gains/(losses) from the sale of investments and securities	-	(57)	57	-100.00%
Net income from management of investments	**10,090**	**73,388**	**(63,298)**	**-86.25%**

In particular, for the year 2022:

- the measurement of investments at fair value refers to the capital gain resulting from the measurement at fair value of the investment in Culti Milano S.p.A. carried out at the stock market value at the date of change of status of investment entity;
- dividends for € 755 thousand from Ducati Energia, € 239 thousand from CULTI Milano and € 19 thousand from Ergyca Tracker.

On the other hand, with reference to the year 2021:

- the measurement of investments at fair value refers to € 68,800 thousand to KME SE, € 1,604 thousand to CULTI Milano S.p.A., € 1,496 thousand to Intek Investimenti S.p.A., € 769 thousand to Ducati Energia S.p.A. and € 300 thousand to KME Germany Bet. GmbH;
- dividends originated for € 285 thousand from Ducati Energia and € 191 thousand from Culti Milano;
- the losses from the sale and linked to the closing of the liquidation of I2 Capital Partners SGR which took place in the first half of 2021.

For further details, please see the comments under the corresponding asset items.

6.2. Commissions on guarantees issued

(in € thousand)	*2022*	*2021*	*Change*	*% Change*
Commissions on guarantees issued	862	865	(3)	-0.35%
Commissions on guarantees issued	**862**	**865**	**(3)**	**-0.35%**

These refer to the remuneration of the guarantees issued to investee companies for securing loans.

6.3. Other income

(in € thousand)	*2022*	*2021*	*Change*	*% Change*
Income from "special situations"	63	767	(704)	-91.79%
Provision of services to related companies	4,623	130	4,493	3456.15%
Other income and revenues	828	110	718	652.73%
Other income	**5,514**	**1,007**	**4,507**	**447.57%**

"Income from special situations" refers to Intek's activities connected to the undertaking of compositions with creditors.

The item *"Provision of services to related companies"* contains only the amounts invoiced for administrative support services to related companies, including for extraordinary transactions.

The item *"Other income and revenues"* includes income deriving from the write-off of prescribed payables for € 647 thousand.

6.4. Personnel cost

(in € thousand)	*2022*	*2021*	*Change*	*% Change*
Wages and salaries	(1,265)	(965)	(300)	31.09%
Social security contributions	(380)	(321)	(59)	18.38%
Other personnel costs	(485)	(581)	96	-16.52%
Personnel cost	**(2,130)**	**(1,867)**	**(263)**	**14.09%**

Other personnel costs include remuneration to associates of € 218 thousand, in addition to contribution expense of € 110 thousand, costs for a welfare plan of € 103 thousand and an allocation to the employees' post-employment benefits (TFR) of € 95 thousand.

The average number of employees is given here below:

	31 Dec 2022	*31 Dec 2021*	*Change*
Executives	3	3	0
Clerical workers	11	10	1
Workers	1	-	1
Average number of employees	**15**	**13**	**1**

6.5. Depreciation, amortization and impairments

(in € thousand)	*2022*	*2021*	*Change*	*% Change*
Depreciation on property, plant and equipment	(31)	(33)	2	-6.06%
Depreciation on leased assets	(637)	(621)	(16)	2.58%
Amortization on intangible assets	(4)	(3)	(1)	33.33%
Depreciation, amortization and impairments	**(672)**	**(657)**	**(15)**	**2.28%**

6.6. *Other operating costs*

(in € thousand)	*2022*	*2021*	*Change*	*% Change*
Directors' and Statutory Auditors' fees	(1,246)	(1,228)	(18)	1.47%
Professional services	(1,372)	(1,448)	76	5.25%
Travel costs	(303)	(375)	72	-19.20%
Other personnel expense	(85)	(95)	10	-10.53%
Legal and company disclosure	(93)	(108)	15	-13.89%
Electricity, heating, postal and telephone costs	(69)	(41)	(28)	68.29%
Insurance premiums	(99)	(90)	(9)	10.00%
Training and seminars	(22)	(2)	(20)	1000.00%
Property leases	(336)	(265)	(71)	26.79%
Maintenance	(24)	(40)	16	-40.00%
Rent and lease expense	(15)	(17)	2	-11.76%
Other taxes	(29)	(37)	8	-21.62%
Membership fees	(252)	(232)	(20)	8.62%
Other net costs	(423)	(250)	(173)	69.20%
Donations	(51)	(26)	(25)	96.15%
Bank fees	(8)	(8)	-	0.00%
	(4,427)	*(4,262)*	*(165)*	*3.87%*
Release of provisions	291	-	291	n/a
Charges on warrants	(2,085)	(540)	(1,545)	286.11%
Losses on receivables	-	-	-	n/a
Other operating costs	**(6,221)**	**(4,802)**	**(1,419)**	**29.55%**

The "*Charges on warrants*" include the effects of the actuarial calculation in application of the provisions of IFRS 2 and have as a counter-entry an increase in equity.

6.7. *Net financial expense*

(in € thousand)	*2022*	*2021*	*Change*	*% Change*
Interest income from group companies	*2,776*	*203*	2,573	1267.49%
Other financial income and interest	*147*	*89*	58	65.17%
Total financial income	2,923	292	2,631	901.03%
Interest paid by group companies	*(33)*	*(30)*	(3)	10.00%
Loan interest expense	*(643)*	*(225)*	(418)	185.78%
Interest expense on securities issued	*(5,160)*	*(3,940)*	(1,220)	30.96%
Interest expense for leases	*(134)*	*(157)*	23	-14.65%
Other financial expenses	*(62)*	*(23)*	(39)	169.57%
Total financial expenses	(6,032)	(4,375)	(1,657)	37.87%
Financial result	**(3,109)**	**(4,083)**	**974**	**-23.86%**

The increase in *"Interest income from group companies"* is due to the deferred payment on the sale of the investments to KME Group S.r.l.

"*Interest expense on securities issued*" increased due to the issue of the new *KME Group S.p.A. 2022/2027 bond*.

The breakdown of the interest income and interest expense from related parties is provided under paragraph 7.12.

6.8. Current and deferred taxes

(in € thousand)	*2022*	*2021*	*Change*	*% Change*
Current taxes	140	1,894	(1,754)	-92.61%
Deferred taxes	700	(438)	1,138	-259.82%
Current and deferred taxes	**840**	**1,456**	**(616)**	**n/a**

Since 2007, KME Group S.p.A. and most of its Italian subsidiaries have elected to apply the Italian domestic tax consolidation regime, determining IRES (Italian corporate income tax) on a taxable base that corresponds to the algebraic sum of the taxable income and losses of each of the participating entities. The financial relationships, responsibilities and mutual obligations are set out in the domestic tax consolidation regime agreement and regulations, according to which taxable losses of the Parent Company and/or subsidiaries can be offset against the tax savings realized by the Parent Company and/or subsidiaries with taxable income.

Reconciliation of theoretical tax charge and the effective charge:

(in € thousand)	*2022*	*2021*
Profit before tax	**4,334**	**63,851**
Tax charge at theoretical rate	(1,040)	(15,324)
- Impairment losses on securities and investments that are non-deductible/non-taxable	-	(14)
- Fair value measurements	2,179	17,513
- Other	(1,631)	(1,087)
- Previous year taxes	90	367
- Use of previous losses for taxable income	1,242	-
Total effective tax charge	**840**	**1,455**

7. Additional information

7.1. Financial instruments by category

Additional information on financial instruments by category of financial assets and liabilities is presented below; please note that the table also shows miscellaneous receivables and other assets as well as miscellaneous payables and other liabilities.

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Financial assets at fair value through profit or loss	950	637,620	(636,670)
Financial assets at fair value through other comprehensive income	16,922	-	16,922
Amortized cost	73,105	40,729	32,376
Financial instruments - Assets	**90,977**	**678,349**	**(587,372)**
Financial liabilities at fair value through profit or loss	(778)	(240)	(538)

Financial payables and liabilities at amortized cost	(187,718)	(130,292)	(57,426)
Financial instruments - Liabilities	**(188,496)**	**(130,532)**	**(57,964)**

7.2. Financial instruments by financial statement item

The reconciliation of financial instruments with financial statement items as of December 31, 2022 is provided below:

(in € thousand)	*Total*	*At cost*	*At fair value*	*Outside the scope of IFRS 7*
Investments in other companies	16,922	-	16,922	-
Other non current assets	3	3	-	-
Non current financial assets	11	10	1	-
Trade receivables	5,421	5,421	-	-
Other receivables and current assets	1,719	1,041	-	678
Current financial assets	67,071	66,122	949	-
Cash and cash equivalents	508	508	-	-
Financial instruments - Assets	**91,655**	**73,105**	**17,872**	**678**
Non current financial payables and liabilities	(2,027)	(2,026)	(1)	-
Bonds	(155,991)	(155,991)		-
Other non current liabilities	-	-	-	-
Current financial payables and liabilities	(26,555)	(25,778)	(777)	-
Trade payables	(1,989)	(1,989)	-	-
Other current liabilities	(2,539)	(1,934)	-	(605)
Financial instruments - Liabilities	**(189,101)**	**(187,718)**	**(778)**	**(605)**

7.3. Notional value of financial instruments and derivatives

No derivative financial instruments are recognized as of December 31, 2022.

7.4. Credit risk exposure and impairment losses

The carrying amount of financial assets is KME Group S.p.A.'s maximum exposure to the credit risk.

7.5. Foreign currency exchange risk exposure

KME Group S.p.A. had no financial statements items or sale or purchase commitments denominated in foreign currencies at the year end.

7.6. Exposure to the risk of fluctuations in share value

The carrying amount of financial assets is KME Group S.p.A.'s maximum exposure to this risk.

7.7. Interest rate risk exposure

As of December 31, 2022, the Company's interest-bearing financial assets and liabilities had the following interest rate risk exposure:

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*
Financial assets	43,723	-
Financial liabilities	(163,858)	(95,415)
Fixed rate instruments	**(120,135)**	**(95,415)**
Financial assets	22,567	30,412
Financial liabilities	(20,713)	(25,223)
Floating rate instruments	**1,854**	**5,189**

The fixed rate financial liabilities mainly refer to outstanding bonds and to financial lease liabilities; those with floating rate mainly accommodate the balance of the Banco BPM loan.

7.8. Sensitivity analysis of the cash flows of floating rate financial instruments

A 50-basis-point (bps) increase (decrease) in interest rate receivable or payable at the year end would have led to an impact on equity and the result for the year of around € 90 thousand.

7.9. Fair value and carrying amount

Pursuant to IFRS 13 paragraph 91, we declare that the carrying amount of the financial assets and liabilities recognized in these Financial Statements do not diverge from their fair value.

7.10. Fair value hierarchy

IFRS 7, paragraph 27A and IFRS 13 require financial instruments recognized at fair value in the statement of financial position to be classified based on a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy shall have the following levels:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices);
- Level 3 - unobservable market inputs for the asset or liability.

For financial instruments outstanding as of December 31, 2022, and for comparative purposes, as of December 31, 2021, the table below shows the fair value hierarchy of financial assets and liabilities that are measured at fair value on a recurring basis (Level 3 includes the carrying amounts of unlisted financial assets carried at cost in the absence of an available fair value).

The analysis of assets and liabilities by fair value level is as follows:

(in € thousand)	***Total Fair Value as of 31/12/2022***	*Level 1*	*Level 2*	*Level 3*
Investments in other companies	**16,922**	-	-	16,922
Non current financial assets	**1**	-	-	1
Current financial assets	**949**	-	-	949
Total financial assets	**17,872**	**-**	**-**	**17,872**
Non current financial payables and liabilities	**(1)**	-	-	(1)
Current financial payables and liabilities	**(777)**	-	-	(777)
Total financial liabilities	**(778)**	**-**	**-**	**(778)**

(in € thousand)	***Total Fair Value as of 31/12/2021***	*Level 1*	*Level 2*	*Level 3*
Investments in other companies	**637,123**	28,904	-	608,219
Non current financial assets	**5**	-	-	5
Current financial assets	**492**	-	-	492
Total financial assets	**637,620**	**28,904**	**-**	**608,716**
Non current financial payables and liabilities	**(5)**	-	-	(5)
Current financial payables and liabilities	**(235)**	-	-	(235)
Total financial liabilities	**(240)**	**-**	**-**	**(240)**

Financial instruments reclassification

With regard to financial assets and liabilities that are measured at fair value on a recurring basis, there were no transfers from Level 3 to other levels and vice versa in 2022 resulting from changes in the significant input variables of observable valuation techniques.

The financial instruments at fair value recognized in the statement of financial position and income statement as of December 31, 2021 (shown in the table below) mainly include participating investments (acting as Investment Entity) for the valuation of which level 3 inputs were used except for the investment in CULTI Milano S.p.A., which in 2021 was valued on the basis of market prices (Level 1 equal to € 28,904 thousand).

7.11. Disclosure of payments for services rendered by the Independent Auditors

In accordance with Article 149-*duodecies* of the "Issuers' Regulation", the following table shows the payments made during the year, net of expenses, VAT and any supervisory contribution, for services provided to the company and its subsidiaries by the Independent Auditors, Deloitte & Touche S.p.A. and other companies belonging to its network:

(in € thousand)	***Total***	*KME Group SpA*	*Subsidiaries*
a) audit fees	**1,403**	212	1,191
b) fees for non-audit services	**137**	137	-
- audit services for certification purposes	**130**	130	-
- other fees	**7**	7	-
c) fees charged by firms in the Independent auditors' network	**-**	-	-
Independent Auditors' fees	**1,540**	**349**	**1,191**

7.12. Detail of transactions with related parties

The tables below show the relations involving payables, receivables, costs and revenue with related parties. For information regarding the nature of the transactions, reference should be made to the comments under the individual items.

Assets and Liabilities								
(in € thousand)	*Non current financial assets*	*Current financial assets*	*Trade receivables*	*Other receivables and current assets*	*Non current financial payables and liabilities*	*Current financial payables and liabilities*	*Trade payables*	*Other current liabilities*
Culti Milano S.p.A.	-	-	-	-	-	-	(1)	-
Dynamo Academy S.r.l.							(38)	
Immobiliare Pictea S.r.l.	-	-	-	-	(2,016)	(1,230)	(168)	-
Intek Investimenti S.p.A.	-	1,492	-	-	-	-	-	-
Isno 3 S.r.l. in liquidation	-	-	18	-	-	-	-	-
KME Group S.r.l.	-	64,295	10	-	-	-	-	-
KME Germany Bet. GmbH	-	-	120	-	-	-	(3)	-
KME Italy S.p.A.	-	-	29	-	-	-	(10)	-
KME Mansfeld	-	-	1	-	-	-	(3)	-
KME Special Products GmbH & Co	-	-	2	-	-	-	-	-
KME SE	-	-	3,382	-	-	-	(322)	-
KME S.r.l.	-	-	51	-	-	-	(113)	-
Natural Capital Italia S.p.A. SB	-	-	70	-	-	-	-	-
Nextep S.r.l. SB	-	-	18	-	-	-	-	-
Newint S.r.l.	-	-	1	-	-	-	-	-
Oasi Dynamo FoodCo S.r.l.	-	-	-	-	-	-	(5)	-
Quattroduedue S.p.A.	-	-	151	-	-	-	-	-
Serravalle Copper Tube S.r.l.	-	-	31	-	-	-	-	-
Società Agricola Agrienergia	-	-	36	77	-	-	-	-
Trèfimetaux SA		-	10	-	-	-	-	-
Directors and Statutory Auditors	-	-	-	-	-	-	(110)	(991)
Receivables from guarantees	1	777	-	-	-	-	-	-
Receivables/Payables for group VAT	-	-	-	128	-	-	-	(50)
Receivables/Payables for tax consolidation	-	-	-	785	-	-	-	
	1	**66,564**	**3,930**	**990**	**(2,016)**	**(1,230)**	**(773)**	**(1,041)**
Total	**11**	**67,071**	**5,421**	**1,719**	**(2,027)**	**(26,555)**	**(1,989)**	**(2,539)**
Effect	**9.09%**	**99.24%**	**72.50%**	**57.59%**	**99.46%**	**4.63%**	**38.86%**	**41.00%**

Income Statement flows						
(in € thousand)	*Net income from management of investments*	*Commissions on guarantees issued*	*Other operating income*	*Personnel cost and other operating costs*	*Financial income*	*Financial expense*
CULTI Milano S.p.A.	9,317	-	15	(2)	-	-
Dynamo Academy S.r.l.	-	-	-	(22)		
Ergyca Tracker 2 S.r.l.	19	-	-	-	-	-
Immobiliare Pictea S.r.l.	-	7	25	(262)	-	(137)
Intek Investimenti S.p.A.	-	-	15	-	35	-
Isno 3 S.r.l. in liquidation	-	-	15	-	-	-
KME Germany Gmbh	-	-	-	(5)	-	-
KME Group S.r.l.	-	-	10	-	2,679	-
KME Italy S.p.A.	-	51	-	(4)	-	-
KME Mansfeld	-	1	-	(3)	-	-
KME Special Products GmbH & Co	-	14	-	-	-	-
KME SE	-	750	4,485	-	7	-
KME S.r.l.	-	-	-	(33)	-	-
Natural Capital Italia S.p.A. SB	-	-	9	-	-	-
Nextep S.r.l. SB	-	-	1	-	-	-
Newint S.r.l.	-	-	1	-	-	-
Oasi Dynamo FoodCo S.r.l.	-	-	-	(5)	-	-
Quattroduedue S.p.A.	-	-	15	-	-	-
Scent Company S.r.l.	-	-	-	(6)		
Serravalle Copper Tube S.r.l.	-	31	-	-	-	-
Società Agricola Agrienergia S.r.l.	-	-	32	-	-	-
Trèfimetaux SA	-	8	-	-	-	-
Directors/Statutory Auditors and other executives	-	-	-	(1,703)	55	(24)
	9,336	**862**	**4,623**	**(2,045)**	**2,776**	**(161)**
Total	**10,090**	**862**	**5,514**	**(8,351)**	**2,923**	**(6,032)**
Effect	**92.53%**	**100.00%**	**83.84%**	**24.49%**	**94.97%**	**2.67%**

7.13. Proposal to approve the 2022 financial statements

Please refer to the *Report on operations*.

List of direct investments as of December 31, 2022

Investments *(in €)*	**Notes**	**Nominal value as of December 31, 2022**	**Balance as of December 31, 2021**		**Change for the year (+/-)**		**Write-backs/(Adjustments)**	**Balance as of December 31, 2022**				**Market value as of December 31, 2022**	
		In €	**Quantity**	**Carrying amount**	**Quantity**	**Value**		**Quantity**	**%**	**Average carrying amount**	**Carrying amount**	**Unit value**	**Equivalent value**
Subsidiaries and associated (recognized under financial assets)													
KME Group S.r.l. (now KMH SpA)		50,000,000	-	-	50,000,000	480,000,000	-	50,000,000	100.00%		480,000,000		
KME SE		no par value	27,639,093	578,300,000	(24,847,318)	(519,890,000)	-	2,791,775	10.00%		58,410,000		
KME Germany Bet. GmbH			-	1,700,000	-	(1,700,000)	-	-	0.00%		-		
Ergyca Tracker 2 S.r.l.		10,000	5,100	81,900	-	(57,394)	-	5,100	51.00%		24,506		
CULTI Milano S.p.A.		no par value	2,388,750	28,903,571	-	-	9,077,554	2,388,750	77.17%		37,981,125	20.20	48,252,750
Intek Investimenti S.p.A.		no par value	9,108,000	11,200,000	-	-	-	9,108,000	100.00%		11,200,000		
Newint S.r.l.		10,000	10,000	10,000	-	-	-	10,000	100.00%		10,000		
Nextep S.r.l. Benefit Company		10,000	6,000	6,000	-	-	-	6,000	60.00%		6,000		
Newcocot S.r.l. in liquidation		-	2,779	1	(2,779)	(1)	-	-	-		-		
												-	-
Total investments in subsidiaries				**620,201,472**		**(41,647,395)**	**9,077,554**				**587,631,631**		
Treasury shares (recognized as a reduction in Equity)													
KME Group S.p.A. ordinary shares		no par value	6,555,260	2,005,044	-	-		6,555,260	-	0.3059	2,005,044	0.5405	3,543,118
Total				**2,005,044**		**0**	**-**				**2,005,044**		
Total				**622,206,516**			**9,077,554**				**589,636,675**		

List of indirect investments as of December 31, 2022

Company name	Registered office	Activity	Currency	Share capital	% Stake	Investor Company	Total investment
Acqua Dynamo S.r.l. benefit company	Italy	Commercial	Euro	27.000	100,00%	Intek Investimenti S.p.A.	100,00%
AML - Azienda Metalli Laminati S.p.A.	Italy	Industrial	Euro	3.300.000	24,24%	KME Mansfeld GmbH	24,00%
AMT - Advanced Mould Technology India Private Ltd.	India	Services	INR	40.000.000	71,50%	KME Special Products & Solutions GmbH	31,85%
Bakel S.r.l.	Italy	Commercial	Euro	100.000	50,01%	Culti Milano S.p.A.	38,59%
Bakel Inc	United States	Commercial	USD	1.000	100,00%	Bakel S.r.l.	38,59%
Bertram's GmbH	Germany	Services	Euro	300.000	100,00%	KME Germany GmbH	99,00%
Culti Milano Asia Ltd.	Hong Kong	Commercial	HKD	7.500.000	60,00%	Culti Milano S.p.A.	46,30%
Culti Milano China Ltd.	China	Commercial	RMB	3.300.000	100,00%	Culti Milano Asia Ltd.	46,30%
Cuprum S.A.U.	Spain	Services	Euro	60.910	100,00%	KME Special Products & Solutions GmbH	44,55%
Dalian Dashan Chrystallizer Co. Ltd.	China	Industrial	RMB	40.000.000	70,00%	KME Special Products & Solutions GmbH	31,18%
Dalian Dashan Heavy Machinery Co. Ltd.	China	Industrial	RMB	20.000.000	70,00%	KME Special Products & Solutions GmbH	31,18%
Dalian Dashan Surface Machinery Co. Ltd.	China	Industrial	RMB	10.000.000	70,00%	KME Special Products & Solutions GmbH	31,18%
Dynamo Academy S.r.l. benefit company	Italy	Services	Euro	10.000	25,00%	Immobiliare Pictea S.r.l.	24,75%
Dynamo The Good Company S.r.l. Benefit Company	Italy	Commercial	Euro	12.700	21,26%	Intek Investimenti S.p.A.	21,26%
EM Moulds S.p.A.	Italy	Industrial	Euro	3.090.000	100,00%	KME Special Products & Solutions GmbH	44,55%
Evidal Schmoele Verwaltungsgesellschaft mbH	Germany	Not operating	Euro	30.000	50,00%	KME SE	49,50%
Fossati Uno S.r.l.	Italy	Real Estate	Euro	100.000	35,00%	Immobiliare Pictea S.r.l.	34,65%
Il Post S.r.l.	Italy	Publishing	Euro	396.516	31,13%	Intek Investimenti S.p.A.	31,13%
Immobiliare Pictea S.r.l.	Italy	Real Estate	Euro	80.000	100,00%	KME SE	99,00%
Irish Metal Industries Ltd. In liquidation	Ireland	in liquidation	Euro	127	100,00%	KME Yorkshire Ltd.	99,00%
ISNO 3 S.r.l. in liquidation	Italy	in liquidation	Euro	1.754.906	60,72%	Intek Investimenti S.p.A.	60,72%
KM Copper Bars GmbH	Germany	Industrial	Euro	25.000	100,00%	KME Mansfeld GmbH	99,00%
KMD (HK) Holding Limited	Hong Kong	Holding company	USD	198.000.000	50,00%	KME SE	49,50%
KMD Connectors Stolberg GmbH	Germany	Industrial	Euro	1.000.000	100,00%	KMD (HK) Holdings Ltd.	49,50%
KMD Precise Copper Strip Co. Ltd.	China	Industrial	USD	239.214.000	100,00%	KMD (HK) Holdings Ltd.	49,50%
KME S.r.l.	Italy	Services	Euro	115.000	100,00%	KME SE	99,00%
KME (Suisse) S.A.	Switzerland	Commercial	CHF	100.000	100,00%	KME Germany GmbH	99,00%
KME America Inc.	United States	Commercial	USD	5.000	100,00%	KME Germany GmbH	99,00%
KME America Marine Holding Inc.	United States	Holding company	USD	4.800.000	100,00%	KME Special Products & Solutions GmbH	44,55%
KME America Marine Tube and Fitting, LLC	United States	Design	USD	2.132.000	100,00%	KME America Marine Holding Inc.	44,55%
KME AssetCo GmbH	Germany	Other	Euro	25.000	100,00%	KME Special Products GmbH & Co. KG	99,00%
KME France SAS	France	Other	Euro	1	100,00%	KME SE	99,00%
KME Germany GmbH	Germany	Industrial	Euro	20.000.000	100,00%	KME SE	99,00%
KME Germany Bet. GmbH	Germany	Other	Euro	1.043.035	100,00%	KME Group S.r.l. (now KMH S.p.A.)	100,00%
KME Grundstuecksgesellschaft SE & Co. KG	Germany	Real Estate	Euro	50.000	99,00%	KME SE	99,00%
					1.00199999999999 99E-2	KME Germany GmbH	
KME India Private Ltd.	India	Commercial	INR	6.500.000	99,80%	KME Special Products GmbH & Co. KG	99,00%
					2E-3	KME SE	
KME Italy S.p.A.	Italy	Industrial	Euro	44.602.903	84,00%	KME SE	83,16%
KME Kalip Servis Sanavi ve Ticaret A.S.	Turkey	Commercial	TRY	950.000	85,00%	KME Special Products & Solutions GmbH	37,87%
KME Magma Service Ukraine LLC	Ukraine	Commercial	UAH	14.174.000	70,00%	KME Special Products & Solutions GmbH	69,30%
KME Mansfeld GmbH	Germany	Industrial	Euro	38.349.000	100,00%	KME SE	99,00%
KME Metale Sp. z.o.o.	Poland	Commercial	PLN	8.112.500	100,00%	KME Germany GmbH	99,00%
KME Metals (Shanghai) Trading Ltd.	China	Commercial	USD	100.000	100,00%	KME SE	99,00%
KME Middle East FZE	UAE	Commercial	AED	250.000	100,00%	KME SE	99,00%
KME Moulds Mexico S.A. de C.V.	Mexico	Services	MXN	7.642.237	99,99%	KME Special Products & Solutions GmbH	44,55%
					1E-4	Magnet Joint Venture GmbH	
KME Netherlands BV	Netherlands	Industrial	Euro	34.018.000	100,00%	KME SE	99,00%
KME Real Estate GmbH & Co. KG	Germany	Commercial	Euro	100.000	100,00%	KME SE	99,00%
KME Recycle S.r.l. in liquidation	Italy	in liquidation	Euro	2.000.000	100,00%	KME SE	99,00%
KME Rolled France SAS	France	Industrial	Euro	2.540.000	100,00%	KME Italy S.p.A.	83,16%
KME SE	Germany	Holding company	Euro	142.743.879	89,00%	KME Group S.r.l. (now KMH S.p.A.)	99,00%
KME Service Centre Italy S.p.A.	Italy	Industrial	Euro	103.000	100,00%	KME SE	99,00%
KME Service Centre Slovakia s.r.o.	Slovakia	Industrial	Euro	1.015.734	100,00%	KME SE	99,00%
KME Service Centre UK Ltd.	United Kingdom	Industrial	LST	2.130.000	100,00%	KME SE	99,00%
KME Service Russland Ltd.	Russia	Services	RUB	10.286.000	70,00%	KME Special Products & Solutions GmbH	31,18%
KME Spain S.A.U.	Spain	Commercial	Euro	92.446	100,00%	KME SE	99,00%
KME Special Holding GmbH	Germany	holding company	Euro	25.000	100,00%	KME SE	99,00%
KME Special Products GmbH & Co. KG	Germany	Industrial	Euro	500	100,00%	KME SE	99,00%
KME Special Products & Solutions GmbH	Germany	Industrial	Euro	25.000	99,996%	Magnet Joint Venture GmbH	44,55%
KME Special Products America Inc.	United States	Industrial	USD	6.353.000	100,00%	KME Special Products & Solutions GmbH	44,55%
KMETAL S.r.l.	Italy	Agency activities for the purchase and sale of metals	Euro	100.000	100,00%	KME SE	99,00%
KME Yorkshire Ltd.	United Kingdom	Industrial	LST	10.014.603	100,00%	KME SE	99,00%
Magnet Joint Venture GmbH	Germany	Holding company	Euro	45.455	45,00%	KME Special Products GmbH & Co. KG	44,55%
Mecchld S.r.l.	Italy	Holding company	Euro	40.000	20,00%	Intek Investimenti S.p.A.	20,00%
MKM France Eurl in liquidation	France	in liquidation	Euro	21.000	100,00%	KME Mansfeld GmbH	99,00%
Natural Capital Italia S.p.A. Benefit Company	Italy	Real Estate	Euro	147.500	74,58%	Immobiliare Pictea S.r.l.	82,64%
					8.81399999999999 96E-2	Intek Investimenti S.p.A.	
Oasi Dynamo Società Agricola S.r.l.	Italy	Agricultural activity	Euro	35.000	100,00%	Natural Capital Italia S.p.A. Benefit Company	82,64%
Oasi Dynamo FoodCo S.r.l.	Italy	Sale of food products	Euro	10.000	100,00%	Natural Capital Italia S.p.A. Benefit Company	82,64%
Roser Technologies LLC	United States	Industrial	USD	2.000	100,00%	KME Special Products America Inc.	44,55%
Scent Company S.r.l.	Italy	Commercial	Euro	100.000	51,00%	Culti Milano S.p.A.	39,36%
Serravalle Copper Tubes Italy S.r.l.	Italy	Industrial	Euro	3.000.000	100,00%	Trefimetaux SAS	99,00%
Società Agricola Agrienergia S.r.l.	Italy	Industrial	Euro	20.000	51,00%	Oasi Dynamo Società Agricola S.r.l.	42,15%
Special Steels & Alloys SE Asia Pte Ltd.	Singapore	Commercial	$SG	352.088	41,32%	KME Special Products & Solutions GmbH	18,41%
Trefimetaux SAS	France	Industrial	Euro	11.000.000	100,00%	KME SE	99,00%
Valika SAS	France	Trading in metals	Euro	200.000	51,00%	KME Recycle S.r.l. in liquidation	50,49%

CERTIFICATION OF THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154 BIS, PARAGRAPH 5 OF ITALIAN LEGISLATIVE DECREE 58/98, AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. Having regard to the requirements of Article 154-*bis*, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of February 24, 1998, the undersigned Vincenzo Manes, Chairman, and Giuseppe Mazza, Manager in charge of Financial Reporting of KME Group S.p.A., hereby certify:
   - the adequacy with respect to the characteristics of the Company and
   - the effective application

   of the administrative and accounting procedures for the preparation of the financial statements during 2022.

2. No material findings emerged in this regard.

3. Moreover, they certify that:

   3.1. the separate financial statements:

   a) were prepared in accordance with the applicable set of international accounting standards as endorsed by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002;

   b) reflect the balances recorded in the accounting books and records;

   c) give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer;

   3.2. the annual Report includes a reliable analysis of the development and performance of the business and the situation of the issuer, together with a description of the principal risks and uncertainties that it faces.

Milan, March 28, 2023

The Chairman	The Manager in charge of Financial Reporting
signed Vincenzo Manes	*signed Giuseppe Mazza*

Board of Statutory Auditors' Report to the shareholders' meeting of KME Group S.p.A. to the financial statements as of December 31, 2022 pursuant to Article 153 of the Consolidated Law on Finance (TUF) and Article 2429 paragraph 2 of the Italian Civil Code

Dear Shareholders,

The Board of Statutory Auditors reports on the supervisory activities as required by the law (and in particular, by article 153 of Italian Legislative Decree 58/98, the "Consolidated Law on Finance" (TUF)), the rules of conduct for boards of statutory auditors of listed companies issued by the Italian National Council of Chartered Accountants and Accounting Experts (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), the recommendations of Consob regarding corporate audits and the activities of the Board of Statutory Auditors, articles 2429 et seq. of the Italian Civil Code as well as articles 17 and 19 of Legislative Decree no. 39/2010 and the indications contained in the Corporate Governance Code.

This report is divided, as it is every year, into individual chapters which correspond to the disclosure obligations set by CONSOB and suggested by the Italian National Council of Chartered Accountants and Accounting Experts (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), for better comprehension and comparability.

The Board of Statutory Auditors for 2022 has assessed the suitability of its members and the adequate composition of the body with reference to the requirements of professionalism, competence, integrity, correctness, independence and absence of causes of incompatibility required by law, as well as the availability of time and resources adequate to the complexity.

Significant events occurred in 2022 at Group level

The most significant transactions that took place in 2022 and in the course of this year until this report was drafted were:

Change of strategy

On April 22, 2022, the Company's Board of Directors resolved to focus its activities on the industrial management of KME SE, making provision for the progressive increase in value of additional assets in the portfolio, in the time and manner required to achieve the best results for the Company. This new strategy meant that the Company was no longer a holding company focused on earning returns from the active management of investments aimed at their best value, but rather a holding company focused on the industrial management of its main investment in KME SE.

Copper sector

In this sector, in the course of 2022 and the early months of 2023, significant transactions were carried out in order to implement the KME group's strategy of concentrating on copper and copper alloy laminate products, in which the group is the

European leader and in which it intends to focus its energy and grow in the future, given the attractive growth rates expected for the main reference markets.

In January 2022, the closing of the agreement was completed with Paragon Partners GmbH ("*Paragon*"), a German private equity fund, for the assignment of control of the Special Products business. The agreement called for the creation of a company 55% held by Paragon and 45% by KME, to which the above-mentioned business was transferred. This assignment allowed KME to bring in financial resources for a total of € 200 million, in addition to the repayment of around € 20 million in intragroup loans, relating to working capital and after a € 32 million loan was granted, which will be repaid by the newly-established company itself.

An assignment transaction was completed in February 2022 with the sale of the Wires business (cables), which had become the property of KME with the acquisition of MKM. This transaction resulted in the collection of a total of approximately € 20 million, plus the value of inventory.

In July 2022, the acquisition of part of the flat rolled products production segment of Aurubis AG was completed. The scope of the transaction includes the FRP plant in Zutphen (Netherlands) and the slitting centres in Birmingham (United Kingdom), Dolny Kubin (Slovakia) and Mortara (Italy). The consideration for the transaction was € 8 million, in addition to the repayment to Aurubis of an intercompany loan of € 63 million corresponding to the value of the net working capital of the acquired companies;

In December 2022, the contract, signed in September, for the sale and lease back transaction on the Osnabrück plant was executed, which allowed the collection of € 90 million. The relative lease agreement provides for an annual rent of € 7.08 million with a duration of 30 years, with a 10-year extension that can be exercised twice. A repurchase option is also envisaged at the end of 2026.

Also in December 2022, KME SE signed a contract for the sale of its 50% interest of the KMD joint venture ("KMD (HK) Holdings limited") and one for the repurchase of 100% of the share capital of KMD Connectors Stolberg GMBH ("Stolberg"), which had been transferred by KME to the same KMD joint venture in 2014. The sale price of 50% of the KMD joint venture is approximately USD 50 million and Stolberg's repurchase price is approximately USD 17 million. KME will then collect the intercompany positions and the shareholder loan currently in place for a total amount of approximately USD 20 million. The transaction is expected to close in the coming months.

Revenues from sales of the copper sector amounted to € 2,082.5 million (+4.1% compared to the year before on a like-for-like basis), while those net of the value of raw materials totalled € 437.6 million (+30.6% compared to the year before, again on a like-for-like basis). This performance allowed for a significant improvement in EBITDA, up to € 112.6 million compared to € 95.5 million in the previous year.

The collections of the extraordinary transactions described enabled a significant improvement in KME SE's net financial position (from € 249.5 million as of December 2021 to € 102.4 million as of December 2022, of which € 90 million deriving from the effects of recognition pursuant to IFRS 16 of the sale and lease back transaction) and the early redemption of the KME SE bond for a total of € 300 million maturing in 2023.

Culti Milano S.p.A.

Also in 2022, Culti Milano and its subsidiaries recorded significant commercial growth, confirming their differentiation and complementary channel strategy. The Culti Milano group has also been involved with its subsidiary Bakel S.r.l. in the market launch of the revolutionary BAKEL 3D technology, which allows a much higher absorption than traditional cosmetics.

In 2022, the Culti Milano group in fact achieved consolidated revenues of € 23.1 million (€ 21 million in 2021) and a consolidated EBITDA of € 5.1 million in line with 2021.

Extraordinary finance transactions

During 2022, three public exchange offers were made on the Company's shares; this in light of the fact that it is believed that the new Group structure, also with respect to the expected greater cash generation capacity, requires a lower level of capital and to allow holders of financial instruments to transform their investments into instruments characterized by a lower degree of risk and a value incorporating a premium compared to previous prices.

From July 25 2022 to September 13, 2022, the total voluntary public exchange offer on the KME Group savings shares and the partial voluntary public exchange offer on the "Intek Group S.p.A. 2021-2024 Warrants" were carried out. On the other hand, the partial voluntary public exchange offer on KME Group ordinary shares was concluded on September 16, 2022.

A total of 1.08 million savings shares (equal to 6.6% of the share capital included in the offer), 20.2 million warrants (equal to 28.1% of the warrants included in the offer) and 82.3 million ordinary shares (equal to 61.6% of the ordinary shares initially included in the relative offer and 48.5% considering the ordinary shares deriving from the claw back mechanism) were tendered.

Against these subscriptions, as consideration, on September 23, 2022, 63,533,259 "KME Group S.p.A. 2022-2027" bonds were issued, listed on the MOT, for a counter value of € 63.5 million; on the same date, the Company cancelled ordinary shares, savings shares and warrants, and changed the company name to KME Group S.p.A..

On March 28, 2023, the Board of Directors deliberated the acceptance of a binding offer received from investment funds managed by JP Morgan Asset Management (UK) Limited, which aimed at financing a transaction that envisages (subject to obtaining the necessary authorizations and subject to the occurrence of certain other conditions) the promotion by KME of public tender offers on KME Group ordinary shares, savings shares and warrants, to be settled with consideration in cash, as part of a project aimed at the de-listing of the aforementioned financial instruments, if the conditions are met.

Internal corporate reorganization

During 2022, the newco KME Group S.r.l. was set up by the Company, wholly-owned, to which (partly through contribution and partly through sale) 89% of the stake in KME SE and 100% of the stake in KME Germany Bet. GmbH were transferred.

In particular, 82.17% of the investment in KME SE was transferred to KME Group Srl, against a capital increase for a total of € 480 million, including the share premium. The transfer took place at the fair value as of December 31, 2021, in view of continuity of values since it is a corporate rationalisation operation (under common control) and, therefore, has no economic impact on the Company's financial statements. The additional stake in KME SE, equal to 6.83%, was instead sold by the Company to KME Group S.r.l. at a price of € 39.9 million, while the sale of KME Germany Bet. GmbH was completed on June 9, 2022 for a consideration of € 1.7 million. The sale transactions also took place at carrying amounts. In 2023, KME Group S.r.l. was transformed into a joint-stock company, taking on the name of KMH S.p.A.

Applied accounting standards

The modification of the Strategy outlined above meant the Company no longer satisfied the requisites, set forth in paragraphs 27 and 28 of IFRS 10, to qualify as an investment entity, on the basis of which the previous financial statements of the Company and of the Group had been drawn up.

This led, therefore, to the change in the measurement criteria of investments (asset item "Investments in equity interests and fund units") for which the fair value is replaced by the criterion of cost; in this regard, the fair value at the date of loss of the qualification of investment entity represents the new cost.

It should be noted that, pursuant to the above mentioned paragraph 30 of IFRS 10, the change of status is accounted for prospectively starting from the date on which this change occurred.

Specifically, the Board of Statutory Auditors, with reference to the determination of the fair value as of April 22, 2022 of the 99% stake held - directly and indirectly) in KME SE, which represents approximately 90% (directly or indirectly) of the value of the financial statements item, an update of the information necessary to determine the fair value as of April 22, 2022, the date of change of status, to be used in the development of the valuation model according to the Unlevered Discounted Cash Flow method and market and transaction multiples.

In relation to the actual application of this criterion, which has significant impacts on the separate financial statements of the Company, the Board of Statutory Auditors verified, also through meetings with the management and the independent auditors, that the determination of the fair value was reasonable, and had been made by an independent and reliable expert, identified as EY Advisory S.p.A.

For Culti Milano S.p.A., the stock market listing value as of April 22, 2022 was considered, recording an increase in value of € 9,078 thousand compared to December 31, 2021. With regard to other investments in unlisted investments (level 3 fair value), as no significant events occurred that could have influenced the value of the investments, the fair value as of December 31, 2021 was considered the best estimate of fair value as of April 22, 2022.

The Board of Statutory Auditors verified, also through meetings with management and the independent auditors, that the valuation processes for the investments had been carried out in a reasonable manner, also with the support of an independent and reliable expert, identified in the company EY Advisory S.p.A.

Upon completion of these checks, no elements of inconsistency and/or illogicality had emerged in the conclusions reached.

The following table summarizes the result of these measurements regarding the investments in the 2022 financial statements, compared with their carrying amounts the previous year:

Name	*Registered office*	*Percentage of interest*	*31/12/2022*	*31/12/2021*	*Difference*
KME Group S.r.l.	Milan	100.00%	480,000	-	480,000
KME SE	Osnabrück (D)	99.00%	58,410	578,300	(519,890)
Culti Milano S.p.A.	Milan	77.17%	37,982	28,904	9,078
Intek Investimenti S.p.A.	Milan	100.00%	11,200	11,200	-
KME Germany Bet. GmbH	Osnabrück (D)	100.00%	-	1,700	(1,700)
Ergyca Tracker 2 S.r.l.	Florence	51.00%	24	81	(57)
Newint S.r.l.	Milan	100.00%	10	10	-
Nextep S.r.l. Benefit Company	Milan	60.00%	6	6	-
Investments in subsidiaries			**587,632**	**620,201**	**(32,569)**
Ducati Energia S.p.A.	Bologna		16,700	16,700	-
Vita Società Editoriale S.p.A.	Milan		222	222	-
Investments in other companies			**16,922**	**16,922**	**-**
Investments			**604,554**	**637,123**	**(32,569)**

* * *

In accordance with Directive 2004/109/EC (the "Transparency Directive") amended by Directive 2013/50/EU and the Delegated Regulation (EU) 2019/815 (the "ESEF Regulation"), although the marking according to the XBRL language is provided exclusively for the consolidated financial statements, the present financial statements of KME Group S.p.A. are prepared using the XHTML format.

Atypical or unusual transactions, including intra-group or related party transactions during 2022.

The Board of Statutory Auditors is not aware of any atypical or unusual transactions during the year 2022.

Comments on ordinary related party transactions are provided in the Notes to the financial statements and in the Directors' Report on operations.

These transactions essentially related to the provision of services, including financial and administrative services, and receivables/payables deriving from loan transactions.

In 2022 the Board participated in the meetings of the Control and Risk Committee and received the appropriate updates from the Internal Audit function and from the Supervisory Board pursuant to Legislative Decree 231/2001, during dedicated meetings with their individual members. No critical issues emerged from those meetings.

Observations or requests for information by the Independent Auditors/complaints by Shareholders pursuant to article 2408 of the Italian Civil Code/representations

In the course of 2022 and until the date on which this report was drafted, the Board of Statutory Auditors did not receive any reports pursuant to article 2408 of the Italian Civil Code.

Duties of the Independent Auditors Deloitte & Touche S.p.A.

A summary of the engagements and fees of the independent auditors is provided below:

(in € thousand)	***Total***	*KME Group SpA*	*Subsidiaries*
a) audit fees	**1,403**	212	1,191
b) fees for non-audit services	**137**	137	-
- audit services for certification purposes	**130**	130	-
- other fees	**7**	7	-
c) fees charged by firms in the Independent auditors' network	**-**	-	-
Independent Auditors' fees	**1,540**	**349**	**1,191**

In particular, the Board of Statutory Auditors examined the non-audit services commissioned, ensuring that they did not present any potential risks in terms of independence.

Following the loss by the Company of the qualification as an investment entity, the scope of consolidation changed substantially, with a consequent increase in the work of the independent auditors and therefore an increase in the hours envisaged and the related fees.

Opinions issued by the Independent Auditors in compliance with legal requirements

During the 2022 financial year, no opinion was issued in accordance with the law.

A specific report on the verification of the pro-forma data prepared by the Company for the purpose of inclusion in the prospectus prepared on voluntary public exchange offers and the issue of bonds is also noted.

Supervisory activities concerning observance of the law and the Articles of Association

The Board of Statutory Auditors has regularly attended the meetings of the Board of Directors and had regular contacts, as mentioned above, with the Internal Audit function and the Supervisory Board pursuant to Legislative Decree 231/2001, as well as with the independent auditors Deloitte & Touche S.p.A.; it also participated in all the meetings of the Control and Risk Committee, in addition, obviously, to continuous interaction with the Company during the year 2022.

During the year 2022, the Board of Statutory Auditors met 11 times (in 2021 it met 7 times); participation in the meetings by the members was 97% (95% in the previous financial year).

During the current year, at the date of this report, the Board of Statutory Auditors has met twice, including that for the preparation of this report.

For information on the regulations and operation of the corporate bodies, see to the Report on Corporate Governance, contained in the Annual Financial Report.

In the performance of its supervisory duties, at the meetings and frequent discussions mentioned above, the Board of Statutory Auditors has:

a) confirmed that the company complied with its legal requirements and Articles of Association during the year;

b) confirmed that the company respected the principles of proper management, and that there was a satisfactory management structure and an adequate internal control system;

c) confirmed that no information of particular relevance emerged at meetings with the Independent Auditors and the Directors, including pursuant to article 150 of Legislative Decree 58/1998;

d) confirmed that the subsidiaries had provided all the information required for the parent company to fulfil its legal reporting requirements, and that the parent had issued appropriate instructions, also pursuant to article 114, paragraph 2 of Legislative Decree 58/1998;

e) confirmed that the company's reporting obligations to the Supervisory Authorities had been met.

Where deemed necessary, the Board of Statutory Auditors also had contacts with the members of the Boards of Statutory Auditors of certain subsidiaries, and with the persons in charge at their independent auditors.

The Company has published a Report on Corporate Governance in accordance with regulatory requirements, which this Board of Statutory Auditors has found adequate for its purposes. No instances of non-compliance with these requirements emerged in the performance of our supervisory activities.

The organizational structure of the Company appears to be adequate for its activities also for the purpose of detecting any signs of crisis of the company pursuant to Article 2086 of the Italian Civil Code and Article 3 and 25 novies of Italian Legislative Decree 14/2019.

The Board of Statutory Auditors also verified:

- that the Company adhered to the Corporate Governance Code published by Borsa Italiana S.p.A.;

- that the Company properly established the "Control and Risk Committee", which operated regularly throughout 2022;

- that 2 of the members of the Board are independent directors, a number which is considered adequate for the activities of the Board;

- that the Executive Directors reported to the Board the operations carried out under the delegated powers conferred on them.

In conclusion, based on the internal and external information flows acquired, the Board of Statutory Auditors has ascertained that the organizational structure, internal procedures, corporate documents and resolutions of the corporate bodies comply with the law, the provisions of the Articles of Association and the applicable regulations, as well as with the codes of conduct that the Company has declared it will comply with.

The Board of Statutory Auditors acknowledges that each of the Company's bodies and functions has fulfilled the reporting obligations required by the applicable laws.

The Board of Statutory Auditors reports that there are no interests that one or more statutory auditors had, on their own behalf or on that of third parties, in a specific transaction during the year 2022.

These activities led to the following conclusions:

Monitoring of compliance with the principles of proper administration

Based on the information acquired, the Board of Statutory Auditors notes that the choices made by the management were reasonable, and guided by the principle of correct information, and that the directors are aware of the risks and the effects of the transactions carried out.

Monitoring of the adequacy of the risk management

In compliance with the Consob recommendation of March 18, 2022, which draws the attention of Issuers to the impact of the war in Ukraine, the Board points out that the KME Group and its subsidiaries do not have significant commercial relations with Russia and Ukraine, even in the climate of obvious uncertainty deriving from the current policy, and the impacts on the increase in prices and on the supply of raw materials could influence the trend and development prospects that are currently unforeseeable.

The business outlook will be correlated with the performance of the investments and their increase in value, both dependant on the recovery of demand at global level and the measures undertaken by the various governments to support global economic activity and in particular the Eurozone to handle both the effects of the pandemic and the current international political situation.

Monitoring of the adequacy of the organizational structure

Based on the information acquired and the information provided above, the Board of Statutory Auditors finds the organizational structure to be adequate in terms of its structure, procedures, competences and responsibilities, considering also the size and purpose of the Company.

In particular, the Board of Statutory Auditors verified, also pursuant to article 2086 of the Italian Civil Code, that the Company has an organizational structure that makes it possible to identify any situations of business crisis and positively and concretely monitored the results of that organizational structure.

There are also no findings in the report of the Internal Audit function.

During the year 2022, as stated, no issues emerged in relation to the independence of each member of the Board of Statutory Auditors or with regard to its operation.

Similarly, it has encountered no issues in neither the operation of the Board of Directors nor of the Control and Risk Committee.

In particular, there were no issues in relation to the performance of the functions of the Independent Directors who, as members of the Board of Directors, carried out their functions also with reference to the remuneration paid to the Directors, given the absence of a Remuneration Committee.

Regarding the operation of the corporate bodies, and in order to avoid duplication of information, please see the Report on Corporate Governance prepared by the Directors.

Monitoring of the adequacy of the internal control system

Based on the information acquired, the Board of Statutory Auditors reports that the overall internal control, internal audit and risk management system, particularly with regard to the Control and Risk Committee activities, was found to be adequate.

In particular, there are no observations on the report on the activities carried out by said Committee.

Monitoring of the adequacy of the administrative-accounting system and the independent audit of the financial statements.

The Board of Statutory Auditors was in regular contact with the independent auditors Deloitte & Touche S.p.A., also evaluating the materiality thresholds adopted and the ways in which the data on subsidiaries was used.

Today, Deloitte issued its own report on the financial statements without any comments.

There are no issues, with particular regard to the requirement for the appointed audit firm to be independent, also on the basis of the declaration provided today by the independent auditors themselves.

Today, the Independent Auditors also issued the Additional Report to the Internal control and auditing committee (article 11, Regulation (EU) 537/2014).

The Board of Statutory Auditors also confirmed that the financial statements have been drafted according to the accounting standards adopted and that the notes to the financial statements indicate the valuation criteria adopted, their compliance with the corresponding accounting standards and the other information required by the applicable law.

Actual implementation of the rules on corporate governance

In relation to corporate governance and its adequacy, the Board of Statutory Auditors, based on the information acquired, reiterates that the Company adhered to the Corporate Governance Code prepared by Borsa Italiana S.p.A. and no issues emerged during the year.

Monitoring of relations with subsidiaries and parent companies

The Board of Statutory Auditors has received constant flows of information regarding relations with other Group companies, including through constant participation in the Control and Risk Committee.

The Board also collected autonomous information from the control bodies of the investees, where deemed necessary.

Monitoring of related party transactions

With regard to related party transactions, the Board, mainly through its participation in the Control and Risk Committee, was informed of related party transactions and made no observations in this regard.

Analysis of the 2022 separate financial statements

The financial statements as of December 31, 2022 show a profit of € 5,173,722, the allocation of which is proposed as follows:

- 5% equal to € 258,686 to the legal reserve;
- distribution, pursuant to Article 8 of the Articles of Association, of a dividend of € 0.21723 for each of the 15,246,505 savings shares, for a total of € 3,311,998;
- carrying forward the residual amount of the profit, equal to € 1,603,038.

On April 7, 2023, the Independent Auditors issued an unreserved opinion on the financial statements.

The Chairman of the Company, Vincenzo Manes, and the Manager in charge of Financial Reporting, Giuseppe Mazza, on March 28, 2023, provided the Directors and Statutory Auditors with a written statement, also for the purposes of article 154 bis of Legislative Decree 58/1998, certifying the adequacy, for a company of this type, of the management and accounting policies for the preparation of separate and consolidated financial statements for 2022, and their compliance with international financial reporting standards.

Proposal to Shareholders

The Board of Statutory Auditors is of the opinion that the financial statements as of and for the year ended December 31, 2022 and the allocation of the profit for the year, as highlighted in the Annual Financial Report for the year 2022 prepared by the Board of Directors should be approved.

Milan, April 7, 2023

THE BOARD OF STATUTORY AUDITORS (with unanimous consent)

The Chairman of the Board of Statutory Auditors

(signed *Silvano Crescini)*

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

To the Shareholders of
KME Group S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of KME Group S.p.A. (already Intek Group S.p.A. the "Company"), which comprise the statement of financial position as at 31 December 2022, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment test for investment in KME SE	
Description of the key audit matter	As indicated in the paragraph "4.1 Investments" of the explanatory notes, the financial statements as at 31 December 2022 include investments in subsidiaries amounting to Euro 588 million, of which Euro 538 million related to the investment held in KME SE, also through KME Group S.r.l. In relation to the loss of the Company's status as investment entity, due to the change in the management strategy of the equity investments, the aforementioned investment is valued, as indicated in paragraph "2.3 Investments in subsidiaries, associates and joint ventures" of the explanatory notes, at the adjusted cost for impairment losses. The aforementioned paragraph 4.1 shows that, given the relevance of the book value of aforementioned equity investment and despite the fact that no event or circumstance appears that could have had a significant negative impact on the value recorded in the financial statements, the Company carried out an impairment test. The impairment test was carried out by comparing the recoverable value of the equity investment - determined according to the value in use method - and the relative book value. The main assumptions adopted by the Directors of KME Group S.p.A. to estimate the value in use concern: • the forecast of KME SE's expected cash flows for the explicit period based on the Business Plan 2023 - 2027 of the investee, prepared and approved by its administrative bodies; • the projections of the these cash flows for the determination of the terminal value; • the appropriate discount rate (WACC) and long-term growth rate (g-rate). The explanatory notes to the financial statements show that impairment test no revealed any loss of value of the investment in KME SE. Considering the subjectivity of the estimate of expected cash flows and of the key variables of the valuation model adopted by the Company, as well as the relevance of the value of the investment in KME SE, also held through KME Group S.r.l., the impairment test is considered to be a key aspect of the audit of the Company's financial statements as at 31 December 2022.

Audit procedures performed	The main procedures carried out as part of our audit work, also with the support of evaluation specialists belonging to the Deloitte network have included the following: • examination of the methods used by the Company to determine the value in use of the investment, analysing the model adopted by the Directors to develop the impairment test. In this context, we held meetings and discussions with management; • understanding and recognition of the relevant controls put in place by the Company on the impairment test process; • verification of the reasonableness of the main assumptions adopted for the formulation of cash flow forecasts, and the determination of the discount rate and long-term growth rate used in the valuation model; • verification of the mathematical accuracy of the model used to determine the value in use. We have also reviewed the completeness and compliance of the information provided by the Company with IAS 36.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of KME Group S.p.A. has appointed us on 31 may 2016 as auditors of the Company for the years from 31 December 2016 to 31 December 2024.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion on the compliance with the provisions of the Delegated Regulation (EU) 2019/815

The Directors of KME Group S.p.A. are responsible for the application of the provisions of the European Commission Delegated Regulation (EU) 2019/815 with regard to the regulatory technical standards on the specification of the single electronic reporting format (ESEF - European Single Electronic Format) (hereinafter referred to as the “Delegated Regulation”) to the financial statements as at 31 December 2022, to be included in the annual financial report.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) no. 700B in order to express an opinion on the compliance of the financial statements with the provisions of the Delegated Regulation.

In our opinion, the financial statements as at 31 December 2022 have been prepared in XHTML format in accordance with the provisions of the Delegated Regulation.

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of KME Group S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of KME Group S.p.A. as at 31 December 2022, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) no. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, no. 4 of Legislative Decree 58/98 with the financial statements of KME Group S.p.A. as at 31 December 2022 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of KME Group S.p.A. as at 31 December 2022 and are prepared in accordance with the law.

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

DELOITTE & TOUCHE S.p.A.

Signed by
Giuseppe Avolio
Partner

Milan, Italy
7 April 2023

As disclosed by the Directors on page 1, the accompanying financial statements of KME Group S.p.A. constitute a non-official version which has not been prepared in accordance with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

Consolidated Financial Statements as of December 31, 2022

KME Group S.p.A.
Registered and Administrative Office:
Foro Buonaparte, 44 - 20121 Milan - Italy
Share capital € 200,072,198.28, fully paid-up
Tax Code and Milan Business
Register no. 00931330583
www.itkgroup.it

KME Group S.p.A. - Consolidated financial statements as of December 31, 2022

Consolidated statement of financial position - Assets

(in € thousand)	*Ref. Note*	*31-Dec-22*	*of which related parties*	*31-Dec-21*	*of which related parties*
Property, plant and equipment	*4.1*	499,957		3,493	
Investment property	*4.2*	68,175		32	
Intangible assets	*4.3*	424,064		12	
Investments in subsidiaries	*4.4*	23,281	*23,281*	620,201	*620,201*
Equity-accounted investments	*4.4*	76,654	*76,654*	-	-
Investments in other companies	*4.4*	17,405	-	16,922	-
Other non current assets	*4.5*	3,106	-	3	-
Non current financial assets	*4.6*	3,245	-	5	*5*
Deferred tax assets	*4.20*	88,478		2,762	
Total non current assets		**1,204,365**		**643,430**	
Inventories	*4.7*	404,903		-	
Trade receivables	*4.8*	95,359	*14,671*	5,039	*2,052*
Current financial assets	*4.9*	110,101	*71,613*	26,444	*1,067*
Other receivables and current assets	*4.10*	16,675	*77*	5,680	*2,495*
Cash and cash equivalents	*4.11*	128,844		4,698	
Total current assets		**755,882**		**41,861**	
Non current assets held for sale	*4.12*	107,198		-	
Total assets		**2,067,445**		**685,291**	

The notes are an integral part of these consolidated financial statements.

Details of related party transactions are disclosed in the descriptions of the relevant explanatory notes.

KME Group S.p.A. - Consolidated financial statements as of December 31, 2022

Consolidated Statement of financial position - Liabilities

(in € thousand)	*Ref. Note*	*31-Dec-22*	*of which related parties*	*31-Dec-21*	*of which related parties*
Share capital		200,070		335,069	
Other reserves		287,267		99,644	
Treasury shares		(2,133)		(2,133)	
Retained earnings		1,143		53,840	
Other comprehensive income reserve		13,188		(23)	
Net result		35,456		65,306	
Equity of the shareholders of KME SE	***4.13***	**534,991**		**551,703**	
Non controlling interests		34,546		-	
Total Group equity	***4.13***	**569,537**		**551,703**	
Retirement benefits	*4.14*	127,588		418	
Deferred tax liabilities	*4.20*	117,752		2,221	
Non current financial payables and liabilities	*4.15*	240,758	-	2,445	*2,395*
Bonds	*4.16*	155,991		92,372	
Other non current liabilities	*4.17*	482		113	
Provisions for risks and charges	*4.18*	3,543		291	
Total non current liabilities		**646,114**		**97,860**	
Current financial payables and liabilities	*4.15*	109,455	-	29,677	*464*
Trade payables	*4.19*	540,725	*10,148*	2,238	*538*
Other current liabilities	*4.20*	129,280	*1,028*	3,813	*1,316*
Provisions for risks and charges	*4.18*	3,865		-	
Total current liabilities		**783,325**		**35,728**	
Liabilities directly associated with assets held for sale	*4.12*	68,469		-	
Total liabilities and equity		**2,067,445**		**685,291**	

The notes are an integral part of these consolidated financial statements.

Details of related party transactions are disclosed in the descriptions of the relevant explanatory notes.

KME Group S.p.A. - Consolidated financial statements as of December 31, 2022

Consolidated income statement and statement of comprehensive income

(in € thousand)	*Ref. Note*	*2022*	*of which related parties*	*2021*	*of which related parties*
Revenues from sales and services	*5.1*	1,400,584	-	-	-
Change in inventories of finished and unfinished products		53,991		-	
Own work capitalized		373		-	
Other income	*5.2*	10,862	394	1,007	130
Purchases and change in raw materials		(1,131,320)	(30,343)		
Personnel cost	*5.3*	(123,405)	(452)	(1,867)	(366)
Depreciation, amortization and impairments		(43,497)	-	(658)	(239)
Other operating costs	*5.4*	(159,010)	(3,322)	(4,801)	(1,221)
Operating result (EBIT)		**8,578**		**(6,319)**	
Financial income		51,583	47,887	1,157	203
Financial expense		(33,557)	(1,539)	(4,375)	(180)
Net financial expense	*5.5*	*18,026*		*(3,218)*	
Result of investments	*5.6*	(195)	(1,188)	73,388	73,201
Profit before tax		**26,409**		**63,851**	
Current taxes		(7,536)		1,893	
Deferred taxes		26,846		(438)	
Total income taxes	**5.7**	**19,310**		**1,455**	
Result from continuing operations		**45,719**		**65,306**	
Result from discontinued operations		(10,261)		-	
Net result for the year		**35,458**		**65,306**	
Other comprehensive income:					
Measurement of employee defined benefits		*16,053*		*(12)*	
Taxes on other comprehensive income		*(4,120)*		-	
Items that will not be reclassified to profit or loss		**11,933**		**(12)**	
Foreign currency translation gains/(losses)		*1,506*		-	
Net change in cash flow hedge reserve		*694*		-	
Taxes on other comprehensive income		*(149)*		-	
Items that may be reclassified to profit or loss		**2,051**		**-**	
Total other comprehensive income, net of tax effect:		**13,984**		**(12)**	
Total OCI for the year		**49,442**		**65,294**	
Net result for the year attributable to:					
- non controlling interests		*2*		-	
- parent company's shareholders		*35,456*		*65,306*	
Net result for the year		**35,458**		**65,306**	
Total OCI attributable to:					
- non controlling interests		*824*		-	
- parent company's shareholders		*48,618*		65,294	
Total OCI for the year		**49,442**		**65,294**	
Earnings per share (in €)					
Basic earnings/(loss) per share		0.0855		0.1533	
Diluted earnings/(loss) per share		0.0559		0.1041	

The notes are an integral part of these consolidated financial statements.

Details of related party transactions are disclosed in the descriptions of the relevant explanatory notes.

KME Group S.p.A. - Consolidated financial statements as of December 31, 2022

Consolidated Statement of changes in equity as of December 31, 2021

(in € thousand)	*Share capital*	*Other reserves*	*Treasury shares*	*Retained earnings*	*Other comprehensive income reserve*	*Net result*	*Total Group equity*	*Non controlling interests*	***Total consolidated equity***
Equity as of December 31, 2020	**335,069**	**98,469**	**(2,012)**	**71,143**	**(12)**	**1,273**	**503,930**	**-**	**503,930**
Allocation of Parent Company's result	-	3,289	-	-	-	(3,289)	-	-	**-**
Allocation of subsidiaries' result	-	(2,016)	-	-	-	2,016	-	-	**-**
Purchase of treasury shares	-	-	(128)	-	-	-	(128)	-	**(128)**
Purchase and cancellation of savings treasury shares (OPS)	-	(638)	7	(17,302)	-	-	(17,933)	-	**(17,933)**
Warrant management	-	540	-	-	-	-	540	-	**540**
Other movements	-	-	-	-	-	-	-	-	**-**
Comprehensive income items	-	-	-	(1)	(11)	-	(12)	-	**(12)**
Net result	-	-	-	-	-	65,306	65,306	-	**65,306**
Total OCI	-	-	-	(1)	(11)	65,306	65,294	-	**65,294**
Equity as of December 31, 2021	**335,069**	**99,644**	**(2,133)**	**53,840**	**(23)**	**65,306**	**551,703**	**-**	**551,703**
Reclassification of treasury shares	(2,133)	-	2,133	-	-	-	-	-	**-**
Equity as of December 31, 2021	**332,936**	**99,644**	**-**	**53,840**	**(23)**	**65,306**	**551,703**	**-**	**551,703**

As of December 31, 2022, the Company held 6,937,311 ordinary treasury shares without par value. All the shares were then fully reclassified as a deduction from share capital.

The purchase and cancellation of savings treasury shares (OPS) relates to the Public Exchange Offer promoted in 2021 and concluded in July 2021: on the basis of the final results, and taking into account 11,801 treasury shares already held by the Company, in execution of the resolution of the Extraordinary Shareholders' Meeting of November 30, 2020 (as renewed on June 8, 2021), proceeded to cancel the 33,784,755 savings treasury shares without proceeding with any reduction in capital, with consequent automatic increase in the "implicit accounting parity" of the residual shares.

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of changes in equity as of December 31, 2022

(in € thousand)	*Share capital*	*Other reserves*	*Treasury shares*	*Retained earnings*	*Other comprehensive income reserve*	*Net result*	***Total equity of the shareholders of KME SE***	*Non controlling interests*	***Total Group equity***
Equity as of December 31, 2021	**335,069**	**99,644**	**(2,133)**	**53,840**	**(23)**	**65,306**	**551,703**	**-**	**551,703**
Allocation of Parent Company's result	-	65,306	-	-	-	(65,306)	**-**	-	**-**
Allocation of consolidated companies' result	-	-	-	-	-	-	**-**	-	**-**
Consolidation adjustments	-	193	-	-	-	-	**193**	30,265	**30,458**
Purchase and cancellation of treasury share (OPSc)	-	(10,887)	-	(53,840)	-	-	**(64,727)**	-	**(64,727)**
Reduction of share capital after OPSc	(135,000)	135,000	-	-	-	-	**-**	-	**-**
Exercise of Parent Company Warrants	1	31	-	-	-	-	**32**	-	**32**
Warrant management	-	2,085	-	-	-	-	**2,085**	-	**2,085**
Other movements	-	(4,058)	-	1,145	-	-	**(2,913)**	3,457	**544**
Comprehensive income items	-	(47)	-	(2)	13,211	-	**13,162**	822	**13,984**
Net result	-	-	-	-	-	*35,456*	**35,456**	*2*	**35,458**
Total OCI	**-**	**(47)**	**-**	**(2)**	**13,211**	**35,456**	**48,618**	**824**	**49,442**
Equity as of December 31, 2022	**200,070**	**287,267**	**(2,133)**	**1,143**	**13,188**	**35,456**	**534,991**	**34,546**	**569,537**
Reclassification of treasury shares	(2,133)	-	2,133	-	-	-	**-**	-	**-**
Equity as of December 31, 2022	**197,937**	**287,267**	**-**	**1,143**	**13,188**	**35,456**	**534,991**	**34,546**	**569,537**

As of December 31, 2022, the Company held 6,937,311 ordinary treasury shares without par value. All the shares were then fully reclassified as a deduction from share capital.

The purchase and cancellation of treasury shares and OPS relates to the Public Exchange Offers promoted in 2022 and concluded in September 2022: based on the final results, in execution of the resolution of the Extraordinary Shareholders' Meeting of June 16, 2022, it proceeded to cancel the ordinary shares, savings shares and warrants subscribed without proceeding with any capital reduction, with consequent automatic increase in the "implicit accounting parity" of the residual shares. In exchange, 63,533,259 "KME Group S.p.A. 2022–2027" Bonds were issued as consideration, for a total nominal value of €63.5 million.

The notes are an integral part of these consolidated financial statements.

KME Group S.p.A. - Consolidated financial statements as of December 31, 2022

Consolidated statement of cash flows - indirect method

(in € thousand)		*2022*	*2021*
(A) Cash and cash equivalents at the beginning of the period		**4,698**	**15,415**
Profit before tax		26,409	63,851
Depreciation, amortization and impairments		43,497	658
Change in inventories		13,512	-
Change in trade receivables		77,021	505
Change in trade payables		(46,605)	372
Change in provisions for personnel, provisions for risks and charges		(13,652)	716
Change in other assets and liabilities		78,911	(1,698)
Changes in fair value of derivatives		(38,584)	-
Result from equity accounted investments		10,285	-
Financial result (without currency and fair value effects)		(28,106)	-
Income taxes		4,776	-
Other non-monetary changes		(23,494)	-
(B) Cash flow from operating activities		**103,970**	**64,404**
Proceeds from non current tangible and intangible assets		(17,403)	(363)
Payments for non current tangible and intangible assets		2,118	193
Payments on/proceeds from other non current assets/liabilities		82	(1,274)
Payments on/proceeds from investments		(84,343)	(73,656)
Interest received		2,404	(205)
Dividends received		1,013	476
(C) Cash flow from investing activities		**(96,129)**	**(74,829)**
(Purchase) sale of treasury shares and similar securities		32	(128)
Payments on/proceeds from current and non current financial payables		26,250	3,803
Payments on/proceeds from current and non current financial receivables		16,347	205
Interest payments		(15,496)	(4,172)
Other financial payments		(14,956)	-
(D) Cash flow from financing activities		**12,177**	**(292)**
(E) Change in cash and cash equivalents	**(B) + (C) + (D)**	**20,018**	**(10,717)**
(F) Changes in consolidated group		104,174	-
(G) Exchange rate related changes on cash and cash equivalents		(46)	-
(H) Cash and cash equivalents at the end of the period	**(A) + (E) + (F) + (G)**	**128,844**	**4,698**

The notes are an integral part of these consolidated financial statements.

KME Group S.p.A. - Consolidated financial statements as of December 31, 2022

Notes to the 2022 Consolidated Financial Statements

1. *General information*

KME Group is a Joint-Stock Company (Società per Azioni) registered in Italy with the Milan Companies Register under no. 00931330583 and its shares are listed on the *Euronext Milan* market organised and managed by Borsa Italiana S.p.A. The Company has its registered office in Foro Buonaparte 44 - Milan.

KME Group ("KME", the "Company" or the "Parent Company") is a holding company, whose objective was directed until April 22, 2022 to manage its portfolio of assets and investments with a dynamic entrepreneurial perspective, and to focus on cash generation and growth in the value of investments over time, also through sales functional to the development strategies.

On April 22, 2022, the Company's Board of Directors resolved to adopt a strategy aimed at concentrating its activities on the industrial management of the investment in KME SE and in particular in the copper laminates sector ("New Strategy"); this investment has therefore become a lasting investment. For the other investments, it was defined to identify the best opportunities for valorisation, either through disposal to third parties or allocation to shareholders.

In line with the New Strategy, on September 23, 2022 the Company changed its company name from Intek Group S.p.A. to KME Group S.p.A.

The consolidated financial statements as of December 31, 2022 (the "Consolidated Financial Statements") were the objects of approval by the Board of Directors on March 28, 2023 and will be published in accordance with legal requirements.

Although it is owned by Quattroduedue Holding B.V. through the wholly-owned subsidiary Quattroduedue S.p.A., the Company is not subject to management and coordination as defined in articles 2497 et seq. of the Italian Civil Code and article 37 of the Market Regulation, insofar as:

- it has autonomous powers of negotiation with respect to contractual arrangements with customers and suppliers;
- it does not participate in any centralised treasury arrangements operated by the parent or any other company under the parent's control.

2. *Accounting policies*

2.1. Qualification of investment entity

The aforementioned change in strategy, which resulted in the focus of the activity in the industrial management of the investment in KME SE, has nullified the commercial purpose of the Company aimed at obtaining returns for shareholders exclusively from the capital appreciation and from investment income; this, however, means that fair value is no longer a basis for the calculation and internal evaluation of investments.

These amendments meant the Company no longer satisfied the requisites, set forth in paragraphs 27 and 28 of IFRS 10, to qualify as an "investment entity", on the basis of which the previous financial statements had been drawn up starting from those as of December 31, 2014.

Therefore, the Company ceased to be an "investment entity" as of the date on which the change of status occurred, which was therefore from April 22, 2022. This led, therefore, to the change in the measurement criteria of investments (asset item "Investments in equity interests and fund units" present until the consolidated financial statements as of December 31, 2021) for which the fair value is replaced by the criterion of cost; in this regard, the fair value at the date of loss of the qualification of investment entity represents the new cost. For more details, and further accounting information in accordance with IFRS 12, please refer to the commentary on the financial statement item.

These Consolidated Financial Statements therefore represent, after several years, the first financial statements of the Group in which the Parent Company does not qualify as an investment entity. Therefore, in preparing these Consolidated Financial Statements, starting from the date of the "change of status", the provisions of IFRS 10 relating to investment entities were not applied, which entailed for the Company the non-consolidation of investments held in non-instrumental subsidiaries and their measurement at fair value through profit or loss pursuant to IFRS 9, as required by paragraph 31 of IFRS 10.

It should be noted that, pursuant to paragraph 30 of IFRS 10, the change in status is accounted for prospectively starting from the date on which this change occurred.

The current Consolidated Financial Statements therefore provide for the line-by-line consolidation of the controlling interests, reflecting the accounting effects of the aforementioned "change of status". Please refer to the paragraph "Consolidation principles" for further information on the scope of consolidation as of December 31, 2022, significantly larger than as of December 31, 2021.

2.2. Basis for preparation

The consolidated financial statements as of December 31, 2022 were drafted pursuant to article 154 *ter* of Legislative Decree 58/1998 and conform to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission in accordance with the procedure as set out in article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002 as well as with the provisions issued in implementation of article 9 of Legislative Decree 38/2005.

For the purposes of these Consolidated Financial Statements, financial statement data with uniform and consistent accounting standards have been used.

The consolidated financial statements as of December 31, 2022 are composed of the consolidated statement of financial position, the consolidated income statement and the statement of other comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity, as well as the Notes thereto. Assets and liabilities to be realized or settled within twelve months from the reporting date or held primarily for trading are classified as current; the consolidated income statement is prepared according to the cost-by-nature method.

The consolidated financial statements and the notes thereto include, besides the amounts relating to the reference year, the corresponding comparative data relating to the previous year.

It should be noted that the comparative balances of 2021 are not immediately comparable with those as of December 31, 2022 as the latter reflect the expansion of the full scope of consolidation following the loss of the qualification of investment entity, accounted for, pursuant to paragraph 30 of IFRS 10, prospectively starting from the date on which this change occurred without restating the comparatives.

From an accounting point of view, the expansion of the scope of consolidation was carried out as of April 30, 2022, thus providing for the consolidation of the equity balances as of December 31, 2022 for all the companies included in the scope of consolidation for the purposes of these Consolidated Financial Statements, and of the income and cash flows relating to the eight months of May to December 2022 for the entities included in the Group's scope of consolidation, following the loss of "investment entity" status.

For the composition of the Group as of December 31, 2022, reference should be made to the paragraph "Consolidation principles".

With reference to the consolidated financial statements, it should be noted that, compared to those presented in the 2021 annual financial report, they have been adjusted (please refer to what is indicated in the paragraph "Basis for preparation") to include the typical items of an industrial company that previously were not represented in the financial statements of the Group (nor of the Parent Company) as they are not applicable.

These Consolidated Financial Statements have been prepared on a going concern basis, in accordance with IAS 1 and in compliance with the financial covenants; the considerations relating to business continuity were carried out in relation to the effects of the ongoing conflict between Russia and Ukraine as well as the consequences of the COVID-19 pandemic that continue to weigh on the global economic prospects.

In preparing the Consolidated Financial Statements, the Directors have applied the concepts of accruals, clarity, significance, materiality, reliability, neutrality, prudence and comparability and applied accounting policies consistent with those used for the Consolidated Financial Statements as of December 31, 2021, without prejudice to what is stated in the preceding paragraph with regard to investments and except for accounting standards that came into effect on January 1, 2022.

For the accounting standards, amendments and interpretations applied for the first time by the Group, which had no effects on equity or the result for the reporting period, please see the paragraph "Newly applied accounting standards."

The Group has not yet applied the accounting standards listed below in paragraph 2.10, which, although already issued by the IASB, will become effective after the date of these Consolidated Financial Statements or which have not yet completed the endorsement process by the European Union.

Events and transactions affecting the Company are recognized and presented with respect to their economic substance rather than legal form.

Specific notes contained in the *Report on operations* disclose the content and meaning of the non-IFRS alternative performance indicators, where applicable, in compliance with CESR recommendation 05 - 178b published on November 3, 2005.

These consolidated financial statements are presented in Euro, the functional currency of the Parent Company and all the main consolidated subsidiaries. The tables and data in the notes are reported in thousands of Euro, unless otherwise indicated.

Furthermore, in the context resulting from the COVID-19 epidemic as well as the ongoing conflict between Russia and Ukraine, the interpretative and support documents for the application of the accounting standards issued by the Italian international regulatory and supervisory bodies and standard setters (Consob attention calls and public statements issued by ESMA) were taken into account in the preparation of these Consolidated Financial Statements.

The single electronic communication format for the preparation of annual financial reports

Directive 2004/109/EC (the "Transparency Directive") amended by Directive 2013/50/EU and Delegated Regulation (EU) 2019/815 (the "ESEF Regulation") introduced the obligation for issuers of securities listed on the regulated markets of the European Union to prepare the annual financial report in the *eXtensible Hypertext Markup Language* ("XHTML"), based on the single electronic communication format ESEF ("*European Single Electronic Format*"), approved by ESMA. This is in order to make the annual financial reports readable by both human users and automatic devices and to improve the comparability and analysis of the information included in the annual financial reports.

Therefore, from the financial year starting on January 1, 2021, the annual financial report was expected to be prepared and published in XHTML format using the Inline Extensible Business Reporting Language ("iXBRL"), only for the marking of the consolidated financial statements (in official language).

Furthermore, from the financial year starting on January 1, 2022, the issuers are also required to mark the information contained in the consolidated explanatory notes (in official language).

The document in PDF format does not constitute fulfilment of the obligations deriving from the Transparency Directive and the ESEF Regulation for which a specific XHTML format has been developed. The deposits of the entire document (in official language) at the competent offices and institutions are made in accordance with the law.

On October 29, 2021, ESMA published the annual declaration "European common enforcement priorities for 2021 annual financial reports" in which the application of the ESEF Regulation was recalled.

2.3. Events occurred after the reporting period

With regard to a description of significant events occurring after the end of the year, please refer to the *Report on Operations.*

2.4. Basis for preparation

It should be noted that for the purposes of preparing these Consolidated Financial Statements, the consolidated accounting statements have been adjusted in order to:

- reflect the "change of status" of investment entity and therefore the industrial holding structure: the main balance sheet items typical of the Parent Company's operations, "Investments in equity interests and fund units" for the balance sheet and "Net income from management of investments" for the income statement, have been renamed respectively "Investments" (subdivided by type: "Investments in subsidiaries", "Equity accounted investments", "Investments in other companies") and "Result of investments" and include, in addition to the income statement effect related to changes in fair value recognized in the first four months of the year, the items related to investments not consolidated on a line-by-line basis (investments in subsidiaries) and investments in other companies.

With reference to the income statement, the item "Result of investments" — which does not contribute to the formation of the Operating Result in the financial statements — was reclassified, as was the item "Commission income on guarantees issued" of the Parent Company which was merged into "Financial income".

The consolidated statement of cash flows also reflects the aforementioned approach and reflects the reclassification of the balances of the items relating to investments and those relating to flows of financial payables/receivables from related companies which are now part of the "Cash flows from investing activities";

- include the balance sheet components of the consolidated subsidiaries not present in the Parent Company's financial statements and in the previous consolidated financial statements. New accounting items were represented: "Inventories" and the related income statement items, "Change in inventories of finished and unfinished products", "Own work capitalized", "Purchase and change of raw materials" as well as "Revenues from sales and services".

  The items in the financial statements relating to assets and liabilities held for sale pursuant to IFRS 5 were also measured (consolidated financial statements items "Non current assets held for sale", "Liabilities directly associated with assets held for sale" and "Result from discontinued operations").

2.5. Consolidation principles

The consolidated financial statements as of December 31, 2022 reflect the consolidation of the Parent Company and the companies directly and indirectly controlled, jointly controlled or associates.

The assets and liabilities which are expected to be disposed of are reclassified under the assets and liabilities items intended to highlight these cases and its economic effects are shown in a separate item in the income statement.

2.5.1. Controlled entities

Subsidiaries are all those companies over which the Parent Company simultaneously has:

- power, i.e. it holds legitimate rights that bestow upon it the actual capacity to manage *relevant activities*, i.e. activities that have a significant effect on returns;
- exposure or rights to variable returns arising from the relationship with the company itself;
- the ability to exercise its power to affect the amount of its returns.

The assets, liabilities, income and expenses of the subsidiaries consolidated on a line-by-line basis are recognized in the consolidated financial statements at their full value; the carrying amount of the investments is eliminated by offsetting it against the underlying interest in the respective equity, and the individual assets and liabilities are measured at their fair value at the date when control of the investee was established. Any difference, if positive, is recognized under the asset item "Goodwill"; if negative, in the income statement. The portion of equity and profit (loss) attributable to Non controlling interests is recognized under the relevant items. After initial recognition, "goodwill" is measured according to the provisions of *IAS 36 - Impairment of Assets.*

Insignificant subsidiaries and companies whose consolidation does not produce substantial effects are excluded from the scope of consolidation. However, the effects of these exclusions are immaterial and therefore their omission does not influence the economic decisions of the users of these Consolidated Financial Statements.

Unrealized profits on intra-group transactions, if material, are eliminated. Receivables, payables, income, expenses, guarantees, commitments and contingencies in connection with transactions among consolidated companies are also eliminated. Intra-group losses are not eliminated as they are deemed to represent an impairment loss on the asset sold. All financial statements of subsidiaries, if necessary, have been adjusted to ensure consistency of accounting policies and measurement standards with those of the Group.

In the case of the sale or transfer of an investee, the deconsolidation is accounted for from the date of effective loss of control.

In the case of the transfer of a subsidiary to a jointly-controlled or associate, the profit or loss from the loss of control is recognized in the income statement, as provided for by IFRS 10, paragraph 25. In this case, it:

a) derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position;

b) recognizes any investment retained in the former subsidiary at the corresponding fair value on the date the control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs. This fair value becomes the basis for the next posting of the investment;

c) recognizes the gain or loss associated with the loss of control attributable to the former controlling interest;

d) reclassifies to profit or loss, or transfers directly to retained earnings if required in accordance with other IFRSs, the amounts previously recognized in other comprehensive income in relation to the former subsidiary.

If the Parent Company qualifies as an "investment entity", investments in non-instrumental subsidiaries are measured at fair value, including investments in the consolidated financial statements.

In the event of loss of the status of "investment entity", the financial statements are drawn up on the basis of the provisions of paragraphs 19-24 of the IFRS, i.e. proceeding with the line-by-line consolidation of the investments in subsidiaries.

On the first application of these provisions, in order to carry out the line-by-line consolidation of the investments in subsidiaries previously measured at fair value, the provisions contained in IFRS 3 - Business combinations are applied in accordance with paragraph B100 of IFRS 10, pursuant to which each business combination must be accounted for by applying the acquisition method, i.e. among other things, (i) by determining the acquisition date, and (ii) recognizing and measuring goodwill or profit deriving from a purchase at favourable prices.

In the event of loss of the qualification as an investment entity, the application of IFRS 3 provides that the date of the change of status (i.e. the date on which the Company loses its qualification as an investment entity) is considered as the presumed acquisition date of the investment and that the fair value of the subsidiary at the presumed acquisition date represents the presumed consideration transferred for the purposes of identifying the assets and liabilities on which to allocate the "price" of the acquisition with the determination of the goodwill or profit resulting from a purchase under favourable terms following the presumed acquisition.

Scope of consolidation

As of December 31, 2021, and over the course of the 2021 financial year there were no instrumental subsidiaries included in the Company's scope of consolidation, as on March 31, 2021 the liquidation of the subsidiary I2 Capital Partners SGR S.p.A., fully consolidated up to the financial statements as of December 31, 2020, had been completed. Given the irrelevance of the income statement flows of this subsidiary, it was deconsolidated on January 1, 2021. As of December 31, 2021, the scope of consolidation therefore exclusively included the Parent Company.

The New Strategy entailed the non-application, in the preparation of the Company's financial statements, of IFRS 10 relating to investment entities with the consequent expansion of the Group's scope of consolidation, which also includes non-instrumental controlling investments, including, in particular, KME SE and any other controlling interests held at the reference dates for which an exception to line-by-line consolidation, such as that provided for by IFRS 5, is not applicable.

Specifically, for the purposes of preparing the consolidated financial statements as of December 31, 2022, this entailed the consolidation on a line-by-line basis, starting from the date of "change of status" of investment entities (April 22, 2022). On April 30, 2022, the accounting date closest to that of the "change of status", was therefore identified as the date of first consolidation of the investees represented below, to which the information provided in the Financial Statements refers where reported "IFRS 10 - Changes in consolidated group"; following the first consolidation, in application of IFRS 3 - "Business combinations", the purchase price allocation ("PPA") was carried out, the results of which are summarised in paragraph 4.3 and shown in the explanatory notes of the individual financial statement items as "PPA changes")

The following table lists the companies consolidated on a line-by-line basis as of December 31, 2022:

Name	Registered office	Currency	% ownership	
			direct	indirect
KME Group S.p.A. (formerly Intek Group SpA)	Italy	Euro	Parent company	
KME SE	Germany	Euro	10.00%	89%
KMH S.p.A. (formerly KME Group S.r.l.)	Italy	Euro	100.00%	
CULTI Milano S.p.A.	Italy	Euro	77.17%	
Bakel Inc	United States	USD		38.59%
Bakel S.r.l.	Italy	Euro		38.59%
Bertram's GmbH	Germany	Euro		99.00%
CULTI Milano Asia Ltd.	Hong Kong	HKD		46.30%
CULTI Milano China Ltd.	China	RMB		46.30%
Immobiliare Pictea S.r.l.	Italy	Euro		99.00%
KME AssetCo GmbH	Germany	Euro		99.00%
KME Germany GmbH	Germany	Euro		99.00%
KME Grundstücksgesellschaft SE & Co. KG	Germany	Euro		99.00%
KME Italy S.p.A.	Italy	Euro		83.16%
KME Mansfeld GmbH	Germany	Euro		99.00%
KME Netherlands B.V.*	Netherlands	Euro		99.00%
KME Real Estate GmbH & Co. KG	Germany	Euro		99.00%
KME Recycle S.r.l. (in liquidation)	Italy	Euro		99.00%
KME Rolled France S.A.S.	France	Euro		99.00%
KME S.r.l.	Italy	Euro		99.00%
KME Service Centre Italy S.p.A.*	Italy	Euro		99.00%
KME Service Centre Slovakia s.r.o.*	Slovakia	Euro		99.00%
KME Service Centre UK Ltd.*	Great Britain	GBP		99.00%
KME Spain S.A.U.	Spain	Euro		99.00%
KME Special Holding GmbH	Germany	Euro		99.00%
KME Special Products GmbH & Co. KG	Germany	Euro		99.00%
KME Yorkshire Ltd.	Great Britain	GBP		99.00%
KMETAL S.p.A.	Italy	Euro		99.00%
Natural Capital Italia S.p.A. Benefit Company	Italy	Euro		73.85%
Scent Company S.r.l.	Italy	Euro		39.36%
Valika S.A.S.	France	Euro		50.49%

* The companies KME Netherlands B.V., KME Service Centre Italy S.p.A., KME Service Centre UK Ltd. and KME Service Centre Slovakia s.r.o. entered the scope of consolidation as a result of the execution of the agreement signed by KME SE for the purchase of part of the flat-rolled products business of Aurubis AG ("Aurubis"), on July 29, 2022.

As of December 31, 2022, in consideration of the treasury share purchase programme put in place by CULTI Milano S.p.A. ("CULTI"), after which CULTI held 369,750 treasury shares, the percentage held in CULTI rose to 87.64%, calculated on the outstanding shares and therefore net of treasury shares held by CULTI; consequently, also those of Bakel S.r.l. and Bakel Inc. at 43.83%, that in CULTI Asia Ltd. and CULTI China Ltd. at 52.58% and those of Scent Company S.r.l. at 44.69%.

The 2022 carrying amounts relating to the items of these consolidated financial statements therefore include the balances of the aforementioned companies and specifically the statement of financial position balance as of December 31, 2022 of all the companies and, for the entities (other than the Parent Company) that have merged into the scope of consolidation of the Group during the year in question, exclusively the income statement and cash flows subsequent to the date of first consolidation.

In terms of significance, the main subsidiary is KME SE based in Germany, parent company of the KME group, a European industrial group that is a global leader in the production and marketing of copper and copper alloy products. The KME group is composed of several production sites in Germany, Italy, France, Spain, the United States and China and is also represented worldwide by a rich network of commercial companies, agents and service centres to meet the needs of customers in the main industrial sectors.

Some subsidiaries are not included in the scope of consolidation as the effect in the financial statements would not be significant for financial reporting[1]; in particular, the most significant is Intek Investimenti S.p.A. whose assets, equal to approximately 0.4% of the "Total Assets" of the financial statements as of December 31, 2022, are mostly represented by non controlling interests that would have been merged (also in presence of line-by-line consolidation) in the item "Investments" and whose financial statements do not present any further significant items.

The American company Bakel Inc., a company belonging to the CULTI group responsible for the distribution of the Bakel 3D® product in the American market, started operations in May 2022 and therefore, being still in the start-up phase as of December 31, 2022, has values non-significant to the income statement; in fact, during the past year, preliminary investments were made in the sale of the innovative product whose commercial developments are expected in the second half of 2023.

Please note that, on the basis of article 264b of the HGB (Germany's commercial code and accounting standards), the indirect subsidiaries KME Special Products GmbH & Co. KG, Osnabrück, KME Grundstücksgesellschaft SE & Co. KG, Osnabrück and KME Real Estate GmbH & Co. KG, Osnabrück, KME Germany GmbH, Osnabrück, KME Mansfeld GmbH, Hettstedt do not disclose their financial statements. In such cases, German law (§ 264b No. 3 HGB and § 264 (3) No. 3 HGB) requires a statement indicating that the direct subsidiary KME SE and its subsidiaries KME Special Products GmbH & Co. KG, KME Grundstücksgesellschaft SE & Co. KG and KME Real Estate GmbH & Co. KG, KME Germany GmbH, Osnabrück, KME Mansfeld GmbH, Hettstedt are included in the consolidated financial statements of KME Group S.p.A.

The subsidiaries included in the scope of IFRS 5 (assets and liabilities held for sale) as of December 31, 2022 are outlined below:

Name	**Registered office**	**Currency**	**% ownership**	
			direct	**indirect**
Serravalle Copper Tubes Italy S.r.l.	Italy	Euro		99.00%
Trefimetaux SAS	France	Euro		99.00%

2.5.2. Associated entities

Associates are all companies over which the Company exercises significant influence but not control. Significant influence is presumed when the Company holds, directly or indirectly through subsidiaries, 20% or a greater share of the votes in the shareholders' meeting of the investee. Investments in associates are consolidated using the equity method. With the equity method, the investment is initially recognized at cost and subsequently adjusted to record the share due to the parent company in the profits or losses accrued after the acquisition date and/or any loss of value. The dividends received reduce the carrying amount of the investment.

Name	**Registered office**	**Currency**	**% ownership**	
			direct	**indirect**
Azienda Metalli Laminati S.p.A.	Italy	Euro		23.96%
Dynamo Academy S.r.l. Impresa Sociale	Italy	Euro		24.75%

[1] *The accounting standards do not establish any lower quantitative limits for non-consolidation; however, the "Conceptual Framework" outlines the concept of relevance and significance for the purposes of financial reporting in the context of the correct presentation of the financial statements required by paragraph 15 of IAS 1.*

2.5.3. Joint Ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity. Joint ventures are consolidated using the equity method as required by IFRS 11 paragraph 24.

Name	Registered office	Currency	% ownership	
			direct	indirect
KMD (HK) Holding Limited	Hong Kong	HKD		49.50%
KMD Connectors Stolberg GmbH	Germany	Euro		49.50%
KMD Precise Copper Strip Co. Ltd.	China	RMB		49.50%
Magnet Joint Venture Gmbh	Germany	Euro		44.55%

The entity Magnet Joint Venture Gmbh relates to the Specials business, control of which (55%) was sold by KME SE to Paragon with effective date as of January 31, 2022.

2.5.4. Changes in scope of consolidation

In the preparation of these Financial Statements, the controlling investments (KME Group S.r.l., KME SE and CULTI Milano S.p.A.) held for investment by the Parent Company, which until the "change of status" was measured at fair value also in the consolidated financial statements, were subject to line-by-line consolidation (refer to "Change by investment entity" shown in the table 4.4 of the explanatory notes regarding Investments); at the same time, the balances of these entities included in the scope of consolidation were consolidated with an increase in the equity balances ("IFRS 10 - Changes in consolidated group" shown in the tables of the explanatory notes). The consolidation of the accounting data was carried out starting from the sub-consolidated financial statements of KME SE and CULTI, whose data in these Consolidated Financial Statements are represented as the KME SE group and the CULTI group, which also include the two Cash Generating Units identified by the Company ("Copper" and "Perfumes and cosmetics", respectively).

With respect to the date of first consolidation (April 30, 2022 as the date of "change of status"), the following changes in the scope of consolidation occurred during the year:

- Ilnor S.r.l. (entity merged into KME Italy S.p.A. on July 1, 2022 with retroactive tax and economic effect as of January 1, 2022) and KME Chile Limitada (entity dissolved on July 15, 2022) left the scope of consolidation;
- the companies KME Netherlands BV, KME Service Centre Italy S.p.A., KME Service Centre UK Ltd. and KME Service Centre Slovakia s.r.o. entered the scope of consolidation on July 29, 2022 due to the execution of the agreement signed with Aurubis, finalised after the approval by the competent authorities for the control of mergers in May 2022; these balances are represented in the changes in fixed assets as " KME SE - Changes in consolidated group " represented in some tables of changes in the explanatory notes ("KME SE - Changes in consolidated group " represented in the tables of the explanatory notes).

  Through this agreement, KME SE has therefore completed the purchase of part of Aurubis' business in the flat-rolled products sector. The price paid for the purchase is € 19.4 million, also against cash and cash equivalents of € 8.5 million in the companies acquired at the time of closing. KME SE also repaid an intercompany loan of € 53.4 million to Aurubis, corresponding to an equal amount of net working capital in the target companies at the time of closure.

  With reference to the aforementioned entities, the assets and liabilities recognized in the financial statements following the purchase price allocation ("PPA") are shown below:

(in € thousand)	*Post PPA*	*of which PPA effects*
Property, plant and equipment	69,448	*39,832*
Intangible assets	688	-
Deferred tax assets	14,750	*12,631*

Inventories	57,507	-
Trade receivables	32,857	-
Current financial assets	15,070	-
Other receivables and current assets	2,075	-
Cash and cash equivalents	8,516	-
Total assets	**200,911**	***52,463***
Retirement benefits	(700)	-
Deferred tax liabilities	(14,597)	*(10,277)*
Non current financial payables and liabilities	(914)	-
Current financial payables and liabilities	(61,204)	-
Trade payables	(48,695)	-
Other current liabilities	(8,813)	-
Provisions for risks and charges	(150)	-
Total Liabilities	**(135,073)**	***(10,277)***
Total Net Assets (Liabilities)	**65,838**	***42,186***

2.6. Foreign currency transactions

Functional currency of the Group

As already specified above, all amounts are expressed in Euro which also represents the functional currency of the Parent Company.

Translation of financial statements into non-Euro currencies

The financial statements of the consolidated entities that are expressed in foreign currencies have been translated into Euro by applying the average exchange rates for the year to the individual items of the income statement and the prevailing exchange rates at the closing date of said financial statements to those of the statement of financial position.

The exchange rates used for the conversion of foreign currencies are as follows:

	31/12/2022	*2022 Average*
	Closing rate	*Average rate*
GBP - Pound Sterling	0.8872	0.8689
RMB - Chinese Yuan	7.3650	7.0790
HKD - Hong Kong dollar	8.3241	8.2016
USD - US dollar	1.0675	1.0474

The difference between the profit for the year as resulting from the conversion of the average exchange rates for the year and that resulting from the conversion based on the exchange rates at the end of December 2022, pertaining to these Consolidated Financial Statements, is included in "Other reserves" and in "Equity" respectively for the part pertaining to the Group and non controlling interests.

2.7. *Accounting standards adopted*

2.7.1. Property, plant and equipment

2.7.1.1. Owned operating assets

Property, plant and equipment are recorded at purchase or production cost, including directly attributable costs, and are shown net of accumulated depreciation and any impairment losses determined in accordance with the methods set out below. Any item of property, plant and equipment consisting of different components with varying useful lives is accounted for separately.

Property, plant and equipment are measured at cost, net of accumulated depreciation and impairment, with the exception of land which is not depreciated and is carried at cost net of accumulated impairment.

Ordinary maintenance costs are charged to the year they are incurred, while the costs to replace parts of fixed assets and extraordinary maintenance costs are capitalized when it is probable that future measurable economic benefits will arise from them. Finance expense relating to the purchase of property, plant and equipment have been capitalized in compliance with IAS 23.

Depreciation is accounted for starting from the month in which the asset becomes available for use, or when it is potentially able to provide the economic benefits associated with it. Depreciation is recognized monthly on a straight-line basis until the end of the useful life of the relevant asset or, in the event of disposal, until the last month of use.

The useful life is constantly checked taking into account any changes in the frequency of use of the assets and any changes in depreciation plans are applied prospectively.

Depreciation is calculated based on the following useful lives:

Buildings	from 25 to 50 years
Machinery	from 10 to 40 years
Other equipment	from 5 to 15 years

At the time of disposal, the cost and the corresponding accumulated depreciation are eliminated; any gains or losses are recorded in the income statement.

2.7.1.2. Leased assets

A contract, or part of it, is classified as a lease if, in exchange for consideration, it gives the right to control the use of a specific asset for a period of time, therefore, if throughout the entire period of use of the asset both of the following rights will be enjoyed:

- the right to substantially obtain all economic benefits deriving from the use of the asset;
- the right to decide on the use of the asset.

If there is a modification of the terms and conditions of the contract, a new assessment will be performed to determine whether the contract is or contains a lease.

The Group does not apply these rules to:

- leases of intangible assets;
- short-term leases (duration of equal to or less than 12 months).

All the leases in which the underlying asset is not of modest value (asset with a unit value of equal to or lower than € 5,000), fall within the application of the right-of-use calculation model.

Once it is verified whether a contract is a lease, at the start date of the contract, the right-of-use asset and the lease liability are recognized.

The right-of-use asset is initially valued at cost, which includes:

- the amount of the initial valuation of the lease liability;

- the payments due for the lease made at or before the start date net of lease incentives received;
- the initial direct costs incurred by the lessee; and
- the estimate of costs that will need to be incurred for the dismantling and removal of the underlying asset and for the restoration of the site where it is located or for the restoration of the underlying asset to the conditions set forth in the terms and conditions of the lease.

The initial valuation of the lease liability is based on the present value of payments due for the lease not paid at that date. The payments due for the lease are discounted using the rate of financing deemed most representative of the cost of money.

Every lease component is recognized as a lease, separated from the non-lease components.

The duration of the lease is determined as the non-cancellable period of the lease, in addition to both of the following periods:

- periods covered by a lease extension option, if there is reasonable certainty that the option will be exercised; and
- periods covered by the lease termination option, if there is reasonable certainty that the option will not be exercised.

If there is a change in the non-cancellable period of the lease, the duration of the lease will be redetermined.

After the date of initial recognition, the asset is valued by applying the cost model. The right-of-use assets is then amortized on a straight-line basis from commencement date to the end of the lease term.

After the commencement date, the lease liability is valued:

- by increasing the carrying amount to take into account interest on the lease liability;
- by decreasing the carrying amount to take into account the payments made for the lease;
- by redetermining the carrying amount to take into account any new valuations or modifications of the lease or the revision of payments due for the lease.

The interest on the lease liability and the variable payments due for the lease, not included in the valuation of the lease liability, are recognized in the income statement for the year in which the event or circumstance that triggered the payments takes place.

In the financial statements, right-of-use assets are shown separately from other assets, lease liabilities separately from other financial liabilities, and interest expense on the lease liability is recognized as financial expense and separately from depreciation on the right-of-use asset.

2.7.1.3. Impairment of fixed assets

Property, plant and equipment are tested for impairment whenever there is specific objective evidence thereof ("Impairment test"). The test involves estimating the recoverable amount of the asset, defined as the higher of net selling price and value in use, compared to its carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use is determined by discounting projected cash flows at a pre-tax discount rate that reflects current market estimates of the time value of money and the risks associated with the relevant asset. To the extent that the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount with the difference either being recognized in the income statement or in a revaluation reserve previously created on the revaluation of the relevant asset. Subsequent revaluations are treated in the opposite way.

2.7.2. Investment property

These are properties that are not used in the production or supply of goods or administrative purposes by the Group but rather land and buildings held to obtain lease payments and/or for the appreciation of the invested capital. Measurement of such property follows the fair value model with any subsequent changes recognized in the income statement, and are consequently not systematically depreciated.

For determination of the fair value, reference is made to a specific value, mainly provided through external appraisals carried out by independent third parties who possess recognized professional qualifications and have experience in the specific type of properties. These appraisals are based on the value per square meter as estimated based on assessments made by the land registry office for buildings located in the same area and used for the same purpose, and take into consideration the state of upkeep and future potential of the property. Any profit or loss on the sale of an investment property is recorded in the income statement.

2.7.3.Intangible assets

Intangible assets are non-monetary assets, identifiable and without physical substance, held for use over a multi-year or indefinite period. They are recognized at cost, adjusted for any accessory charges only if it is probable that the future economic benefits attributable to the asset will be realized and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognized in the income statement in the year in which it was incurred.

2.7.3.1. Goodwill and business combinations

Goodwill is the difference between the acquisition cost of investments and the current value of the subsidiaries' assets, liabilities and contingent liabilities on the acquisition date. Goodwill deriving from business combinations is accounted for as an asset at cost net of accumulated write-downs. The useful life of goodwill is indefinite, and therefore it is not subject to amortization.

A business combination consists of a combination of separate companies or business activities into a single entity required to prepare financial statements. The business combination may give rise to an equity investment between the parent company (acquirer) and the subsidiary (acquired) or may also involve the purchase of the net assets of another company, including any goodwill.

The Group has used the acquisition accounting approach for business combinations according to IFRS 3, also in line with common control transactions; based on this approach, the consideration transferred for the investment is compared with the net assets of the investee, which are remeasured at fair value. Net assets are based on the fair values of assets and liabilities, including identifiable intangible assets and contingent liabilities to be recognized as liabilities at the acquisition date.

If it is not possible to obtain published market or market prices for the purchase price allocation ("PPA"), the fair values are calculated on the basis of appropriate valuation techniques. In general, in these cases, the discounted cash flow ("DCF") method is used; according to this method, the expected future cash flows that may be generated by the asset are discounted at the date of initial consolidation using a discount rate that reflects the intrinsic risk of the asset.

Any excess of the consideration transferred for the acquired asset with respect to the proportional share of the net assets acquired is recognized separately as goodwill; any negative difference, at the time of the revaluation of the assets and liabilities acquired, is charged directly to the income statement. Non controlling interests are measured on the basis of their proportional share of the fair value of the acquired net assets. Ancillary costs, such as those of consultants, for business combinations are charged at cost when incurred.

Subsequent changes in investments in consolidated subsidiaries that do not involve a change in the consolidation method are treated as equity transactions.

The recoverability of their carrying amounts is, however, tested annually and whenever there is objective indication of impairment. Any impairment losses recognized are not subsequently reversed.

2.7.3.2. Other intangible assets with finite useful lives

An intangible asset with a finite useful life is an identifiable asset without physical substance that is controlled by the entity and from which future economic benefits are expected.

Intangible assets are initially measured at cost and fair value including directly attributable expenses. They are then amortized on a systematic basis over their useful life, to be understood as the period of time over which the asset is expected to be used by the Company, generally between 3 and 10 years. Intangible assets are not considered to have any residual value at the end of their useful life.

The useful life is reviewed annually and future expectations are adjusted, if necessary.

In addition, they are carried net of any impairment losses, in line with the accounting treatment for "Property, plant and equipment".

2.7.4.Investments

2.7.4.1. Investments in associates and joint ventures

Associates are companies over which the Group exercises significant influence. Significant influence is the power to participate in the determination of the financial and operating policies of the investee without having control or joint control. Significant influence is presumed to exist if the Group holds a percentage of voting rights between 20% and 50% (excluding cases in which there is joint control).

A joint venture is a joint arrangement in which the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the sharing of control of a contractually agreed arrangement, which exists only when decisions on relevant activities require the unanimous consent of the parties sharing control.

Based on the equity method, investments in associates and joint ventures are included in the consolidated financial statements at acquisition cost, adjusted for changes in the Group's share of profit or loss and other components of comprehensive income of the joint venture or associate after the acquisition date. Losses of a joint venture or associate that exceed the Group's interest in that entity are not recognized. They are recognized only if the Group has assumed legal or de facto obligations to assume losses or makes payments in place of the joint venture or associate.

2.7.4.2. Investments in subsidiaries

Investments in non-consolidated subsidiaries are measured at cost, adjusted for impairment. If the Group loses control of a subsidiary, the residual investment in the former subsidiary is measured at fair value at the time of loss of control.

2.7.4.3. Investments in other companies

Non controlling interests are valued at the acquisition date on the basis of their proportional share of the net identifiable assets of the acquired company. Considering that they do not have a significant impact on the equity, on the financial results and on the operating results of the Group, these investments are measured at fair value through other comprehensive income ("FVTOCI") and are subject to impairment testing pursuant to IFRS 9 (with the exception of those for which the Group has made use of the so-called "OCI Election"). In the absence of suitable elements to identify the fair value, their fair values can be approximated by the acquisition costs.

2.7.5.Financial assets and liabilities

Recognition and initial measurement

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

The Group's financial assets may consist of cash and cash equivalents, investments, trade receivables and derivative financial instruments with positive fair values.

The Group’s financial liabilities include liabilities from the issuance of a bond, liabilities due to banks, trade payables, finance lease liabilities and derivative financial instruments with negative fair values.

Cash and cash equivalents include cash on hand, bank balances and short-term securities with an original maturity of less than three months with an insignificant risk of changes in value and are stated at nominal value. Foreign currency balances are translated into Euros at the rate on the balance sheet date.

All other financial assets and liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

Classification and subsequent measurement

Financial assets and liabilities are classified in three different categories:

- Financial instruments at fair value through profit or loss ("FVTPL");
- Financial assets at fair value through other comprehensive income ("FVTOCI);
- Financial instruments at amortized cost ("AC").

Financial instruments at fair value through profit or loss

The financial assets and liabilities acquired or held mainly for sale are classified as "Financial assets or liabilities at fair value through profit or loss".

A non-derivative financial asset may be designated at fair value if that designation makes it possible to avoid an accounting mismatch deriving from the measurement of assets and the associated liabilities using different valuation criteria.

Like financial assets, in accordance with IFRS 9 financial liabilities may be designated on initial recognition as financial liabilities measured at fair value, provided:

- this designation eliminates or significantly reduces a discrepancy which could otherwise arise from the measurement of assets or liabilities and the relative gains and losses on a different basis; or
- a group of financial assets, financial liabilities or both is managed and measured at fair value according to a risk management or investment strategy documented within the entity's Management Bodies.

A financial asset is classified under financial assets necessarily measured at fair value if it does not qualify, in terms of its business model or cash flow characteristics, for measurement at amortized cost or at fair value through other comprehensive income.

In particular, this portfolio includes:

- debt instruments, securities and loans whose business model is not either held to collect or held to collect and sell, but which do not belong to the trading portfolio;
- debt instruments, securities and loans whose cash flows do not represent solely payments of principal and interest;
- UCI units;
- equity instruments not held for trading for which the entity does not apply the option granted by IFRS 9 for measurement at fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income;

A financial asset is classified under financial assets at fair value through other comprehensive income when:

- the objective of its business model is pursued by collecting contractual cash flows and by selling it (held to collect and sell);
- the relative cash flows represent solely payments of principal and interest.

This category also includes equity instruments not held for trading for which the entity applies the accounting option granted by IFRS 9 for measurement at fair value through other comprehensive income.

Financial instruments at amortized cost

A financial asset is classified under financial assets at amortized cost when:

- the objective of its business model is to hold the asset in order to collect the contractual cash flows (held to collect);

- the relative cash flows represent solely payments of principal and interest.

Financial liabilities at amortized cost include financial instruments (other than trading liabilities and those designated at fair value) representing different forms of funding from third parties.

Fair value measurement

The fair value of financial assets and liabilities at fair value is determined on initial recognition on the basis of the transaction price, and is therefore equal to the consideration paid or received.

Subsequently, and at each reporting date, the fair value of financial instruments listed on an active market is determined on the basis of market prices. The market prices used for derivatives are the bid prices, whereas ask prices are used for financial liabilities. The fair value of instruments that are not listed on an active market is determined using measurement techniques based on a series of methods and assumptions relating to market conditions at the balance sheet date.

The fair value of unlisted non-derivative financial instruments is determined by discounting future cash flows at the market interest rate at the balance sheet date.

Determination of impairments

All financial assets and liabilities, with the exception of "Financial assets and liabilities at fair value through profit or loss", are tested for impairment in accordance with IFRS 9 and therefore also considering the effects of expected losses.

An impairment loss on a financial asset measured at amortized cost is the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. An impairment loss on a financial asset at fair value through other comprehensive income is calculated with reference to the fair value of that asset.

All impairment losses are recognized in the income statement with the exception of those relating to equity financial instruments for which the Group has made use of the option to classify them at fair value through other comprehensive income (so-called "OCI Election").

Losses are reversed if the subsequent increase in recoverable amount can be objectively related to an event occurring after recognition of the impairment loss. Reversals of impairment losses on assets carried at amortized cost and assets at fair value through other comprehensive income which are debt instruments are recognized in the income statement.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Contractual terms are considered to be substantially different if there are certain qualitative characteristics or if the discounted cash value of the cash flows differs at least 10% from the discounted present value of the remaining cash flows of the original financial liability under the new terms.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in the income statement.

Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

2.7.6. Derivative financial instruments

The Group uses a variety of derivative financial instruments to manage its exposure to interest and foreign exchange rate risks. These include forward exchange transactions, currency swaps, cross-currency swaps, interest rate swaps and interest rate caps.

Derivative financial instruments are initially recognized at fair value at the time of signing the contract. The fair value is adjusted at each subsequent balance sheet date. Any gain or loss arising from a change in the fair value of a derivative financial instrument that is not part of a cash flow hedge, or hedge of a foreign net investment relationship, and for which the hedging relationship is effective, is recognized in the income statement. For derivative financial instruments designated in a hedging relationship the timing of the recognition of gains or losses is dependent on the nature of the hedge. The Group uses certain derivative financial instruments to hedge recognized assets or liabilities. In addition, hedge accounting is applied for certain unrecognized firm commitments. Forward exchange transactions are valued on an item-by-item basis at the forward rate of the balance sheet date, and exchange rate differences arising due to the contracted forward exchange rate are included in the income statement.

Interest rate swap amounts from interest rate swap agreements are recognized in the income statement at the payment date or at the balance sheet date. In addition, interest rate swap agreements as well as interest rate caps are carried at their fair value as of the balance sheet date, and changes in the fair values are recognized in the income statement for the current reporting period provided that no hedge accounting is applied.

Derivative financial instruments not designated in a hedging relationship are classified either as current assets or liabilities.

Hedge accounting

The Group avails itself of the option envisaged by IFRS 9 to continue the accounting of hedging transactions based on the requirements of IAS 39.

Depending on volume, term and risk structure, the Group designates individual derivative financial instruments as cash flow hedges or hedge of a foreign net investment.

When financial instruments have the characteristics required for hedge accounting, the following accounting treatments are applied:

- *Fair value hedge*: if a derivative financial instrument is designated as a hedge against exposure to changes in fair value of an asset or liability attributable to a particular risk which can affect the income statement, the profit or the loss deriving from the subsequent changes in the fair value of the hedging instrument are recognized in the income statement. The profit or the loss of a hedged item, which is attributable to the hedged risk, modify the carrying amount of this item and are recognized in the income statement;
- *Cash flow hedge*: if a derivative financial instrument is designated as a hedge against changes in future cash flows of an asset or liability or an expected transaction which is highly probable and could produce effects on the income statement, the effective portion of the profits or the losses of the financial instrument (change in the fair value) is recognized in equity. The accumulated profit or loss are reversed from equity and accounted for in the income statement in the same period in which the transaction which constituted the object of the hedge took place.

The relationship between the hedged item and the hedging instrument, including the risk management objectives and the strategy for undertaking the hedge transaction, are documented at the inception of the hedge. In addition, at the inception of a hedging transaction and over its term, the Company regularly reviews and documents whether the hedge is highly effective in terms of compensating the changes in the cash flows of the hedged item or the net investment. Information on the fair value of these derivative financial instruments is provided in the "Other information" section; changes in the reserve for fair value adjustments of financial instruments within other comprehensive income can be derived from the statement of changes in equity.

The effective portion of the change in the fair value of derivative financial instruments designated as cash flow or net investment hedges is recognized in equity; the ineffective portion is recognized directly in the income statement. The amounts recognized in equity are reclassified to profit or loss in the period in which the hedged item is recognized in income. Fair value changes of net investment hedges are netted against the changes in the fair value changes of the hedging instruments.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or is no longer deemed effective. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative profit or loss deferred in equity is immediately recognized in the income statement.

Derivative financial instruments designated in hedging transactions are classified as non-current assets or liabilities if the remaining term of the hedging relationship exceeds twelve months, or as current assets or liabilities if the remaining term of the hedging relationship is less than twelve months.

2.7.7. Inventories

Inventories are recognized at the lower of purchase or production cost, determined according to the weighted average cost method, and the estimated realizable value.

Inventories are measured at the lower of cost on a "First in First out" (FiFo) basis and net realizable value. The net realizable value is the estimated selling price, which is the official price recorded on the LME market (London Metal Exchange) as at the reference date of the financial statements, less estimated cost of completion and less estimated costs required to carry out the sale. In addition to the directly attributable costs, production overhead expenses, including production-related depreciation, are reflected in the manufacturing costs. Cost is generally assigned on the basis of the monthly moving average method. In selected cases the specific identification method is applied.

Contract work in progress is measured on the basis of the stage of completion and the contractual consideration price less contractual costs.

Supplies and consumables are measured at weighted average.

2.7.8. Receivables and payables

Receivables and payables are recognized at fair value, which normally coincides with their nominal value when the effect of discounting is immaterial.

Trade receivables are initially recognized when they are originated.

A trade receivable without a significant financing component is initially measured at the transaction price.

Provisions for losses on trade receivables are always measured at an amount equal to the impairment losses on the basis of the simplified approach according to IFRS 9.

Any transfer of trade receivables to a factoring company can be with or without recourse. Receivables under a non-recourse assignment are derecognized, since substantially all risks and rewards of ownership have been transferred. Factoring expenses for non-recourse assignments of receivables are reported under "Other operating costs". The Group retains substantially all risks and rewards of ownership for receivables assigned with recourse. These receivables remain on the face of the Group’s statement of financial position and are not derecognized, even though title has legally passed. A financial liability of equal amount is recognized in addition, Factoring expenses for receivables assigned with recourse are reported under financial expense.

2.7.9. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value (IAS 7 paragraph 7).

2.7.10. Assets and liabilities held for sale and discontinued operations (IFRS 5)

Assets and liabilities held for sale and discontinued operations are classified as such if their carrying amount will be recovered mainly through sale rather than through continuous use.

Non-current assets or groups of such assets, which are disposed of in a single transaction (disposal groups) including the associated liabilities, are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the disposal is highly probable and the asset or disposal group is available for immediate sale in its present condition.

The sale must be highly probable, within twelve months of classification as held for sale. If the sale is expected to be concluded after more than one year, the costs to sell are measured at their current value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented as a financial component in the income statement.

The assets and liabilities of the disposal group are shown separately in the statement of financial position in the lines "Assets held for sale" and "Liabilities directly associated with assets held for sale".

In case of an acquisition of subsidiaries with the only intention of reselling, the assets and liabilities were therefore shown as held for sale in the consolidated statement of financial position. The income statement is summarized in the result from discontinued operations in the consolidated income statement.

Reclassifications of intangible assets and property, plant and equipment are shown under transfers of the respective development of the Group's assets. The expenses and sales of a disposal group are included in the result from continuing operations until they are sold. The disposal group also includes goodwill acquired in a business combination if the disposal group represents a cash-generating unit and the goodwill has been allocated to it. If the disposal group represents only part of the cash-generating unit, it is allocated proportionate goodwill and reported as "Assets held for sale".

Scheduled depreciation and amortization is no longer recognized on assets held for sale. They are recorded at the lower of the carrying amount or fair value less costs to sell.

2.7.11. Equity

The Company's share capital consists of ordinary and savings shares, all without par value, fully subscribed and paid up at the balance sheet date, reduced by any share capital to be received.

Other comprehensive income ("OCI") comprises foreign currency translation adjustments resulting from the translation of the financial statements of foreign subsidiaries, changes in the fair value of cash flow hedges and the revaluation of fixed assets before the reclassification to investment property. Also included are changes in actuarial gains and losses on pension commitments in accordance with IAS 19, net of deferred taxes.

Non-controlling interests represent third-party interest in consolidated subsidiaries.

2.7.11.1.Treasury shares (IAS 32)

The value of treasury shares is deducted from equity, in accordance with IAS 32. Such adjustments are reported in the notes only, whilst the historical cost of owned treasury shares is recognized separately as a negative figure that reduces equity.

The costs for equity transactions are used directly as a reduction of reserves.

2.7.11.2.Payment agreements based on own equity instruments (IFRS 2)

As part of the medium/long-term incentive plans, agreements are envisaged in favour of part of the management, with payments based on shares representing the capital, which consist in the assignment of rights that attribute to the beneficiaries, subject to the fulfilment of the established conditions, the right to obtain, at the end of the last year of vesting, the cash equivalent or in shares of the Company.

2.7.12. Current and deferred taxes

Tax expense for the year includes both current and deferred taxation. Income taxes are recognized in the income statement, unless they relate to transactions recognized directly in equity, in which case the relevant tax is also recognized directly in equity.

The current tax expense represents the estimated income tax payable computed on taxable income for the period as determined with reference to current tax rates or those substantially in effect at the balance sheet date. Deferred taxes are recognized using the equity method, based on timing differences between the carrying amounts of the assets and liabilities recognized in the financial statements and the corresponding amounts recognized for tax purposes. Deferred taxes are not recognized for the following timing differences: initial recognition of an asset or liability other than in a business combination which, at the time of the transaction, does not affect accounting profit (loss) or taxable profit (loss); differences associated with investments in subsidiaries and interests in joint arrangements, but only to the extent that it is probable that the reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and deferred tax liabilities can only be offset if the entity has the legal right to offset current tax amounts and the deferred tax amounts relate to income taxes and are levied by the same taxation authority on the same entity or different entities that intend to settle current tax amounts on a net basis or realize the asset and settle the liability at the same time.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the timing difference will be utilised. The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that its taxable profit will be realized.

2.7.13. Retirement benefits

Post-employment benefits (TFR) are payable under plans which, depending on their economic substance, are classified either as a "defined contribution" plan or a "defined benefit" plan.

Under a defined contribution plan, the Group's obligation is limited to the payment of contributions to a separate legal entity, and consists of the contributions due at the balance sheet date.

Liabilities under defined benefit plans, such as post-employment benefits (TFR) pursuant to article 2120 of the Italian Civil Code, less any plan assets, are determined, with the assistance of an independent expert, on the basis of actuarial assumptions and the attribution of benefits to periods of service. Actuarial gains and losses relating to defined benefit plans arising from changes in actuarial assumptions or plan terms and conditions are recognized in other comprehensive income.

Obligations deriving from short-term retirement benefits are recorded as an expense as soon as the related service has been rendered. A liability is to be recorded for the anticipated payment if the Group currently has a legal or factual obligation to pay this amount on the basis of work performed by the employee, and it is possible to estimate the obligation in reliable terms.

The net obligation on the part of the Group in view of the retirement benefits due on the long-term, are the future benefits due to employees in exchange for services rendered in the current period and in previous periods. These benefits are discounted to determine their present value. Re-measurements of such obligations are recognized in the income statement in the period in which the re-measurements take place.

Benefits in connection with termination of the employment relationship are recorded as expenses at the earlier of the following points in time: when the Group can no longer revoke the offer to provide such benefits or when the Group is recording costs for restructuring measures. If it is no longer to be expected that the benefits will be compensated within twelve months after the balance sheet date, they are discounted.

Pension obligations arising from defined benefit plans are determined using the projected unit credit method (IAS 19). The expected benefits, including dynamic components (e.g., increases in wages and salaries and retirement benefits), are recognized over the total service period of the respective employee. This amount is discounted and the fair value of any plan assets is deducted from this amount. Actuarial advice is obtained.

Actuarial gains or losses resulting from deviations between the forecast and realized changes in plan beneficiaries and actuarial assumptions are recorded in other comprehensive income during the period in which they arise and are indicated separately in other comprehensive income.

Service costs are recognized in personnel expenses. Interest expenses from the compounding of pension obligations and income from plan assets are also reported under personnel expenses using the discount rate of the defined benefit obligation.

Any surplus of the assets over the liabilities to be recognized is limited to the cumulative, unrecognized, net actuarial losses and past service cost, plus the present value of any available refunds and the reduction of future contributions to the plan. Past service cost is recognized in profit or loss.

Employer contributions made by the Group to an independent entity under defined contribution plans, and to which no further legal or constructive payment obligations may arise, are expensed as incurred, as soon as the employee's service is carried out. Prepayments are recognized as an asset in so far as a right to refund or reduction in future payments are created.

2.7.14. Provisions for risks and charges

Provisions for risks and charges are liabilities, the amount or due date of which are uncertain. The entity must recognize a provision if, and only if:

- the Group has a present (legal or implicit) obligation owing to a past event;
- it is probable that resources will be needed to produce economic benefits to meet the obligation;
- the amount of the obligation can be estimated reliably.

The amount recognized as a provision is, therefore, the best estimate of the expenditure required to settle the present obligation at the balance sheet date or transfer it to a third party. Where the time value of money is material, the provision is equal to the present value of expenditures required to settle the obligation.

Warranty provisions are accrued based on the expected development of the loss. Provisions for onerous purchase or sales contracts are established when the projected total future costs exceed the expected sales.

Restructuring provisions are only recognized if a detailed formal restructuring plan is established and communicated to the parties involved.

Provisions for onerous contracts are recognized if unavoidable expenses from the contract exceed the expected benefit. The provision is in this case recorded at the present value of the lesser of the expected cost of termination of the contract and the expected net cost of contract continuation.

Provisions for environmental risks are recorded for purposes of eliminating environmental damage ensuing from existing contamination and the expenses involved.

Contingent liabilities

Contingent liabilities include potential obligations, which arise from past events, that only require settlement if one or more uncertain future events, which the enterprise cannot wholly control, occur. In addition, contingent liabilities include unrecognized present obligations that arise from past events but are unlikely to require an outflow of resources to settle the obligation and also obligations in which the amount cannot be measured with sufficient reliability. Unless the possibility of any outflow in settlement is remote, a description of the nature of the contingent liability is provided.

2.7.15. Dividends

Dividends to be paid are recognized as liabilities only in the year in which they were approved by the Shareholders' Meeting. Dividends to be received are recorded only when the right to receive payment has been established.

2.7.16. Revenue recognition

Revenue is recognized based on the following phases:

- identify the contract (or contracts) with the customer;
- identify the performance obligations;
- determine the transaction price: the transaction price is the amount of the consideration that the company is entitled to in exchange for the transfer of the promised services to the customer;
- allocate the transaction price to the performance obligations in the contract;

- recognize the revenue when the performance obligation is met.

Specifically, revenue can be recognized:

- at a point in time, when the performance obligation has been met by transferring the promised good or service to the customer, or
- over time, as the performance obligation is met by transferring the promised good or service to the customer.

Revenues are recognized when control of the products has been transferred to the purchaser. This is usually the case when, with delivery, the purchaser has physically possession and accepted the products, and the significant risks and rewards of ownership of the assets have also been transferred to the purchaser.

The majority of the Group's revenues is made up of sales of goods and is realized on a point in time basis, as the performance obligation has been satisfied upon delivery. There are no warranties that go beyond the statutory warranty.

A receivable is recognized as soon as the Group has a right to consideration that is unconditional. Upon fulfilment of the performance obligation by delivery, The Group incurs an unconditional right to consideration.

Significant financing components are not included in the customer contracts.

If volume discounts, usually agreed for sales volumes over a twelve-month period, are included in the customer contracts, these are included in determining the consideration. Revenue recognition in these cases is based on the prices specified in the contracts net of the estimated volume discounts. The volume discounts are calculated on the basis of the most likely amount. Revenue is only recognized if it is highly probable that there will be no significant reversals.

Rental income from investment property is recorded as other income on a straight-line basis over the period of the rental relationship. Rental income from other property is recorded as other income.

Interest income is accrued on a time basis by reference to the principal amount and the effective interest rate.

As mentioned in the previous paragraph, dividend income is recognized when the right to receive payment has been legally established.

2.7.17. Borrowing costs

Borrowing costs is recognized in the income statement based on their maturities.

If the production of qualified intangible assets or of tangible assets extends over a lengthy period, the borrowing cost which occurs in this connection until completion is recognized as part of the manufacturing costs in accordance with IAS 23. There are no cases of application within the Group at the balance sheet date.

Borrowing costs are recognized up until the time as from which assets for its intended use can be recorded and depreciated over their expected useful lives. All other and current borrowing costs are recorded in the period in which they occur in the income statement under financial expenditure.

2.7.18. Earnings/(loss) per share

Basic and diluted earnings/(loss) per ordinary share are calculated in the following manner:

a) the numerator is equal to profit or loss attributable to the Parent company, adjusted by the profit or loss that is to be set aside, for the current year, for outstanding savings shares less any savings treasury shares held directly or through subsidiaries;

b) the denominator of "basic earnings per share" is the weighted average number of shares outstanding during the year less treasury shares;

c) the denominator of "diluted earnings per share" is the weighted average number of ordinary shares adjusted by adding the number of any new ordinary shares that could be issued through:

   i) conversion of all outstanding warrants;

ii) exercise of all stock options granted, if any.

For this calculation, it was assumed that warrants were converted and stock options exercised at the beginning of the year and that the conversion and exercise did not result in increased income or decreased expenses.

The calculation as of December 31, 2022 of the basic earnings per share was done by taking the Group net profit (loss) net of the amount due to savings shares, attributable to holders of outstanding ordinary shares, and the weighted average number of outstanding shares which was 375,974,209, taking account of any share splits and/or reverse share splits and any increases/reductions in share capital pursuant to IAS 33 paragraph 64.

2.7.19. Currency translation

The Company's functional currency is the Euro, which is the currency in which the financial statements are prepared and published. Transactions denominated in a foreign currency are recognized using the exchange rate at the time of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in force on that date. Non-monetary items measured at historical cost in foreign currency are translated using the exchange rate in force on the date of the transaction. Non-monetary items recognized at fair value are translated using the exchange rate at the date of determination of the carrying amount.

Transactions denominated in a foreign currency are translated using the exchange rate at the time of the transaction. The time of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. Accordingly, such non-monetary assets and liabilities are not translated with the exchange rate on a later subsequent balance sheets date.

In case of advanced received for the sale of goods, this transaction is recorded for the first time as a contract liability at the time when the advance payments are received. The exchange rate for the amount of the subsequent revenue recognition in the amount of the advance received is therefore already determined when the contract liability is recognized.

Monetary items (including trade receivables and payables) are translated using the current exchange rate at the balance sheet date. Irrespective of any currency hedges, gains or losses from the remeasurement of monetary assets (excluding foreign currency translation of net investments) and monetary liabilities are recognized in the income statement as financial income or expenses.

Applying the functional currency concept, the annual financial statements of the foreign subsidiaries prepared in foreign currency are translated into Euros using the modified closing rate method.

The functional currency is determined by the primary economic environment in which the entity operates. All subsidiaries conduct their business independently in their domestic markets. As such, the functional currency for those entities is the local currency. Assets and liabilities of subsidiaries are translated at the closing exchange rate on the balance sheet date, while income and expenses are translated at the average exchange rate of the reporting period. Differences arising from such translations applied to the assets, liabilities and components of net income are reported as a separate component in other comprehensive income and accordingly do not have an impact on net income. Such differences are recognized in net income when the subsidiary is sold.

2.7.20. Government grants

Government grants are only recognized if it is reasonably certain that the Company complies with the conditions and the grants are actually received. The grants are recognized in net income in the same period in which the respective expenses are recognized.

Government grants related to assets, mainly property, plant and equipment, are deducted from the cost of the asset.

Grants becoming receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future-related costs are recognized as other operating income in the period in which they become receivable for the Group.

2.8. Use of estimates

The preparation of the consolidated financial statements and notes thereto in accordance with IFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities.

The estimates were mainly used to determine the impairment loss, the fair value of investments measured at fair value and investment property, the useful lives of non current assets and the related recoverable amount (including the registered goodwill), provisions for credit and inventory risks, any eventual impairment losses, the cost of retirement benefits, the estimated current and deferred tax charges and other provisions.

With reference to Goodwill, the recoverable amount is usually determined using (discounted) cash flows that largely depend on the expected future gross profit margins and turnover, and take into account the general economic environment and the future growth rates (discount rate). The discount rates are based on the Capital Asset Pricing Model. Its main inputs are the risk-free rate of return, the beta factor, and the return on equity (which includes assumptions about leverage and the market risk premium).

Inventories are measured at the lower of cost and net realizable value. In order to calculate the net realizable value, sales prices and cost to sell need to be estimated.

The Group, particularly through KME SE, operates in various countries. Therefore, the Group's income is subject to various tax jurisdictions. For each taxable entity, tax assets, tax liabilities, temporary differences, tax losses and the resulting deferred taxes must be calculated individually. These items are subject to estimation; in particular, deferred tax assets can be recognized only to the extent that their actual realization is probable and the realization of the deferred taxes therefore depends on the existence of sufficient future taxable profits. In assessing if sufficient future taxable profits exist, among other factors, historical earnings, budgets, loss carry forward restrictions and tax planning strategies are considered. At each balance sheet date, the recognition of deferred taxes is assessed once again,

Retirement provision are accounted for using actuarial methods. The actuarial assumptions include discount rates, mortality rates, and, if applicable, expected returns on plan assets. The actual amounts of such assumptions may differ significantly from the projected amounts due to market changes. Therefore, deviations from the forecast may have a material impact on the liabilities relating to retirement benefits.

In addition, the provisions recognized in the financial statements include the assessment of the facts and circumstances, the claims made and the estimates of the range of potential liquidation amounts and the probability of occurrence.

Certain accounting policies adopted by the Group require determination of the fair value basis for financial and non-financial assets and liabilities. In determining the fair value for financial and non-financial assets and liabilities, the Group uses market observable input wherever possible. Based on the input factors used in the evaluation techniques, the fair value is classified into different levels of the fair value hierarchy.

- Level 1: Quoted prices (unadjusted) in active markets;
- Level 2: Valuation parameters, which are not the quoted prices considered in Level 1, but nevertheless require to be observed for similar financial assets or debts - either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: Valuation parameters for assets or debts which are not based on observable market input.

The assets and liabilities recognised in the Consolidated Financial Statements are based on historical cost, with the exception of derivative financial instruments, contingent considerations (IFRS 3) and investment property which are measured at fair value, actuarial charges deriving from IFRS 2 as well as the net debt ensuing from defined benefit plans which is measured at the present value of the defined benefit obligation less fair value of plan assets.

The estimates and assumptions are periodically checked and any variations are immediately recognized in the income statement. At the balance sheet date, the Directors were of the opinion that the estimates and assumptions used were the best indicators of the actual amounts given the information to hand. In addition, the Directors believed that the estimates and assumptions adopted did not imply any material adjustments to carrying amounts of assets and liabilities.

2.9. Newly applied accounting standards

The accounting standards applied from January 1, 2022 are as follows:

- On May 14, 2020, the IASB published the following amendments named:
  - Amendments to IFRS 3 Business Combinations: the amendments aim to update the reference present in IFRS 3 to the revised version of the Conceptual Framework, without this entailing amendments to the provisions of the standard.
  - Amendments to IAS 16 Property, Plant and Equipment: the amendments aim not to permit the deduction from the cost of property, plant and equipment of the amount received from the sale of goods produced in the asset testing phase. Such sales revenues and the relative costs will therefore be recognized in the income statement.
  - Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: the amendment clarifies that in the estimate on whether a contract is onerous, all costs directly attributable to the contract must be taken into consideration. As a result, the assessment of whether a contract is onerous includes not only incremental costs (such as the cost of direct material used in processing), but also all costs that the company cannot avoid because it has entered into the contract (such as the portion of the depreciation on the machinery used for the performance of the contract).
  - Annual Improvements 2018-2020: the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples of IFRS 16 Leases.

2.10. Accounting standards not yet applied

The following IFRS accounting standards, amendments and interpretations were endorsed by the European Union, not yet applicable on a compulsory basis and not adopted early by the Company as of December 31, 2022:

- On May 18, 2017, the IASB published IFRS 17 - Insurance Contracts, which is set to replace IFRS 4 - Insurance Contracts. The objective of the new standard is to ensure that an entity will provide pertinent information that faithfully represents the rights and obligations arising from the insurance contracts issued by that entity. The IASB developed the standard to eliminate incongruities and weaknesses inherent in the existing accounting standards, providing a single principle-based framework that would take all types of insurance contracts into account, including the reinsurance contracts held by an insurer.

  Given the Group's business, the directors do not expect a significant effect on the consolidated financial statements from the adoption of this standard.
- On December 9, 2021, the IASB published an amendment called "Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 - Comparative Information". The amendment is a transition option relating to comparative information on financial assets presented at the date of initial application of IFRS 17. The amendment is aimed at avoiding temporary accounting mismatches between financial assets and liabilities of insurance contracts, and therefore at improving the usefulness of comparative information for readers of the financial statements.

  Given the Group's business, the directors do not expect a significant effect on the consolidated financial statements from the adoption of this amendment.
- On February 12, 2021, the IASB published two amendments named "Disclosure of Accounting Policies-Amendments to IAS 1 and IFRS Practice Statement 2" and "Definition of Accounting

Estimates-Amendments to IAS 8". The amendments are intended to improve the notice on accounting policies so as to provide more useful information to investors and other primary users of financial statements as well as help companies to distinguish changes in accounting estimates from changes in accounting policies. These amendments will be effective for periods beginning on or after January 1, 2023. Early application is permitted.

The adoption of these amendments is not expected to have significant effects on the consolidated financial statements.

- On May 7, 2021, the IASB published an amendment named "Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction". The document clarifies how to account for deferred tax liabilities on certain transactions that could generate assets and liabilities of equal amounts, such as leases and decommissioning obligations. These amendments will be effective for periods beginning on or after January 1, 2023. Early application is permitted.

  The adoption of this amendment is not expected to have significant effects on the consolidated financial statements.

As of December 31, 2022, the competent bodies of the European Union had not yet concluded the approval process required for adoption of the amendments and the standards described below:

- On January 23, 2020, the IASB published an amendment entitled "Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non current" and on October 31, 2022 it published an amendment entitled "Amendments to IAS 1 Presentation of Financial Statements: Non current Liabilities with Covenants". The document aims to clarify how to classify payables and other liabilities as current or non current. The amendments enter into force on January 1, 2024; however, early application is permitted.

  The adoption of this amendment is not expected to have significant effects on the consolidated financial statements.

- On September 22, 2022, the IASB published an amendment entitled "Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback". The document requires the seller-lessee to measure the lease liability arising from a sale and leaseback transaction so as not to recognize an income or loss that relates to the retained right of use. These amendments will be effective for periods beginning on or after January 1, 2024. Early application is permitted.

  The adoption of this amendment is not expected to have significant effects on the consolidated financial statements.

- On January 30, 2014 the IASB published IFRS 14 - Regulatory Deferral Accounts which allows only first-time adopters to continue to recognize the amounts relative to assets subject to regulated fees ("Rate Regulation Activities") according to the previous accounting standards that had been adopted.

  Since the Group is not a first-time adopter, the standard does not apply.

- *Financial instruments with characteristics of equity* (FICE): the IASB's FICE project aims to solve the problems that arise in the application of IAS 32 "Financial instruments" and to expand the disclosure requirements relating to financial instruments issued by the entity. The expected date for the Exposure Draft is the second half of 2023. Early application is permitted but not envisaged by the Group.

  In this regard, the Directors do not expect the new standards, interpretations and amendments to have a significant impact on the Consolidated Financial Statements.

2.11. Impacts of the situation in Ukraine

With reference to the ongoing Russian-Ukrainian war conflict, which, together with the effects of the COVID-19 pandemic, has entailed significant changes in the macroeconomic scenario (i.e. rising inflation, difficulties in finding certain raw materials, sharp increase in the cost of gas and energy), it should be noted that the Group is not directly exposed to these contingencies, as it does not have significant trade relations with Russia and Ukraine. During the year, the indirect impacts of the conflict included an insignificant increase in the cost of energy in Italy; the other industrial plants at European level did not increase. Despite this, the Group has not lost competitiveness.

The Group constantly monitors developments in the global geopolitical context that may require a review of the corporate strategies already defined and/or the adoption of mechanisms to safeguard its competitive positioning and performance.

2.12. Segment reporting

The activities in which the Group operates and which constitute the segment reporting required by IFRS 8 relate to the Copper Sector (KME SE group) and the Perfumes & Cosmetics Sector (CULTI Milano group).

The management and organisational structure of the Group reflects the segment reporting for the business activities described above. The operating segments are identified on the basis of the elements that the highest decision-making level of the Group uses to make their own decisions regarding the allocation of resources and the evaluation of results.

The segment data relating to revenues and income and results as of December 31, 2022 are reported in the Report on operations.

2.13. Climate Change Disclosure

Please refer to the *Report on operations*.

3. Financial risk management policy

In its position as a dynamic investment holding company, the Parent Company has always been directly exposed to risks connected with investments and disinvestments. The Company's financial results mainly depend on these transactions and on any dividends distributed by its investees, and therefore, in addition to the financial performance, they also reflect the investment and dividend distribution policies of the subsidiaries.

Corporate investments are by their nature investments that carry a certain level of risk. Indeed, these types of investments do not provide the certainty that the invested capital will be refunded in full or they could produce cash flows that are insufficient for remuneration of the capital investment or in any case result in performances that could trail behind market performances.

Furthermore, the disinvestment process could require more time than expected and/or be carried out on the basis of terms and conditions that are not fully satisfactory or remunerative. In particular, regarding investments in unlisted companies, whether held directly or indirectly, the absence of risks connected mainly to the liquidability of these investments and their valuation cannot be guaranteed, in consideration: (a) of the possible absence in these companies of control systems similar to those required of companies with listed shares, with the possible consequent unavailability of information flows that are at least equal, insofar as quantity and quality, to the ones available for companies with listed shares; and (b) of the difficulties inherent in carrying out independent audits of the companies and therefore assessing the completeness and accuracy of the information they provide. For non controlling investments, whether in listed or unlisted companies, the possibility of influencing the management of the investments in order to promote their growth, including through a relationship with the management and the shareholders of the investee, could be limited.

The progressive focus of the Company and the Group on the industrial activity of KME SE will see the Company be more directly subject to the risks of the activity of KME SE itself.

With reference to the impacts arising from the Russia-Ukraine conflict and the deteriorated macro-economic environment following the COVID-19 pandemic and the related risks, please refer to the *Report on Operations*.

Credit risk

The Group's exposure to credit risks derives mainly arises from its operating business (in particular the Copper sector). Credit risk is defined as an unexpected loss in the value of financial assets, for example in the event that a customer is unable to fulfil his/her obligations within the agreed deadlines.

Throughout the operating business, receivables are locally monitored on an ongoing basis. Valuation allowances are recorded to reflect credit risks. The maximum exposure to credit risk is reflected by the carrying amounts of the financial assets reported in the statement of financial position. The Group counteracts credit risk by constantly monitoring receivables from commercial partners and by means of insurance aimed at minimising the risk of insolvency. The Group uses standard market instruments, such as letters of credit and guarantees.

For trade receivables much of the risk is secured by the factoring. There are no significant geographical concentrations of credit risk. The concentration of the credit risk in the case of trade receivables is limited by means of the broad-based and heterogeneous customer base. The assessment takes place by means of customer portfolios on the basis of past experience, shares and/or financial information, as well as credit facilities.

The creditworthiness risk ensuing from derivative financial instruments is limited by the fact that the relevant contracts are concluded exclusively with contractual parties and/or credit institutes with good credit ratings.

Liquidity risk

Liquidity risk represents the risk that the company cannot meet its own liabilities; it can arise as a result of difficulties in obtaining finance to support operating activities as and when required.

The Parent Company expects to meet its cash requirements for the repayment of short-term financial payables and capital expenditure through cash from operating activities, cash on hand, renewed bank borrowings or the issue of new bond loans.

For the entities of the KME group, risk management is entrusted, in a centralised manner, to the treasury of the KME group, which monitors the needs in order to guarantee adequate levels of liquidity and coordinates cash inflows and outflows. Sufficient supply of liquidity for the Group is guaranteed by the Group cash flow as well as by our banks with the short-term and long-term credit facilities.

Closely related to liquidity risk are the risks associated with the Group's debt: as of December 31, 2022, there were two bonds "KME Group S.p.A. 2020/ 2025" (nominal value € 92.8 million) and "KME Group S.p.A. 2022/2027", both with fixed interest rates.

During the year, on the other hand, the bond held by KME SE was repaid in advance.

In addition, contractual clauses, commitments and covenants are applied to some sources of financing obtained by the Group, the non-compliance of which can be considered as a breach of contract, prompting the lenders to request immediate payment and causing difficulties in finding alternative resources.

In managing the risk in question, with a view to guaranteeing the coverage of future financial commitments, both in terms of principal and interest, the Group can make use of the liquidity associated with the operations of the copper sector, as well as the resources stemming from operations to increase the value of the Group's non-strategic assets.

Interest rate risk

The interest rate risk to which the Group is mainly exposed derives from long-term loans with variable interest rates; they expose the Group to a cash flow risk (unlike fixed rate loans which involve the risk of changing fair value).

The Group uses various forms of financing to support its investments. Therefore, significant changes in interest rate levels could lead to potential increases/decreases in the cost of loans. The Group's financial structure is currently heavily oriented towards fixed rates (see the bonds issued).

Operation and risk management for the KME SE group is coordinated by its treasury which, as part of the KME SE group, if deemed necessary, enters into an IRS (Interest Rate Swap) by exchanging variable interest rates with fixed rates. On the basis of the financing structure in place from time to time, oriented more or less towards the short and medium term, and the trend in market rates, the treasury assesses whether to stipulate an IRS.

Foreign currency exchange risk

The Group operates internationally, primarily through the subsidiaries in the KME SE group but also through the entities of the CULTI group and conducts its transactions in various currencies. Under these circumstances, revenues are generated in currencies other than the Group's functional currency (Euro).

The Group monitors and manages this risk appropriately, also aiming to hedge it using derivative financial instruments such as cross currency swaps and forward contracts.

Risk of fluctuations in share value

The Group is exposed to market fluctuations in the listed shares it holds in its portfolio and changes in the market parameters used to determine the value of investments through measurement techniques. The risk of fluctuations in the values of these equity interests is limited and is not actively managed using financial hedging instruments.

Risk of fluctuation in raw material price (especially copper)

As a result of its commercial activities, the Group, through the activities of the KME group, is exposed to risks associated with the prices of raw materials. This risk appears to be the most significant and strategic risk. The objective is to mitigate or fully hedge this risk through trading of physical goods or forward contracts on the London Metal Exchange (LME). The contracts entered into focus mainly on hedging the copper price. To this end, the incoming and outgoing quantities of metal are netted every day and the remaining open position is netted through transactions in order to cancel, at the end of each day, the business risk associated with fluctuating metal prices. As part of the aforementioned hedging transactions, in order to reduce the related risks, the Group operates with commercial partners of adequate standing.

4. Notes to the statement of consolidated financial position

4.1. Property, plant and equipment

The breakdown of the item is as follows:

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Land and buildings	249,390	2,766	246,624
Plant and Machinery	212,648	-	212,648
Other equipment	26,524	727	25,797
Construction in progress	11,395	-	11,395
Property, plant and equipment	**499,957**	**3,493**	**496,464**

Below is the breakdown between owned and leased assets:

(in € thousand)	*Owned*	*Leased*	*Total*
Land and buildings	245,207	4,184	249,390
Plant and Machinery	210,435	2,212	212,648
Other equipment	20,917	5,607	26,524
Construction in progress	11,395	-	11,395
Property, plant and equipment	**487,954**	**12,003**	**499,957**

The land and buildings recorded in this item are those owned and used by the entities of the Group; these include the production plants in the copper sector (including Osnabrück, Mansfeld and Fornaci di Barga) and the building located in Foro Buonaparte 44, Milan, the headquarters of the Parent Company. The breakdown by geographical area is as follows:

(in € thousand)	*Italy*	*Germany*	*Other foreign countries*	***Total***
Property, plant and equipment	171,714	259,905	68,338	**499,957**

For owned assets, the changes during the reporting period under review can be analysed as follows:

(in € thousand)	*Land and buildings*	*Machinery*	*Other equipment*	*Construction in progress*	*Total*
Gross amount	-	-	2,270	-	2,270
Accumulated depreciation	-	-	1,621	-	1,621
Total as of December 31, 2021	**-**	**-**	**649**	**-**	**649**
Gross amount as of December 31, 2021	**-**	**-**	**2,270**	**-**	**2,270**
Additions for the year	5,287	1,580	3,522	9,886	20,275
Transfers	(1,014)	6,211	1,100	(3,511)	2,786
IFRS 10 - Changes in consolidated group (cost)	166,443	488,511	58,167	8,105	721,226
KME SE - Changes in consolidated group (cost)	26,509	41,180	855	871	69,415
PPA changes	116,923	-	-	-	116,923
Increases in cost due to foreign exchange differences	(58)	(108)	(21)	-	(187)
Disposals (cost)	(299)	(5,248)	(986)	(3,956)	(10,489)
Gross amount as of December 31, 2022	**313,791**	**532,126**	**64,907**	**11,395**	**922,219**
Accumulated depreciation as of December 31, 2021	**-**	**-**	**1,621**	**-**	**1,621**
Transfers	(420)	528	179	-	287
IFRS 10 - Changes in consolidated group (accumulated depreciation)	64,014	299,557	39,297	-	402,868
KME SE - Changes in consolidated group (accumulated depreciation)	(4)	32	23	-	51
Depreciation and impairments	5,426	26,024	3,833	-	35,283
Increases in depreciation due to foreign exchange differences	(12)	(156)	(51)	-	(219)
Disposals (accumulated depreciation)	(419)	(4,295)	(911)	-	(5,625)
Accumulated depreciation as of December 31, 2022	**68,584**	**321,691**	**43,990**	**-**	**434,266**
Gross amount	313,791	532,126	64,907	11,395	922,219
Accumulated depreciation	68,584	321,691	43,990	-	434,266
Total as of December 31, 2022	**245,207**	**210,435**	**20,917**	**11,395**	**487,954**

The item "IFRS 10 - Changes in consolidated group" includes the effects related to the non-application of the exception to line-by-line consolidation envisaged by IFRS 10 for investment entities.

As of December 31, 2022, the item "KME SE - Changes in consolidated group" includes the carrying amounts of the property, plant and equipment of Zutphen as well as the slitting centres in UK, Slovakia and Italy acquired from Aurubis.

Land and building, at the date of this consolidated financial statement, still include Osnabrück properties that have been part of the Sale & Lease back operation realized in December 2022. According to the requirements of IFRSs, the operation has been recorded recognizing a financial liability.

Property, plant and equipment with a carrying amount of € 120,789 thousand are used as collateral for financial liabilities linked to pooled loans; the related secured financial liabilities are valued at € 349,668 thousand at the balance sheet date, of which € 330,868 thousand used for letters of credit against liabilities recognized in trade payables that are linked to the purchase of metals.

Property, plant and equipment subject to depreciation are generally depreciated on a straight-line basis; the depreciation recorded is based on the following average useful lives:

	Useful life
Buildings	from 25 to 50 years
Plant and Machinery	from 10 to 40 years
Other equipment	from 5 to 15 years

Changes were as follows in leased assets:

(in € thousand)	*Land and buildings*	*Machinery*	*Other equipment*	*Construction in progress*	*Total*
Gross amount	4,592	-	130	-	4,722
Accumulated depreciation	1,826	-	52	-	1,878
Total as of December 31, 2021	**2,766**	**-**	**78**	**-**	**2,844**
Gross amount as of December 31, 2021	**4,592**	**-**	**130**	**-**	**4,722**
Additions for the year	221	-	22	-	243
Transfers	-	-	-	-	-
IFRS 10 - Changes in consolidated group (cost)	4,129	3,230	14,099	-	21,458
Increases in cost due to foreign exchange differences	-	-	-	-	-
Disposals (cost)	(110)	-	-	-	(110)
Gross amount as of December 31, 2022	**8,832**	**3,230**	**14,251**	**-**	**26,313**
Accumulated depreciation as of December 31, 2021	**1,826**	**-**	**52**	**-**	**1,878**
Transfers	-	-	-	-	-
IFRS 10 - Changes in consolidated group (accumulated depreciation)	2,415	989	8,308	-	11,712
Depreciation and impairments	407	28	284	-	719
Increases in depreciation due to foreign exchange differences	-	-	-	-	-
Disposals (accumulated depreciation)	-	-	-	-	-
Accumulated depreciation as of December 31, 2022	**4,648**	**1,018**	**8,644**	**-**	**14,309**
Gross amount	8,832	3,230	14,251	-	26,313
Accumulated depreciation	4,648	1,018	8,644	-	14,309
Total as of December 31, 2022	**4,184**	**2,212**	**5,607**	**-**	**12,003**

As of December 31, 2022, the sub-item "Machinery" includes € 165 thousand relating to finance leases in accordance with IAS 17. It should also be noted that, as of December 31, 2022, the item "Non current assets held for sale" includes rights of use for € 365 thousand. The amount of leased assets represents the value of the rights of use relating to lease/rental contracts for property, plant and machinery; the corresponding liabilities are entered under the item "financial payables and liabilities". The effects of the income statement are recorded as interest expense under financial charges and as amortization and depreciation in the consolidated income statement. Short-term lease/rental contracts are not accounted for in this item but in "Other operating costs".

4.2. Investment property

Compared to December 31, 2021, the item increased significantly due to the change in the scope of consolidation relating to the KME SE group; these relate to land and buildings owned for the purpose of receiving lease payments or for the appreciation of the invested capital that generate cash flows irrespective of the other assets owned by the entities of the Group.

(in € thousand)	
Total as of December 31, 2021	**32**
IFRS 10 - Changes in consolidated group	71,573
Increases for the year	1,231
PPA changes	(1,811)
Transfers	(2,200)
Changes in fair value	(650)
Total as of December 31, 2022	**68,175**

The breakdown by geographic area is as follows:

(in € thousand)	*Italy*	*Germany*	*Other foreign countries*	***Total***
Investment property	60,223	7,952	-	**68,175**

The item includes a series of property complexes mainly related to the Italian subsidiaries active in the real estate sector (Immobiliare Pictea S.r.l. and Natural Capital Italia SB S.p.A.) and includes property complexes in Varedo/Limbiate (Monza and Brianza), Ivrea (Turin) and Limestre (Pistoia), a portion of the industrial complex located in Fornaci di Barga (Lucca), a building located in Florence - encumbered by a mortgage - and an industrial complex located in Serravalle Scrivia (Alessandria) and land and buildings belonging to KME Grundstücksgesellschaft SE & Co. KG in Germany.

Investment property is recorded at fair value on the basis either of valuations made by independent external experts with recognized and relevant professional qualifications that are confirmed by the Directors or valuations made by technical staff within the company. Changes in fair value are recognized in the income statement for the year; this fair value is not based on observable market data and is classified as fair value at level 3, which is measured on a regular basis.

The evaluation model takes into account the present value of the net cash flow generated by the properties, under inclusion of the anticipated rate of rental increases, vacancy periods, rates of occupancy, costs of incentives to tenants, e.g. rental-free periods, and all other costs which are not covered by the tenants. The anticipated net cash flow is discounted at risk-adjusted discount rates. In addition to other factors, the quality of a building and its location, the credit-worthiness of the tenant and the period of the rental relationship are taken into account in assessing the discount rate. For example, the estimated fair value would increase (decrease) if the expected market rent increase were higher (lower), vacancy periods were shorter (longer), the occupancy rate was higher (lower) and the risk-adjusted discount rate were lower (higher).

Future minimum lease payments to receive for non-cancellable leasing contracts as of December 31, 2022 amount to € 1.1 million (within the year) and € 2 million in the time horizon between one and five years.

4.3. Intangible assets

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Software, patents, licences	23,515	-	23,515
Construction in progress	2,184	-	2,184
Other	28,049	12	28,037
Goodwill	370,316	-	370,316
Intangible assets	**424,064**	**12**	**424,052**

The changes during the year are analysed below:

(in € thousand)	*Software, patents, licences*	*Construction in progress*	*Other*	*Goodwill*	*Total*
Gross amount	-	-	30	-	30
Accumulated amortization	-	-	18	-	18
Total as of December 31, 2021	**-**	**-**	**12**	**-**	**12**
Gross amount as of December 31, 2021	**-**	**-**	**30**	**-**	**30**
Additions for the year	388	305	268	250	1,211
Transfers	146	839	-	-	985
IFRS 10 - Changes in consolidated group (cost)	33,560	1,134	655	479,516	514,865
KME SE - Changes in consolidated group (cost)	688	-	-	-	688
PPA changes	9,031	-	29,530	(109,450)	(70,889)
Decreases (cost)	(222)	(94)	-	-	(316)
Gross amount as of December 31, 2022	**43,591**	**2,184**	**30,483**	**370,316**	**446,574**
Accumulated amortization as of December 31, 2021	**-**	**2,976**	**18**	**199,368**	**202,362**
IFRS 10 - Changes in consolidated group (accumulated amortization)	17,525	-	320	-	17,845
KME SE - Changes in consolidated group (accumulated amortization)	-	-	-	-	-
Amortization and impairments	1,652	-	2,096	-	3,748
Transfers	1,009	-	-	-	1,009
Decreases (accumulated amortization)	(110)	-	-	-	(110)
Accumulated amortization as of December 31, 2022	**20,076**	**-**	**2,434**	**-**	**22,510**
Gross amount	43,591	2,184	30,483	370,316	446,574
Accumulated amortization	20,076	-	2,434	-	22,510
Total as of December 31, 2022	**23,515**	**2,184**	**28,049**	**370,316**	**424,064**

The item, mainly attributable to the value of goodwill, increased in the year in question following the first-time consolidation of the subsidiaries KME SE and CULTI Milano, which took place on April 30, 2022, in application of the provisions of paragraph B100 of IFRS 10 and, therefore, of the requirements of IFRS 3 (Business combinations).

The value of intangible assets, net of goodwill, has a finite useful life and represents the value of the cost net of the amortization recorded.

	Useful life
Intangible assets with finite useful lives	from 3 to 10 years

As of December 31, 2022, no impairment losses were recognized on the item; the goodwill recorded in the financial statements was tested for impairment.

The breakdown by geographic area is as follows:

(in € thousand)	*Italy*	*Germany*	*Other foreign countries*	***Total***
Intangible assets (excl. Goodwill)	42,086	10,985	677	**53,748**

The "PPA changes" include the effect of the price allocation process from which capital gains emerged relating to the trademarks belonging to the CULTI group (€ 9,031 thousand) and to the customer lists belonging to some companies of the KME SE group (€ 29,530 thousand). The decrease of € 109,450 thousand relates to the allocation of goodwill to the various assets and liabilities in the financial statements, also taking into account the effects of the PPA carried out by the KME SE group on the investee Magnet (€ 11,174 thousand); for further details on the values identified in the PPA, please refer to the information provided below.

Goodwill

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Copper Cash Generating Unit	342,540	-	342,540
Perfumes and Cosmetics Cash Generating Unit	27,776	-	27,776
Goodwill	**370,316**	**-**	**370,316**

The table above shows the allocation of goodwill by Cash Generating Unit, in line with the Group's operating segment; the useful life of goodwill is indefinite.

The goodwill recognized as of December 31, 2022 derives from business combinations and, specifically, from the consolidation of the KME group, active in the copper sector, and of the CULTI Milano group, operating in the perfume and cosmetics sector.

Business combinations

From an accounting perspective (paragraph B100 of IFRS 10), in fact the date of the "change of status" of investment entities was considered as the deemed acquisition date. The fair value of the subsidiary at the presumed acquisition date represented the presumed consideration for the purposes of determining goodwill. The change of status has actually been considered as an acquisition, i.e. an operation through which the exchange of company assets (whose value is that of the consolidated equity) for consideration (fair value of the investment) is carried out; hence the application of IFRS 3 "Business combinations" and the implementation of the "Purchase Price Allocation" ("PPA") process as illustrated below.

Specifically, the date of change of status and therefore the presumed acquisition date is April 30, 2022 as the closest accounting reference date to April 22, 2022.

As it does not produce cash flows autonomously, the goodwill recognized is allocated to two cash-generating business units (Cash Generating Units, also "CGU") into which the business combination is divided: copper segment and perfume and cosmetics segment. The identification of the CGUs was carried out consistently with the information relating to the operating segments of the Company, in accordance with the international accounting standard IFRS 8, as well as taking into account the lower level at which the Company, for management purposes, monitors the performance of the investee companies.

More specifically, the goodwill initially recognized in the year included the consolidation deficit, amounting to € 365,260 thousand, between the theoretical consideration at the date of first-time consolidation of the investments in KME SE and in CULTI Milano, and the relative equity at the aforementioned date, taking account of the interests attributable to the Parent Company.

(in € thousand)	*Changes in consolidated group*	
	Original	*IFRS 3 provisional combination*
Copper Cash Generating Unit	99,684	336,696
Perfumes and Cosmetics Cash Generating Unit	3,398	28,564
Goodwill before PPA	**103,082**	**365,260**

In line with the regulatory requirements of paragraph 45 of IFRS 3, the net assets acquired were measured and then initially recognized within the "measurement period" of a maximum of 12 months from the acquisition date.

This consolidation deficit, initially allocated entirely to the item "Intangible assets" (€ 365,260 thousand), was partially re-allocated to the individual assets and liabilities recognized in the financial statements, against the findings of the PPA; the residual goodwill from the business combination is equal to € 266,984 thousand.

As indicated by the accounting standards, in fact, the allocation of the value has therefore changed according to the fair value of the assets and liabilities on which the "price" of the acquisition was allocated as part of the Purchase Price Allocation process to be carried out pursuant to the of IFRS 3.

The amount of these goodwill, including the original goodwill deriving from the two CGUs and the increases for the year, amounted to € 370,316 thousand.

(in € thousand)	*IFRS 10 - Changes in consolidated group*		*Increases*	*Allowance for impairment*	***Total 31/12/22***
	Original	*IFRS 3 final combination*			
Copper Cash Generating Unit	99,684	242,856	-	-	**342,540**
Perfumes and Cosmetics Cash Generating Unit	3,398	24,128	250	-	**27,776**
Goodwill after PPA	**103,082**	**266,984**	**250**	**-**	**370,316**

Purchase Price Allocation (PPA)

The capital gains/losses identified in the PPA are shown below.

		Copper CGU	Perfumes and Cosmetics CGU	***Total***
IFRS 10 - Changes in consolidated group	*Original*	99,684	3,398	**103,082**
	IFRS 3 provisional combination (A)	336,696	28,564	**365,260**
	Goodwill to be analysed in the PPA	**436,380**	**31,962**	**468,342**
	PPA effects on financial statement items			
	Intangible assets	*29,530*	*9,031*	*38,561*
	Property, plant and equipment	*116,923*	*-*	*116,923*
	Investment property	*(1,811)*	*-*	*(1,811)*
	Investments	*(11,184)*	*-*	*(11,184)*
	Equity	*(4,627)*	*(2,075)*	*(6,702)*
	Deferred tax liabilities	*(42,427)*	*(2,520)*	*(44,947)*
	Non current assets held for sale	*7,436*	*-*	*7,436*
	PPA values allocated (B)	**93,840**	**4,436**	**98,276**
IFRS 10 - Changes in consolidated group	*Original*	99,684	3,398	**103,082**
	IFRS 3 final combination (A - B)	242,856	24,128	**266,984**
Residual goodwill after PPA		**342,540**	**27,526**	**370,066**

Impairment test of the value of goodwill recognized in the financial statements as of December 31, 2022

Goodwill acquired under a business combination is allocated to the cash-generating units. Goodwill, recorded as representative of the future income capacities of the CGUs, and therefore of the subsidiaries, is periodically subjected to value verification tests, at the level of the individual CGU, to identify any impairment loss on the basis of the difference between the recognition of goodwill and the realizable value, equal to the greater of the fair value of the cash-generating unit, net of any costs to sell, and any related value in use.

An impairment loss is recorded whenever the carrying amount of an asset - understood individually or as a CGU, or the smallest "revenue centre" to which specific cash flows can be attributed - is greater than the "recoverable amount" of the same.

To this end, goodwill must be allocated to individual or groups of cash-generating units of the acquirer so that these units benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquiree are assigned to such units or groups of units.

The impairment tests had already been carried out as of June 30, 2022 without giving evidence of recoverability problems. On December 31, 2022, although no specific impairment indicators emerged on the individual CGUs, either of an internal or external nature, also taking into account that the Parent Company's stock market prices are lower than the net equity value per share, for each CGU specific impairment tests were conducted on the value of the goodwill as of December 31, 2022, also with the help of an external consultant. The methods used for the impairment tests are similar to those used by the Parent Company, for the purposes of the 2021 annual financial report, for the valuation of investments measured at fair value, as well as the evaluations carried out in the 2022 half-year.

The aforementioned impairment tests were also carried out by taking into account the provisions of IAS 36 and the ESMA and Consob recommendations, and therefore taking into consideration all the potential external effects on the Group's business stemming from the pandemic and the Russia-Ukraine conflict.

The analyses carried out confirmed that the Group is not exposed to circumstances that require the impairment test to be repeated when preparing this annual financial report. However, in light of the continuing uncertainty that characterises the international macroeconomic scenario and the significant tensions on the financial markets that have also led to a negative fluctuation in the Company's stock market price (which at the end of June showed persistently lower capitalization than the reported equity), the Group, in accepting the recommended prudence suggested by the aforementioned Regulatory Bodies, nevertheless carried out the impairment test of the intangible assets recorded in the Financial Statements and relating to the two Cash Generating Units identified.

In compliance with the international accounting standard IAS 36, the cash flow projections used to determine the recoverable amount of intangible assets with an indefinite useful life, and in particular of goodwill, have been reviewed based on the latest estimates available (indicated in the Business Plans and/or Budgets), appropriately reviewed on the basis of reasonable and demonstrable assumptions in order to reflect the results reported in the meantime, and able to represent, as of today, the best estimate of the expected future economic conditions, and by carrying out sensitivity analyses regarding potential impacts deriving from the current geopolitical and health context on the assumptions underlying the estimates made.

- *Copper CGU*

The impairment test on the copper CGU (as of December 31, 2022, goodwill amounted to € 342.5 million), was carried out on the basis of the Unlevered Discounted Cash Flow (UDCF) method, discounting the operating cash flows generated by the assets themselves (net of the tax effect).

The UDCF method was developed by using, as an information base, economic forecasts and changes in some statement of financial position items included in the KME SE 2023 - 2027 Business Plan (the "Plan", drafted and approved by the administrative bodies of KME SE on March 24, 2023) starting from the flows of the first half of 2023 and taking into account the data reported as of December 31, 2022. The approved Plan reflects the best estimate of the main macroeconomic and economic developments that could affect the business of the KME SE Group.

The terminal value was calculated by assuming the long-term EBITDA equal to the average of the Plan's EBITDA (explicit period, January 1, 2023 - December 31, 2027), with a level of amortization corresponding to investment using a long-term growth rate "g" equal to zero, reaching a WACC of 9.67% (rate of 9.35% in the fair value measurements carried out as of December 31, 2021) taking into account recorded historical data.

In accordance with the methodological indications provided by accounting standard IAS 36, a sensitivity analysis was also carried out in order to understand how the recoverable amount may vary following changes in the value of EBITDA (decreases of 5% and 10%) on the terminal value. Moreover, in order to better appreciate the sensitivity of the results of the impairment test with respect to the changes in the basic assumptions, at the same growth rate (equal to zero), a sensitivity analysis was also carried out for the purpose of calculating the value in use with respect to the overall WACC discount rate (an increase of 0.5% and 1.0%) used to calculate the terminal value. Both in the base case and in the case of a joint worsening of the EBITDA and WACC parameters, the impairment test carried out has ascertained that there are no impairment losses on the Copper CGU.

- *Perfumes and Cosmetics CGU*

The impairment test on the Perfume and Cosmetics CGU (as of December 31, 2022, goodwill amounted to € 27.8 million), was carried out on the basis of the Unlevered Discounted Cash Flow (UDCF), discounting the operating cash flows generated by the assets themselves (net of the tax effect).

The recoverable amount of the CGU was determined by applying the Sum of Parts method, considering the values of CULTI Milano S.p.A. and the companies belonging to its group.

For each party (entity), the terminal value was calculated on the basis of the related historical EBITDA and considering the forecast data (explicit period, January 1, 2023 - December 31, 2025), using a long-term growth rate "g" equal to zero and reaching a specific WACC for each party (entity); taking into account the contribution of each country to the EBITDA Terminal Value, the weighted average discount rate applied to the impairment test of the Perfumes and Cosmetics CGU is around 10.89%.

Also for the Perfumes and Cosmetics CGU, for each part, a sensitivity analysis was carried out in order to understand the change in the recoverable amount following changes in the value of the EBITDA (decrease of 5% and 10%) on the terminal value and, at the same growth rate (equal to zero), the total WACC discount rate (increase of 0.5% and 1.0%).

Both in the base case and in the case of a joint worsening of the EBITDA and WACC parameters, the impairment test carried out has ascertained that there are no impairment losses on the Perfumes and Cosmetics CGU.

In addition, similarly to what was carried out for the purpose of determining the fair value in the consolidated financial statements drawn up as of December 31, 2021 and for the purpose of the 2022 half-yearly financial report, liquidity and trend analyses on the stock were also conducted, (on the volumes traded, both in terms of the number of shares and the monetary value exchanged), also with reference to comparables. These analyses showed that, during the last year (January 3, 2022 - December 31, 2022), in the various time horizons of 1 month, 3 months, 6 months and one year, the trading volumes of the CULTI Milano stock were in line with those of the comparables and this would therefore suggest that the stock market price method is still a meaningful way of determining the theoretical current value of CULTI Milano for the purposes of the impairment test.

This valuation would also be higher than the carrying amount of the CGU in question (unit value of € 20.20).

<u>Results of the test on the CGUs identified</u>

The results of the impairment tests did not reveal any impairment of the goodwill recorded, both in the reference scenario and in those hypothesised by the sensitivity analyses carried out (combined deterioration of EBITDA and WACC), with a recoverable amount of the CGU always higher than the carrying amount shown in these Consolidated Financial Statements.

4.4. Investments

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Investments in subsidiaries	23,281	620,201	(596,920)
Investments in other companies	17,405	16,922	483
Equity-accounted investments	76,654	-	76,654
Investments	**117,340**	**637,123**	**(519,783)**

Below are the changes for the year, which under the item "Fair value measurement of assets" includes the effect of the fair value measurement of CULTI Milano with the recognition of a positive effect of € 9,078 thousand (with impact on the income statement, included in the item "Result of investments"); this measurement incorporates the stock market value of the investee at the date of the change of status to "investment entity."

The increases shown below, equal to € 658 thousand, relate to the equity investment in Oasi Dynamo FoodCo S.r.l. increased by € 400 thousand and € 258 thousand for the acquisition of KME Middle East FZE, an equity investment included in the business unit acquired by Aurubis.

(in € thousand)	*Investments in subsidiaries*	*Investments in other companies*	*Equity-accounted investments*	*Total*
Total as of December 31, 2021	**620,201**	**16,922**	**-**	**637,123**
Increases	10	-	-	10
Fair value measurement of assets	9,078	-	-	9,078
Total as of April 30, 2022	**629,289**	**16,922**	**-**	**646,211**
Change by investment entity	(616,292)	-	-	(616,292)
IFRS 10 - Changes in consolidated group	9,751	478	98,902	109,131
Increases	658	5	-	663
Foreign exchange effect	-	-	(2,174)	(2,174)
PPA changes	(50)	-	(11,134)	(11,184)
Decreases	(75)	-	-	(75)
Transfers	-	-	-	-
Share of profits/losses in the income statement	-	-	(10,285)	(10,285)
Equity-accounted shares	-	-	1,345	1,345
Total as of December 31, 2022	**23,281**	**17,405**	**76,654**	**117,340**

The breakdown of the item as of December 31, 2022 is as follows:

Name	**Registered office**	**% ownership as of 31/12/2022 direct**	**% ownership as of 31/12/2022 indirect**	**31/12/2022** *(in € thousand)*	**31/12/2021** *(in € thousand)*
KME SE	Germany	10%	89.00%	-	578,300
CULTI Milano S.p.A.	Italy	77.17%	-	-	28,904
Intek Investimenti S.p.A.	Italy	100%	-	11,200	11,200
KME Germany Bet. GmbH	Germany	-	100.00%	1,707	1,700
KME Metale Sp. z.o.o.	Poland	-	99.00%	3,498	-
KME (Suisse) S.A.	Switzerland	-	99.00%	1,138	-
Oasi Dynamo Societa Agricola S.r.l.	Italy	-	82.64%	4,910	-
Oasi Dynamo FoodCo S.r.l.	Italy	-	82.64%	400	-
Other companies pertaining to the KME SE group		n/a	n/a	388	-
Other companies belonging to the Parent Company		n/a	n/a	40	97
Investments in subsidiaries				**23,281**	**620,201**
Ducati Energia S.p.A.	Italy	6.77%	-	16,700	16,700
Vita Società Editoriale S.p.A.	Italy	13.22%	-	222	222
Metal Interconnector ScpA	Italy	-	0.36%	318	-
Other minor investments		n/a	n/a	165	-
Investments in other companies				**17,405**	**16,922**

KMD (HK) Holding Limited	Hong Kong	-	49.50%	46,524	-
Azienda Metalli Laminati S.p.A.	Italy	-	23.96%	68	-
Dynamo Academy S.r.l.	Italy	-	24.75%	805	-
Magnet Joint Venture Gmbh	Germany	-	44.55%	29,257	-
Equity-accounted investments				**76,654**	**-**
Investments				**117,340**	**637,123**

The item "Investments in other companies" mainly includes Ducati Energia S.p.A., a minority investment held by the Parent Company.

"Equity-accounted investments" include jointly controlled investments, specifically:

- € 46,524 thousand relating to the 50% investment by KME SE in KMD (HK) Holding Ltd. established in 2014 together with a partner. KMD is a stand-alone and independently managed company that mainly produces stamping products in the Copper sector;
- € 29,257 thousand, the 45% investment by KME SE in Magnet Joint Venture GmbH. This share was part of the agreements with Paragon relating to the transfer of control of the Special Products Business. This measurement includes adjustments to fair value at the time of acquisition.

Overall, these investments, contributed negatively to the Group's result in the eight months of consolidation in the Consolidated Financial Statements.

4.5. Other non current assets

The breakdown of the item is as follows:

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Guarantee deposits	877	3	874
Other receivables	2,229	-	2,229
Other non current assets	**3,106**	**3**	**3,103**

4.6. Non current financial assets

This item can be broken down as follows:

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Guarantee fees receivable	-	5	(5)
Other non current financial assets	3,009	-	3,009
Derivative financial instruments	236	-	236
Non current financial assets	**3,245**	**5**	**3,240**

The value of derivative financial instruments, equal to € 236 thousand, refers to the companies of the CULTI group and in particular to the value of the IRS Swaps to hedge the interest rate risk entered into on outstanding loans payable.

(in € thousand)	*CULTI Milano S.p.A.*	*Scent Company S.r.l.*	*Bakel S.r.l.*
Original notional value	2,500	800	1,000
Notional value 31/12/2022	2,037	800	1,000

Carrying amount	116	49	71
Expiry date	2026	2026	2029

4.7. Inventories

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Raw materials, consumables and supplies	363,839		363,839
Work in progress and semi-finished products	17,438	-	17,438
Finished goods and merchandise	23,626	-	23,626
Inventories	**404,903**	**-**	**404,903**

The item mainly includes the balances of the copper sector (€ 399,330 thousand), relating mainly to metal stocks, in particular copper, aluminium, nickel, zinc, tin, scrap and other metals (€ 345,558 thousand); the remainder relates to the CULTI group (€ 5,573 thousand).

It should be noted that as of December 31, 2022 43.02 thousand tonnes of inventories are pledged as collateral for financial liabilities. The total amount of inventories includes € 57.5 million as an increase in relation to the business acquired by Aurubis in the second half of 2022.

4.8. Trade receivables

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Receivables - third parties	79,197	-	79,197
Receivables - factoring/leases	1,491	2,987	(1,496)
Receivables - parent company	151	89	62
Receivables - not consolidated subsidiaries	4,646	1,963	2,683
Receivables - equity-accounted investments	9,874	-	9,874
Trade receivables	**95,359**	**5,039**	**90,320**

The "*Receivables - factoring/leases*" relate to the net value of non-performing loans belonging to the Parent Company from the business previously handled by Fime Leasing and Fime Factoring. Their change is determined by collections for the year and the discounting effect on the basis of the expected recovery of the related cash flows (in March 2023, collections were € 600 thousand).

"*Receivables - third parties"* refer to the KME SE group for around € 75.0 million and the CULTI group for around € 4.1 million.

It should be noted that, as part of its factoring programme, the KME SE group regularly assigns trade receivables with non-recourse factoring transactions (assignment of the risk to the factoring company, maintaining the risk associated with the legal validity of the receivables; in this context, in accordance with IFRS 9, the Group derecognises the transferred receivables in full and recognizes a receivable from the factoring company in the same amount until payment is received. As of December 31, 2022, receivables from factoring companies amounted to € 23,422 thousand and are included in the item "current financial assets".

In addition to factoring with non-recourse, the KME SE Group also transfers receivables within the scope of factoring with recourse. The receivables, in contrast to factoring with non-recourse, are not cleared and remain unchanged as receivables from customers. The consideration from the factoring company is recorded under short-term financial liabilities.

A portion of the trade receivables amounting to € 34,066 thousand is given as collateral for outstanding financial liabilities.

With reference to the receivables from customers, receivables past due by more than 120 days represent approximately 17% of the gross value.

4.9. Current financial assets

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Financial receivables due from related companies	71,613	832	70,781
Receivables due from factoring companies	23,422	-	23,422
Guarantee fees receivable	-	235	(235)
Derivative financial instruments	10,967	-	10,967
Investments in securities	272	257	15
Other current financial assets	3,827	25,120	(21,293)
Current financial assets	**110,101**	**26,444**	**83,657**

"*Financial receivables due from related companies*" as of December 31, 2022, essentially refer to equity-accounted investments.

"*Receivables due from factoring companies*" relate to the KME SE group and in particular to the amount of trade receivables transferred according to factoring transactions with non-recourse, as previously indicated in the comment to the item "trade receivables." This amount refers to trade receivables for goods and services that were already assigned and not paid at the balance sheet date. The amount of € 23,422 thousand serve as collateral for outstanding financial liabilities.

"Guarantee fees receivable" as of December 31, 2021, are the amount of guarantee fees that are receivable within 12 months, for guarantees issued by the Parent Company to banks on behalf of subsidiaries, in particular KME SE, to which loans and credit facilities were granted. These receivables were matched by payables of an equal amount. In 2022, this item was zeroed as the guarantees were given to companies included in the scope of consolidation.

The item *"Other current financial assets"* as of December 31, 2021, mainly comprised a deposit pledged as collateral for the credit facility in place with Banco BPM S.p.A. rescheduled to June 2022.

"*Derivative financial instruments*" include the fair value of derivatives held by the KME SE group and commitments to sell and purchase LME (London Metal Exchange) contracts and forward exchange contracts.

"*Other current financial assets*" as of December 31, 2022, include an amount of € 1.3 million due from an insurance company.

In reference to the Consob Communication no. DEM/11070007 of August 5, 2011 which drew on the document issued by the European Securities and Markets Authority (ESMA), it is specified that the Group has no investments in sovereign debt securities.

4.10. Other receivables and current assets

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Tax receivables	11,588	643	10,945
Advances to suppliers	1,585	-	1,585
Prepayments and accrued income	1,845	109	1,736
Receivables - related companies	77	2,495	(2,418)
Other receivables	1,580	2,433	(853)
Other receivables and current assets	**16,675**	**5,680**	**10,995**

The *"Tax receivables"* include € 4.4 million of tax credits for energy relating to the KME SE group.

Prepayments and accrued income are due to the recording of prepayments mainly for travel costs and services attributable to subsequent periods.

"Receivables - related companies" as of December 31, 2021, mainly included positions arising from tax consolidation; as of December 31, 2022, receivables outstanding were eliminated as part of the line-by-line consolidation and there are only € 77 thousand from an entity that participated in the tax consolidation but not consolidated on a line-by-line basis as of December 31, 2022.

4.11. Cash and cash equivalents

"Cash and cash equivalents" consist of bank accounts and cash on hand; as of December 31, 2022, € 12 million was pledged as collateral.

For details of the liquidity generated and absorbed during the year, please refer to the consolidated statement of cash flows; in particular, the "changes in the consolidated group" shown therein (equal to € 104,174 thousand) relates for € 95,658 thousand to the first consolidation carried out by the Parent Company as of April 30, 2022 ("IFRS 10 - Changes in consolidated group") and for € 8,516 thousand to the acquisition of the entities of the Aurubis scope carried out in July 2022 by KME SE. In addition:

- the total net cash flow from investing activities is mainly due to the investment in the commercial transaction acquired by Aurubis for € 75 million;
- the cash flow used in financing activities includes € 110 million relating to the early repayment of the 6¾% bond loan to KME SE finalised on December 8, 2022.

Cash and cash equivalents are deemed to be sufficient for the Group's commercial and financial commitment activities.

4.12. Non current assets held for sale and liabilities directly associated with assets held for sale

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Non current assets held for sale	107,198	-	107,198
Liabilities directly associated with assets held for sale	(68,469)	-	(68,469)
Net assets held for sale	**38,729**	**-**	**38,729**

At the balance sheet date, assets and liabilities held for sale refer to Serravalle Copper Tubes Italy S.r.l. and Trefimetaux S.A. and include:

(in € thousand)	*31 Dec 2022*
Intangible assets	15,044
Property, plant and equipment	44,583
Investments	110
Deferred tax assets	352
Inventories	35,799
Trade receivables	317
Other current assets	6,463
Current financial assets	2,758
Cash and cash equivalents	1,772
Non current assets held for sale	**107,198**
Retirement benefits	(2,836)
Provisions	(11,846)
Financial liabilities	(11,952)
Other current liabilities	(5,302)
Trade payables	(36,533)
Liabilities directly associated with assets held for sale	**(68,469)**
Net assets (liabilities) held for sale	**38,729**

The assets held for sale contain as of December 31, 2022 right-of-use assets of € 365 thousand and the liabilities associated with them include lease payables for € 476 thousand.

4.13. Group equity

For an analysis of the changes in consolidated equity, reference should be made to the "*Statement of changes in equity*".

The changes in equity include the effects of:

- the allocation of the Parent Company's 2021 annual profit of € 65,306 thousand, as approved by the Shareholders' Meeting of May 9, 2022, allocated as follows: 5%, equal to € 3,265 thousand, to the legal reserve, and the remaining € 62,041 thousand through allocation to a specific unavailable reserve, pursuant to Article 6 of Legislative Decree 38/2005, of the profits arising from the application of the fair value criterion (increase in "Other reserves");
- of the transaction pursued by the Parent Company relating to the Public Exchange Offers ("Offers") concluded on September 23, which led to the cancellation of the ordinary shares, savings shares and warrants tendered, in execution of the resolution of the Company's Extraordinary Shareholders' Meeting of June 16, 2022, without any reduction in capital, with a consequent automatic increase in the "implicit accounting parity" of the residual shares. The consideration for the Offers consisted of bonds deriving from the "KME Group S.p.A. 2022 - 2027" bond, therefore in light of the final results of the Offers, the Company issued a total of 63,533,259 2022 Bonds, for a total value of € 63.5 million;
- the reduction of the share capital, pursuant to Article 2445 of the Italian Civil Code, for the nominal amount of € 135,000,000.00, through the allocation of the same amount to an available reserve of equity, without cancellation of shares.

The "*Share Capital*" as of December 31, 2022 is equal to € 200,070,087.67 divided into 306,937,071 ordinary shares (95.27% of the share capital) and 15,246,505 savings shares (4.73% of the share capital). None of the shares have a par value.

- the allocation to a specific reserve included in "Other reserves" on Management Warrants deriving from the actuarial calculation carried out in application of the provisions of IFRS 2. These costs are included in the item "Other operating costs".

The aforementioned Management Warrants can be exercised until June 28, 2024 at the strike price of € 0.40 per warrant; they were issued in execution of the resolution of the Company's shareholders' meeting on November 30, 2020 and subsequently assigned following the approval, by the ordinary and extraordinary Shareholders' Meeting of June 8, 2021, of the Remuneration Policy for the three-year period 2021-2023 and the Incentive Plan for Executive Directors 2021-2024; a total of 37.5 million Management Warrants were assigned, 25 million of which in July 2021 and 12.5 million in June 2022.

For an analysis of the changes in consolidated equity, reference should be made to the "*Consolidated statement of changes in equity as of December 31, 2022*."

<u>*Information on treasury shares*</u>

As of December 31, 2022 the Company holds 6,937,311 ordinary treasury shares equal to 2.26% of the ordinary capital (2.15% of the total capital). There were no changes in this item during 2022.

4.14. Retirement benefits

This item relates to the "*Post-employment benefits"*; the amount is determined based on the vested benefits at the end of the year, in compliance with law employment contracts and IAS 19, and is composed as follows:

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Retirement benefits	**127,588**	**418**	**127,170**

The changes in the item were as follows:

(in € thousand)	*31 Dec 2021*	*Changes in consolidated group IFRS 10*	*Increases*	*Decreases / payments*	*Payments*	*31 Dec 2022*
Retirement benefits	**418**	**152,954**	**3,591**	**(29,375)**		**127,588**

The main criteria used in the measurement of "*Retirement benefits*" are set out below:

General criteria	*31 Dec 2022*	*31 Dec 2021*
Discount rate	4.14%	0.98%
Rate of increase in future remuneration	1.00-5.00%	1.00%
Future increase in performance	1.95-3.23%	1.95-2.85%
Average remaining working life (years)	11.1	12.0
General criteria		

The Group has employees in Italy and abroad, mostly in Germany and Great Britain; most employees in the KME Group have pension benefits, with the type of provision varying from country to country according to the national legal, economic and tax environments. Pension plans in the Group include both defined contribution and defined benefit plans.

In Germany executive employees are entitled to an individually determined benefit payment which either becomes due on age of 65 or earlier, depending on possibilities provided for by the statutory pension insurance fund. Starting in 2017 executive employees will only get commitments for defined contribution plans in Germany.

For a large proportion of other employees there are defined benefit plans depending on when they commenced work at the company in accordance with the employment agreement, the amount of which is calculated as a percentage of the pensionable salary for each qualifying year of service.

From January 1, 2018, employees will instead receive a contribution supplement for salary conversion as part of a defined contribution plan

Total obligations for pension obligations arising from defined benefit plans in Germany amount to € 104,804 thousand, net of plan assets, which amount to € 780 thousand.

Defined benefit plans exist for employees in Great Britain and provide for a pension payment after the age of 65. The plan involves a statutory requirement to cover the obligations with financial assets of an equivalent amount. The plan assets are invested in fund shares, fixed-interest securities, property and bank deposits. The decision-making body in each case is a so-called "Board of Trustees." Total obligations for pension obligations arising from defined benefit plans in Great Britain amount to € 75,036 thousand. These are offset by plan assets in an amount of € 58,642 thousand, resulting in a net obligation of € 16,394 thousand.

The defined pension benefit plans in Italy include a legal claim which provides for payment of a capital sum according to period of service and salary on termination of the employment relationship. Total obligations for pension obligations arising from defined benefit plans in Italy amount to € 6,119 thousand.

Risks associated with defined benefit plans

The main risk other than normal actuarial risk - including longevity risk and foreign exchange risk - relates to financial risk associated with plan assets. On the pension liability side, this mostly means inflation risk on plans with salary-linked benefits; a marked rise in pay would increase the obligation under these plans. In the Group, plans of this kind exist only on a small scale and are largely closed to new entrants.

Regarding increases to currently paid pensions there is no pension arrangement within the Group that carries an obligation to increase the benefit amount in excess of inflation or in excess of the surplus generated on plan assets.

The return on plan assets in accordance with IAS 19 is assumed on the basis of the discount rate for the defined benefit obligation. If the actual rate of return is below the discount rate, the net liability goes up. For the funded plans, however, notably given the share of plan assets invested in equities, we expect that long-term returns will exceed the discount rate. Nonetheless, short- to medium-term fluctuations cannot be ruled out, with a corresponding effect on the net liability. In this regard, sensitivity analyses were carried out on the basis of certain parameters (change in the mortality rate, discount rate, retirement age).

With the exception of the pension plan in Great Britain, the existing plans do not need to be funded as the current cash flow is sufficient for them.

The contributions to the plan, in the next financial year, should amount to € 5,072 thousand.

4.15. Non current and current financial payables and liabilities

The breakdown of the item is as follows:

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Non current financial payables and liabilities	240,758	2,445	238,313
Current financial payables and liabilities	109,455	29,677	79,778
Financial payables and liabilities	**350,213**	**32,122**	**318,091**

(in € thousand)	*31 Dec 2022*		*31 Dec 2021*	
	Current	*Non current*	*Current*	*Non current*
Payables for financial guarantees issued	-	-	235	5
Liabilities to banks	80,132	138,610	25,223	-
Derivative financial instruments	10,652	-	-	-
Bonds	4,478	-	3,616	-
Factoring liabilities	1,424	-	-	-
Lease liabilities	4,709	11,169	139	46
Lease liabilities - related parties	-	-	464	2,394
Other financial liabilities	8,060	90,979	-	-
Financial payables and liabilities	**109,455**	**240,758**	**29,677**	**2,445**

As of December 31, 2022, the following main loans were outstanding:

- KME SE: € 330 million relating to the pooled bank loan that can be used on a revolving basis and maturing on November 30, 2023, plus an option for the extension of a further three years subject to the consent of the lenders involved in the transaction. This line meets the working capital financing needs of the KME SE Group, mainly linked to inventories.

  The credit facility was used with letters of credit for payments to metal suppliers in the amount of € 324.9 million, whose liabilities are shown under trade and other liabilities.

  The extended bank consortium credit facility benefits from the following amended guarantees:

  - a pledge, with the reservation of voting rights, of the shares of KME Italy S.p.A.;
  - a mortgage on the property of KME Grundstücksgesellschaft SE & Co. KG and over part of the plant equipment and machineries of KME Mansfeld GmbH in Hettstedt;
  - a pledge of the inventory and parts of the non-factored trade receivables and short-term receivables of the European industrial companies of the KME SE group;
  - a lien on some factoring and insurance contracts.

On November 25, 2022, KME SE renewed the pooled credit facility until November 2023, with an option for a further three-year extension with the consent of the lenders, for a total amount of up to € 330 million.

- KME SE: € 20 million relating to the new credit facility of € 110 million stipulated in November 2022 with Goldman Sachs Bank USA, expiring in October 2023 and guaranteed by a pledge, with the reservation of voting rights, over the share of KME Special Products GmbH & Co. KG and a mortgage on the industrial equipment of the Osnabrück plant (owned by KME Germany GmbH). At the end of December 2022, the facility was outstanding for € 20 million.
- KME Group S.p.A.: € 20 million with a maturity of 18 months, with a pledge on CULTI Milano S.p.A. shares and provision of financial covenants subject to half-yearly verification, linked to the ratio between the Net Financial Position and Equity and the amount of Equity and cross default clauses.
- KME Italy S.p.A. and Serravalle Copper Tubes S.r.l: € 75 million (of which € 65 million pertaining to KME Italy S.p.A.) relating to the 6-year facility agreement signed in March 2022, with a pool of Italian banks supported by a SACE guarantee. The facility is amortized in equal instalments starting from Q1-2003 until end of 2027.
- KME Italy S.p.A.: € 15 million relating to an additional 6-year facility agreement, signed in July 2022, supported by a SACE guarantee. The facility is amortised in equal instalments starting from Q1-2003 until end of 2027.
- KME Italy S.p.A.: € 59 million, relating to the 6-year facility agreement signed in November 2022, supported by a SACE guarantee. The facility is amortized in equal instalments starting from Q4-2023 until the end of Q3-2028.
- KME Mansfeld GmbH: € 18.8 million relating to Tranche B of the borrowing base facility maturing in the third quarter of 2024 and a run-off period starting from the third quarter of 2022. The borrowing base facility of KME Mansfeld GmbH benefits from the following guarantee package: i) a mortgage on part of the Hettstedt plant equipment and machineries of KME Mansfeld GmbH, ii) a lien on some insurance contracts.
- CULTI Milano S.p.A.: € 5.2 million with a duration of approximately 3 years (maturity November 30, 2025), of which 8 months of pre-amortization, with quarterly repayment instalments, 3-month Euribor floating rate +2.25%. This facility is aimed at the purchase of treasury shares of CULTI Milano S.p.A. and secured by a pledge on the treasury shares acquired by the same.

  It should be noted that this loan is backed by compliance with financial covenants, defined with reference to the consolidated financial statements at the end of each year (starting from December 31, 2023). These covenants are all largely met also as of December 31, 2022.
- CULTI Milano S.p.A.: € 2.5 million with a duration of 6 years (maturity March 31, 2026), of which two years of pre-amortization, with quarterly repayment instalments. 3-month Euribor floating rate + 1.15% spread 3-month Euribor floating rate + 1.15% spread, converted through a specific IRS Swap derivative instrument into a fixed rate of 1.01%. It is backed by compliance with the financial covenants, defined with reference to the annual financial statements of CULTI Milano at the closing date of each year.

  The facility is guaranteed at 80% of its value (€ 2 million) by Mediocredito Centrale.

The "*Liabilities* to *banks"* as of December 31, 2021 referred to a € 25,000 thousand credit facility and the relative interest with Banco BPM S.p.A., expected to mature in June 2022 and guaranteed for an equal amount by the pledged current account. This credit facility was remodelled in June 2022, providing for the amount financed of € 20 million mentioned above.

As of December 31, 2022, the current portion of the item amounted to € 80.1 million and included:

- € 2.6 million for the short-term portion of the long-term facilities in place in the CULTI group (€ 1.6 million relating to CULTI, € 0.7 million relating to Bakel S.r.l. and € 0.3 million relating to Scent Company);

- € 20.0 million for the facility entered into by the Parent Company in June 2022, expiring in December 2023 with Banco BPM S.p.A.;
- € 57.5 million for facilities to KME SE.

As of December 31, 2022, the non current portion of the item amounted to € 138.6 million and included:

- € 8.2 million for the amount of long-term facilities in place in the CULTI group (€ 5.6 million relating to CULTI, € 1.9 million relating to Bakel S.r.l. and € 0.7 million relating to Scent Company);
- € 130.4 million in facilities pertaining to the KME SE group.

The "*Derivative financial instruments"* pertain to the KME SE group.

The item "*Bonds*" as of December 31, 2022 includes the value of the coupons on outstanding bonds, listed on the MOT and being accrued:

- € 3.6 million on the KME Group S.p.A. 2020/2025 Bond (IT0005394884), with a fixed rate of 4.5% (€ 3.6 million as of December 31, 2021);
- € 0.9 million on the KME Group S.p.A. 2022/2027 Bond (IT0005503393), issued on September 23 with a fixed rate of 5%.

"*Factoring liabilities*" relate to the operations of the KME SE group relating to the credit facilities in place recently extended: together with the renewal of the pool facility, the factoring lines in place with Factofrance were also renewed for € 150 million until November 30, 2023 (with an automatic extension of one year in the event of extension of the maturity of the pool loan), and with Intesa Sanpaolo S.p.A., for € 126.5 million, until September 30, 2024. Both lines have an option for an extension of a further two years, subject to the consent of the factor. KME Mansfeld GmbH also has a non-recourse factoring credit facility with TARGO Commercial Finance AG (a subsidiary of Factofrance) expiring in February 2023, for a total amount of up to € 150 million with a built-in option of a one-year extension. On November 25, 2022, the credit facility was extended for € 100 million until January 2025 and can also be used by KME Germany, if necessary.

The credit facilities with Factofrance and Targo incorporate options that make it possible, if necessary, to balance the commitment between one credit facility and another.

Liabilities ensuing from the factoring with recourse vis à vis the factoring company amount to € 335 thousand.

The above credit facilities have similar financial covenants to be tested quarterly, except for the bond, which is subject to an "at incurrence covenant test" according to the standards for high-yield bond loans. The Group has complied with these covenants throughout the reporting period.

The items *"Lease payables - related parties"* as of December 31, 2021 represent the financial liabilities recognized for the application of IFRS 16 and refer to payables to Immobiliare Pictea for the leases payable of the properties in Milan, Foro Buonaparte; these items, as of December 31, 2022, were eliminated as part of line-by-line consolidation.

"*Other financial liabilities*" include the liabilities for € 90 million originating from the Sale & Lease-back transaction, carried out in December 2022 on the Osnabrück properties. Specifically, on December 29, 2022, following the completion of the conditions precedent set forth in the agreement, the subsidiaries KME Real Estate GmbH & Co. KG, as transferor ("KME RE"), and KME Germany GmbH ("KME Germany"), as lessee, have finalised the sale and leaseback contract with Crescendo Real Estate Advisors LLP ("Crescendo"), principal English investing and advisory group. The conclusion of the transaction saw the transfer from KME RE to Crescendo of the ownership of the entire property perimeter of Osnabrück ("Property"), which has an area of over 570,000 square meters, occupied by the industrial plant and the offices and the contextual conclusion of the lease agreement of the entire Property by KME Germany for a period of 30 years in addition to the possible extension of 10 years (exercisable twice, 30+10+10). As part of the lease agreement (in the form of the triple net agreement), KME Germany is the sole operator of the site, and will continue to manage the entire industrial plant as well as the offices. The annual rent agreed between the parties amounts to € 7.08 million plus VAT and is subject to annual revaluation based on the CPI index (German index used for lease agreements). KME Germany will continue to lease to the current sub-tenants the respective areas of the Property, already leased to them, for a total revenue of approximately € 2.5 million plus VAT.

The execution of the transaction allowed the collection of € 90 million, entirely used for the partial repayment of the loan in place with Goldman Sachs Bank USA, for a total of € 110 million, used on December 8, 2022 by the sub-holding KME SE to the early repayment of its guaranteed senior bond maturing in 2023.

The transaction significantly contributed to the progressive de-leveraging of the KME SE group and therefore of the Group, as part of the process of further development of its core business.

Financial debt

The amount of financial debt with details of its main components pursuant to Consob Communication no. 6064293, Consob Warning Notice no. 5/21 of April 29, 2021 and the ESMA Guidelines on disclosure requirements under the prospectus regulation (ESMA 32-382-1138) is specified in the "*Report on Operations*."

As of December 31, 2022, there are no financial payables and liabilities to related parties.

4.16. Bonds

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
KME Group S.p.A. 2020/2025 Bonds	92,506	92,372	134
KME Group S.p.A. 2022/2027 Bonds	63,485	-	63,485
Bonds	**155,991**	**92,372**	**63,619**

The item refers to:

- the KME Group 2020/2025 bonds, issued in February 2020 with a fixed rate of 4.5%, outstanding for a nominal amount of € 75,854 thousand, to which additional nominal values of € 16,965 thousand were added in 2021 as a result of the public exchange offer on savings shares. The outstanding bonds are therefore equal to € 92,819 thousand;
- KME Group 2022/2027 bonds, issued in September 2022 with a fixed rate of 5.0% outstanding for a nominal amount of € 63,533 thousand as a result of the public exchange offers on ordinary shares, savings shares and warrants.

All bonds are shown net of the issue costs, which are deferred along the duration of the security so as to determine a constant effective interest rate.

4.17. Other non current liabilities

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Liabilities for "special situations"	-	95	(95)
Other liabilities	482	18	464
Other non current liabilities	**482**	**113**	**369**

"Liabilities for special situations", which originated as part of agreements with creditors and referred to advances linked to former Fime Leasing positions, were completely written off during the year.

The item as of December 31, 2022 refers to positions related to the copper sector.

4.18. Provisions for risks and charges

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Provisions for non current risks and charges	3,543	291	3,252
Provisions for current risks and charges	3,865	-	3,865
Provisions for risks and charges	**7,408**	**291**	**7,117**

A summary of the movements relating to the provisions for risks and charges is as follows:

(in € thousand)	*Provisions for tax dispute risks*	*Provisions for restructuring*	*Provisions for guarantee risks*	*Other provisions*	*Total*
Balance 01/01/2022	**291**	**-**	**-**	**-**	**291**
IFRS 10 - Changes in consolidated group	-	4,387	1,107	3,886	9,380
Utilized	-	(3,087)	-	(631)	(3,718)
Released	(291)	-	-	(9)	(300)
Allocations	-	10,441	43	1,562	12,046
Reclassifications to IFRS 5	-	(10,441)	-	-	(10,441)
Balance as of December 31, 2022	**-**	**1,300**	**1,150**	**4,958**	**7,408**
Non current	***-***	***-***	***-***	***3,543***	***3,543***
Current	***-***	***1,300***	***1,150***	***1,415***	***3,865***

The *"Provisions for tax dispute risks"* relate to disputes concerning stamp duty and Invim of the Fime group, recognized to the maximum extent of the estimated liability, and were released during the financial year.

Other provisions fundamentally comprise provisions for severance payments on termination of the employment relationship and/or on retirement in accordance with French law and for warranty claims enforced by customers and for environmental risk. Customers' warranty claims are due within one year.

The "*Provisions for restructuring*" include, as allocation and consequently as reclassification under the item "result from discontinued operations", the provision, net to the utilization of the period for € 4.9 million, for the closure of tubes production in Givet announced in February 2022 by Trefimetaux S.A.S.

"*Other provisions*" include as allocation € 1.6 million, mainly related to environmental risk.

The Group is not currently subject to legal disputes that could have a significant effect on the Group's equity and operating results. However, despite the wide range of compliance measures there may be isolated breaches or historical breaches that have not yet been identified.

At the approval date of these consolidated financial statements, as far as the Management is aware, there were no other significant contingent liabilities.

4.19. Trade payables

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Trade payables - third parties	530,577	1,700	528,877
Trade payables - non consolidated subsidiaries	615	447	168
Trade payables - equity-accounted investments	9,423	-	9,423
Trade payables - other related parties	110	91	19
Trade payables	**540,725**	**2,238**	**538,487**

Payables to other related parties relate to payables to directors and statutory auditors. The carrying amount of trade payables is believed to approximate their fair value.

At the balance sheet date, € 324,934 thousand of the recorded liabilities from trade payables are supported by letters of credit; the letters of credit are issued by the pooled banks facility. These supplier liabilities relate to the purchase of metal.

All liabilities have a remaining term of up to one year.

4.20. Other current liabilities

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Liabilities to personnel and employees	21,969	221	21,748
Liabilities to social security	4,051	91	3,960
Tax liabilities	19,831	126	19,705
Liabilities to directors for end of office indemnity	793	769	24
Liabilities to related companies	235	547	(312)
Liabilities to customers	60,426		60,426
Other liabilities	21,975	2,059	19,916
Other current liabilities	**129,280**	**3,813**	**125,467**

The item *"Liabilities to employees"* mainly refers to amounts which have accrued but have not yet been settled.

The *"Tax liabilities"* mainly refer to the companies of the Group that are not part of the tax consolidation of the Parent Company.

"Liabilities to directors for end of office indemnity" refer to the residual amount due to the Chairman for the end of office indemnity accrued to December 31, 2012, the date on which the office ended. The Chairman has allowed the payment due date to be extended to December 31, 2023.

The item *"Liabilities to related companies"* includes the payables to directors for accrued remuneration.

"*Liabilities to customers*" mainly comprises customer prepayments, bonus credits to customers and credit balances due to overpayments. The increase is mainly due to the new policy on prepayments by customers of the cost of the raw material, imposed as a sale condition.

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

The amount of the item increased in the second half of 2022 by € 8,391 thousand relating to the change in the Aurubis scope of consolidation.

4.21. Deferred tax assets and liabilities

(in € thousand)	*31 Dec 2022*	*31 Dec 2021*	*Change*
Deferred tax assets	88,478	2,762	85,716
Deferred tax liabilities	(117,752)	(2,221)	(115,531)
Deferred tax assets (liabilities), net	**(29,274)**	**541**	**(29,815)**

Deferred tax assets and liabilities can be broken down by asset and liability item as follows:

(in € thousand)	*Deferred tax assets*		*Deferred tax liabilities*	
	31 Dec 2022	*31 Dec 2021*	*31 Dec 2022*	*31 Dec 2021*
Temporary differences				
Property, plant and equipment	3,089	-	(84,146)	-
Investment property	5,209	9	(2,970)	-
Intangible assets	1,937	-	(19,514)	-
Investments	512	-	(529)	(1,602)

Other non current assets	14	-	-	-
Non current financial assets	-	-	(57)	-
Inventories	602	-	(21,026)	-
Trade receivables	2,410	1,370	(687)	(619)
Current financial assets	1	34	(1,838)	-
Other receivables and current assets	186	-	(65)	-
Cash and cash equivalents	-	-	(1)	-
Non current assets held for sale	-	-	(2,075)	-
Retirement benefits	1,210	-	-	-
Non current financial payables and liabilities	1,665	-	-	-
Bonds	-	-	-	-
Other non current liabilities	37	-	(54)	-
Provisions for risks and charges	1,548	-	(4,475)	-
Current financial payables and liabilities	1,448	-	-	-
Trade payables	-	-	(733)	-
Other current liabilities	1,379	515	(167)	-
Deferred taxes on equity components	-	130	-	-
Deferred taxes on tax loss carryforward	87,854	704	-	-
Total	**109,101**	**2,762**	**(138,337)**	**(2,221)**
Offsetting	(20,623)	-	20,585	-
Deferred tax assets (liabilities)	**88,478**	**2,762**	**(117,752)**	**(2,221)**

5. ***Notes to the consolidated income statement***

Pursuant to Consob Communication no. 6064293/06, it is hereby specified that the Group did not carry out any "atypical and/or unusual transactions" during the year under consideration.

It should be noted that the New Strategy adopted by the Parent Company starting from April 22, 2022 resulted in the loss of the status of "investment entity" and the consequent expansion of the Group's scope of consolidation which, from April 30, 2022, also includes subsidiaries that were previously investments (KME SE and CULTI Milano).

Given the above, it should be noted that the 2022 income statement balances, which include the income statement flows relating to the months of May and June 2022 of the fully consolidated companies (and the companies in the relevant group), other than the Parent Company, are not comparable with the related balances of 2021 which included exclusively the Parent Company in the scope of consolidation.

The result at the end of December 2022 was positively influenced by the € 46.5 million capital gain from trading from the acquisition of the former Aurubis scope.

5.1. *Revenue from sales and services*

The breakdown of the item is as follows:

(in € thousand)	*2022*	*2021*
Italy	157,494	-
Europe	1,020,038	-
Asia	73,071	-

America	112,985	-
Other countries	36,996	-
Revenues from sales and services	**1,400,584**	**-**

The revenues of the KME SE group included in the income statement balances of these consolidated financial statements amount to € 1,384 thousand and mainly derive from the sale of copper products and copper alloys. Breakdown of revenues was made based on the location of the customers. The residual part relates to CULTI Milan.

During the year, the Group did not generate sales of more than 10 % of Group sales with any customer. Total revenues have been recognized from the transfer of goods at a point in time.

5.2. *Other income*

(in € thousand)	*2022*	*2021*
Other income	**10,862**	**1,007**

The item includes: € 1.1 million relating to reductions in the cost of electricity and related taxes, € 1.0 million for government grants, € 0.4 million for rental income, € 0.3 million for insurance reimbursements and € 0.2 million for reversal of receivables written off.

5.3. *Personnel cost*

(in € thousand)	*2022*	*2021*
Wages and salaries	(99,139)	(965)
Social security contributions	(21,734)	(321)
Other personnel costs	(2,532)	(581)
Personnel cost	**(123,405)**	**(1,867)**

The majority of the personnel expenses relate to remuneration, which comprises wages, salaries, compensation and all other remuneration for work performed by employees of the Group in the financial year. The mandatory statutory contributions to be borne by the Company, including in particular social security contributions, are reported under social security contributions.

Retirement benefit expenses relate to active and former staff or their surviving dependents. These expenses include net periodic pension costs, employer contributions to supplementary occupational pension plans and retirement benefit payments.

The average number of the Group's staff is given here below:

	31/12/2022	*31/12/2021*	*Change*
Total employees (average)	**1,865**	**13**	**1,677**

5.4. *Other operating costs*

(in € thousand)	*2022*	*2021*
Directors' and Statutory Auditors' fees	(4,447)	(1,228)
Professional services	(17,538)	(1,543)
Freight cost	(26,994)	(375)
Other personnel expense	(3,940)	(2)
Legal and company disclosure	(1,163)	(108)

Electricity, heating, postal and telephone costs	(41,330)	(41)
Insurance premiums	(7,568)	(90)
Property leases	(2,036)	(265)
Maintenance	(17,837)	(40)
Rent and lease expense	(507)	(16)
Other taxes	(1,771)	(37)
Membership fees	(252)	(232)
Other net costs	(10,322)	(250)
Donations	(482)	(26)
Bank fees	(444)	(8)
Loss from disposal of fixed assets	597	-
	(136,034)	(4,261)
Commissions	(4,956)	-
Release of provisions	291	-
Allocation to provisions for risks	(10,492)	-
Production and sales costs	(5,734)	-
Charges on Management Warrants	(2,085)	(540)
Other operating costs	**(159,010)**	**(4,801)**

Property leases include € 268 thousand to related parties relating to property lease costs incurred by the Parent Company and not eliminated in the consolidation.

The "*Charges on Management Warrants*", attributable to the Parent Company, include the effects of the actuarial calculation in application of the provisions of IFRS 2 and have as a counter-entry an increase in equity (for more details regarding the assignment of management warrants, please refer to what is reported in note 4.13).

5.5. Net financial expense

(in € thousand)	*2022*	*2021*
Interest income from related parties	961	203
Interest income	2,490	89
Commissions on guarantees issued (related parties)	287	865
Gains from currencies and derivatives	1,123	-
Other financial income	46,722	-
Total financial income	**51,583**	**1,157**
Interest expense to related parties	(38)	(30)
Interest expense	(7,466)	(382)
Interest expense on securities issued	(9,656)	(3,940)
Financial and guarantee fees	(12,634)	-
Losses from currencies and derivatives	(3,625)	-
Other financial expenses	(138)	(23)
Total financial expenses	**(33,557)**	**(4,375)**
Financial result	**18,026**	**(3,218)**

"Other financial income" includes for € 46,437 thousand the impact of negative goodwill realized consequently to the exercise of the Purchase Price Allocation, performed according to the requirements of IFRS 3, respect to the equity of the business operation acquired from Aurubis.

5.6. Result of investments

The breakdown of the item is as follows:

(in € thousand)	*2022*	*2021*
Result of the investees at equity	(10,285)	-
Gains/losses from the sale of fund units and securities	-	(57)
Measurement of investments at fair value	9,077	72,970
Dividends	1,013	475
Result of investments	**(195)**	**73,388**

The "*result of the investees at equity*", negative for € 10,285 thousand, relates to the investments pertaining to the KME SE group (KMD and Magnet).

The item "Measurement of investments at fair value" reflects the effect of the fair value measurement of the controlling interests held by the Parent Company, which applied, until April 22, 2022, the exception to consolidation set forth in paragraph 31 of IFRS 10 as it holds the qualification of "investment entity". Specifically, the amount of the item as of December 31, 2022 relates to the increase in the value of the controlling interest in CULTI Milano (at the stock market price as of April 22, 2022, the date of change of status of the investment entity) compared to December 31, 2021. The amount of the comparison period mainly relates to the valuation of the 99% investment in KME SE, which was held directly by the Parent Company on said date.

For completeness: the measurement of investments at fair value for 2021 refers to € 68,800 thousand to KME SE, € 1,604 thousand to CULTI Milano S.p.A., for€ 1,496 thousand to Intek Investimenti S.p.A., € 769 thousand to Ducati Energia S.p.A. and for € 300 thousand to KME Germany Bet. GmbH.

Dividends mainly relate to the amount collected by the investee Ducati Energia S.p.A.

5.7. Current and deferred taxes

(in € thousand)	*2022*	*2021*
Current taxes	(7,536)	1,893
Deferred taxes	26,846	(438)
Current and deferred taxes	**19,310**	**1,455**

Since 2007 the Company and most of its Italian subsidiaries have elected to apply the Italian domestic tax consolidation regime, determining IRES (Italian corporate income tax) on a taxable base that corresponds to the algebraic sum of the taxable income and losses of each of the participating entities. The financial relationships, responsibilities and mutual obligations are set out in the domestic tax consolidation regime agreement and regulations, according to which taxable losses of the Parent Company and/or subsidiaries can be offset against the tax savings realized by the Parent Company and/or subsidiaries with taxable income.

Reconciliation of theoretical tax charge and the effective charge:

(in € thousand)	*2022*	*2021*
Profit before tax	26,409	63,851
Expected income tax expense/income (tax rate used 24%)	**(6,338)**	**(15,324)**

Reconciliation:		
Effect from different tax rates:	(265)	-
Other effects:		
- (Expenses) non-deductible and tax-exempt income	(1,605)	(1,101)
- Tax losses for which no deferred tax is recognized	21,913	-
- Tax losses used	954	-
- Impairment losses/(reversal of impairment losses) on investments and securities	2,179	17,513
- Prior-period current tax expense	(148)	-
- Other	2,620	367
Income tax recognized in the income statement	**19,310**	**1,455**

6. <u>*Additional information*</u>

6.1. *Financial instruments by category*

Additional information on financial instruments by category of financial assets and liabilities is presented below; please note that the table also shows miscellaneous receivables and other assets as well as miscellaneous payables and other liabilities.

(in € thousand)	*31-Dec-22*	*31-Dec-21*	*Change*
Financial assets at fair value through profit or loss	11,139	*637,620*	(626,481)
Financial assets at *fair value* through other comprehensive income	17,641	-	17,641
Amortized cost	333,435	*40,729*	292,706
Financial instruments - Assets	**362,215**	**678,349**	***(316,134)***
Financial liabilities at fair value through profit or loss	(10,652)	(240)	(10,412)
Financial payables and liabilities at amortized cost	(1,085,316)	(130,292)	(955,024)
Financial instruments - Liabilities	**(1,095,968)**	**(130,532)**	***(965,436)***

6.2. *Financial instruments by financial statement item*

The financial instruments on the basis of the related items in the financial statements as of December 31, 2022 are shown below:

(in € thousand)		*Measurement method*			Fair Value
Values as of December 31, 2022	Carrying amount	*Cost*	*Fair value*	*Outside the scope of IFRS 7*	
Equity-accounted investments	76,654			*76,654*	-
Investments in other companies	17,405		*17,405*		17,405
Other non current assets	3,106	*3,106*	-	-	3,106
Non current financial assets	3,245	*3,009*	*236*	-	3,245
Trade receivables	95,359	*95,359*	-	-	95,359
Current financial assets	110,101	*98,962*	*11,139*	-	110,101
Other receivables and current assets	15,423	*4,155*	-	*11,268*	4,155
Cash and cash equivalents	128,844	*128,844*	-	-	128,844

Financial instruments - Assets	**450,137**	***333,435***	***28,780***	***87,922***	**362,215**
Non current financial payables and liabilities	(240,758)	*(240,758)*	-	-	(240,758)
Bonds	(155,991)	*(155,991)*	-	-	(155,991)
Other non current liabilities	-	-	-	-	-
Current financial payables and liabilities	(109,455)	*(98,803)*	*(10,652)*	-	(109,455)
Trade payables	(540,725)	*(540,725)*	-	-	(540,725)
Other current liabilities	(68,854)	*(49,039)*	-	*(19,815)*	(49,039)
Financial instruments - Liabilities	**(1,115,783)**	***(1,085,316)***	***(10,652)***	***(19,815)***	**(1,095,968)**

(in € thousand)		*Measurement method*			
Values as of December 31, 2021	Carrying amount	*Cost*	*Fair value*	*Outside the scope of IFRS 7*	Fair Value
Investments	637,123	-	*637,123*	-	637,123
Non current financial assets	5	-	*5*	-	5
Other non current assets	3	*3*	-	-	3
Trade receivables	5,039	*5,039*	-	-	5,039
Other receivables and current assets	5,680	*5,037*	-	*643*	5,037
Current financial assets	26,444	*25,952*	*492*	-	26,444
Cash and cash equivalents	4,698	*4,698*	-	-	4,698
Financial instruments - Assets	**678,992**	***40,729***	***637,620***	***643***	**678,349**
Non current financial payables and liabilities	(2,445)	*(2,440)*	*(5)*	-	(2,445)
Bonds	(92,372)	*(92,372)*	-	-	(92,372)
Other non current liabilities	(113)	*(113)*	-	-	(113)
Current financial payables and liabilities	(29,677)	*(29,442)*	*(235)*	-	(29,677)
Trade payables	(2,238)	*(2,238)*	-	-	(2,238)
Other current liabilities	(3,813)	*(3,687)*	-	*(126)*	(3,687)
Financial instruments - Liabilities	**(130,658)**	***(130,292)***	***(240)***	***(126)***	**(130,292)**

The carrying amount of the financial assets and liabilities recognized in these financial statements does not diverge from their fair value.

IFRS 13 establishes a fair value hierarchy that classifies the inputs of the valuation techniques adopted to measure fair value into three levels. The fair value hierarchy assigns the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities (Level 1 data) and the lowest priority to unobservable inputs (Level 3 data):

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices);
- Level 3 - unobservable market inputs for the asset or liability.

For financial instruments outstanding as of December 31, 2022, and for comparative purposes, as of December 31, 2021, the table below shows the fair value hierarchy of financial assets and liabilities that are measured at fair value on a recurring basis (Level 3 includes the carrying amounts of unlisted financial assets carried at cost in the absence of an available fair value).

(in € thousand)	Value of *Fair Value as of 31/12/2022*	*Fair Value Levels*		
		1	*2*	*3*
Investments	17,405	-	-	17,405
Non current financial assets	236	-	236	-
Current financial assets	11,139	-	10,967	172
Total financial assets	**28,780**	**-**	**11,203**	**17,577**
Non current financial payables and liabilities	-	-	-	-
Current financial payables and liabilities	10,652	-	10,652	-
Total financial liabilities	**10,652**	**-**	**10,652**	**-**

(in € thousand)	Value of *Fair Value as of 31/12/2021*	*Fair Value Levels*		
		1	*2*	*3*
Investments	**637,123**	28,904	-	608,219
Non current financial assets	**5**	-	-	5
Current financial assets	**492**	-	-	492
Total financial assets	**637,620**	**28,904**	**-**	**608,716**
Non current financial payables and liabilities	**(5)**	-	-	(5)
Current financial payables and liabilities	**(235)**	-	-	(235)
Total financial liabilities	**(240)**	**-**	**-**	**(240)**

Financial instruments reclassification

With regard to financial assets and liabilities that are measured at fair value on a recurring basis, there were no transfers from Level 3 to other levels and vice versa in 2022 resulting from changes in the significant input variables of observable valuation techniques.

The financial instruments at fair value recognized in the statement of financial position and income statement as of December 31, 2021 (shown in the table below) mainly include participating investments for the valuation of which level 3 inputs were used except for the investment in CULTI Milano S.p.A., which in 2021 was valued on the basis of market prices (Level 1). It should be noted that in the 2022 financial statements, in consideration of the "change of status", the Company proceeded to fully consolidate the main controlling investments (including the investment in CULTI Milano S.p.A., for € 28,904 thousand, which was previously shown at Level 1).

6.3. Notional value of financial instruments and derivatives

(in € thousand)	*CULTI Group*		
Type	IRS	IRS	IRS
Purpose	Hedging	Hedging	Hedging
Original notional value	2,500	800	1,000
Notional value 31/12/2022	2,037	800	1,000
Carrying amount	116	49	71
Expiry year	2026	2026	2029

(in € thousand)	*KME SE Group*	
Type	LME	Firm Commitment
Notional value 31/12/2022	426,186	236,036
Expiry date	2023	2023

6.4. Credit risk exposure

The Group's exposure to credit risks derives mainly arises from its operating business (in particular the Copper sector). Credit risk represents the Group's exposure to potential losses deriving from the non-fulfilment of obligations assumed by both commercial and financial counterparties. This risk mainly derives from economic-financial factors, or from the possibility of a default situation of a counterparty, or from more strictly technical-commercial factors.

The maximum theoretical exposure to credit risk for the Group is represented by the carrying amount of financial assets and receivables. It should be noted that some credit positions are secured (i.e. for trade receivables much of the risk is secured by the factoring).

The concentration of the credit risk in the case of trade receivables is limited by means of the broad-based and heterogeneous customer base.

Allocations to the bad debt provision are made specifically on credit positions that present specific risk elements. On the credit positions that do not have these characteristics, allocations are instead made on the basis of the average collectability estimated on the basis of statistical indicators: the valuation is carried out through customer portfolios on the basis of past experience, shares and/or financial information, as well as credit facilities and write-downs.

With regard to credit risk relating to assets as well as derivative financial instruments, the solvency risk is limited by the fact that the related contracts are only entered into with counterparties and/or credit institutions with a reliable rating.

6.5. Foreign currency exchange risk exposure

As of December 31, 2021, there were no assets and liabilities in foreign currencies. In contrast, due to the increase in the scope of consolidation, in 2022 the Group operated internationally and conducted its transactions in various currencies.

During these transactions, revenues are generated in currencies other than the functional currency of the Parent Company. The Group's policy is to monitor and, if necessary, hedge the aforementioned risks using derivative financial instruments such as cross currency swaps and forward contracts.

Foreign currency exchange risks mainly relate to the dollar:

(in € thousand)	**USD**	**GBP**	**CHF**
Gross exposure	**32,355**	**3,722**	**1,065**
Forward exchange contracts	35,578	3,958	862
Net exposure	**(3,223)**	**(236)**	**203**

A realistically possible strengthening (weakening) of the currencies against the other currencies to December 31 would have influenced the measurement of the financial instruments in foreign currency and essentially the profit or loss.

In the sensitivity analysis for the currencies it was assumed that the rate of the euro against the foreign currency changes by +/-10 % in each case. If the euro had been 10 % stronger or weaker against the foreign currency than the dominating balance sheet date rate, the equity capital and the annual result would have been changed according to the scheme presented in the following table.

In the analysis it is assumed that all other influential factors, in particular interest rates, remain constant.

All relevant foreign currency positions as well as the planned turnover in the following period taken into account in the foreign currency risk are included in the calculation.

(in € thousand)	**USD**	**GBP**	**CHF**
Strengthness 10%	(322)	(24)	20
Weakness 10%	322	24	(20)

6.6. Exposure to the risk of fluctuations in share value

The carrying amount of financial assets is the Group's maximum exposure to this risk.

6.7. Interest rate risk exposure

As of December 31, 2022, the Group's interest-bearing financial assets and liabilities had the following interest rate risk exposure:

(in € million)	***+100 Basis Points***	***- 50 Basis Points***
Effect on the 2022 result	3.3	(1.6)
Effect on 2022 Equity	3.3	(1.6)

At the closing date of these Consolidated Financial Statements, IRS Swaps were in place to hedge the interest rate of the loan pertaining to:

- CULTI Milano S.p.A. relating to the loan taken out in 2020 of € 2.5 million with ICCREA Banca;
- Scent Company S.r.l. entered into in 2020 for € 0.8 million with Intesa Sanpaolo;
- Bakel S.r.l. relating to the loan taken out in 2022 of € 0.8 million with ICCREA Banca.

At the end of 2021, a 50-basis-point increase (decrease) in interest rates at the balance sheet date would have produced an increase (decrease) in equity and result of approximately € 25 thousand.

6.8. Liquidity risk exposure

Liquidity risk can arise from difficulties in raising finance to support operating activities as and when required.

Sufficient supply of liquidity for the Group is guaranteed by the Group cash flow as well as by the banks with the short-term and long-term credit facilities. Fluctuations in the cash flow development can thus be absorbed; the Group's liabilities are mainly distributed as follows:

- derivative financial instruments: time horizon within 3 months;
- financial liabilities other than derivative financial instruments: time horizon from 1 to 5 years.

It should be noted that the two bonds of the Parent Company are outstanding:

- *KME Group 2020/2025*, issued in February 2020, outstanding for a nominal amount of € 92,819 thousand, with a fixed rate of 4.5% (annual coupon);
- *KME Group 2022/2027*, issued in September 2022, outstanding for a nominal amount of € 63,533 thousand with a fixed rate of 5.0% (annual coupon).

6.9. Exposure to commodity price risk

As a result of its business operations, the Group is exposed to commodity price risks. Among other measures, forward contracts are entered into in order to mitigate these risks.

The nominal volume of the derivative financial instruments relating to copper, zinc, nickel, tin and aluminium, which result from the gross total of the nominal amounts of the individual purchasing and sales contracts, amounted to € 662 million as of December 31, 2022.

In accordance with IFRS 7, commodity price risks are shown in the form of a sensitivity analysis, which reflects the effects of a change in the commodity prices on the net income for the period.

In the event of an increase (decrease) of 100 €/ton in the fair value of all relevant commodity prices, as for the reporting period, there would be a change of € 3.6 million (worsening in the event of a price increase/improvement in the event of price decreases).

The calculation includes all derivatives financial instruments for metal at the balance sheet date.

7. Disclosure of payments for services rendered by the Independent Auditors

In accordance with Article 149-duodecies of the "Issuers' Regulation", the following table shows the payments made during the year, net of expenses, VAT and supervisory contributions, for services provided to the Company and its subsidiaries by the Independent Auditors, Deloitte & Touche S.p.A. and other companies belonging to its network:

(in € thousand)	***Total***	*KME Group S.p.A.*	*Subsidiaries*
a) audit fees	**1,403**	212	1,191
b) fees for non-audit services	**137**	137	-
- audit services for certification purposes	**130**	130	-
- other fees	**7**	7	-
c) fees charged by firms in the Independent auditors' network	**-**	-	-
Independent Auditors' fees	**1,540**	**349**	**1,191**

8. Related party disclosures

Related party transactions, including intra-group transactions, were neither atypical nor unusual, in that they were part of the Group companies' day-to-day business and were all conducted on an arm's length basis or according to standard criteria or normal market conditions. In 2022, there were no transactions that could be qualified as of greater importance pursuant to the "Procedure applicable to related party transactions".

9. Commitments and guarantees

As of December 31, 2022, there was a commitment for investments in tangible fixed assets of € 5.4 million.

As of December 31, 2022, a letter of patronage was in place, signed by KME SE for the benefit of the company KME Metale S. Z.o.o.; at present, by virtue of the development of the business and the financial resources of the company, it is unlikely that this letter will be used.

In December 2015, KME Group S.p.A. indicated its willingness to issue a guarantee of up to € 5.0 million for Associazione Dynamo for the granting of a mortgage loan for the restructuring of certain buildings located in Limestre. This mortgage is also secured by other collaterals; it amounts to € 1.5 million as of December 31, 2022.

Annexes to the notes:

Reconciliation of result of the Parent company KME Group S.p.A. and the 2022 consolidated net result:

(in € thousand)	*31 Dec 2022*
Result of the separate financial statements of the Parent Company	**5,174**
Result of consolidated companies	33,129
Cancellation of effect of IFRS 16 on intra-group transactions	18
Cancellation of effect of IFRS 9 on intra-group transactions	46
Reclassification of property to tangible fixed assets	(198)
Other consolidated entries	(2,711)
Group result	**35,458**
of which Net result attributable to third parties	*2*
of which Net result attributable to the shareholders of KME SE	*35,456*

Reconciliation of the equity of the Parent Company KME Group S.p.A. and the attributable consolidated equity for the period ended on December 31, 2022:

(in € thousand)	*31 Dec 2022*
Parent company's equity (including net result)	**494,292**
Recognition of the equity of consolidated shareholdings	766,451
Elimination of carrying amount of fully consolidated investments	(1,085,063)
Difference between the equity of consolidated companies and their carrying amount	365,260
Share of equity of consolidated companies to be attributed to third parties	(3,324)
Consolidation adjustments	(2,625)
Equity of the parent company’s shareholders	**534,991**

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154 BIS, PARAGRAPH 5 OF ITALIAN LEGISLATIVE DECREE 58/98, AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. Having regard to the requirements of Article 154-*bis*, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of February 24, 1998, the undersigned Vincenzo Manes, Chairman, and Giuseppe Mazza, Manager in charge of Financial Reporting of KME Group S.p.A., hereby certify:
   - the adequacy with respect to the characteristics of the Company and
   - the effective application

   of the administrative and accounting procedures for the preparation of the consolidated financial statements during the year 2022.

2. No material findings emerged in this regard.

3. Moreover, they certify that:
   3.1. the consolidated financial statements:
      a) were prepared in accordance with the applicable set of international accounting standards as endorsed by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002;
      b) reflect the balances recorded in the accounting books and records;
      c) give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole;

   3.2. the annual Report includes a reliable analysis of the development and performance of the business and the situation of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Milan, March 28, 2023

The Chairman	The Manager in charge of Financial Reporting
signed Vincenzo Manes	*signed Giuseppe Mazza*

Report of the Board of Statutory Auditors of KME Group S.p.A.
on the consolidated financial statements as of December 31, 2022

The Board of Statutory Auditors presents its report to the consolidated financial statements as of December 31, 2022, as part of its duties to supervise compliance with the law and the articles of incorporation.

Moreover, this report is prepared in the principle that the arguments or documents submitted by the Directors to the Shareholders' Meeting are examined by the Board of Statutory Auditors, which reports to the Shareholders' Meeting itself.

In order to avoid unnecessary duplication, this report is complementary to the report on the separate financial statements as of and for the year ended December 31, 2022, which shall be considered as totally referred to herein.

ACCOUNTING STANDARDS - EFFECTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements as of December 31, 2022 were drafted pursuant to article 154 *ter* of Legislative Decree 58/1998 and conform to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission in accordance with the procedure as set out in article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002 as well as with the provisions issued in implementation of article 9 of Legislative Decree 38/2005.

On April 22, 2022, the Company's Board of Directors resolved to focus its activities on the industrial management of KME SE, making provision for the progressive increase in value of additional assets in the portfolio, in the time and manner required to achieve the best results for the Company. This new strategy meant that the Company was no longer a holding company focused on earning returns from the active management of investments aimed at their best value, but rather a holding company focused on the industrial management of its main investment in KME SE. These amendments meant the Company no longer satisfied the requisites, set forth in paragraphs 27 and 28 of IFRS 10, to qualify as an investment entity, on the basis of which the previous financial statements of the Company and of the Group had been drawn up.

The New Strategy entailed the non-application, in the preparation of the Company's financial statements, of IFRS 10 relating to investment entities with the consequent expansion of the Group's scope of consolidation, which also includes non-instrumental controlling investments, including, in particular, KME SE and any other controlling interests held at the reference dates for which an exception to line-by-line consolidation, such as that provided for by IFRS 5, is not applicable.

It should be noted that, pursuant to paragraph 30 of IFRS 10, the change in status is accounted for prospectively starting from the date on which it occurred. In the event of loss of the qualification as an investment entity, the application of IFRS 3 provides indeed that the date of the change of status is considered as the presumed acquisition date of the investment and that the fair value of the subsidiary at the presumed acquisition date represents the presumed consideration transferred for the purposes of identifying the assets and liabilities on which to allocate the "price" of the acquisition with the determination of the goodwill or profit resulting from a purchase under favourable terms following the presumed acquisition.

This led, therefore, to the change in the measurement criteria of investments (asset item "Investments in equity interests and fund units") for which the fair value is replaced by line-by-line consolidation.

On first application of these provisions, in order to carry out such line-by-line consolidation, the provisions contained in IFRS 3 - Business combinations were applied, in accordance with the above mentioned paragraph B100 of IFRS 10, pursuant to which each business combination must be accounted for by applying the acquisition method, i.e. among other things, (i) by determining the acquisition date, and (ii) recognizing and measuring goodwill or profit deriving from a purchase at favourable prices.

Thus, the Consolidated Financial Statements therefore provide for the line-by-line consolidation of the controlling interests, reflecting the accounting effects of the aforementioned "change of status."

All the companies included in the consolidated financial statements have drawn up their financial statements on the basis of uniform and consistent accounting standards or, in any case, linked to the same.

Consequently, the consolidated financial statements, both at the income statement and cash flow level, include only eight months of activities of the consolidated subsidiaries, as highlighted in the Report on Operations prepared by the administrative body, are not only comparable to a limited extent with the values expressed in the previous financial statements, which as of December 31, 2021 included only the Parent Company, but is also only partially representative of the operating results of the Parent Company and the consolidated subsidiaries, with particular reference to the income statement data, all as better shown in the following tables:

Consolidated net invested capital		
(in € thousand)	*31 Dec 2022*	*31 Dec 2021*
Net non current assets	1,115,405	640,663
Net working capital	(114,067)	4,813
Net deferred tax	(29,274)	541
Provisions	(134,996)	(709)
Net invested capital	**837,068**	**645,308**
Total equity	569,537	551,703
Net financial position	267,531	93,605
Sources of finance	**837,068**	**645,308**

(in € thousand)	*2022*	*2021*
Revenues from sales and services	1,400,584	-
Change in inventories of finished and unfinished products	53,991	-
Own work capitalized	373	-
Other income	10,862	1,007
Purchases and change in raw materials	(1,131,320)	
Personnel cost	(123,405)	(1,867)
Depreciation, amortization and impairments	(43,497)	(658)
Other operating costs	(159,010)	(4,801)
Operating result (EBIT)	**8,578**	**(6,319)**
Financial income	51,583	1,157
Financial expense	(33,557)	(4,375)
Net financial expense	*18,026*	*(3,218)*
Result of investments	(195)	73,388
Profit before tax	**26,409**	**63,851**
Current taxes	(7,536)	1,893
Deferred taxes	26,846	(438)
Total income taxes	**19,310**	**1,455**
Result from continuing operations	**45,719**	**65,306**
Result from discontinued operations	(10,261)	-
Net result for the year	**35,458**	**65,306**
Other comprehensive income:		
Measurement of employee defined benefits	*16,053*	*(12)*
Taxes on other comprehensive income	*(4,120)*	-
Items that will not be reclassified to profit or loss	**11,933**	**(12)**
Foreign currency translation gains/(losses)	*1,506*	-
Net change in cash flow hedge reserve	*694*	-
Taxes on other comprehensive income	*(149)*	-
Items that may be reclassified to profit or loss	**2,051**	**-**
Total other comprehensive income, net of tax effect:	**13,984**	**(12)**
Total OCI for the year	**49,442**	**65,294**
Net result for the year attributable to:		
- non controlling interests	*2*	-
- parent company's shareholders	*35,456*	*65,306*
Net result for the year	**35,458**	**65,306**

Reconciliation between the Consolidated Financial Statements and the Parent Company Financial Statements

The reconciliation of Group equity and result and that of KME Group is the following:

(in € thousand)	*31 Dec 2022*
Result of the separate financial statements of the Parent Company	**5,174**
Result of consolidated companies	33,129
Cancellation of effect of IFRS 16 on intra-group transactions	18
Cancellation of effect of IFRS 9 on intra-group transactions	46
Reclassification of property to tangible fixed assets	(198)
Other consolidated entries	(2,711)
Group result	**35,458**
of which Net result attributable to third parties	*2*
of which Net result attributable to the shareholders of KME SE	*35,456*

(in € thousand)	*31 Dec 2022*
Parent company's equity (including net result)	**494,292**
Recognition of the equity of consolidated shareholdings	766,451
Elimination of carrying amount of fully consolidated investments	(1,085,063)
Difference between the equity of consolidated companies and their carrying amount	365,260
Share of equity of consolidated companies to be attributed to third parties	(3,324)
Consolidation adjustments	(2,625)
Equity of the parent company's shareholders	**534,991**

The emergence of goodwill deriving from the so-called PPA (Purchase Price Allocation) is of particular relevance, as shown in the following table:

(in € thousand)	*IFRS 10 - Changes in consolidated group*		*Increases*	*Allowance for impairment*	***Total 31/12/22***
	Original	*IFRS 3 final combination*			
Copper Cash Generating Unit	99,684	242,856	-	-	**342,540**
Perfumes and Cosmetics Cash Generating Unit	3,398	24,128	250	-	**27,776**
Goodwill after PPA	**103,082**	**266,984**	**250**	**-**	**370,316**

SCOPE OF CONSOLIDATION

The consolidated financial statements as of December 31, 2022 reflect the consolidation of the Parent Company and the companies directly and indirectly controlled, jointly controlled or associates.

The assets and liabilities which are expected to be disposed of are reclassified under the assets and liabilities items intended to highlight these cases and its economic effects are shown in a separate item in the income statement.

Subsidiaries are all those companies over which the Parent Company simultaneously has:

- power, i.e. it holds legitimate rights that bestow upon it the actual capacity to manage relevant activities, i.e. activities that have a significant effect on returns;
- exposure or rights to variable returns arising from the relationship with the company itself;
- capacity to exercise its power.

Insignificant subsidiaries and companies whose consolidation does not produce substantial effects are excluded from the scope of consolidation. However, the effects of these exclusions are immaterial and therefore their omission does not influence the economic decisions of the users of these consolidated financial statements.

As of December 31, 2021, and over the course of the 2021 financial year there were no instrumental subsidiaries included in the Company's scope of consolidation, as on March 31, 2021 the liquidation of the subsidiary I2 Capital Partners SGR S.p.A., fully consolidated up to the financial statements as of December 31, 2020, had been completed. Given the irrelevance of the income statement flows of this subsidiary, it was deconsolidated on January 1, 2021. As of December 31, 2021, the scope of consolidation therefore exclusively included the Parent Company.

On April 30, 2022, the accounting date closest to that of the "change of status" was identified as the date of first consolidation of the subsidiaries represented below, to which the information reported in the financial statements refers where "Changes in consolidated group" is shown.

With respect to the date of first consolidation occurred on April 30, 2022 (date of "change of status"), the following changes in the scope of consolidation occurred during the year:

- the companies Ilnor S.r.l. (entity merged into KME Italy S.p.A. on July 1, 2022 with retroactive tax and economic effect as of January 1, 2022) and KME Chile Limitada (entity dissolved on July 15, 2022) left the scope of consolidation;
- the companies KME Netherlands B.V., KME Service Centre Italy S.p.A., KME Service Centre UK Ltd. and KME Service Centre Slovakia s.r.o. entered the scope of consolidation on July 29, 2022 due to the execution of the agreement signed with Aurubis, finalised after the approval by the competent authorities for the control of mergers in May 2022.

For details of the companies subject to line-by-line consolidation, please refer to the notes to the consolidated financial statements.

ACCOUNTING DOCUMENTS WHICH COMPRISE THE CONSOLIDATED FINANCIAL STATEMENTS

On March 28, 2023, the Chairman of the Company, Vincenzo Manes, and the Manager in charge of Financial Reporting, Giuseppe Mazza, provided the Directors and Statutory Auditors with a written statement, also for the purposes of Article 154 bis of Legislative Decree 58/1998, certifying the adequacy, for a company of this type, of the management and accounting policies for the preparation of separate and consolidated financial statements for 2022, and their compliance with international financial reporting standards.

On April 7, 2023, the Independent Auditors Deloitte & Touche S.p.A. issued an unreserved opinion on the consolidated financial statements.

Exhaustive information has been provided in the Report on the Consolidated financial statements (accounting standards, notes and annexes).

Information on key indicators of both financial and non-financial performance can be extracted from the tables contained in the notes to the consolidated financial statements.

Information on the most important events, related party and/or intra-group transactions in 2022, reports and representations made by shareholders or third parties and, in general, oversight and controls, is contained in the Board of Statutory Auditors' Report on the separate financial statements for the year 2022.

In conclusion, the Board of Statutory Auditors is of the opinion that the consolidated financial statements and accompanying documents adequately reflect the Group's financial position and results of operations for the year 2022.

The consolidated financial statements and accompanying documents have only been provided to Shareholders for information purposes and do not require approval.

* * *

Milan, April 7, 2023

The Board of Statutory Auditors (with unanimous consent)
The Chairman of the Board of Statutory Auditors
(*signed Silvano Crescini*)

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

To the Shareholders of
KME Group S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of KME Group S.p.A. and its subsidiaries (already Intek Group the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated income statement and statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of KME Group S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The KME SE Group and the Culti Group Purchase Price Allocation process	
Description of the key audit matter	The explanatory notes to the consolidated financial statements, in paragraph "4.3 intangible assets", show that during the financial year ended 31 December 2022, the Directors carried out, with the assistance of an expert, the purchase price allocation process (PPA) of the KME SE Group and the Culti Group as part of their first consolidation. In this first consolidation, which was necessary in relation to the failure of the Company's qualification as an investment entity due to the change in the management strategy, the following were considered: • the date of the change of status (i.e. the date on which the Company ended being an investment entity: 22 April 22 2022) as the date of acquisition of the investments; • the fair value of the investments at the acquisition date as the purchase price of the subsidiaries for the purpose of determining goodwill. The Directors provided an illustration of the evaluation methodology followed, the assumptions adopted and the results of the above mentioned acquisition price allocation process for which they had recourse to an independent external consultant. In view of the significance of the accounting impacts of the process of allocating the acquisition price of the KME SE Group and the Culti Group, in the context of the first consolidation of the same by the Company, and the relevance of the assessments made for these purposes by the Directors, characterized by elements of subjectivity and estimation, it is considered that the above process and the related information contained in the explanatory notes represent a key aspect of the audit of the consolidated financial statements of the Group at 31 December 2022.
Audit procedures performed	The main procedures carried out as part of our audit work, also with the support of evaluation specialists belonging to the Deloitte network have included the following: • discussion with the Company's management, with documentary analysis, of the accounting impacts resulting from the failure to qualify KME Group S.p.A. as an investment entity; • reasonableness analysis of the criteria used in the process of allocating the acquisition price for the identification of assets, liabilities, contingent liabilities and for the estimation of the relative fair values and for the consequent determination of the value of goodwill, also through examination of the reports of the external consultant which the Company has used to support the assessments of the Directors; • verification of the related accounting statements. Finally, we have examined the completeness and compliance of the information provided in the consolidated financial statements with the applicable accounting standards.

Impairment test of the goodwill of the CGU Copper	
Description of the key audit matter	The goodwill recognised in the consolidated financial statements as at 31 December 2022 allocated to the Copper CGU as a result of the acquisition price allocation process carried out as part of the first-time consolidation of the KME SE Group, which operates in the copper sector, amounted to Euro 343 million. As indicated in the explanatory notes, in paragraph “4.3 intangible assets”, the Group’s Directors carried out the impairment test of the abovementioned goodwill by determining the recoverable value of the Copper CGU determined according to the value in use methodology. The main assumptions adopted by the Directors of KME Group S.p.A. to estimate the value in use concern: • the forecast of Copper CGU’s expected cash flows for the explicit period based on the Business Plan 2023 - 2027 of KME SE prepared and approved by the relevant administrative bodies; • the projections of these cash flows for the determination of the terminal value; • the appropriate discount rate (WACC) and long-term growth rate (g-rate). The explanatory notes to the consolidated financial statements show that the impairment test performed not revealed any impairment of the Copper CGU, with the result that the carrying value of goodwill remained unchanged. Considering the subjectivity of the estimate of expected cash flows and the key variables of the valuation model adopted by the Company, as well as the releavance of the value of goodwill recognised in the first consolidation, the related impairment test is considered to be a key aspect of the audit of the Group's consolidated financial statements as at 31 December 2022.
Audit procedures performed	The main procedures carried out as part of our audit work, also with the support of evaluation specialists belonging to the Deloitte network have included the following: • examination of the methods used by the Company to determine the value in use of the Copper CGU, analysing the model adopted by the Directors to develop the impairment test. In this context, we held meetings and discussions with management; • understanding and recognition of the relevant controls put in place by the Company on the impairment test process; • verification of the reasonableness of the main assumptions adopted for the formulation of cash flow forecasts, and the determination of the discount rate and long-term growth rate used in the valuation model; • verification of the mathematical accuracy of the model used to determine the value in use.

Deloitte.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of KME Group S.p.A. has appointed us on 31 May 2016 as auditors of the Company for the years from 31 December 2016 to 31 December 2024.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion on the compliance with the provisions of the Delegated Regulation (EU) 2019/815

The Directors of KME Group S.p.A. are responsible for the application of the provisions of the European Commission Delegated Regulation (EU) 2019/815 with regard to the regulatory technical standards on the specification of the single electronic reporting format (ESEF - European Single Electronic Format) (hereinafter referred to as the "Delegated Regulation") to the consolidated financial statements as at 31 December 2022, to be included in the annual financial report.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) no. 700B in order to express an opinion on the compliance of the consolidated financial statements with the provisions of the Delegated Regulation.

In our opinion, the consolidated financial statements as at 31 December 2022 have been prepared in XHTML format and have been marked up, in all material respects, in accordance with the provisions of the Delegated Regulation.

Due to certain technical limitations, some information contained in the explanatory notes to the consolidated financial statements, when extracted from XHTML format in an XBRL instance, may not be reproduced in the same way as the corresponding information displayed in the consolidated financial statements in XHTML format.

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of KME Group S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of KME Group as at 31 December 2022, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, no. 4 of Legislative Decree 58/98, with the consolidated financial statements of KME Group as at 31 December 2022 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of KME Group as at 31 December 2022 and are prepared in accordance with the law.

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

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of KME Group S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Giuseppe Avolio
Partner

Milan, Italy
7 April 2023

As disclosed by the Directors on page 1, the accompanying consolidated financial statements of KME Group S.p.A. constitute a non-official version which has not been prepared in accordance with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.