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

Italferr S.p.A.

2019 ANNUAL REPORT

Italferr S.p.A.

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

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

Registered office: Via Vito Giuseppe Galati 71, 00155 Rome

Tax code and company registration no.: 06770620588

REA no.: 541241

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MISSION

Italferr is the Ferrovie dello Stato Italiane group's engineering company with over 30 years of consolidated experience in large infrastructural projects for traditional and high-speed railways, underground and road transport and the design of ports and stations in Italy and abroad.

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

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

COMPANY OFFICERS

Board of directors:

Chairman	Mario Serio
Chief Executive Officer	Aldo Isi
Director	Sabrina De Filippis [1]
Director	Claudia Eccher
Director	Sergio Salvio

Board of statutory auditors:

Chairwoman	Roberta De Felice
Standing statutory auditor	Fabio Mastrangelo
Standing statutory auditor	Davide Rossetti
Alternate statutory auditor	Luca Provaroni
Alternate statutory auditor	Federica Silvestri

INDEPENDENT AUDITORS KPMG S.p.A.

[1] In office until 10 December 2019

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CHAIRMAN'S LETTER

Dear Shareholder,

Italferr's activities in 2019 have generated results that far surpass expectations, with an extremely positive overall performance in each business segment.
As a whole, revenue of the year grew by 9% and the operating profit more than doubled that projected in the budget.
A breakdown by business segment highlights the captive business segment's excellent performance, as design activities on several large works projects for RFI in Lombardy and Sicily sped up and work site operations at the Genoa hub progressed significantly. At the same time, the non-captive market generated revenue in line with forecasts but improved its overall profit margin.

On the non-captive market, Italferr continued to diversify its activities in the metro, road and tram sectors not only abroad but also domestically.

In addition to the growth in revenue, the company achieved substantial savings in operating costs, which were 5% lower than forecast. A key factor in this improvement was the reduction in personnel expense by 10% compared to budget thanks to the subsidised social security contributions that were granted again in 2019 for new hires, which, along with outgoing employees who had reached retirement age, reduced the average per capita cost, and the fact that the workforce grew less than planned.

Although Italferr rolled out a formidable hiring campaign (255 new employees and the hire of 71 employees who were temporary staff) to implement the planned growth in its workforce to cope with the rise in demand for services, this growth was offset by outgoing employees in the year, who limited the net increase to 126 resources (equal to an average of 76 FTEs).

Partly mitigating the impact of outgoing employees, the productivity of operating personnel assigned to the company's contracts exceeded forecasts. Their deep commitment enabled the company to meet all deadlines for priority activities.

During the year, Italferr reorganised its organisation abroad by closing five branches in order to cut overheads.

In addition to the strong performance, financial debt improved on budget figures, with total debt down by 18% compared to the budget and the ratio of debt to own funds exceeding expectations.

Moreover, 2019 also saw the non-recurring demerger of the company's ICT business unit to the related company FSTechnology.
This non-recurring transaction is part of the FS Italiane group's plan to gain a leadership role in the transport and infrastructure industry's technology community by developing a centralised digital innovation hub, the integration of operating processes and maintenance by gradually in-housing the skills and know-how needed to drive digitalisation.
The demerger, which took effect on 1 August, entailed the transfer of all the company's proprietary software and hardware to FSTechnology, along with 28 specialised resources.

This transfer of ownership over assets used for technological innovation has not prevented Italferr from continuing its digital transformation process, which is geared towards the increasingly integrated, efficient and automated design and construction of works, especially using building information modelling (BIM). In addition to its other applications, Italferr is also using BIM experimentally for the real-time management of contracted works.

Indeed, the company received international accolades for its use and development of BIM at The Year in Infrastructure 2019 Conference_Advancing BIM through Digital Twins in its projects for the bridge over the Polcevera River and the Naples-Bari railway section.
This award confirms that the company's digital transformation process, centred around BIM, has propelled Italferr international leadership in the field of infrastructure.

Italferr promotes innovation as a crucial factor for sustainability, and this was no exception in 2019 as it, in keeping with previous years, developed methods and protocols to incorporate sustainable choices in infrastructure projects and tangibly implement sustainability policies in the construction of works. This has enabled the company to renew all its quality, environmental and safety certification, which reflect Italferr's commitment to its management system, protecting the environment, reducing pollution and occupational health and safety.

We are particularly proud of the profit for the year, international recognition and our ability to keep up with the times in the field of innovation and sustainability, as we consider them not only milestones achieved in 2019 but also confirmation that the company has the means to continue competing successfully on the market and achieving future goals.

Directors' report

KEY AND GLOSSARY

NON-GAAP PERFORMANCE INDICATORS

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

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

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

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

Other assets, net: these reflect the sum of assets and advances from the Ministry of the Economy and Finance for grants, deferred tax assets, other current and non-current assets and other current and non-current liabilities.

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

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

Other provisions: these are the sum of post-employment benefits and other employee benefits, the provision for litigation with employees and third parties, the provisions for other sundry risks and deferred tax liabilities.

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

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

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

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

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

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

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

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

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

Glossary

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

Computerised interlocking system: electronic management system for control and signalling and station safety.

HS/HC: High speed/High capacity. This is the system of lines and means specifically developed for high speed transport and the consequent high capacity transport.

BIM (Building Information Modelling): this is a parametric model containing all the information about the entire life cycle of a project, from its design and construction to its demolition and disposal. This model is also a method of optimising planning, carrying out and managing construction using software. BIM gathers, combines and digitally links all the data for a construction.

RFI Government Programme Contract (RFI GPC): this is a long-term contract between the Ministry of Infrastructure and Transport ("MIT") and Rete Ferroviaria Italiana S.p.A. ("RFI S.p.A.") defining investment projects and other terms and conditions, such as network maintenance, to encourage the development of the railway system.

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

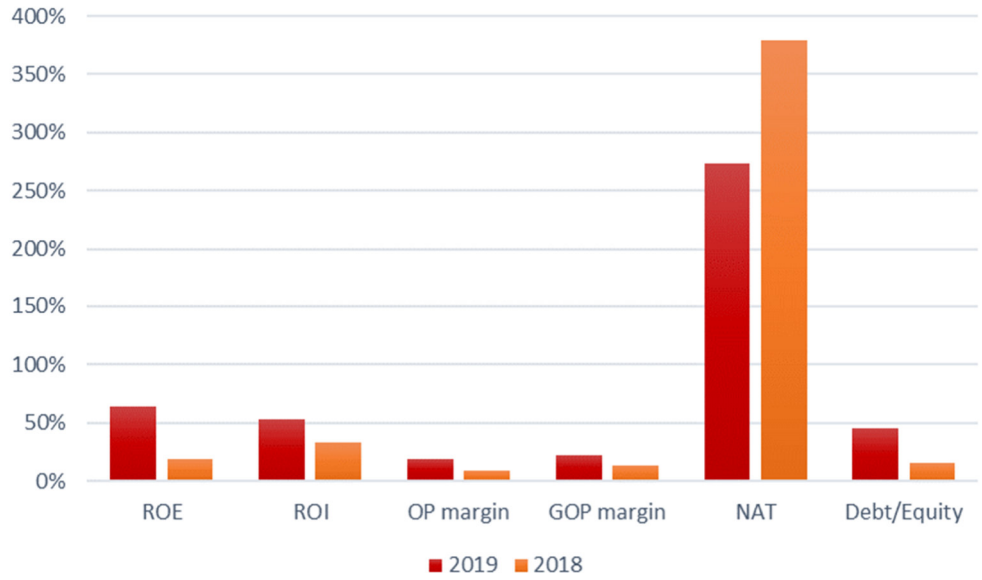
LCA (Life Cycle Assessment): this is a structured, standardised international method that quantifies an asset's or a service's potential impacts on the environment and human health over its entire life cycle, based on the consumption of resources and emissions.

Hub: this is a conventional term to define a railway area that generally coincides with major metropolitan destinations presenting highly dense and relatively complex medium-size to large stations and other railway systems that are interconnected by various lines, creating a continuation of the main routes into the same hub and other lines, built to manage various traffic flows and alternative routes, or service loops.

TSCS: train speed control system. This is the first functional stage of the ATC system for constant control over train speed, making it possible to activate the emergency brakes if the train exceeds the maximum speed allowed on the line or if it proceeds past stop signals.

2019 HIGHLIGHTS

The profit for 2019 is extremely positive, as demonstrated by the main performance indicators shown below.



		2019	2018
ROE	P/E*	64%	19%
ROI	OP/ANIC*	53%	33%
ROS (OPERATING PROFIT MARGIN)	OP/R	19%	9%
GROSS OPERATING PROFIT/REVENUE (GOPM)	GOP/R	22%	13%
NET ASSET TURNOVER (NAT)	R/ANIC*	2.73	3.79
DEBT/EQUITY RATIO	NFD/E	0.45	0.16

KEY

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

GOP: Gross operating profit

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

E: Equity

R: Revenue

P: Profit for the year

OP: Operating profit

NFD: Net financial debt

MAIN EVENTS OF THE YEAR

INTERNATIONALISATION INITIATIVES

February

- On 6 February 2019, the joint venture between Italferr and Lombardi SA was awarded the contract for the executive design and works management of the "Himalaya tunnel", i.e., the first 12 km (almost entirely comprised of tunnel) of the Rishikesh - Karnaprayag railway line in Uttarakhand. The executive design and the works management stages will last nine and 60 months, respectively.
  The entire line, stretching for 125 km, serves tourists and pilgrims and runs next to the Ganges River at the foot of the Himalayas.

March

- On 5 March 2019, the Indian railway transport ministry's government body assigned the Italferr - Lombardi joint venture lot 2 of the Rishikesh - Karanprayag railway line as well. The contract consists of the executive design and works management for a section that is roughly 16 km long. The executive stage is expected to take over five years.

  In Istanbul on 12 March, the metro/Intercity line between Istanbul Halkalı (Europe) and Gebze (Asia) was inaugurated before the President of Turkey. It is one of the longest in the world (design by Marmaray CR3).

  The design was particularly complex and Italferr, in a joint venture with SWS Turkey, was the independent design verification engineer (IDVE), checking that the plans met the contractual requirements and project specifications in order to issue the design verification certificate.

April

- On 10 April 2019, Italferr, representing the joint venture with its subsidiary IES d.o.o. and Proger S.p.A, signed a contract with RZD International Belgrade Branch.
  The contract is the first of the larger master agreement and covers verification of the design of plant to rebuild and modernise the Belgrade - Novi Sad railway line.

May

- On 8 May 2019, the first section of the Doha metro from Al Qassar to Al Wakra was opened to the public. It consists of 13 out of 18 stations on the red line. As part of the joint venture with COWI and Oneworks, which designed the metro line, Italferr developed the detailed design for the MEP systems and part of the civil works and architectural finishing, entirely using BIM.
  The project consolidates and confirms Italferr's technical expertise and will constitute another prestigious reference in complex public transport projects.

- On 30 May, Italferr acquired a new contract in India with the National Capital Region Transport Corporation (NCRTC). The first of seven lots, this contract provides for general consultancy and project management services. It is the largest project of the Delhi region, a pioneer with its Regional Rapid Transit Plan, which will equip the city with a railway service boasting speeds of up to 180km/h to connect a region with 48 million residents.

July

- On 10 July 2019, in San Diego, California, during the 2019 ESRI user conference (ESRI is a global leader in GIS technology), Italferr was awarded for Special Achievement in GIS, an award that recognises excellence in the use of GIS technology. Italferr was selected out of over 100,000 companies around the world for its BIM and GIS integration project, which began being developed in September 2017.

August

- On 28 August 2019, Italferr, representing the joint venture between Erregi, Pini Swiss Engineers and SDA, was awarded the definitive design and safety coordination contract for the new "SIR 3" urban tram system in Padua, the Veneto city's second tram line extending for around 5.4 km. With this prestigious project, Italferr will gain experience in the Italian urban/metro rail sector, which it considers strategic for the diversification of the types of transport it covers.

October

- On 24 October 2019, Italferr won first prize for its design of the new Naples - Bari line, which it prepared using BIM. It was named the winner at The Year in Infrastructure 2019 Conference - Advancing BIM through Digital Twins ("Rail and Transit" category) in Singapore for having used digital BIM in the design of a railway line for the first time. The international event saw the participation of more than 440 engineering firms from over 60 countries around the world and the project was selected among 54 contest finalists, with more than 570 submissions.
  During the same event, Italferr also received a special project resilience award for its model of the new Polcevera River viaduct, which it developed using BIM.

December

- With the Salini Impregilo - Lane Construction Corporation consortium, Italferr defined the terms of the contract for technical assistance and preliminary design of the new HS Houston - Dallas line. The consortium venture signed a contract with Texas Central for the design and construction of 390 km of HS line that will connect the two Texan cities in 90 minutes.

OTHER EVENTS

February

- On 3 February 2019, the new northward/eastward track on the Adriatica line and the related technological installations (IS and TSCS) were laid as part of the contract for repairs under the Bari Centrale general zoning plan.
- On 10 February, work on the functional phase 2 of the Lunghezza - Guidonia section began. The work is part of the laying of double tracks on the entire section and entailed the construction of a roughly 1-km track next to the existing track which was used while the existing track was reconstructed.

March

- On 15 March 2019, the company submitted to RFI the technical/economic feasibility analysis for the restoration of the Bivi di Mestre line.
- On 29 March, the company submitted to RFI the definitive design for the Frasso - Vitulano section (lots 2 and 3) on the HS/HC Naples - Bari line.

April

- On 15 April 2019, Italferr delivered the executive design for the new bridge over the Polcevera River to PerGenova, the company that submitted it to the extraordinary commissioner for approval. The project must be approved and validated, and Italferr will be involved in the construction given its role as designer, but having delivered the executive design according to schedule is certainly the key passage in the process, which will reflect well on the company's work.
- On 19 April, RFI submitted to the customer RFI the definitive design for the laying of quadruple tracks on the Fortezza - Ponte Gardena section (Lot 1) of the Fortezza - Verona line. In particular, the delivered project entailed updating the definitive design for the integrated contract following the implementation of the instructions given by the Interministerial Committee for Economic Planning (CIPE) and the requests to update the base data received from the customer.
- On 23 April, Italferr submitted to RFI the technical/economic feasibility analysis for the upgrade of the Mestre-Ronchi Sud section for higher speeds as part of the Venice - Trieste line upgrade.

May

- During the extraordinary shareholder's meeting of 29 May 2019, the company's shareholder approved the demerger of the ICT business unit to the related company FSTechnology. The transaction became effective on 1 August and is part of the FS Italiane group's plan to centralise ICT government to gain national and international leadership in digital innovation.

June

- The final phase of work on the Calabrian network route 2 variation began on 24 June 2019. The work is an intermediate step in the upgrading of the Metaponto - Sibari - Bivio S. Antonello line for higher speeds.

July

- On 7 July 2019, two tracks were opened at the Lentini station on the Catania - Siracusa line. In December, the station was fully opened in its new layout. Also on 7 July 2019, as part of the laying of double tracks on the Palermo - Catania line along the Bicocca - Catenanuova section, five temporary deviations were rolled out. This is an important intermediate step in the laying of double tracks on the Bicocca - Catenanuova section.
- On 26 July, the works were delivered for the construction of the Lambrate station passenger building, in preparation for the installation of the new computerised interlocking system, which will make it possible to upgrade the station's technology. On the same date, the company submitted to RFI the definitive design for the laying of double tracks on the Pescara - Chieti as part of the project to upgrade the Rome - Pescara line for higher speeds.

August

- On 31 August 2019, the macro-phase 2 of the Bivio Fegino - Terzo Valico dei Giovi connection began. The Bivio Fegino area is one of the connection points between the existing line (dei Giovi branch) and the new HS/HC Terzo Valico dei Giovi section.

September

- On 30 September 2019, work began on the quadruple track laying project sub-lot on the Fortezza - Verona line.

October

- Work on lot 2 of the Rocca Imperiale station (phase 2) on the Calabrian network began on 27 October 2019 as an intermediate step in the upgrade of the Metaponto - Sibari - Bivio S. Antonello line for higher speeds.

December

- On 9 December 2019, tracks 1 and 3 in the Lentini station began operating as part of the intermediate stage in the upgrading of the Catania - Siracusa line for higher speeds.
- On 20 December, the Crenna road tunnel was opened to traffic, creating a new road serving the areas involved in the Terzo Valico dei Giovi works.
- On 23 December, the double railway connection between the Genova Voltri freight hub and the port terminal began operating, which was an important step in the functional phase of the strengthening of the Genoa hub.

HUMAN RESOURCES

Composition and changes

In 2019, the company ramped up efforts to increase the number and quality of its workers in the pursuit of the objectives in its business plan and in response to market challenges.

The company's total workforce increased by 126, the net effect of 255 new employees, the hiring of 71 temporary staff and 129 outgoing employees (28 of whom were transferred as part of the partial demerger of the ICT business unit to the related company FSTechnology).

The changes in the workforce are illustrated in the table.

	31.12.2018	Incoming	Hiring of temporary staff	Outgoing	ICT business unit demerger	Total changes	31.12.2019
Employees	1,380	219	71	(94)	(28)	168	1,548
Seconded	(2)					0	(2)
Temporary staff	79	36	(71)	(7)		(42)	37
Total	**1,457**	**255**	**0**	**(101)**	**(28)**	**126**	**1,583**

Employees may be analysed as follows at the reporting date:

	31.12.2019
Managers	65
Junior managers	596
White collars	887
Seconded	(2)
Temporary staff	37
Total	**1,583**

The average number of employees in 2019 was 1,506, as illustrated in the table below.

Average number of employees	2019	2018
Employees	1,475	1,338
Seconded	(2)	(3)
Temporary staff	34	95
Total	**1,506**	**1,430**

The need to align the workforce considering expanding production requirements entailed substantial, ongoing efforts in the recruitment and selection of new employees on the market. Temporary staff also constitute a key pool for permanent hires, as well as a way to gain a flexible workforce.

Overall, the company incurred recruitment costs of €722 thousand in the year.

In 2019, Italferr made organisational changes mainly to improve processes for the achievement of business goals and to more rapidly and effectively meet customers' needs. This included customising its offer.

The main change referred to the creation of a focal point for the development of BIM across all company departments, as an interface for group companies.

Training

During the year, training involved all the company's resources, for a total of approximately 40,000 hours and a cost of €472 thousand, partly offset by vocational training funding (€167 thousand) and the sale of courses to Italian and international customers (€24 thousand).

Training included:

- technical and job-specific training: refresher courses were organised for safety coordinators during execution/design of works, in addition to workshop on the construction platform applications, courses on works accounting, works management and ERTMS design. Classroom training days were also offered for specialised/technical training on BIM, involving Technical department resources and construction resources who are directly involved in the pilot projects selected for the experimental use of BIM for works management;
- learn-the-job training: projects for new hires with on-the-job training, workshops and technical tours;

- language courses: 170 language courses were offered in the year (English, French, Spanish and German) for resources who work with international customers, suppliers, institutions and bodies.

  In addition, 45 company resources attended the "WTC 2019 Tunnels and Underground Cities" convention, an international event on underground installations held in Naples in May 2019. Moreover, Italferr ensured that its engineers, architects and geologists could acquire the training credits required by their professional associations and in order to maintain international PMP-PMI® and Incose CSEP certifications.

The extensive technical skills and expertise that Italferr has gained in the field of training enabled it to provide training to Italian and international customers. Specifically, Italferr organised courses for RFI and ACEA and the following training for international customers:

- a two-week study tour in Italy for management of the Uzbek customer JSC Uzbekistan Temir Yollary, consisting of classroom sessions and technical tours;
- classroom lessons in Rabat and Tunis on topics related to routing and railway technologies. The courses were held in partnership with the Arab Maghreb Union;
- participation in the fifth annual World Congress on Rail Training 2019, in collaboration with the UIC (Union Internationale des Chemins de Fer), as part of the Talent and Expertise Development Platform.

Relationships with trade unions

In 2019, employee participation in strikes remained the same as in the previous year and therefore, is negligible in general.

Three meetings were held with the Italian trade unions in the course of which the company illustrated the hiring plan, the company's planned activities for 2019 and their performance in the year.

Furthermore, local meetings in Genoa, Bologna, Naples and Rome were held to provide updates on the performance of activities at the relevant facilities.

Safety training required by Legislative decree no. 81/08 - 2019

Italferr carried out a number of activities in 2019 for compliance with legislation and following the organisational changes of the year.

A total of 4,000 hours of safety training was provided to 693 resources, mainly using in-house instructors. The courses covered compulsory training and:

- training for new employees on at-risk office activities;
- training/refresher courses for first aid and fire prevention staff and workers' safety representatives;
- periodic updates for the prevention and protection officers and staff;
- training on the use of personal protective equipment (PPE), such as face masks, harnesses and self-rescue devices to use when entering tunnels;
- training on railway risks, noise risk, radiological risk and asbestos.

In addition to training events, a second Safety Day was held to share and spread a culture of safety, with a company contest for projects on safety and well-being, awards for safety officers and the testimonial of an international figure.

Annual evacuation drills and routine meetings for all company offices continued, the internal documentation was updated with the first review of Italferr's general risk assessment document and the new group business travel insurance policy took effect for personnel travelling abroad. At the same time, for health monitoring, 741 employees received medical check-ups (in accordance with article 41.2 of Legislative decree no. 1/2008).

Italferr was able to maintain its BS OHSAS 18001 certification in 2019 as well, thanks to these activities and initiatives.

THE ENVIRONMENT AND INNOVATION

Sustainability

In line with the FS Italiane group's strategies, for several years, the company has been pursuing methods and protocols to promote sustainable choices in its infrastructural projects and has completed an important process to identify effective solutions to incorporate sustainability in the construction of infrastructure and to promote innovative strategies in the construction market.

New sustainability methods and protocols are operational tools that promote a revolutionary concept of engineering that can transform areas, driving environmental sustainability, economic compatibility and social innovation, outlining a new and more acceptable role for infrastructure as an active player in the modelling of landscape, the redevelopment of land and the creation of economic and social dynamics. With this in mind, Italferr selected Envision™, the first rating system for the design and construction of sustainable infrastructure created by the Institute for Sustainable Infrastructure (ISI), as an objective tool to measure the sustainability of infrastructure projects. In 2019, ISI certified the sustainability of a railway project for which Italferr used the Envision protocol.

Furthermore, aware of the decisive role that engineering can play in contributing to the reduction of CO_2 emissions, several years ago, Italferr voluntarily chose the UNI ISO 14064 standard to develop and apply a specific methodology for calculating the carbon footprint of projects, certified by an independent body. This methodology has become an effective operating tool guiding designers to improve design solutions and to spur contractors, during the construction phase, to purchase construction materials from suppliers that formally declare the impacts of their product on the environment via internationally recognised methodologies (environmental labels compliant with ISO series 14020).

During the year, the company applied the methodology for calculating the carbon footprint of projects in the executive design of the Polcevera viaduct. This decision stemmed from the desire to emphasise not only the project's engineering and architectural significance, but its social importance as well, as it will reconnect and regenerate a severely compromised area.

The application of this methodology to the Polcevera project showed how the production of concrete and steel was responsible for nearly all CO_2 emissions generated in the construction stage of the project, confirming the priority action that this methodology indicated when previously applied on railway projects and which has led Italferr to include specific clauses in its contracts that give construction companies an incentive to procure lower-impact materials.

Moreover, as this was the first time the methodology was applied to non-railway infrastructure, it was particularly useful in verifying whether it can be applied to other fields as well. The ultimate aim is to develop and enhance the tool so that, in

the medium-term, the impacts of the various FS Italiane group companies' activities can be measured for inclusion in the definition of the group-wide strategy of achieving carbon neutrality by 2050 (the sustainability goal approved by all group companies' boards of directors and the central tenet of the European Green Deal development policies proposed by President Von der Leyen).

As it integrates sustainability in the design of infrastructure, Italferr believes one organic tool to plan, manage and make the most of dialogue with the local area throughout the various life cycles of the infrastructure is a strategic asset.

Therefore, in 2019, the company drafted Operating guidelines for the management and development of stakeholder engagement, establishing a mapping, selection and quantification process for the environmental, economic and social performance indicators that are most material in infrastructure projects. The objective is to achieve sustainability by using innovative social web monitoring solutions that foster effective dialogue with the local area and communities affected by the infrastructure, keep stakeholders informed and build widespread consensus.

The recent European Green Deal, the "manifesto" of the new Europe envisioned by the European Commission's President, Ursula Von der Leyen, explicitly requires an innovation strategy that is rooted in the sustainable development goals (SDGs) and harnesses sustainability and innovation as the most efficient way to achieve its ambitious objectives.

Italferr endorses a sustainability approach that encompasses innovation as a crucial lever to implement a new business model capable of generating value by exploiting the opportunities of digital transformation geared towards designing and building works in an increasingly integrated, efficient and automated manner.

Environmental management system

The company's focus on the environment, the essence of its sustainable approach to design, means having the contractors adopt specific UNI EN ISO 14001 environmental management systems in the construction of works.
Italferr requires the companies responsible for construction to plan and implement, for the entire duration of the works, an environmental management system for on-site activities that provides the company and environmental protection authorities with objective evidence of the environmental controls performed in the course of the world by the contractors' qualified personnel.
Specifically, the environmental management system requires that, prior to the start of the works, contractors carry out an initial environmental analysis of site activities in the preparation of the environmental plan for the preparation of the work site. The analysis is meant to identify the significant environmental aspects to be managed during construction and to define the operating procedures for the site's correct environmental monitoring, in accordance with the applicable regulatory requirements.
Italferr constantly checks the actual implementation of environmental management systems by contractors through regular on-site monitoring.
The environmental management system is part of the integrated quality, environment, health and safety management system (ISO 9001, 14001 and BS OHSAS 18001), which was certified by the SGS certification body again in 2019.
Italferr has applied its experience in environmental protection at work sites and in the application of management systems outside the group as well. In 2019, it provided specific training to other infrastructure design and management companies.

In December 2019, an independent body (RINA) confirmed the ISO 14064.1 certification of the company's methodology for calculating its carbon footprint.

Innovation

In the field of innovation, Italferr promotes a structured, systematic process to implement synergies that speed up the development and integration of innovative ideas within the company.

In 2019, it pursued solid research and development projects and open innovation and digitalisation initiatives as the drivers behind a new engineering model capable of taking on ambitious global challenges.

In particular, with respect to open innovation, Italferr participated in the Open Italy programme sponsored by the parent's Innovation department with a co-innovation project (DEoS – Digital Eyes on Site) to develop a system that acquires, processes and certifies data and images from different sources to support design and works management with a view to increasingly digitalised company processes.

Furthermore, it continued scouting Italian and international funding for innovation in fields of interest to Italferr.

The "Smart Factory" tender sponsored by the Ministry of Economic Development provided the company with an opportunity to submit the "BIM for Rail LCA – Development of integrated LCA-BIM solutions to design sustainable railway infrastructure" project. Italferr aims to develop a new solution that delivers information and data based on life-cycle assessment analyses of railway infrastructure, integrated and interoperable with the BIM system for sustainability assessments in the various stages of the design, execution and management of the works.

Italferr submitted a pilot project named SELWA (Sustainable integrated mEthodology for resiLient railWay Infrastructure) for the LIFE Programme, the EU's funding instrument for the environment and climate action. SELWA is a solution to identify and test innovative and sustainable mitigation actions in areas affected by hydrogeological instability.

Italferr submitted the ADOBS "Innovative applications of drones for ensuring safety in transport" project as part of the EU programme Horizon 2020. Specifically, Italferr's project focuses on the use of drones-in-a-box to monitor and maintain transport infrastructure remotely.

Digital transformation activities continued during the year to design and build works in an increasingly integrated, efficient and automated manner. In particular, Italferr is involved in the design and development of 4.0 infrastructure using BIM to manage tenders in real-time on dedicated digital platforms, develop big data analytics tools and test object detection, artificial intelligence and machine learning technologies.

CUSTOMERS

Italferr's business is mainly focused on the production of engineering services (design, works management, expropriation activities, environmental surveys, etc.) connected with the performance of construction contracts awarded by the FS group companies to third party construction companies. Within the group, Italferr's main customer is RFI.

To align performance with the group's expectations and customers in general, in the previous year, Italferr began the digitalisation of its processes, innovating the main design and works management activities.

Applying BIM to the design of railway infrastructure and its interfacing with a system that inserts projects in a geospatial context improve the company's performance and make projects more efficient, cutting costs for the owner of the infrastructure.
The prestigious Italian and international accolades that the company received in the year reflect its commitment to tangible, high-quality results.

Italferr has continued to digitalise works management using various apps already on its construction platform and is studying developments to standardise, manage and monitor contract information and site performance and provide real-time inputs for communication with stakeholders. This should also reduce disputes arising from the expropriation procedures and on area delivery times.

MACROECONOMIC CONTEXT

During the year, the global macroeconomic scenario showed signs of weakness for both developed countries, with more export-oriented economies, and emerging countries.

Characterised by weak growth due to the slump in manufacturing and investments, economic activity was also influenced by the rising uncertainty of a highly unstable geopolitical scenario, considering the trade war between the US and China, which only tapered near the end of the year when the US and China resumed talks, and developments in connection with conflicts in various parts of the world.
According to Prometeia, the growth in global trade volumes stopped at 0.3%, partly due to the crisis in the automotive industry, facing more stringent emissions standards in Europe and China.
Economic growth, i.e., GDP, only rose 3.0%, the lowest rate recorded in the past ten years.
Growth estimates for 2020 are 3.4%. At the same time, inflation in the main developed economies was weak because of the fall in energy prices, among other things. In particular, the price of oil is down on the previous year, steadily at under USD65 per barrel (Brent), the effect of weak international demand and larger US supply, which offset lower production in other countries.

International trade data	2018	2019
	(% change on previous year)	
GDP		
World	**3.7**	**3**
Advanced countries	**2.2**	**1.7**
US	2.9	2.3
Japan	0.8	0.9
Eurozone	1.9	1.2
Emerging countries	**4.6**	**3.8**
China	6.6	6.2
India	7.3	5.6
Latin America	0.9	0.7
Oil (USD per barrel)	71.6	63.7
International trade	3.4	0.3

Source: Prometeia, December 2019

The **US** economy, with its protectionist economic policy, slowed slightly compared to 2018, with GDP growth of +2.3% in 2019. This growth was due to consumption, in turn driven by low unemployment and higher wages, whereas investments were down, the effects of which can be seen in the difficulties with which manufacturing and industry are grappling, as a result of the trade war.

After a promising start to the year, economic growth in **Japan** slowed, recording overall GDP growth of 0.9% in the year, a rate negatively affected by the uncertainty of the US trade policy and by tax restrictions, increased consumption taxes in October and a decrease in exports due to political tensions with South Korea.

In **China**, the economic slowdown continued in 2019, with GDP growth of 6.2%, compared to 6.6% in 2018, its weakest performance in the past 27 years due to a variety of factors. In particular, the rising tension in the trade war led the US to impose heavy tariffs on certain products imported from China, while the global economic slowdown and geopolitical tension, as noted above, played their part. Consumption on the domestic market was relatively weak in 2019, with 3% inflation, partly mitigated by the government authorities with fiscal and financial stimulus measures.

	2018	2019	2018	2019
	GDP		Inflation	
	(% change on previous year)		*(% change on previous year)*	
Eurozone	**1.9**	**1.2**	**1.8**	**1.2**
Germany	1.5	0.5	1.9	1.4
France	1.7	1.3	2.1	1.3
Italy	0.7	0.2	1.1	0.6
Spain	2.4	2	1.7	0.7

Source: Prometeia, December 2019

The economic growth rate slowed in the **Eurozone** as well, with average GDP growth of 1.2% on the previous year.

The complex situation abroad, with trade wars, growing geopolitical tensions and the outcome of Brexit, was offset by the favourable domestic contribution of household consumption, sustained by a solid labour market, which recorded the lowest unemployment rate of the past ten years: 7.5%. GDP grew in all major Eurozone countries, albeit with differences: the highest growth was seen in Spain (+2.0%) and France (+1.3%), thanks to domestic demand and investments, despite the negative impact of foreign demand; and was lower in Italy (+0.2%) and Germany (+0.5%), where the contraction in manufacturing and exports was more significant. Eurozone inflation was relatively low throughout the year, stabilising at 1.2%.

GDP and main components	2019			
	Q1	Q2	Q3	Q4
	percentage change on previous quarter			
GDP	0.1	0.1	0.1	0
Domestic demand	0.5	0.1	0.5	0.1
Spending by households and private not-for-profits	0	0.1	0.4	0.1
Public administration spending	0.4	0.1	0.1	0.1
Gross fixed investments	2.4	0.2	0.2	0.1
- construction	3	1.3	0.2	0.3
- other durable goods	1.9	1.4	0.5	0.4
Imports of goods and services	2.4	1.1	1.3	0.6
Exports of goods and services	0.4	0.9	0.1	0.2

Source: Prometeia, December 2019

MARKET PERFORMANCE

Italy

According to Cresme's XXVII Outlook and Forecast Report, the construction market, which began recovering a couple of years ago, surged in 2019, despite deep polarisation and varying trends in the different areas and types of projects.

More specifically, after a long season of progressive, widespread growth, demand for design services slowed when measured as the number of tenders but continued to rise in terms of value.

Among other things, demand for design services comprising the use of digital modelling methods and tools for building and infrastructure (i.e., BIM), grew by around 20% in 2019 compared to the previous year, both in the number of tenders and the average amount of the contracts awarded by tender.

Europe

The European construction market expanded by 2.3% in 2019, fuelled by Eastern Europe, which fell short of the double-digit growth rates seen in previous years but still showed +7.3%, a rate far higher than Western Europe's rate of +2%.

Hungary, Ireland and Poland were the countries that most contributed to this growth, with +13.3%, +10.5% and +8%, respectively.

North America

The US economy continued to grow and confirmed its strong prospects of expansion.
Economic growth, like forecasts of greater investments in infrastructure, will drive growth in construction in forthcoming years.
The Trump administration has named infrastructure as a priority and announced energy and transport projects worth over one billion dollars by 2027.
Alongside the increase in investments, the administration will reform the building permit application process so that it is simpler, making the construction of roads, bridges and energy infrastructure faster and easier.
Canada is one of the world's five lowest-risk countries. This enviable status and the funds earmarked in the long-term investment plan for five sectors, including transport infrastructure, sustainability and public transport, make the country highly attractive. The investment plan covers spending of CAD180 billion over 12 years.

Latin America

The economic slump in Latin-American countries helps us understand the political tension in place.

Considering this scenario, in the 2019 World Economic Outlook that the International Monetary Fund (IMF) published in October, economic growth forecasts for all of Latin America were revised downwards to +0.2%. Venezuela and Argentina are the countries most responsible for the slowdown, although the political situation in Chile and Brazil raises concerns.

Middle East

Escalating tension between Saudi Arabia and Iran highlights the vulnerability of oil supply and heightened political risk in the Middle East. This has led the countries in the area to begin transitioning their economies away from oil to diversify with

infrastructure. However, the extension of OPEC production cuts is limiting the short-term growth prospects of an economy that still significantly relies on oil.
The largest Middle Eastern country, Saudi Arabia, has shown a modest economy recovery after the 2017 recession. Nevertheless, annual projected growth rates for 2019 and 2020 are far lower than the average rate of 4% seen in the ten years from 2006 to 2016.
Large-scale investments in infrastructure as part of the economic diversification plan named "Saudi Vision 2030" are expected to support economic activity in the next few years and higher public spending should bolster non-oil businesses.

Central Asia

Central Asian countries are experiencing a period of transition and change. Kazakhstan is the most important country in this region, considering its size and economic development, followed by Uzbekistan, which has rolled out a series of measures to relaunch the economy by attracting foreign investments.
In general, Central Asia is an important market as it is under the joint influence of three major powers (China, the US and Russia) and infrastructure is central to all the players' strategies.

India

The Indian economy presents tremendous market potential, perhaps the most in the world, given all the space it offers for new players, despite its significant complexities.
India's economic growth rate is still among the highest in the world, although it dipped in 2019 compared to previous years. To contain the effects of this dip and to drive a recovery, the Indian Finance Minister recently announced a series of economic stimulus measures to attract foreign investments and drive consumption and demand.
The Reserve Bank of India has approved the transfer of substantial funds to public banks through a USD9.8 recapitalisation, which is a big step in this direction.
More available liquidity and support for investments should effectively boost the economic scenario which, although not fully favourable, led the World Bank to rank the country 63rd in its "Ease of Doing Business 2020" survey, 67 slots higher than its position in the past three years.

Far East

The ten member countries of ASEAN, the association of Southeast Asian countries (the Philippines, Indonesia, Malaysia, Singapore, Thailand, Brunei, Myanmar, Cambodia, Laos and Vietnam) have maintained the same strategy of using investments to drive economic development in the region.

In addition to funding allocated by the member countries, the region also attracts foreign investment. In particular, China has co-financed projects to implement the Belt and Road Initiative (BRI, the new Silk Road). In addition, the EU has expressed its willingness to set up a fund for EU investors interested in transport, energy and digital infrastructure projects in the area to cover the risk of uncovered costs.

Africa

The African continent showed very different trends in the Mediterranean and in the sub-Saharan areas.

North Africa is not technically a "region", but rather a mosaic of areas under dispute between Europe, the US, China, Russia and the Gulf countries, plagued by conflicts flaring up within the various countries that comprise it.
Consequently, given the present economic situation, it is impossible make short-term predictions about the recovery of investments that most African countries on the Mediterranean Sea began years ago.

Sub-Saharan Africa includes some of the world's fastest growing economies. According to IMF estimates, the continent's average growth rate will be 3.2% for 2019, rising to 3.6% in 2020. Despite the slowdown compared to the previous decade and considering the wide gaps between the different regions and economic systems, the Sub-Saharan macro-region continues to boast positive trends.

Performance by business segment

Intragroup

In Italy, Italferr mainly operates with the FS group companies. In 2019, it signed contracts with them for a total of €201.14 million, including €187.31 million with RFI (roughly 93% of total contracts).

The value of new contracts with RFI acquired in the year is significant, mainly due to the projects for the completion of the definitive design of the last lots of the Messina - Catania - Palermo route, consisting of the amounts funded by the "Get Italy Moving" decree (roughly €70 million), the definitive design of the Bergamo - Orio al Serio airport link (€3.4 million), the definitive design of double tracks on the San Pietro - Bergamo - Montello railway line (€3 million) and the Val di Riga variation, which will create a fast, direct connection between Pusteria and Bolzano for the 2026 Winter Olympics.
In addition to design contracts, in 2019, Italferr acquired new works management contracts from RFI, which mainly consist of technological updates to the network and ERTMS. With respect to the latter, RFI has launched a long-term development plan in which Italferr will be involved in the design and construction of the signalling system for network interoperability over the next 15 years.

The value of new contracts with Trenitalia also grew in 2019 compared to previous years. Italferr was assigned projects mainly consisting of the modernisation/improvement of rolling stock maintenance plant in Rome and Savona (approximately €5 million).

Lastly, during the year, Italferr acquired contracts to update the Ferrovie del Sud Est network to FS Italiane standards, which will entail strengthening the Puglia-based company's railway infrastructure and equipping it with new technology.

The table below shows the value of contracts acquired in 2019, broken down by customer and service type:

millions of Euros

Customer	Service type			Total	% of total
	Consultancy	Design	Works management		
RFI	23.36	111.48	52.47	187.31	93%
Trenitalia	1.38	5.43	0.74	7.55	4%
Ferrovie Sud Est	0.06	4.10		4.16	2%
Sistemi Urbani	0.40	1.70		2.10	1%
Ferservizi	0.02			0.02	0%
Total	**25.22**	**122.71**	**53.21**	**201.14**	**100%**

At year end, the contract backlog amounts to €848.6 million.
Furthermore, at year end, negotiations are underway for additional projects worth a total of €157.18 million.
The contractual documentation for these projects has already been sent to the customers.

The bids that Italferr has submitted, which should lead to the execution of contracts in 2020, are detailed by customer and service type in the table below.

millions of Euros

Customer	Service type			Total
	Consultancy	Design	Works management	
RFI	17.42	20.5	116.3	154.22
Trenitalia		0.08		0.08
Ferrovie Sud Est	2.35	0.53		2.88
Total	**19.77**	**21.11**	**116.3**	**157.18**

The market

In Italy, on the non-captive market, Italferr continued diversifying its business, increasingly focusing on urban and metro public transport projects and transnational projects. During the year, the company was assigned several prestigious urban public transport projects, including the Genoa metro.

In the first few months of 2019, it signed a contract with PerGenova for the executive design to rebuild the viaduct over the Polcevera River, which the extraordinary commissioner had already assigned to Italferr in late 2018.

Italferr also signed a contract with Salini Impregilo for support services in the design of the HS Houston - Dallas line in Texas, in connection with Salini Impregilo's and its US subsidiary Lane's commitment with the customer Texas Central.
Not only did the work on the contract in Texas open up growth prospects for 2020, but it also gave Italferr the chance to enter a major market, both in terms of the size of investments and available funding.

In Latin America, Italferr continued operations on its projects in Peru, while completing the Sarmiento main designer project in Argentina in advance, considering the country's political/economic situation.

The Asian market, particularly India, has remained especially attractive for the company, which expanded its commercial penetration capacity in Italy with operating offices in New Delhi and Mumbai, offering services, mainly PMC and general consultancy, in both the railway and urban transport sectors.
Commercial activities in the Indian sub-continent led to two important contracts for Italferr, worth approximately €19 million.

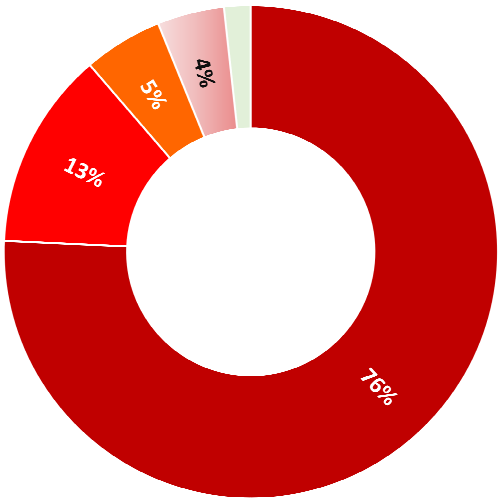
Overall, in 2019, Italferr acquired new contracts worth €31.6 million. They are broken down by geographical segment in the table below, with indication of absolute values and percentages.

New contracts

	millions of Euros
New contracts in 2019	**2019**
Italy	4.1
Europe	0.6
India	23.9
Middle East	1.4
Turkey and Central Asia	1.6
Total	**31.6**

India
Italy
Turkey and Central Asia
Middle East
Europe

% breakdown of new contracts by geographical segment



As the above data show, Italferr's efforts on the non-captive market centred around consolidating its business in high-potential countries, carefully selecting the tenders in which to participate and curtailing commercial initiatives with high-risk customers or countries.

In general, the company's commercial strategy entailed making the most of the growth in the number of tenders for projects financed by international funds, although contract awarding times were longer, which limited the positive effects of the rise in tenders on contract acquisitions in the year.

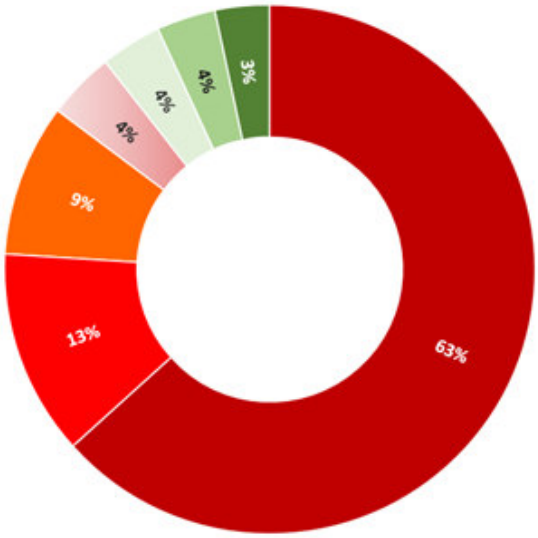
At the end of 2019, the non-group contract backlog amounted to €45.9 million. These contracts are broken down by geographical segment in the table below.

New contracts

millions of Euros

Backlog at 31.12.2019	valori
Italy	4.3
Europe	5.8
India	29.1
Latin America	1.5
Middle East	1.6
Turkey and Central Asia	1.7
Africa	1.9
Total	**45.9**

% breakdown of new contracts by geographical segment



India
Europe
Italy
Africa
Middle East
Turkey and Central Asia
Latin America

Performance of main competitors

The global engineering service market consists of large multi-national players.

However, in 2019, Italferr joined the top 150 global design firms, the international ranking by Engineering News Record (ENR).

This ranking includes the world's leading engineering companies by global turnover, and Italferr was fifth best new entry, placing 130th overall.

ENR also published the "Top 225" for 2019, in which it analyses 225 international design firms based on their foreign projects considering their country of origin. Italferr was ranked 147th in this list, rising 24 slots from the position it held in 2018.

The following table is an extract of the ENR's 2019 Top 225 considering a sample of companies that are most comparable to Italferr based on their engineering market segment.

Ranking in 2019	Ranking in 2018	Group/Company	Country
2	4	WSP	Canada
4	2	AECOM	US
5	5	ARCADIS	The Netherlands
7	9	WorleyParsons	Australia
10	6	FLUOR	US
13	14	ARUP	UK
17	13	MOTT MACDONALD	UK
23	21	egis	France
29	24	COWI	Denmark
34	36	SYSTRA	France
38	47	PARSONS	US
56	69	ayesa	Spain
95	101	setec	France
147	171	ITALFERR GRUPPO FERROVIE DELLO STATO ITALIANE	Italy

FINANCIAL POSITION AND PERFORMANCE

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

Reclassified income statement

The company's profit for 2019 was particularly positive, with growth in revenue (+14% on the previous year and +8% over budget figures), while costs were substantially in line with 2018.

The gross operating profit nearly doubled on the previous year and the operating profit nearly tripled, while the profit for the year rose by €21,582 thousand, as shown in the table below.

€'000

Income statement	2019	2018	Changes	
			Amount	%
Revenue from engineering services	225,990	199,075	26,915	14%
Other income	632	234	398	170%
Revenue	**226,623**	**199,309**	**27,314**	**14%**
Operating costs	**(177,745)**	**(174,002)**	**(3,743)**	**2%**
Personnel expense	(105,493)	(104,743)	(750)	1%
Consumables	(315)	(336)	21	-6%
Services	(61,746)	(57,278)	(4,468)	8%
Use of third-party assets	(3,260)	(5,869)	2,609	-44%
Other operating costs	(6,935)	(5,825)	(1,110)	19%
Capitalised costs	3	49	(46)	-93%
Gross operating profit	**48,877**	**25,307**	**23,570**	**93%**
Amortisation and depreciation	(5,888)	(4,460)	(1,428)	32%
Net impairment (losses)/gains	601	(3,733)	4,334	-116%
Operating profit	**43,591**	**17,114**	**26,477**	**155%**
Net financial expense	352	(75)	427	>200%
Income taxes	(13,548)	(8,226)	(5,322)	65%
Profit for the year	**30,395**	**8,813**	**21,582**	**<200%**

The improvement in the profitability of contracts in both business sectors was the determinant factor in the excellent performance of the year.

In the captive business segment, profitability rose mainly due to the definitive designs of lots 3, 4a and 4b of the Messina - Catania - Palermo route, which were particularly important given the considerably high value of the works involved. In addition, not only did RFI pay Italferr additional fees for extra work requested and to cover additional expenses on contracts that were already in the backlog at the end of 2018, but is also adjusted the fees for certain contracts to the final value of the works, which proved to be higher than the amounts estimated when the contracts were signed.

Profitability in the non-captive market improved mainly due to the Saudi Landbridge contract, which the Saudi Railways (SAR) had awarded Italferr, as certain contractual conditions, which would have resulted in Italferr performing services in addition to design, did not arise.

In addition to this improvement in profit margins, production volumes grew by 6% on 2018.
The combined effect of the increases in profit margins and production volumes brought revenue from engineering services to almost €226 million in 2019. This revenue was mainly generated in Italy on intragroup contracts, as shown in the table below.

€'000

	2019		2018		changes	
	Amount	% of total	Amount	% of total	Amount	% of total
RFI	187,776	83%	165,731	83%	22,045	0%
Other group companies	10,135	4%	9,152	5%	983	0%
Other Italian customers	7,135	3%	531	0%	6,604	3%
Total Italy	**205,046**	**91%**	**175,414**	**88%**	**29,632**	**3%**
EU countries	3,691	2%	2,250	1%	1,441	1%
Non-EU countries	17,253	8%	21,411	11%	(4,158)	-3%
Total abroad	**20,944**	**9%**	**23,661**	**12%**	**(2,717)**	**-3%**
Revenue from engineering services	**225,990**	**100%**	**199,075**	**100%**	**26,915**	**0%**

With respect to operating costs, although the company's workforce grew by 76 average FTEs, personnel expense remained substantially in line with the previous year and was 10% lower than the budget.

The company was able to keep personnel expenses substantially the same as in 2018 because the high rate of turnover in the year and the subsidised social security contributions that were granted for new hires kept the per capita cost down, while it remained under budget because outgoing employees who had reached retirement age, were transferred to other companies or were included in the demerger of the ICT business unit partly offset the increase in the workforce as a result of the many new hires, meaning the workforce grew less than planned.
Personnel expense and the average number of employees (FTEs) are broken down and compared to the previous year in the following tables:

€'000

Personnel expense	2019	2018	Changes	
			Amount	%
Employees	101,467	97,520	3,947	4%
Temporary staff	1,926	5,347	(3,421)	-64%
Other costs	2,100	1,876	224	12%
Total	**105,493**	**104,743**	**750**	**1%**

€'000

Average FTE	2019	2018	Changes	
Employees	1465	1325	140	11%
Temporary staff	34	97	(63)	-65%
Total	**1,498**	**1,422**	**76**	**5%**

Other costs, net show a total increase of €2,993 thousand on 2018.

Services were the caption that contributed the most to this increase (+€4,468 thousand on 2018), due to both the €2,836 thousand rise in costs of engineering services driven by larger production volumes and the €3,081 thousand jump in costs for IT services following the partial demerger of the ICT business unit to FSTechnology.
With respect to the latter, in the demerger, Italferr transferred ownership of its assets, its resources and contracts with providers for the management of the company's hardware and software and IT solutions. Therefore, as from the date that

the demerger took effect, FSTechnology guaranteed the same service level with its own personnel and planned investments through procurement and development which it carried out.
For these services, FSTechnology received an annual consideration which covers the amortisation/depreciation of the transferred assets and that of new investments.

Other costs also increased on 2018, mainly due to the accrual to the provision for losses on contracts based on expected future losses on non-performing contracts.

Partly offsetting the increased described above, the use of third-party assets decreased, substantially due to the initial application of IFRS 16 using the modified retrospective approach, i.e., without restating comparative figures. This generated a decrease in costs by €2,654 thousand in 2019.

Amortisation and depreciation only rose by one-third on the previous year since the increase due to the application of IFRS 16 (€2,504 thousand) was offset by the lack of ICT investments as a result of the demerger.

The considerable accrual to the loss allowance in 2018 and the trend in collections in 2019 led to net impairment gains of €601 thousand and generated another improvement in operating profit between the two years considered.

The trend in the tax burden was also favourable in 2019, rising 65% on 2018 despite YoY growth of 155% in the operating profit. This was mainly due to foreign taxes, which benefited from the completion of activities in Argentina and the lower amounts in the tax returns filed in certain foreign countries (e.g., Egypt and Saudi Arabia) than those that had originally been accrued.

Reclassified statement of financial position

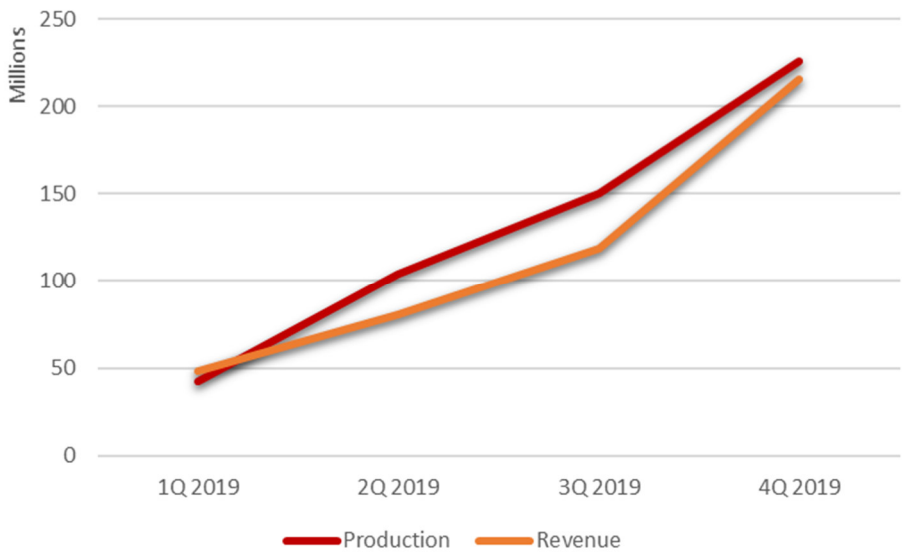
Financial debt was affected by the increase in net invested capital, partly offset by higher debt than at 31 December 2018, as shown in the table below.

To present consistent figures for the purposes of a comparative analysis, statement of financial position balances as at 31 December 2019 are stated on a pro forma basis, excluding the effects of IFRS 16 as Italferr applied the new standard without restating comparative figures.

(€'000)

	31.12.2019	IFRS 16	31.12.2019 pro forma	31.12.2018	Changes	
					Amount	%
Net operating working capital	126,066		126,066	71,987	54,079	75%
Other assets, net	(27,655)		(27,655)	(22,118)	(5,537)	25%
Working capital	**98,411**	**0**	**98,411**	**49,869**	**48,542**	**97%**
Non-current assets	29,827	7,379	22,448	29,384	(6,936)	-24%
Equity investments	21,547		21,547	21,174	373	2%
Net non-current assets	**51,374**	**7,379**	**43,994**	**50,558**	**(6,564)**	**-13%**
Post-employment benefits	(22,835)		(22,835)	(25,681)	2,846	-11%
Other provisions	(21,572)		(21,572)	(14,399)	(7,173)	50%
Post-employment benefits and other provisions	**(44,407)**	**0**	**(44,407)**	**(40,080)**	**(4,327)**	**11%**
NET INVESTED CAPITAL	**105,377**	**7,379**	**97,998**	**60,347**	**37,651**	**62%**
Net current financial (position) debt	15,399	2,313	13,086	(5,080)	18,166	>200%
Net non-current financial debt	17,077	5,078	12,000	13,499	(1,499)	-11%
Net financial debt	**32,477**	**7,391**	**25,086**	**8,419**	**16,667**	**198%**
Equity	**72,900**	**(12)**	**72,912**	**51,928**	**20,984**	**40%**
TOTAL COVERAGE	**105,377**	**7,379**	**97,998**	**60,347**	**37,651**	**62%**

The increase in working capital was completely due to performance of revenue with customers which, due to contractual due dates, peaked in the fourth quarter of the year. The concentration of revenue near the end of the year generated an increase in trade receivables not yet due, pushing cash flows back to 2020, as shown in the chart below.



Partially offsetting the growth in net invested capital, investments decreased, almost entirely due to the transfer of ICT assets to FSTechnology in the demerger (€6,291 thousand) and the increase in accruals for expected future losses on non-performing contracts (€3,346 thousand) and probable litigation risks (€1,851 thousand).

RISK FACTORS

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

  Although Italferr mainly operates in Italy, some of its activities take it to many countries in the world so it can take advantage of international business opportunities. This exposes the company to the local political, economic and social risks (i.e., "country risk"). On one hand, these risks could result in suspending operations abroad, with repercussions on the profitability of contracts and the recoverability of credit, while on the other, it could expose employees to the risk of war/unrest or health risks.

  With respect to the former, the company vets countries when deciding whether to participate in tenders ("go/no go") and when deciding whether to bid ("bid/no bid") and includes political and social factors in its business opportunity assessment.
  The company also protects itself against this risk by diversifying its portfolio and monitoring gradual developments. Moreover, the services that Italferr offers do not entail fixed investments in the countries where its customers are based: even when local legislation requires a permanent establishment, the company's policy is to use flexible legal/tax structures that enable it to meet local requirements in the short term and up to the date of contract completion.
  To protect its employees' health and safety, some years ago, Italferr signed an agreement with International SOS, a global leader in assistance and healthcare emergency services and security services to better protect employees assigned to international projects in places with complex geopolitical situations.

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

millions of Euros

	Order backlog at 31.12.2019	%	SACE index
Italy	806.9	95.1%	41/100
Europe	5.8	0.7%	27/100
Africa	1.9	0.2%	60/100
Latin America	1.5	0.2%	32/100
India	29.1	3.4%	41/100
Middle East	1.6	0.2%	22/100
Turkey and Central Asia	1.7	0.2%	60/100
Total	**848.6**	**100.0%**	**31/100**

- **Strategic risks:** these are the risks arising from management's business and organisational decisions which could compromise company performance. They include risks related to the business model or organisational model that Italferr uses to operate, inefficient management of the order backlog or risks relating to key counterparties.

Italferr considers risk an essential element in the preliminary assessment of its strategies and conducts preventive risk/opportunity assessments when adopting a business model or organisational model or deciding whether to go ahead with a non-recurring transaction or begin a new partnership.

- **Operational risks:** Italferr is exposed to operational risks due to the type of business that it conducts. Its main operational risks relate to design and work management/high surveillance activities (risks of accidents, fire, damage to third parties during the performance of work, environmental risks, etc.) To contain these risks, the company follows procedures and provides information and training in accordance with its legal obligations and to maintain specific certification. In addition, it has adopted a risk management model and begun, with the parent's coordination, the development of an enterprise risk management (ERM) model to efficiently identify, assess and manage risks, based on existing Italian and international best practices.

- **Legal and compliance risks:** these risks relate to the handling of legal matters or compliance with laws and regulations, including any risks arising from potential fraud, whether within the company or outside of it, and, in general, risks arising from non-compliance with the procedures and policies that the company has established to govern the work of its structures.

  To minimise these risks, first and foremost, Italferr's Supervisory Body continuously updates the organisational, management and control model pursuant to Legislative decree no. 231/2001. The last update was in 2019 following the:

  - need to reflect the most recent legislative developments within the scope of Legislative decree no. 231/2001;
  - maintain consistency with changes in the company's organisational framework and the growing development of its international commercial activities in recent years.

  The main updates to the model consisted of adding certain crimes not previously covered but potentially applicable to the company (e.g., cyber crimes and bribery, especially in light of the recent legislative amendments, as well as influence peddling), improving the definition of the scope of potentially at-risk activities, with specific reference to foreign activities, and introducing regulations to protect whistleblowers pursuant to article 6 of Legislation decree no. 231/2001.

  Alongside the risk assessment, in order to update the organisational, management and control model, Italferr had anti-bribery and corruption risks mapped in 2019.

  The risk assessment entailed the assessment of 146 risks associated with 19 processes. In all cases, the average score of all assessments for each risk was low.

INVESTMENTS

In 2019, Italferr invested a total of €2,757 thousand, including €1,841 thousand to purchase software licences and to upgrade and develop specialised software which was almost entirely (€1,837 thousand) transferred to FSTechnology following the demerger of the ICT business unit.

The other €916 thousand in investments referred to technical equipment for personnel (€464 thousand for complete workstations, PCs, monitors, notebooks, etc.), specialised hardware (€118 thousand), environmental monitoring devices, video screens and GPS equipment (€196 thousand), costs to design the new façade of the headquarters (€98 thousand) and office furniture (€40 thousand).

€140 thousand of the hardware purchased in the year was transferred to FSTechnology along with the ICT business unit.

RESEARCH AND DEVELOPMENT

Italferr conducts development activities for the digitalisation of transport infrastructure design and construction processes. In this respect, it has focused on adjusting the BIM for railway projects (definition of typological standards, creation of a "library" for users, application of BIM to experimental and change management projects) and using it and other high-tech systems in the construction sector to manage the entire contracting process.

As these activities do not generate original methodologies and software, but merely entail the adjustment of existing solutions to sectors other than those for which they were originally developed, the company does not capitalise the development expenditure it incurs for these activities, which totalled €449 thousand in 2019, equal to the value of 11,317 hours of work by specialised personnel.

PERFORMANCE OF SUBSIDIARIES

CREW – Cremonesi Workshop S.r.l.

Italferr acquired 80% of this company at the end of November 2018. It is active in the architecture and integrated engineering sectors, with services that range from the planning, management and coordination of all aspects of a project, from beginning to end: from the preliminary concept and the choice of the most suitable technology to the supervision of the work, right through the final testing.

In 2019, the first full year of ownership, CREW acquired new contracts worth €6 million, in addition to accepted bids totalling €3 million for which contracts are being drawn up.

The most significant contract acquired in the year is for the redevelopment and expansion of the Riga Central railway station in Latvia, one of the most important parts of the "Rail Baltica" project financed by the EU to build a new railway line connecting Poland to Finland.

These acquisitions brought the order backlog at year end to €18 million.

Performance in the first half of 2019 was affected by lower than expected design activities and order acquisitions because of the slowdown in customers' investments. However, it turned around in the second half of the year, both in terms of operations and the effectiveness of commercial actions.

Nevertheless, this improvement in the second half of the year did not completely cancel out the delay in the first six months, and the company ended the year with a profit of €690 thousand (-39% on 2018, as shown in the table below, which also contains CREW's financial statements highlights as at and for the year ended 31 December 2019).

(€'000)

(€'000)	2019	2018	Changes	%
Revenue from engineering services	6,275	6,877	(602)	-9%
Other revenue	10	2,330	(2,320)	-100%
Operating costs	(5,105)	(4,307)	(798)	19%
Gross operating profit	1,180	4,900	(3,720)	-76%
Operating profit	986	4,719	(3,733)	-79%
Profit for the year	**690**	**1,133**	**(443)**	**-39%**
Invested capital	4,161	257	3,904	<200%
Net financial debt	73	2,005	(1,932)	-96%
Average number of employees (FTEs)	49	7	42	<200%

The statement of financial position figures as at 31 December 2019, shown in the table above, are pro forma, i.e., excluding the effects of IFRS 16 (the application of which generated a €555 thousand increase in properties and financial liabilities) for comparability with the prior year figures.

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

Abroad, Italferr operates in Serbia via its local wholly-owned subsidiary Infrastructure Engineering Services ("I.E.S.").

Since it was established at the end of 2018, I.E.S. has collaborate directly with Italferr, carrying out structural, architectural and operating support activities on its parent's behalf.

In 2019, the company began diversifying its portfolio, performing projects for Serbian customers (4% of revenue in the year) and the related company CREW (2% of revenue of the year).

The growth in the contract portfolio only marginally offset the negative impact that the cancellation of certain tenders, combined with the reduction in profit margins, had on the profit for the year.

Indeed, the tender for the updating and electrification of the Niš Dimitrovgrad line, which I.E.S. considered an excellent way to make a name for itself on the Serbian engineering market, was cancelled. This considerably reduced demand for services in the country.

Profit margins narrowed when, to saturate production capacity, I.E.S. acquired a few contracts with low profit margins from Italferr (e.g., support in the design of the Hrvatski - Leskovac - Karlovac line in Croatia).

These two trends led to a profit for 2019 of €10 thousand, as illustrated in the table below, which also includes highlights from the company's statement of financial position and information on its workforce.

(€'000)

	2019	2018	Changes	%
Revenue	604	567	37	7%
Operating costs	(581)	(442)	(139)	31%
Gross operating profit	23	125	(102)	-82%
Operating profit	17	105	(88)	-84%
Profit for the year	**10**	**109**	**(99)**	**-91%**
Invested capital	314	335	(21)	-6%
Net financial debt	394	359	35	10%
Average number of employees (FTEs)	15.08	13.91	1.17	8%

Near the end of the year, the joint venture between I.E.S., Italferr and Proger acquired a project from RZD International for the verification of the design of technological plant (ERTMS, GSMR, power supply, catenary, safety and security), assistance in procurement and supervision of works on the Stara Pazova – Novi Sad section (of the Belgrade - Budapest line) and the Serbian railway network's new command and control station.

This large contract, along with those that Italferr was awarded in the fourth quarter of 2019, equips I.E.S. with a sufficient order backlog to begin 2020 with improved production volumes and profit margins compared to the recent past. Moreover, it confirms that the company's modest performance in 2019 was a mere episode resulting solely from contingencies.

TREASURY SHARES

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

RELATED PARTY TRANSACTIONS

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

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

OTHER INFORMATION

Branches

Italferr operates in Italy with local units in Bari, Bologna, Florence, Genoa, Milan, Naples, Palermo, Reggio Calabria, Rome, Turin and Verona.
The company has eight foreign branches in Brisbane (Australia), Bucharest (Romania), New Delhi (India), Doha (Qatar), Cairo (Egypt), Istanbul (Turkey), Lima (Peru) and San Diego (Venezuela), as well as four offices in Addis Abeba (Ethiopia), Algiers (Algeria), Riyadh (Saudi Arabia) and Tashkent (Uzbekistan).

Litigation and disputes

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

Specifically:

In 2019, following criminal proceedings initiated by the public prosecutors against former company representatives, there were no definitive rulings against senior management (company officers or general managers) for any of the following:

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

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

Criminal proceedings pursuant to Legislative decree no. 231/2001

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

Other significant criminal proceedings

Notwithstanding the above, regardless of how contingent liabilities and assets are defined based on materiality, there were no 2019 criminal proceedings and updates to proceedings already reported in previous years that have resulted in definitive rulings against former and current senior management (company officers or general managers) for any of the following:

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

Directors' fees

The remuneration of the chairman of the board of directors and of the CEO is established in compliance with the applicable legislation (article 84-ter of Law no. 98/2013) as interpreted by the FS Group.

The current board of directors was appointed by the shareholder on 12 December 2018. The chairman has also been given internal audit coordination powers. The CEO's fees have been determined as follows:

€'000

CHAIRMAN	Annual fees
Fixed fee for the position	30,000
Fixed fee for powers assigned	15,000
Annual performance-based fee	

€'000

CHIEF EXECUTIVE OFFICER	Annual fees
Fixed fee for the position	50,000
Fixed fee for powers assigned	
Annual performance-based fee	10,000

Participation in the national tax consolidation scheme

As Italferr meets the requirements of the Consolidated income tax act (article 117 and subsequent articles of Presidential decree no. 917 of 22 December 1986), it has opted to participate in the national tax consolidation scheme (as consolidated company) with FS Italiane (as consolidator).
The board of directors extended the option, which it has opted to exercise for all three-year periods since 2004, for 2019 - 2021 as from 2019.

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

In 2019, the company did not explicitly take any decisions that would fall within the scope of article 2497-*ter* of the Italian Civil Code, despite having passed resolutions in the spirit of fully embracing the guidelines of the sole shareholder, Ferrovie dello Stato Italiane S.p.A..

OUTLOOK

Income statement projections for 2020 confirm the growth trend in revenue that began in 2018 and strengthened in 2019. Profit margins should remain higher than the market benchmark, although they are expected to be slightly lower than in 2019.
These forecasts are based on Italferr's solid order backlog at the start of 2020, reflecting its leadership on the Italian engineering market and confirming its strong foothold in the international railway and metro markets.
As in the past, most demand for Italferr's engineering services in Italy comes from RFI which, with the approval of the 2017-2021 Government Programme Contract - Investments in 2019, should substantially drive the company's achievement of its profit targets for 2020.

Internationally, Italferr expects to consolidate its position in India and the US and, more generally, confirm the de-risking process undertaken in recent years, focusing its business on countries with low geopolitical risk, like Uzbekistan and the European states, in addition to those mentioned earlier.
In general, the company expects to see most demand on foreign markets in the interurban and urban segments, driven by spreading metropolitan areas and growing populations.

With respect to its financial position, the company has planned greater investments in 2020, mainly to rationalise offices and align with the growth in the number of employees. In connection with the increase in investments, the company will need to rely more heavily on debt, although its overall financial structure will remain well within the levels of soundness.

Bolstered by its strong profit for the year, forecasts that confirm the trend outlined in the five-year business plan prepared in 2018, a sizeable backlog and a scenario in which railway and metro infrastructure is affirming itself as the backbone of a transport system at the forefront of sustainable development goals, the company is confident that it will continue to maintain its commitments and results in the future, despite the many macroeconomic and political uncertainties.

Reference should be made to the section on "Events after the reporting date" in the notes to the financial statements for information on the COVID-19 ("coronavirus") outbreak in the first few months of 2020.

Rome, 27 February 2020

Board of directors

Chairman

Chief Executive Officer

Financial statements at 31 December 2019

Financial statements

Statement of financial position

Euros

	Note	31.12.2019	31.12.2018*
Assets			
Property, plant and equipment	*(7)*	29,825,968	23,831,880
Intangible assets	*(8)*	853	5,552,527
Deferred tax assets	*(9)*	7,358,356	5,560,972
Equity investments	*(10)*	21,546,712	21,173,723
Financial assets (including derivatives)	*(11)*	600	600
Other assets	*(12)*	747,611	514,935
Total non-current assets		**59,480,100**	**56,634,637**
Trade receivables	*(13)*	252,079,145	192,397,557
Cash and cash equivalents	*(14)*	9,534,037	16,066,285
Tax assets	*(15)*	0	77,879
Other assets	*(12)*	8,587,439	10,403,577
Total current assets		**270,200,621**	**218,945,298**
Total assets		**329,680,721**	**275,579,935**
Equity			
Share capital	*(16)*	14,186,000	14,186,000
Reserves	*(16)*	29,955,712	30,266,259
Valuation reserves	*(16)*	(4,906,393)	(4,606,367)
Retained earnings	*(16)*	3,269,445	3,269,445
Profit for the year	*(16)*	30,395,083	8,812,679
Total equity		**72,899,847**	**51,928,016**
Liabilities			
Loans and borrowings	*(17)*	12,000,000	13,500,000
Post-employment and other employee benefits	*(18)*	22,835,177	25,681,086
Provisions for risks and charges	*(19)*	21,560,329	14,392,242
Deferred tax liabilities	*(9)*	11,718	6,374
Financial liabilities (including derivatives)	*(20)*	5,077,951	0
Other liabilities	*(21)*	4,122,862	3,970,083
Total non-current liabilities		**65,608,037**	**57,549,785**
Loans and borrowings and current portion of non-current loans and borrowings	*(17)*	1,500,000	1,547,146
Trade payables	*(22)*	127,262,248	122,467,425
Tax liabilities	*(23)*	1,475,712	2,846,605
Financial liabilities (including derivatives)	*(20)*	23,434,013	9,438,801
Other liabilities	*(21)*	37,500,865	29,802,157
Total current liabilities		**191,172,837**	**166,102,134**
Total liabilities		**256,780,874**	**223,651,919**
Total equity and liabilities		**329,680,721**	**275,579,935**

*The company applied IFRS 16 for the first time on 1 January 2019. Under the transition method chosen, comparative information has not been restated.

Income statement

Euros

	Note	2019	2018*
Revenue from sales and services	*(24)*	225,990,374	199,075,468
Other income	*(25)*	632,129	233,755
Total revenue		**226,622,503**	**199,309,223**
Personnel expense	*(26)*	105,492,946	104,743,041
Raw materials, consumables, supplies and goods	*(27)*	314,775	336,389
Services	*(28)*	61,745,864	57,277,635
Use of third-party assets	*(29)*	3,259,920	5,868,720
Other operating costs	*(30)*	6,934,964	5,825,621
Internal work capitalised	*(31)*	(3,457)	(48,848)
Total operating costs		**177,745,012**	**174,002,558**
Amortisation and depreciation	*(32)*	5,888,082	4,459,914
Net impairment (gains) losses	*(33)*	(601,174)	3,732,874
Operating profit		**43,590,583**	**17,113,877**
Financial income	*(34)*	1,821,631	1,333,738
Financial expense	*(35)*	1,469,253	1,409,368
Net financial income (expense)		**352,378**	**(75,630)**
Pre-tax profit		**43,942,961**	**17,038,247**
Income taxes	*(36)*	13,547,878	8,225,568
Profit for the year		**30,395,083**	**8,812,679**

Statement of comprehensive income

Euros

	Note	2019	2018
Profit for the year		**30,395,083**	**8,812,679**
Items that will not be reclassified to profit or loss, net of the tax effect:			
Net actuarial losses	*(16)*	(300,026)	(149,805)
Other comprehensive income, net of the tax effect			**103,945**
Comprehensive income		**30,095,057**	**8,766,819**

*The company applied IFRS 16 for the first time on 1 January 2019. Under the transition method chosen, comparative information has not been restated.

Statement of changes in equity

		Reserves							
	Share capital	Legal reserve	Extraordinary reserve	Other reserves	Valuation reserves	Total reserves	Retained earnings	Profit for the year	Total equity
Balance at 1 January 2018	**14,186,000**	2,837,200	26,749,894	676,643	(4,756,172)	**25,507,565**	**3,489,939**	**4,251,229**	**47,434,733**
Dividend distribution								(4,248,707)	(4,248,707)
Allocation of profit for the previous year			2,522			**2,522**		(2,522)	0
Comprehensive income, of which:									
Profit for the year								8,812,679	8,812,679
Profit recognised directly in equity					149,805	**149,805**	(220,494)		(70,689)
Balance at 31 December 2018	**14,186,000**	**2,837,200**	**26,752,416**	**676,643**	**(4,606,367)**	**25,659,892**	**3,269,445**	**8,812,679**	**51,928,016**
Post-tax effects of IFRS 16 FTA									**0**
Balance at 1 January 2019	**14,186,000**	2,837,200	26,752,416	676,643	(4,606,367)	**25,659,892**	**3,269,445**	**8,812,679**	**51,928,016**
Dividend distribution						**0**		(8,809,506)	(8,809,506)
Allocation of profit for the previous year			3,173			**3,173**		(3,173)	0
Other changes - Demerger			(313,720)		40,491	**(273,229)**			(273,229)
Comprehensive income, of which:									0
Profit for the year								30,395,083	30,395,083
Profit recognised directly in equity					(340,516)	**(340,516)**			(340,516)
Balance at 31 December 2019	**14,186,000**	**2,837,200**	**26,441,869**	**676,643**	**(4,906,393)**	**25,049,319**	**3,269,445**	**30,395,083**	**72,899,847**

The company applied IFRS 16 for the first time on 1 January 2019. Under the transition method chosen, comparative information has not been restated.

Statement of cash flows

Euros

	Note	2019	2018
Profit for the year		**30,395,083**	**8,812,679**
Income taxes	*(36)*	13,547,878	8,225,568
Net financial income (expense)	*(34); (35)*	(352,379)	377,715
Amortisation and depreciation	*(32)*	5,888,082	4,459,914
Accruals to provisions and impairment losses	*(26); (30)*	9,417,115	11,886,711
Accruals to post-employment benefits		129,646	162,823
Losses on sales	*(30)*	7,362	0
Change in trade receivables	*(13)*	(59,681,588)	(14,064,281)
Change in trade payables	*(22)*	4,794,823	202,877
Change in other assets and liabilities	*(12); (21)*	4,248,569	9,946,970
Utilisation of the provisions for risks and charges	*(19)*	(2,171,803)	(1,252,625)
Payment of employee benefits	*(18)*	(2,636,843)	(2,681,782)
Income taxes paid, net of reimbursed tax assets	*(36)*	(6,096,152)	(8,045,646)
Net financial income received/expense paid	*(34); (35)*	434,055	(506,971)
Net cash flows generated by (used in) operating activities		**(2,076,152)**	**17,523,952**
Increases in property, plant and equipment	*(7)*	(898,928)	(1,197,923)
Increases in intangible assets	*(8)*	(1,840,107)	(3,557,474)
Increases in equity investments	*(10)*	(372,989)	(20,823,574)
Investments, before grants		**(3,112,024)**	**(25,578,971)**
Decreases in property, plant and equipment	*(7)*	(7,362)	3,133
Decreases		**(7,362)**	**3,133**
Net cash flows used in financing activities		**(3,119,386)**	**(25,575,838)**
Disbursement and repayment of non-current loans	*(17)*	(1,547,146)	15,047,146
Change in lease liabilities	*(20)*	(2,661,771)	0
Dividends	*(16)*	(8,812,679)	(4,248,707)
Changes in equity	*(16)*	3,173	(324,440)
Net cash flows generated by (used in) financing activities		**(13,018,423)**	**10,473,999**
Total cash flows		**(18,213,961)**	**2,422,113**
Opening cash and cash equivalents		**6,627,484**	**4,205,371**
Closing cash and cash equivalents		**(11,586,477)**	**6,627,484**
of which: intragroup current account		*(21,120,514)*	*(9,438,801)*

The company applied IFRS 9 and IFRS 15 for the first time on 1 January 2018. Under the transition methods chosen, comparative information has not been restated.

Notes to the financial statements

1. Introduction

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

It is managed and coordinated by Ferrovie dello Stato Italiane S.p.A..

The directors approved these financial statements on 27 February 2019 and they will be made available to the shareholder for approval and subsequent filing within the terms established by law. The shareholder has the power to make changes to these financial statements.

The company opted not to prepare consolidated financial statements in accordance with the exemption allowed by IFRS 10. The consolidated financial statements are prepared by Ferrovie dello Stato Italiane S.p.A. which is Italferr's direct parent. This company has its registered office in Piazza della Croce Rossa 1, Rome, and the consolidated financial statements can be obtained at the above address in accordance with the terms and methods set out in the current regulations.

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

2. Basis of preparation

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

Furthermore, these financial statements have been prepared on the basis of the best knowledge of the IFRS and considering best practices in this respect. Any future guidance and interpretations will be applied in future years, as established by the standards over time.

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

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

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

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

These financial statements have been prepared on a going-concern basis, as the directors established that there are no financial or operational indicators or any other indications of critical issues about the company's ability to meet its obligations in the foreseeable future and, specifically, in the next twelve months. Reference should be made to note 5 - Financial risk management for a description of the company's financial risk management procedures.

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

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

These financial statements have been prepared using the same accounting policies applied when drawing up the financial statements at 31 December 2019, except for that set out below.

3. Accounting policies

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

Property, plant and equipment

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

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

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

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

The depreciation rates and useful lives are as follows:

	Depreciation rate
Owner-occupied buildings	3%
Leasehold improvements	Residual lease term
Light constructions	10%
Ordinary office equipment and furniture	12%
Furnishings	15%
Machinery, devices and sundry equipment	15%
Electromechanical and electronic office equipment	40%
Mobile phones	40%
Cars, motor vehicles and similar	25%

Leased assets

i. Identification

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

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

- the period covered by the option to renew the lease if the company is reasonably certain to exercise the renewal option;
- periods after the termination option if the company is reasonably certain not to exercise the option. Options to terminate the lease held only by the lessor are not considered.

The company has opted not to recognise short-term leases (i.e., those with a term of 12 months or less) or leases for low-value assets (i.e., assets that, when new, are worth €5,000 or less or leases with a contractual value of €5,000 or less) in accordance with IFRS 16. The company recognises the lease payments associated with these types of leases as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

ii. Subsequent measurement

At the commencement date of a lease, the company recognises the right-of-use asset under the relevant non-current assets caption depending on the nature of the asset subject to the lease contract and the lease liability in current and non-current financial liabilities.

The right-of-use asset is initially measured at cost, including the amount of the initial measurement of the lease liability, adjusted by any lease payments made at or before the commencement date, plus any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, less any lease incentives received.

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

The right-of-use asset is subsequently depreciated on a straight-line basis over the entire term of the contract, unless the contract provides for the transfer of ownership at the end of the lease or the cost of the lease reflects the fact that the purchase option will be exercised. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, the company depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are calculated using the same depreciation requirements as those for the relevant intangible assets or property, plant and equipment. Furthermore, the right-of-use asset is recognised net of any impairment losses on the cash-generating unit (CGU) to which it has been allocated and is adjusted to reflect the remeasurement of the lease liability.

The lease liability is subsequently measured at amortised cost using the effective interest method and is remeasured whenever there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, a change in the amount that the company expects to be payable under a residual value guarantee or when the company changes its assessment of an option to purchase the underlying asset or extend or terminate the lease. If the lease liability is remeasured, the company adjusts the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero, any remaining amount is recognised in profit or loss.

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

iii. Applicable before 1 January 2019

The company applied IFRS 16 using the modified retrospective approach. Therefore, comparative information has not been restated and continues to be presented in accordance with IAS 17 and IFRIC 4. Specifically, with respect to the comparative data at 31 December 2018, property, plant and equipment held under finance leases, through which the risks and rewards incidental to ownership are substantially transferred to the company, are recognised as assets at their fair value on the date the lease was signed or, if lower, at the present value of minimum lease payments, including the amount to be paid to purchase the asset, if any. The corresponding liability to the lessor is recognised under financial liabilities.

Assets are depreciated using the above rates and criteria, unless the term of the lease is below that of the useful life reflected by said rates and there is no reasonable certainty that ownership of the leased asset will be transferred at the natural expiry of the lease. In this case, depreciation reflects the lease term. Leases whereby the lessor substantially retains the risks and rewards associated to ownership of the assets are classified as operating leases. Operating lease costs are recognised on a straight-line basis in profit or loss over the term of the lease.

Intangible assets

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

(a) *Concessions, licenses and trademarks*

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

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

(b) Industrial patents and intellectual property rights

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

Impairment losses on intangible assets and property, plant and equipment

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

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

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

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

Investments in subsidiaries, associates, joint arrangements and other investments

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

The company's investments in companies that are neither subsidiaries or associates and which are not listed in an active market and for which the use of an appropriate measurement model is not reliable, are in any case measured at cost, which is considered the best estimate of the fair value of the investment. The investments are subsequently measured at fair value through profit or loss.

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

Financial instruments

i. Classification and measurement of financial assets: they reflect the business model used to manage such assets and the characteristics of their cash flows.

The business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The company performs SPPI (Solely Payment of Principal and Interest) tests on each instrument to determine whether these contractual cash flows are solely payments of principal and interest (in which case the SPPI test is passed).

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

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

(a) *Financial assets measured at amortised cost*

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

- the financial asset is held solely to collect contractual cash flows (HTC - Held To Collect - business model); and
- the contractual cash flows are solely payments of principal and interest (SPPI test passed).

In this category, financial instruments are initially recognised at fair value, inclusive of transaction costs, and subsequently measured at amortised cost. Interest, calculated using the effect interest method, impairment losses (impairment gains), exchange gains (losses) and gains (losses) on derecognition are recognised in profit or loss.

(b) *Financial assets at fair value through other comprehensive income (FVTOCI)*: this category includes all financial assets that meet both of the following conditions:

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

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

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

(c) *Financial assets at fair value through other comprehensive income (FVTOCI)*: this category includes all financial assets not classified as measured at amortised cost or fair value through other comprehensive income. They are initially recognised and subsequently measured at fair value.

Transaction costs and fair value gains and losses are recognised in profit or loss.

ii. Classification and measurement of financial liabilities

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

iii. Subsequent measurement: impairment losses

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

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

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

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

- Stage 1: includes all financial assets under assessment on the date of initial recognition regardless of qualitative indicators (e.g., ratings) and except for situations with objective evidence of impairment. Upon subsequent measurement, all financial instruments whose credit risk has not increased significantly since the date of initial recognition or whose credit risk at the reporting date is low, remain in Stage 1. For these exposures, 12-month ECL are provided for that represent the ECL that result from default events that are possible within the 12 months after the reporting date. Interest on Stage 1 financial instruments is calculated on the gross carrying amount (without deducting the loss allowance).
- *Stage 2*: includes the financial instruments whose credit risk has increased significantly since the date of initial recognition, which, however, do not show objective evidence of impairment. For these assets, only lifetime ECL are provided for, i.e., ECL that result from all possible default events over the expected life of a financial instrument. Interest on Stage 2 financial instruments is calculated on the gross carrying amount (without deducting the loss allowance);
- *Stage 3*: includes financial assets with objective evidence of impairment at the reporting date. For these assets, only lifetime ECL are provided for, i.e., ECL that result from all possible default events over the expected life of a financial instrument.

In order to identify the methodological approach to be applied to the assets that are in scope of the impairment requirements and, specifically, the correct probability of default, the company defined a conventional cluster segmentation based on counterparty:

- Public administration: all loans and receivables with the government, regions, provinces, municipalities, the EU or related bodies;
- Intragroup: all loans and receivables with subsidiaries;
- Deposits: all deposits with banks;
- Amounts from third parties: loans and receivables other than those above, with non-financial companies, producers and consumers.

Furthermore, the company opted to apply the low credit risk exemption allowed by IFRS 9 to assets other than trade receivables that are rated investment grade (between AAA and BBB-). Accordingly, there is no stage allocation: in fact these assets are directly allocated to Stage 1 with a one-year provision.

Therefore, the application of the impairment model entails the following steps:

- Separation between loans and trade receivables: this distinction isolates the scope of the assets subject to the stage allocation criteria, i.e., all loans. Conversely, these criteria do not apply to trade receivables following the application of the simplified approach whereby expected credit losses are always classified on a lifetime basis.
- Calculation of expected credit losses - loans: the expected credit loss is calculated for each cluster, once the relevant stage has been identified;
- Calculation of expected credit losses - trade receivables: for each cluster, trade receivables are broken down by due date (specifically, falling due, past due up to one year, past due up to two years, past due by more than two years). The expected credit losses are then calculated accordingly.

Fair value estimates

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and available bank deposits and any other forms of short-term investment, with an initial maturity of three months or less, net of impairment losses calculated in accordance with IFRS 9.

At the reporting date, current account overdrafts are classified in the statement of financial position as loans and borrowings under current liabilities. Cash and cash equivalents are measured at fair value, which normally coincides with their nominal amount, through profit or loss.

Employee benefits

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

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

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

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

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

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

Provisions for risks and charges

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

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

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

Revenue from contracts with customers

i. Initial recognition and subsequent measurement

Italferr recognises revenue in order to depict the transfer of the promised services to customers in an amount that reflects the consideration to which the company expects to be entitled.

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

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

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

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

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

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

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

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

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

With respect to works management and supervision contracts, the performance obligation is satisfied at the end of the relevant worksite activities.

Therefore, the contractually-agreed invoicing is considered a progress payment in this case as well.

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

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

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

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

ii. Existence of a significant financing component

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

Dividends

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

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

Cost recognition

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

Income taxes

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

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

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

Translation of foreign currency amounts

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

FIRST-TIME ADOPTION OF STANDARDS, AMENDMENTS AND INTERPRETATIONS

The following new standards are effective for annual periods beginning on or after 1 January 2019.

IFRS 16 – Leases

On 13 January 2016, the IASB issued IFRS 16 Leases which was endorsed by the EU with Regulation no. 1986 of 31 October 2017. This standard replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC 15 Operating leases - Incentives and SIC 27 Evaluating the substance of transactions in the legal form of a lease. It introduces a new definition of a lease and the concept of control to distinguish leases from service contracts. Specifically, in order to determine whether a contract is, or contains, a lease, IFRS 16 requires the reporting entity to check whether the lessee has the right to control the use of an identified asset for a specific period of time. This standard is applicable to annual periods beginning on or after 1 January 2019 and introduces a single lessee accounting model that requires a lessee recognise a right-of-use asset and a lease liability (i.e., the obligation to make lease payments). The changes in the financial statements of the lessor as a result of this standard are not particularly significant. The FS Italiane group companies have completed the preliminary assessment of the potential impacts of applying IFRS 16 at the transition date (1 January 2019). This assessment consisted of various stages, including mapping contracts that could potentially contain a lease and analysing such contracts to understand the main clauses that are relevant for the purposes of IFRS 16. Reference should be made to that described earlier for a detailed description of the impacts of this new standard and to that indicated further on for information on the impacts of initial application.

Annual improvements to IFRS: 2015-2017 cycle

On 12 December 2017, the IASB issued the Annual improvements to IFRS Standards 2015-2017 Cycle. The amendments are part of the normal rationalisation and clarification of the IFRS and cover: IAS 12 Income taxes, IAS 23 Borrowing costs, IFRS 3 Business combinations, IFRS 11 Joint arrangements, IAS 19 Employee benefits and IAS 28 Investments in associates and joint ventures. The application of this amendment, where applicable and because of its nature, did not have any significant impacts on the financial statements.

Amendments to IAS 19 Plan amendment, curtailment or settlement

On 7 February 2018, the IASB issued the amendments to IAS 19 Employee benefits. The amendments clarify the accounting treatments for defined benefit plans when a plan amendment, curtailment or settlement occurs. Accordingly, an entity shall use the updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. The application of this amendment, where applicable and because of its nature, did not have any significant impacts on the financial statements.

Amendments to IAS 28 Long-term interests in associates and joint ventures

On 12 October 2017, the IASB issued the amendment to IAS 28 - Investment entities. The amendment clarifies that IFRS 9 applies to non-current amounts due from an associate or a joint venture that form part of the net investment in the associate or joint venture. Furthermore, under the amendments, IFRS 9 also applies to said amounts prior to the adoption of IAS 28, so that the entity does not consider any adjustments to the long-term interests arising from the application of this standard. The application of this amendment, where applicable and because of its nature, did not have any significant impacts on the financial statements.

IFRIC 23 Uncertainty over income tax treatments

On 7 June 2017, the IASB issued IFRIC 23 Uncertainty over income tax treatments. The interpretation clarifies the accounting for uncertain deferred or current taxes, related to interpretation issues not clarified by the relevant tax authorities. The application of this interpretation, where applicable and because of its nature, did not have any significant impacts on the financial statements.

Amendments to IFRS 9 - Prepayment features with negative compensation

On 12 October 2017, the IASB issued the amendment to IFRS 9 Financial instruments - Prepayment features with negative compensation, which was endorsed by the EU with Regulation no. 498 of 22 March 2018. The amendments clarify the accounting of particular prepayable financial assets when IFRS 9 applies. Specifically, the amendment proposes measuring such financial assets, which may result in negative compensation, at amortised cost or at fair value through other comprehensive income, depending on a company's model. The application of this amendment, where applicable and because of its nature, did not have any significant impacts on the financial statements.

STANDARDS, AMENDMENTS AND INTERPRETATIONS RECENTLY ENDORSED BY THE EUROPEAN UNION NOT YET APPLIED

Amendments to references to the conceptual framework in IFRS standards

On 29 March 2018, the IASB issued the revised version of the Conceptual framework for financial reporting. The main changes compared to the 2010 version include: a new chapter on measurement, improved definitions and guidance, specifically with respect to the definition of liability, clarifications of major concepts, such as stewardship, prudence and measurement uncertainties. The EU endorsed this amendment on 29 November 2019.

Amendments to IAS 1 and IAS 8 – Definition of material

On 31 October 2018, the IASB issued an amendment to IAS 1 and IAS 8 Definition of material. The main changes relate to the alignment of the references and quotes included in some standards in order to reflect the new version of the Conceptual Framework, which was approved in March 2018, instead of the 2010 version. The amendment applies to annual periods beginning on or after 1 January 2020. The EU endorsed this amendment on 29 November 2019.

STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

Amendments to IFRS 3 Business Combinations

On 22 October 2018, the IASB issued an amendment to IFRS 3 Business combination. The amendment relates to the definition of business which, at present, is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. Previously, it was an integrated set of activities and assets that was capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. The amended definition of business shall be applied to acquisitions that occur on or after 1 January 2020. The EU is expected to endorse this amendment in 2020.

Amendments to IFRS 9, IAS 39 and IFRS 7

The IASB published Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7), which amends the hedge accounting requirements under IFRS 9 and IAS 39.
The amendments will come into effect from 1 January 2020 but companies may choose to apply them earlier.

USE OF ESTIMATES AND JUDGEMENTS

In preparing the financial statements in accordance with IFRS, the directors applied accounting standards and methods, which in some circumstances rely on difficult and subjective valuations and estimates based on past experience and on assumptions that are from time to time considered to be reasonable and realistic depending on the circumstances. Therefore, the actual amounts of certain financial statements captions calculated according to the above estimates and assumptions may differ in the future, even materially, from those reported in the financial statements, because of the uncertainty that characterises the assumptions and conditions on which the estimates are based. Estimates and assumptions are reviewed periodically and the effects of any changes are recognised in profit or loss when they affect the year only. If the revision affects both current and future years, the change is recognised in the year the revision is made and in the related future years.

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

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

EXAMPLES

Impairment losses on property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets with a finite life are tested for impairment. Impairment losses are recognised when there is evidence that it will be difficult to recover the related carrying amount through the use or sale of

the asset. Impairment tests require the directors to make subjective valuations based on the information available within the company and in the market, as well as from past experience. Furthermore, when a potential impairment loss exists, the company calculates such loss using suitable valuation techniques. The correct identification of impairment indicators and the estimates for calculating them depend on factors that may vary over time, thus affecting valuations and estimates made by the directors.

Extension/termination options

Leases that contain extension/termination options require the directors, at the inception of the lease, to assess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the company's control. The assessment of extension options may require the directors to make subjective judgements based on the information available at the assessment date and past experience.

Amortisation and depreciation

The cost of property, plant and equipment and intangible assets and investment property is depreciated and amortised, respectively, over the estimated useful lives of the assets. The directors determine the useful lives of the company's assets when the assets are purchased. They are based on past experience for similar assets, market conditions and forecasts concerning future events that may have an impact on the useful life. Therefore, the actual economic life may differ from the estimated useful life. The company assesses any technological and sector changes to update residual useful lives on a regular basis. These updates may entail a change in the amortisation and depreciation period and in the amortisation and depreciation rates of future years.

Provisions for risks and charges

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

Taxes

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

Operating segments

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

4. Effects of initial application of IFRS 16

The effects of the initial application of IFRS 16, when the company acts as the lessee as well as the lessor, are described below:

Lessee

The company applied IFRS 16 Leases as from 1 January 2019 using the modified retrospective approach, whereby the cumulative effect of initial application is recognised in the opening balance of retained earnings.

At the date of initial application, the company opted to use the practical expedient offered by the standard in order to avoid reassessing whether each contract is, or contains, a lease at the date of initial application. Accordingly, the company only applied the new standard to leases that it had already identified as leases in accordance with IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease. The IFRS 16 definition of a lease was therefore only applied to contracts signed or amended on or after 1 January 2019.

Having excluded short-term leases and those for low-value assets as they were exempt, the company recognised right-of-use assets and lease liabilities for the leases it had previously classified as operating leases applying IAS 17:

- it measured lease liabilities at the present value of the residual lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019;
- it measured right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised immediately before the date of initial application.

  The company used the following practical expedients to simplify the application of IFRS 16 to leases previously classified as operating leases applying IAS 17:
- it applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- it assessed the recoverability of right-of-use assets at 1 January 2019 based on the assessment of whether leases are onerous applying IAS 37.

(€'000)

	Impacts at 1.1.2019
ASSETS	
Civil buildings	7,151
Other assets (cars)	827
TOTAL	**7,978**
LIABILITIES	
Lease liabilities (non-current)	7,151
Lease liabilities (current)	827
TOTAL	**7,978**
EQUITY	**0**

The table below shows the impacts of the standard on profit or loss for 2019:

(€'000)

	Impacts
Reversal of lease payments	2,654
Depreciation of right-of-use assets	(2,504)
Impact on operating profit	150
Increase in interest expense	(157)
Total impacts	(7)

The table below reconciles commitments at 31 December 2018 recognised in accordance with IAS 17/IFRIC 4 and lease liabilities at 1 January 2019 recognised in accordance with IFRS 16:

(€'000)

	Impacts
Lease commitments at 31 December 2018 (unrecognised)	11,459
Discounting of 2018 commitments	(221)
Discounted lease commitments at 31 December 2018	**11,238**
Unrecognised lease liabilities under IFRS 16 exemptions	(3,260)
Total lease liabilities at 1 January 2019	**7,978**

5. Partial demerger of the ICT business unit to FSTechnology

As described in the directors' report, in their extraordinary meeting of 29 May 2019, Italferr's shareholder approved the proposed partial demerger of the ICT business unit to the related company FSTechnology and mandated the Chief Executive Officer to draw up the demerger deed and set the effective date of the transaction.

The demerger deed was signed on 23 July 2019, effective from 1 August.

Following the demerger, software licenses, development and management infrastructures for Italferr's information systems and the related contracts were transferred to FSTechnology, as well as the employees of the ICT business unit.

Changes in the assets and liabilities transferred to FSTechnology between the date of the proposed demerger and the date it took effective had no significant impact.

(€'000)

Statement of financial position	1.8.2019
Assets	
Property, plant and equipment	414
Intangible assets	5,877
Total non-current assets	**6,291**
Total current assets	**0**
Total assets	**6,291**
Equity	
Reserves	313
Valuation reserves	(40)
Total equity	**273**
Liabilities	
Post-employment and other employee benefits	477
Provisions for risks and charges	78
Total non-current liabilities	**555**
Financial liabilities (including derivatives)	5,309
Other liabilities	154
Total current liabilities	**5,463**
Total liabilities	**6,018**
Total equity and liabilities	**6,291**

6. Financial risk management

CREDIT RISK

The credit risk mainly derives from the company's loans with the public administration and trade receivables.

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

The following table shows the company's exposure to credit risk at 31 December 2019, compared to the previous year end:

(€'000)

	31.12.2019	31.12.2018
Non-current financial assets	1	1
Loss allowance		
Non-current financial assets, net of the loss allowance	**1**	**1**
Other non-current assets	748	515
Loss allowance		
Other non-current assets, net of the loss allowance	**748**	**515**
Current trade receivables	259,204	200,549
Loss allowance	(7,125)	(8,152)
Current trade receivables, net of the loss allowance	**252,079**	**192,397**
Cash and cash equivalents	9,552	16,085
Loss allowance	(18)	(19)
Cash and cash equivalents, net of the loss allowance	**9,534**	**16,066**
Other current assets	9,063	10,439
Loss allowance	(476)	(36)
Other current assets, net of the loss allowance	**8,587**	**10,403**
Total exposure, net of the loss allowance	**270,949**	**219,382**

The table below shows the exposure to credit risks by counterparty, in absolute terms and as a percentage:

(€'000)

	31.12.2019		31.12.2018	
Public administration, Italian government and regions (gross)	1,141	0%	212	0%
Group companies	237,906	88%	183,260	84%
Third party customers	22,368	8%	19,843	9%
Financial institutions	9,535	4%	16,067	7%
Total exposure, net of the loss allowance	**270,949**	**100%**	**219,382**	**100%**

The tables below give a breakdown of financial assets and trade receivables at 31 December 2019 and 2018 by past due brackets:

(€'000)

31.12.2019	Not past due	Past due				Total
		0-180 days	181-360 days	360-720 days	>720 days	
Public administration, Italian government and regions (gross)	1,057	80	105	7	5	1,255
Loss allowance	(1)	(3)	(105)		(5)	(114)
Public administration, Italian government and regions (net)	**1,056**	**77**	**0**	**7**	**0**	**1,141**
Group companies	233,649	2,707	496	1,322	(100)	238,074
Loss allowance	(165)	(2)	0	(1)		(168)
Group companies (net)	**233,484**	**2,705**	**496**	**1,321**	**(100)**	**237,906**
Third party customers	19,260	4,949	224	1,638	3,614	29,685
Loss allowance	(752)	(1,606)	(179)	(1,179)	(3,603)	(7,319)
Third party customers (net)	**18,508**	**3,343**	**45**	**459**	**11**	**22,366**
Financial institutions	9,552					9,552
Loss allowance	(18)					(18)
Financial institutions (net)	**9,534**	**0**	**0**	**0**	**0**	**9,534**
Total exposure, net of the loss allowance	**262,582**	**6,125**	**541**	**1,787**	**(89)**	**270,946**

31.12.2018	Not past due	Past due				Total
		0-180 days	181-360 days	360-720 days	>720 days	
Public administration, Italian government and regions (gross)	125	80	7		1,003	1,215
Loss allowance			(1)		(1,002)	(1,003)
Public administration, Italian government and regions (net)	**125**	**80**	**6**	**0**	**1**	**212**
Group companies	177,840	5,472	179	0	(100)	183,391
Loss allowance	(127)	(4)	0	0	0	(131)
Group companies (net)	**177,713**	**5,468**	**179**	**0**	**(100)**	**183,260**
Third party customers	14,440	6,796	1,116	917	3,627	26,896
Loss allowance	(250)	(2,387)	(392)	(409)	(3,615)	(7,053)
Third party customers (net)	**14,190**	**4,409**	**724**	**508**	**12**	**19,843**
Financial institutions	16,086					16,086
Loss allowance	(19)					(19)
Financial institutions (net)	**16,067**	**0**	**0**	**0**	**0**	**16,067**
Total exposure, net of the loss allowance	**208,095**	**9,957**	**909**	**508**	**(87)**	**219,382**

The total exposure and the impairment of each category by risk class at 31 December 2019 and 31 December 2018, as per the Standard & Poor's rating, are shown below:

(€'000)

31.12.2019	TOTAL	AMORTISED COST		
		12-month expected credit losses	*Lifetime - not impaired*	*Lifetime - impaired*
from AAA to BBB-	248,880	4,622	244,258	
from BB to BB+	29,688	8,035	18,800	2,853
Gross carrying amount	278,568	12,657	263,058	2,853
Loss allowance	(7,619)	(4,241)	(525)	(2,853)
Carrying amount	**270,949**	**8,416**	**262,533**	**0**

(€'000)

31.12.2018	TOTAL	AMORTISED COST		
		12-month expected credit losses	*Lifetime - not impaired*	*Lifetime - impaired*
from AAA to BBB-	184,606	48,239	136,367	
from BB to BB+	42,983	30,687	9,443	2,853
Gross carrying amount	227,589	78,926	145,810	2,853
Loss allowance	(8,207)	(338)	(5,016)	(2,853)
Carrying amount	**219,382**	**78,588**	**140,794**	**0**

Changes in the loss allowance are shown below:

(€'000)

2019	12-month expected credit losses	Lifetime - not impaired	Lifetime - impaired	TOTAL
Balance at 31 December 2018	**8,207**		**0**	**8,207**
Transfer to lifetime ECL – not impaired	440	74		514
Utilisation of the allowance	(1,103)			(1,103)
Balance at 31 December 2019	**7,544**	**74**	**0**	**7,618**

LIQUIDITY RISK

Liquidity risk is the risk that an entity may have difficulties in complying with the obligations associated with financial liabilities to be settled by delivering cash or another financial asset. Cash flows, cash requirements and the liquidity of group companies are generally monitored and managed centrally by the parent's Finance unit within its Central Finance, Control and Assets Department to ensure efficient and effective management of financial resources.

The company's objective is the prudent management of the liquidity risk arising from ordinary operations. This requires maintaining adequate cash and cash equivalents and uncommitted credit lines.

At 31 December 2019, Italferr had non-current loans and borrowings amounting to €12,000 thousand and a short-term credit line of €60,000 thousand, €21,121 thousand of which was used.

The following tables show the repayment dates of financial liabilities at 31 December 2019 and 2018, including interest to be paid:

(€'000)

31.12.2019	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	After 5 years
Loans and borrowings from other financial backers	13,500	15,874	999	988	1,930	5,458	6,499
Financial liabilities	21,121	21,121	21,121				
Lease liabilities	7,391	7,391		2,313		5,078	
Non-derivative financial liabilities	**42,012**	**44,386**	**22,120**	**3,301**	**1,930**	**10,536**	**6,499**
Trade payables	127,262	127,262	29,099	98,163			
TOTAL FINANCIAL LIABILITIES	**169,274**	**171,648**	**51,219**	**101,464**	**1,930**	**10,536**	**6,499**

(€'000)

31.12.2018	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	1 - 2 years	2-5 years	After 5 years
Loans and borrowings from other financial backers	15,000	17,962	1,069	1,019	1,987	5,622	8,265
Financial liabilities	9,486	9,439	10,508	1,020	3,918	5,457	6,498
Non-derivative financial liabilities	**24,486**	**27,401**	**11,577**	**2,039**	**5,905**	**11,079**	**14,763**
Trade payables	122,467	122,467	29,673	92,794			
TOTAL FINANCIAL LIABILITIES	**146,953**	**149,868**	**41,250**	**94,833**	**5,905**	**11,079**	**14,763**

The following table shows the repayments of financial liabilities and trade payables within one year, 1-5 years and after five years:

(€'000)

31.12.2019	Carrying amount	Within one year	1-5 years	After 5 years
Loans and borrowings from other financial backers	13,500	1,500	7,500	4,500
Financial liabilities	21,121	21,121		
Lease liabilities	7,391	2,313	5,078	
Non-derivative financial liabilities	**42,012**	**24,934**	**12,578**	**4,500**
Trade payables	**127,262**	**127,262**		

(€'000)

31.12.2018	Carrying amount	Within one year	1-5 years	After 5 years
Loans and borrowings from other financial backers	15,000	1,500	7,500	6,000
Financial liabilities	9,486	9,486		
Non-derivative financial liabilities	**24,486**	**10,986**	**7,500**	**6,000**
Trade payables	**122,467**	**122,467**		

MARKET RISK

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

As part of its operations, the company is exposed to several market risks, mainly currency risk and, to a lesser extent, interest rate risk. The objective of market risk management is to keep the company's exposure to these risks within

acceptable levels, while optimising returns on investments. This risk is broken down into interest rate risk and currency risk, detailed below.

Interest rate risk

The company uses an intragroup current account held with the parent at a variable interest rate while its sole non-current loan, again obtained from the parent for the acquisition of an investment in CREW, bears a fixed interest rate.

The common objective of the applied policies is to limit cash flow fluctuations in financing transactions in place and, where possible, to exploit the opportunities to optimise borrowing costs offered by the indexing of variable-rate debt.

The table below shows variable and fixed rate loans and borrowings.

(€'000)

31.12.2019	Carrying amount	Contractual cash flows	Current portion	1-2 years	2-5 years	After 5 years
Variable rate	21,121	21,121	21,121			
Fixed rate	13,500	13,500	1,500	3,000	4,500	4,500
Balance at 31 December 2019	**34,621**	**34,621**	**22,621**	**3,000**	**4,500**	**4,500**

(€'000)

31.12.2018	Carrying amount	Contractual cash flows	Current portion	1-2 years	2-5 years	After 5 years
Variable rate	9,486	9,486	9,486			
Fixed rate	15,000	15,000	1,500	3,000	4,500	6,000
Balance at 31 December 2018	**24,486**	**24,486**	**10,986**	**3,000**	**4,500**	**6,000**

CURRENCY RISK

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

Italferr's main contracts in foreign currencies at year end were those acquired in Egypt, Qatar, India and Uzbekistan. Except for the contract in Uzbekistan and part of the contracts in India, which are in US dollars, the other contracts are in local currency.

The following table shows the notional amount of Italferr's exposure to currency risk at 31 December 2019 and 2018.

in foreign currency/thousands

31.12.2019		Foreign currency for €1	Balance in foreign currency			Euro equivalent
	Currency	Exchange rate at 31.12.2019	Trade receivables	Trade payables	Gross exposure in the statement of fin pos	Net exposure in €
AED	United Arab Emirates dirham	4.13	3,768	(71)	**(3,839)**	**(931)**
ARS	Argentine peso	67.27		(482)	**(482)**	**(7)**
AUD	Australian dollar	1.60		(11)	**(11)**	**(7)**
BGN	Bulgarian new leu	1.96	260		**260**	**133**
DZD	Algerian dinar	133.89		(1,886)	**(1,886)**	**(14)**
EGP	Egyptian pound	18.02	512	(315)	**197**	**11**
ETB	Ethiopian birr	35.87	559	(16)	**543**	**15**
INR	Indian rupee	80.19	61,055	(12,206)	**48,849**	**609**
IRR	Iranian rial	47,183.00		(360)	**(360)**	**(0)**
OMR	Oman rial	0.43		(4)	**(4)**	**(9)**
PEN	Peruvian nuevo sol	3.73	1,377	(9)	**(1,386)**	**(372)**
QAR	Qatar riyal	4.09	1,963	(444)	**1,519**	**371**
RON	Romanian new leu	4.78	48	(2,084)	**(2,036)**	**(426)**
SAR	Saudi Arabian riyal	4.21		(368)	**(368)**	**(87)**
SGD	Singapore dollar	1.51		(8)	**(8)**	**(5)**
TRY	Turkish lira	6.68	1	(67)	**(68)**	**(10)**
USD	US dollar	1.12	500	(330)	**170**	**151**
UZS	Uzbekistani som	10,680.44		(1,391)	**(1,391)**	**(0)**
						(578)

in foreign currency/thousands

31.12.2018		Foreign currency for €1	Balance in foreign currency			Euro equivalent
	Currency	Exchange rate at 31.12.2018	Trade receivables	Trade payables	Gross exposure in the statement of fin pos	Net exposure in €
AED	United Arab Emirates dirham	4.20		(20)	**(20)**	**(5)**
ARS	Argentine peso	43.16		(21,813)	**(21,813)**	**(505)**
AUD	Australian dollar	1.62		(7)	**(7)**	**(4)**
BGN	Bulgarian new leu	1.95	1,158		**1,158**	**594**
DZD	Algerian dinar	135.49		(3,515)	**(3,515)**	**(26)**
EGP	Egyptian pound	20.51	378	(532)	**(154)**	**(8)**
ETB	Ethiopian birr	32.23	559	(16)	**543**	**17**
INR	Indian rupee	79.73	62,254	(14,414)	**47,840**	**600**
IRR	Iranian rial	4,809.00		(48,750)	**(48,750)**	**(10)**
OMR	Oman rial	0.44		(2)	**(2)**	**(5)**
PEN	Peruvian nuevo sol	3.86		(1)	**(1)**	**(0)**
QAR	Qatar riyal	4.17	14,943	(1,568)	**13,375**	**3,209**
RON	Romanian new leu	4.66	49	(1,307)	**(1,258)**	**(270)**
SAR	Saudi Arabian riyal	4.29		(506)	**(506)**	**(118)**
TRY	Turkish lira	6.06		(101)	**(101)**	**(17)**
USD	US dollar	1.15	505	(643)	**(138)**	**(121)**
VES	Venezuelan bolivar soberano	730.01		(35)	**(35)**	**(0)**
						3,332

CAPITAL MANAGEMENT

The company's objective is to safeguard its ability to continue as a going concern in order to ensure returns to shareholder and benefits to the other stakeholders.
It also aims to maintain an optimal capital structure in order to reduce the cost of debt.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

To complete financial risk information, the table below gives a reconciliation between financial assets and liabilities as reported in the statement of financial position and the categories of financial assets and liabilities identified pursuant to IFRS 7:

(€'000)

31.12.2019	Loans	Loans and borrowings
Non-current financial assets	1	
Other non-current assets	748	
Current trade receivables	252,079	
Cash and cash equivalents	9,534	
Other current assets	8,587	
Other non-current liabilities		4,123
Non-derivative financial liabilities		5,078
Current trade payables		127,262
Other current liabilities		37,501
Current portion of non-current loans and borrowings		1,500
Current financial liabilities		23,434

(€'000)

31.12.2018	Loans	Loans and borrowings
Non-current financial assets	1	
Other non-current assets	515	
Current trade receivables	192,398	
Cash and cash equivalents	16,066	
Other current assets	10,404	
Other non-current liabilities		3,970
Current trade payables		122,467
Other current liabilities		29,802
Current portion of non-current loans and borrowings		1,547
Current financial liabilities		9,439

7. Property, plant and equipment

The opening and closing balances of property, plant and equipment and changes therein are shown in the table below. The assets' estimated useful lives did not change during the year.

(€'000)

	Land and buildings	Other assets	Assets under construction and payments on account	Total
Historical cost	25,741	26,398		52,139
Depreciation and impairment losses	(4,162)	(23,217)		(27,379)
Balance at 1.1.2018	**21,579**	**3,181**	**0**	**24,760**
Investments		1,198		1,198
Depreciation	(669)	(1,454)		(2,123)
Disposals and decreases[1]		(3)		(3)
Total changes	**(669)**	**(259)**	**0**	**(928)**
Historical cost	25,741	17,918		43,659
Depreciation and impairment losses	(4,831)	(14,996)		(19,827)
Balance at 31.12.2018	**20,910**	**2,922**	**0**	**23,832**
Historical cost	32,892	18,745		51,637
Depreciation and impairment losses	(4,831)	(14,996)		(19,827)
Balance at 1.1.2019	**28,061**	**3,749**	**0**	**31,810**
Investments	1,663	1,058	98	2,819
Depreciation	(2,905)	(1,467)		(4,372)
Disposals and decreases[1]		(17)		(17)
Non-recurring transactions[2]		(414)		(414)
Total changes	**(1,242)**	**(840)**	**98**	**(1,985)**
Historical cost	34,555	17,646	98	52,299
Depreciation and impairment losses	(7,736)	(14,737)		(22,473)
Balance at 31.12.2019	**26,819**	**2,909**	**98**	**29,826**

(€'000)

Disposals and decreases[1]	Land and buildings	Other assets	Assets under construction and payments on account	Total
Historical cost		(35)		(35)
Depreciation		18		18
Total	**0**	**(17)**	**0**	**(17)**

(€'000)

Non-recurring transactions[2]	Land and buildings	Other assets	Assets under construction and payments on account	Total
Historical cost		(2,122)		(2,122)
Depreciation		1,708		1,708
Net		**(414)**		**(414)**

(€'000)

right-of-use assets	Land and buildings	Other assets	Total
Balance at 1.1.2019	**7,151**	**827**	**7,978**
Investments (new leases)	1,663	240	1,903
Depreciation	(2,236)	(266)	(2,502)
Total changes	**(573)**	**(26)**	**(599)**
Historical cost	8,814	1,067	9,881
Depreciation and impairment losses	(2,236)	(266)	(2,502)
Balance at 31.12.2019	**6,578**	**801**	**7,379**

The investments for the year of €1,903 thousand related to new office leases (€1,663 thousand), car leases (€142 thousand) and furniture for the New Delhi office (€98 thousand). They were recognised in accordance with IFRS 16.

The residual investments (€916 thousand) related to:

- PCs and accessories comprising technical equipment for personnel (€464 thousand);
- hardware (laser scanning station, badge readers for access control) (€118 thousand);
- environmental monitoring, video and GPS equipment (€196 thousand);
- office furniture (€40 thousand);
- costs to design the new façade of the headquarters (€98 thousand), recognised under assets under construction pending the completion of the façade to shield sunlight, improving the building's energy efficiency.

The decreases mainly related to the sale of PCs and obsolete furniture or furniture that is no longer necessary, generating losses of €8 thousand.

The amounts shown in the note to non-recurring transactions are entirely related to the hardware transferred to FSTechnology as part of the demerger of the ICT business unit. The transferred amounts include purchases of the year amounting to €140 thousand.

At 31 December 2019, there are no mortgages or liens on property, plant and equipment.

8. Intangible assets

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

(€'000)

	Industrial patents and intellectual property rights	Assets under development and payments on account	Other	Total
Historical cost	10,855	677	22,679	34,211
Amortisation and impairment losses	(10,093)		(19,786)	(29,879)
Balance at 1.1.2018	**762**	**677**	**2,893**	**4,332**
Investments	1,054	981	1,522	3,557
Placement in service		(595)	595	0
Amortisation	(572)		(1,765)	(2,337)
Total changes	**482**	**386**	**352**	**1,220**
Historical cost	11,909	1,063	24,796	37,768
Amortisation and impairment losses	(10,665)		(21,551)	(32,216)
Balance at 31.12.2018	**1,244**	**1,063**	**3,245**	**5,552**
Historical cost				0
Amortisation and impairment losses				0
Balance at 1.1.2019	**1,244**	**1,063**	**3,245**	**5,552**
Investments	903	781	157	1,841
Placement in service		(315)	315	0
Amortisation	(467)		(1,047)	(1,514)
Disposals and decreases[1]				0
Non-recurring transactions[2]	(1,679)	(1,529)	(2,670)	(5,878)
Total changes	**(1,243)**	**(1,063)**	**(3,245)**	**(5,551)**
Historical cost	3			3
Amortisation and impairment losses	(2)			(2)
Balance at 31.12.2019	**1**	**0**	**0**	**1**

(€'000)

Disposals and decreases[1]	Industrial patents and intellectual property rights	Assets under development and payments on account	Other	Total
Historical cost	(6,409)		(2,188)	(8,597)
Amortisation	6,409		2,188	8,597
Total	**0**	**0**	**0**	**0**

(€'000)

Non-recurring transactions[2]	Industrial patents and intellectual property rights	Assets under development and payments on account	Other	Total
Historical cost	(6,400)	(1,529)	(23,080)	(31,009)
Amortisation	4,721		20,410	25,131
Net	**(1,679)**	**(1,529)**	**(2,670)**	**(5,878)**

The company's investments, totalling €1,841 thousand, related to the following:

- software licences (€903 thousand);
- upgrading and developing specialist software (€938 thousand).

Following the demerger of the ICT business unit, all software owned by Italferr at 31 July 2019 was transferred to FSTechnology, except for the software purchased by the foreign offices, which has no residual value except for the Indian office's software (approximately €1 thousand).

Disposals and divestments entirely relate to the elimination of the fully-amortised software which is now obsolete and can no longer be used by the company.

9. Deferred tax assets and deferred tax liabilities

The table below shows deferred tax assets and deferred tax liabilities at 31 December 2019 and changes of the year due to the main temporary differences between carrying amounts and the related tax amounts.

(€'000)

	31.12.2018	Incr. (decr.) through profit or loss	Incr. / (decr.) through OCI	31.12.2019
Provisions for risks and charges and impairment losses with deferred tax deductibility	4,451	3,593	(1,766)	6,278
Other items	1,110	63	(93)	1,080
Deferred tax assets:	**5,561**	**3,656**	**(1,859)**	**7,358**
Deferred taxes on unrealised exchange gains	(6)		(6)	(12)
Deferred tax liabilities	**(6)**	**0**	**(6)**	**(12)**

Changes in deferred tax assets relate to amounts to be recovered on accruals to the provision for losses on contracts, the provision for risks and charges and the loss allowance. Changes in deferred tax liabilities relate to exchange gains.

10. Equity investments

The tables below show the opening and closing balances of equity investments, broken down by category, and changes in 2019 and 2018.

(€'000)

	Carrying amount		Changes
	31.12.2019	31.12.2018	
Investments in:			
Subsidiaries	21,546	21,173	373
Joint arrangements	1	1	0
Total	**21,547**	**21,174**	**373**

The changes of the year amount to €373 thousand and are entirely related to the settlement of the purchase price for 80% of CREW – Cremonesi Workshop S.r.l., as per the investment contract agreed by the parties and calculated on the definitive figures of the company's net financial position at the purchase date (30 November 2018).

The tables below show the breakdown of equity investments and changes in 2019 and 2018.

(€'000)

	31.12.2018	Changes in the year					31.12.2019	Accumulated loss allowance
		Acquis./ subscrip.	Disp./ Repay.	Impairment losses/(gains)	Reclass.	Other changes		
Investments in subsidiaries								
CREW - Cremonesi Workshop	20,823					373	21,196	
I.E.S.	350						350	
Investments in joint arrangements								
Turkey JV (Italferr - Altinok and SWS - Italferr)	1						1	

(€'000)

	31.12.2017	Changes in the year					31.12.2018	Accumulated allowance for impairment
		Acquis./ subscrip.	Disp./ Repay.	Impairment losses/(gains)	Reclass.	Other changes		
Investments in subsidiaries								
CREW - Cremonesi Workshop		16,866				3,957	20,823	
I.E.S.	350						350	
Investments in joint arrangements								
Turkey JV (Italferr - Altinok and SWS - Italferr)	1						1	

The carrying amount of CREW includes the estimated consideration to exercise the put and call options on the residual 20% of the company (€3,957 thousand). This amount reflects the present value at 30 November 2018 of the liability corresponding to the exercise cost as a balancing entry to the equity investment. Given that the options may be exercised from 1 January 2023, a 3.6% discount rate was used which is the same as the borrowing rate for the loan that Italferr has already received from FS Italiane for the initial purchase of the controlling investment.

The following is a list of investments in subsidiaries, associates and jointly controlled entities, comparing their carrying amounts with the company's share of their equity.

(€'000)

	Registered office	Share/quota capital	Profit for the year	Equity at 31.12.2019	Investment %	Share of equity (a)	Carrying amount at 31.12.2019 (b)	Difference (b-a)
Investments in subsidiaries								
CREW - Cremonesi Workshop S.r.l.	Brescia - Italy	100	690	4,088	80%	3,270	17,240	13,970
I.E.S.	Belgrade - Serbia	350	10	708	100%	708	350	(358)
Investments in joint arrangements								
Italferr - Altinok JV	Istanbul - Turkey	0	419	419	50.1%	210	0	(210)
Italferr - SWS JV		0	141	384	50.0%	192	0	(192)

The following tables summarise the key financial figures of associates and jointly controlled entities in 2019 and 2018.

(€'000)

31.12.2019	% of investment	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Costs	Profit for the year
Investments in joint arrangements										
Italferr - Altinok JV	50.1%	450	15	**465**	(46)	0	**(46)**	740	(321)	419
Italferr-SWS - Italferr Adi Ortakligi JV	50.0%	379	56	**435**	(51)	0	**(51)**	547	(406)	141

(€'000)

31.12.2018	% of investment	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Costs	Profit for the year
Investments in joint arrangements										
Italferr - Altinok JV	50.1%	803	5	**808**	(42)	(766)	**(808)**	1,241	(475)	766
Italferr-SWS - Italferr Adi Ortakligi JV	50.0%	553	45	**598**	174		**174**	1,421	(997)	424

11. Non-current and current financial assets (including derivatives)

The caption is unchanged from 31 December 2019, as shown below:

(€'000)

	31.12.2019 Non-current	31.12.2018 Non-current	Changes
Amounts attached by banks	1	1	**0**
Other financial assets	**1**	**1**	**0**

12. Other non-current and current assets

These consist of the following:

(€'000)

	31.12.2019			31.12.2018			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Other assets from group companies		1,200	**1,200**		266	**266**		934	**934**
VAT assets		4,190	**4,190**		5,494	**5,494**		(1,304)	**(1,304)**
Sundry assets	748	1,885	**2,633**	515	1,364	**1,879**	233	521	**754**
Advances to suppliers		1,249	**1,249**		2,056	**2,056**		(807)	**(807)**
Prepayments and accrued income - third parties		539	**539**		1,259	**1,259**		(720)	**(720)**
Total	**748**	**9,063**	**9,811**	**515**	**10,439**	**10,954**	**233**	**(1,376)**	**(1,143)**
Loss allowance		(476)	**(476)**		(35)	**(35)**		(441)	**(441)**
Total net of the loss allowance	**748**	**8,587**	**9,335**	**515**	**10,404**	**10,919**	**233**	**(1,817)**	**(1,584)**

Other assets from FS Italiane group companies rose by €934 thousand on the previous year end, mainly as a result of:

- assets from RFI as reimbursement of tax demand no. 09720190158342517000 (€498 thousand).

  Under the Public contract code, which implements Law decree no. 245/2005, the Consiglio Superiore dei Lavori Pubblici (Italy's authority responsible for overseeing public works) must express a mandatory opinion on public works projects falling within the government's competence, or in any case at least 50% financed by the government, when they exceed €50 million.
  For this opinion, this authority is entitled to a contribution of 0.0005% of the value of the project works.
  Italferr, on the basis of a mandate to act in RFI's name and on its behalf, submitted a number of projects that it had prepared to the authority for its opinion.
  After expressing its positive opinion, the authority asked Italferr to pay the legally-required contribution.
  Although the company has repeatedly replied to the authority that it was acting in RFI's name and on its behalf and, therefore, is not required to pay the contribution, the authority has entrusted the collection agent with the recovery of said contribution.
  Consequently, on 20 July 2019, Italferr received the first tax demand of €498 thousand for contributions, interest and expenses, against which it appealed with the Rome provincial tax commission for lack of legal standing.
  Pending the hearing, the collection unit of the tax authorities ordered Italferr to pay the tax demand within the deadline, on penalty of a tax lien on the company's property equal to the same amount.
  Although it will pursue its appeal, Italferr decided to pay the tax demand and had RFI reimburse it for the amount.
  With respect to the other projects submitted to the authority, which were also on RFI's behalf, Italferr received another tax demand (no. 09720190170115206000) of €1,308 thousand on 7 August 2019.
  Italferr appealed against this second tax demand as well and filed a request for a stay of execution with the Rome provincial tax commission.
  In mid-December, the collection unit of the tax authorities notified four deeds of attachment to Italferr's third-party creditors.
  In this case, since the hearing for the examination of the appeal had been set for 15 January 2020, therefore prior to the expiry of the terms for the payment of the attached amounts, Italferr did not pay the tax demand.

At the hearing held on 15 January 2020, the tax judge suspended the enforceability of the tax demand and referred the hearing on the merits to a subsequent hearing scheduled for mid-March;

- assets from FSTechnology (€285 thousand) due to the ICT business unit's greater amount on the date the demerger became effective compared to the amount calculated at the time of the proposed demerger;
- assets from the subsidiary CREW related to the undistributed portion of the 2018 profit (€253 thousand).

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

Sundry assets - non-current include guarantee deposits for the lease of buildings and other assets, while the current portion (€1,885 thousand) comprises amounts due from personnel and social security institutions (€210 thousand) and other assets (€1,675 thousand), mainly VAT and other tax assets related to foreign offices (€888 thousand) and assets for items related to the liquidation of the Iran branch (€462 thousand). Given the country risk, the latter amounts, net of the amounts to be paid in connection with the liquidation, were written off.

Advances to suppliers (€1,249 thousand) are for engineering service engagements assigned to third parties and not yet completed.

Prepayments and accrued income - third parties decreased on the previous year end especially as a consequence of the software maintenance contracts which provided for annual advance consideration following the demerger of the ICT business unit.

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

(€'000)

	31.12.2019	31.12.2018	Changes
Italy	7,682	9,547	**(1,865)**
Other European countries (non-Euro EU)	51	44	**7**
Other non-EU European countries		252	**(252)**
Other countries	1,602	1,076	**526**
Total net of the loss allowance	**9,335**	**10,919**	**(1,584)**

13. Non-current and current trade receivables

The company's trade receivables are all current and are broken down as follows:

(€'000)

	31.12.2019	31.12.2018	Change
Ordinary customers	17,489	16,016	1,473
Government authorities and other public authorities	328	1,123	(795)
Assets from group companies	90,429	47,565	42,864
Loss allowance	(6,903)	(7,971)	1,068
Carrying amount	**101,343**	**56,733**	**44,610**
Contract assets	150,958	135,845	15,113
Loss allowance	(222)	(181)	(41)
Carrying amount	**150,736**	**135,664**	**15,072**
Total net of the loss allowance	**252,079**	**192,397**	**59,682**

The significant increase in the amounts due from the group companies is due to the concentration of turnover with RFI near the reporting date and the failure to collect the past due amount from Ferrovie del Sud Est.

Amounts due from third party customers rose on 2018 year end, mainly as a result of the combined effect of the Salini Impregilo contract to support this customer's bid in Texas. The contract was invoiced mostly in the last quarter of the year. In addition, the increase in the caption was also due to the collection of amounts, some of which referred to 2018, from certain foreign customers (e.g., Qatar, Egypt and Argentina).

Amounts due from the public administration decreased considerably on the previous year end following the collection of the entire amount due from the Salerno municipality (€982 thousand) at the end of a lengthy collection procedure.

As already described in note 11, to which reference should be made, in mid-December, the collection unit of the tax authorities notified four public administration customers that the amounts due to Italferr

(a total of €78 thousand) would be subject to attachment. In their subsequent communication of 18 February 2020, the tax authorities waived the attachment of the amounts due by Italferr's four customers, thereby releasing the entire amount (€78 thousand).

Based on the overall improvement of the ageing of trade receivables on 2018, the loss allowance was decreased despite the continuing difficulties affecting Società Italiana Condotte d'Acqua, under receivership, and the Ethiopian customer.

Contract assets are broken down by counterparty below:

(€'000)

	31.12.2019			31.12.2018		
	Work in progress	Advances and progress billings	Net balance	Work in progress	Advances and progress billings	Net exposure
RFI	1,106,953	(973,075)	133,878	999,355	(875,558)	123,797
Other group companies - Italy	20,146	(11,677)	8,469	15,776	(9,506)	6,270
Third parties	8,803	(6,626)	2,177	6,104	(5,004)	1,100
Total Italy	**1,135,902**	**(991,378)**	**144,524**	**1,021,235**	**(890,068)**	**131,167**
Third parties	39,606	(33,172)	6,434	53,010	(48,332)	4,678
Total abroad	**39,606**	**(33,172)**	**6,434**	**53,010**	**(48,332)**	**4,678**
Total	**1,175,508**	**(1,024,550)**	**150,958**	**1,074,245**	**(938,400)**	**135,845**

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

(€'000)

	31.12.2019	31.12.2018	Change
Italy	242,874	179,735	63,139
Eurozone countries		784	(784)
Other European countries (non-Euro EU)	257	70	187
Other non-EU European countries	1,994	703	1,291
Other countries	6,954	11,105	(4,151)
Total net of the loss allowance	**252,079**	**192,397**	**59,682**

14. Cash and cash equivalents

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

(€'000)

	31.12.2019	31.12.2018	Change
Bank and postal accounts	9,534	16,068	(6,534)
Cash and cash on hand	18	17	1
Total	**9,552**	**16,085**	**(6,533)**
Loss allowance	(18)	(19)	1
Total net of the loss allowance	**9,534**	**16,066**	**(6,532)**

The decrease on the 2018 year end is due to the fact that, during the year, the excess balance on the bank accounts of foreign offices, especially those expressed in US dollars, was transferred to euro accounts when the exchange rates were favourable, and to the fact that, in 2018, some amounts were collected from foreign customers (Argentina, Uzbekistan and Morocco) near the reporting date.

Given the reasons described in note 11 on Other current assets, to which reference should be made, in mid-December, the collection unit of the tax authorities ordered the attachment of €1,359 thousand deposited on Italferr's current accounts with Intesa Sanpaolo.
However, in a communication to the bank dated 18 February 2020, the tax authorities waived the attachment, thereby releasing the above amount.

15. Tax assets

This caption has a nil balance as the difference between current taxes and the advances paid during the year cancelled out the previous tax asset. Therefore, the difference resulted in a tax liability. For additional information, reference should be made to the note "Tax liabilities".

(€'000)

	31.12.2019	31.12.2018	Change
IRAP	0	77	(77)
IRES	0	1	(1)
Total	**0**	**78**	**(78)**

16. Equity

Changes in the main equity captions in 2019 and 2018 are analysed in the table at the beginning of these notes.

Share capital
The company's entirely subscribed and paid-up share capital at 31 December 2019 consists of 14,186 ordinary shares with a nominal amount of €1,000 each, for a total of €14,186,000.

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

Extraordinary reserve: this reserve amounts to €26,442 thousand. The €311 thousand decrease on the previous year end is equal to the amount of the business unit transferred to FSTechnology following the demerger of the ICT business unit.

Other reserves. These consist of the following:

- *Reserve as per art. 13 of Leg. decree no. 124/1993 (€33 thousand):* this reserve includes the portions of profit for the year accrued up to 2000 and equal to 3% of post-employment benefits transferred to complementary pension schemes. Pursuant to article 13.6 of Legislative decree no. 124/1993, an amount not exceeding 3% of the annual accrual of post-employment benefits transferred to complementary pension funds was deductible for income tax purposes, provided that the deductible amount was accrued in a specific equity reserve. Article 13.6 was repealed by article 3.1.*c*).1 of Legislative decree no. 47/2000;
- *Translation reserve (€644 thousand)*: this reserve includes net unrealised exchange gains which, pursuant to article 2426-bis of the Italian Civil Code, must be taken to a non-distributable reserve until they are realised. At year end, unrealised losses amounted to €107 thousand. Therefore, the balance, which is entirely available, was not adjusted;

Actuarial reserve: this reserve has a negative balance of €4,906 thousand and includes the actuarial losses on employee benefits taken directly to equity, net of the €1,687 thousand tax effect.

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

Profit for the year

The profit for 2019 from continuing operations amounts to €30,395 thousand.

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

(€'000)

Origin	Balance at 31.12.2019 (a+b)	Unavailable portion (a)	Available portion of (b)	Possibility of use	Summary of uses in the past three years		
					Capital increase	Coverage of losses	Dividends
Share capital	**14,186**	**14,186**					
Income-related reserve:							
Legal reserve	2,837	2,837					
Extraordinary reserve	26,442		26,442	A,B,C			
Reserve as per art. 13 Leg. decree no. 124/93	33		33	B			
Translation reserve	644		644	A,B,C			
IFRS reserve	(4,906)	(4,906)					
Retained earnings	3,269	3,269					
TOTAL	**42,505**	**15,386**	**27,119**		**0**	**0**	**0**

A: capital increase

B: coverage of losses

C: dividends

17. Non-current and current loans and borrowings

The caption is detailed in the following two tables.

Non-current loans and borrowings, net of the current portion	31.12.2019	31.12.2018	Changes
Loans and borrowings from group companies	12,000	13,500	(1,500)
Total	**12,000**	**13,500**	**(1,500)**

(€'000)

Current portion of non-current loans and borrowings	31.12.2019	31.12.2018	Changes
Loans and borrowings from group companies (current portion)	1,500	1,500	0
Total	**1,500**	**1,500**	**0**

This caption relates to the loan received from FS Italiane in November 2018 to purchase an investment in CREW.

Interest on this loan accrues at a fixed rate of 3.65% and repayment is at the end of each half year, starting 30 June 2019. This explains why accrued interest was recognised in 2018 but not in 2019.

The loan characteristics are shown in the table below.

(€'000)

	Currency	Nominal interest rate	Year of expiry	31.12.2019		31.12.2018	
				Nomin. amount	Carrying. amount	Nomin. amount	Carrying. amount
Ferrovie dello Stato Italiane S.p.A.	€	3.65%	2028	15,000	13,500	15,000	15,000
Total loans and borrowings				**15,000**	**13,500**	**15,000**	**15,000**

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

(€'000)

	31.12.2018	Monetary items (statement of cash flows)	Non-monetary items	31.12.2019
			New leases	
Disbursement (repayment) of current and non-current loans and borrowings	15,047	(1,547)		20,891
Change in other financial assets	(1)			(1)
Change in other financial liabilities	9,438	11,682	7,391	21,120
Total	**24,484**	**10,135**	**7,391**	**42,010**

The following table shows the net financial position as per the reclassified statement of financial position included in the directors' report on the 2019 financial statements, compared with that at 31 December 2018:

(€'000)

	31.12.2019	31.12.2018	Changes
Current net financial position			
Cash and cash equivalents	9,534	16,066	(6,533)
Intragroup current account	(21,121)	(9,439)	(11,682)
Other financial liabilities	(1,500)	(1,547)	47
Other	(2,313)		(2,313)
Total current net financial position	**(15,399)**	**5,081**	**(20,480)**
Net non-current financial position			
Other financial liabilities	(12,000)	(13,500)	1,500
Other	(5,078)	0	(5,078)
Net non-current financial position	**(17,078)**	**(13,500)**	**(3,578)**
Total	**(32,477)**	**(8,419)**	**(24,058)**

18. Post-employment and other employee benefits

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

(€'000)

	31.12.2019	31.12.2018	Changes
Present value of post-employment benefit obligations	22,395	25,349	(2,954)
Present value of CFC obligations	440	332	108
Total present value	**22,835**	**25,681**	**(2,846)**

(€'000)

	31.12.2019	31.12.2018	Changes
Opening balance	25,681	28,612	(2,931)
Business unit demerger	(477)	0	(477)
Curtailment[1]	(61)		
Service cost[2]	11	10	1
Interest cost[2]	119	152	(33)
Actuarial (gains) losses recognised in equity	498	(196)	694
Advances/utilisations and other changes	(2,936)	(2,897)	(39)
Closing balance	**22,835**	**25,681**	**(2,785)**

The decrease in this caption is due to the significant utilisations for terminations, transfers and advances which, again this year, involved many employees (93 in 2019 and 85 in 2018).

1 curtailment reflects the change in the liability due to the plan amendments caused by the decrease in workforce following the demerger of the ICT business unit

2 through profit or loss

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

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

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

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

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

Actuarial assumptions

The main actuarial assumptions are summarised below:

	31.12.2019	31.12.2018
Discount rate (post-employment benefits)	0.17%	0.77%
Discount rate (Free Travel Card)	0.77%	1.57%
Annual increase rate of post-employment benefits	2.40%	2.63%
Inflation rate (post-employment benefits)	1.20%	1.50%
Inflation rate (Free Travel Card)	1.20%	1.50%
Expected turnover rate for employees (post-employment benefits)	3.00%	3.00%
Expected turnover rate for employees (Free Travel Card)	3.00%	3.00%
Expected rate of advances (post-employment benefits)	2.00%	2.00%

Mortality	RG48 mortality rate published by the General Accounting Office
Disability	INPS tables broken down by gender and age
Retirement age	100% upon meeting the compulsory general insurance requirements

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

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

2019 (€'000)

	Post-employment benefits	Free Travel Card
Inflation rate +0.25%	22,549,402	447,566
Inflation rate -0.25%	22,242,448	426,146
Discount rate +0.25%	22,160,181	422,554
Discount rate -0.25%	22,636,914	451,495
Turnover rate +1%	22,300,587	
Turnover rate -1%	22,498,439	
Plan duration	5.0	14
Estimated future payments - first year	10,419,156	17,766
Estimated future payments - second year	2,616,275	18,962
Estimated future payments - third year	498,240	20,071
Estimated future payments - fourth year	535,266	20,879
Estimated future payments - fifth year	625,425	21,619

19. Provisions for risks and charges

This caption amounts to €21,560 thousand. The opening and the closing balance of and changes in the provisions for risks and charges for are given below, indicating the current portion:

(€'000)

	31.12.2018	Accruals	Reclassifications	Utilisations and other changes	Demerger	31.12.2019
Litigation with employees	587	147		(15)	(54)	665
Litigation with third parties	3,194	1,741	258	(226)		4,967
Employee remuneration to be defined	3,220	4,184	(258)	(1,930)	(25)	5,191
Provision for losses on contracts	7,391	6,388		(3,042)		10,737
Total non-current portion	**14,392**	**12,460**	**0**	**(5,213)**	**(79)**	**21,560**

The provision for litigation with third parties rose considerably as a result of new claims for compensation of damage brought against the company in 2019, including as jointly and severally liable with customers and/or RFI.

Employee remuneration to be defined shows the estimated remuneration and related social security charges for performance bonuses and contract renewals.

The provision for losses on contracts relates to the measurement of the lifetime profit or loss of certain contracts in progress required by IAS 37 Provisions, contingent liabilities and contingent assets. A provision is immediately accrued for loss-making contracts and progressively released over the performance of the contract.

20. Non-current and current liabilities (including derivatives)

(€'000)

	31.12.2019			31.12.2018			Changes		
	non-current	current	Total	non-current	current	Total	non-current	current	Total
Financial liabilities									
Lease liabilities	5,078	2,313	**7,391**				5,078	2,313	**7,391**
Other financial liabilities		21,121	**21,121**		9,439	**9,439**		11,682	**11,682**
Total	**5,078**	**23,434**	**28,512**	**0**	**9,439**	**9,439**	**5,078**	**13,995**	**19,073**

As described in note 4, following the adoption of IFRS 16 Leases, Italferr recognised lease liabilities equal to the present value of the residual lease payments, discounted using the incremental borrowing rate at 1 January 2019. Lease liabilities, broken down into current and non-current, amount to €7,391 thousand.

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

Engineering	1Y	2Y	3Y	4Y	5Y	6Y	7Y	8Y	9Y	10Y
FTA rates	1.17%	1.63%	2.07%	2.44%	2.75%	3.03%	3.27%	3.39%	3.59%	3.75%
2019 rates	0.98%	1.29%	1.73%	1.95%	2.24%	2.40%	2.63%	2.72%	2.84%	3.04%

The following table shows the changes in lease liabilities in the year. The increase is a consequence of new leases and lease payments of the year.

(€'000)

	1.1.2019	New liabilities	Repayment of instalments	31.12.2019
Lease liabilities	7,978	1,903	(2,490)	7,391

Other financial liabilities are entirely comprised of those with the parent on the related intragroup current account.

21. Other non-current and current liabilities

These consist of the following:

(€'000)

	31.12.2019			31.12.2018			Changes		
	non-current	current	Total	non-current	current	Total	non-current	current	Total
Social security charges payable		12,992	**12,992**		11,610	**11,610**		1,382	**1,382**
Other liabilities with group companies		180	**180**		9	**9**		171	**171**
Other liabilities and accrued expenses and deferred income	4,123	24,329	**28,452**	3,970	18,183	**22,153**	153	6,146	**6,299**
Total	**4,123**	**37,501**	**41,624**	**3,970**	**29,802**	**33,772**	**153**	**7,699**	**7,852**

Social security charges payable (€12,992 thousand) include accrued 14th month pay and holidays accrued but not yet taken, along with amounts due to Inarcassa of €7,235 thousand.

The increase over the previous year end is due to the larger workforce and the rise in amounts due to Inarcassa (€1,660 thousand) as a result of the larger intragroup revenue.

The current portion of Other liabilities, amounting to €24,329 thousand, includes amounts due to personnel for remuneration accrued but not yet paid (€8,569 thousand, up by €1,606 thousand) and holidays accrued but not yet taken at 31 December 2019 (€2,353 thousand), which are in line with the previous year end, the tax consolidation liability (€7,163 thousand), which includes the 2019 IRES advances paid to the parent, net of current tax liabilities and the withholdings applied to employees and freelancers to be transferred to the tax authorities (€2,878 thousand, down by €48 thousand).

The non-current portion of Other liabilities refers to the present value of the call option (€4,123 thousand) for the remaining 20% of CREW, which the company may exercise as from 1 January 2023, as provided for by the quotaholders' agreements.

22. Current and non-current trade payables

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

(€'000)

	31.12.2019	31.12.2018	Changes
Suppliers	15,385	18,675	(3,290)
Group companies	14,460	10,998	3,462
Contract liabilities for work in progress	97,417	92,794	4,623
Total	**127,262**	**122,467**	**4,795**

The increase in amounts due to group companies is due, in particular, to the fact that FSTechnology did not invoice the services provided from 1 August until near the year end (€4,843 thousand), whereas Ferservizi issued invoices more regularly. This, together with the decrease in facility services, resulted in amounts due to the related party of €1,933 thousand at year end (€3,346 thousand at 31 December 2018).

The increase in contract liabilities is mainly due to the progress of contracts with RFI which, based on the relevant contractual terms, is not proportional to progress billings.

Contract liabilities are broken down by counterparty below:

(€'000)

	31.12.2019	31.12.2018	Changes
RFI	88,910	84,422	4,488
Other group companies	4,614	2,412	2,202
Third parties	3,893	5,960	(2,067)
Total	**97,417**	**92,794**	**4,623**

23. Tax liabilities

As shown in the following table, the caption includes the IRAP (regional production tax) liability, generated by the difference between taxes of the year and advances paid, and foreign tax liabilities.
Specifically, it includes tax liabilities relating to Argentina (€178 thousand), India (€124 thousand), Peru (€90 thousand), Qatar (€84 thousand) and Egypt (€19 thousand).

(€'000)

	2019	2018	Change
IRAP	911	313	598
Foreign tax liabilities	565	2,534	(1,969)
Total	**1,476**	**2,847**	**(1,371)**

24. Revenue from sales and services

The tables and comments below give a breakdown of revenue from sales and services:

(€'000)

	2019	2018	Changes
Engineering and consultancy services	157,668	129,245	28,423
Works management and supervision	68,322	69,830	(1,508)
Total revenue from sales and services	225,990	199,075	26,915

Revenue from sales and services entirely refers to the engineering services that are the company's core business. The increase on 2018 is mainly due (95%) to the improved profitability of the contracts during the year, in both business sectors in which Italferr operates.

With respect to the captive market, revenue increased following the contracts for significant works obtained from RFI (e.g., definitive design of the Messina – Catania – Palermo sections) and the additional work, again requested by RFI as part of previously acquired contracts with, in certain cases, price adjustments for the increase in the final amount of works.

With respect to the non-captive market, revenue increased as a result of new acquisitions and the completion of the Saudi Landbridge contract, in Saudi Arabia, without the customer requesting the contractually-agreed support activities from the contractor.

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

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

In other words, contract assets represent the right to consideration for work completed but not yet invoiced at the reporting date. These assets are reclassified under receivables when the right becomes unconditional, while contract liabilities are mainly represented by advances received for which revenue will be recognised.

The table below provides information about contract assets and liabilities:

(€'000)

	31.12.2019	31.12.2018	Changes
Contract assets classified under Current trade receivables	101,343	56,733	44,610
Contract assets	150,958	135,845	15,113
Contract liabilities	97,417	92,794	4,623

The table below shows the changes in contract assets and liabilities for the year.

(€'000)

31.12.2019	Contract assets	Contract liabilities	Income statement
Revenue recognised during the year which was included in the opening balance of contract liabilities	(28,483)	(75,655)	
Increases in contract liabilities, net of the amounts recognised as revenue during the year	(77,765)	(33,597)	
Increases in contract assets due to the provision of services	119,545	89,511	209,056
Increases in contract assets due to changes in the assessment of the percentage of completion	1,816	15,118	16,934
Total	**15,113**	**(4,623)**	**225,990**

A breakdown of revenue from customers by geographical segment, type and moment of recognition is set out in the following table:

(€'000)

Other services	2019	2018	Changes
Geographical segment			
Italy	202,375	175,435	26,940
Europe	3,691	1,993	1,698
Non-EU	19,924	21,668	(1,744)
Total revenue from sales and services	**225,990**	**199,096**	**26,894**
Type of service			
Engineering and consultancy services	157,668	129,245	28,423
Works management and supervision	68,322	69,830	(1,508)
Total revenue from sales and services	**225,990**	**199,075**	**26,915**
Moment of recognition			
At a point in time			
Over time	225,990	199,075	26,915
Total revenue from sales and services	**225,990**	**199,075**	**26,915**

25. Other income

This caption can be analysed as follows:

(€'000)

	2019	2018	Changes
Indemnities	90	82	8
Training courses to third parties	24	21	3
Supplier vetting	66	60	6
Supplier penalties	8	51	(43)
Repayments	147	2	145
Other	297	18	279
Other income	**632**	**234**	**398**

The main change between the two year ends is due to liabilities classified as Other (€297 thousand) which arose as part of the demerger of the ICT business unit, following the transfer of the IT contracts to the related company FSTechnology, and did not exist at 31 December 2018.

26. Personnel expense

This caption can be analysed as follows:

(€'000)

	2019	2018	Changes
Wages and salaries	67,028	63,543	3,485
Social security charges	18,282	18,079	203
Other expense for employees	7,309	8,269	(960)
Post-employment benefits	4,664	4,410	254
Service cost TFR/CLC	11	10	1
Net accruals for employees	4,331	3,238	1,093
Employees	**101,625**	**97,549**	**4,076**
Wages and salaries	63	150	(87)
Social security charges	45	52	(7)
Other expense	0		0
Consultants and contract workers	**108**	**202**	**(94)**
Temporary workers, seconded employees and work experience	1,817	5,145	(3,328)
Other expense	1,942	1,847	95
Other costs	**3,759**	**6,992**	**(3,233)**
Total	**105,493**	**104,743**	**750**

Personnel expense is essentially in line with the previous year, slightly up (+€750 thousand or +1%), despite the increase in the workforce by 76 FTEs (full time equivalent) or 5%.

This is mainly due to the significant turnover of the year and the relief that the company received on social security contributions, which reduced the average per capita cost (lower seniority of the newly-hired employees and increased number of outgoing employees).

The €1,093 thousand increase in net accruals for employees is due to the estimated remuneration and related social security charges for performance bonuses and contract renewals.

Finally, the decrease in temporary workers is due to the newly-hired employees which resulted in a reduction of €3,328 thousand on the previous year.

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

average FTE

	2019	2018	Change
Managers	64	62	2
Junior managers	606	635	(29)
White collars	795	628	167
Total employees	**1,465**	**1,325**	**140**
Temporary workers	33	95	(62)
Contract workers	1	2	(1)
Total flexible staff	**34**	**97**	**(64)**
Total	**1,499**	**1,422**	**77**

27. Raw materials, consumables, supplies and goods

This caption is in line with the previous year, as shown below:

(€'000)

	2019	2018	Changes
Materials and consumables	315	336	(21)
Total	**315**	**336**	**(21)**

28. Services

This caption can be analysed as follows:

(€'000)

	2019	2018	Changes
Engineering services	36,040	33,204	2,836
Administrative and IT services	9,632	6,615	3,017
Travel and accommodation	5,653	5,660	(7)
Facilities	3,231	3,917	(686)
Professional services	1,502	2,069	(567)
Utilities	894	925	(31)
Insurance	1,506	1,539	(33)
External communications and advertising expense	172	132	40
Maintenance, cleaning and other contracted services	141	53	88
Other	2,975	3,164	(189)
Total	**61,746**	**57,278**	**4,468**

The €4,468 thousand increase is mainly due to engineering and IT services: the former reflect production volumes (+€2,836 thousand), while the latter relate to the partial demerger of the ICT business unit to FSTechnology (+€3,079 thousand).

In the merger, Italferr transferred ownership of the assets, resources and contracts with providers for the company's hardware and software management and IT development. Consequently, since the date the merger became effective, FSTechnology has ensured the pre-existing service level with its personnel and made planned investments through direct purchases and development.

For these services, FSTechnology received an annual consideration which covers the amortisation/depreciation of the transferred assets and that of new investments. Consequently, as of 1 August 2019, Italferr's amortisation and depreciation decreased, while costs for services increased.

The increases in the above items were partly offset by savings compared to 2018, especially in relation to facility services (-€686 thousand) and professional services (-€567 thousand).

The decrease in facility services is mainly due to the fact that the new Milan offices and the new spaces in the Rome offices were set up in 2018 but no such work was necessary in 2019.

On the other hand, professional services decreased especially as a consequence of the absence of fees due for the administrative management of the contract for the Red Line metro in Doha, Qatar, following the completion of the contract (-€222 thousand) and the updating of the contract for the use of the Uzbek offices, in which the lease fee was separated from that for office services: in 2019, only the latter was recognised in services.

29. Use of third-party assets

These costs are detailed in the table below:

(€'000)

	2019	2018	Changes
Lease payments			
Lease payments, condominium expenses and registration tax	1,744	3,909	(2,165)
Hires and other	1,516	1,960	(444)
Total	**3,260**	**5,869**	**(2,609)**

As of 1 January 2019, the company has applied IFRS 16 using the modified retrospective approach (without restating comparative figures).

Consequently, in the table below, the figures were adjusted to exclude the impact of IFRS 16 for the purposes of an effective comparison.

(€'000)

	2019	IFRS 16 effect	2019 gross of IFRS 16 (a)	2018 (b)	Changes (a-b)
Lease payments, condominium expenses and registration tax	1,744	2,376	4,120	3,909	211
Hires and other	1,516	276	1,792	1,960	(168)
Total	**3,260**	**2,652**	**5,912**	**5,869**	**43**

The lease payments which remained in the income statement relate to short-term leases (with a term of 12 months or less), leases where the underlying asset has a low value (worth €5,000 or less) and building expense (related to variable payments), which were not included in the measurement of lease liabilities.

30. Other operating costs

This caption can be analysed as follows:

(€'000)

	2019	2018	Changes
Contribution for Free Travel Cards	953	958	(5)
Local property and waste disposal taxes	316	314	2
Membership fees	119	120	(1)
Entertainment expenses	25	16	9
Other taxes and duties	114	236	(122)
Other	313	420	(107)
Losses	8	2	6
Net accruals	5,087	3,759	1,328
Total	**6,935**	**5,825**	**1,110**

The significant increase in other operating costs was mainly due to net accruals, which cover:

- the probable liabilities for litigation in case they lose the case, which the company estimated by considering pending litigation (€1,741 thousand, +€484 thousand on 2018);
- net losses on contracts (€3,346 thousand), net of releases based on contract progress and, therefore, net of the realised loss.

The contribution for the Free Travel Card is the amount paid to Trenitalia for the free transport of Italferr employees. The new 2018 - 2020 contract, which updated the calculation of the number of Free Travel Cards assigned to current and retired Italferr personnel, adjusted the annual fee.

Other taxes and duties comprise amounts withheld by the company on fees invoiced for services carried out for the Argentinian branch.

31. Internal work capitalised

Internal work capitalised (€3 thousand) relates to the cost of in-house software development which was included in assets under development transferred to FSTechnology together with the business unit.

32. Amortisation and depreciation

They total €5,888 thousand and are broken down in the following table. Reference should be made to notes 7 and 8 for further information.

(€'000)

	2019	2018	Change
Amortisation of intangible assets	1,515	2,337	(822)
Depreciation of property, plant and equipment	4,373	2,123	2,250
Total	**5,888**	**4,460**	**1,428**

33. Net impairment gains

This caption, which is broken down in the following table, shows a positive balance following the updated estimated recoverability of trade receivables. Reference should be made to note 13 for further information.

(€'000)

	2019	2018	Change
Net impairment losses (gains)	(601)	3,730	(4,331)
Cash and cash equivalents		3	(3)
Total	**(601)**	**3,733**	**(4,334)**

34. Financial income

(€'000)

	2019	2018	Change
Other financial income	4	176	(172)
Dividends	1,043	455	588
Exchange gain	775	703	72
Total	**1,822**	**1,334**	**488**

Financial income rose as a result of the dividends (€1,043 thousand) paid during the year by the Italferr/Altinok joint venture (€318 thousand) and the subsidiary CREW Cremonesi Workshop (€725 thousand).

35. Financial expense

(€'000)

	2019	2018	Change
Financial expense on employee benefits	119	153	(34)
Sundry financial expense	930	156	774
Exchange loss	420	1,100	(680)
Totale	**1,469**	**1,409**	**60**

The increase in other financial expense is mainly due to the interest on the non-current loan to purchase CREW which, in 2019, covered the entire year (+€494 thousand) and the amounts accrued on leases in accordance with IFRS 16 (+€157 thousand).

The increase was offset by the reduction in exchange losses following the more favourable overall trend in exchange rates in the markets in which Italferr operated.

36. Current and deferred taxes

Income taxes can be analysed as follows:

(€'000)

	2019	2018	Change
IRAP	2,520	1,372	1,148
IRES	12,419	6,866	5,553
Current foreign taxes	767	1,893	(1,126)
Deferred taxes	(1,696)	(2,564)	868
Adjustments to prior year income taxes	(462)	659	(1,121)
Total	**13,548**	**8,226**	**5,322**

Overall, this caption increased due to the rise in taxable profit on 2018.

Net deferred tax expense of €1,696 thousand include the €1,655 thousand reversal of deferred IRES assets and the deferred tax assets of €3,656 thousand recognised during the year, €3,593 thousand of which relates to accruals to provisions for risks and loss allowances.

The positive adjustments for prior year income taxes are mainly due to lower income taxes than that previously estimated and recognised as due to the Saudi Arabia (€178 thousand), Argentinean (€152 thousand) and Egyptian (Euro 112 thousand) tax authorities.

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

Reconciliation of the actual tax rate

(€'000)

	2019		2018	
	Amount	%	Amount	%
Profit for the year	30,395		8,813	
Total income taxes	13,548		8,226	
Pre-tax profit	43,943		17,039	
Theoretical IRES (national tax rate)	**10,546**	24.00%	**4,089**	24.00%
Lower taxes				
Other decreases	(1,887)	-4.29%	(1,176)	-6.90%
Higher taxes				
Accruals to provisions	2,990	6.80%	3,230	18.96%
Prior year expense	244	0.56%	135	0.79%
Other increases	526	1.20%	588	3.45%
Total current taxes (IRES)	**12,419**	28.26%	**6,866**	40.30%
IRAP	2,520	5.73%	1,372	8.05%
Foreign taxes	767	1.75%	1,894	11.12%
Difference on estimated prior year taxes	(462)	-1.05%	659	3.87%
Total deferred taxes	(1,696)	-3.86%	(2,565)	-15.05%
Total	**13,548**	**30.83%**	**8,226**	**48.28%**

37. Contingent assets and liabilities

The company has not recognised any contingent assets.

With respect to contingent liabilities, below is a description of the rulings in which Italferr was involved or that were in any case notified to the latter during the year, for which the risk of losing appears possible both because Italferr lacks legal standing, and because, at the current stage of the proceedings, the pre-trial investigation presents no elements that would justify an opposing claim.

ADMINISTRATIVE AND CIVIL PROCEEDINGS

- COGEL and Unicredit v RFI and Italferr - Civil Court of Rome: the claimants COGEL and Unicredit asked the Court of Rome to order RFI and Italferr - jointly and severally and proportionately - pay over €18.5 million for sundry charges (irregular performance, lost profit, underproduction, etc.) already covered by the claims made during the performance of the work, as well as further charges and damages as a result of the contractual termination with just cause some time ago. The works covered by the contract included the construction of the office, civil works, superstructure and ET for the construction of the HS link required to complete the interconnection of the Bologna-Padua HS/HC line and the technical and administrative management (including the works management function) was carried out by Italferr in the name and on behalf of the customer RFI. RFI and Italferr appeared in court on 24 April 2019 and the case was adjourned to the hearing of 4 February 2020 for the appointment of the court-appointed expert;
- NBI S.p.A. under deed of arrangement v Ferrovie dello Stato Italiane and Italferr - Civil Court of Rome: on 11 April 2019, NBI S.p.A. (formerly NBI S.r.l.) served RFI and Italferr a writ of summons before the Civil Court of Rome, Companies section, related to Agreement 1/2013 signed with Italferr in Ferrovie dello Stato Italiane's name and on its behalf, awarded following an open tender procedure for the awarding of the works to comply with the fire-prevention project and to install the new heating and cooling system of the Villa Patrizi property complex, which houses the offices of the FS Italiane group. NBI asked the Judge to confirm the termination of agreement 1/2013 due to the Principal's exclusive fault and negligence, with a consequent order to pay damages amounting to approximately €16 million. Italferr did not appear in court in agreement with Ferrovie dello Stato Italiane, whose arguments in its defence were based on Italferr's lack of capacity to be sued with respect to all the claims made by the contractor;
- Salvatore Matarrese S.p.A. in liquidation and under deed of arrangement v RFI and Italferr - Civil Court of Rome: on 4 July 2019, Salvatore Matarrese S.p.A. served a writ of summons for the recognition of claims in respect of the contract for the construction of a railway section as a variant of the Bari junction. The claimed amount is equal to €5,847 thousand in addition to interest and monetary revaluation. RFI and Italferr appeared before the court jointly;
- Consorzio AMC v RFI and Italferr - Civil Court of Naples: on 6 June 2019, Consorzio stabile AMC Scarl served a writ of summons to RFI and Italferr, as principal and works manager, respectively, of the works covered by agreement 7/2015, petitioning the court to confirm the non-performance of the obligations under article 118 of Legislative decree no. 163/2006 (exposing the claimant subcontractor to non-payment of the works carried out) and to order said companies, jointly and severally, to pay damages and the amounts due. The claimed amount is equal to €1,059 thousand in addition to interest and any additional damages. RFI and Italferr appeared before the court jointly;
- D&V Industry S.r.l. v RFI, Italferr et al. - Court of Venice: the case originates from the factoring agreement under which D&V Industry transferred with recourse to Banca IFIS the consideration receivable for the subcontracting of the construction work on the Napoli Afragola HS railway station. Since the factored receivable had not been paid, due to the commencement of the contractor's (the transferred obligor) bankruptcy proceedings, Banca IFIS (assignee) petitioned and received from the Court of Venice an order against D&V (assignor) to return the amounts paid in advance

up to €946 thousand, plus interest and the costs of the order to pay. On 17 July 2019, as part of the proceedings against the above order to pay, D&V notified RFI and Italferr to have them hold it harmless given the alleged violation of the legislation that makes the customer liable for the direct payment of the subcontractor. At present, the only decision issued by the judge in the proceedings to challenge the order is that dated December 2019, granting the provisional enforceability of the previous order without dealing with the merits of the call on guarantor.

38. Audit fees

Pursuant to article 37 of Legislative decree no. 39/2010 and letter 16-bis of article 2427 of the Italian Civil Code, the independent auditors' fees, comprising out-of-pocket expenses and the Consob contribution, amount to €67 thousand, in addition to non-audit service fees of €11 thousand.

39. Directors' and statutory auditors' fees

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

(€'000)

	2018	2018	Change
Directors	150	146	4
Statutory auditors	39	39	0
Total	**189**	**185**	**4**

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

In addition to the above fees, the independent members of the Supervisory Body received fees of €46 thousand for 2019.

40. Management and coordination

The 2018 key financial figures of the direct parent are reported below:

Euros

Statement of financial position	31.12.2018	31.12.2017
Total non-current assets	44,848,060,693	42,774,570,809
Total current assets	3,894,254,481	4,661,967,017
Assets held for sale and disposal groups	22,395,159	
Total assets	**48,764,710,333**	**47,436,537,826**
Share capital	39,204,173,802	36,340,432,802
Reserves	50,721,101	39,064,076
Retained earnings	315,334,328	256,834,398
Profit for the year	62,397,577	230,910,168
Total equity	**39,632,626,808**	**36,867,241,444**
Total non-current liabilities	6,369,094,667	7,241,430,734
Total current liabilities	2,762,988,858	3,327,865,648
Total liabilities	**9,132,083,525**	**10,569,296,382**
Total equity and liabilities	**48,764,710,333**	**47,436,537,826**

Euros

Income statement	2018	2017
Revenue	180,129,063	182,143,151
Operating costs	(237,018,108)	(200,505,547)
Amortisation and depreciation	(24,452,824)	(21,376,666)
Net impairment gains	(15,769,858)	(4,889,162)
Net financial income	30,809,528	166,103,768
Income taxes	128,699,776	109,434,624
Profit for the year	**62,397,577**	**230,910,168**

41. Related parties

Related parties were identified in accordance with IAS 24.

Transactions with key managers

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

Key managers' fees are as follows:

(€'000)

	2019	2018
Short-term benefits	2,552	2,291
Post-employment benefits (*)	194	171
Other long-term benefits		
Termination benefits		405
Total	**2,746**	**2,867**

(*) In addition to performance-based remuneration to be paid in 2020 not exceeding €680 thousand

Other related party transactions

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

	Assets	Liabilities
Subsidiaries		
I.E.S. d.o.o.		Trade and other: services
Italferr - Altinok JV	Trade; Financial: shareholder loans	
Italferr - SWS JV	Trade; Financial: shareholder loans	
CREW - Cremonesi Workshop S.r.l.	Trade; Financial: shareholder loans	
Parent		
Ferrovie dello Stato Italiane	Trade and other: services; funding of training; group VAT Financial: intragroup current account	Trade and other: services and trademark use; group VAT; guarantees Financial: intragroup current account
Other companies		
BBT	Trade and other: services	
Busitalia Rail Service		Trade and other: services
Fercredit		Trade and other: factoring
Ferrovie del Sud Est	Trade and other: engineering services	
Ferservizi		Trade and other: leases and services
FS Sistemi Urbani	Trade and other: engineering services Financial: guarantee deposits	Trade and other: leases
Grandi Stazioni Immobiliare		Trade and other: leases
Grandi Stazioni Rail	Trade and other: engineering services	Trade and other: leases
Italcertifer	Trade and other: engineering services	
Mercitalia Rail S.r.l. (FS Telco)	Trade and other: services	
Metropark		Trade and other: services
RFI	Trade and other: engineering services, lease payments. Financial: guarantee deposits	Trade and other: leases and services
TELT	Trade and other: services	
Trenitalia	Trade and other: engineering services	Trade and other: services

	Assets	Liabilities
Other related parties		
Alleanza Assicurazioni		Trade and other: employee benefits
AMUNDI (pension fund)		Trade and other: employee benefits
ANAS		Trade and other: services
ENI		Trade and other: services
Eurofer		Trade and other: employee benefits
Expo2015	Trade and other: engineering services	
Enel group		Trade and other: services
HDI Assicurazioni		Trade and other: employee benefits
Mediolanum Vita		Trade and other: employee benefits
Poste group		Trade and other: services
Previndai		Trade and other: employee benefits

The table below summarises the statement of financial position and income statement balances as at and for the year ended 31 December 2019 generated by related party transactions.

Trade and other transactions

(€'000)

	31.12.2019				2019	
	Assets	Liabilities	Guarantees	Commitments	Costs	Revenue
Parent	**1,480**	**4,855**			**(2,781)**	**861**
Ferrovie dello Stato Italiane	1,480	4,855			(2,781)	861
Subsidiaries	**333**	**223**			**(199)**	**74**
I.E.S. doo	47	122			(361)	47
Cremonesi Workshop	168	101			162	5
Joint arrangements	**59**					**11**
SWS & Italferr	59					11
Other associates	**230,855**	**(102,900)**			**(10,800)**	**197,271**
BBT	62					
Busitalia Rail Service		(55)			(97)	
Ferservizi		(1,933)			(3,594)	
FE1 FSE Infrastruttura	7,120	(3,922)				3,669
FS Sistemi Urbani	189	(192)			(22)	453
FS Technology SpA		(4,844)			(4,844)	
Grandi Stazioni Rail	96	(34)				24
Grandi Stazioni Immobiliare		(53)			(399)	
Mercitalia Rail S.r.l. (FS Telco)						8
Metropark					(8)	
RFI	216,604	(90,237)			(382)	187,799
T.E.L.T. Sas (formerly L.T.F. Sas)	32					
Trenitalia	6,752	(1,630)			(1,454)	5,318
Other related parties	**238**	**(354)**			**(784)**	**8**
ENI		(4)			(22)	
Eurofer		(53)			(392)	
EXPO2015	238	(24)				8
Fondazione FS		(1)			(2)	
ENEL group					(8)	
Leonardo group		(1)				
Previndai		(270)			(294)	
Other pension funds		(1)			(66)	

Financial transactions

(€'000)

	31.12.2019				2019	
	Assets	Liabilities	Guarantees	Commitments	Costs	Income
Parent						
Ferrovie dello Stato Italiane	0	(34,620)	0		(610)	
TOTAL	**0**	**(34,620)**	**0**	**0**	**(610)**	**0**

42. Guarantees and commitments

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

- sureties of €15,516 thousand, including €313 thousand granted by the parent to RFI (formerly TAV) for advances received on HS/HC contracts, and €15,000 thousand to guarantee currency risk hedging derivatives. In addition, it issued a €56 thousand surety to ENPAIA to guarantee leases and €147 thousand in connection with disputes pending with the tax authorities;
- bid bonds in the form of bank sureties of €16,333 thousand to other parties in order to participate in calls for bids or for the payment of advances and performance bonds.

In turn, Italferr received performance bonds for awarded contracts in the form of sureties of €24,551 thousand.

43. Public funding

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

(€'000)

		Amount
Fondimpresa/Fondirigenti	Funds for training	21
Total		**21**

44. Events after the reporting date

On 10 January 2020, following an international call for tenders that saw the world's leading railway engineering companies competing against each other, Italferr S.p.A. and SPT were awarded the contract for the National Transport Master Plan with the Ethiopian Road Authority, as customer. Commissioned by the Ethiopian Transport Ministry, this is the country's first project to receive funding from the African Development Bank.

At the end of January 2020, Italferr signed a new contract with the Swiss Federal Railways (SBB) for the executive design and works management of the noise barriers that will be developed at Chiasso station, from the state border to the south, in Italy.

COVID-19 outbreak. As COVID-19 ("coronavirus") spread in Italy in the first few months of 2020, the market suffered as a orders plummeted for a vast number of companies and services. During the initial stage of the emergency, as it waited to see how the situation would evolve, the company essentially maintained its normal operating schedule and ensured the

full operation of its services. However, as the current situation persists, the consequent measures, including new legislation, that could continue to be needed to cope with the emergency could affect the company's operations and cash flows to an extent not currently determinable.

45. Proposed allocation of the profit for the year

The company's financial statements as at and for the year ended 31 December 2019 show a profit for the year of €30,395,083.

We propose:

- distributing 30% of the profit for the year, equal to a dividend of €9,121,598, or €643 to each of the 14,186 shares;
- allocating the residual profit for the year, equal to €21,273,485.27, to the extraordinary reserve.

Rome, 27 February 2019

Chairman

Firmato digitalmente da:Aldo Isi
Data:05/05/2020 12:30:12

Chief Executive Officer