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

Italferr S.p.A.

Financial statements as at and for the year ended 31 December 2020

(with report of the auditors thereon)

KPMG S.p.A.

23 March 2021

KPMG S.p.A.
Revisione e organizzazione contabile
Via Curtatone, 3
00185 ROMA RM
Telefono +39 06 80961.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

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

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

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Italferr S.p.A. (the "company"), which comprise the statement of financial position as at 31 December 2020, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Italferr S.p.A. as at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the financial statements*" section of our report. We are independent of the company in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

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

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

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

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

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

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

The company's directors are responsible for the preparation of a directors' report at 31 December 2020 and for the consistency of such report with the related financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the company's financial statements at 31 December 2020 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the company's financial statements at 31 December 2020 and has been prepared in compliance with the applicable law.

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

Rome, 23 March 2021

KPMG S.p.A.

(signed on the original)

Benedetto Gamucci
Director of Audit

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

Italferr S.p.A.

2020 ANNUAL REPORT

Italferr S.p.A.

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

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

Registered office: Via Vito Giuseppe Galati 71, 00155 Rome

Tax code and company registration no.: 06770620588

REA no.: 541241

VAT number: 01612901007

Web site: www.italferr.it

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
CEO	Aldo Isi
Director	Claudia Cruciani[1]
Director	Claudia Eccher
Director	Sergio Salvio

Board of statutory auditors:

Chairman	Roberta De Felice[2]	Micol Marisa[3]
Standing statutory auditor	Fabio Mastrangelo[2]	Annamaria Madeo
Standing statutory auditor	Davide Rossetti[2]	Michele Farese[3]
Alternate statutory auditor	Federica Silvestri[2]	Monica Petrella[3]
Alternate statutory auditor	Luca Provaroni[2]	Luca Provaroni[3]

INDEPENDENT AUDITORS KPMG S.p.A.[4]

[1] In office since 31 March 2020

[2] In office until 22 December 2020

[3] In office since 23 December 2020

[4] Appointed to audit the 2020-2022 financial statements by the shareholders on 31 March 2020

CONTENTS

CHAIRMAN'S LETTER

Dear Shareholder,

The year we put behind us a few months ago was undoubtedly complex as COVID-19, a challenge never before seen, caught the countries of the world completely off-guard and the restrictions imposed to limit the spread of infections triggered an economic crisis of unprecedented proportions.

Despite this critical scenario, not only did Italferr manage to achieve a profit for the year in line with budget targets, but it amply exceeded expectations.

This was possible, first and foremost, because the company operates in large works for public customers, a sector in which Italy maintained and even increased demand for designs specifically to support the economy. This led to a rise in the number and value of tenders in 2020 compared to the previous year.

RFI's demand for design work was no exception, and Italferr's efforts to satisfy its demand were considerable. During the year, Italferr completed 168 projects, roughly two thirds of which were for the definitive designs of railway sections and plants.

As for work in the field, the government measures to limit the outbreak never brought work sites to a halt, although they did suffer understandable slowdowns, especially in the second quarter of the year.

To meet demand that, fortunately, never slowed, Italferr was forced to draw on its significant reserves of resilience, moving quickly from in-person to work-from-home models in order to follow through on the design commitments it had made to customers, and grapple with the much stricter safety measures to ensure continuity at work sites and complete a large number of challenging placements in service.

Looking at the non-captive market outside the FS Italiane group, while global construction output contracted in 2020, Italferr managed to seize upon favourable economic situations, winning major contracts in India, Colombia and the US, along with several top urban public transport projects in Italy.

Italferr's operations also stood out in terms of quality. For example, in the executive design of the Polcevera viaduct, to meet the tight deadline for the project development, the company used BIM (building information modelling) for the viaduct to ensure the project met high standards and was rapidly executed. Thanks in part to this initiative, on 3 August 2020, the new San Giorgio bridge could be opened in Genoa, only just over one year after work began.

The government restrictions to contain the spread of COVID-19 made it impossible for all the operating workers originally envisaged to access work sites. As a result, Italferr did not achieve its forecast production volumes, but was still able to contain the drop in core revenue compared to budget figures to under 7% and, at the same time, to reduce operating costs by 21%, benefiting the profit for the year.

Italferr managed to reduce costs to below the budget thanks mainly to the fact that many of the planned workers did not arrive on the sites, as noted earlier, and to the savings achieved under the new national labour agreement. Since the FS Italiane group guaranteed employment and signed the new agreement despite the ongoing pandemic emergency, the amounts due for the three-year period that was not covered by the contract were lower than those originally expected.

In addition to the company's economic performance for the year, its financial performance exceeded budget forecasts, as Italferr generated cash flows in 2020 that brought its opening net financial debt to a net financial position at year end.

As demonstrated by Italferr's ability to rapidly adapt to the new work-from-home model and the technology used for the executive design of the San Giorgio bridge, the fact that the company has for years made innovation a key driver for its growth as well as for a sound approach to sustainability has been the ace up its sleeve. Not only did this innovation enable Italferr to achieve such outstanding results in 2020, but it positions the company perfectly to make the most of the opportunities offered by Next Generation EU, which includes the digital transition and development of sustainable infrastructure among the pillars of the European economic recovery.

Directors' report

KEY AND GLOSSARY

Alternative performance indicators (non-IFRS measures)

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

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 non-current bank loans and borrowings and the current portion thereof, current and non-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 (loss) margin: this profitability indicator is calculated as the ratio of gross operating profit to operating 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 / Multistation computerised interlocking system: this is a central management system for control and signalling and station safety.

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

GSM-R (Global System for Mobile Communications – Railway): this is the European standard for mobile telephony for railway communication.

HD – ERTMS (High density European Rail Traffic Management System): this is the railway traffic management, control, protection and on-board signalling system designed to replace the many incompatible railway operation and safety systems used by the various European railway companies in order to ensure the interoperability of trains, especially on the new HS railway networks.

IMC (current maintenance plant): plant for the maintenance of rolling stock.

SE (signalling equipment): all fixed and mobile signals, illuminated or otherwise, signs and boards, as well as all other equipment necessary to ensure the property and safe operation of trains on the railways..

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.

MEP (mechanical, electrical and plumbing): this refers to the design of mechanical, electrical and plumbing systems in plants and buildings.

PRG (general zoning plan): this is the main municipal urban-planning tool for the purpose of governing and simplifying building construction and the transformation of the municipality.

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

CCS/MCCS: (command and control system/multistation command and control system): this railway traffic control system regulates traffic on the main lines and hubs.

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.

COVID-19 EMERGENCY

There is no doubt that the COVID-19 pandemic was an enormous shock for the world economy with severe social and economic repercussions. However, the economic impacts differed significantly from one country to the next and, similarly, the prospects of recovery are widely divergent across regions depending on the extent of the outbreak, the severity of the public health measures taken to contain it and the intensity of national policies in response to the pandemic.
The consequences on the various business sectors have been and will be varied.
At the onset, the greatest concerns regarded production, after which the spread of the virus and the protracted period of time needed to contain it shifted the focus to passenger transport, which was heavily penalized by the restrictions on social interactions and mobility. Accordingly, the manufacturing sector fared better than services.
And even within the service sector, certain distinctions are to be made. Indeed, infrastructural investments were immediately identified as the crucial way to address the crisis and, consequently, the engineering sector, in which Italferr operates, faced no problems in terms of demand. On the other hand, as the OICE (the association of Italian engineering, architecture and technical/economic consulting organisations) has reported, the pandemic brought robust momentum to the public engineering and architecture service market in the form of an increase in the number and value of calls for tenders in design projects compared to 2019.
In-house demand was also extremely sustained thanks to the FS Italiane group initiatives to support the country as it continues investments already commenced and accelerates the start of new ones.
Furthermore, since the March lockdown, the government has ensured the continuity of operations in the design and construction sector, excluding companies in the list of non-essential production activities as per the Prime Minister’s decree of 22 March 2020 and subsequent measures.

While there were no negative impacts on demand and Italferr’s ability to operate, the adverse effects of the pandemic were felt in terms of the organisation of work and supply, at least at the start: Italferr adopted the measures set out in the WHO guidelines to guarantee safe work conditions and limited the number of workers present to those strictly necessary, mainly at work sites, having nearly everyone else work remotely.

As the company had already begun the digitalisation of its processes some years ago, the transition to the work-from-home model was not particularly complex for Italferr. Nevertheless, initial network connection difficulties and the reduction of overtime, which was not covered by remote work rules, affected productivity and, therefore, the company’s supply capacity. In addition, to ensure sterile work spaces and proper interpersonal distancing on site and to equip all employees with suitable hardware, Italferr has implemented a series of investments and initiatives that are described in detail further on in the section on risk factors of this report.

The economic effects of the decrease in production on one hand, combined with the new costs of containing the virus on the other, are summarised in the table below.

(€'000)

	Impact of COVID-19
REVENUE	**(10,096)**
Revenue from sales and services	**(10,097)**
Revenue from contracts with customers	(10,097)
Other revenue from sales and services	
Other income	**1**
OPERATING COSTS	**9,043**
Personnel expense	4,995
Other costs, net	4,048
GROSS OPERATING PROFIT	**(1,053)**
Amortisation, depreciation, accruals and impairment losses	(333)
OPERATING PROFIT	**(1,386)**
Net financial expense	(2,660)
PRE-TAX PROFIT	**(4,046)**
Income taxes	259
PROFIT FOR THE YEAR	**(3,787)**

Italferr manages long-term contracts. Progress is calculated using the cost-to-cost method, i.e., comparing contracts costs incurred up to a given date to total estimated costs. The percentage is then applied to total estimated contract revenue, which results in the value attributed to work the performed and, therefore, revenue accrued up to that date.

The reduction in revenue from contracts with customers was therefore determined by calculating the contract cost savings (due to the fewer hours worked as a result of the lack of overtime and the lower related costs) based on the average profitability of the contracts in the backlog.

The operating cost savings were due to the decrease in overtime and travel indemnities, while the savings in other net costs were essentially the result of lower travel and accommodation costs as personnel did not travel (€4,194 thousand), net of the costs for material and services mostly purchased to protect workplaces and employees (€267 thousand).

The increase in amortisation and depreciation was due to the investments to equip all personnel with the hardware they needed to work remotely and investments in temperature scanners so people's temperature could be taken before they entered the offices at all company sites.

The increase in net financial expense reflects the impairment of the investment in the subsidiary Cremonesi Workshop S.r.l. ("CREW") following impairment testing.
CREW operates in the engineering and architecture market mainly with private customers.
On the other hand, public investments in infrastructure increased in 2020 compared to 2019, whereas the private sector postponed new investments and significantly slowed those in progress in the wake of the economic uncertainty created by the pandemic.
Consequently, during the year, CREW had to "freeze" a large part of its order backlog and could not sign contracts that it had been awarded.

Nevertheless, CREW shows a profit for 2020 in line with 2019 thanks to its targeted production and commercial policies (acquisition of contracts, even small contracts, in order to ensure all workers are occupied, bids and acquisitions, including with the FS Italiane group's real estate companies) and tight cost control (postponement of hires that had been planned in accordance with the growth in volumes forecast in the budget).

CREW did not reach the production output and size targets it had set for the year because of the pandemic, and this led it to review its medium-term forecasts. On this basis, Italferr has adjusted the carrying amount of its investees to the updated cash flows that it will be able to generate based on the new expected results.

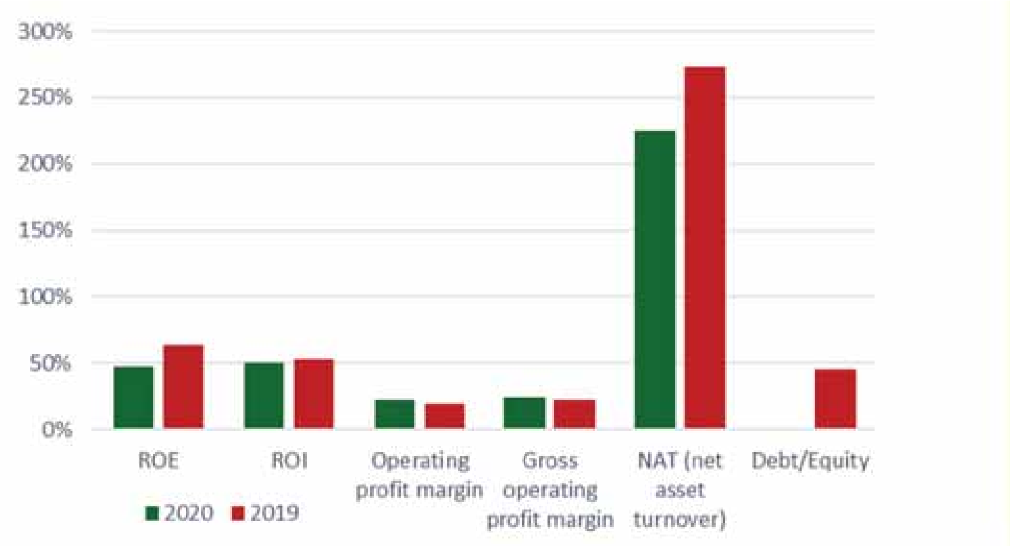
In this last respect, work was suspended on the most prestigious and important contract, both in terms of value and profitability, in CREW's backlog is Westfield Milan. It is expected to resume at the end of 2021.
The Westfield project involves the construction of the largest shopping centre in Europe, designed to become an iconic shopping, restaurant and leisure destination.
The project, which started in 2018, was slated for completion in 2022. However, it was suspended because of the pandemic and the new estimated completion date is now 2025, after the four-year horizon originally considered by CREW.
The lack of contribution of the Westfield project to average profitability over the years and terminal value (assumed to be 2024), had a negative impact on the measurement of the investment and is the main reason behind the impairment loss.

The tax savings which were attributed to COVID-19 in the table above refer to Decree law no. 34/2020, which permitted companies to not pay the amount they owed as the final 2019 IRAP balance and the first advance payment for 2020.

The amount was determined considering the limits of the decree in order to benefit from the subsidy.

2020 RESULTS

As more extensively described below, in 2020, the company benefited from substantial demand for design services on the captive market. This, combined with the cost economies achieved, offset the negative effects of the pandemic and enabled Italferr to report a profit for the year and positive performance indicators in line with 2019, as reported below.



		2020	2019
ROE	P/E*	47%	64%
ROI	OP/ANIC*	50%	53%
Operating profit margin	OP/R	22%	19%
Gross operating profit margin	GOP/R	25%	22%
NAT (net asset turnover)	R/ANIC*	2.25	2.73
Debt/Equity	NFD/E	n/a	0.45

KEY

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

GOP: Gross operating profit (loss)

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 (loss)

NFD: Net financial debt

MAIN EVENTS OF THE YEAR

INTERNATIONALISATION INITIATIVES

January

- **10 January**: following an international call for tenders that saw the world’s leading railway engineering companies competing against each other, Italferr and SPT were awarded the contract for the National Transport Master Plan of Ethiopia 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, Italferr also signed a new contract with the Swiss Federal Railways (SBB) for the executive design and works management of the noise barriers that will be installed at the Chiasso station, from the state border to the south, in Italy.

June

- **19 June**: in partnership with the Spanish Typsa, Italferr was awarded the project management consulting (PMC) contract for the Kanpur and Agra metro. Less than a month after being awarded the contract, on 10 August, the Typsa – Italferr partnership signed the contract with Uttar Pradesh Metro Rail Corporation (UPMRC).
  The acquired contract is financed with funds from the Indian government and the European Investment Bank, for a total investment of €2.4 billion.
  Italferr’s share of the PMC part of the contract is €19.4 million.
  The five-year contract includes the construction of four corridors for a total of 62.6 km, divided between the Metro Kanpur and Metro Agra systems and including 57 stations and 4 depots.

August

- **27 August**: Italferr, participating in the Consorcio Supervisor PLMB with Metropolitana Milanese, the Spanish Ayesa and the Colombian MAB Ingenierìa de Valor, was awarded the contract in Colombia for the supervision of works on Line 1 of the Bogotá metro.
  The tender, managed by the World Bank on behalf of Empresa Metro Bogotà, is part of the main project “PLMB - Primera Línea del Metro de Bogotá – Tramo 1” which entails the construction of 24 km of metro line, including 22 km of viaducts and 16 stations. This is the top infrastructure project on the Colombian market and it is currently one of the most prestigious international mass transit initiatives.

October

- **7 October:** Italferr, in partnership with EHAF (the leading Egyptian engineering company), was awarded the contract in Egypt to inspect the modernisation and technological upgrading of line 1 of the Cairo metro.
  Managed by the National Authority for Tunnels (NAT), government agency, and financed by the European Bank for Reconstruction and Development (EBRD), this project will significantly improve the metro line’s capacity, performance and safety.

November

- **10 November**: Italferr submitted the paper “Global ideas and solutions for infrastructure projects in Italy and around the world” at Asia Pacific Rail, one of the most important Asian railway and mobility sector events. It was held online in 2020.

With the participation of exhibitioners and railway companies, the event facilitates the development of international partnerships and, in 2020, it focused on the predominant theme of digitalisation and innovation as key drivers of more efficient and effective mobility.

Italferr's participation in the event was part of the FS Italiane group's broader participation, which also involved FS International, RFI and Italcertifer.

OTHER EVENTS

October

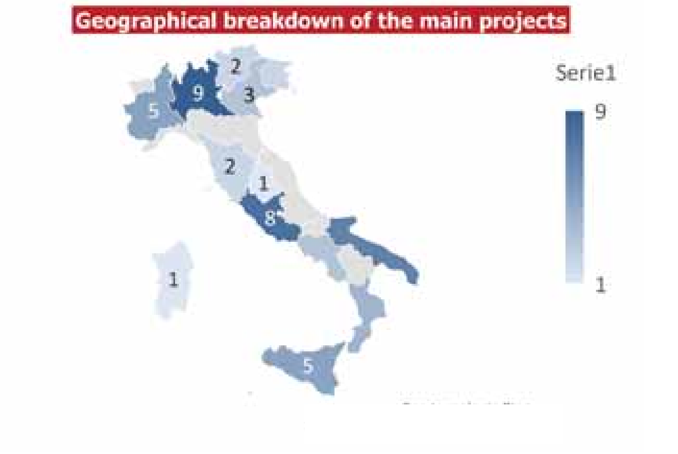
- **12 October:** Italferr received the Medal of the City of Genoa for having helped build the San Giorgio viaduct, demonstrating exceptional efforts.

  The medal recognised Italferr's work in the executive design of the viaduct after the demolition of the Morandi bridge.

The following list of the main projects delivered and sections/plants placed in service in 2020 completes the information on the events of the year.

2020 was an extremely fruitful year for design projects, to the extent that Italferr completed no fewer than 168 projects in the year. The main projects are broken down by type and geographical location in the table and chart below.

PHASE	no. of projects delivered
Technical and economic feasibility projects (PFTE)	44
Definitive projects (PD)	111
Executive projects (PE)	13
Total	**168**



The projects completed in the year were both multidisciplinary and technological. The main projects of both types are summarised below.

Date	PHASE	PROJECT	Customer
Jan-20	PD	Palermo – Catania connection (lots 1+2, 4B)	RFI
Feb-20	PD	PPM Turin Stura and Turin Porta Susa	RFI
Mar-20	PE	Upgrade of the Cagliari IMC	Trenitalia
Mar-20	PFTE	Upgrade of Lamezia - Settingiano for faster speeds	RFI
Mar-20	PD	Doubling of Ponte S.Pietro-Bergamo-Montello (phase 1)	RFI
Mar and Dec-20	PFTE	New railway freight traffic management plant on area of Eastern Adriatic Port Authority - phase 1	AdSPMAO
Mar-20	PD	Salento airport – Brindisi station connection	RFI
Mar-20	PD	Milano Lambrate computerised interlocking system station variant	RFI
Apr-20	PD	Multistation computerised interlocking system on current Milano Rogoredo - Pavia line	RFI
Apr-20	PD	Doubling of the Piadena - Mantova	RFI
Apr-20	PD	Castelli Romani multistation computerised interlocking system and MCCS (three projects)	RFI
Apr-20	SdF	Expansion of the Verona CCS central station	RFI
Apr-20	PD	Upgrade of the historic Avigliana – Bussoleno line (lot 5)	RFI
Apr-20	PD	Brindisi port connection with the national network	RFI
May-20	PE	Work to complete Brescia	RFI
May-20	PD	Burial of the line opposite the Catania airport were completed	RFI
May-20	PD	Technological upgrading of the Tortona-Bivio Fegino section (Tortona–Ronco)	RFI
May-20	PD	Rome hub GSM-R HD–ERTMS and Campoleone – Nettuno GSM-R	RFI
May-20	PD	GSM-R for the Milan hub HD ERTMS (adj. of 2020 rates)	RFI
May-20	PD	Ciampino PRG phase 1 - Radice Castelli	RFI
May-20	PD	Implementation of GSM-R on the Mestre-Portogruaro section	RFI
May-20	PE	Upgrade of the Roma S. Lorenzo IMC	Trenitalia
Jun-20	PD	Sibari-Crotone-Lamezia Terme Multistation computerised interlocking system	RFI
Jun-20	PD	Technological upgrading of the HS/HC Rome-Naples line multistation computerised interlocking system	RFI
Jun-20	PD	Bergamo Orio al Serio railway link	RFI
Jun-20	PE	Lunghezza - Guidonia (re-contract): Bagni di Tivoli PRG	RFI
Jul-20	PD	Ragusa metrorail	RFI
Jul-20	PD	Electrification of the Catanzaro - Sibari section	RFI
Jul-20	PD	Termoli - Foggia multistation computerised interlocking system	RFI
Jul-20	PE	Lunghezza - Guidonia (re-contract): Guidonia station - Collefiorito	RFI
Jul-20	PFTE	Upgrade of the Verona European quadrant system	RFI
Jul-20	PD	Addendum to lot 2 of the Palermo railway loop	RFI
Jul-20	PD	Val di Riga variant	RFI
Jul-20	PD	Firenze Rifredi-Empoli multistation computerised interlocking system	RFI
Jul-20	PD	Roma Tiburtina and Tiburtina block yard (PRG single phase)	RFI
Jul-20	PD	Assisi and Ellera PRG	RFI
Sep-20	PFTE	Barletta - Canosa electrification	RFI
Sep-20	PFTE	Guasticce interport and Pisa - Vada and Pisa - Florence line connection	RFI
Oct-20	PD	Verona computerised interlocking system	RFI
Oct-20	PFTE	Upgrade of the Brescia hub	RFI
Oct-20	PFTE	New stop on the HS Foggia Cervaro line (phase 1+2)	RFI
Oct-20	PD	Electrification of the Lamezia Terme - Catanzaro section	RFI
Nov-20	PD	Brindisi - Bari Torre a mare multistation computerised interlocking system	RFI
Nov-20	PD	Bressanone PRG	RFI
Nov-20	PD	Extension of Turin - Padua multistation computerised interlocking system to lot 2 Monza - Chiasso section	RFI
Nov-20	PD	Technological upgrade of the HS/HC Rome - Naples radio block centre/computerised interlocking system	RFI
Nov-20	PD	Superstructure work/electric traction on Roma Tiburtina phase 5	RFI
Dec-20	PD	Extension of the Salerno metro	RFI
Dec-20	PD	New functions for the Orbassano hub for the metropolitan railway service (SFM5)	RFI
Dec-20	PD	Upgrading of the Novara-Alessandria Rhine-Alpine corridor and the Savona-Genoa Alpine corridor	RFI

In terms of work sites, although 2020 was a challenging year, Italferr never stopped operating and completed the many scheduled placements in service. The table and chart below show the number and type of work sites rolled out with their location.

Type	no. of assets placed in service
Multidisciplinary	11
Technological	16
Total	**27**

The main assets placed in service are reported below.

July

- **26 July**: the new section between Bari Sant'Andrea and Bitetto with double tracks began operating as part of the laying of double tracks on the Bari – Taranto line. The new route, which is almost all in deep trenches with 15 man-made tunnels to cross under roads, extends for roughly 10.4 km, has been entirely moved from the original route.

September

- **10 September**: the third macro phase of the laying of double track on the Bivio Fegino line began as part of the construction of the Milan - Genoa Third Giovi Pass section. This will create a hub on the Third Giovi Pass section as it will connect the Genoa hub (and, in particular, the Giovi railway line) with the HS/HC section once the tunnels are complete.

October

- **4 October**: the Napoli Centrale CCS was further extended to include the Capua – Caserta interconnection station section. This completed the construction of the new computerised interlocking system in the Capua station, which made it necessary to build a new technological building, develop the new TSCS and the new ERTMS cabinet interfacing with the Capua computerised interlocking system, in addition to updating the station's PRG, along with other related projects.
- **18 October**: the second phase of the extension of the Modena hub multistation computerised interlocking system commenced. The work is part of the larger project for the technological upgrade of the Bologna Piacenza line, which entails upgrading the existing plants and their centralisation under the responsibility of a single Central Operating Manager.

November

- **22 November**: during the year, railway traffic began on the new routes of the Bari Centrale tracks, thereby completing the changes to the station's PRG, managed with an electromechanical interlocking signalling system. With the roll-out of phase 4.2, the work to reorganise the North end of the Bari Centrale station was completed, enabling the start of yard activities in preparation for the implementation of the future multistation computerised interlocking system device.
- **29 November**: traffic resumed on the Catania - Siracusa section, where a total of 46.4 km of line was upgraded for higher speeds (Bicocca – Augusta section). This made it possible to raise the speed of the section after upgrading the plants and sections of the new line.

On the same date, module B of the multistation computerised interlocking system and CCS at the Rome hub was placed in service between the Ciampino and Colleferro stations on the Rome-Cassino line. This is the penultimate step in the technological upgrade of the Rome hub.

December

- **6 December**: functional phase 2 of the technological upgrade of the Milan – Monza – Chiasso line began. This covered the section from Monza to Carimate, completing the work on the north section, which was placed in service in July 2019.
- **20 December**: functional phase 4.1 of the Voltri station commenced as part of the technological upgrade of the Genoa - Ventimiglia line and Module 3 of the multistation computerised interlocking system was placed in railway service on the Romano – Brescia Est section as part of the technological upgrade of the Turin – Padua section. The work covered 33 km of line.
- **28 December**: the Rovezzano – Arezzo Sud section of the direct Florence – Rome line saw the placement in service of the new ERTMS/ETCS for train distancing in accordance with the European standard without lateral light signals and with the adoption of the multistation computerised interlocking system standard for route control, supported by the most sophisticated version of the multistation CCS for traffic control, regulation and diagnostics. This is phase “A” and covers roughly 65 km.

HUMAN RESOURCES

Composition and changes

In 2020, the company ramped up its efforts to develop a larger, better quality workforce, in order to expand the company to meet its production needs.

Unfortunately, the consequences of the forced lockdown to contain the epidemic made it impossible to grow the workforce as envisaged in the budget. Nevertheless, the company’s total workforce grew, net of seconded employees, by 175.

This was the result of 304 new hires and the hiring of 37 temporary workers, net of 122 outgoing workers and the increase in seconded workers by five.

The changes in the workforce are illustrated in the table.

	31.12.2019	Incoming	Hiring of temporary staff	Outgoing	Total changes	31.12.2020
Employees	1,548	219	37	(119)	137	1,685
Seconded	(2)	(7)	0	0	(7)	(9)
Temporary staff	37	85	(37)	(3)	45	82
Total	**1,583**	**297**	**0**	**(122)**	**175**	**1,758**

Employees may be analysed as follows at the reporting date:

	31.12.2020
Managers	63
Junior managers	574
White collars	1,048
Seconded	(9)
Temporary staff	82
Total	**1,758**

The average number of employees in 2020 was 1,628, as illustrated in the table below.

Average number of employees	2020	2019
Employees	1,579	1,475
Seconded	-8	(2)
Temporary staff	57	34
Total	**1,628**	**1,506**

The need to align the workforce to meet growing production needs has entailed significant and continuous efforts in human resource recruitment and selection on the market.
Temporary staff remained an important pool for hires on an open-ended basis, in addition to providing flexibility.

Organisational structure

Organisational changes were made in 2020, mainly to implement the group's compliance model and flexibly respond to the changes required by the market.

Specifically to implement the group's compliance model, the company has set up a specific staff unit to oversee business processes and ensure management with an awareness of the risks related to the violation of regulations that could cause reputational damage and/or sanctions.

Training

Using the online platforms, again in 2020, Italferr provided the entire company population with a total of 29,146 hours, with external costs of €57 thousand.

This training mainly consisted of technical/professional training for work site personnel (certification for safety coordinators, refresher courses on the superstructure manual, the management of work site materials, the use of specialised software for metric calculations and works accounting and waste management and disposal), designers (courses on industrial plants, the MEP and BIM) and for new hires. It also covered a cross-section of topics for all company personnel (data protection courses, the intragroup leadership model, work-from-home, Law no. 231 and risk management).

Moreover, courses tailored to company requirements were held to enable Italferr's engineers, architects and geologists to acquire the training credits required by the professional associations and registration with external courses was ensured for the acquisition of credits for the maintenance of international PMP-PMI®, Incose CSEP and ERTMS expert certification.

Within the scope of the training financed by Fondimpresa FS in the year, the company's environmental sustainability plan was completed.

Approximately 380 language training courses were commenced to help employees perfect their English, French, Spanish and German in order to work abroad.

Again in 2020, as in previous years, Italferr held specialist courses for the personnel of FS Italiane group companies (RFI, Ferservizi and Sistemi Urbani). This year, they focused on work site activities and the environment.

Relationships with trade unions

In 2020, practically no employees participated in strikes, mostly because of the singular situation created as a result of the pandemic.

The COVID-19 Committee was set up, in accordance with FS Italiane group's agreement with the trade unions.

Safety training required by Legislative decree no. 81/08

In addition to the many compliance activities carried out in 2020, significant organisational changes were made as well.

535 employees received safety training in 2020, for a total of 7,307 hours. Most of the trainers were in-house and external costs totalled €147 thousand.

Furthermore, Italferr held its third annual Safety Day in 2020, devoted to sharing and spreading a culture of safety. Titled "Recharge", the day focused on the concept of finding time for physical, mental and emotional self care to complete one's workday, which should also improve performance and productivity.

As for health screening, in 2020, 452 employees throughout the country received medical check-ups (article 41.2 of Legislative decree no. 1/2008), for a total of 753 check-ups and 75 tetanus vaccinations. Some check-ups were postponed in the year due to the restrictions on the number of people who could access the local health units because of COVID-19.

The annual evacuation drills were also held at the Milan and Florence sites, while other evacuation drills could not be held at some of the other sites. Therefore, a questionnaire was distributed to assess all employees' familiarity with the emergency plan.

Periodic meetings were regularly held at all Italferr sites, either remotely or in-person, in accordance with the anti-COVID-19 measures set out in internal procedures.

The supply and replacement of personal protection equipment (PPE) for personnel who occasionally or regularly carry out their work activities at the work sites were managed locally, with practical support for the delivery of standard equipment when training workers for their positions and when third parties visit the work sites. Furthermore, COVID-19 kits were prepared and delivered (by hand or post) to all personnel travelling or providing off-site services since the start of the lockdown.

With respect to safety documentation, in March 2020 an internal procedure was issued for the management of the public health emergency resulting from the spread of viruses (e.g., SARS-CoV-2 Coronavirus, MERS and SARS). The procedure was then updated to reflect regulatory provisions and group policies. Employees were tested on their knowledge of the procedure.
Next, the Prevention and Protection Officers issued specific procedures for accessing and being at the work sites.

As in previous years, the independent certification body SGS conducted an audit in 2020 and confirmed the effective implementation of Italferr's integrated management system, highlighting a high level of integration between the relevant regulations and full compliance with the requirements of the more recent ISO 45001, which replaces the former BS OHSAS 18001 standard regarding occupational health and safety.

This audit was conducted entirely remotely and confirmed the company's quality, environmental, health and safety certification.

The environment and innovation

Sustainability

In line with the FS Italiane group's strategies, several years ago, Italferr began integrating sustainability into its business model and business processes to create shared value for the country and all stakeholders.

The company is therefore committed to developing and adopting methodologies and protocols to prioritise sustainable choices in infrastructure projects and has charted a course for changes in the project development methods, enriching the more traditional engineering approach with a new perspective tied to opportunities to generate value in the relevant context.

To this end, as Italferr is aware of the determinant role that engineering can play in taking tangible actions to help reduce CO_2 emissions, it has, for several years, voluntarily applied the UNI ISO 14064 standard for the adoption of a carbon footprint model to calculate each project's carbon footprint, becoming an effective operating tool that directs designers in the development of project solutions and motivates contracting companies to use the most sustainable materials in construction.

In 2020, another step was taken in the development of this model for the systematic use of sustainability methodologies in company processes by creating a CO_2 rate scale. This scale will make it possible to apply the carbon footprint calculation methodology to all projects and to take inventory of the CO_2 emitted by materials, transport and processing in construction, calculated on the basis of the prices used in project development.
During the year, SGS certified the CO_2 rate scale's conformity with ISO 14064.

Furthermore, in 2020, the carbon footprint project was extended to the offices to calculate the CO2 emissions of office activities in accordance with UNI EN ISO 14064:2012 and ISO/TR 14069:2013.

As sustainability is integrated in the design of infrastructure, the implementation of new models and tools to highlight and reinforce the ability to engage stakeholders gains greater importance. To this end, during the year, Italferr structured a stakeholder engagement process to identify stakeholders' expectations and needs in the areas affected by infrastructural investments and to understand the role that infrastructure plans as an active element in the transformation of the landscape, the redevelopment of the land and the creation of new economic and social mechanisms. In this respect, specific sustainability studies and analyses were conducted. By measuring the sustainability indicators selected as most indicative based on the guidelines that the company has prepared as needed, these studies and analyses will highlight the benefits of infrastructure projects and mark the most of their ability to generate value in terms of the economic, environmental, social and tourism development of local areas.

Italferr also developed a specific sentiment analysis platform in 2020 to monitor social networks with respect to strategic infrastructure projects. In addition, it began building the materiality matrix, which highlights the areas in which the company has the largest impact, in order to define future objectives and efficiently steer sustainable strategies.

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

Specifically, the environmental management system requires that, prior to the start of the works, contractors carry out an initial environmental analysis of site activities as part of an in-depth analysis of the environmental project 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 provisions.

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 ISO 45001), which was successfully certified by the SGS certification body again in 2020.

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.

Digital transformation activities continued during the year to design and build works in an increasingly integrated, efficient and automated manner. Open innovation and digitalisation projects continued as the drivers of a new engineering model capable of addressing ambitious global challenges.

In particular, within the scope of open innovation, Italferr participated in the Open Italy programme promoted by FS Italiane S.p.A. with the development of the following two co-innovation projects:

- BIM-Chain: this project entails the development of an app to integrate in BIM designs in order to electronically sign the models comprising the project, thereby guaranteeing their provenance and title, and to encrypt the project information to protect against modifications and authorised access;
- DROM: this project is for the development of a hardware and software system to detect and identify people and vehicles at work sites for an increasingly greater automation of works management, including integration with other Italferr apps, and to support safety management at work sites.

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

The "BIM for Rail LCA" project as part of the "Smart Factory" tender sponsored by the Ministry of Economic Development was kicked off after the financing was granted. The project entails the 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.

As part of the ESA programme named Space4Rail, Italferr is developing the "Drone and GNSS for Applications to Professional surveys" (DGAP) project to develop a system based on satellite technology to monitor the progress of work, enable quality control in construction and continuously monitor the work site area for both safety and daily progress reporting.

As part of Horizon 2020, Italferr has submitted various design proposals for climate change and infrastructure resilience projects with the aim of using innovative weather prediction services to support effective adaptation and mitigation solutions.

CUSTOMERS

Italferr's business is mainly focused on the provision 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 those of customers in general, in previous years, 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 places projects within a geospatial context improve the company's performance and make its projects more efficient, cutting costs for the owner of the infrastructure.

MACROECONOMIC CONTEXT

Having suffered a sharp slowdown in late 2019, the global economy experienced an unprecedented crisis in 2020. Triggered by the pandemic, the crisis was undoubtedly the most dramatic since the Great Depression.

Starting in the first few months of the year, the rapid spread of COVID-19 throughout the various geographical and economic areas, with more or less intensity, forced government authorities in the various countries to impose restrictions to contain the public health emergency. In the summer, partly thanks to relief from monetary and tax authorities, the global economy recovered slightly as GDP rallied in the third quarter, but the second wave of the pandemic significantly thwarted the economic recovery given the consequent distancing requirements, the forced shuttering of non-essential businesses and restrictions on mobility.

According to the most recent Prometeia estimates (December 2020), the contraction in world GDP in 2020 came to 4.5%, with deeper downturns in the industrialised countries than in emerging economies.

Even international trade, despite the robust recovery in the first few months of the second half, showed an annual average contraction of 9.3%. The drop in demand due to the lengthy shutdown of economic activities around the world generated a deflationary trend, especially in industrialised countries, driven mainly by a shock in supply but also by the drop in oil prices, with the Brent price bottoming out at US$19 per barrel in the first few months of the year, before rising to just slightly over US$40 per barrel.

International trade data	2019	2020
	(% change on previous year)	
GDP		
World	**3**	**-4.5**
Advanced countries	**1.6**	**-5.6**
US	2.2	-3.6
Japan	0.7	-6
Eurozone	1.3	-7.2
Emerging countries	**3.9**	**-3.6**
China	6.1	2
India	5.3	-9.9
Latin America	0.3	-7.6
Oil (USD per barrel)	64.2	42.9
International trade	-0.5	-9.3

Source: Prometeia, December 2020

However, recent developments in COVID-19 vaccines offer a spiral of hope for the global economy, which will probably gain momentum in spring 2021. According to growth projects, world GDP should rise by around 5%, with this growth concentrated in a small number of countries, while most of the world's economies will need longer than 2021 to completely recover from the pandemic-induced downturn.

After the sudden halt in activities and the dramatic spike in unemployment early in the year, the **US** economy recovered strongly in the second half thanks to massive monetary and fiscal stimulus to protect businesses and households. The Fed announced it would keep interest rates at 0% to 0.25% until full employment is reached and the rate of inflation has stabilised at 2% in the long term. GDP contracted by 3.6% in 2020.

In **Japan**, the repercussions of the coronavirus pandemic hit an already weak economy. The government measures to contain the spread of the coronavirus had a dramatic impact on household consumption, salaries and rising employment. To offset the negative shock of the pandemic, the Bank of Japan rolled out a series of measures to inject liquidity into the system and support credit. The overall decrease in GDP in the year was 6.0%.

China was the first country where the coronavirus broke out, but it was also one of the first to contain it thanks to the government's drastic measures. After GDP plummeted in the first quarter of the year (-6.8%), the Chinese government approved support measures to lower taxes on companies and speed up infrastructural investments, encouraging an economic recovery in the months that followed. Moreover, this recovery generated a rise in imports, and even exports rallied especially due to demand for healthcare products and technological equipment. China was the only major world economy to post annual growth in GDP (2.0%), remaining the leader of the global economic cycle.

In the **EU** countries, to varying degrees of intensity, the pandemic and consequent containment measures introduced in the first few months of the year, with differentiated methods and timing, triggered an unprecedented economic collapse, with a partial recovery in the summer months. However, the lifting of restrictions on economic and social activities and the onset of colder temperatures led to a violent second wave of the virus, prompting another slowdown in economic activity. Despite the rapid political response both in the EU and in the individual countries, providing relief and support, particularly in the form of emergency measures to finance healthcare systems and support workers and businesses affected by the shuttering of activities, the economy recorded a 7.2% recession. Among major European countries, German GDP suffered the smallest decline (-5.5%), whereas Italy (-9.1), France (-9.2%) and Spain (-11.6%) suffered above-average decreases.

Inflation remained extremely low amidst weak demand and significant untapped production capacity on labour, goods and service markets (0.2%).

	2019	2020	2019	2020
	GDP		Inflation	
	(% change on previous year)		(% change on previous year)	
Eurozone	**1.2**	**-7.2**	**1.2**	**0.2**
Germany	0.5	-5.5	1.4	0.4
France	1.3	-9.2	1.3	0.4
Italy	0.2	-9.1	0.6	-0.1
Spain	2	-11.6	0.7	-0.3

Source: Prometeia, December 2020

In **Italy**, the epidemic progressively spread from the end of February 2020, worsening an economic situation that had already shown feeble growth in 2019.

The ordered shuttering of many industrial and service sector activities and restrictions on the mobility of people to contain the outbreak disrupted the Italian economy, with immediate repercussions on production.

According to national accounting data, GDP contracted by 5.5% in the first quarter of the year, marking a downturn in value added in all major production segments. After another drop in the second quarter (-13.0%), signs of recovery appeared in the summer as activities reopened. In the third quarter, the growth extended to all economic sectors, driven by domestic and foreign demand, rising sharply (+15.9%) and reflecting the Italian economy's robust capacity for recovery. However, economic activity slowed again in the fourth quarter (-3.2%) due to a resurgence of the virus. The effects of the second wave of infections and the consequent restrictions weighed most heavily on services, while manufacturing suffered less.

GDP and main components	2020			
	Q1	Q2	Q3	Q4
	% change on previous quarter			
GDP	-5.5	-13	15.9	-3.2
Domestic demand	-4.7	-11	12	-2.7
Spending by households and private not-for-profits	-6.8	-11.5	12.4	-2.8
Public administration spending	-1.1	0.3	0.7	0.8
Gross fixed investments	-7.6	-17	31.3	-3
- construction	-6.7	-22.2	45.1	-2.4
- other durable goods	-8.2	-12.6	21.1	-3.5
Imports of goods and services	-5.3	-17.8	15.9	-1
Exports of goods and services	-7.9	-23.9	30.7	-3.1

Source: Prometeia, December 2020

Despite the substantial political support to soften the blow of the pandemic, GDP plummeted by an annual average of 9.1% on 2019, mostly due to the drop in domestic demand. Foreign demand and stocks also contributed to this downturn, but with less intensity.

Weak demand and the collapse in oil and raw materials prices also impacted inflation.

MARKET PERFORMANCE

The pandemic emergency marked a shift from the past. Whereas previously business risks had been specific for each country, region or market segment, the impact of the COVID-19 crisis was universal, although the repercussions differed by market segment.

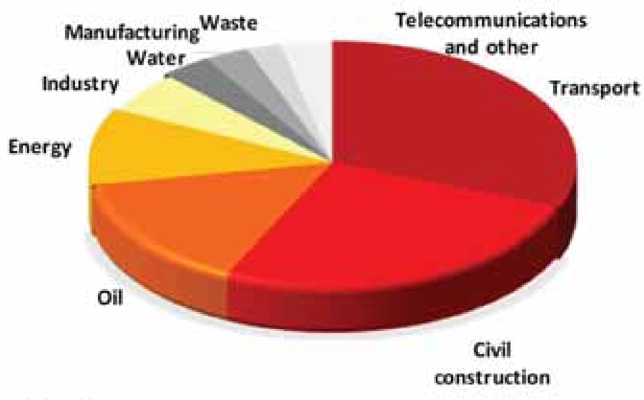
Even the engineering sector suffered repercussions, although they were more modest and varied in the different areas of specialisation.

According to the "Engineering Services Global Market Report 2020-30: COVID-19 Impact and Recovery", released in October, overall, the global engineering service market is estimated to have contracted by 1.2% compared 2019, a drop of roughly €10.5 billion.

The downturn mainly affected residential construction, slowed by the drop in household spending, and civil construction for public use (stadiums, airports, shopping centres, etc.) following the measures to contain the spread of COVID-19.

Nevertheless, alongside this downturn, demand grew in the transport infrastructure and digitalisation sectors. Engineering companies were able to rapidly respond as, despite the outbreak taking them by surprise, the major companies reacted swiftly by immediately implementing work-from-home models and thereby showing great resilience to the market turbulence generated by the pandemic. This strengthened the conviction that investments in the digital transition must continue and demonstrated how companies can reduce their work spaces and recruit talent anywhere in the world.
As a result, 2020 turned out to be a particular positive year for public design demand. Specifically, **Italy** saw a substantial increase in tenders and a large part of the framework agreements put up for tender. According to the OICE, 3,283 tenders were called (+10.5% on 2019), for a total value of €1,044.7 million (+82.0% on 2019), while 174 tenders were called for framework agreements, accounting for 5.3% of the total, worth €432.6 million.
The Italian engineering market in 2020 sent the same signals as those seen in other countries where governments see infrastructure investments as the key driver for economic and job market recovery.
The analysis by sector shows that transport was the most attractive sector, garnering 31% of the market for the top 225 international firms.

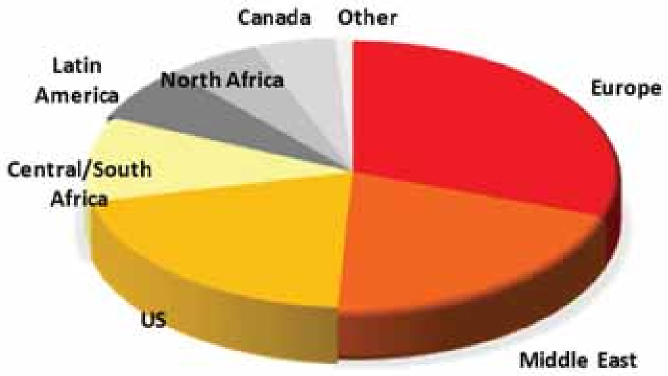
Market demand by sector	%
Transport	
Civil construction	
Oil	
Energy	
Industry	
Water	
Manufacturing	
Waste	
Telecommunications and other	
Total	**100.0%**



Source: "Top 250 International Contractors", 2020 edition of ENR (Engineering News-Record)

The geographical analysis indicates that Europe was the most attractive area for engineering players, accounting for 25.8% of the largest engineering companies' revenue.

Market demand by region	%
Asia and Australia	
Europe	
Middle East	
US	
Central/South Africa	
Latin America	
North Africa	
Canada	
Other	
Total	



Source: "Top 250 International Contractors", 2020 edition of ENR (Engineering News-Record)

The outlook for the engineering and construction market differs. Some players are pessimistic as many companies are experiencing a significant reduction in opportunities, a situation that could worsen in 2021, delaying or containing the recovery. The reasons behind this situation include the general economic slowdown, the drop in household spending and significant government deficits.

Other more optimistic players believe that investments in infrastructure could be the main lever that governments in the various countries choose to drive the economic recovery, although the authorities could focus investments on small projects because they are quick to complete and therefore generate immediate consensus.

In this uncertain climate, forecasts for **Europe** confirm a growing economy characterised by countries with a relatively low or medium/low risk profile and that are extremely attractive for investments and business opportunities. There are many large commissioned plans and financed projects in the transport sector, and particularly in railway transport.

To counter the economic crisis triggered by COVID-19, within the scope of the Recovery Fund, the European Community has allocated €2.2 billion in investments for transport in member countries. These investments are broken down into 140 key projects and will be disbursed via the Connecting Europe Facility (CEF), which stands to generate total investments of €5 billion in infrastructure.
€1.6 billion of the total amount disbursed will be directed at 55 railway projects.

In **Italy**, the Next Generation EU is an entirely unprecedented and one-time-only opportunity. After the approval of the Italian Recovery and Resilience Plan (NRRP) currently under discussion, it will provide a decisive contribution to the recovery of investments and large infrastructure projects.
Projects for public urban/metropolitan transport infrastructure and systems are particularly important. This sector is expected to expand further in 2021, when construction is expected to recover by 8.3% according to Cresme's XXIX Outlook and Forecast Report.
In **North America**, 2020 brought general, widespread shocks for the US and Canada as well, extending across all economic areas because of the global public health crisis, with a sharp economic slowdown and dramatic contractions near the middle of the year, followed by a robust recovery in the second half.
In particular, the US approved a series of emergency relief packages worth over US$2 trillion to stimulate the country's economic recovery after the public health emergency. The transport sector, which suffered extensively under the pandemic,

was one of the federal government's priorities and received specific stimulus packages, which mainly went to the leading passenger railway operator (Amtrak), mass transit projects and the motorway and airport sector.
As the new Biden administration has taken office, some of the Trump administration's policies have remained in place while others have changed. In any case, the scenario under the new administration appears positive for the transport sector. The public investment plan to upgrade infrastructure remains a key part of the country's development since the US does not rank among the countries with the best transport infrastructure. The new administration has not yet decided how much it will invest, but the total is currently expected to exceed US$1 trillion.

Of all emerging regions, **Latin America** was the hardest hit by the pandemic, both in terms of the spread of the virus and economic impact. The economic downturn in this region was 7.7% in 2020 according to Oxford Economics-Macrobond data, far more severe than in the world's other emerging areas (2.3%), due to the longer and more restrictive lockdowns imposed and the stagnant or zero growth already recorded in 2019.
The recovery in Latin America is expected to be partial and uneven, with countries boasting better institutions and larger tax leverage, like Chile, Peru, Uruguay and Colombia, expected to see a broader recovery.

From a public health standpoint, **Africa** experienced lighter consequences of the COVID-19 crisis, although the economic impact on many countries was considerable, especially due to the drop in demand for oil and tourism.

The impacts in North Africa varied widely from one country to the next. Egypt was the only country (in North Africa and in the larger MENA region) with positive GDP growth in 2020 and remained the only country in the entire region with a vast pipeline of railway and mass transit projects, supported by generous financing from international development banks.
It is difficult to prepare short-term forecasts for the recovery of investments commenced in previous years in the other African countries on the Mediterranean.
The impacts of the public health emergency were not particularly significant for Sub-Saharan Africa either, although global economic conditions delayed the start of major initiatives that will, however, be able to begin shortly, in part thanks to new national and international financing as the greater political stability of certain countries in the region draws investors. The appearance of new strains of COVID-19 could delay these forecasts.

The widespread suspension of production activities due to the pandemic ushered in a consequent collapse in demand for oil products, with an impact on the **Middle East**.
Tension between Saudi Arabia and Iran continues to throw fuel on the fire of hydrocarbon market volatility, to the detriment of most medium/long-term infrastructure plans in Middle Eastern countries.
Saudi Arabia was the first to implement a large-scale programme for the diversification of economic resources, which are still overly dependent on hydrocarbons, but the transition is, foremost, cultural, lengthy and complex and the benefits do not yet suffice to emancipate Middle Eastern economies from their dependence on oil.
The hoped-for end of the pandemic should drive a considerable increase in investments and bring momentum to growth in the region, which has been stagnant for four years.

In 2020, the powerhouse countries of **Central Asia**, Kazakhstan and Uzbekistan, continued to face slow economic growth, with real inflation of over 15%, despite being the target of interest and investments from the three superpowers, China, the US and Russia and despite their indicators of the gravity of the spread and consequences of the pandemic being far lower than those in the West.
Uzbekistan has made significant efforts to maintain its infrastructure and investment plans intact, especially in farming, and this limited most of the damage. It is foreseeable that, once the pandemic has receded, both Uzbekistan and Kazakhstan

will once again power Central Asia, taking full advantage of their geopolitical position between China and Russia and the interest they attract, especially from China.

India confirmed the main investments of 2020 thanks to solid financing from international investment banks (foremost, EIB, ADB, AIIB and AFD). Although the country's operational complexities have not diminished and despite the slowdown due to the pandemic, investments plans for the Indian railways have moved forward, and with them the planned infrastructural developments.
The growth rate of the Indian economy remains one of the highest in the world, with development plans worth over €150 billion up to 2022, as much in railway as in mass transit, freight transport and even roads.

The **Far East** remains one of the areas that continues to offer exciting opportunities for business growth. In particular, China and Japan have announced economic stimulus plans featuring investments in infrastructure as a strategic component. The concern is that both countries seem focused on supporting their domestic businesses, as they do not believe that foreign companies can offer the same level of service at the same conditions as local companies, and they focus their attention more on costs than on quality and innovation.

Performance by business segment

Intragroup

In Italy, Italferr mainly operates with the FS group companies. In 2020, it signed contracts with them for a total of €329.65 million, including €323.90 million with RFI (roughly 98% of total contracts).

The significant value of contracts acquired from RFI in the year was mainly due to a few major projects consisting of checking the executive design and the works management on lots along the sections of the HS/HC Milan – Venice and Naples – Bari lines, upgrading the line to Brennero and for definitive projects in Sicily and North-eastern Italy.

One important contract acquired from RFI entails four years of inspections, topographical surveys, geognostic and geotechnical investigations and the design of works and projects to protect railway infrastructure from hydrogeological instability (approximately €23.9 million) for Italferr.

Another important contract relates to the technical/economic valuation and schedule of the upgrade of the Nice Ville and Marseille Pautrier maintenance plants. The contract is with a new customer, Thello.

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

millions of Euros

Customer	Service type			Total	% of total
	Consultancy	Design	Works management		
RFI	62.40	114.47	147.04	323.91	98%
Trenitalia	1.06	0.45	0.42	1.93	1%
Ferrovie Sud Est	2.26			2.26	1%
Sistemi Urbani	0.90	0.59		1.49	0%
Thello	0.06			0.06	0%
Total	**66.68**	**115.51**	**147.46**	**329.65**	**100%**

At year end, the contract backlog amounts to €960.8 million.
Furthermore, at year end, negotiations are underway for additional projects worth a total of €118.34 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 2021, are detailed by customer and service type in the table below.

millions of Euros

Customer	Service type			Total
	Consultancy	Design	Works management	
RFI	10.95	27.29	78.46	116.70
Trenitalia	0.31	0.08	0.44	0.83
Ferrovie Sud Est	0.09		0.50	0.59
Ferservizi		0.22		0.22
Total	**11.35**	**27.59**	**79.40**	**118.34**

The market

On the Italian market, Italferr continued to diversify its business, increasingly focusing on urban and metropolitan public transport projects and large railway projects. In this field, the company signed a framework agreement with Trenord for design activities and was awarded contracts for the T2 tram line in Brescia and the new Genoa monorail.

As for operations abroad, during the year, the company won several prestigious urban public transport contracts, such as works supervision for Line 1 of the Bogotà metro in Colombia and the PMC contract for the Kanpur and Agra metro in India.

Furthermore, in the US, Italferr continued partnering with Webuild to support the design of the HS Houston – Dallas line in Texas. Webuild and its US subsidiary Lane have signed a commitment with the customer, Texas Central, which should lead to a contract in 2021 for the completion of the line. After this contract is signed, the executive part of the project will begin and Italferr will play a bigger role.

The approach that the company has taken to enter North American markets, through international contractors, has begun to show results in Canada as well, where Italferr will participate in a few important mass transit projects (Ontario Line and Calgary LRT).

In Europe, efforts continued to gain access to a highly competitive market like that in the UK by participating in the tender for the design delivery partner for the HS2 line.

In Central Asia, where the market slowed significantly in 2020 and did not begin showing signs of recovery until the last few months of the year, Italferr focused on the Uzbek market and managed to sign contracts for additional activities on contracts already in progress.

Overall, in 2020, Italferr acquired new contracts worth €34.1 million. They are broken down by geographical segment in the table below, with indication of absolute values and percentages.

millions of Euros

New contracts in 2020	2020	2020
	Amount	%
India	17.7	52%
Colombia	13.2	39%
Italy	1.0	3%
Ethiopia	0.7	2%
Europe	0.7	2%
Australia	0.4	1%
Egypt	0.3	1%
Canada	0.2	1%
Total	**34.1**	**100%**

At the end of 2020, the non-group contract backlog amounted to €62 million. These contracts are broken down by geographical segment in the table below.

millions of Euros

Backlog at 31.12.2020	2020	
	Amount	**%**
Asia and Australia	40.5	66%
America	14.1	23%
Italy	2.5	4%
Europe	2.1	3%
Africa	1.6	3%
Middle East and Central Asia	0.8	1%
Total	**61.5**	**100%**

Performance of main competitors

The global engineering service market consists of large multi-national players. Regardless, in 2020, Italferr rose up the ranks of the Top 225 Engineering Firms, a list published by the US magazine *ENR*.

The following table is an extract of this ranking of a sample of companies that are most comparable to Italferr by market segment.

Group/Company	Country	2020 ranking	2019 ranking	% of revenue from transport
WSP	Canada	2	2	56%
COWI	Denmark	29	29	58%
SYSTRA	France	33	34	100%
Oriental Consultants Global	Japan	52	61	83%
ayesa	Spain	55	56	52%
Italconsult	Italy	71	71	50%
JSTI	China	77	44	100%
setec	France	85	95	60%
LEA	Canada	118	123	81%
Chodai	Japan	119	125	85%
Geodata Engineering	Italy	124	137	60%
ineco	Spain	125	128	100%
RO	Italy	134	136	90%
Italferr	Italy	142	147	100%
Net engineering	Italy	143	141	100%

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 the year is up 6% on the previous year, as illustrated in the reclassified income statement below.

(€'000)

Income statement	2020	2019	% change	
			Amount	%
Revenue from engineering services	222,507	225,990	(3,483)	-2%
Other income	225	632	(407)	-64%
Revenue and income	**222,732**	**226,622**	**(3,890)**	**-2%**
Operating costs	**(168,151)**	**(177,746)**	**9,595**	**-5%**
Personnel expense	(96,866)	(105,493)	8,627	-8%
Consumables	(310)	(315)	5	-2%
Services	(62,512)	(61,746)	(766)	1%
Use of third-party assets	(1,718)	(3,260)	1,542	-47%
Other operating costs	(6,745)	(6,935)	190	-3%
Capitalised costs		3	(3)	-100%
Gross operating profit	**54,581**	**48,877**	**5,704**	**12%**
Amortisation and depreciation	(4,773)	(5,888)	1,115	-19%
Net impairment gains	99	601	(502)	-84%
Operating profit	**49,907**	**43,591**	**6,316**	**14%**
Net financial income/(expense)	(3,962)	352	(4,314)	>200%
Income taxes	(13,701)	(13,548)	(153)	1%
Profit for the year	**32,244**	**30,395**	**1,849**	**6%**

Considering the current economic scenario, this sound result is even more impressive. It reflects the negative impact of the epidemiological emergency on the business, offset by the positive impact of savings in personnel expense generated by the renewal of the national labour agreement in February 2021.

The reclassified income statement has been prepared to illustrate the company's actual performance of the year, as it does not consider the negative and positive effects on results and therefore provides a consistent comparison with prior year results.

(€'000)

	2020				2019 (e)	Changes (d-e)	
	Financial statements (a)	Impact of COVID-19 (b)	Impact of the national labour agreement (c)	Pro forma (d=a+b+c)			
Revenue from engineering services	222,507	10,097		232,604	225,990	6,614	3%
Other income	225	(1)		224	632	(408)	-65%
Revenue and income	**222,732**	**10,096**	**0**	**232,828**	**226,623**	**6,205**	**3%**
Operating costs	**(168,151)**	**(9,043)**	**(6,687)**	**(183,881)**	**(177,745)**	**(6,136)**	**3%**
Personnel expense	(96,866)	(4,995)	(6,687)	(108,548)	(105,493)	(3,055)	3%
Other costs, net	(71,285)	(4,048)		(75,333)	(72,252)	(3,081)	4%
Gross operating profit	**54,581**	**1,053**	**(6,687)**	**48,947**	**48,877**	**70**	**0%**
Amortisation and depreciation	(4,773)	333		(4,440)	(5,888)	1,448	-25%
Net impairment gains	99			99	601	(502)	-84%
Operating profit	**49,907**	**1,386**	**(6,687)**	**44,606**	**43,591**	**1,015**	**2%**
Net financial income/(expense)	(3,962)	2,660		(1,302)	352	(1,654)	>200%
Income taxes	(13,701)	(259)		(13,960)	(13,548)	(412)	3%
Profit for the year	**32,244**	**3,787**	**(6,687)**	**29,344**	**30,395**	**(1,051)**	**-3%**

As can be seen, on a like-for-like basis, Italferr would have reported a gross operating profit in line with 2019 and an operating profit slightly up on 2019.

In 2019, Italferr had benefited from the high profitability of contracts performed in the year. In 2020, although the average profitability of contracts remained strong, the company did not achieve the same levels as in the previous year due to the different mix of projects. Nevertheless, the company managed to maintain the gross operating profit by containing overheads, while benefiting from the revision of the service contracts and the trademark licensing agreement signed with the parent.

The company was able to contain overheads thanks to the e-learning platforms, which reduced the time and costs spent on training, and to the fact that the foreign contracting bodies allowed people to work from home as a way to contain the pandemic, which also brought down commercial costs.

That described above helps show how, from a purely business standpoint, 2020 was, for Italferr, a year that was perfectly in line with its past thanks to demand on its market, i.e., large works commissioned by public bodies, which did not decrease overall, meaning in-house demand increased, offsetting the downturn in foreign demand.

The table below clearly illustrates this trend through the breakdown of revenue by customer and market.

(€'000)

	2020		2019		changes	
	Amount	% of total	Amount	% of total	Amount	% of total
RFI	194,581	87%	187,776	83%	6,805	4%
Other group compani	9,375	4%	10,135	4%	(760)	0%
Other Italian custome	4,143	2%	7,135	3%	(2,992)	-1%
Total Italy	**208,099**	**94%**	**205,046**	**91%**	**3,053**	**3%**
EU countries	3,232	1%	3,691	2%	(459)	0%
Non-EU countries	11,176	5%	17,253	8%	(6,077)	-3%
Total abroad	**14,408**	**6%**	**20,944**	**9%**	**(6,536)**	**-3%**
Revenue from eng	**222,507**	**100%**	**225,990**	**100%**	**(3,483)**	**0%**

Of all operating costs, as noted earlier, personnel expense was the one that improved the most on the previous year.

Despite the expansion of the company's workforce with another 123 average FTEs, this improvement was mainly due to the renewal of the national labour agreement for the railway sector, which FS Italiane S.p.A. signed on 18 February 2021 with the trade unions.

Under the new agreement, employees received a one-off payment for the three-year period not covered by the previous agreement and a bonus to be used exclusively for welfare benefits for employees.

Since the FS Italiane group guaranteed employment and signed the national labour agreement renewal during the pandemic emergency, the amount was lower than that originally estimated for 2020 and accrued in 2018 and 2019, generating total savings of €7,670 thousand (including €983 thousand in welfare benefits).

Because the one-off payment to be used for welfare benefits was paid to reward workers for their efforts in ensuring business continuity during the emergency, the lower expenditure that it entailed compared to the initial performance bonus, resulting in cost savings (€983 thousand), was considered one of the impacts of COVID-19 in the pro forma income statement presented earlier.

The rest of the reduction in personnel expense compared to 2019 was the result of the decrease in the average per capita cost following the drastic drop in overtime and travel when remote work was introduced and the physiological turnover that brought the average age and length of service of employees down. Overall, the decrease in the per capita cost led to savings of €6,695 thousand on 2019, which, combined with the higher costs due to the larger workforce in 2020 compared to the previous year (€5,738 thousand), generated a net improvement of €957 thousand on the previous year.

Personnel expense and the average number of employees (FTEs) are reported below and compared to the previous year.

(€'000)

Personnel expense	2020	2019	% change	
			Amount	%
Employees	94,516	101,467	(6,951)	-7%
Temporary staff	2,852	1,926	926	48%
Other costs	2,467	1,942	525	27%
Accruals and releases	(2,969)	158	(3,127)	-1979%
Total	**96,866**	**105,493**	**(8,627)**	**-8%**

(€'000)

Average FTE	2020	2019	% change	
Employees	1,564	1,465	99	7%
Temporary staff	57	34	23	69%
Total	**1,621**	**1,498**	**123**	**8%**

Counter to the general year-on-year trend in operating costs, services rose on 2019. This net increase is due to a series of increases and decreases in the sub-captions, the largest of which were:

- the increase in outsourced engineering services (+€2,975 thousand) due to the mix of activities performed in the year;
- the sharp decrease in travel and accommodation costs (-€3,063 thousand) because of restrictions on travel and the measures the company took to contain the spread of COVID-19;

- the increase in ICT service costs (+€1,249 thousand) due to the growth in assistance to people working from home and the fact that, in 2019, these services were only outsourced for the last five months of the year, i.e., from the demerger of the ICT business unit to the associate FSTecnology with effect from 31 July 2019. Until then, these services had been provided in-house;
- the decrease in services to the parent (-€822 thousand) after the recharging model was redefined in the new service agreements for the 2020-2022 three-year period;
- the decrease in waste disposal costs (-€120 thousand) after the municipalities reduced the waste disposal rates as relief for the COVID-19 emergency.

Use of third-party assets decreased by €1,542 thousand due to the widespread savings in building expense since, during the year, personnel worked mainly from home and because the new FS Italiane's service policy eliminated the fee previously paid to use the trademark.

After the gross operating profit, amortisation and depreciation decreased by €1,115 thousand on 2019, mainly because capital expenditure was much smaller in 2020 and most of the investments planned for the year were postponed to 2021 when the effects of the pandemic crisis are expected to abate.

On the other hand, net financial expense rose on 2019, essentially due to the impairment loss on the investment in Cremonesi Workshop S.r.l. following impairment testing.

Reclassified statement of financial position

During the year, the company saw a reduction in net invested capital and a substantial improvement in the net financial position, as illustrated below.

(€'000)

Statement of financial position	31.12.2020	31.12.2019	% change	
Net operating working capital	103,501	126,066	(22,565)	-18%
Other assets, net	(20,778)	(27,655)	6,877	-25%
Net working capital	**82,723**	**98,411**	**(15,688)**	**-16%**
Non-current assets	31,528	29,827	1,701	6%
Equity investments	18,652	21,547	(2,895)	-13%
Net non-current assets	**50,180**	**51,374**	**(1,194)**	**-2%**
Post-employment benefits	(18,626)	(22,835)	4,209	-18%
Other provisions	(21,266)	(21,572)	306	-1%
Post-employment benefits and other provisions	**(39,892)**	**(44,407)**	**4,515**	**-10%**
NET INVESTED CAPITAL	**93,011**	**105,377**	**(12,366)**	**-12%**
Net current financial debt (position)	(19,840)	15,399	(35,239)	-229%
Non-current net financial debt	16,780	17,077	(297)	-2%
Net financial debt (position)	**(3,060)**	**32,476**	**(35,536)**	**-109%**
Equity	**96,071**	**72,900**	**23,171**	**32%**
TOTAL COVERAGE	**93,011**	**105,377**	**(12,366)**	**-12%**

Specifically, net operating working capital and the net current financial position benefited from the collection of trade receivables that had accrued at the end of 2019 and so were not yet due that year.

Therefore, net operating working capital decreased by €41,587 thousand on the previous year end following the collection of amount invoiced in late 2019. This decrease was partly offset by the growth in work in progress (+€10,484 thousand), combined with the year-on-year decrease in revenue (-€7,462 thousand) due to contractual timing.

The reduction in net operating working capital was partly offset by the increase in other assets, net, substantially due to the fact that the difference between advances paid in the year and the actual tax charge calculated on the profit for 2019 generated net current tax liabilities at 2019 year end (€7,162 thousand), in 2020, the advances exceeded the estimated tax charge and so the difference generated an asset (€570 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.

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

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

  With respect to the former, the company 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.
  This year, the services in the contract include access to a specific coronavirus section on the International SOS website.

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

millions of Euros

	Backlog at 31.12.2020	%	SACE index (*)
Italy	962.5	94.1%	41/100
EU	1.6	0.2%	16/100
Non-EU Europe	1.2	0.1%	21/100
North Africa	0.9	0.1%	67/100
Sub-saharan Africa	0.7	0.1%	69/100
North America	0.4	0.0%	13/100
Latin America	13.7	1.3%	45/100
India and Australia	40.5	4.0%	41/100
Middle East	0.3	0.0%	27/100
Turkey and Central Asia	0.5	0.1%	61/100
Total	**1,022.3**	**100.0%**	**24/100**

(*) The SACE country risk map does not include political risk in Italy: it uses the index for Spain, which other entities that assess political risk consider similar to Italy.

- **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, and the ongoing public health emergency has generated additional risks. The company's main operational risks relate to design and works management/high surveillance activities (risks of accidents, fire, damage to third parties during the performance of work, environmental risks, etc.) In addition, it is exposed to the risks generated directly by the COVID-19 pandemic and the risks generated by innovation projects undertaken to guarantee output despite the lockdown (e.g., work from home). To contain these risks, the company follows procedures and provides information and training in accordance with its legal obligations and to maintain specific certification. It has also adopted a project risk management model in which the impact of uncertainty on Italferr's main projects is analysed. Moreover, it has made sound progress on the operational risk analysis campaign, which is focused on the entire company's operational performance in order to identify, assess and manage risks effectively.

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

  Armed with the knowledge that an adequate governance structure is crucial to achieve short- and long-term strategic objectives, the company addresses these risks via the Supervisory Body. This year, a specific Compliance Unit was set up on2 March 2020 within the Legal, Corporate and Compliance Organisational Unit to ensure the governance of operations aimed at business management with an awareness of compliance risks that could harm the company's reputation and/or result in sanctions.
  The Compliance Unit is responsible for supporting business decisions through a preventive analysis of legal compliance and the reputation of third parties engaged with the company for commercial initiatives, partnerships and strategic and marketing projects.

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

- **Risks related to the spread of infectious diseases:** naturally, Italferr faced this type of risk in 2020 as a result of the COVID-19 pandemic emergency.

  To protect the health and safety of all its workers, in accordance with the regulations issued in this respect and the ministerial circulars, the company prepared an organisational document defining an "infection prevention protocol", which established the organisational, prevention and protection measures and clarifications to prevent clusters of infections, thereby minimising the risk of COVID-19 infections and its spread within company premises.
  Italferr also set up a COVID-19 Committee to apply and monitor the actions taken to counter and contain the epidemic as part of the general risk assessment document.
  In addition to the procedures it has issued and the control body it has established, the company rolled out a series of actions to protect its human resources, such as limiting their presence on-site, which was made possible by having people work remotely on a wide scale, creating specific pathways for entering and exiting buildings and accessing floors and common areas, sanitising rooms regularly, taking people's temperature when they enter buildings and installing hand sanitiser dispensers.

To guarantee the continuity of strategic organisational functions, a sanitised, equipped space was set up at the company's head office that could be safely accessed in order to ensure and restore essential operations for business continuity. Furthermore, where possible, rooms were identified at company sites where people with suspected cases of COVID-19 could be isolated.
Specifically, in order to respond immediately to any suspected cases of COVID-19, the company prepared a recovery plan for the management of people with symptoms in the workplace and the contaminated premises.
Moreover, Italferr informed and trained its personnel using institutional means of communication (brochures, posters, emails, documents and webinars) on the new rules and recommended conduct.

INVESTMENTS

In 2020, Italferr invested a total of €1,980 thousand, including €1,550 thousand for technical equipment needed in response to the consequences of the epidemiological emergency (€1,338 thousand for laptop PCs and 24-inch monitors, so people could work remotely while guaranteeing the quality of designs, and €212 thousand for temperature scanners installed at the building entrances to protect occupational health).

The remainder of investments consisted of purchases of furniture for the new Naples, Bari and Rome offices (€362 thousand), environmental measurement and survey equipment (€48 thousand) and equipment for atmospheric analyses conducted with mobile laboratories (€21 thousand).

RESEARCH AND DEVELOPMENT EXPENDITURE

Italferr is on the front line in terms of innovating its industrial processes for the design and construction of transport infrastructure, in order to preserve its competitive edge on the market and ensure the sustainability of its operations and respect for the environment.

This is why, in 2020, the company continued developing the BIM app, integrating it as part of the BIM – Chain project, with a blockchain solution for transparency and traceability in the management and sharing of files during the design process.

Also with regard to BIM, Italferr launched an integrated LCA-BIM project to design sustainable railway infrastructure using information and data based on the entire life cycle of the railway infrastructure.

In addition, the company kicked off innovative projects during the year, like DROM (hardware and software system to detect and identify people and vehicles at work sites for better safety at work sites and the digitisation of works management), DGAP (satellite monitoring of progress at work sites) and other projects based on the use of innovative weather prediction services to support effective solutions that mitigate the effects of climate change.

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 €166 thousand in 2020, nearly entirely due to the value of the 3,692 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.

The pandemic had a heavy impact on the company's activities in 2020. After a first quarter in line with budget targets, output slowed until the summer and did not show signs of recovery until the tail end of the year.

The general economic slowdown led to the freeze and postponement of several acquired contracts, the most important of which, Westfield Milan, was pushed back 18 months upon the customer's request. This generated a loss of roughly €1.7 million in output for the year and a new schedule for all residual production (total of approximately €6.6 million) as from 2022.

To address the issues created by the epidemiological emergency, CREW arranged for a complete reorganisation of logistics (widespread use of remote work, use of online communication platforms instead of in-person meetings), making an extraordinary effort to maintain commitments to customers, despite the new work-from-home model.

The company also took action to redirect its commercial strategy and counter the loss of the contracts previously in the backlog which were to be performed in the year. The initiative was successful: the bids presented in the year totalled €36.8 million. The tenders that were completed in the year, for which the company submitted bids, entailed the assignment of contracts to CREW worth roughly €6.6 million, while those yet to be assigned are worth approximately €16 million.

Despite the negative economic situation, the company's actions enabled it to end the year with a higher profit than in 2019 and an extremely positive net financial position, through careful credit management and the stabilisation of liabilities at a physiological level.

The net financial position has enabled CREW to continue operating exclusively using own funds, without drawing down the credit facility agreed in the year with the parent, which it had prudently requested to cover any delays in collections generated by the customers' financial difficulties in the wake of the pandemic.

The company's 2020 performance and financial results are summarised below.

(€'000)

	2020	2019	Changes	%
Revenue from engineering services	6,372	6,275	97	2%
Other revenue	54	10	44	<200%
Operating costs	(4,684)	(5,105)	421	-8%
Gross operating profit	1,742	1,180	562	48%
Operating profit	1,438	986	452	46%
Profit for the year	**948**	**690**	**258**	**37%**
Invested capital	3,491	4,161	(670)	-16%
Net financial position/(debt)	(1,422)	73	(1,495)	>200%
Average number of employees (FTEs)	49	49	0	0%

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 collaborated directly with Italferr, carrying out structural, architectural and operating support activities on its parent's behalf.

Since 2019, the company began diversifying its backlog, acquiring contracts from the Serbian company RZD International in 2019 and from the associate CREW in 2020.

The contract acquired from RZD International, as a joint venture with Italferr and Proger, continued in 2020 and constitutes roughly 25% of the company's annual output.
During the year and with excellent results in terms of customer satisfaction, the company made progress on this contract, which consisted of monitoring the design of technological systems (ERTMS, GSMR, power supply, catenary, safety and security), assistance with procurement and works supervision of the Stara Pazova – Novi Sad section (on the Belgrade - Budapest line) and the new command and control station on the Serbian railway network.

However, a series of adverse events that characterised 2020 led I.E.S. to close the year with a loss (-€51 thousand).

This was the result of the following negative factors:

- failure to acquire the contract for the upgrading of civil works and the electrification of the Valjevo - Verbnica - Montenegro border because of the 20% discount in the amount bid by the Serbian railways, which made participating in negotiations to acquire the contract no longer profitable;
- the reduction in personnel's productivity following the widespread use of the work-from-home model as a way to contain the spread of COVID-19.

The following table shows the main income statement highlights of 2020, along with certain details on the company's statement of financial position and its workforce.

(€'000)

	2020	2019	Changes	%
Revenue from engineering services	588	604	(16)	-3%
Other revenue	10		10	n.a.
Operating costs	(644)	(581)	(63)	11%
Gross operating profit (loss)	(46)	23	(69)	>200%
Operating profit (loss)	(50)	17	(67)	>200%
Profit (loss) for the year	**(51)**	**10**	**(61)**	**>200%**
Invested capital	526	314	212	68%
Net financial position/(debt)	(130)	394	(524)	-133%
Average number of employees (FTEs)	14	15	(1)	-7%

The company has currently submitted offers as Italferr's sub-contractor in tenders abroad (Canada, California and Romania). The new contracts that I.E.S. expects it might acquire as a result of the bids submitted are more profitable than those performed in 2020 and induce confidence that the loss for 2020 may be considered a temporary trend and that I.E.S. may be profitable again in 2021.

TREASURY SHARES

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

RELATED PARTY TRANSACTIONS

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

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

OTHER INFORMATION

Branches

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

Litigation and disputes

Introduction

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

Specifically:

In 2000, following criminal proceedings initiated by the public prosecutors against former or current company representatives, there were no definitive rulings against senior management (company officers or general managers) for any of the following:

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

Furthermore, litigation and significant proceedings pending with employees, third party service providers and/or contractors, the tax authorities, regions, etc., for which, where the relevant conditions are met, accruals have been made to specific provisions for risks and charges, are detailed in the notes to the financial statements, to which reference should be made. Similarly, contingent assets and liabilities, as defined by group policies, are reported in the notes to the financial statements to which full reference should be made.

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.
The Public Prosecutor subsequently arraigned only the coordinator of Italferr's works (the preliminary hearing is in progress) and filed a motion to acquit Italferr and its managers, charged with administrative liability pursuant to Legislative decree no. 231/2001.
The aggrieved party appealed against the motion to acquit, and the hearing in judge's chambers is to be scheduled after which the judge will decide on the acquittal.

Other significant criminal proceedings

Notwithstanding the above, regardless of how contingent liabilities and assets are defined based on materiality, in 2020, there were no criminal proceedings and updates to proceedings already reported in previous years that have resulted in definitive rulings against former and current senior management (company officers or general managers) for any of the following:

- fraudulent crimes covered by Legislative decree no. 231/2001;
- additional 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 Italiane 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

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

OUTLOOK

2020 was a test that Italferr passed with flying colours. The process it began several years ago to digitise its production processes made the company extremely resilient and therefore capable of meeting its obligations and achieving excellent results.

With this awareness, the company is prepared to face 2021, which, despite presenting deep uncertainties, shows encouraging signs for the engineering and construction market. Indeed, RFI, which opened 19 work sites in 2020, plans to open another 22 in 2021. These include, to name a few, the second construction lot on the Verona-Vicenza line, the Gardena bridge on the Fortezza-Verona line, three sections of the Naples-Bari line and the laying of double tracks on the Giampilieri-Fiumefreddo section of the Messina-Catania line. These are all major projects in which Italferr is fully involved.

Demand for designs from within the FS Italiane group remains high, with RFI as the largest customer.

Furthermore, the international construction market is expected to recover, offsetting the 2020 contraction and restoring demand to pre-COVID-19 levels.

In this scenario, Italferr steps into 2021 having consolidated its positions in India and the US and having recently won a prestigious contract in Northern Europe for the electrification of Rail Baltica. Foreign output is therefore expected to grow in 2021.

Given the overall growth in both the order backlog and production volumes in Italy and abroad, Italferr has planned to expand its workforce significantly in 2021. This constitutes another big challenge for the company since it intends to build upon the experience gained in the year just ended with up to about half of its workforce working from home, even when the pandemic emergency has subsided and it is no longer necessary.

From a financial perspective, Italferr does not foresee any specific issues in the immediate future since the work for RFI is covered by the Government Programme Contract and the Next Generation EU funds will arrive once they are allocated to the various EU countries.

The world is undergoing a profound technological transition in the transport and mobility sector and the incentives that governments are offering around the world are driving this transition as a priority.

Furthermore, governments' focus on sustainable growth is guiding investment choices towards the most ecological forms of transport, and these are all positive signs for Italferr and its sector. They enable the company to look ahead with peace of mind despite the difficulties that COVID-19 could cause, even in 2021.

Rome, 8 March 2021

Board of directors

Chairman

Firmato digitalmente da:Aldo Isi
Data:07/07/2021 13:34:45

Chief Executive Officer

Financial statements at 31 December 2020

Financial statements

Statement of financial position

(€'000)

	Note	2020	2019
Assets			
Property, plant and equipment	*(5)*	31,527,462	29,825,968
Intangible assets	*(6)*	443	853
Deferred tax assets	*(7)*	7,230,650	7,358,356
Equity investments	*(8)*	18,652,402	21,546,712
Financial assets (including derivatives)	*(9)*	600	600
Other assets	*(10)*	506,883	747,611
Total non-current assets		**57,918,441**	**59,480,100**
Trade receivables	*(11)*	208,021,792	252,079,145
Financial assets (including derivatives)	*(9)*	13,646,807	0
Cash and cash equivalents	*(12)*	10,361,070	9,534,037
Other assets	*(10)*	8,834,296	8,587,439
Total current assets		**240,863,965**	**270,200,621**
Total assets		**298,782,405**	**329,680,721**
EQUITY			
Share capital	*(13)*	14,186,000	14,186,000
Reserves	*(13)*	51,229,197	29,955,712
Valuation reserves	*(13)*	(4,857,020)	(4,906,393)
Retained earnings	*(13)*	3,269,445	3,269,445
Profit for the year	*(13)*	32,243,645	30,395,083
Total equity		**96,071,267**	**72,899,847**
Liabilities			
Loans and borrowings	*(14)*	10,500,000	12,000,000
Post-employment and other employee benefits	*(15)*	18,625,728	22,835,177
Provisions for risks and charges	*(16)*	21,251,529	21,560,329
Deferred tax liabilities	*(7)*	14,646	11,718
Financial assets (including derivatives)	*(17)*	6,279,824	5,077,951
Other liabilities	*(18)*	4,022,346	4,122,862
Total non-current liabilities		**60,694,074**	**65,608,037**
Loans and borrowings and current portion of non-current loans and borrowings	*(14)*	1,500,000	1,500,000
Trade payables	*(19)*	105,051,123	127,262,248
Tax liabilities	*(20)*	901,800	1,475,712
Financial liabilities (including derivatives)	*(17)*	2,668,721	23,434,013
Other liabilities	*(18)*	31,895,419	37,500,865
Total current liabilities		**142,017,064**	**191,172,837**
Total liabilities		**202,711,137**	**256,780,874**
Total equity and liabilities		**298,782,405**	**329,680,721**

Income statement

	Note	2020	2019
			(€'000)
Revenue from sales and services	*(21)*	222,529,505	225,990,374
Other income	*(22)*	202,901	632,129
Total revenue		**222,732,406**	**226,622,503**
Personnel expense	*(23)*	96,866,478	105,492,946
Raw materials, consumables, supplies and goods	*(24)*	309,841	314,775
Services	*(25)*	62,512,412	61,745,864
Use of third-party assets	*(26)*	1,718,066	3,259,920
Other operating costs	*(27)*	6,744,689	6,934,964
Internal work capitalised	*(28)*	0	(3,457)
Total operating costs		**168,151,486**	**177,745,012**
Amortisation and depreciation	*(29)*	4,773,317	5,888,082
Net impairment gains	*(30)*	(99,472)	(601,174)
Operating profit		**49,907,075**	**43,590,583**
Financial income	*(31)*	814,736	1,821,631
Financial expense	*(32)*	4,776,914	1,469,253
Net financial income (expense)		**(3,962,178)**	**352,378**
Pre-tax profit		**45,944,897**	**43,942,961**
Income taxes	*(33)*	13,701,253	13,547,878
Profit for the year		**32,243,645**	**30,395,083**

Statement of comprehensive income

	Note	2020	2019
			in Euros
Profit for the year		**32,243,645**	**30,395,083**
Items that will not be reclassified to profit or loss, net of the tax effect:			
Net actuarial gains (losses)	*(13)*	49,373	(300,026)
Comprehensive income		**32,293,018**	**30,095,057**

Statement of changes in equity

in Euros	Quota capital	Reserves					Retained earnings	Profit for the year	Total equity
		Legal reserve	Extraordinary reserve	Other reserves	Valuation reserves	Total reserves			
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								(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:									
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**
Balance at 1 January 2020	**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**
Dividend distribution								(9,121,598)	(9,121,598)
Allocation of profit for the previous year			21,273,485			**21,273,485**		(21,273,485)	0
Comprehensive income, of which:									
Profit for the year								32,243,645	32,243,645
Profit recognised directly in equity					49,373	**49,373**			49,373
Balance at 31 December 2020	**14,186,000**	**2,837,200**	**47,715,354**	**676,643**	**(4,857,020)**	**46,372,177**	**3,269,445**	**32,243,645**	**96,071,268**

Statement of cash flows

(€'000)

	Note	2020	2019
Profit for the year		**32,243,645**	**30,395,083**
Income taxes	*(33)*	13,701,253	13,547,878
Financial (income)/expense	*(31); (32)*	3,962,178	(352,379)
Amortisation and depreciation	*(29)*	4,773,317	5,888,082
Accruals	*(27); (30)*	5,212,378	9,417,115
Impairment losses	*(30)*	(3,936)	
Accruals to post-employment benefits	*(23)*	15,056	129,646
(Gains)/losses on sales	*(27)*	0	7,362
Change in trade receivables	*(11)*	44,057,354	(59,681,588)
Change in trade payables	*(19)*	(22,211,125)	4,794,823
Change in other liabilities	*(18)*	1,456,548	4,248,569
Change in other assets	*(10)*	(6,129)	0
Utilisation of the provisions for risks and charges	*(16)*	(5,521,177)	(2,171,803)
Payment of employee benefits	*(15)*	(4,224,505)	(2,636,843)
Change in tax assets/liabilities that do not generate cash flows	*(7)*	(15,723,463)	(6,096,152)
Net financial income received/expense paid	*(31); (32)*	(3,870,948)	434,055
Net cash flows generated by (used in) operating activities		**53,860,445**	**(2,076,152)**
Increases in property, plant and equipment	*(5)*	(1,980,735)	(898,928)
Increases in intangible assets	*(6)*	0	(1,840,107)
Increases in equity investments	*(8)*	0	(372,989)
Investments, before grants		**(1,980,735)**	**(3,112,024)**
Decreases in property, plant and equipment	*(5)*	0	(7,362)
Decreases in equity investments	*(8)*	(2,659,872)	0
Divestments		**(2,659,872)**	**(7,362)**
Net cash flows used in financing activities		**(4,640,607)**	**(3,119,386)**
Repayment of non-current loans	*(14)*	(1,500,000)	(1,547,146)
Lease payments (net of contributions) - Change in lease liabilities	*(17)*	(3,003,885)	(2,661,771)
Dividends	*(32)*	(9,121,598)	(8,812,679)
Changes in equity	*(13)*	0	3,173
Net cash flows used in operating activities		**(13,625,483)**	**(13,018,423)**
Total cash flows		**35,594,354**	**(18,213,961)**
Opening cash and cash equivalents		**(11,586,477)**	**6,627,484**
Closing cash and cash equivalents		**24,007,877**	**(11,586,477)**
of which: intragroup current account		*13,646,807*	*(21,120,514)*

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 the publication of these financial statements on 8 March 2021 and they will be submitted to the shareholders for approval and subsequently filed within the terms of law. The shareholders have the power to make changes to these financial statements.

The 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 IFRS and best practices. Any future interpretation guidelines and updates will be reflected in subsequent years, in accordance with the procedures provided for by the IFRS over time.

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

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

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

- the statement of cash flows has been prepared by presenting cash flows from operating activities using the indirect method.

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

These financial statements have been prepared on a going-concern basis, as the directors established that there are no financial or operational indicators or any other indications of critical issues about the company's ability to meet its obligations in the foreseeable future and, specifically, in the next 12 months. Reference should be made to note 4 - 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
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.

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, licences and trademarks

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

(b) Industrial patents and intellectual property rights

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

(c) Goodwill

Goodwill is the excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction. It is classified as an intangible asset with an indefinite useful life and, consequently, is not amortised on a straight-line basis, but tested for impairment at least annually. Impairment losses on goodwill are not reversed.

For impairment testing purposes, goodwill acquired in a business combination is allocated to individual cash-generating units (CGUs) or groups of CGUs which are expected to benefit from the synergies of the combination according to the lowest level at which goodwill is monitored for internal management purposes.

(d) Research and development costs

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

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

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

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

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

Impairment losses on intangible assets and property, plant and equipment

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

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

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

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

Goodwill and intangible assets not yet available for use

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

Investments in subsidiaries, associates, joint arrangements and other investments

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

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

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

Financial instruments

i. Classification and measurement of financial assets

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

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

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

(a) Financial assets measured at amortised cost

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

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

In this category, financial instruments are initially recognised at fair value, inclusive of transaction costs, and subsequently measured at amortised cost. Interest, calculated using the 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 profit or loss (FVTPL)

This category includes all financial assets that are not classified as measured at amortised cost or at FVOCI. They are initially and subsequently measured at fair value. Transaction costs and fair value gains and losses are recognised in profit or loss.

ii. Classification and measurement of financial liabilities

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

iii. Classification and measurement of derivatives

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

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

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

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

iv. Subsequent measurement: impairment losses

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

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

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

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

- Stage 1: includes all financial assets under assessment on the date of initial recognition regardless of qualitative indicators (e.g., ratings) and except for situations with objective evidence of impairment. Upon subsequent measurement, all financial instruments whose credit risk has not increased significantly since the date of initial recognition or whose credit risk at the reporting date is low, remain in Stage 1. For these exposures, 12-month ECL are provided for 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:

- <u>Separation between loans and trade receivables:</u> 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.
- <u>Calculation of expected credit losses - loans:</u> the expected credit loss is calculated for each cluster, once the relevant stage has been identified;
- <u>Calculation of expected credit losses - trade receivables:</u> for each cluster, trade receivables are broken down by due date (specifically, falling due, past due up to one year, past due up to two years, past due by more than two years). The expected credit losses are then calculated accordingly.

Fair value estimates

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

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

Cash and cash equivalents

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

Employee benefits

Short-term benefits

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

Defined benefit and defined contribution plans

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

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

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

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

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

Provisions for risks and charges

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

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

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

Revenue from contracts with customers

i. Initial recognition and subsequent measurement

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.

Government grants

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

Grants related to assets

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

Grants related to income

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

Dividends

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

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

Cost recognition

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

Income taxes

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

Current taxes, deferred tax assets and liabilities are recognised in profit or loss, except for those relating to items recognised under other comprehensive income 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.

Assets and liabilities held for sale and disposal groups

Non-current assets and liabilities (or disposal groups) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use are classified as held for sale and recognised separately from other assets and liabilities in the statement of financial position. The corresponding prior year statement of financial position figures are not reclassified. A discontinued operation is a component of the entity that either has been disposed of or is classified as held for sale and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations;
- is a subsidiary acquired exclusively with a view to resale.

Profits or losses of discontinued operations – either disposed of or classified as held for sale and being divested – are recognised separately in profit or loss, net of the tax effects. Prior year corresponding figures, where present, are reclassified and presented separately in the income statement, net of the tax effects, for comparative purposes. Non-current assets and liabilities (or disposal groups) classified as held for sale are firstly recognised in accordance with the specific standard applicable to each asset and liability and are subsequently recognised at the lower of their carrying amount and fair value, less costs to sell. Any subsequent impairment losses are recognised directly as an adjustment to non-current assets classified as held for sale (or disposal groups) through profit or loss.

Impairment losses are reversed on any subsequent increase in fair value less costs to sell of an asset, and may not exceed the cumulative impairment loss previously recognised.

NEW STANDARDS

First-time adoption of standards, amendments and interpretations

The following new standards and interpretations are effective for annual periods beginning on or after 1 January 2020.

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. The application of these changes, where applicable and because of their nature, has not had any significant impacts on these financial statements.

Amendments to IFRS 3 Business combinations

On 22 October 2018, the IASB issued an amendment to IFRS 3 Business combinations. 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 EU endorsed this amendment on 21 April 2020. The amendment applies to all business combinations and assets acquired after 1 January 2020. Early application is permitted. The application of these changes, where applicable and because of their nature, has not had any significant impacts on these financial statements.

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. The application of these changes, where applicable and because of their nature, has not had any significant impacts on these financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7

On 26 September 2019, 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, IAS 39 and IFRS 7.

The EU endorsed this amendment on 15 January 2020. The amendments became effective on 1 January 2020 and early application is permitted. The application of these changes, where applicable and because of their nature, has not had any significant impacts on these financial statements.

Amendments to IFRS 16 Leases Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued “Covid-19- *Related Rent Concessions (Amendment to* IFRS 16)”. The amendment permits lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications. Therefore, lessees that use this practical expedient may recognise the effects of such rent concessions directly in profit or loss at the effective date of the concession. This amendment applies to annual periods beginning on or after 1 June 2020 and early application at 1 January 2020 is permitted. The application of this amendment has not had any significant impacts on these financial statements .

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

Amendments to IFRS 4, IFRS 7, IFRS 9, IFRS 16, and IAS 39, IAS 37 Interest Rate Benchmark Reform– Phase 2

On 27 August 2020, the IASB issued amendments to IFRS 4 Insurance Contracts, IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial instruments, IFRS 16 Leases, IAS 39 Financial Instruments: Recognition and Measurement. The European Commission endorsed the amendments with Regulation (EC) no. 25/2021 of 13 January 2021. The company shall apply the amendments, at the latest, as from the commencement date of its first year starting on or after 1 January 2021.

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

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-Current – Deferral of effective date

On 23 January 2020, the IASB issued amendments to IAS 1 Presentation of financial statements: classification of liabilities as current or non-current which clarify how to classify liabilities as current or non-current.

The amendments were initially meant to go into force as from 1 January 2022, but the IASB postponed the effective date to 1 January 2023 with the issue of a second document on 15 June 2020.

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

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

- IFRS 3 Business Combinations
- IAS 16 Property, Plant and Equipment
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets

- Annual Improvements 2018-2020.

All amendments are effective from 1 January 2022.

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 - foremost the impact of the COVID-19 pandemic, which is still unfolding and which could lead to widely disparate potential future scenarios with many different effects. Estimates and assumptions are reviewed periodically and the effects of any changes are recognised in profit or loss when they affect the year only. If the revision affects both current and future years, the change is recognised in the year the revision is made and in the related future years.

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

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

Impairment losses on property, plant and equipment and intangible assets

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

Provisions for risks and charges

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

Taxes

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

OPERATING SEGMENTS

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

4 Financial risk management

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

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

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

CREDIT RISK

Credit risk mainly derives from trade receivables. The following table shows the company's exposure to credit risk at 31 December 2020 and 2019.

(€'000)

	31.12.2020	31.12.2019
Non-current financial assets	1	1
Loss allowance		
Non-current financial assets, net of the loss allowance	**1**	**1**
Other assets	507	748
Loss allowance		
Other non-current assets, net of the loss allowance	**507**	**748**
Trade receivables	215,004	259,204
Loss allowance	(6,982)	(7,125)
Trade receivables, net of the loss allowance	**208,022**	**252,079**
Current financial assets	13,647	
Loss allowance	0	
Other current assets, net of the loss allowance	**13,647**	**0**
Cash and cash equivalents	10,359	9,552
Loss allowance	(14)	(18)
Cash and cash equivalents, net of the loss allowance	**10,345**	**9,534**
Other current assets	8,961	9,063
Loss allowance	(509)	(476)
Other current assets, net of the loss allowance	**8,452**	**8,587**
Total exposure, net of the loss allowance	**240,974**	**270,949**

The table above shows a net decrease of 11% in credit risk on 2019. The improvement is mainly due to trade receivables from group companies, whose gross carrying amount is down €37,716 thousand, and to receivables from third party customers, whose gross carrying amount is down €6,448 thousand. Trade receivables from the public administration are substantially stable with their gross carrying amount down by €35 thousand on 2019.

To better illustrate the trend described above, the following table breaks down credit risk by counterparty in absolute and percentage terms. The improvement in exposure to trade receivables is followed by a general improvement in exposure to third party customers, which accounts for a lower percentage of the total than at the previous year end. It shows the positive effect of the company's risk management and analysis for all new large customers, as well as of its monitoring of collections of trade receivables from third parties and the public administration.

(€'000)

	31.12.2020		31.12.2019	
Public administration, Italian government and regions (gross)	1,078	0%	1,141	0%
Group companies	213,687	89%	237,906	88%
Third party customers	15,864	7%	22,368	8%
Financial institutions	10,345	4%	9,535	4%
Total exposure, net of the loss allowance	**240,974**	**100%**	**270,949**	**100%**

The tables below give a breakdown of financial assets and trade receivables at 31 December 2020 and 2019 by past due brackets:

(€'000)

31.12.2020	Not past due	Past due				Total
		0-180 days	181-360	360-720 days	>720 days	
Public administration, Italian government and regions (gross)	1,035	18	89	147	7	1,296
Loss allowance	0	(18)	(87)	(106)	(7)	(218)
Public administration, Italian government and regions (net)	**1,035**	**0**	**2**	**41**	**0**	**1,078**
Group companies	210,186	2,092	949	396	216	213,839
Loss allowance	(149)	(2)	(1)	0	0	(152)
Group companies (net)	**210,037**	**2,090**	**948**	**396**	**216**	**213,687**
Third party customers	15,574	953	397	1,481	4,583	22,988
Loss allowance	(820)	(13)	(338)	(1,372)	(4,581)	(7,124)
Third party customers (net)	**14,754**	**940**	**59**	**109**	**2**	**15,864**
Financial institutions	10,359					10,359
Loss allowance	(14)					(14)
Financial institutions (net)	**10,345**	**0**	**0**	**0**	**0**	**10,345**
Total exposure, net of the loss allowance	**236,171**	**3,030**	**1,009**	**546**	**218**	**240,974**

(€'000)

31.12.2019	Not past due	Past due				Total
		0-180 days	181-360	360-720 days	>720 days	
Public administration, Italian government and regions (gross)	1,057	80	105	7	5	1,254
Loss allowance	(1)	(3)	(105)		(5)	(114)
Public administration, Italian government and regions (net)	**1,056**	**77**	**0**	**7**	**0**	**1,140**
Group companies	233,649	2,707	496	1,322	(100)	238,074
Loss allowance	(165)	(2)		(1)		(168)
Group companies (net)	**233,484**	**2,705**	**496**	**1,321**	**(100)**	**237,906**
Third party customers	19,260	4,949	225	1,638	3,614	29,686
Loss allowance	(752)	(1,606)	(179)	(1,179)	(3,602)	(7,318)
Third party customers (net)	**18,508**	**3,343**	**46**	**459**	**12**	**22,368**
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**	**542**	**1,787**	**(88)**	**270,949**

The total exposure and the impairment of each category by risk class at 31 December 2020 and 31 December 2019, as per the Standard & Poor's rating, are shown below;

(€'000)

31.12.2020	TOTAL	AMORTISED COST		
		12-month expected credit losses	*Lifetime - not impaired*	*Lifetime - impaired*
from AAA to BBB-	214,072		214,072	
from BB to BB+	34,408	4,021	27,534	2,853
Gross carrying amounts	248,480	4,021	241,606	2,853
Loss allowance	(7,506)	(4,009)	(644)	(2,853)
Carrying amount	**240,974**	**12**	**240,962**	**0**

(€'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 amounts	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**

Changes in impairment losses and gains on financial assets are detailed below.

(€'000)

2020	12-month expected credit losses	Lifetime - not impaired	Lifetime - impaired	TOTAL
Balance at 31 December 2019	**7,544**	**74**	**0**	**7,618**
Transfer to lifetime ECL – not impaired	101	33		134
Utilisation of the allowance	(246)			(246)
Balance at 31 December 2020	**7,399**	**107**	**0**	**7,506**

LIQUIDITY RISK

Liquidity risk is the risk that an entity may have difficulties in complying with the obligations associated with financial liabilities. The company and parent monitor Italferr's cash flows, cash requirements and liquidity 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 2020, Italferr does not have current loans and borrowings, while non-current loans and borrowings reflect the residual amount due to the parent for the loan obtained to acquire its investment in CREW at the end of 2018.

The following tables show the repayment dates of financial liabilities at 31 December 2020 and 2019, including interest to be paid.

(€'000)

31.12.2020	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	12,000	13,887	970	960	1,874	5,292	4,791
Lease liabilities	8,949	8,949	1,339	1,330		5,995	285
Non-derivative financial liabilities	**20,949**	**22,836**	**2,309**	**2,290**	**1,874**	**11,287**	**5,076**
Trade payables	105,051	105,051	24,460	80,591			
TOTAL FINANCIAL LIABILITIES	**126,000**	**127,887**	**26,769**	**82,881**	**1,874**	**11,287**	**5,076**

(€'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**

The reduction in financial liabilities between the two years analysed was possible thanks to the cash flows generated during the year which brought the intragroup current account balance from a negative €21,121 thousand in 2019 to a positive €13,647 thousand at year end. This situation, compared to future cash flows from contractual financial assets contributes to keeping the company's liquidity risk low and in any case within physiological limits.

Non-derivative financial liabilities and trade payables are shown in the table below by their due dates:

(€'000)

31.12.2020	Carrying amount	Within one year	1-5 years	After 5 years
Loans and borrowings from other financial backers	12,000	1,500	7,500	1,500
Lease liabilities	8,949	2,669	5,995	285
Non-derivative financial liabilities	**20,949**	**4,169**	**13,495**	**1,785**
Trade payables	**105,051**	**105,051**		

(€'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	4,604	479
Non-derivative financial liabilities	**42,012**	**24,934**	**12,578**	**4,500**
Trade payables	**127,262**	**127,262**		

MARKET RISK

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

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

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

Interest rate risk

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

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

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

(€000)

31.12.2020	Carrying amount	Contractual cash flows	Current portion	1-2 years	2-5 years	After 5 years
Variable rate						
Fixed rate	12,000	12,000	1,500	3,000	4,500	3,000
Balance at 31 December 2020	**12,000**	**12,000**	**1,500**	**3,000**	**4,500**	**3,000**

(€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**

CURRENCY RISK

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

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

The following table shows the notional amount of Italferr's exposure to currency risk at 31 December 2020 and 2019.

in foreign currency/thousands

31.12.2020		Foreign currency for €1	Balance in foreign currency			Equivalent amount in €
	Currency	Exchange rate at 31.12.2020	Trade receivables	Trade payables	Gross exposure in statement of fin pos	Net exposure in €
AED	United Arab Emirates dirham	4.51		14	(14)	**(3)**
ARS	Argentine peso	103.25		1	(1)	**(0)**
AUD	Australian dollar	1.59	131	33	99	**62**
COP	Peso Colombiano	4,202.34		16,918	(16,918)	**(4)**
DZD	Algerian dinar	162.11		3,055	(3,055)	**(19)**
EGP	Egyptian pound	19.32		433	(433)	**(22)**
ETB	Ethiopian birr	48.29	559	206	353	**7**
GBP	British pound	0.90			0	**0**
INR	Indian rupee	89.66	54,102	37,249	16,853	**188**
IRR	Iranian rial	51,538.00		694,409	(694,409)	**(13)**
OMR	Oman rial	0.47		1	(1)	**(2)**
PEN	Peruvian nuevo sol	4.44	1,377	6	1,371	**309**
QAR	Qatar riyal	4.47	2,476	304	2,171	**486**
RON	Romanian new leu	4.87	16	154	(138)	**(28)**
SAR	Saudi Arabian riyal	4.60		387	(387)	**(84)**
TRY	Turkish lira	9.11	1	36	(35)	**(4)**
USD	US dollar	1.23	782	197	585	**477**
UZS	Uzbekistani som	12,847.18		190,869	(190,869)	**(15)**
	Total in €					**1,333**

in foreign currency/thousands

31.12.2019		Foreign currency for €1	Balance in foreign currency			Equivalent amount in €
	Currency	Exchange rate at 31.12.2019	Trade receivables	Trade payables	Gross exposure in 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)**
	Total in €					**(578)**

CAPITAL MANAGEMENT

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

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

(€'000)

31.12.2020	Loans	Loans and borrowings
Non-current financial assets	1	
Other non-current assets	507	
Trade receivables	208,022	
Cash and cash equivalents	10,361	
Current financial assets	13,647	
Other current assets	8,834	
Other non-current liabilities		4,022
Non-current financial liabilities		6,280
Trade payables		105,051
Other current liabilities		31,895
Current portion of non-current loans and borrowings		1,500
Current financial liabilities		2,669

(€'000)

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

5 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	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 divestments		(17)		(17)
Non-recurring transactions		(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**
Investments	3,548	2,786		6,334
Depreciation	(3,319)	(1,454)		(4,773)
Exchange differences	1	4		5
Disposals and decreases[1]	0	0		0
Other changes[2]	134			134
Total changes	**364**	**1,337**	**0**	**1,701**
Historical cost	36,476	20,236	98	56,810
Depreciation and impairment losses	(9,292)	(15,990)	0	(25,282)
Balance at 31.12.2020	**27,184**	**4,246**	**98**	**31,528**

At 31 December 2020, there are no mortgages or liens on property, plant and equipment.

€'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**
Investments	3,548	806	4,354
Depreciation	(2,650)	(373)	(3,023)
Exchange differences	1	4	5
Other changes[2]	134		134
Total changes	**1,033**	**437**	**1,470**
Historical cost	10,735	1,677	12,412
Depreciation and impairment losses	(3,123)	(439)	(3,562)
Balance at 31.12.2020	**7,612**	**1,238**	**8,850**

As shown earlier, the investments for the year of €4,354 thousand related to new office leases (Bari office) or renewals of office space leases (mainly for the Milan and Florence offices) and new car leases (€806 thousand). They were recognised in accordance with IFRS 16.

The residual investments (€1,980 thousand) mainly related to the technical equipment necessary to cope with the epidemic emergency (€1,550 thousand, of which €1,338 thousand for laptops and 24-inch monitors so people could work remotely

[1] Disposals and divestments are broken down in the table on the next page.

[2] Other changes are broken down in the table on the next page.

and to ensure design quality and €212 thousand for the temperature scanners installed at entrances to premises for occupational safety purposes).

In addition to technical equipment, the company purchased furniture for the new Naples, Bari and Rome offices (€362 thousand), environmental measurement and survey equipment (€48 thousand) and equipment for atmospheric analyses conducted with mobile laboratories (€21 thousand).

The disposals, broken down below, related exclusively to the termination of leases which reached their natural expiry (mainly offices in Milan, Florence and Palermo).

€'000

Disposals and decreases[1]	Land and buildings	Other assets	Total
Historical cost	(1,464)	(196)	(1,660)
Depreciation and impairment losses	1,464	196	1,660
Total	**0**	**0**	**0**

Finally, Other changes, broken down below, refer to the decrease in the present value and the related accumulated depreciation due to the seven-month extension of the lease of the Genoa office.

€'000

Other changes[2]	Land and buildings	Other assets	Total
Historical cost	(163)		(163)
Depreciation and impairment losses	298		298
Total	**134**	**0**	**134**

6 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	11,909	1,063	24,796	37,768
Amortisation and impairment losses	(10,665)		(21,551)	(32,216)
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)
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**
Investments				0
Amortisation	(1)			(1)
Total changes	**(1)**	**0**	**0**	**(1)**
Historical cost	3	0	0	3
Amortisation and impairment losses	(3)	0	0	(3)
Balance at 31.12.2020	**0**	**0**	**0**	**0**

Following the demerger of the ICT business unit in 2019, all software owned by Italferr was transferred to FSTechnology, except for that purchased from foreign offices. Therefore, in 2020, only the amortisation of such software continued and was substantially completed at year end.

7 Deferred tax assets and deferred tax liabilities

The table below shows deferred tax assets and deferred tax liabilities at 31 December 2020 and changes of the year due to the main temporary differences between carrying amounts and the related tax amounts.

€'000

	31.12.2019	Incr. (decr.) through profit or loss	Incr. / (decr.) through OCI	31.12.2020
Provisions for risks and charges and impairment losses with deferred tax deductibility	6,278	(229)		6,049
Other items	1,080	117	(16)	1,181
Deferred tax assets:	**7,358**	**(112)**	**(16)**	**7,230**
Deferred taxes on unrealised exchange gains	(12)	(3)		(15)
Deferred tax liabilities	**(12)**	**(3)**	**0**	**(15)**

The decrease in deferred tax assets is mainly due to the release of deferred tax assets on provisions already taxed in previous years, while the increase in deferred tax liabilities is due to both unrealised exchange gains and the timing difference between when dividends were received and the period to which they refer.

8 Equity investments

The tables below show the opening and closing balances of equity investments, broken down by category, and changes in 2020 and 2019.

€'000

	Carrying amount 31.12.2020	Carrying amount 31.12.2019	Changes
Investments in:			
Subsidiaries	18,652	21,546	(2,894)
Joint arrangements	1	1	0
Total	**18,653**	**21,547**	**(2,894)**

The changes of the year amount to €2,894 thousand and relate to:

- the impairment loss recognised on the investment in the subsidiary CREW, following an impairment test based on the 2020 results and a four-year economic projection prepared by the company in January 2021 (€2,660 thousand);
- the update of the present value of the additional 20% of CREW's capital that Italferr can acquire by exercising the call option provided for in the investment agreement signed with the non-controlling investor, starting from 1 January 2023.

With respect to the impairment loss on the investment in CREW, on 30 November 2018, Italferr had acquired 80% of this company for a consideration determined partly on the basis of the future cash flows expected from the company's business. Unfortunately, the economic effects of the pandemic reduced the current and prospective results from the original forecasts. Indeed, CREW operates in the engineering and architecture sector and has mainly private customers which, during the year, unlike the public sector, postponed new investments and significantly slowed the existing ones.
In this respect, Westfield Milan was the most prestigious and important contract, both in terms of value and profitability, that CREW had in its backlog at the time of the acquisition. This project, which involves the construction of the largest shopping centre in Europe, has been suspended and is expected to resume at the end of 2021.

The project, which started in 2018, was slated for completion in 2022. However, it was suspended because of the pandemic and the new estimated completion date is now 2025, after the four-year horizon originally considered by CREW.
The lack of contribution of the Westfield project to average profitability over the years and terminal value (assumed to be 2024), had a negative impact on the measurement of the investment and is the main reason behind the impairment loss.

The carrying amount of this investment also includes the estimated consideration for the exercise of the call option to purchase the remaining 20% of the quota capital. Following the adjustment made, the estimated consideration amounts to €3,723 thousand and reflects the present value of the liability corresponding to the cost of exercising the option against the carrying amount of the investment. Since the option can be exercised from 1 January 2023, the discount rate applied is 3.6%, which is the same borrowing rate of the loan that Italferr received from FS Italiane for the initial purchase of the controlling investment.

The table below shows the amounts considered for impairment testing purposes and provides additional information about the measurement of the investment in CREW.

The company measured the investment in CREW as a cash generating unit (CGU) and estimated its value in use (VIU) by discounting the cash flows determined on the basis of the 2021 budget forecast figures and the medium-term business projections (2021 - 2024) of the economic and financial flows that CREW prepared and submitted to its board of directors on 25 January 2021.

In addition to the cash flows expected from the company's operations for the 2022 - 2024 period, their parametric projection was considered, without modifying the growth rates expected in the above period and keeping constant average profit margins.

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

To this end, average growth rates were considered in line with the rates of the long-term forecast of the inflation rate of 1.5%.

A Weighted Average Cost of Capital ("WACC") of 7.93% was applied, while the Compound Annual Growth Rate ("CAGR") of the gross operating profit was equal to 2.5%.

The main inputs for the impairment test are summarised below:

CGU	Net invested capital 2020 (€ million)	Discount rate 2020 (WACC)	Growth Rate	Gr. op. prof. CAGR
Cremonesi Workshop S.r.l. – CREW	3.5	7.93%	1.50%	2.50%

As the estimated recoverable amount of the investment was below its carrying amount, an impairment loss of €2,660 thousand was recognised.
Furthermore, the sensitivity analysis carried out shows how any increases or decreases in the basic assumptions could affect the estimate.

The tables below show Italferr's investees and their changes in 2020 and 2019, respectively.

€'000

	Carrying amount 31.12.2019	Changes in the year			Carrying amount 31.12.2020	Accumulated loss allowance
		Acquis./ subscript.	Impairment losses/(gains)	Other changes		
Investments in subsidiaries						
CREW - Cremonesi Workshop	21,196		(2,660)	(234)	18,302	(2,660)
I.E.S.	350				350	
Investments in joint arrangements						
Turkey (Italferr - Altinok and SWS - Italferr)	1				1	
Non-controlling interests						
Consorcio Supervisor Plmb		(*)				

(*) In order to execute the contract acquired in Colombia in August 2020, Italferr set up Consorcio Supervisor PLMB, incorporated under Colombian law, together with Metropolitana Milanese, the Spanish-based Ayesa and the Colombian-based MAB Ingenierìa de Valor. Italferr's investment is 25%. As the consortium has no consortium fund, the investment was recognised at a symbolic amount of €1.

€'000

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

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

€'000

	Registered office	Share/quota capital	Profit (loss) for the year	Equity at 31.12.2020	Investment %	Share of equity (a)	Carrying amount at 31.12.2020 (b)	Difference (b-a)
Investments in subsidiaries								
CREW - Cremonesi Workshop S.r.l.	Brescia - Italy	100	949	4,493	80%	3,594	17,239	13,645
I.E.S.	Belgrade - Serbia	337	(51)	657	100%	657	350	(307)
Investments in joint arrangements								
Italferr - Altinok	Istanbul - Turkey	0	307	307	50.1%	153	0	(153)
Italferr - SWS		0	196	420	50.0%	210	0	(210)

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

€'000

31.12.2020	% of investment	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Costs	Profit (loss) for the year
Investments in subsidiaries										
CREW - Cremonesi Workshop S.r.l.	80%	6,505	625	7,130	(2,252)	(385)	(2,637)	6,426	(5,478)	948
I.E.S.	100%	753	5	758	(101)	0	(101)	598	(649)	(51)
Investments in joint arrangements										
Italferr - Altinok	50.1%	317	3	320	(36)		(36)	550	(265)	285
Italferr-SWS & Italferr Adi Ortakligi	50.0%	472	60	532	(112)	0	(112)	276	(80)	196

€'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 subsidiaries										
CREW - Cremonesi Workshop S.r.l.	80%	6,062	786	6,848	(2,193)	(568)	(2,761)	6,285	(5,595)	690
I.E.S.	100%	864	8	872	(164)	0	(164)	604	(594)	10
Investments in joint										
Italferr - Altinok	50.1%	450	15	465	(46)	0	(46)	740	(321)	419
Italferr-SWS & Italferr Adi Ortakligi	50.0%	379	56	435	(51)	0	(51)	547	(406)	141

9 Non-current and current financial assets (including derivatives)

€'000

	31.12.2020			31.12.2019			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Amounts attached by banks	1		**1**	1		**1**	0	0	**0**
Intragroup current account		13,647	**13,647**			**0**	0	13,647	**13,647**
Total	**1**	**13,647**	**13,648**	**1**	**0**	**1**	**0**	**13,647**	**13,647**

The increase of the year is entirely related to the balance of the intragroup current account with the parent FS Italiane which, at 2019 year end, had a negative balance.

10 Other non-current and current assets

€'000

	31.12.2020			31.12.2019			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Other assets from group companies		1,832	**1,832**		1,200	**1,200**		632	**632**
VAT assets		3,459	**3,459**		4,190	**4,190**		(731)	**(731)**
Sundry assets	507	3,141	**3,648**	748	1,885	**2,633**	(241)	1,256	**1,015**
Advances to suppliers		530	**530**		1,249	**1,249**		(719)	**(719)**
Prepayments and accrued income - third parties		382	**382**		539	**539**		(157)	**(157)**
Total	**507**	**9,344**	**9,851**	**748**	**9,063**	**9,811**	**(241)**	**281**	**40**
Loss allowance		(510)	**(510)**		(476)	**(476)**		(34)	**(34)**
Total net of the loss allowance	**507**	**8,834**	**9,341**	**748**	**8,587**	**9,335**	**(241)**	**247**	**6**

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

Other assets from group companies include €570 thousand related to the tax consolidation scheme which arises from lower current tax, mainly as a consequence of the non-taxation of releases of provisions that were already taxed in previous years, than the advances paid during the year.

Sundry assets - non-current include guarantee deposits for the lease of buildings and other assets, while the current portion (€3,141 thousand) mainly comprises amounts due from personnel and social security institutions (€202 thousand) and other assets (€2,939 thousand), specifically VAT and other tax assets related to foreign offices (€2,105 thousand).

Advances to suppliers (€530 thousand) are for engineering service engagements assigned to third parties. The €719 thousand decrease refers to the services completed during the year.
Prepayments and accrued income decreased on the previous year end as a consequence of the reduction in insurance premiums for the expiring contracts.

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

€'000

	31.12.2020	31.12.2019	Changes
Italy	6,478	7,682	**(1,204)**
Other European countries (non-Euro EU)	332	51	**281**
Other non-EU European countries			**0**
Other countries	2,024	1,602	**422**
Total net of the loss allowance	**8,834**	**9,335**	**(501)**

11 Non-current and current trade receivables

All trade receivables are current and are detailed below:

€'000

	31.12.2020	31.12.2019	Change
Ordinary customers	11,745	17,489	(5,744)
Government authorities and other public authorities	266	328	(62)
Group companies	54,524	90,429	(35,905)
Loss allowance	(6,780)	(6,903)	123
Carrying amount	**59,755**	**101,343**	**(41,588)**
Contract assets	148,469	150,958	(2,489)
Loss allowance	(202)	(222)	20
Carrying amount	**148,267**	**150,736**	**(2,469)**
Total net of the loss allowance	**208,022**	**252,079**	**(44,057)**

The decrease in trade receivables is mainly due to the amounts due from group companies (€35,905 thousand) and is attributable to the many important design contracts that were signed with RFI at the end of 2019, generating strong growth in turnover which was collected in the following year.

Amounts due from third party customers decreased compared to 2019, mainly due to the amounts collected from Webuild (€5,178 thousand), to support this customer's bid in Texas and the amounts collected from certain foreign customers (Egypt and India).

Amounts due from the public administration decreased on 2019 mainly following the collection of the amounts due from the Genoa municipality for the design of the city metro.

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

€'000

	31.12.2020			31.12.2019		
	Work in progress	Advances and progress billings	Net exposure	Work in progress	Advances and progress billings	Net exposure
RFI	1,188,788	(1,057,752)	131,036	1,106,953	(973,075)	133,878
Other group companies - Italy	23,197	(13,641)	9,556	20,146	(11,677)	8,469
Third parties	15,261	(13,866)	1,395	8,803	(6,626)	2,177
Total Italy	**1,227,246**	**(1,085,259)**	**141,987**	**1,135,902**	**(991,378)**	**144,524**
Third parties	25,567	(19,085)	6,482	39,606	(33,172)	6,434
Total abroad	**25,567**	**(19,085)**	**6,482**	**39,606**	**(33,172)**	**6,434**
Total contract assets	**1,252,813**	**(1,104,344)**	**148,469**	**1,175,508**	**(1,024,550)**	**150,958**

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

€'000

	31.12.2020	31.12.2019	Change
Italy	202,574	242,874	(40,300)
Eurozone			0
Other European countries (non-Euro EU)	81	257	(176)
Other non-EU European countries	2,829	1,994	835
Other countries	2,538	6,954	(4,416)
Total net of the loss allowance	**208,022**	**252,079**	**(44,057)**

12 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

	31.12.2020	31.12.2019	Change
Bank and postal accounts	10,360	9,534	826
Cash and cash equivalents	15	18	(3)
Total	**10,375**	**9,552**	**823**
Loss allowance	(14)	(18)	4
Total net of the loss allowance	**10,361**	**9,534**	**827**

The increase on 2019 is due to the collection of invoices related to foreign customers (India and Egypt) near the end of the year.

13 Equity

Changes in the main equity captions in 2020 and 2019 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 2020 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 €47,715 thousand. The increase on the previous year end is due to the undistributed portion of the profit for 2019.

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 2426.8-bis of the Italian Civil Code, must be taken to a non-distributable reserve until they are realised. At year end, the company had unrealised losses and, therefore, the balance, which is entirely available, was not adjusted;

Actuarial reserve: this reserve has a negative balance of €4,857 thousand and includes the actuarial losses on employee benefits taken directly to equity, net of the €1,671 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 2020 from continuing operations amounts to €32,244 thousand.

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

€'000

Origin	Balance at 31.12.2020 (a+b)	Unavailable portion (a)	Available portion (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 reserves:							
Legal reserve	2,837	2,837					
Extraordinary reserve	47,715		47,715	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	(4,857)	(4,857)					
Retained earnings	3,269	3,269					
TOTAL	**63,827**	**15,435**	**48,392**		**0**	**0**	**0**

A: capital increase

B: coverage of losses

C: dividends

14 Non-current and current loans and borrowings

The caption includes the residual portion of the loan obtained from the parent at the end of 2018 to acquire the investment in CREW.

€'000

Non-current loans and borrowings, net of current portion	31.12.2020	31.12.2019	Changes
Loans and borrowings from group companies	10,500	12,000	(1,500)
Total	**10,500**	**12,000**	**(1,500)**

€'000

Current portion of non-current loans and borrowings	31.12.2020	31.12.2019	Changes
Loans and borrowings from group companies (current portion)	1,500	1,500	0
Total	**1,500**	**1,500**	**0**

Interest on this loan accrues at a fixed rate of 3.65% and repayment is at the end of each half year.

The loan characteristics are shown in the table below.

€'000

	Currency	Nominal interest rate	Year of expiry	31.12.2020		31.12.2019	
				Nom. amount	Carrying amount	Nom. amount	Carrying amount
Ferrovie dello Stato Italiane S.p.A.	€	3.65%	2028	15,000	12,000	15,000	13,500
Total loans and borrowings				**15,000**	**12,000**	**15,000**	**13,500**

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

€'000

	31.12.2019	Monetary items (statement of cash flows)	Non-monetary items		31.12.2020
			New leases	Other	
Disbursement (repayment) of current and non-current loans and borrowings	20,891	(1,500)	(7,391)		12,000
Change in other financial assets	(1)			(13,647)	(13,648)
Change in other financial liabilities	21,121		8,949	(21,121)	8,949
Total	**42,011**	**(1,500)**	**1,558**	**(34,768)**	**7,301**

The table below analyses the net financial position, shown in the reclassified statement of financial position, as presented in the 2020 directors' report compared with 31 December 2019:

€'000

	31.12.2020	31.12.2019	Changes
Current net financial position			
Cash and cash equivalents	10,361	9,534	827
Intragroup current account	13,647	(21,121)	34,768
Other financial liabilities	(1,500)	(1,500)	0
Other	(2,668)	(2,313)	(355)
Total current net financial position (debt)	**19,840**	**(15,399)**	**35,239**
Non-current net financial position			
Other financial liabilities	(10,500)	(12,000)	1,500
Other	(6,280)	(5,078)	(1,202)
Non-current net financial debt	**(16,780)**	**(17,078)**	**298**
Net financial position (debt)	**3,060**	**(32,477)**	**35,537**

15 Post-employment and other employee benefits

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

€'000

	31.12.2020	31.12.2019	Changes
Present value of post-employment benefit obligations	18,186	22,395	(4,209)
Present value of Free Travel Card obligations	440	440	0
Total present value of obligations	**18,626**	**22,835**	**(4,209)**

	31.12.2020	31.12.2019	Changes
			€'000
Opening balance	22,835	25,681	(2,846)
Business unit demerger		(477)	477
Curtailment[1]		(61)	61
Service costs[2]	15	11	4
Interest cost[2]	35	119	(84)
Actuarial (gains) losses recognised in equity	(65)	498	(563)
Advances/utilisations and other changes	(4,194)	(2,936)	(1,258)
Closing balance	**18,626**	**22,835**	**(4,209)**

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 assumptions for the actuarial estimate process are described below:

	31.12.2020	31.12.2019
Discount rate (post-employment benefits)	-0.08%	0.17%
Discount rate (Free Travel Card)	0.34%	0.77%
Annual increase rate of post-employment benefits	2.10%	2.40%
Inflation rate (post-employment benefits)	0.80%	1.20%
Inflation rate (Free Travel Card)	0.80%	1.20%
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.

[3] 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

[4] Through profit or loss

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

€'000

	TFR	Free Travel Card
Inflation rate +0.25%	18,324,729	452,472
Inflation rate -0.25%	18,048,887	427,978
Discount rate +0.25%	17,973,493	425,704
Discount rate -0.25%	18,404,766	455,022
Turnover rate +1%	18,102,285	
Turnover rate -1%	18,277,262	
Plan duration	5.5	18
Estimated future payments - first year	7,994,140	18,811
Estimated future payments - second year	511,710	19,499
Estimated future payments - third year	549,748	20,206
Estimated future payments - fourth year	642,900	20,859
Estimated future payments - fifth year	1,418,983	22,333

16 Provisions for risks and charges

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

€'000

	31.12.2019	Accruals	Reclassifications	Release of excess provisions	Utilisations and other changes	31.12.2020
Litigation with employees	665		(36)		(28)	601
Litigation with third parties	4,967	199	36		(303)	4,899
Employee remuneration to be defined	5,191			(2,984)	(2,207)	0
Provision for losses on contracts	10,737	9,305			(4,291)	15,751
Total non-current portion	**21,560**	**9,504**	**0**	**(2,984)**	**(6,829)**	**21,251**

The provision for litigation with third parties decreased as a result of the settlement of some disputes in which the company was jointly and severally liable with customers and/or RFI.

Employee remuneration to be defined has a nil balance following the renewal of the national labour agreement signed by the parent and the trade unions on 18 February 2021.

Under the new agreement, employees were granted a one-off payment to cover the three-year period that was not covered by the contract.

Given that the FS Italiane group guaranteed employment and signed the contract renewal during the pandemic emergency, the amounts agreed were lower than the costs that had originally been estimated and allocated to the provision in 2018 and 2019. Therefore, the balance in the Utilisations and other changes column refers to the agreed liability for the period not covered by the contract (€2,207 thousand), while that in the release of excess provision column refers to previous years and to the portion that generated prior year income recognised as a decrease in personnel expense (€2,984 thousand).

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.

17 Non-current and current liabilities (including derivatives)

Current and non-current lease liabilities amount to €8,949 thousand.

(€'000)

	31.12.2020			31.12.2019			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial liabilities									
Lease liabilities	6,280	2,668	**8,948**	5,078	2,313	**7,391**	1,202	355	**1,557**
Other financial liabilities			**0**		21,121	**21,121**		(21,121)	**(21,121)**
Total	**6,280**	**2,668**	**8,948**	**5,078**	**23,434**	**28,512**	**1,202**	**(20,766)**	**(19,564)**

Other current financial liabilities amounting to €21,121 thousand at 31 December 2019, are entirely related to the intragroup current account with the parent FS Italiane. This current account had a positive balance at 2020 year end whereas the balance was negative at 2019 year end.

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

	1Y	2Y	3Y	4Y	5Y	6Y	7Y	8Y	9Y	10Y
I quarter of 2020	1.52%	1.81%	2.16%	2.33%	2.58%	2.70%	2.90%	3.01%	3.10%	3.28%
II quarter of 2020	0.92%	1.19%	1.43%	1.57%	1.81%	1.91%	2.10%	2.20%	2.29%	2.43%
III quarter of 2020	0.92%	1.19%	1.43%	1.57%	1.81%	1.91%	2.10%	2.20%	2.29%	2.43%
IV quarter of 2020	0.76%	1.02%	1.19%	1.34%	1.55%	1.67%	1.81%	1.93%	2.03%	2.13%

Lease liabilities relate to leases for Italferr's offices and cars.

At the inception of each lease, the company assesses whether it is reasonably certain to exercise an extension/termination option. It subsequently updates the assessment upon occurrence of either a significant event or a significant change in circumstances that is within its control. During the year, the company only exercised extension options for a small number of contracts.

Lease liabilities	Future lease payments	Historical rate of exercise of the extension option
8,948	(3,004)	20%

18 Other non-current and current liabilities

€'000

	31.12.2020			31.12.2019			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Social security charges payable		13,334	**13,334**		12,992	**12,992**		342	**342**
Other liabilities with group companies		14	**14**		180	**180**		(166)	**(166)**
Other liabilities and accrued expenses and deferred income	4,022	18,547	**22,569**	4,123	24,329	**28,452**	(101)	(5,782)	**(5,883)**
Total	**4,022**	**31,895**	**35,917**	**4,123**	**37,501**	**41,624**	**(101)**	**(5,606)**	**(5,707)**

Social security charges payable (€13,334 thousand) include the accrued 14th month pay and holidays accrued but not yet taken, along with amounts due to Inarcassa of €7,099 thousand. This caption also includes the charges related to the national labour agreement and the performance bonus (€468 thousand), which were reclassified from the provision for personnel risks following the agreement signed with the trade unions, as described in note 17.

The current portion of Other liabilities, amounting to €18,548 thousand, includes amounts due to personnel for remuneration accrued but not yet paid (€11,054 thousand) which also includes the amount reclassified from the provision for personnel risks following the signing of the national labour agreement and the performance bonus (€1,758 thousand). This caption also includes holidays accrued but not yet taken at 31 December 2020 (€1,124 thousand) and the withholdings applied to employees and freelancers (€2,786 thousand, down by €91 thousand on the previous year end).

The non-current portion of Other liabilities refers to the present value of the call option (€4,022 thousand) for the remaining 20% of CREW, which the company may exercise as from 1 January 2023, as provided for by the quotaholders' agreements.

19 Current and non-current trade payables

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

€'000

	31.12.2020	31.12.2019	Changes
Suppliers	16,509	15,385	1,124
Group companies	7,951	14,460	(6,509)
Contract liabilities	80,591	97,417	(16,826)
Total	**105,051**	**127,262**	**(22,211)**

The €6,509 thousand decrease in amounts due to group companies relates, in particular, to the increase in payments to FSTechnology for IT services (€4,815 thousand) and to the services covered by the management contract agreed with the parent FS Italiane (€1,025 thousand).

The €16,826 thousand decrease in contract liabilities is mainly due to the important design contracts agreed with RFI at the end of 2019. As they provided for progress billings, they resulted in an increase in prior year liabilities.
Contract liabilities are broken down by counterparty below:

€'000

	31.12.2020	31.12.2019	Changes
RFI	71,484	88,910	(17,426)
Other group companies	6,150	4,614	1,536
Third parties	2,957	3,893	(936)
Total	**80,591**	**97,417**	**(16,826)**

20 Tax liabilities

This caption includes the 2020 IRAP (regional production tax) liability: the decrease compared to 2019 is generated by the tax of the year, net of the advances paid (€2,434 thousand).

€'000

	2020	2019	Change
IRAP	305	911	(606)
Foreign tax liabilities	596	565	31
Total	**901**	**1,476**	**(575)**

Foreign tax liabilities amount to €596 thousand and are in line with 2019. The balance includes the tax liabilities of foreign branches.

21 Revenue from sales and services

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

€'000

	2020	2019	Changes
Revenue from contracts with customers	222,507	225,990	(3,483)
Other revenue from sales and services	22	24	(2)
Total revenue from sales and services	**222,529**	**226,014**	**(3,485)**

Revenue from sales and services entirely refers to the engineering services that are the company's core business. The decrease on 2019 is due to the fact that, despite being high, the average profitability of the contracts in the captive market failed to match that of 2019 - which benefited from high production volumes on some large contracts and high profit margins - and also to the reduction in production volumes on the non-captive market due to the general slowdown of foreign operations caused by Covid-19.

The table below gives a breakdown of revenue from contracts with customers by category.

€'000

	2020	2019	Changes
Geographical segment			
Italy	208,121	202,399	5,722
Europe	3,232	3,691	(459)
Non-EU	11,176	19,924	(8,748)
Total revenue from sales and services	**222,529**	**226,014**	**(3,485)**
Type of service			
Engineering and consultancy services	184,652	157,668	26,984
Works management and supervision	37,855	68,322	(30,467)
Other services	22	24	(2)
Total revenue from sales and services	**222,529**	**226,014**	**(3,485)**
Moment of recognition			
At a point in time	22	24	(2)
Over time	222,507	225,990	(3,483)
Total revenue from sales and services	**222,529**	**226,014**	**(3,485)**

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.

At 31 December 2020, the total contractual consideration of the existing construction contracts allocated to unsatisfied performance obligations amounts to €1,022,318 thousand. The company expects to recognise these amounts in the future in line with available forecasts.

The table below provides information on changes in contract assets and contract liabilities and shows the portion of completed activities that has been definitively recognised as revenue.

(€'000)

	Contract assets	Contract liabilities	Income statement
Revenue recognised during the year which was included in the opening balance of contract liabilities	(14,216)	(43,077)	57,293
Increases in contract liabilities, net of the amounts released to revenue during the year	(57,195)	(91,274)	2,766
Increases in contract assets due to the provision of services	78,740	133,744	154,833
Increases in contract assets due to changes in the assessment of the percentage of completion	(9,818)	17,433	7,615
Total	**(2,489)**	**16,826**	**222,507**

In both 2020 and 2019, Other revenue from sales and services entirely relates to fees for specialist courses provided to certain group companies.

22 Other income

Other income is detailed in the table below:

€'000

	2020	2019	Changes
Indemnities	16	90	(74)
Supplier vetting	60	66	(6)
Repayments	82	147	(65)
Other	45	305	(260)
Other income	**203**	**608**	**(405)**

23 Personnel expense

€'000

	2020	2019	Changes
Wages and salaries	67,820	67,028	792
Social security charges	17,987	18,282	(295)
Other expense for employees	3,959	7,309	(3,350)
Post-employment benefits	4,749	4,664	85
Service cost TFR/CLC	15	11	4
Net accruals/releases for employees	(2,984)	4,331	(7,315)
Employees	**91,546**	**101,625**	**(10,079)**
Wages and salaries	5	63	(58)
Social security charges	21	45	(24)
Other expense	1	0	1
Consultants and freelancers	**27**	**108**	**(81)**
Temporary workers, seconded employees and work experience	2,825	1,817	1,008
Other expense	2,468	1,942	526
Other costs	**5,293**	**3,759**	**1,534**
Total	**96,866**	**105,493**	**(8,626)**

This caption decreased significantly (€8,626 thousand) mainly as a result of the renewal of the national labour agreement, as discussed in the note to provisions for risks and charges, to which reference should be made, which resulted in a €4,686 thousand decrease compared to 2019, and prior year income of €2,984 thousand.

As a result of the widescale implementation of remote work, costs for overtime and travel also decreased (€2,427,000).

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

average FTE

	2020	2019	Change
Managers	62	64	(2)
Junior managers	563	606	(43)
White collars	939	795	144
Total employees	**1,564**	**1,465**	**99**
Temporary workers	57	33	24
Contract workers	0	1	(1)
Total flexible staff	**57**	**34**	**24**
Total	**1,621**	**1,499**	**123**

24 Raw materials, consumables, supplies and goods

They can be analysed as follows:

€'000

	2020	2019	Changes
Materials and consumables	310	315	(5)
Total	**310**	**315**	**(5)**

25 Services

This caption can be analysed as follows:

€'000

	2020	2019	Changes
Engineering services	39,016	36,040	2,976
Administrative and IT services	10,881	9,632	1,249
Travel and accommodation	2,590	5,653	(3,063)
Facilities	3,560	3,231	329
Professional services	1,711	1,502	209
Utilities	997	894	103
Insurance	1,792	1,506	286
External communications and advertising expense	111	172	(61)
Maintenance, cleaning and other contracted services	57	141	(84)
Other	1,797	2,975	(1,178)
Total	**62,512**	**61,746**	**766**

Overall, this caption increased modestly on 2019 (+1.2%). However, the increase is the result of more dramatic changes in the individual sub-captions. Specifically:

- costs for outsourced engineering services increased, based on the type of contracts and production volumes of the year (+€2,976 thousand);
- costs for IT services increased (+€1,249 thousand) mainly because, in 2019, ICT services were outsourced only after the spin-off of the IT branch to FSTechnology on 31 July 2019;
- travel and accommodation costs decreased considerably (-€3,063 thousand) due to the reduction in mobility to counter the effects of COVID-19;
- costs for services received from the parent decreased as a result of the revision of fees when the intragroup contracts were renewed (-€822 thousand).

26 Use of third-party assets

In 2020, this caption amounts to €1,718 thousand and also includes costs related to short-term leases (less than 12 months), leases where the underlying asset has a low value (worth €5,000 or less) and costs related to variable payments not included in the measurement of lease liabilities.

It may be analysed as follows:

€'000

	2020	2019	Changes
Lease payments, building expense and registration tax	864	1,744	(880)
Hires and other	854	1,516	(662)
Total	**1,718**	**3,260**	**(1,542)**

Use of third-party assets decreased by €1,542 thousand on 2019 as a result of:

- savings on cleaning, utilities and maintenance costs, included in the building expense for leased properties (-€880 thousand) and savings on maintenance and fuel costs of leased vehicles (-€132 thousand);
- the fact that, from 2020, the use of the FS brand has become free of charge (-€530 thousand).

27 Other operating costs

Other operating costs are detailed in the table below:

€'000

	2020	2019	Changes
Contribution for Free Travel Cards	274	953	(679)
Local property and waste disposal taxes	276	316	(40)
Membership fees	126	119	7
Entertainment expenses	3	25	(22)
Other taxes and duties	54	114	(60)
Other	800	313	487
Losses	0	8	(8)
Net accruals	5,212	5,087	125
Total	**6,745**	**6,935**	**(190)**

The contribution for the Free Travel Card is the amount paid to Trenitalia for the free transport of Italferr employees. It decreased as a result of the dramatic reduction in mobility caused by the restrictions to contain the pandemic.

Net accruals and releases increased by 2.5% in absolute terms on 2019 and include:

- the probable liabilities for litigation in case they lose the case, which the company estimated by considering pending litigation (€199 thousand);
- the net accrual to the provision for losses on contracts (€5,013 thousand), net of releases based on contract progress and, therefore, net of the realised loss.

28 Internal work capitalised

This caption has a nil balance.

29 Amortisation and depreciation

They total €4,773 thousand and are broken down in the following table. Reference should be made to notes 6 and 7 for further information.

€'000

	2020	2019	Changes
Amortisation	1	1,515	(1,514)
Depreciation	4,772	4,373	399
Total	**4,773**	**5,888**	**(1,115)**

30 Impairment losses/(reversals of impairment losses)

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 4 for further information.

€'000

	2020	2019	Change
Net impairment gains	(95)	(601)	506
Impairment losses on cash and cash equivalents	(4)		(4)
Total	**(99)**	**(601)**	**502**

31 Financial income

This caption can be analysed as follows:

€'000

	2020	2019	Change
Other financial income	42	4	38
Dividends	664	1,043	(379)
Exchange gains	109	775	(666)
Total	**815**	**1,822**	**(1,007)**

Financial income decreased as a result of the 2019 dividends paid in 2020 by the subsidiary CREW (€493 thousand, down by €232 on the previous year) and by the share of profits received from the Turkish Italferr/Altinok joint venture (€171 thousand, down by €147 thousand on 2019) and exchange gains as a result of exchange rate trends in the countries where the company's offices and branches are located.

32 Financial expense

Financial expense is detailed in the table below:

€'000

	2020	2019	Change
Interest cost on employee benefits	314	119	195
Other financial expense	922	930	(8)
Exchange losses	881	420	461
Impairment loss on equity investment	2,660		2,660
Total	**4,777**	**1,469**	**3,308**

This caption increased between 2019 and 2020 mainly due to the adjustment of the carrying amount of the investment in the subsidiary CREW, following the impairment test conducted. For further information, reference should be made to the note to Equity investments.

Exchange losses also increased on 2019, mainly as a result of the adjustment of credit and debit balances to the closing rates of the rupee, Turkish lira and Colombian pesos.

33 Current and deferred taxes

Income taxes can be analysed as follows:

€'000

	2020	2019	Change
IRAP	2,739	2,520	219
IRES	11,038	12,419	(1,381)
Current foreign taxes	467	767	(300)
Deferred taxes	115	(1,696)	1,811
Adjustments to prior year income taxes	(658)	(462)	(196)
Total	**13,701**	**13,548**	**153**

Based on the above table, overall, this caption increased slightly on 2019 (+1.2%). This is the result of changes that offset one another. Specifically:

- current IRES (corporate income tax) for 2020 decreased on the previous year mainly as a result of the non-taxation of some financial statements captions and the release of provisions already taxed in previous years;

- the balance of deferred tax assets and liabilities increased significantly compared to 2019 (+€1,811 thousand) due to the reversal of deferred tax assets following the release of provisions, whose accruals had been taxed in previous years.

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

Reconciliation of the actual tax rate

€'000

	2020		2019	
	Amount	%	Amount	%
Profit for the year	32,244		30,395	
Total income taxes	13,701		13,548	
Pre-tax profit	45,945		43,943	
IRES theoretical tax (national tax rate)	**11,027**	**24.0%**	**10,546**	**24.0%**
Lower taxes				
Other decreases	(2,908)	-6.3%	(1,887)	-4.3%
Higher taxes				
Accruals to provisions	2,280	5.0%	2,990	6.8%
Prior year expense	100	0.2%	244	0.6%
Other increases	539	1.2%	526	1.2%
Total current taxes (IRES)	**11,038**	**24.0%**	**12,419**	**28.3%**
IRAP	**2,739**	**6.0%**	**2,520**	**5.7%**
Foreign taxes	**467**	**1.0%**	**767**	**1.7%**
Difference on estimated prior year taxes	**(658)**	**-1.4%**	**(462)**	**-1.1%**
Total deferred tax	**115**	**0.3%**	**(1,696)**	**-3.9%**
Total	**13,701**	**29.8%**	**13,548**	**48.3%**

34 Contingent assets and liabilities

The company has not recognised any contingent assets.

Contingent liabilities relate to:

- civil proceedings commenced by third parties for claims for damage suffered during construction sites activities. In these proceedings, in which Italferr was involved or that were in any case notified to the latter, the risk of Italferr losing was deemed 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. To date, the amounts requested by the counterparties total €3,110 thousand;
- the recognition of claims in respect of the contractor Nodavia for the construction of the Florence hub. The liability that could arise from the unfavourable outcome of the lawsuit currently in progress is considered "possible" since the lawsuit was notified to Italferr only as a third party (*litis denuntiatio)*, because the claims relate to only RFI;
- the recognition of claims in respect of the Consorzio Nazionale Cooperative di Produzione e Lavoro Ciro Menotti for works carried out for Italferr. The case relates to the appeal against the first-level ruling whereby the judge denied the contractor's requests and ordered Italferr to pay only a penalty for the late payment of the instalment for the services received, disallowing the other party's right to have the recognised claims paid;

- Italferr's third-party liability in the criminal proceedings pending before the Court of Florence, relating to the construction of the Florence HS station: in relation to the hearing currently underway and based on the results of the preliminary investigation carried out to date, the risk of having to pay damages is deemed possible, but this is a matter of prudence, considering the importance of the case and the extreme complexity of the facts and legal issues underlying the public prosecutor's charges.

35 Audit fees

Pursuant to article 37.16 of Legislative decree no. 39/2010 and letter 16-bis of article 2427 of the Italian Civil Code, the independent auditors' fees amount to €55 thousand, in addition to non-audit service fees of €11 thousand.

36 Directors' and statutory auditors' fees

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

€'000

	2020	2019	Change
Directors (*)	150	150	0
Statutory auditors	39	39	0
Total	**189**	**189**	**0**

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

In addition to the above fees, the independent members of the supervisory body received fees of €45 thousand for 2020.

37 Management and coordination

The 2019 key financial figures of the direct parent are reported below.

€'000

Statement of financial position	31.12.2019	31.12.2018
Assets		
Total non-current assets	44,931,064	44,848,061
Total current assets	4,956,169	3,894,254
Assets held for sale and disposal groups		22,395
Total assets	**49,887,233**	**48,764,710**
Equity		
Share capital	39,204,174	39,204,174
Reserves	53,586	50,721
Retained earnings	374,612	315,334
Profit for the year	226,673	62,397
Total equity	**39,859,045**	**39,632,626**
Liabilities		
Total non-current liabilities	5,966,161	6,369,095
Total current liabilities	4,062,027	2,762,989
Total liabilities	**10,028,188**	**9,132,084**
Total equity and liabilities	**49,887,233**	**48,764,710**

€'000

Income statement	2019	2018
Revenue	187,257	180,129
Operating costs	(263,695)	(237,018)
Amortisation and depreciation	(24,516)	(24,453)
Net impairment gains	(1,417)	(15,770)
Accruals		
Net financial income	175,839	30,809
Income taxes	153,204	128,700
Profit for the year	**226,673**	**62,397**

38 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	2020	2019
Short-term benefits	2,559	2,552
Post-employment benefits	225	194
Total	**2,784**	**2,746**

The short-term benefits paid during the year do not include the variable portion of remuneration which, indicatively, does not exceed €630 thousand. It will be paid in 2021 after checking that the group’s 2020 goals have been achieved.

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

Other related party transactions

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

Trade and other transactions:

	Assets	Liabilities
Subsidiaries		
I.E.S. d.o.o.		Trade and other: services
Italferr - Altinok joint arrangement	Trade; Financial: shareholder loan	
Italferr-SWS joint arrangement	Trade; Financial: shareholder loan	
CREW Cremonesi Workshop S.r.l.	Trade; Financial: shareholder loan	
Parent		
Ferrovie dello Stato Italiane	Trade and other: engineering services; funding of training; group VAT Financial: intragroup current account	Trade and other: provision of services, group VAT; guaratees 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 Financial: guarantee deposits	Trade and other: leases
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: services
Gruppo Enel		Trade and other: services
Cassa Depositi e Prestiti group		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 2020 generated by related party transactions

€'000

	31.12.2020				2020	
	Assets	Liabilities	Guarantees	Commitments	Costs	Revenue
Parent	**5,031**	**(3,140)**			**(1,374)**	**129**
Ferrovie dello Stato Italiane	5,031	(3,140)			(1,374)	129
Subsidiaries	**576**	**(183)**			**(425)**	**36**
I.E.S. doo	21	(183)			(575)	21
Cremonesi Workshop	417				150	15
Joint arrangements	**69**	**0**	**0**	**0**	**0**	**0**
SWS & ITALFERR	69					
Other associates	**194,149**	**(82,262)**			**(15,363)**	**204,176**
BBT	125					
Busitalia Rail Service		(66)			(89)	
Ferservizi		(3,795)			(3,981)	1
FE1 FSE Infrastruttura	5,283	(4,485)				2,380
FS Sistemi Urbani	954	(329)			(19)	815
FS Technology S.p.A.	288	781			(10,247)	
FS International	343	(7)				272
Grandi Stazioni Rail	141	(34)				44
Grandi Stazioni Immobiliare		(53)			(196)	
Italcertifer					(78)	
Mercitalia Rail						5
Metropark					(5)	
RFI	178,815	(72,633)			(239)	194,598
T.E.L.T. Sas (formerly L.T.F. Sas)	18					
Trenitalia	8,182	(1,641)			(509)	6,061

€'000

	31.12.2020				2020	
	Assets	Liabilities	Guarantees	Commitments	Costs	Revenue
Other related parties	**0**	**(301)**			**(939)**	**0**
ENI		(5)			(16)	
Eurofer		(42)			(365)	
EXPO2015		(24)				
Cassa Depositi e Prestiti group		115				
Leonardo group		(1)				
Previndai		(344)			(497)	
Other pension funds					(61)	

Financial transactions:

€'000

	31.12.2020				2020	
	Assets	Liabilities	Guarantees	Commitments	Costs	Income
Parent						
Ferrovie dello Stato Italiane	13,647		0			(2)
TOTAL	**13,647**	**0**	**0**	**0**	**0**	**(2)**

39 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 €16,566 thousand, including €313 thousand granted by the parent to RFI (formerly TAV) for advances received on HS/HC contracts, €15,000 thousand to guarantee currency risk hedging derivatives and €1,050 thousand as direct and independent commitment to FSI to guarantee the loan granted by the latter to Crew Cremonesi Workshop S.r.l., as Italferr's subsidiary. 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 €16,256 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 €26,322 thousand.

40 Public funding

During the year, the company did not benefit from any aid, subsidies or contributions from the state and/or public entities. However, it availed itself of the benefits of Decree Law no. 34/2020 which consist in the possibility of deducting, for IRES purposes, the ordinary depreciation and the fiscally-driven depreciation of 30% of the cost of operating assets purchased in 2019 and eliminating the 2019 IRAP balance.

The table below shows the amounts of the benefits received by the company in terms of lower taxes paid in 2020 pursuant to article 1.125-129 of Law no. 124/2017, as reformulated by article 35 of Decree Law no. 34/2019 (converted into Law no. 58/2019).

€'000

Provider		Amount
Italian government	Fiscally-driven depreciation (article 50 DL no. 34/2020)	31
Italian government	Elimination of 2019 IRAP balance (article 24 DL no. 34/2020)	258
Total		**289**

41 Events after the reporting date

- **25 January 2021** Italferr, in a consortium with the German Deutsche Bahn and the Spanish Idom, won the contract to support the electrification of 870 kilometres of the new Rail Baltica high-speed line, which connects Estonia, Latvia and Lithuania to the rest of Europe. The seven-year contract is worth a total of almost €30 million and is the largest electrification plan in Europe.
- **18 February 2021:** Agens and the FS Italiane group signed a number of important agreements with the trade unions, including, in particular, the agreement for national collective bargaining agreement for Mobility workers/Railway operations, dated 16 December 2016 and which also introduced some measures covering remote work and welfare schemes. The parties also signed a protocol for the quality of work in railway service contracts, with which the group reaffirmed the principles underpinning a healthy economy supported by the quality of work, such as lawfulness, transparency, sustainability and occupational health and safety.

42 Proposed allocation of the profit for the year

The company's financial statements as at and for the year ended 31 December 2020 show a profit of €32,243,645.

We propose:

- distributing 70% of the profit for the year, equal to a dividend of €22,569,926, or €1,591 to each of the 14,186 shares;
- allocating the residual profit for the year, equal to €9,673,719, to the extraordinary reserve.

Rome, 8 March 2021

The Chairman

Firmato digitalmente da:Aldo Isi
Data:07/07/2021 13:35:41
Chief Executive Officer

Firmato digitalmente da:Alessandra Cardegari
Limite d'uso:Explicit Text: Questo certificato rispetta le raccomandazioni previste dalla
Determinazione Agid N. 121/2019
Data:07/07/2021 12:07:14