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

Italferr S.p.A.

Financial statements as at and for the year ended 31 December 2021

(with independent auditors' reports thereon)

KPMG S.p.A.

18 March 2022

KPMG S.p.A.
Revisione e organizzazione contabile
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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 2021, 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 2021 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 2021 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 2021 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 2021 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, 18 March 2022

KPMG S.p.A.

(signed on the original)

Gabriele de Gennaro
Director of Audit

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

Italferr S.p.A.

2021 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 35 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:

Chairperson	Mario Serio[1]	Paola Firmi[2]
CEO	Aldo Isi[3]	Andrea Nardinocchi[2]
Director	Claudia Cruciani[3]	Francesca Bartoli[2]
Director	Claudia Eccher[3]	Claudia Eccher[2]
Director	Sergio Salvio[3]	Franco Fenoglio[2]

Board of statutory auditors:

Chairperson	Micol Marisa
Standing statutory auditor	Annamaria Madeo
Standing statutory auditor	Michele Farese
Alternate statutory auditor	Monica Petrella
Alternate statutory auditor	Luca Provaroni

INDEPENDENT AUDITORS KPMG S.p.A.

[1] In office until 29 July 2021

[2] In office since 10 December 2021

[3] In office until 9 December 2021

CONTENTS

CHAIRPERSON'S LETTER

Dear Shareholder,

2021 ended with the global economy's strong rebound after the recession triggered by Covid-19 and the Italian economy, in particular, has grown faster than at any other time since the start of this century.

Italy's performance was bolstered by the National Recovery and Resilience Plan (NRRP), which, in line with the NextGenerationEU pillars, has earmarked around €28 billion for the railway infrastructure sector to upgrade transport service quality along the main national and regional routes and guarantee high social sustainability and environmental standards.

For the same reasons, the Italian government augmented the NRRP with a Complementary Fund of €3 billion and negotiated the 2020-2021 rider to the 2017-2021 Government Programme Contract with RFI to reflect changes in programming and financing and to include all the investments to be made and those already under way in one document so as to ensure their continuity and their immediate deployment as they had already been approved in the previous rider (2018-2019).

Given Italferr's role as the designer and works manager of RFI's investments, it has been advantaged by this situation and ended the year by significantly outperforming its budget.
As a whole, revenue of the year grew by 5% and the operating profit more than doubled that projected in the budget.

Turning to its business segments, the company's excellent performance was driven by the captive market, thanks to the jump in demand by RFI which required Italferr to accelerate its pace: it delivered 216 projects during the year (+28% on 2020) and managed 96 contracts (+16% on 2020).

The high value of the contracts and fast turnaround times of services, imposed by the NRRP's timeline, positively affected the average profitability of the company's order backlog, while it concurrently saved on operating costs, service costs and personnel expenses to a greater extent than that expected.

The operating cost savings were achieved thanks to a different contract mix compared to that planned as a result of the new opportunities introduced by the government measures and the postponement of work on the IT infrastructure commissioned to FSTechnology to 2022.

Personnel expenses were less than expected because although the company took on 367 new hires (+20.7%) during the year it was unable to meet its own labour requirements imposed by the upturn in demand, mainly due to the lack of suitable candidates that met the profiles requested by engineering and construction companies.

The domestic non-captive market also benefited from the rise in demand bolstered by the NRRP, especially the important design contracts obtained from the government's extraordinary commissioner in charge of the anti-seismic works to secure the A24 and A25 motorways, which had not been included in the budget.

The international market was seriously affected by the difficulty in sourcing personnel, especially more qualified resources, which led to a slowdown in foreign contracts (mainly India) compared to the budget.

The company's financial position echoed its results of operations, outperforming the budget: it was able to self-finance the increase in invested capital and its net financial position was again positive at the end of the year.

Italferr has pushed innovation and sustainability as the drivers of its growth for years now and it continued this approach in 2021 with its integrated innovation and sustainability projects to build works and services and create long-term value for the community.

By kickstarting public investment in the infrastructure sector and focusing on environmental and innovation aspects, the NRRP has not only created the conditions favourable for Italferr to reach and exceed its objectives for 2021 but also to lay the groundwork for a positive future, aware that as a market player with well-honed expertise, the company is well-placed to benefit from the opportunities and continue its growth journey.

Directors' report

KEY AND GLOSSARY

ALTERNATTIVE 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 construction contracts, current and non-current trade receivables and current and non-current trade payables.

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

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, 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 provision for contractual risks, reflecting expected future losses on contracts with negative outcomes, and deferred tax liabilities.

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

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

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.

ARIS: All-relay interlocking system: this centralised system has one single button to control routes and routing and automatically shunts each individual body affected by the route.

PPA (**Prevention and Protection Aide)**: this person assists the Prevention and Protection Officer in guaranteeing safety at the company's offices.

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

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

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

MEP (Mechanical, Electrical & Plumbing): acronym for plant engineering.

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

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

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

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.

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

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 system allows 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.

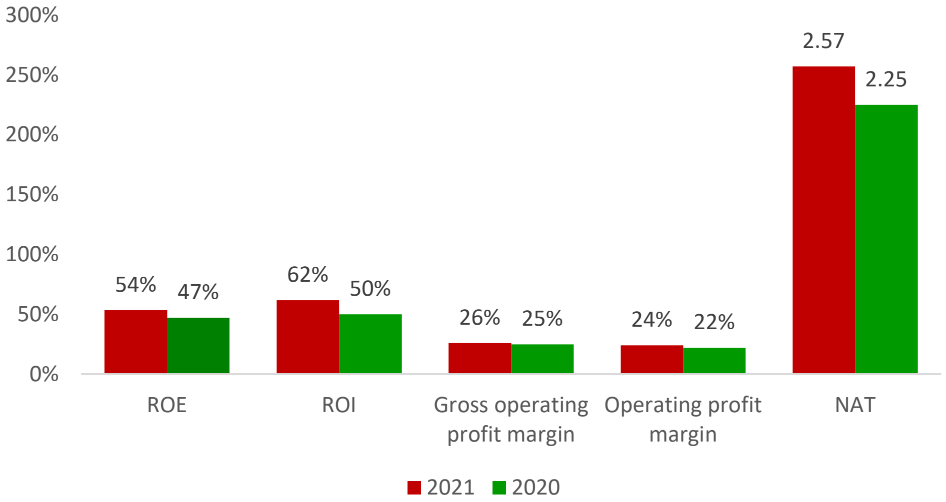
TPSS (traction substation): this is a railway system that distributes, transforms and converts electrical power to supply the traction current lines.

Value engineering: this is an optimisation method applicable to projects used to calculate variations in the effectiveness and cost of a project and, hence, the possible variables in value, so the customer can take the best decisions.

2021 RESULTS

As more extensively described below, in 2021, both the company's production output and profit margins grew as a result of the strong increase in captive design demand driven by RFI and bolstered by the kick-off of the NRRP projects together with the other government initiatives rolled out to relaunch the national economy.

All the company's performance indicators benefited from this favourable situation, as shown in the following graph and table, and were all very positive and better than one year earlier.



		2021	2020
ROE	P/E*	54%	47%
ROI	OP/ANIC*	62%	50%
Gross operating profit margin	GOP/R	26%	25%
Operating profit margin	OP/R	24%	22%
NAT (net asset turnover)	R/ANIC*	2.57	2.25
Debt/Equity	NFD/E	n/a	n/a

KEY

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

OP: Operating profit

GOP: Gross operating profit

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

E: Equity

NFD: Net financial debt

R: Revenue

P: Profit for the year

MAIN EVENTS OF THE YEAR

REGULATORY CHANGES

July

- **13 July**: the European Council definitively adopted Italy's National Recovery and Resilience Plan(NRRP) and authorised its eligibility for EU funds to make the investments and projects to relaunch the economy and kick-start the country's green transition.
  The Italian government has earmarked an additional €30.6 billion through the Complementary Fund to bolster the EU funds of €204.5 billion (€191.5 billion from NextGenerationEU and €13 billion under the ReactEU programme).
  The Italian government has set aside €28 billion of the NRRP for railway infrastructure.

November

- **26 November**: the Italian Ministry of Infrastructure and Sustainable Mobility and RFI signed the 2020-2021 rider to the 2017-2021 Government Programme Contract - Investments (GPC-I).

INTERNATIONALISATION INITIATIVES

January

- **25 January:** as part of a consortium with the German Deutsche Bahn and the Spanish Idom, Italferr was awarded the PMC contract for assistance with the electrification of 870 km of the new Baltic Rail HS line connecting Estonia, Latvia and Lithuania to the rest of continental Europe.

February

- **1 February:** Qatar Railways Company extended the PMC contract for the tramway system in Lusail, the new waterfront city recently developed in Qatar.
- **11 February:** Italferr with its partner Comete (a major Tunisian engineering company) won the contract for conducting project verification and procurement assistance in the upgrading of two railway lines in Tunisia.
- **13 February:** Italferr was contracted by Webuild for the preliminary design of the Gowrie to Kagaru section (126 km) of Inland Rail, a 1,700 km railway line to transport freight between Melbourne and Brisbane in Australia.

March

- **16 March:** Italferr obtained an extension to the works supervision contract for the signalling system of the section included in Corridor 4 of the Egyptian infrastructure network from the Egyptian National Railways.

April

- **30 April**: Italferr signed an addendum to the technical assistance and value engineering contract with the related company FS International for the high speed project to connect the three main airports in Thailand.

May

- **7 May:** the French National Railways (SNCF) awarded Italferr a technical assistance contract for the preparation of the documentation and review of the feasibility studies of the fire prevention systems for the French part of the Moncenisio tunnel.

June

- **22 June:** Hitachi Rail STS Canada requested Italferr's assistance with the preliminary design of some parts of its bid for the Toronto - Ontario Metro Line. On 1 and 30 August, Italferr received another two engagements for preliminary designs for the same request for bids from IBI Group Professional Services (Canada).

July

- **1 July:** Italferr agreed an extension (until 31 December 2022) to the field design and works supervision contract for the Anji Khad bridge in India with Ircon International.
- **15 July**: as subcontractor, Italferr was assigned the technical assistance contract for the design of the NEOM railway line in Saudi Arabia from AECOM. On 3 November, the initial contract was extended to include the concept design of the line's three tunnels as part of the futuristic design for the new resilient and sustainable NEOM city in Saudi Arabia.

August

- **5 August:** COIMA SGR awarded Italferr the concept design contract for the suspended forest, the flagship project of the larger initiative for the regeneration of the Porta Romana railway yards in Milan which will house the 2026 Olympic Village.

November

- **30 November:** as leader of a consortium including Proger and the subsidiary I.E.S., Italferr won a contract for the supervision of technological works on the Stara Pazova-Novi Sad section in Serbia from RZD International.
- **30 November:** the consortium comprising Italferr (principal), Systra and Pini Swiss was awarded the contract for the definitive design and assistance with the call for tenders for Lot 2 (Brenner Base tunnel) of the Turin-Lyon line from TELT. On 1 December, this was integrated by the technical assistance contract.

December

- **1 December:** the Egyptian National Authority for Tunnels (NAT) awarded Italferr a technical assistance contract to modernise Line 1 of the Cairo Metro.
- **16 December:** the consortium of Italferr (agent), Systra and Pni Swiss was awarded two contracts as part of the calls for tenders from TELT for works management and high surveillance on the cross-border Turin-Lyon railway section, to complete its installation in Italy.

OTHER EVENTS

New contracts acquired in Italy on the market

June

- **8 June:** as leader of the consortium, Italferr signed a contract with the Genoa Municipality for the definitive design of the city's trolleybus system to supplement the existing network and cover more than 40 km.

September

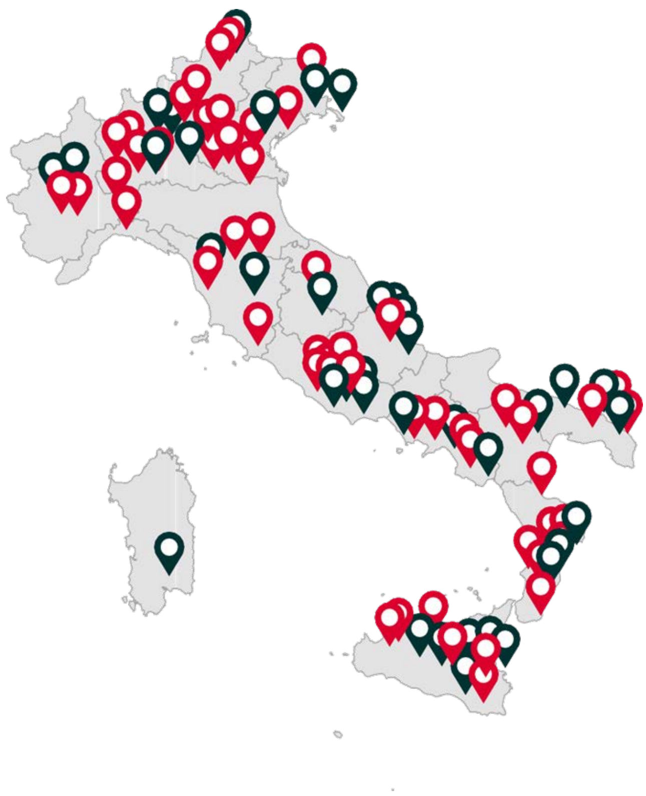
- **27 September:** Italferr and the government's extraordinary commissioner signed the agreement for the anti-seismic works to secure the A24 and A25 motorways. This includes the feasibility study of the Roma-Torano section of the A24 and the Torona-Pescara section of the A25.
  The initial contract was integrated by the technical-economic feasibility study of the securing of the water system and compliance with EU regulations on safety in the Gran Sasso tunnel on 26 October. Subsequently, on 17 December, it

was supplemented by the technical assistance with the preparation of a bid for the design and construction of a dynamic monitoring system for the remote control of infrastructure and technological systems (the so-called Smart Road).

- **21 December:** the consortium comprising Italferr (agent) and CREW signed a contract with Tramvie Elettriche Bergamasche - TEB S.p.A. for the definitive design and works management of the new T2 Bergamo-Villa d'Almè trolleycar line.

The following chart provides a breakdown of the projects delivered during the year by geographical location followed by a brief description of the main ones, as well as information about the principal projects completed during the year.

Geographical location and macro category of projects delivered in 2021



PHASE[1]	no. of projects delivered
PFTE/PP	64
DP	139
PE	13
Total	216

Key:

Multi-disciplinary projects

Technological projects

[1] Glossary: PFTE: Technical and economic feasibility projects; PD: Definitive projects; PE: Executive designs

Main projects delivered in 2021

CLUSTER	PHASE		DELIVERY QUARTER
PNRR	PD	Upgrade of the Chivasso - Aosta line	Q3
PNRR	PD	ACC-M Verona-Brenner Lot 2	Q2
PNRR	PD	Vado Ligure Phase 1	Q3
PNRR	PD	Udine Centrale PRG and reconfiguration of computerised interlocking system	Q3
PNRR	PD	Extension of the Salerno metro	Q2
PNRR	PD	Roma Tiburtina Phase V – work on the yards, security systems, computerised interlocking system, automatic block system	Q1
PNRR	PFTE	Barletta - Canosa, PRG Barletta+Tecn.	Q1
PNRR	SF	Milano Centrale computerised interlocking system and PRG	Q4
NO CLUSTER	PD	Phase 1 PRG Novara Boschetto	Q2
NO CLUSTER	PD	Pozzuoli - Napoli Campi Flegrei multi-station computerised interlocking system	Q3
COMMISSIONER ANNEX IV	PFTE	PD Catania Stazione C.le undergrounding	Q4
NRRP COMMISSIONER	PD	New rail connection "Val di Riga variation"	Q3
NRRP COMMISSIONER	PD	Completion of doubling at access to Bergamo (4 bridges) - Sub-phase 1	Q1
NRRP COMMISSIONER	PD	Doubling of Lunghezza Guidonia: civil works, security systems+TSCS+TLC (Macro phases 2 and 3)	Q2
NRRP COMMISSIONER	PFTE	Preparation of Cutro tunnel for electrification	Q2
NRRP COMMISSIONER	PFTE	Electificiation of Catanzaro Sibari section (Lot 2a and Lot 2b)	Q3
NRRP COMMISSIONER ANNEX IV	PFTE44 per iter	New link PM228 - Castelplanio with Albacina by-pass Lot 2 Genga-Serra San Quirico Lot 3 Serra San Quirico-Castelplanio	Q4
COMMISSIONER	PD	CHIETI PRG	Q2
COMMISSIONER	PD	PD Verona hub (west entrance)	Q4
COMMISSIONER	PE	Upgrade PE superstructure and TE of Phase 2 of the Spoleto Campello doubling	Q2
COMMISSIONER	PE	Upgrade PE superstructure and TE of Phase 2 of the Spoleto-Campello doubling	Q1
COMMISSIONER	PFTE	Venezia-Trieste – Portogruaro route variation	Q3
COMMISSIONER	PFTE	Venezia-Trieste – Isonzo route variation	Q2
COMMISSIONER	PFTE	Quadrupling of the Ciampino -Capannelle section and Ciampino Radice Roma PRG	Q1
COMMISSIONER	SdF	Lot3 HS/HC Vicenza-Padova section	Q3
OTHER	PD	GSMR for Rome hub HD-ERTMS and Campoleone-Nettuno ERTMS	Q3
COMMISSIONER	PFTE	Closure at the north end of the Rome railway connector	Q3
COMMISSIONER	PD	Lot 1 Bussoleno - Avigliana with ERTMS level 2 stand alone	Q3
OTHER	PD	Extension of the Verona CCS central station	Q3
OTHER	PE	Lercara tunnel fire points	Q2
OTHER	PFTE	Foggia-Cervaro HS station	Q2
OTHER	PFTE	Quadruping of the Tortona - Voghera line	Q3
OTHER	PFTE	PRG Tuscolana	Q2
OTHER	PD	Upgrade of the security systems to comply with FRI standards and implementation of TSCS on the FSE network – Lot 3.3 (Manduria – Lecce section)	Q2
OTHER	PD	ERTMS Ferrovie Centrali Umbre - Lot 1 and Lot 2	Q2
OTHER	PD	ERTMS Roccasecca – Avezzano Lots 1-2-3-6	Q2
	PFTE/PD	Acoustic reclamation work (29 municipalities)	
	PFTE/PD	Level crossing suppression works (15 municipalities)	

Main placements in service of the year

March

- **21 March:** additional extension of the CCS of the Napoli Centrale Station and reconfigeration of the CCS of the HS/HC Rome - Naples line
- **26, 27 and 28 March:** rail arch bridge over the “Asse mediano” dual carriageway placed in service, as an integral part of the Cancello variation.
- **29 March 2021:** conventional excavation of the Monte Aglio tunnel section completed. This tunnel is part of the Naples - Bari line for the doubling of the Cancello - Benevento section.

April

- **7 April:** excavation of the down tunnel tube of the Serravalle tunnel of the new HS/HC Milan - Genoa railway line (“Third Giovi Pass”) completed.

June

- **6 June:** phase 1b of the Spoleto - Campello track doubling commenced; this represents achievement of another milestone in the project to double the tracks between Spoleto and Campello on the Orte - Falconara line.
- **15 June:** the first section of the "North-South Axis", a road connector in the Bologna municipality, was opened to the public.
- **16 June:** the first diaphragm wall of the Valico tunnel (which will be longest tunnel in Italy at 27 km long) was knocked down.

July

- **5 July**: placement in service of the Venice hub's multistation computerised interlocking system (phase 3), which means that management of an area of more than 12 km lengthwise is controlled by one system.
- **27 July**: phase 4 of the Brescia computerised interlocking system commenced, completing the station's compliance with the PRG.

August

- **1 August**: the San Tomaso tunnel was re-opened as part of the project to upgrade the Genoa hub infrastructure.

September

- **1 September:** placement in service of the Pozzolo - Rivalti Scrivia section after work to make the Rivalta Scrivia station compliant with the PRG (this is part of the project to develop the HS/HC Third Giovi Pass section.

October

- **31 October**: the Sesto San Giovanni system was activated and included in the Milan hub's multistation system while phase 2 of the amendment to the PRG for the HS tracks of the Genoa Brignole station was completed (these works are part of the technological upgrading of the Turin - Padua section).

November

- **7 November**: modifications to the computerised interlocking system of Bari Parco Nord involving the Bari Parco Nord - Bari Centrale section were made.
- **21 November**: phase 4 of the multistation computerised interlocking system/MCCS module for the Rome hub commenced involving the section between the Tiburtina and the Settebagni stations on the goods line and between Letna Rome and Florence.
- **28 November**: placement in service of the multistation computerised interlocking system and the MCCS for the Florence hub.
- **29 November**: the new underground Capaci station was opened after the undergrounding and doubling of the railway line connecting Palermo to Punta Raisi Airport.
- **29 November**: down track of the temporary deviation of the Sommacampagna - Bivio Fenilone section of the traditional Milan - Venice line was activated, two weeks after activation of the up track. This deviation is necessary to allow the construction of the HS/HC Brescia Est - Verona section.

December

- **6 December**: the temporary double track deviation of the Cancello - Caserta line was activated as the first phase of the Cancello - Frasso Telesino section project, which is part of the larger Naples - Bari project.
- **16 December**: after activation of the technological system at the end of September with the installation of the first computerised interlocking system in Sardinia, the new iconic Olbia station became operative.
- **17 December**: the TPSS of the Allerona direct line was placed in service, complementing those completed on 6 March (Renacci TPSS) and 21 April (Valdarno Sud TPSS) as part of the plan to build 16 of these systems for the Florence - Rome direct line.
- **21 December:** the excavation phase of the new San Tomaso tunnel was completed as part of the work to sextuple the section between the Genoa Piazza Principe and Genoa Brignole stations, which are the lynchpin of the Genoa railway hub. These works are part of the single HS/HC Third Giovi Pass and Genoa Hub project.
- **23 December:** the third of the eight phases for the technological upgrade of the Brindisi - Lecce section was activated.

HUMAN RESOURCES

In 2021, the company ramped up efforts to increase the number and quality of its workers in the pursuit of the objectives in its budget and in response to market challenges.

The company's total workforce grew by a net 367 resources, considering new hires and departures as shown in the next table:

FTEs[1]	31.12.2020	New hires	Hiring of temporary staff	Departures	Total changes	31.12.2021
Employees	1,685	431	82	(136)	377	2,062
Seconded	(9)			1	1	(8)
Temporary staff	82	72	(82)	(1)	(11)	71
Total	**1,758**	**503**	**0**	**(136)**	**367**	**2,125**

A breakdown of the workforce by contractual position and considering secondments is as follows:

FTEs[1]	31.12.2021	31.12.2020	Changes
Managers	66	63	3
Junior managers	608	574	34
White collars	1,388	1,048	340
Seconded	(8)	(9)	1
Temporary staff	71	82	(11)
TOTAL	**2,125**	**1,758**	**367**

The average number of employees in 2021 was 1,944, as illustrated in the table below:

FTEs	2021	2020	Changes
Managers	65	63	2
Junior managers	596	573	23
White collars	1,235	943	292
Employees	**1,896**	**1,579**	**317**

[1] FTE*:* number of resources working at the company either full or part time.

Seconded	(8)	(8)	0
Temporary staff	56	57	(1)
TOTAL	**1,944**	**1,628**	**316**

Relationships with trade unions

In 2021, practically no employees participated in strikes, mostly because of the singular situation created as a result of the pandemic.

The Covid-19 committee, set up in 2020, continued to be active.

Meetings were held with the national trade unions to present the organisational changes made during the year as well as online meetings with the local trade union representatives.

Recruitment, management and development

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 also constitute a key pool for permanent hires, as well as a way to gain a flexible workforce.

As a result, the company hired 513 people during the year (431 new hires and 82 temporary workers who were hired), including abroad (94 resources, including 92 for the offices in India).

In 2021, the company paid €262 thousand for recruitment services.

The company continued its employee enhancement project started in 2020 to provide for succession planning and job rotation. This entailed planning and implementing promotions in all departments.

With respect to personnel management, the first initiatives of the People Care project for the company's foreign employees was rolled out, namely Inclusion & Diversity and a focus on the local pandemic situation.

Organisational structure

Italferr changed many aspects of its corporate governance, management and organisational control system during the year, focusing in particular on the technical and business units to achieve a state-of-the-art value chain of project planning, performance and control. These measures were necessary for the company to be able to respond more efficiently and effectively to the large rise in the service volumes requested by the captive market and the tougher competition on the non-captive market.
It concurrently made adjustments to its back offices so they provide a better service and support to the business.

Training

In 2021, the company provided its entire workforce with training for a total of 50,830 hours and a cost of €967 thousand (services and travel).

Most of this training was provided online, using web platforms and e-learning given the prolongation of the pandemic. The courses covered technical and professional subjects, team management, IT skills, the environment and sustainability and foreign languages.

Particularly important technical/training courses included:

- DL Academy: a course of 16 modules, each lasting four hours, targeted at site managers to cover all the issues necessary to acquire and increase their skill-sets;

- the occupational safety course: this course has 12 module of four hours each and is designed to encourage the transfer of knowledge to the young new hires and create a culture of safety while concurrently motivating the more senior positions who act as the “safety trainers”;
- BIM adoption: a two-step change management course to create engagement and foster the deployment of the BIM method in line with the company’s strategies. The company also designed modules for the upskilling of technical personnel in the use of the specific software to obtain the BIM certifications for certain positions (BIM manager, BIM coordinator and BIM specialist).

In addition to the courses to augment technical and management skills, the company held a number of webinars for all employees to promote their psychophysical wellbeing by easing the tensions that the prolongation of remote work could create and also physical activity.

With respect to training courses funded by Fondimpresa FS, the company completed the environmental sustainability plan course during the year for which it received funding of €56 thousand.

In addition to training its own employees, Italferr also held courses for safety coordinators and civil works maintenance for the personnel of RFI.

Safety training required by Legislative decree no. 81/08

In addition to the many compliance activities carried out in 2021, significant organisational changes were made as well.

With respect to the latter, it appointed new Prevention and Protection Officers and Prevention and Protection Aides to assist the officers for the Florence, Bologna, Turin, Genoa, Palermo and Reggio Calabria offices and related work sites. It also appointed new Prevention and Protection Aides for the Naples, Bari and Rome offices and foreign offices.

2,178 employees received occupational safety training in 2021 for a total of 12,127 hours. Most of the trainers were external.

The following mandatory procedures were performed during the year:

- the annual evacuation drills were performed in-person by the employees in the offices at the time. The other employees received a report detailing the simulated emergency situations and results. A questionnaire was distributed to assess all employees’ familiarity with the emergency plan;
- the regular meetings established by article 35 of Legislative decree no. 81/08 for all Italferr offices took place remotely. In addition, the inspections required by article 25 of Legislative decree no. 81/08 were performed at all offices. These obviously took place in-person in compliance with the company’s anti-contagion policies;
- health screening: 1,093 employees received medical check-ups and 224 tetanus vaccinations were given during the year.

In addition to the internal audits of the Rome, Bari, Naples, Palermo and Turin offices, the new independent certification body, Quaser, renewed the ISO 45001:2018 certification in October 2021.

Given the continuation of the Covid-19 emergency, the company promptly complied with the green pass (covid-certificate) regulations (principally Decree law no. 127 of 21 September 2021 and Decree law no. 139 of 8 October 2021). Accordingly, it defined an organisational policy to check that people entering its workplaces had the necessary certificate.

In general, the company adopted practices compliant with all the measures to contain Covid-19 established by the regulations from time to time, which required careful planning and management of the resources in the workplaces to ensure suitable distancing in line with scheduled activities and the ruling protocols.

During the year, it also continued to provide Covid-19 kits to all employees who were required to go on business trips and perform off-site activities that cannot be postponed and are essential for the company's business.

Finally, the company updated the public health emergency management procedure and provided new hires with fortnightly courses on the rules to be followed to avoid spreading viruses (e.g., SARS-CoV-2 Coronavirus, MERS, SARS).

THE ENVIRONMENT

Sustainability

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

To this end, as Italferr is aware of the determinant role that engineering can play in taking tangible actions to help reduce CO_2 emissions, it has, for several years, applied the UNI ISO 14064 standard for the adoption of a carbon footprint model, certified by an external body again in 2021, to calculate each project's carbon footprint, becoming an effective operating tool that directs designers contracting companies to use the most sustainable materials in construction.

In 2021, another step was taken to develop this model for the systematic use of sustainability methodologies in company processes by including the CO_2 rate scale in special software for the automated inventory of CO_2 equivalents emitted by materials, transport and processing in construction of infrastructure works, thus facilitating a quick assessment of the works' carbon footprints.
The CO_2 rate scale was ISO 14064 certified as part of the audit performed by the external certification body of the technical and economic feasibility study of the Manoppello - Scafa Lot 2 of the Rome - Pescara line and the executive design for Bagni di Tivoli PRG.

As part of the company's focus on sustainability, it continuously checks the environmental performance of construction works, including by monitoring the environmental aspects involved.
Italferr's model complies with the recent guidance issued by the Ministry of Infrastructure and Sustainable Mobility both about the projects in the scope of the NRRP and the public debate.

Therefore, during the year, studies and reports on the sustainability of the works scheduled as part of the NRRP were prepared in line with the guidelines for the preparation of technical and financial feasibility projects to be presented with bids for the public works included in the NRRP and the Complementary Fund to gain a clear understanding of the potential value that can be created for the community by the infrastructure works.

These studies and reports measured the sustainability indicators to show the benefits in terms of economic, environmental, social and tourist development of the areas where the works will take place, including by considering the specific characteristics of these areas.

In addition, specific assessments of the environmental objectives set out in Regulation (EU) 2020/852 (the Taxonomy Regulation) were made to ensure application of the Do No Significant Harm (DNSH) principle for the technical and financial feasibility projects.

The company worked on structuring a stakeholder engagement process in 2021 to create a broad support network throughout the regions touched by infrastructure projects. In this regard, the company employed a sentiment analysis platform which enables social media monitoring of strategic infrastructure projects.
The platform allows active listening to help gauge opinions. It processes huge quantities of data gathered from online texts (websites, social networks, blogs or forums) and provides an insight into perceptions on key issues of interest to stakeholders.

Environmental management system

The company's focus on the environment, the essence of its sustainable approach to design, means having the contractors adopt specific UNI EN ISO 14001 environmental management systems in the construction of works.
Italferr requires the companies responsible for construction to plan and implement, for the entire duration of the works, an environmental management system for on-site activities that provides the company and environmental protection authorities with objective evidence of the environmental controls performed in the course of the world by the contractors' qualified personnel.
Specifically, the environmental management system requires that, prior to the start of the works, contractors carry out an initial environmental analysis of site activities in the preparation of the environmental plan for the preparation of the work site. The analysis is meant to identify the significant environmental aspects to be managed during construction and to define the operating procedures for the site's correct environmental monitoring, in accordance with the applicable regulatory requirements.
Italferr constantly checks the actual implementation of environmental management systems by contractors through regular on-site monitoring.
The environmental management system is part of the integrated quality, environment, health and safety management system (ISO 9001, ISO 14001 and ISO 45001), which was successfully certified by the SGS certification body again in 2021.

CUSTOMERS

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.

Accordingly, it has applied the BIM model to railway infrastructures and, as part of the design activities, uses an interface that places projects within a geospatial context, improving the company's performance and making its projects more efficient, cutting costs for the owner of the infrastructure.

Italferr also began to trial the BIM method in its work sites to check that work performed complied with the design requirements in real time and could be confirmed for project accounting purposes.

The company does not intend to only use the BIM model at home given that its familiarity with this model allows it to compete with the big international players on global markets where BIM's deployment is a game changer thanks to the benefits offered during the maintenance phase of the completed works, allowing Italferr to integrate its services portfolio.

For several years, the company has researched methods and protocols to enhance sustainable decisions about infrastructure projects. It has identified effective solutions for the inclusion of sustainability principles in the construction of large complex engineering works.

Given the current context where the new concept of infrastructure development is tied to an overall assessment of a project's effective environmental, social and financial sustainability, Italferr's experience means it can propose new services supporting customers with their resilient infrastructure development strategies.

THE MACROECONOMIC CONTEXT

The world economy, struck by the worst recession since World War II due to Covid-19, ended 2021 with both a strong, expected rebound and the insidious uncertainty fuelled by rising inflation and the ongoing public health emergency, as well as the geopolitical turmoil caused by the diplomatic and military crisis between Russia and Ukraine.

On the world stage, economic activity continued to expand, albeit at a more moderate rate towards the end of the year, particularly due to the persistent bottlenecks in the supply chain. The recovery has been more or less intense across different regions, mainly due to the differences in the coverage of vaccination campaigns.

These campaigns were a crucial lever in overcoming the most acute stage of the crisis, but while advanced countries rolled out immunisations at a rapid pace, including booster shots, most developing countries faced a lack of available vaccines.

Moreover, the pandemic resurged at the end of 2021 with a new and more contagious variant named Omicron, compelling certain countries to reimpose restrictions that penalised the economy. In Austria and the Netherlands, for example, full lockdowns were ordered to halt the rapid rise in infections.

One direct consequence of the restrictions was mismatched supply and demand, as demand for goods was growing. This triggered price increases and rising prices for food and energy, particularly gas and electricity, coupled with the shortage of intermediate goods like semiconductors, which drove up production costs, making it more difficult to avoid transferring these higher costs to the final cost of products. Inflation exceeded forecasts, triggering interest rate hikes in certain emerging countries and leading to the tapering of monetary support policies in 2022, particularly in the United States and the European Union.

According to the most recent estimates released by Prometeia (December 2021), global GDP growth in 2021 was 5.8%, with emerging economies posting greater growth than industrialised nations.

Despite the slowdown in recent months due to procurement difficulties, world trade showed an average annual increase of 8.6% on 2020.

The sudden jump in demand, combined with the critical issues experienced in international logistics and supply shortages, had a dramatic impact on raw materials prices, with oil prices rising far above pre-pandemic levels, driven by the global recovery and recourse to oil in place of natural gas, as the price of the latter rose.

The Brent price, which at the start of 2021 was just under USD52 per barrel, was nearing USD83 at the end of November, and stood at around USD71 at year end, making it more difficult to avoid transferring these higher costs to the final cost of products.

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International trade data	2021	2020
GDP (% change on previous year)		
World	**5.8**	**-3.2**
Advanced countries	**4.9**	**-4.6**
US	5.6	-3.4
Japan	1.5	-4.8
Eurozon	5.2	-6.5
Emerging countries	**6.2**	**-2.3**
China	8.1	2.1
India	8.6	-6.6
Latin America	4.1	-7.1
International trade	**8.6**	**-5.2**
Oil (USD per barrel)		
Brent	**70.9**	**43.3**

Source: Prometeia, December 2021

The economic recovery in the **United States** gradually weakened over the course of the year against a backdrop of supply chain disruptions and a spike in Covid infections due to the Delta variant. The number of cases rose at the start of the third quarter, triggering a drop in consumer confidence and a downturn in household consumption. Moreover, with unemployment benefits back to pre-pandemic levels, the disposable income of households in the second half of 2021 was down in real terms. Amidst rising inflation[1] and low unemployment, the Fed veered towards a more restrictive course, speeding up the tapering of asset purchases and hinting at interest rate hikes in 2022. GDP growth stood at 5.6% at year end.

Japan saw signs of economic recovery near the end of the year, having grappled with difficulties in procurement and sea transport in particular in the first half. The jump in the infection rate at the start of the summer and another extension of the state of emergency had a negative impact on mobility and consumption. In September, following a steady drop in the number of infections, consumption began recovering to some extent and the economy approached a more widespread recovery at the tail end of the year, driven by accommodative fiscal policy. GDP growth was 1.5% in the twelve months.

In **China**, after the strong rebound in the first half of 2021, the economy slowed in the second half with the return of Covid-19 infections and the authorities' draconian response, impacting mobility and consumer confidence. On the production side, manufacturing chain difficulties were compounded by the government's restrictions on energy consumption, which froze operations at certain production sites, leading to temporary closures in some cases. The slowdown in the real estate sector, which suffered the harsher conditions for access to credit, was another weakness. In this context, exports remained the largest economic driver, with nearly double-digit growth in the second half of the year. GDP growth for the year was 8.1%, confirming China's predominant position in the world economy.

GDP in the major **Eurozone countries** showed a robust rebound in the second quarter and economic activity continued expanding at a fairly strong pace into the summer thanks to tourism and domestic demand, particularly for services. The recovery in household consumption was tied to high vaccination rates, lessened fears of infection and the easing of Covid restrictions, and was bolstered by the drop in the savings rate. The growth driven by services more than offset the slowdown in industrial activity, with bottlenecked supply. Another wave in the pandemic led to tighter restrictions from the start of

[1] The seasonally-adjusted US consumer price index (CPI) peaked in November 2021 at 6.9%, a level not reached since the early 1980s.

the fourth quarter of 2021 and a drop in mobility in the last few months of the year, slowing economic growth considerably as the year came to a close.

The comparison of European countries shows Italy and France with above average GDP growth of 6.53% and 6.7%, respectively. Spanish GDP growth was 4.3%, while Germany saw more contained growth of 2.8% in 2021.

Inflation in the Eurozone was 2.5%, up significantly on 2020.

Eurozone economic data	**2021**	**2020**
GDP (% change on previous year)		
Eurozone	5.2	-6.5
Germany	2.8	-4.9
France	6.7	-8
Italy	6,5*	-9
Spain	4.3	-10.8
Inflation (% change on previous year)		
Eurozone	2.5	0.3
Germany	3.1	0.4
France	2.1	0.5
Italy *	1.9	-0.2
Spain	2.9	-0.3

Source: Prometeia, December 2021

**Source: ISTAT (national statistics institute), January 2022*

GDP growth in Italy was particularly strong in the second and third quarters of 2021 (+2.7% and +2.6%, respectively). This trend, which made it possible to further recover the downturn in the first half of 2020, was a reflection of the robust performance of domestic demand and the positive, albeit less intense, improvement in foreign demand, with no positive contribution from stocks. The recovery in household consumption and capital expenditure drove the upswing in domestic demand, while foreign demand owed its trend to the excellent performance of service exports.

On the supply side, construction and manufacturing performed brilliantly, the latter recovering and then exceeding pre-pandemic production levels despite the global difficulties tied to the shortage of components and the price increases of intermediate inputs. The transport vehicle industry faced difficulties in the procurement of semi-finished products - especially semiconductors. This penalised Italy less, which is more focused on producing spare parts, than other countries, like Germany, relatively specialised in high-end cars.

Domestic demand	2021			
	Q1	Q2	Q3	Q4
GDP (% change on previous year)	**0.3**	**2.7**	**2.6**	**0.64**
Domestic demand	**1.1**	**2.4**	**2.2**	**0.7**
Spending by households and private not-for-profits	**-1.1**	**5**	**3**	**0.6**
Public administrative spending	**-0.5**	**-0.7**	**0.1**	**0.7**
Gross fixed investments	**4.2**	**2.4**	**1.6**	**0.7**
Construction	6	3.5	0.3	1.4
Other durable goods	2.6	1.4	2.8	0.7
Imports of goods and services	**3.3**	**2.5**	**2.1**	**1.6**
Exports of goods and services	**0.5**	**3.4**	**3.4**	**0.6**

Sources: Prometeia, December 2021 and ISTAT, January 2022

In the fourth quarter of the year, the sharp rise in infections, the shortage of commodities and high energy prices slowed the Italian economy, which nevertheless closed the year with GDP growth of 6.53% on the previous year. The consumer price index for all of Italy showed growth of 1.9%[1] on 2020.

MARKET PERFORMANCE

Italy

Despite continuation of the public health emergency, the construction market showed signs of life in 2021, partly due to the government initiatives financed by EU funds (NRRP) and the dedicated Ministry of Infrastructure and Sustainable Mobility funds (Complementary Fund).

These initiatives have set aside €31.5 billion for sustainable mobility infrastructure, of which €28 billion for the HS/HC railway system and the safe roads project.

Europe

The European Community launched NextGenerationEU, a sizeable investment package of €806.9 billion to help repair the damage to the economy caused by the pandemic. The aim is to make Europe greener, more digital and more resilient. Through the Recovery and Resilience Facility of NextGenerationEU, the European Community intends to provide the member states with €2.2 billion for the transport sector, allocated among 140 key projects, including 55 for railway projects.

North America

After months of negotiations, the draft bill on infrastructure obtained bipartisan support in the House of Representatives in the United States. It includes an infrastructure plan of USD1,200 billion to rebuild the main infrastructures and finance new climate resilience and broadband projects.

Investments planned for the transport sector include:

- upgrading American roads and bridges for USD115 billion;
- modernising public transit for USD105 billion, USD85 billion of which to upgrade existing fleets and create new transit agencies to service peaks in future demand for public transit;

[1]Source: ISTAT, Consumer prices, 17 January 2022

- building new passenger and freight railways or rehabilitating existing lines for a total of USD80 billion, with a special focus on the Amtrack network, the US company that manages the national passenger railways, building new or upgraded railway corridors (especially the NEC - North East Corridor) and measures to improve safety levels.

Thanks to the large federal funds earmarked to extend and upgrade the passenger transit systems, especially in the mass transit sector, there are great opportunities in Canada with projects under way or in the procurement stage worth more than CAD70 billion (approximately €50 billion) in all its main urban areas (Vancouver in British Columbia, Calgary and Edmonton in Alberta, Montreal and Quebec City in Quebec and, especially, Toronto in Ontario).

Latin America

The recovery in Latin America continues 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.

Middle East

The easing of Covid-19 restrictions and rise in hydrocarbon prices have started to re-energise a market that had been lethargic for many years. The ending of the embargo on Qatar triggered a vigorous recommencement of investment plans by many states, including the United Arab Emirates, Bahrain and, especially, Saudi Arabia.
Saudi Arabia has continued its modernisation project which make massive investments in infrastructure essential, as per the objectives set out in the state's Vision 2030.

Central Asia

The repercussions of the serious political unrest and social inequalities in this area hinder its ability to avail of the opportunities made available by the easing of the Covid-19 restrictions.

It is of great potential interest given the chronic lack of infrastructure in this region's countries, some of which are very prosperous and large in scale. However, it would be essential to carefully assess the related risks and opportunities.

The Caucasian countries deserve attention as, due to the end of the now thirty-year conflict in Nagorny Karabakh, involving Azerbaijan and Armenia, there are very interesting opportunities for infrastructure in a strategic area linking the Caspian Sea to the Black Sea.

India

The major customers' plans did not change thanks to solid financing from international investment banks.
Although the country's operational complexities have not diminished and despite the slowdown due to the pandemic, investment plans for the Indian railways have moved forward, and with them the planned infrastructural developments. The growth rate of the Indian economy remains one of the highest in the world, in much in railway as in mass transit, freight transport and even roads.

Australia and Far East

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

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

Africa

The African continent is offsetting the cost of the pandemic by increasing commodity prices, as was seen towards the end of the year. This allowed it to relaunch direct investments in the mining sector and related infrastructure (railways and ports).

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

While the continent's topography, societies and economies vary radically, it is still characterised by great political instability with wars of all origins and intensities the most visible tip of the widespread difficulties that afflict it.

Performance by business segment

Intragroup

In Italy, Italferr mainly works with the FS Italiane group companies. In 2021, it signed contracts with them for a total of €406 million, including €401 million with RFI (roughly 98.8% of the total), of which €82.8 million (around 20%) relate to projects covered by the NRRF and the Complementary Fund or under the remit of the government extraordinary commissioners.

The significant value of contracts acquired from RFI in the year was mainly due to projects to check the executive design and the works management on lots along the HS/HC Naples - Bari line (€56.3 million) and the Messina - Catania - Palermo line (€81.1 million).

In addition to these contracts, Italferr acquired new contracts from RFI to prepare a technical and financial feasibility study of some lots of the Salerno - Reggio Calabria line (€20.7 million) and an "in-depth" technical and financial feasibility study of a lot of the Trento railway bypass included in the project to quadruple the Fortezza - Verona line (€8.8 million).

Again during the year, the company obtained a design-development-procurement contract from RFI's local infrastructure operating unit worth €14.9 million, which will end in 2024.

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	58.8	117.1	225.4	401.3	98.8%
Trenitalia	1.1	0.2	0.4	1.7	0.4%
Ferrovie Sud Est	0.7		0.6	1.3	0.3%
Sistemi Urbani	0.9			0.9	0.2%
Ferservizi	0.2	0.5		0.7	0.2%
Thello	0.1			0.1	0.0%
Total	**61.8**	**117.8**	**226.4**	**406.0**	**100.0%**

At year end, the contract backlog amounts to €1,268 million.

Furthermore, at year end, negotiations are underway for additional contracts worth a total of €92.6 million. The contractual documentation for these projects has already been sent to customers.

The bids that Italferr has submitted, which should lead to the execution of contracts in 2022, are detailed by customer and service type in the table below:

millions of Euros

Customer	Service type			Total
	Consultancy	Design	Works management	
RFI	11.8	63.8	12.5	88.1
Trenitalia		3.3	0.9	4.2
Ferservizi	0.2			0.2
Ferrovie Sud Est	0.1			0.1
Total	**12.1**	**67.1**	**13.4**	**92.6**

The market

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

During the year, the company won several prestigious urban public transport contracts, such as the Genoa metro and the Bergamo trolleybus network.

In addition to focusing on the local public transport market, Italferr moved to consolidate its share of international contracts, with additional contracts awarded by TELT for the Turin - Lyon line.

It also continued to assist the government extraordinary commissioners and the diversification of the motorway sector commenced with the San Giorgio bridge in Genoa. This led to a contract for assistance to the extraordinary commissioner for the A24 and A25 motorways project and, specifically, the design and publication of the request for proposals for the smart road for the A24 motorway.

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

In the Baltic area, the company was awarded an important PMC contract for the energy subsystem for the entire Baltic Rail, an 870-km HS railway line that will connect Estonia, Latvia and Lithuania. It also recently won the PMC contract for the command and control subsystem/ERMTS for the entire network.

In the UK, Italferr presented a bid for design delivery partner of the HS HS2 line and another one for the design & build contract of the same line, supporting the contractors Strabag and Rhomberg.

In the **US**, the company continued partnering with Webuild to support the design of the HS Houston - Dallas line in Texas for which Webuild and its US subsidiary Lane have signed a contract with the customer Texas Central.
The project has been delayed compared to the initial schedule due to a more complicated financial closing requiring the involvement of the federal government, which had not originally been envisaged.
In addition to the Texas project, Italferr is also working on a HS project in California with FS and Hitachi Rail under a design-build-operate-maintenance (DBOM Track & Systems) contract.
From a business point of view, the US continues to drive international development thanks to its big prestigious projects, that have a knock-on effect on the national industry and further direct opportunities for more work, also given the parallel railway market in Canada.

In **Canada**, the existence of significant opportunities in the sector encouraged the company to scale up its marketing strategies which have already given good results and a base for the future.

Overall, in 2021, the North American market offered Italferr several opportunities through the strategic partnership with the Italian construction companies (Webuild), leading railway suppliers (Hitachi), prestigious international engineering companies (Jacobs) and public sector customers (Metrolinx).

In **Latin America,** Italferr continued its only Colombian project for Line 1 of the Bogotá metro, secured by local and international financing.

In the **Middle East**, where the market slowed down in 2021 to show timid signs of recovery towards the end of the year, Italferr focused on the Saudi market, acquiring contracts for the futuristic project NEOM for a new resilient and sustainable city.

The **Indian market** is of great interest to the company which continued to work on its projects through the offices in New Delhi and Mumbai. The pandemic slowed down the works, especially those that required the involvement of international experts, in some part of the year due to the restrictions on entering the country.

In **Central Asia**, Italferr was busy in the Uzbek market where it was awarded the PMC contract for the Angren - Pap - Kikhand . Andijan section.

In Australia, the company supervised development of the Sydney - Melbourne freight line, confirmed by the government. This involved assisting a team of contractors in the call for tenders for a PPP for the Gowrie - Kangaru section (126 km).

Overall, in 2021, Italferr acquired new orders worth €22.3 million and its foreign contract backlog amounted to €57.6 million at year end.

Performance of main competitors

The global engineering service market consists of large multi-national players. Regardless, in 2021, Italferr accelerated up the ranks of the Top 150 Global Design 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.

2021 ranking	2020 ranking	Company	Country	2020 revenue (USD)
4	3	AECOM	USA	7,862
6	7	WSP	Canada	5,511
18	18	Mott MacDonald	UK	2,240
19	20	ARUP	UK	2,187
23	22	DARGROUP	Dubai	1,860
34	33	egis	France	1,312
54	58	SYSTRA	France	795
69	69	Oriental Consultants Global	Japan	594
85	87	setec	France	403
94	94	IDOM	Spain	357
101	113	TYPSA	Spain	330
107	114	ayesa	Spain	312
117	126	Italferr	Italy	280
118	118	Chodai	Japan	280
132	112	TPF	Belgium	258

FINANCIAL POSITION AND PERFORMANCE

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

Reclassified income statement

€'000

	2021	2020	Changes	
			Amount	%
Revenue from engineering services	268,702	222,507	46,195	21%
Other income	283	225	58	26%
Revenue and income	**268,985**	**222,732**	**46,253**	**21%**
Operating costs	**(199,105)**	**(168,151)**	**(30,954)**	**18%**
Personnel expense	(121,239)	(96,866)	(24,373)	25%
Other costs, net	(77,866)	(71,285)	(6,581)	9%
Gross operating profit	**69,880**	**54,581**	**15,299**	**28%**
Amortisation and depreciation	(5,441)	(4,773)	(668)	14%
Net impairment gains	56	99	(43)	-43%
Operating profit	**64,495**	**49,907**	**14,588**	**29%**
Net financial income/(expense)	1,039	(3,962)	5,001	-126%
Income taxes	(20,404)	(13,701)	(6,703)	49%
Profit for the year	**45,130**	**32,244**	**12,886**	**40%**

The government's measures to bolster the economy (described earlier in this report) were responsible for the upsurge in demand, especially that from RFI, and this explains the higher production volumes compared to 2020 (+21%).

Italferr had to adapt quickly to this greater demand by growing, through sourcing internal specialist resources and deploying technological solutions to support its engineering business. As a result, its personnel expense and service costs increased on the previous year (+25% and +9%, respectively).

Compliance with the tight timeline of the NRRP meant the company has had to operate at a fast pace, leading to greater internal productivity.
This factor, together with the high value of the works Italferr has contracted for, significantly increased the average profitability of its projects during the year.

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

Net financial income, which was mostly the result of exchange gains, thanks to the US dollar's appreciation, and dividends from investees, also contributed to the more satisfactory profit for the year, compared to the already very positive profit for 2020.

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

€'000

	2021		2020		Changes	
	Amount	% of total	Amount	% of total	Amount	% of total
RFI	238,392	89%	194,581	87%	43,811	1%
Other group companies	10,584	4%	9,375	4%	1,209	0%
Other Italian customers	3,940	1%	4,143	2%	(203)	0%
Total Italy	**252,916**	**94%**	**208,099**	**94%**	**44,817**	**1%**
EU countries	806	0%	3,232	1%	(2,426)	-1%
Non-EU countries	14,980	6%	11,176	5%	3,804	1%
Total abroad	**15,786**	**6%**	**14,408**	**6%**	**1,378**	**-1%**
Revenue from engineering services	**268,702**	**100%**	**222,507**	**100%**	**46,195**	**0%**

Personnel expense was the operating cost that increased the most in 2021. In addition to the significantly higher number of employees (an average of +316 FTE), the increase is also due to the fact that 2020 benefited from the positive effect of renewal of the national labour agreement for the railway sector, whereby employees received a one-off payment for the three-year payment not covered by the previous agreement and a performance bonus to be used exclusively for welfare benefits.

Other costs, net increased by €6,518 thousand and comprise the captions shown in the next table which shows that this increase was due to the sharp rise in service costs, partly offset by the reduction in other operating costs.

€'000

	2021	2020	Changes	
			Amount	%
Consumables	(344)	(310)	(34)	11%
Services	(70,533)	(62,512)	(8,021)	13%
Use of third-party assets	(1,798)	(1,718)	(80)	5%
Other operating costs	(5,191)	(6,745)	1,554	-23%
Total other costs, net	**(77,866)**	**(71,285)**	**(6,581)**	**9%**

The factors that contributed the most to the increase in service costs are:

- the higher ICT costs (+€3,617 thousand; +34%) due to both the developments necessary to continue to digitalise the design and on-site services and support the innovation projects as well as the higher number of software licences as a result of the larger workforce;
- the greater resort to outsourced engineering services (+€1,582 thousand; +4%) given the higher production volumes;
- the higher costs for travel and business trips (+€879 thousand; +34%) and utilities (+€334 thousand; +34%) partly due to less resort to remote work and also the higher employee numbers;
- larger insurance premiums, mostly as a result of the large rise in rates for professional liability cover that insurance companies have applied to the prices of the new contract.

The other operating costs were positively affected by the smaller net accruals to the provision for contractual risks (-€1,801 thousand), based on the expected contracts with a negative outcome. Conversely, the cost of the free transport service that Trenitalia provides to FS Italiane group employees who have free travel passes increased (+€552 thousand). It had decreased significantly in 2020 due to the limitations on travel imposed to deal with the pandemic.

After the gross operating profit, amortisation and depreciation increased due to the purchase of IT equipment (laptops and notebooks) for new hires and the leased building housing the new Genoa office.

Reclassified statement of financial position

At year end, the company's financial position included a significant increase in net operating working capital due to greater progress on design activities than the related payments on account. This is because the customer only settles the balance for the design services when the body calling for bids has completed the approval process and in 2021 design activities for RFI were particularly intense, widening the gap between production performed and invoiced.

The company's statement of financial position at 31 December 2021 is as follows:

€'000

	31.12.2021	31.12.2020	Changes	
			Amount	%
Net operating working capital	137,901	103,501	34,400	33%
Other assets, net	(28,576)	(20,778)	(7,798)	38%
Net working capital	**109,325**	**82,723**	**26,602**	**32%**
Non-current assets	32,657	31,528	1,129	4%
Equity investments	18,652	18,652	0	0%
Net non-current assets	**51,309**	**50,180**	**1,129**	**2%**
Post-employment benefits	(16,363)	(18,626)	2,263	-12%
Other provisions	(28,195)	(21,266)	(6,929)	33%
Post-employment benefits and other provisions	**(44,558)**	**(39,892)**	**(4,666)**	12%
NET INVESTED CAPITAL	**116,076**	**93,011**	**23,065**	**25%**
Current net financial position	(17,978)	(19,840)	1,862	-9%
Non-current net financial debt	16,310	16,780	(470)	-3%
Net financial position	**(1,668)**	**(3,060)**	**1,392**	**-45%**
Equity	**117,744**	**96,071**	21,673	23%
TOTAL COVERAGE	**116,076**	**93,011**	**23,065**	**25%**

Countering the rise in net operating working capital, other assets, net also increased, mostly due to current income taxes which, after the better financial performance in 2021, are higher than the payments on account made during the year as well as the higher foreign VAT liabilities, mainly a result of the large rise in revenue from Indian contracts compared to 2020.

As a result of the changes described earlier, net working capital increased by €26,602 thousand.

The other captions have not changed significantly except for the increase in other provisions, due to the accrual for collective interim pay guarantee and the accrual to the provision for contractual risks. They were, however, offset by the reduction in post-employment benefits after employees left the company during the year.

The increase in net invested capital is nearly entirely attributable to the rise in net working capital (+€23,065 thousand).

The company continued to have a net financial position despite the increase in net working capital, achieved mostly thanks to the better ageing of its trade receivables.

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 introduced a geographical de-risking strategy in previous years, which it accelerated in 2021 given the escalation of geopolitical tensions around the world and the pandemic's negative effects on the economies of the African and Latin American countries.

  As a result of this strategy, Italferr concentrates its business on the industrialised countries (e.g., US, Canada, Australia and the EU) and those with strong growing economies and production sectors (e.g., India).

  The company's strategy underpins its decisions about whether to participate in calls for tenders ("go/no go") and whether to bid ("bid/no bid").
  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.
  With respect to environmental and context risks, the current Russo-Ukrainian war has required careful analysis as it could give rise to various risks, especially as regards:

  - business development, in terms of less traffic, demand for mobility and people's less inclination to travel, the closure of borders or sanctions that lead to a reduction in passenger and freight transport, restrictions to financial and cooperation agreements:
  - macroeconomic and financial factors, such as the volatility of energy commodities prices, raw materials prices, global financial markets, exchange rates and interest rates;
  - the supply chain, such as shortages of raw materials and components, unavailable energy sources, the interruption of supply chains for production with an impact on service continuity and/or investments;
  - cyber crime, e.g., attacks on company assets operating in Ukraine or nearby countries or the intensification of the conflict with a potential impact on service continuity or critical infrastructures.
  - The company has adopted processes and procedures that support the identification, management and monitoring of events with potential impacts on its resources and business. These processes are meant to optimise the timeliness and efficiency of the actions taken.

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

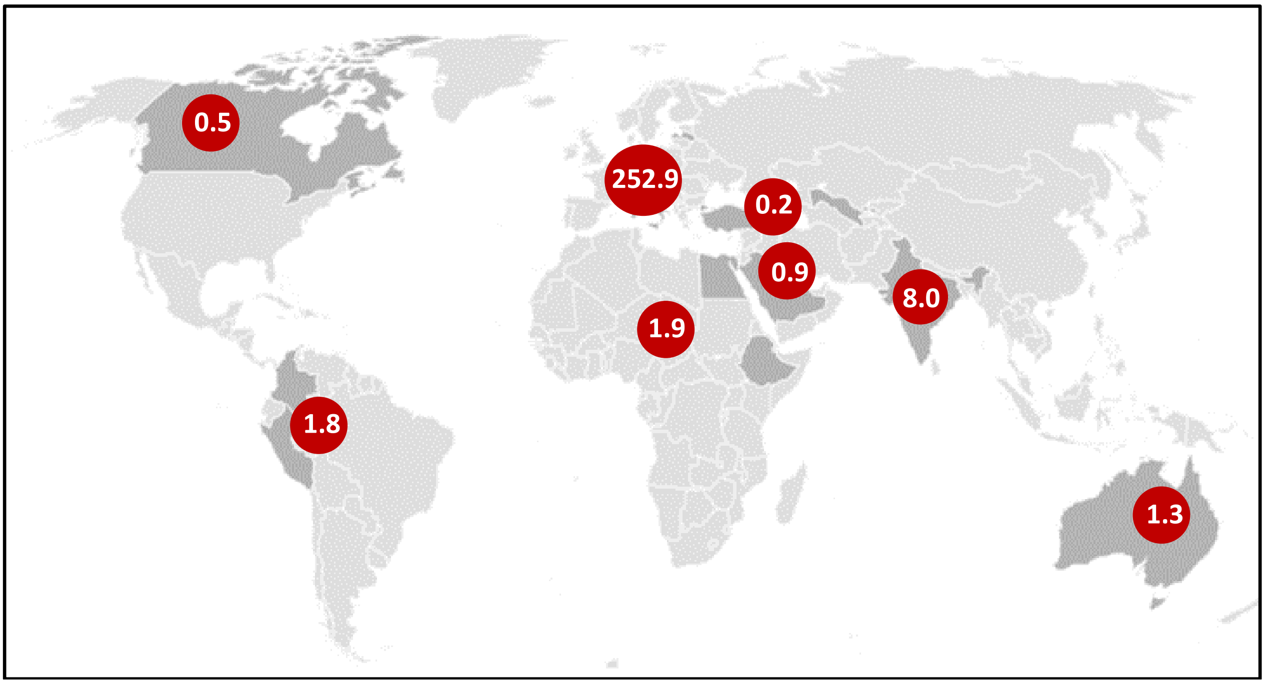
  Considering that the company mainly operates in Italy and the above critical factors in relation to its foreign operations, Italferr has used these criteria to assemble a backlog mainly in countries/geographical segments that combine significant business opportunities with country risk that is below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

millions of Euros

Area	Backlog	% of total	Political risk[1]
India	33.2	58%	42/100
Latin America	11.4	20%	47/100
Europe	9.3	16%	20/100
Africa	1.8	3%	74/100
Middle East	0.8	1%	33/100
Central Asia	0.4	1%	60/100
Australia	0.4	1%	9/100
North America	0.3	1%	8/100
Total	**57.6**	**100%**	**40/100**

For completeness purposes, Italferr's 2021 turnover by geographical segment is shown below:

millions of Euros



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

Since 2020, the services in the contract include access to a specific coronavirus section on the International SOS website.

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

[1] Risk calculated as the weighted average of the political risk indicators of the countries where Italferr or its customers operate, published by SACE (country risk map)

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.). 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, during the year, it applied the group methods to carry out a risk control self-assessment, which is focused on the entire company's operational performance in order to identify, assess and manage risks effectively. No critical issues arose.
  In addition, it provided assistance to both FS Italiane and RFI in developing their risk analysis methods for the NRRP projects.

- **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 introduced a single anti-corruption framework, consisting of the 231 model, which it supplemented on a voluntary basis with an anti-bribery & corruption management system (the "ABC system") in 2021 to reinforce its internal anti-corruption controls, already embedded in the 231 model, thus extending its scope.

  After year end, the board of directors revisited the 231 model to include the following aspects:

  - introduction of predicate crimes covered by Legislative decree no. 231/2001: (tax crimes as per articles 2, 3, 8, 10 and 11 of Legislative decree no. 74/2020 and additional crimes covered by the same Legislative decree, which are detected only if committed as part of fraudulent cross-border systems to avoid the payment of VAT of not less than €10 million), fraud in public procurement contracts (article 356 of the Criminal Code), embezzlement (article 314.1 of the Criminal Code and article 316 of the Criminal Code) and abuse of office (article 323 of the Criminal Code) when the event resulting from one of the above crimes affects the European Union's financial interests;
  - changes to some of the departments and units;
  - updates of company documents.

  An ABC Unit was set up to work with the supervisory body to provide it with specific information to be used to identify any irregularities and/or weaknesses in the internal control system so they can be remedied. This information is provided regularly.
  During the year, Italferr's supervisory body held periodic meetings on matters for which it is responsible and did not report any significant critical issues arising from its checks to the board of directors.

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

- **Risks related to the spread of infectious diseases**: to counter the effects of Covid-19, the company regularly updated its "infection prevention protocol", which it had prepared in 2020. The updates covered the related regulations and Ministerial circulars in order to prevent clusters of infections and minimise the risk of Covid-19 infections and its spread within the company premises.

INVESTMENTS

In 2021, Italferr invested a total of €5,734 thousand, over half of which (€3,238 thousand) to lease the new offices in Genoa (€2,327 thousand), extend the leased office space of the Egyptian branch (€172 thousand), cover the increase in the lease payments for the Bari offices (€110 thousand) and renew the contracts for the offices in Palermo (€436 thousand) and Uttar Pradesh in India (€192 thousand).

The remainder of the investments consisted of:

- purchases of laptops and notebooks for employees in Italy and abroad (€1,213 thousand);
- purchase of furniture, wall units and partitions and accessories for the new offices in Genoa and other Italian offices (€397 thousand);
- new long-term vehicle leases (€740 thousand) to meet the greater needs of work sites for inspections and given the higher number of resources;
- purchases of equipment, mostly for atmospheric analyses (€56 thousand);
- work carried out at the Rome offices, mostly for the refitting of the data centre, not yet completed at year end and, therefore, recognised under work in progress (€89 thousand).

RESEARCH AND DEVELOPMENT EXPENDITURE

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.

To this end, it continued its open innovation and digitalisation projects in 2021 to achieve a new engineering model ready to take on ambitious challenges on the global market.

In particular, within the scope of open innovation, Italferr participated in the Open Italy programme with the development of the following two co-innovation projects:

- PAD – Predictive Analytics Dashboard: designed to develop a dashboard which will provide predictive data by transforming data, using data analytics algorithms and predictive models in order to simplify the planning and management of complex projects and provide immediate support for decision-taking;
- Circular earth: designed to develop an innovative platform for the more efficient management of excavated earth and rocks produced during the construction of railway infrastructure and optimise the industrial symbiosis processes that underpin the circular economy.

During the year, the company also continued projects started in 2020:

- the BIM for Rail LCA project, co-funded under the Smart Factory initiative sponsored by the Ministry of Economic Development. This project is around 30% complete with completion slated for the end of 2023;
- the DGAP (Drone and Gnss for Applications for Professional Surveys) project which is part of the ESA Programme, Space4Rail, aimed at developing a satellite technology-based system to support work site activities. The trials performed at the work sites were successful and the project should be completed in the first quarter of 2022. The company received grants of €82 thousand in 2021 for the project.

Italferr also continued to develop the stakeholder engagement technological platform to enhance the sustainable decisions about infrastructure projects, by directly involving the stakeholders. It presented the following two projects as part of the EU's Research and Innovation Funding Programme, Horizon Europe, as the winning partnership with other entities:

- MOST H2: conceived to provide new commercially viable, efficient and secure technologies for the storage and transportation of hydrogen. Italferr's task as part of the partnership was to identify a price-effective and sustainable strategy for the storage of hydrogen in the railway transport sector by carrying out a dedicated feasibility study;
- RECONMATIC: designed to significantly increase the reuse, recycling or transformation into secondary products of construction or demolition waste, creating a new value chain and sustainable business models to reduce construction waste by developing and integrating digital tools to make waste management throughout the infrastructure's life cycle more efficient.

As these activities do not generate original methodologies and software, but merely entail the adjustment of existing solutions to the company's requirements, Italferr did not capitalise the research and development expenditure incurred (€800 thousand, including the cost of 7,481 hours of specialist personnel) in 2021, like in previous years.

PERFORMANCE OF SUBSIDIARIES

Cremonesi Workshop – CREW S.r.l.

CREW is an engineering and architectural company with more than 30 years of experience. It provides its customers with integrated architectural design, civil engineering and plant engineering services. Italferr acquired 80% of this company in 2018.

Although the company's performance in 2021 was not as positive as that of one year earlier, it outperformed its budget. While turnover was substantially in line with forecasts, greater internal productivity meant the company maintained the expected production volumes despite the smaller workforce than originally envisaged and even reduced its resort to outsourcing. This allowed it to improve its operating profit and profit compared to the budget.

These achievements are particularly positive given that, since the start of 2021, CREW was adversely affected by the prolongation of the pandemic. It only picked up during the year thanks to the additional contracts from customers and by benefiting from the opportunities created by the government's measures (the NRRP and the tax incentives for building renovations) to relaunch the economy.

Specifically, CREW formalised a second addendum to the design contract for the restructuring and extension of Riga's railway station in Latvia during the year. This addendum, worth €1.2 million, generated production of around €1 million during the year.
The subsidiary also acquired contracts in the waste-to-energy plants sector from A2A for its direct involvement or as support to the general contractor, generating production of €1.1 million in 2021.
In addition to its non-captive domestic and international customers, CREW also grew its group customer base during the year to seven FS Italiane group companies providing them with services of €1.1 million.

It acquired five "Superbonus 110%" projects from privately-owned apartment blocks and carried out activities for the first two during the year. It also started to work on the framework agreement signed with SEA (Aeroporti Milano) in 2020 for the project to extend one of Milan Airport's terminals and to design the extension to the passenger terminal of Verona Airport.

The subsidiary's performance was bolstered by its commercial activities which it stepped up to recoup market share. As part of this drive, it presented bids for A2A's new offices in Brescia, the first depot for ATM's electric buses in Milan and to requalify and rehabilitate the railway network in Campania. It is the provisional preferred bidder for the last two contracts worth €35 million, of which €8 million for CREW.

With respect to its financial position, at 31 December 2021, CREW's net operating working capital was higher than budgeted, principally because it performed most of its activities in the second half of the year with the related invoices only sent to customers towards year end, leading to an increase in trade receivables that are not yet due.
This increase affected the subsidiary's net financial position, which was slightly lower than originally expected.

The subsidiary's 2021 performance and financial results are summarised below with comparative 2020 figures:

€'000

	2021	2020	Changes	%
Revenue from engineering services	6,338	6,372	(34)	-1%
Other revenue	5	54	(49)	-91%
Operating costs	(4,883)	(4,684)	(199)	4%
Gross operating profit	1,460	1,742	(282)	-16%
Operating profit	1,254	1,438	(184)	-13%
Profit for the year	**877**	**948**	**(71)**	**-7%**
Invested capital	4,287	3,491	796	23%
Net financial debt	(313)	(1,422)	1,109	-78%
Average number of employees (FTEs)	51	49	2	4%

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.").

This ten-year old subsidiary carries out structural, architectural and operating support activities for Italian and foreign contracts on its parent's behalf. Since 2019, it began diversifying its backlog, acquiring contracts from Serbian customers and its related company CREW.

Specifically, the framework agreement signed in 2019 by Italferr (as leader of a consortium including I.E.S. and Proger) with RZD International (Belgrade) led to the following two application contracts for I.E.S. in 2021:

- a €680 thousand contract for works management for the technological systems part (including ERTMS and GSM-R) for the Stara Pazova - Novi Sad section of the Belgrade - Budapest line. 2021 production was worth €436 thousand;
- a €237 thousand contract for tests of the design of the new command and control station in Belgrade for the entire Serbian railway network. 2021 production was worth €133 thousand.

Production on these two contracts contributed roughly 52% to the subsidiary's 2021 revenue. The customer was so satisfied with its services that it has given directly and only to I.E.S. a contract to manage and perform static tests of the civil works worth €320 thousand (2021 production amounted to €161 thousand).

The remaining production (around 34% of the total) related to services provided to Italferr for RFI projects.

The growth of the subsidiary's non-captive portfolio meant it achieved the best results ever made with revenue of more than €1.1 million. It also honed its experience and skills in the civil design sector and started to create a team with specialist expertise in the technological, electric traction, substations and telecommunications sectors.

It hired employees during the year to meet the higher production volumes and its need to acquire more specialist staff for a workforce of 16 resources at year end.

Thanks to its order backlog with RDZ International and the additional contracts expected from this customer, as well as the expected upturn in assistance services to Italferr as part of the NPPR, I.E.S. expects its production and profitability to increase in 2022. As a result, it also plans to take on more employees growing its workforce to 22 resources.

In 2021, the subsidiary also presented more bids than in previous years, including those made after tenders recently won by Italferr (Rail Baltic) or that it is participating in (Australia). Should it be awarded these contracts, they will contribute to improving its already positive growth prospects.

The following table shows the main financial statements highlights of I.E.S. for 2021 and comparative prior year figures:

€'000

	2021	2020	Changes	%
Revenue from engineering services	1,100	588	512	87%
Other revenue		10	(10)	-100%
Operating costs	(930)	(644)	(286)	44%
Gross operating profit (loss)	170	(46)	216	-470%
Operating profit (loss)	167	(50)	217	>200%
Profit (loss) for the year	**142**	**(51)**	**193**	**>200%**
Invested capital	760	526	234	44%
Net financial debt	(38)	(130)	92	-71%
Average number of employees (FTEs)	16	14	2	14%

TREASURY SHARES

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

RELATED PARTY TRANSACTIONS

Transactions between Italferr and the FS Italiane group companies and their transactions with other related parties are carried out correctly in terms of substance and to the parties' mutual financial benefit based on normal market conditions which are defined with the assistance of independent experts, when necessary. Intragroup transactions are carried out in the pursuit of the common goal of improving efficiency and therefore creating value for the entire FS Italiane group.
These processes and transactions are carried out in accordance with sector regulations, the Italian Civil Code and tax laws, in line with the group's and its own administrative/accounting procedures and considering the specific characteristics of the activities performed by many group companies.

OTHER INFORMATION

Branches

Italferr operates in Italy with local units in Bari, Bologna, Florence, Genoa, Milan, Naples, Palermo, Reggio Calabria, Rome, Turin and Verona.
The company has 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 three offices in Riyadh (Saudi Arabia), Addis Abeba (Ethiopia) and Tashkent (Uzbekistan).

Litigation and disputes

Introduction

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

Specifically:

In 2021, 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 crimes covered by Law no. 190/2012.

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 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. On 8 July 2021, the hearing in the judge's chambers took place to decide on this appeal. The judge for the preliminary investigation has not yet handed down their ruling.

Other significant criminal proceedings

Notwithstanding the above, regardless of how contingent liabilities and assets are defined based on materiality, in 2021, there were no criminal proceedings and updates to proceedings already reported in previous years that have resulted in definitive rulings against former and current senior management (company officers or general managers) for any of the following:

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

In 2021, there were no criminal proceedings and updates to proceedings already reported in previous years that have resulted in definitive rulings against former and current senior management (company officers or general managers) following serious railway incidents (that led to the death or serious injuries to employees or customers).

Directors' fees

€'000

Chairperson		Annual fees Until 9.12.2021	From 10.12.2021
Fixed fee:	Fee for duties as per article 2389.1 of the Italian Civil Code	30,000	45,000
Fixed fee:	Fee for powers as per article 2389.3 of the Italian Civil Code	15,000	

€'000

Chief executive officer		Annual fees Until 9.12.2021	From 10.12.2021
Fixed fee:	Fees for powers as per article 2389.3 of the Italian Civil Code	50,000	50,000
Fixed fee:	Position as general manager	230,000	230,000
Variable fee:	Fee for powers as per article 2389.3 of the Italian Civil Code	10,000	
Variable fee:	Position as general manager	90,000	100,000

Participation in the national tax consolidation scheme

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

Italferr's performance in 2021 exactly represents the positive phase in which it finds itself and which will continue in the next few years.

The Italian government has prioritised infrastructure as a fundamental pillar of its NRRP and, thanks to their social and environmental sustainability, railway infrastructure is the right choice for sustainable mobility investments.

As already mentioned earlier, of the €31.5 billion envelope earmarked by the government for mobility infrastructure, €24 billion will be allocated to the FS Italiane group which will mean that Italferr will be busy in the design and management of works.

The next four years will see growing demand driven by the group companies.

The company has analysed the top infrastructure sector players to find that the transport segment is the most profitable (in terms of gross operating profit margins), followed by the water and waste segment and civil building segment. Therefore, the company has forecast both higher production output and an increase in the average profitability of its contracts in the medium term.

Moreover, as a professional services company, Italferr is not energy intensive which means that the recent surges in energy prices should not significantly affect its forecast profits for the next few years.

The only worrying aspect of the near future is the lack of suitable candidates on the labour market given that the company will have to grow its workforce to meet the strong acceleration in demand.
However, it has already revised its recruiting and HR management policies by strengthening its ties with universities and leveraging the use of technological tools to made design and on-site activities more efficient.

While demand from the other group companies is expected to increase significantly over the coming years, Italferr intends to hold on to its position in international markets by continuing its order backlog derisking. This will involve availing of opportunities through larger investments in infrastructure in low-risk geographical regions and exploiting its knowhow in the sustainability sector to access new market opportunities and guarantee that its activities are environmentally, economically and socially sustainable in line with the concept of a circular economy.

From a financial viewpoint, the growth in scale and invoicing trends may lead to temporary liquidity shortages that the company intends to cover by asking the parent for credit facilities, while carefully maintaining an appropriate equity/debt ratio.
In conclusion, Italferr has unrepeatable opportunities in terms of growth and results ahead of it. The company has clear ideas about its objectives and has shown that it is able to achieve them, both in 2021 especially and in previous years, by grasping opportunities and accepting the related challenges.

Rome, 4 March 2022

Financial statements as at and for the year ended 31 December 2021

Financial statements

Income statement

in Euros

	Note	2021	2020
Revenue from sales and services	*(4)*	268,719,172	222,529,505
Other income	*(5)*	266,280	202,901
Total revenue		**268,985,452**	**222,732,406**
Personnel expense	*(6)*	(121,239,394)	(96,866,478)
Raw materials, consumables, supplies and goods	*(7)*	(343,852)	(309,841)
Services	*(8)*	(70,533,455)	(62,512,412)
Use of third-party assets	*(9)*	(1,797,839)	(1,718,066)
Other operating costs	*(10)*	(5,191,380)	(6,744,689)
Total operating costs		**(199,105,921)**	**(168,151,486)**
Amortisation and depreciation	*(11)*	(5,440,959)	(4,773,317)
Net impairment losses	*(12)*	56,233	99,472
Operating profit		**64,494,806**	**49,907,075**
Financial income	*(13)*	2,475,704	814,736
Financial expense	*(14)*	(1,436,746)	(4,776,914)
Net financial income (expense)		**1,038,958**	**(3,962,178)**
Pre-tax profit		**65,533,764**	**45,944,897**
Income taxes	*(15)*	(20,403,578)	(13,701,253)
Profit for the year		**45,130,186**	**32,243,645**

Statement of comprehensive income

in Euros

	Note	2021	2020
Profit for the year		**45,130,186**	**32,243,645**
Items that will not be reclassified to profit or loss, net of the tax effect:			
Net actuarial gains (losses)	*(24)*	(887,597)	49,373
Comprehensive income		**44,242,589**	**32,293,018**

Statement of financial position

(€'000)

	Note	31.12.2021	31.12.2020
Assets			
Property, plant and equipment	*(16)*	32,649,335	31,527,462
Intangible assets	*(17)*	7,750	443
Deferred tax assets	*(18)*	8,500,155	7,230,650
Equity investments	*(19)*	18,652,402	18,652,402
Financial assets	*(20)*	2,046	600
Other assets	*(21)*	288,412	506,883
Total non-current assets		**60,100,100**	**57,918,441**
Trade receivables	*(22)*	261,643,772	208,021,792
Financial assets	*(20)*	13,738,728	13,646,807
Cash and cash equivalents	*(23)*	8,788,678	10,361,070
Other assets	*(21)*	10,179,570	8,834,296
Total current assets		**294,350,748**	**240,863,965**
Total assets		**354,450,849**	**298,782,405**
EQUITY			
Share capital	*(24)*	14,186,000	14,186,000
Reserves	*(24)*	60,902,916	51,229,197
Valuation reserves	*(24)*	(5,744,617)	(4,857,020)
Retained earnings	*(24)*	3,269,445	3,269,445
Profit for the year	*(24)*	45,130,186	32,243,645
Total equity		**117,743,930**	**96,071,267**
Liabilities			
Loans and borrowings	*(25)*	9,000,000	10,500,000
Post-employment and other employee benefits	*(26)*	16,363,135	18,625,728
Provisions for risks and charges	*(27)*	28,104,161	21,251,529
Deferred tax liabilities	*(18)*	91,031	14,646
Financial liabilities	*(28)*	7,310,596	6,279,824
Other liabilities	*(29)*	4,166,075	4,022,346
Total non-current liabilities		**65,034,998**	**60,694,074**
Current portion of non-current loans and borrowings	*(25)*	1,500,000	1,500,000
Trade payables	*(30)*	124,261,858	105,051,123
Tax liabilities	*(31)*	1,334,991	901,800
Financial liabilities	*(28)*	3,050,947	2,668,721
Other liabilities	*(29)*	41,524,125	31,895,419
Total current liabilities		**171,671,921**	**142,017,064**
Total liabilities		**236,706,919**	**202,711,137**
Total equity and liabilities		**354,450,849**	**298,782,405**

Statement of changes in equity

in Euros	Share capital	Reserves: Legal reserve	Reserves: Extraordinary reserve	Reserves: Other reserves	Reserves: Valuation reserves	Reserves: Total reserves	Retained earnings	Profit for the year	Total equity
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**	**96,071,267**
Balance at 1 January 2021	**14,186,000**	2,837,200	47,715,354	676,643	(4,857,020)	**46,372,177**	**3,269,445**	**32,243,645**	**96,071,267**
Dividend distribution								(22,569,926)	(22,569,926)
Allocation of profit for the previous year			9,673,719			**9,673,719**		(9,673,719)	0
Comprehensive income, of which:									
Profit for the year								45,130,186	45,130,186
Profit recognised directly in equity					(887,597)	**(887,597)**			(887,597)
Balance at 31 December 2021	**14,186,000**	**2,837,200**	**57,389,073**	**676,643**	**(5,744,617)**	**55,158,299**	**3,269,445**	**45,130,187**	**117,743,930**

Statement of cash flows

in Euros

	Note	2021	2020
Profit for the year		**45,130,186**	**32,243,645**
Income taxes	*(15)*	20,403,578	13,701,253
Financial (income)/expense	*(13);(14)*	(1,038,958)	3,962,178
Amortisation and depreciation	*(11)*	5,440,959	4,773,317
Accruals	*(27)*	14,819,210	5,212,378
Impairment losses	*(12)*	(6,269)	(3,936)
Accruals for employee benefits	*(26)*	18,953	15,056
Gains on sales	*(5)*	(246)	0
Change in trade receivables	*(22)*	(53,621,980)	44,057,354
Change in trade payables	*(30)*	19,210,735	(22,211,125)
Change in other liabilities	*(29)*	4,073,463	1,456,548
Change in other assets	*(21)*	(1,126,803)	(6,129)
Utilisation of the provisions for risks and charges	*(27)*	(7,966,578)	(5,521,177)
Payment of employee benefits	*(26)*	(3,449,435)	(4,224,505)
Change in tax assets/liabilities that do not generate cash flows	*(15)*	(15,297,618)	(15,723,463)
Net financial income received/(expense paid)	*(13);(14)*	606,893	(3,870,948)
Net cash flows generated by operating activities		**27,196,090**	**53,860,445**
Increases in property, plant and equipment	*(16)*	(1,755,857)	(1,980,735)
Increases in intangible assets	*(17)*	(10,395)	0
Investments, before grants		**(1,766,252)**	**(1,980,735)**
Decreases in equity investments		0	(2,659,872)
Decreases		**0**	**(2,659,872)**
Net cash flows used in investing activities		**(1,766,252)**	**(4,640,607)**
Repayment of non-current loans	*(25)*	(1,500,000)	(1,500,000)
Change in other financial assets	*(20)*	(1,446)	0
Lease payments (net of contributions) - Change in lease liabilities	*(28)*	(2,838,937)	(3,003,885)
Dividends	*(24)*	(22,569,926)	(9,121,598)
Net cash flows used in operating activities		**(26,910,309)**	**(13,625,483)**
Total cash flows		**(1,480,471)**	**35,594,354**
Opening cash and cash equivalents		**24,007,877**	**(11,586,477)**
Closing cash and cash equivalents		**22,527,406**	**24,007,877**
of which: cash pooling account		*13,738,728*	*13,646,807*

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 4 March 2022 and they will be submitted to the shareholders for approval and subsequently filed within the terms of law.

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

The consolidated financial statements are prepared by 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 twelve months.

Reference should be made to note 39 - 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 2020, 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 on a straight-line basis over its estimated useful life. Specifically, the company has the following main intangible assets:

(a) Concessions, licences and trademarks:

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

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

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

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

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

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

Impairment losses on intangible assets and property, plant and equipment

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

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

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

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

Goodwill and intangible assets not yet available for use

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

Investments in subsidiaries, associates, joint arrangements and other investments

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

The company's investments in companies that are neither subsidiaries 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

iii. 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 effective interest method), impairment losses (impairment gains), exchange gains (losses) and gains (losses) on derecognition are recognised in profit or loss. Other fair value gains or losses are recognised in OCI. Upon derecognition, all cumulative gains or losses previously recognised in OCI will be reclassified to profit or loss.

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

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

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

iv. 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.

v. 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.

vi. 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:

- <u>Level 1</u>: 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;
- <u>Level 2</u>: 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;
- <u>Level 3</u>: 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” (Carta di Libera Circolazione, CLC) that gives current and retired employees and their relatives, the right to use – free of charge or, in some cases, for an admission fee – Trenitalia’s railway services. Consequently, in accordance with the above-mentioned actuarial technique, 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.

Provisions for risks and charges

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

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

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

Revenue from contracts with customers

i. Initial recognition and subsequent measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ii. Existence of a significant financing component

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

Government grants

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

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

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

Dividends

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

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

Cost recognition

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

Income taxes

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

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

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

Translation of foreign currency amounts

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

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 taxes. Prior year corresponding figures, where present, are reclassified and presented separately in the income statement, net of taxes, 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 2021.

Covid-19-related rent concessions beyond 30 June 2021 (Amendment to IFRS 16)

On 31 March 2021, the IASB issued Covid-19-related rent concessions beyond 30 June 2021 (amendments to IFRS 16) that extends, by one year, the 2020 amendment related to the recognition of rent concessions to lessees because of Covid-19. The amendment is effective for annual reporting periods beginning on or after 1 April 2021.
The application of this amendment has not had any significant impacts on these financial statements.

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.

Interest rate benchmark reform - phase 2 - Amendments to IFRS 4, IFRS 7, IFRS 9, IFRS 16 and IAS 39

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.
Given their nature, these amendments, where applicable, had no material impacts on these financial statements.

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

Classification of liabilities as current or non-current - Deferral of effective date (Amendment to IAS 1)

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

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

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

The amendments improve accounting policy disclosures so that they provide more useful information to investors and other primary users of the financial statements and distinguish changes in accounting estimates from changes in accounting policies.
All amendments are effective from 1 January 2023.

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

On 7 May 2021, the IASB issued amendments to IAS 12 Income taxes clarifying how companies should account for deferred tax on certain transactions such as leases and decommissioning obligations.
The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Early adoption is permitted.

IFRS 17 Insurance contracts; Amendments to IFRS 17

On 25 June 2020, the IASB issued a new standard on insurance contracts which takes into account the fact that an insurance contract combines features of both a financial instrument and a service contract and generates cash flows with substantial variability over a long period. The standard is effective for accounting periods beginning on or after 1 January 2023. Early application is permitted for entities that apply IFRS 9.

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 Revenue from sales and services (€268,719 thousand)

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

€'000

	2021	2020	Changes
Revenue from contracts with customers	268,702	222,507	46,195
Other revenue from sales and services	17	22	(5)
Total revenue from sales and services	**268,719**	**222,529**	**46,190**

Revenue from sales and services nearly entirely relate to the engineering services that are the company's core business. They increased by €46,195 thousand (+22%) on the previous year with more than half this increase attributable to the higher production volumes, while the remainder was due to the improved profitability of the contracts performed during the year.
The higher volumes were generated by the rise in demand on the captive market, led by RFI, which was made possible by Italy's prodigious investments earmarked for the railway infrastructure sector deemed strategic for its relaunch.

The greater average profitability of contracts performed during the year was a result of the tight timeline imposed by the National Recovery and Resilience Plan (NRRP), which required a tough work schedule, improved internal productivity and the completion of some projects which meant the total value of the related works could be calculated, generating a positive adjustment in the consideration due to Italferr.

Italferr's engineering services are generally of a long-term nature. Furthermore, ownership of the right to use the results of the services provided is transferred upon completion. Consequently, over the life of the acquired contracts, Italferr recognises the progress of the work performed and issues progress bills to customers. The difference between the progress made and the invoiced amount results in contract assets or liabilities.

The table below shows contract assets and liabilities and trade receivables as presented in the statement of financial position:

€'000

	31.12.2021	31.12.2020
Contract assets classified under "Current/non-current trade receivables"	65,277	59,755
Contract assets	196,367	148,267
Contract liabilities	(92,170)	(80,591)

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

€'000

	Contract assets	Contract liabilities	Income statement
Revenue recognised during the year which was included in the opening balance of contract liabilities	77,802	48,857	126,659
Increases in contract liabilities, net of the amounts released to revenue during the year	(104,450)	(127,717)	
Increases in contract assets due to the provision of services	47,853	58,492	106,345
Increases in contract assets due to changes in the assessment of the percentage of completion	26,909	8,789	35,698
Total	**48,114**	**(11,579)**	**268,702**

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

€'000

	2021	2020	Changes
Geographical segment			
Italy	252,673	208,121	44,552
Europe	904	3,232	(2,328)
Non-EU	15,142	11,176	3,966
Total revenue from sales and services	**268,719**	**222,529**	**46,190**
Type of service			
Engineering and consultancy services	186,760	184,652	2,108
Works management and supervision	81,942	37,855	44,087
Other services	17	22	(5)
Total revenue from sales and services	**268,719**	**222,529**	**46,190**
Moment of recognition			
At a point in time	17	22	(5)
Over time	268,702	222,507	46,195
Total revenue from sales and services	**268,719**	**222,529**	**46,190**

Other revenue from sales and services entirely relates to fees for professional refresher courses provided to RFI's technical personnel during the year.

5 Other income (€266 thousand)

Other income is detailed in the table below:

€'000

	2021	2020	Changes
Indemnities	16	16	0
Supplier vetting	62	60	2
Grants related to income	82	0	82
Repayments	78	82	(4)
Other	28	45	(17)
Other income	**266**	**203**	**63**

Grants related to income (€82 thousand) relate to the DGAP (Drone and Gnss for Applications for Professional Surveys) project which is part of the ESA Programme aimed at developing a satellite technology-based system to support work site activities.

6 Personnel expense (€121,239 thousand)

This caption can be analysed as follows:

€'000

	2021	2020	Changes
Wages and salaries	79,332	67,820	11,512
Social security charges	21,536	17,987	3,549
Other expense for employees	4,976	3,959	1,017
Post-employment benefits	5,294	4,749	545
Post-employment benefits/CLC service costs	15	15	0
Net accruals/reeases for employees	3,609	(2,984)	6,593
Employees	**114,762**	**91,546**	**23,216**
Wages and salaries		5	(5)
Social security charges	14	21	(7)
Other expense		1	(1)
Consultants and freelancers	**14**	**27**	**(13)**
Temporary workers, seconded employees and work experience	2,716	2,825	(109)
Other expense	3,747	2,468	1,279
Other costs	**6,463**	**5,293**	**1,170**
Total	**121,239**	**96,867**	**24,373**

Personnel expense increased significantly (€24,373 thousand), mostly due to the sharp rise in the number of employees during the year (+average 316 FTE).

Moreover, the caption had benefited from the renewal of the national labour agreement in 2020, with savings of €2,984 thousand, due to the one-off payment for the collective interim pay guarantee and the performance bonus while the company accrued €3,609 thousand in 2021 for the renewal of the national labour agreement.

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

			average FTE
	2021	**2020**	**Change**
Managers	64	62	2
Junior managers	587	563	24
White collars	1,229	938	291
Total employees	**1,880**	**1,563**	**317**
Temporary workers	56	57	(1)
Total flexible staff	**56**	**57**	**(1)**
Total	**1,936**	**1,620**	**316**

7 Raw materials, consumables, supplies and goods (€344 thousand)

They can be analysed as follows:

			€'000
	2021	**2020**	**Changes**
Materials and consumables	344	310	34
Total	**344**	**310**	**34**

The caption includes the cost of accident prevention devices, stationery and materials used in operations.

8 Services (€70,533 thousand)

This caption can be analysed as follows:

			€'000
	2021	**2020**	**Changes**
Engineering services	40,598	39,016	1,582
Administrative and IT services	14,527	10,881	3,646
Facilities	3,594	3,561	33
Travel and accommodation	3,469	2,590	879
Insurance	2,209	1,792	417
Professional services	2,001	1,711	290
Utilities	1,331	997	334
Services provided by the parent	1,194	1,048	146
External communications and advertising expense	226	111	115
Other	1,384	805	579
Total	**70,533**	**62,512**	**8,021**

All the cost components of this caption increased in 2021. Specifically:

- costs for outsourced engineering services increased, based on the type of contracts and production volumes of the year (+€1,582 thousand);
- costs for administrative and IT services (€3,646 thousand) rose due to the increase in ICT services received from the group company FSTechnology as a result of the IT developments necessary to continue the digitalisation of engineering services and to support the innovation projects, as well as the higher number of help desk services and software licences in line with the growth in the number of resources;
- travel and accommodation costs increased (+€879 thousand; +34%) as did the cost of utilities (+€334 thousand; +34%) partly due to less resort to remote work and also the higher employee numbers;
- insurance premiums increased, mostly as a result of the large rise in rates for professional liability cover that insurance companies have applied to the prices of the new contract.

9 Use of third-party assets (€1,798 thousand)

In 2021, this caption 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

	2021	2020	Changes
Lease payments, building expense and registration tax	863	864	(1)
Hires and other	935	854	81
Total	**1,798**	**1,718**	**80**

The slight increase in the caption (+€80 thousand) is entirely due to fuel costs and the cost of maintaining vehicles, which were higher due to the greater mobility of employees.

10 Other operating costs (€5,191 thousand)

Other operating costs are detailed in the table below:

€'000

	2021	2020	Changes
Contribution for Free Travel Cards	797	274	523
Local property and waste disposal taxes	276	276	0
Membership fees	112	126	(14)
Entertainment expenses	10	3	7
Other taxes and duties	244	54	190
Other	341	800	(459)
Net accruals	3,411	5,212	(1,801)
Total	**5,191**	**6,745**	**(1,554)**

The contribution for Free Travel Cards is the amount paid to Trenitalia for the free transport of Italferr employees. It increased due to the resumption of mobility which had reduced dramatically due to measures to combat the pandemic.

Net accruals decreased in 2021, mostly due to the smaller net accrual to the provision for contractual risks (€3,263 thousand) compared to that made in 2020 (€5,013 thousand), reflecting the expectations of smaller future losses on contracts with a negative outcome.

11 Amortisation and depreciation (€5,441 thousand)

This caption is broken down in the following table. Reference should be made to notes 16 and 17 for further information.

€'000

	2021	2020	Changes
Amortisation	**3**	**1**	**2**
Depreciation of property, plant and equipment	2,135	1,749	386
Depreciation of leased assets	3,303	3,023	280
Depreciation	**5,438**	**4,772**	**666**
Total	**5,441**	**4,773**	**668**

12 Net impairment losses (€56 thousand)

This caption, which is broken down in the following table, shows a positive balance following the updated estimated recoverability of trade receivables and liquid funds. Reference should be made to note 32 for further information.

€'000

	2021	2020	Changes
Net impairment gains on trade receivables	51	95	(44)
Impairment gains on liquid funds	5	4	1
Total	**56**	**99**	**(43)**

13 Financial income (€2,475 thousand)

This caption can be analysed as follows:

€'000

	2021	2020	Changes
Other financial income	50	42	8
Dividends	941	664	277
Exchange gains	1,484	109	1,375
Total	**2,475**	**815**	**1,660**

The increase in financial income is mostly due to the exchange gains (€1,375 thousand), mostly on transactions in the US dollar, the Indian rupee, the Egyptian lire and the Uzbek som.

The caption also includes dividends distributed by the Italferr/Altinok joint venture (€335 thousand) and the subsidiary Crew Cremonesi Workshop (€606 thousand) during the year.

14 Financial expense (€1,437 thousand)

Financial expense is detailed in the table below:

€'000

	2021	2020	Changes
Interest cost on employee benefits	4	314	(310)
Other financial expense	819	922	(103)
Exchange losses	614	881	(267)
Impairment loss on equity investments		2,660	(2,660)
Total	**1,437**	**4,777**	**(3,340)**

As can be seen in the table, the significant reduction in the caption is mostly due to the fact that the fair value of the investment in Crew was in line with its carrying amount in 2021 and, therefore, the company did not have to recognise any additional impairment losses.

Interest cost on employee benefits decreased by €310 thousand on 2020 as a result of the reduction in the discount rate applied to the future post-employment benefits the company expects to pay.

The exchange losses also decreased (-€267 thousand) due to the generalised better exchange rates, mostly with respect to the Indian rupee and the Uzbek som (see note 13).

15 Income taxes (€20,403 thousand)

Income taxes can be analysed as follows:

€'000

	2021	2020	Changes
IRAP	3.477	2.739	738
IRES	17.092	11.038	6.054
Current foreign taxes	311	467	(156)
Deferred taxes	(912)	115	(1.027)
Adjustments to prior year income taxes	435	(658)	1.093
Total	**20.403**	**13.701**	**6.702**

The above table shows that the caption increased by €6,702 thousand in 2021, mostly as a result of the higher taxable profit achieved thanks to the rise in production volumes and contract profitability.

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

€'000

	2021		2020	
	Amount	%	Amount	%
Profit for the year	45,130		32,244	
Total income taxes	20,404		13,701	
Pre-tax profit	65,534		45,945	
IRES theoretical tax (national tax rate)	**15,728**	**24.0%**	**11,027**	**24.0%**
Lower taxes				
Other decreases	(2,335)	-5.1%	(2,908)	-6.3%
Higher taxes				
Accruals to provisions	2,690	5.9%	2,280	5.0%
Prior year expense	185	0.4%	100	0.2%
Other increases	824	1.8%	539	1.2%
Total current taxes (IRES)	**17,092**	37.2%	**11,038**	**24.0%**
IRAP	**3,477**	7.6%	**2,739**	**6.0%**
Foreign taxes	**311**	0.7%	**467**	**1.0%**
Difference on estimated prior year taxes	**435**	0.9%	**(658)**	**-1.4%**
Total deferred tax	**(912)**	-2.0%	**115**	**0.3%**
Total	**20,403**	**44.4%**	**13,701**	**29.8%**

16 Property, plant and equipment (€32,650 thousand)

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

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

€'000

	Land and buildings	Other assets	Assets under construction and payments on account	Total
Historical cost	34,555	17,646	98	52,299
Depreciation and impairment losses	(7,736)	(14,737)		(22,473)
Balance at 1.1.2020	**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
Other changes	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**
Investments	3,238	2,406	89	5,733
Deprecition	(3,613)	(1,824)		(5,437)
Exchange differences	(10)	(6)		(16)
Disposals and decreases[1]	(220)	(345)		(565)
Other changes[2]	1,422	(15)		1,407
Total changes	**817**	**216**	**89**	**1,122**
Historical cost	40,305	22,120	187	62,612
Depreciation and impairment losses	(12,304)	(17,658)		(29,962)
Balance at 31.12.2021	**28,001**	**4,462**	**187**	**32,650**

The above table shows changes in right-of-use assets, which are broken down in the following table.

€'000

	Land and buildings	Other assets	Total
Historical cost	8,814	1,067	9,881
Depreciation and impairment losses	(2,236)	(266)	(2,502)
Balance at 1.1.2020	**6,578**	**801**	**7,379**
Investments	3,548	806	4,354
Depreciation	(2,650)	(373)	(3,023)
Exchange differences	1	4	5
Other changes	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**
Investments	3,238	740	3,978
Depreciation	(2,944)	(359)	(3,303)
Exchange differences	(10)	(6)	(16)
Disposals and decreases[1]	(220)	(345)	(565)
Other changes[2]	1,422		1,422
Total changes	**1,486**	**30**	**1,516**
Historical cost	14,564	3,008	17,572
Depreciation and impairment losses	(5,466)	(679)	(6,145)
Balance at 31.12.2021	**9,098**	**2,329**	**11,427**

In 2021, Italferr invested a total of €5,733 thousand, over half of which (€3,238 thousand) to lease the new offices in Genoa (€2,327 thousand), extend the leased office space of the Egyptian branch (€172 thousand), cover the increase in the lease payments for the Bari offices (€110 thousand) and renew the contracts for the offices in Palermo (€436 thousand) and Uttar Pradesh in India (€192 thousand).

The remainder of the investments consisted of:

- purchases of laptops and notebooks for employees in Italy and abroad (€1,212 thousand);
- purchase of furniture, wall units and partitions and accessories for the new offices in Genoa and other Italian offices (€397 thousand);
- new long-term vehicle leases (€740 thousand) to meet the greater needs of work sites for inspections and given the higher number of resources;
- purchases of equipment, mostly for atmospheric analyses (€56 thousand);
- work carried out at the Rome offices, mostly for the refitting of the data centre, not yet completed at year end and, therefore, recognised under work in progress (€89 thousand).

The decreases shown in the above table related to:

- Land and buildings: the termination of leases in Italy as they had reached their term (€220 thousand), the early withdrawal from old leases in India (€236 thousand), the termination of the lease for the Egyptian branch (€51 thousand) and the concurrent agreement of a new lease for larger offices and the withdrawal from the lease for offices in Argentina after the branch was closed down (€39 thousand);

- Vehicles: the early termination of leases of vehicles, mostly for the offices in India (€391 thousand) and other leases which had reached their term (€79 thousand);
- Other assets: the scrapping of office furniture and equipment and the sale of PCs (€36 thousand). All these assets had been fully depreciated.

€'000

Disposals and decreases[1]	Land and buildings	Other assets	Total
Historical cost	(546)	(506)	(1,052)
Depreciation and impairment losses	326	161	487
Total	**(220)**	**(345)**	**(565)**

Other changes, broken down below, refer to the impairment loss on the right-of-use asset recognised in previous years for the lease of buildings from group companies (€521 thousand), third parties (€544 thousand) and vehicle leases (€16 thousand) as well as the impairment gain on the right-of-use asset for the Genoa office (€72 thousand).

€'000

Other changes[2]	Land and buildings	Other assets	Total
Historical cost	1,137	(16)	1,121
Depreciation	285	1	286
Total	**1,422**	**(15)**	**1,407**

At 31 December 2021, there are no mortgages or liens on property, plant and equipment.

17 Intangible assets (€7 thousand)

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

€'000

	Industrial patents and intellectual property rights
Historical cost	3
Amortisation and impairment losses	(2)
Balance at 1.1.2020	**1**
Investments	
Amortisation	(1)
Total changes	**(1)**
Historical cost	3
Amortisation and impairment losses	(3)
Balance at 31.12.2020	**0**
Investments	10
Amortisation	(3)
Total changes	**7**
Historical cost	13
Amortisation and impairment losses	(6)
Balance at 31.12.2021	**7**

Following the demerger of the ICT business unit in 2019, all software owned by Italferr was transferred to FSTechnology, except for that purchased by foreign offices. Therefore, investments made in 2021 solely related to the acquisition of Autocad licences and other software to be used for the design activities performed by the Indian offices.

18 Deferred tax assets and deferred tax liabilities (€8,500 thousand)

The table below shows deferred tax assets and deferred tax liabilities at 31 December 2021 and changes of the year due to the main temporary differences between carrying amounts and the related tax amounts.

€'000

	31.12.2020	Incr. (decr.) through profit or loss	Incr. / (decr.) through OCI	31.12.2021
Provisions for risks and charges and impairment losses with deferred tax deductibility	6,049	909		6,958
Other items	1,181	81	280	1,542
Deferred tax assets:	**7,230**	**990**	**280**	**8,500**
Deferred taxes on unrealised exchange gains	(15)	(76)		(91)
Deferred tax liabilities	**(15)**	**(76)**	**0**	**(91)**

The main change of 2021 relates to deferred tax assets recognised on accruals to provisions.

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.

19 Equity investments (€18,653 thousand)

The tables below show the opening and closing balances of equity investments, broken down by category, and changes in 2021 and 2020.

€'000

	31.12.2021	31.12.2020	Changes
Investments in:			
Subsidiaries	18,652	18,652	0
Joint arrangements	1	1	0
Total	**18,653**	**18,653**	**0**

The caption did not change during the year.

The company measured the investment in Crew considering it to be a cash generating unit (CGU) and estimated its value in use by discounting future cash flows using the provisional 2022 budget figures and long-term projections (the 2022-2031 business plan).

In addition to the cash flows expected from the company's operations for the 2022 - 2031 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%.

A Weighted Average Cost of Capital ("WACC") of 7.66% was applied, while the Compound Annual Growth Rate ("CAGR") of the gross operating profit was equal to 3%.

The tables below show Italferr's investees and their changes in 2021 and 2020, respectively:

€'000

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

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

€'000

	Carrying amount 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 Italferr - SWS)	1				1	
Non-controlling interests						
Consorcio Supervisor Plmb[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 for the year	Equity at 31.12.2021	Investment %	Share of equity (a)	Carrying amount at 31.12.2021 (b)	Difference (b-a)
Investments in subsidiaries								
CREW - Cremonesi Workshop S.r.l.	Brescia - Italy	100	877	4,601	80%	3,680	18,302	14,622
I.E.S.	Belgrade - Serbia	337	142	799	100%	799	350	(449)
Investments in joint arrangements								
Italferr - Altinok joint venture	Istanbul - Turkey		403	403	50.1%	202		(202)
Italferr - SWS joint venture			17	134	50.0%	67		(67)

€'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 joint venture	Istanbul - Turkey	0	307	307	50.1%	153	0	(153)
Italferr - SWS joint venture		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

31.12.2021	% 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%	7,278	449	7,727	2,990	137	3,127	6,343	(5,466)	877
I.E.S.	100%	1,098	7	1,105	306		306	1,100	(958)	142
Investments in joint arrangements										
Italferr - Altinok joint venture	50.1%	405	1	406	2		2	388	(203)	185
Italferr-SWS & Italferr Adi Ortakligi joint venture	50.0%	336	70	406	(269)		(269)	275	(258)	17

€'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 joint venture	50.1%	317	3	320	(36)		(36)	550	(265)	285
Italferr-SWS & Italferr Adi Ortakligi joint venture	50.0%	472	60	532	(112)	0	(112)	276	(80)	196

20 Non-current and current financial assets (€13,742 thousand)

The following table shows the composition of financial assets at 31 December 2021, compared to 31 December 2020:

€'000

	31.12.2021			31.12.2020			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Amounts attached by banks	1		**1**	1		**1**	0	0	**0**
Securities	2		**2**			**0**	2	0	**2**
Intragroup current account		13,739	**13,739**		13,647	**13,647**	0	92	**92**
Total	**3**	**13,739**	**13,742**	**1**	**13,647**	**13,648**	**2**	**92**	**94**

The securities of €2 thousand include Astaldi shares and participating financial instruments issued by the separate unit to settle creditors' claims and assigned to Italferr after completion of Astaldi S.p.A.'s composition with creditors procedure. This provided that the unsecured creditors (Italferr had an unsecured claim of €24 thousand) would have their claims settled in part by receiving new Astaldi shares and participating financial instruments, which gave each creditor the right to a share of the net proceeds from the sale of the assets included in the separate unit.

21 Other non-current and current assets (€10,467 thousand)

These consist of the following:

€'000

	31.12.2021			31.12.2020			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Other assets from group companies		1,353	**1,353**		1,832	**1,832**		(479)	**(479)**
VAT assets		3,066	**3,066**		3,459	**3,459**		(393)	**(393)**
Sundry assets	288	4,715	**5,003**	507	3,141	**3,648**	(219)	1,574	**1,355**
Advances to suppliers		519	**519**		530	**530**		(11)	**(11)**
Prepayments and accrued income - third parties		994	**994**		382	**382**		612	**612**
Total	**288**	**10,647**	**10,935**	**507**	**9,344**	**9,851**	**(219)**	**1,303**	**1,084**
Loss allowance		(468)	**(468)**		(510)	**(510)**		42	**42**
Total net of the loss allowance	**288**	**10,179**	**10,467**	**507**	**8,834**	**9,341**	**(219)**	**1,345**	**1,126**

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.

The decrease of €479 thousand in other assets from group companies is mostly related to the tax consolidation scheme as the company's IRES payments on account were smaller in 2021.

Sundry assets - non-current include guarantee deposits for the lease of buildings and other assets, while the current portion (€4,715 thousand) comprises amounts due from personnel and social security institutions (€162 thousand) and other assets (€4,554 thousand), specifically VAT and other tax assets related to foreign offices (€4,104 thousand).

Advances to suppliers (€519 thousand) are for engineering service engagements assigned to third parties.

Prepayments and accrued income increased by €612 thousand due to the renewal of the insurance policy, which included an increase in the premiums for third party liability and professional liability.

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

€'000

	31.12.2021	31.12.2020	Changes
Italy	5,632	6,634	(1,002)
Other European countries (non-Euro EU)	78	345	(267)
Other non-EU European countries			0
Other countries	4,757	2,362	2,395
Total net of the loss allowance	**10,467**	**9,341**	**1,126**

22 Trade receivables (€261,644 thousand)

All trade receivables are current and are detailed below:

€'000

	31.12.2021	31.12.2020	Change
Ordinary customers	12,776	11,745	1,031
Government authorities and other public authorities	590	266	324
Group companies	58,645	54,524	4,121
Loss allowance	(6,734)	(6,780)	46
Carrying amount	**65,277**	**59,755**	**5,522**
Contract assets	196,583	148,469	48,114
Loss allowance	(216)	(202)	(14)
Carrying amount	**196,367**	**148,267**	**48,100**
Total net of the loss allowance	**261,644**	**208,022**	**53,622**

The increase in this caption is mainly due to the amounts due from group companies (€4,121 thousand) and is attributable to the greater amounts invoiced to RFI towards the end of the year.

Amounts due from third party customers also increased, mostly for the amounts not yet due from Indian customers.

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

€'000

	31.12.2021			31.12.2020		
	Work in progress	Advances and progress billings	Net exposure	Work in progress	Advances and progress billings	Net exposure
RFI	1,288,326	(1,111,137)	177,189	1,188,788	(1,057,752)	131,036
Other group companies - Italy	32,584	(21,176)	11,408	23,197	(13,641)	9,556
Third parties	13,112	(11,185)	1,927	15,261	(13,866)	1,395
Total Italy	**1,334,022**	**(1,143,498)**	**190,524**	**1,227,246**	**(1,085,259)**	**141,987**
Third parties	30,528	(24,469)	6,059	25,567	(19,085)	6,482
Total abroad	**30,528**	**(24,469)**	**6,059**	**25,567**	**(19,085)**	**6,482**
Total contract assets	**1,364,550**	**(1,167,967)**	**196,583**	**1,252,813**	**(1,104,344)**	**148,469**

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

€'000

	31.12.2021	31.12.2020	Change
Italy	252,549	202,574	49,975
Other European countries (non-Euro EU)	70	81	(11)
Other non-EU European countries	507	2,829	(2,322)
Other countries	8,518	2,538	5,980
Total net of the loss allowance	**261,644**	**208,022**	**53,622**

23 Cash and cash equivalents (€8,789 thousand)

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

€'000

	31.12.2021	31.12.2020	Change
Bank and postal accounts	8,775	10,360	(1,585)
Cash and cash equivalents	22	15	7
Total	**8,797**	**10,375**	**(1,578)**
Loss allowance	(8)	(14)	6
Total net of the loss allowance	**8,789**	**10,361**	**(1,572)**

The decrease in the caption is due to the transfer of surplus liquidity in the foreign offices' bank accounts to Euro accounts when the exchange rates are favourable.

24 Equity (€117,744 thousand)

Changes in the main equity captions in 2021 and 2020 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 2021 consists of 14,186 ordinary shares with a nominal amount of €1,000 each, for a total of €14,186,000;

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

Extraordinary reserve: this reserve amounts to €57,389 thousand. The increase on the previous year end is due to the undistributed portion of the profit for 2020.

Other reserves

These consist of the following:

- *Reserve as per art. 13 of Legislative decree no. 124/1993 (€33 thousand):* this reserve includes the portions of profit for the year accrued up to 2000 and equal to 3% of post-employment benefits transferred to 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.

Actuarial reserve: this reserve has a negative balance of €5,745 thousand and includes the actuarial losses on employee benefits taken directly to equity, net of the €1,951 thousand tax effect.

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

Profit for the year

The profit for 2021 from continuing operations amounts to €45,130 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 31.12.2021 (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	57,389		57,389	A,B,C			
Reserve as per art. 13 Leg. decree no. 124/93	33		33	B			
Translation reserve	644	341	303	A,B,C			
IFRS reserve	(5,745)	(5,745)					
Retained earnings	3,269	3,269					
TOTAL	**72,613**	**14,888**	**57,725**		**0**	**0**	**0**

A: capital increase

B: coverage of losses

C: dividends

25 Non-current and current loans and borrowings (€10,500 thousand)

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	31.12.2021	31.12.2020	Changes
Loans and borrowings from group companies	9,000	10,500	(1,500)
Total	**9,000**	**10,500**	**(1,500)**

€'000

Current portion of non-current loans and borrowings	31.12.2021	31.12.2020	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

Creditor	Currency	Nominal interest rate	Year of expiry	31.12.2021		31.12.2020	
				Nom. amount	Carrying amount	Nom. amount	Carrying amount
Ferrovie dello Stato Italiane S.p.A.	€	3.65%	2028	15,000	10,500	15,000	12,000
Total loans and borrowings				**15,000**	**10,500**	**15,000**	**12,000**

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

€'000

	31.12.2020	Monetary items (statement of cash flows)	Non-monetary items		31.12.2021
			New leases	Other	
Disbursement (repayment) of current and non-current loans and borrowings	(12,000)	1,500			(10,500)
Change in other financial assets	13,647	86		6	13,739
Change in other financial liabilities	(8,949)		(3,978)	2,565	(10,362)
Total	**(7,302)**	**1,586**	**(3,978)**	**2,571**	**(7,123)**

The table below analyses the net financial position, shown in the reclassified statement of financial position, as presented in the 2021 directors' report compared with 31 December 2020:

€'000

	31.12.2021	31.12.2020	Changes
Current net financial position			
Cash and cash equivalents	8,789	10,361	(1,572)
Intragroup current account	13,739	13,647	92
Other financial liabilities	(1,500)	(1,500)	0
Other	(3,050)	(2,668)	(382)
Total current net financial position	**17,978**	**19,840**	**(1,862)**
Non-current net financial position			
Other financial liabilities	(9,000)	(10,500)	1,500
Other	(7,310)	(6,280)	(1,030)
Non-current net financial debt	**(16,310)**	**(16,780)**	**470**
Net financial position	**1,668**	**3,060**	**(1,392)**

26 Post-employment and other employee benefits (€16,363 thousand)

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

€'000

	31.12.2021	31.12.2020	Changes
Present value of post-employment benefit obligations	15,899	18,186	(2,287)
Present value of Free Travel Card obligations	464	440	24
Total present value of obligations	**16,363**	**18,626**	**(2,263)**

€'000

	31.12.2021	31.12.2020	Changes
Opening balance	18,625	22,835	(4,210)
Service costs (*)	15	15	0
Interest cost (*)	4	35	(31)
Actuarial (gains) losses recognised in equity	1,168	(65)	1,233
Advances/utilisations and other changes	(3,449)	(4,194)	745
Closing balance	**16,363**	**18,626**	**(2,263)**

(*) through profit or loss

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

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

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

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

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

Actuarial assumptions

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

	31.12.2021	31.12.2020
Discount rate (post-employment benefits)	0.29%	-0.08%
Discount rate (Free Travel Card)	0.98%	0.34%
Annual increase rate of post-employment benefits	2.81%	2.10%
Inflation rate (post-employment benefits)	1.75%	0.80%
Inflation rate (Free Travel Card)	1.75%	0.80%
Expected turnover rate for employees (post-employment benefits)	3.00%	3.00%
Expected turnover rate for employees (Free Travel Card)	3.00%	3.00%
Expected rate of advances (post-employment benefits)	2.00%	2.00%

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

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

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

	TFR	Free Travel Card
Inflation rate +0.25%	16,043,304	478,337
Inflation rate -0.25%	15,757,181	450,085
Discount rate +0.25%	15,670,451	448,281
Discount rate -0.25%	16,134,625	480,414
Turnover rate +1%	15,808,977	
Turnover rate -1%	15,998,003	
Plan duration	6.4	19
Estimated future payments - first year	1,964,260	20,037
Estimated future payments - second year	1,377,026	20,536
Estimated future payments - third year	1,738,383	21,045
Estimated future payments - fourth year	3,145,865	22,548
Estimated future payments - fifth year	1,170,882	22,531

27 Provisions for risks and charges (€28,104 thousand)

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

€'000

	31.12.2020	Accruals	Reclassific-ations	Release of excess provisions	Utilisations and other changes	31.12.2021
Litigation with employees	602		(137)		(84)	381
Litigation with third parties	4,899	148	137		(84)	5,100
Employee remuneration to be defined	0	3,609				3,609
Provision for losses on contracts	15,751	11,062		(7,799)		19,014
Total non-current portion	**21,252**	**14,819**	**0**	**(7,799)**	**(168)**	**28,104**

In 2021, the provision for litigation with employees decreased by another €221 thousand as a result of the settlement of some disputes or out-of-court agreements with the company's counterparties or their waiver of their right to proceed with the proceedings.

The provision for litigation with third parties increased by €201 thousand as a result of new claims for compensation of damage brought against the company in 2021, including as jointly and severally liable with customers and/or RFI.

Employee remuneration to be defined includes the estimated costs to renew the national labour agreement of €3,609 thousand.

The provision for losses on contracts relates to the measurement of the lifetime profit or loss of contracts in progress required by IAS 37. The increase of €3,263 thousand includes the accruals made for expected future losses on contracts with a negative outcome, mostly acquired during the year, net of releases for losses accrued during the year in line with progress made on contracts with a negative outcome.

28 Non-current and current liabilities (€10,360 thousand)

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

€'000

	31.12.2021			31.12.2020			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial liabilities									
Lease liabilities	7,310	3,050	**10,360**	6,280	2,668	**8,948**	1,030	382	**1,412**
Total	**7,310**	**3,050**	**10,360**	**6,280**	**2,668**	**8,948**	**1,030**	**382**	**1,412**

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

Engineering	1Y	2Y	3Y	4Y	5Y	6Y	7Y	8Y	9Y	10Y
First quarter 2021	0.70%	0.91%	1.05%	1.20%	1.40%	1.51%	1.65%	1.77%	1.87%	1.97%
Second quarter 2021	0.57%	0.71%	0.85%	1.01%	1.18%	1.30%	1.44%	1.57%	1.67%	1.79%
Third quarter 2021	0.52%	0.62%	0.76%	0.90%	1.06%	1.20%	1.33%	1.46%	1.58%	1.70%
Fourth quarter 2021	0.90%	0.90%	0.90%	0.93%	1.10%	1.26%	1.39%	1.51%	1.66%	1.78%

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.

The table below shows potential future payments:

Lease liabilities	Future lease payments	Historical rate of exercise of the extension option
10,360	(2,839)	80%

29 Other non-current and current liabilities (€45,690 thousand)

€'000

	31.12.2021			31.12.2020			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Social security charges payable		15,300	**15,300**		13,334	**13,334**		1,966	**1,966**
Other liabilities with group companies		5,699	**5,699**		14	**14**		5,685	**5,685**
Other liabilities and accrued expenses and deferred income	4,166	20,525	**24,691**	4,022	18,547	**22,569**	144	1,978	**2,122**
Total	**4,166**	**41,524**	**45,690**	**4,022**	**31,895**	**35,917**	**144**	**9,629**	**9,773**

Social security charges payable (€15,300 thousand) include the accrued 14th month pay and holidays accrued but not yet taken, along with amounts due to Inarcassa of €7,778 thousand.

Other liabilities with group companies include the liability for the tax consolidation scheme and specifically the IRES payments on account transferred to the parent (€11,408 thousand), net of current taxes.

The current portion of Other liabilities, amounting to €20,525 thousand, includes:

- amounts due to personnel for remuneration accrued but not yet paid (€11,770 thousand);
- the accrued performance bonus (€1,544 thousand);
- holidays accrued but not yet taken at 31 December 2021 (€1,382 thousand);
- tax liabilities for withholdings applied to employees and freelancers (€3,067 thousand).

The non-current portion of Other liabilities refers to the present value of the call option (€4,166 thousand) for the remaining 20% of Crew, which the company may exercise as from 1 January 2023, as provided for by the quotaholders' agreements.

30 Trade payables (€124,262 thousand)

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

€'000

	31.12.2021	31.12.2020	Changes
Suppliers	20,025	16,509	3,516
Group companies	12,067	7,951	4,116
Contract liabilities	92,170	80,591	11,579
Total	**124,262**	**105,051**	**19,211**

The increase in amounts due to group companies is mostly due to the higher costs of ICT services and the related rise in revenue earned with FSTechnology in 2021 (€2,999 thousand).

Contract liabilities increased mostly as a result of the higher production volumes with RFI, which translate into higher progress billings.

Contract liabilities are broken down by counterparty below:

€'000

	31.12.2021	31.12.2020	Change
RFI	81,941	71,484	10,457
Other group companies	5,582	6,150	(568)
Third parties	4,647	2,957	1,690
Total	**92,170**	**80,591**	**11,579**

31 Tax liabilities (€1,335 thousand)

This caption includes the 2021 IRAP (regional production tax) liability, net of advances paid during the year (€2,543 thousand), and foreign tax liabilities of €401 thousand due by the foreign branches.

€'000

	31.12.2021	31.12.202	Change
IRAP	934	305	629
Foreign tax liabilities	401	596	(195)
Total	**1,335**	**901**	**434**

32 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 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.

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

CREDIT RISK

While Italferr's financial assets increased significantly on the previous year (+€49,586 thousand, +20.6%) due to its trade receivables, this increase is not a result of larger amounts outstanding but the growth in contract assets with group companies and, to a lesser extent, public administrations.

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

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

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

With respect to the derivatives used for hedging purposes and which can potentially generate credit exposure to counterparties, the company does not currently deal in derivatives. However, it has a specific policy that defines concentration thresholds by counterparty and credit rating.

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

The following tables show the company's exposure to credit risk at 31 December 2021 and 2020, broken down by category and counterparty. For information about the gross balance and the loss allowance, reference should be made to the notes to the relevant captions.

€'000

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

€'000

31.12.2020	PA	Third party customers	Financial institutions	Group companies	Total
Current and non-current trade receivables	946	7,537		200,039	208,522
Other non-current and current assets	132	8,327			8,459
Current and non-current financial assets			1	13,647	13,648
Cash and cash equivalents			10,345		10,345
Total financial assets	**1,078**	**15,864**	**10,346**	**213,686**	**240,974**

The tables below give a breakdown of financial assets and trade receivables at 31 December 2021 and 2020 by past due brackets:

€'000

31.12.2021	Not past due	Past due				Total
		0-180 days	181-360 days	360-720 days	>720 days	
Public administration, Italian government and regions (gross)	2,311	7		2	152	2,472
Loss allowance	(2)				(111)	(113)
Public administration, Italian government and regions (net)	**2,309**	**7**	**0**	**2**	**41**	**2,359**
Group companies	260,014	3,250	683	830	624	265,401
Loss allowance	(173)	(2)		(1)		(176)
Group companies (net)	**259,841**	**3,248**	**683**	**829**	**624**	**265,225**
Third party customers	16,262	1,665	239	388	5,846	24,400
Loss allowance	(765)	(306)	(118)	(51)	(5,887)	(7,127)
Third party customers (net)	**15,497**	**1,359**	**121**	**337**	**(41)**	**17,273**
Financial institutions	8,777					8,777
Loss allowance	(8)					(8)
Financial institutions (net)	**8,769**	**0**	**0**	**0**	**0**	**8,769**
Total exposure, net of the loss allowance	**286,416**	**4,614**	**804**	**1,168**	**624**	**293,626**

€'000

31.12.2020	Not past due	Past due				Total
		0-180 days	181-360 days	360-720 days	>720 days	
Public administration, Italian government and regions (gross)	1,035	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**

The total exposure and the impairment losses of each category were reclassified by risk class at 31 December 2021 and 2020, as per Standard&Poors's rating, are shown below:

€'000

31.12.2021	TOTAL	AMORTISED COST		
		12-month expected credit losses	*Lifetime - not impaired*	*Lifetime - impaired*
from AAA to BBB-	267,873	112	267,761	
from BB to BB+	33,178	3,372	26,953	2,853
Gross carrying amounts	301,051	3,483	294,715	2,853
Loss allowance	(7,425)	(3,483)	(1,089)	(2,853)
Carrying amount	**293,626**	**0**	**293,626**	**0**

€'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**

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

€'000

2021	12-month expected credit losses	Lifetime - not impaired	Lifetime - impaired	TOTAL
Balance at 31 December 2020	**4,009**	**644**	**2,853**	**7,506**
Net impairment loss	51	81		132
Transfer to lifetime ECL – not impaired	(472)	472		0
Utilisation of the allowance	(104)	(108)		(212)
Balance at 31 December 2021	**3,484**	**1,089**	**2,853**	**7,426**

LIQUIDITY RISK

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

At 31 December 2021, 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 due dates of contractual financial liabilities at 31 December 2021 and 2020, including interest to be paid:

€'000

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

€'000

31.12.2020	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	After 5 years	Contractual cash flows
Shareholder loans	970	960	1,874	5,292	4,791	13,887
Lease liabilities	1,339	1,330		5,995	285	8,949
Non-derivative financial liabilities	**2,309**	**2,290**	**1,874**	**11,287**	**5,076**	**22,836**
Trade payables	**24,460**	**80,591**				**105,051**
TOTAL FINANCIAL LIABILITIES	**26,769**	**82,881**	**1,874**	**11,287**	**5,076**	**127,887**

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

€'000

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

€'000

31.12.2020	Carrying amount	Within one year	1 - 5 years	After 5 years
Shareholder loans	12,000	1,500	7,500	3,000
Lease liabilities	8,949	2,669	5,995	285
Non-derivative financial liabilities	**20,949**	**4,169**	**13,495**	**3,285**
Trade payables	**105,051**	**105,051**		

MARKET RISK

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

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

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

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

Interest rate risk

The company 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 fixed rate loans and borrowings:

€'000

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

(€'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**

CURRENCY RISK

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

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

The following table shows the notional amount of Italferr's exposure to currency risk at 31 December 2021 and 2020:

in foreign currency/thousands

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

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 c	4.51		14	(14)	**(3)**
ARS	Argentine peso	103.25		1	(1)	**(0)**
AUD	Australian dollar	1.59	131	33	99	**62**
COP	Colombian peso	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**
INR	Indian rupee	89.66	54,102	37,249	16,853	**188**
IRR	Iranian rial	51,538.00		694,409	(694,409)	**(13)**
OMR	Omani rial	0.47		1	(1)	**(2)**
PEN	Peruvian nuevo sol	4.44	1,377	6	1,371	**309**
QAR	Qatari 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	Uzbek som	12,847.18		190,869	(190,869)	**(15)**
	Total in €					**1,333**

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.

33 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 work site 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 €2,987 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.

34 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 €65 thousand, in addition to non-audit service fees of €11 thousand.

35 Directors' and statutory auditors' fees

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

€'000

	2021	2020	Changes
Directors (*)	135	150	(15)
Statutory auditors	42	39	3
Total	**177**	**189**	**(12)**

(*) 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 2021.

36 Management and coordination

The 2020 key financial figures of the direct parent are reported below:

€'000

Statement of financial position	31.12.2020	31.12.2019
Assets		
Total non-current assets	45,648,138	44,931,064
Total current assets	4,681,211	4,956,169
Assets held for sale and disposal groups		
Total assets	**50,329,349**	**49,887,233**
Equity		
Share capital	39,204,174	39,204,174
Reserves	64,737	53,586
Retained earnings	589,951	374,612
Profit for the year	40,959	226,673
Total equity	**39,899,821**	**39,859,045**
Liabilities		
Total non-current liabilities	6,882,567	5,966,161
Total current liabilities	3,546,961	4,062,027
Total liabilities	**10,429,528**	**10,028,188**
Total equity and liabilities	**50,329,349**	**49,887,233**

€'000

Income statement	2020	2019
Revenue	196,811	187,257
Operating costs	(255,970)	(263,695)
Amortisation and depreciation	(22,977)	(24,516)
Net impairment gains	(5,157)	(1,417)
Accruals		
Net financial income	114,870	175,839
Income taxes	13,382	153,204
Profit for the year	**40,959**	**226,673**

37 Related parties

Related parties have been 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' remuneration are as follows:

€'000

	2021	2020
Short-term benefits	2,842	2,559
Post-employment benefits	244	225
Other long-term benefits		
Termination benefits		
Total	**3,086**	**2,784**

The short-term benefits paid during the year do not include the variable portion of remuneration which, indicatively, does not exceed €650 thousand. It will be paid in 2022 after checking that the group's 2021 goals have been achieved.

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

Other related party transactions

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

Trade and other transactions:

	Assets	Liabilities
Subsidiaries		
I.E.S. d.o.o.		Trade and other: services
Italferr - Altinok joint venture	Trade; Financial: shareholder loan	
Italferr-SWS joint venture	Trade; Financial: shareholder loan	
CREW Cremonesi Workshop S.r.l.	Trade; Financial: quotaholder 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; guarantees Financial: intragroup current account
Other companies		
BBT	Trade and other: services	
Busitalia Rail Service		Trade and other: services
Fercredit		Trade and other: factoring
Ferrovie del Sud Est	Trade and other: engineering services	
Ferservizi		Trade and other: leases and services
FS Sistemi Urbani	Trade and other: engineering services Financial: guarantee deposits	Trade and other: leases
Grandi Stazioni Immobiliare		Trade and other: leases
Grandi Stazioni Rail	Trade and other: engineering services	Trade and other: leases
Italcertifer	Trade and other: engineering services	
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
Enel group		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 2021 generated by related party transactions:

€'000

	31.12.2021				2021	
	Assets	**Liabilities**	**Guarantees**	**Commitment**	**Costs**	**Revenue**
Parent	**4,218**	**(3,304)**			**(1,704)**	**394**
Ferrovie dello Stato Italiane	4,218	(3,304)			(1,704)	394
Subsidiaries	**1,126**	**(841)**			**(702)**	**332**
I.E.S. doo	174	(628)			(346)	0
Cremonesi Workshop	534	(213)			(356)	8
Joint arrangements	**209**	**0**			**0**	**162**
SWS & ITALFERR	209					162
Other group parties	**247,307**	**(95,456)**			**(19,255)**	**248,578**
Anas	8	(1)			8	
BBT	160				534	
Busitalia Rail Service		(104)			(76)	
Ferservizi		(2,559)			(3,925)	
FE1 FSE Infrastruttura	6,345	(4,721)				2,787
FS Sistemi Urbani	916	(111)			(14)	1,018
FS Technology S.p.A.	7	(2,879)			(13,978)	
FS International	111					335
Grandi Stazioni Rail	190	(46)				27
Grandi Stazioni Immobiliare	1,101	(53)			(154)	
Italcertifer						
Mercitalia Rail						
Metropark					(4)	
RFI	229,493	(83,192)			(454)	238,409
T.E.L.T. Sas (formerly L.T.F. Sas)	402					
Trenitalia	8,574	(1,790)			(1,192)	6,002

€'000

	31.12.2021				2021	
	Assets	**Liabilities**	**Guarantees**	**Commitment**	**Costs**	**Revenue**
Other related parties		**(588)**			**(1,129)**	**323**
Enel		(1)			(4)	
ENI		(12)			(25)	
Eurofer		(201)			(421)	
EXPO2015		(24)				
Cassa Depositi e Prestiti group		28			(74)	323
Previndai		(367)			(519)	
Other pension funds		(11)			(86)	

The table below summarises the statement of financial position and income statement balances as at and for the year ended 31 December 2021 generated by related party transactions:

Financial transactions:

€'000

	31.12.2021				2021	
	Assets	Liabilities	Guarantees	Commitment	Costs	Income
Parent						
Ferrovie dello Stato Italiane	13,739					(29)
TOTAL	**13,739**	**0**	**0**	**0**	**0**	**(29)**

38 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 €21,818 thousand, including €313 thousand granted by the parent to RFI (formerly TAV) for advances received on HS/HC contracts, €20,000 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, €252 thousand to EDILQUATTRO to guarantee leases and €147 thousand in connection with disputes pending with the tax authorities.
- bid bonds in the form of bank and insurance sureties of €14,245 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 €28,887 thousand.

39 Public funding

In 2021, the company obtained funding of €82 thousand from the ESA (European Space Agency) to develop a satellite-technology based system to support work site activities. It also availed of the benefits provided for by Law decree no. 34/2020 which allowed the deduction for IRES tax purposes of the fiscally-driven depreciation of 30% of the cost of operating assets purchased in 2020 in addition to their normal depreciation.

€'000

Provider		Amount
Italian government	Fiscally-driven depreciation (article 50 DL no. 34/2020)	31
ESA (European Space Agency)	Grants related to assets	82
Total		**113**

40 Events after the reporting date

- On 10 January 2022, as part of the HS/HC Third Giovi Pass section, the work on Phase B.2.2 of the Tortona junction on the tradition Alessandria - Piacenza line was completed and placed in service.
- On 25 January 2022, the extraordinary commissioner in charge of the anti-seismic works to secure the A24 and A25 motorways, Maurizio Gentile, and the extraordinary commissioner in charge of securing the Gran Sasso water system, Corrado Gisonni, signed a contract with Italferr for the coordination of the technical activities to secure the Gran Sasso tunnel.

41 Proposed allocation of the profit for the year

The company's financial statements as at and for the year ended 31 December 2021 show a profit for the year of €45,130,186.

We propose:

- distributing a dividend of €45,125,666, or €3.181 to each of the 14,186 shares;
- allocating the residual profit for the year, equal to €4,520, to the extraordinary reserve.

Rome, 4 March 2022

Chairman

Chief Executive Officer