SALCEF GROUP S.p.A.

CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED

31 DECEMBER 2019

BALANCE SHEET		31.12.2019		31.12.2018
ASSETS				
A) SHARE CAPITAL PROCEEDS TO BE RECEIVED	**€.**	**-**	**€.**	**-**
B) FIXED ASSETS				
I. Intangible fixed assets				
1) Start-up and capital costs	€.	4,835,531	€.	39,920
3) Industrial patents and intellectual property rights	€.	419,082	€.	341,993
4) Concessions, licences and trademarks	€.	42,843	€.	-
5) Goodwill	€.	10,744,006	€.	1,887,727
6) Assets under development and payments on account	€.	2,237,449	€.	2,698,600
7) Other	€.	1,371,465	€.	309,953
Total	**€.**	**19,650,376**	**€.**	**5,278,193**
II. Tangible fixed assets				
1) Land and buildings	€.	11,276,184	€.	7,872,813
2) Plant and machinery	€.	48,688,254	€.	34,212,556
3) Industrial and commercial equipment	€.	1,204,776	€.	1,733,843
4) Other assets	€.	2,614,716	€.	1,504,580
5) Assets under construction and payments on account	€.	9,600,202	€.	12,666,654
Total	**€.**	**73,384,132**	**€.**	**57,990,446**
III. Financial fixed assets				
1) Equity investments in:				
a) Subsidiaries	€.	255,713	€.	255,713
b) Associates	€.	37,668	€.	37,668
d-bis) Other	€.	2,120	€.	2,120
Total	€.	295,501	€.	295,501
2) Financial receivables				
b) From associates				
- due within one year	*€.*	*678,465*	*€.*	*653,465*
- due after one year	*€.*	-	*€.*	-
Total from associates	€.	678,465	€.	653,465
d-bis) From others				
- due within one year	*€.*	*105,000*	*€.*	*132,379*
- due after one year	*€.*	*517,253*	*€.*	*227,724*
Total from others	€.	622,253	€.	360,103
Total	€.	1,300,718	€.	1,013,568
3) Other securities	€.	750	€.	750
Total	**€.**	**1,596,969**	**€.**	**1,309,819**
TOTAL FIXED ASSETS (B)	**€.**	**94,631,477**	**€.**	**64,578,458**

BALANCE SHEET		31.12.2019		31.12.2018
C) CURRENT ASSETS				
I. Inventory				
1) Raw materials, consumables and supplies	€.	4,637,373	€.	3,201,658
2) Work in progress and semi-finished products	€.	6,245,746	€.	4,209,839
3) Contract work in progress	€.	100,386,163	€.	96,787,470
4) Finished goods	€.	-	€.	7,575
Total	**€.**	**111,269,282**	**€.**	**104,206,542**
II. Receivables				
1) Trade receivables				
- due within one year	*€.*	*69,057,638*	*€.*	*68,038,601*
- due after one year	*€.*	*12,759,055*	*€.*	*11,827,228*
Total trade receivables	€.	81,816,693	€.	79,865,829
2) From subsidiaries	€.	2,778,238	€.	4,524,090
3) From associates	€.	373,805	€.	372,231
4) From parents	€.	12,050	€.	-
5-bis) Tax receivables	€.	17,005,670	€.	13,118,533
5-ter) Deferred tax assets	€.	3,582,267	€.	2,368,269
5-quater) From others	€.	7,702,235	€.	7,064,798
Total	**€.**	**113,270,958**	**€.**	**107,313,750**
III. Current financial assets				
6) Other securities	€.	23,842,420	€.	-
Total	**€.**	**23,842,420**	**€.**	**-**
IV. Liquid funds				
1) Bank and postal accounts	€.	82,133,774	€.	41,283,705
3) Cash-in-hand and cash equivalents	€.	25,426	€.	48,473
Total	**€.**	**82,159,200**	**€.**	**41,332,178**
TOTAL CURRENT ASSETS (C)	**€.**	**330,541,860**	**€.**	**252,852,470**
D) PREPAYMENTS AND ACCRUED INCOME	**€.**	**4,699,883**	**€.**	**5,240,864**
TOTAL ASSETS	**€.**	**429,873,220**	**€.**	**322,671,792**

BALANCE SHEET		31.12.2019		31.12.2018
LIABILITIES				
A) NET EQUITY				
I. Share capital	€.	60,000,000	€.	200,000
II. Share premium reserve	€.	-	€.	-
III. Revaluation reserves				
- Revaluation reserve as per Law no. 342/2000	*€.*	*9,857,760*	*€.*	*9,857,760*
- Revaluation reserve as per Law no. 266/2005	*€.*	*16,542,092*	*€.*	*16,542,092*
- Revaluation reserve as per Law no. 2/2009	*€.*	*1,660,482*	*€.*	*1,660,482*
Total	€.	28,060,334	€.	28,060,334
IV. Legal reserve	€.	84,680	€.	111,083
V. Statutory reserve	€.	-	€.	-
VI. Other reserves				
- Extraordinary reserve	*€.*	*13,460,402*	*€.*	*43,101,317*
- Goodwill	*€.*	*45,167,092*	*€.*	*-*
- Reserve for exchange gains	*€.*	*-*	*€.*	*1,029,352*
- Consolidation reserve	*€.*	*8,240,843*	*€.*	*8,240,843*
- Translation reserve	*(€.*	*3,707,641)*	*(€.*	*5,222,793)*
Total	€.	63,160,696	€.	47,148,719
VII. Hedging reserve	(€.	11,799)	(€.	24,781)
VIII. Retained earnings	€.	61,633,171	€.	32,620,144
IX. Net profit for the year	€.	38,407,809	€.	29,378,989
X. Reserve for own shares	€.	-	€.	-
TOTAL NET EQUITY ATTRIBUTABLE TO THE GROUP	**€.**	**251,334,891**	**€.**	**137,494,488**
XI. Share capital and reserves attributable to minority interests	*€.*	-	*€.*	-
XII. Net profit (loss) for the year attributable to minority interests	*€.*	-	*€.*	-
TOTAL NET EQUITY ATTRIBUTABLE TO MINORITY INTERESTS	€.	-	€.	-
TOTAL NET EQUITY (A)	**€.**	**251,334,891**	**€.**	**137,494,488**
B) PROVISIONS FOR RISKS AND CHARGES				
2) Tax provision, including deferred tax liabilities	€.	941,311	€.	750,000
3) Derivatives	€.	15,525	€.	32,606
4) Other provisions	€.	3,473,097	€.	1,163,176
TOTAL PROVISIONS FOR RISKS AND CHARGES (B)	**€.**	**4,429,933**	**€.**	**1,945,782**
C) EMPLOYEES' LEAVING ENTITLEMENT	**€.**	**863,311**	**€.**	**947,979**
D) PAYABLES				
4) Bank loans and borrowings				
- due within one year	*€.*	*31,302,026*	*€.*	*20,113,896*
- due after one year	*€.*	*17,753,820*	*€.*	*23,445,571*
Total bank loans and borrowings	€.	49,055,846	€.	43,559,467
5) Loans and borrowings from other financial backers	€.	1,064,033	€.	-
6) Payments on account	€.	6,899,615	€.	6,069,056
7) Trade payables	€.	90,305,065	€.	107,499,172
9) Payables to subsidiaries	€.	715,125	€.	143,918
10) Payables to associates	€.	2,862,641	€.	1,022,647
12) Tax payables	€.	3,319,427	€.	10,455,970
13) Social security charges payable	€.	2,512,614	€.	2,284,344
14) Other payables	€.	16,430,086	€.	11,219,504
TOTAL PAYABLES (D)	**€.**	**173,164,452**	**€.**	**182,254,078**
E) ACCRUED EXPENSES AND DEFERRED INCOME	**€.**	**80,633**	**€.**	**29,465**
TOTAL LIABILITIES	**€.**	**429,873,220**	**€.**	**322,671,792**

PROFIT AND LOSS ACCOUNT		2019		2018
A) PRODUCTION REVENUES				
1) Turnover from sales and services	€.	291,256,061	€.	312,315,187
2) Change in work in progress, semi-finished products and finished goods	€.	2,042,243	€.	1,791,429
3) Change in contract work in progress	(€.	2,336,452)	(€.	9,253,244)
4) Internal work capitalised	€.	15,868,038	€.	12,756,998
5) Other revenues and income	€.	4,368,299	€.	1,429,637
TOTAL PRODUCTION REVENUES (A)	**€.**	**311,198,189**	**€.**	**319,040,007**
B) PRODUCTION COST				
6) Raw materials, consumables, supplies and goods	€.	63,617,899	€.	57,070,034
7) Services	€.	111,525,354	€.	135,355,556
8) Use of third party assets	€.	7,830,400	€.	8,545,588
9) Personnel expenses:				
a) wages and salaries	*€.*	*40,158,595*	*€.*	*37,088,930*
b) social security contributions	*€.*	*13,108,701*	*€.*	*12,665,340*
c) employees' leaving entitlement	*€.*	*1,993,755*	*€.*	*1,945,157*
d) other costs	*€.*	*267,823*	*€.*	*89,869*
Total	€.	55,528,874	€.	51,789,296
10) Amortisation, depreciation and write-downs:				
a) amortisation of intangible fixed assets	*€.*	*3,052,678*	*€.*	*1,051,169*
b) depreciation of tangible fixed assets	*€.*	*11,077,311*	*€.*	*10,284,787*
c) write-downs of fixed assets	*€.*	*1,031,894*	*€.*	-
d) write-downs of current receivables and liquid funds	*€.*	*386,000*	*€.*	*3,553,700*
Total	€.	15,547,883	€.	14,889,656
11) Change in raw materials, consumables, supplies and goods	(€.	1,421,804)	€.	14,739
12) Provisions for risks	€.	20,000	€.	495,386
14) Other operating costs	€.	2,085,886	€.	1,695,741
TOTAL PRODUCTION COST (B)	**€.**	**254,734,492**	**€.**	**269,855,996**
OPERATING PROFIT (A-B)	**€.**	**56,463,697**	**€.**	**49,184,011**
C) FINANCIAL INCOME AND CHARGES				
15) Income from equity investments				
b) in associates	*€.*	*5,118*	*€.*	-
Total	€.	5,118	€.	-
16) Other financial income				
b) from securities classified as fixed assets which are not equity investments	*€.*	-	*€.*	*56,882*
c) from securities classified as current assets which are not equity investments	*€.*	*332,956*	*€.*	-
d) other income	*€.*	*108,131*	*€.*	*201,296*
Total	€.	441,087	€.	258,178
17) Interest and other financial charges	(€.	1,272,870)	(€.	3,369,814)
17-bis) Exchange rate gains and losses				
- exchange rate gains	*€.*	*592,402*	*€.*	*322,215*
- exchange rate losses	*(€.*	*805,097)*	*(€.*	*1,034,672)*
Net exchange rate losses	(€.	212,695)	(€.	712,457)
NET FINANCIAL CHARGES (C)	**(€.**	**1,039,360)**	**(€.**	**3,824,093)**
D) ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES				
18) Write-backs				
d) derivatives	*€.*	-	*€.*	*84,310*
Total	€.	-	€.	84,310
19) Write-downs				
a) equity investments	*€.*	-	*(€.*	*188,624)*
b) financial fixed assets which are not equity investments	*€.*	-	*(€.*	*178,192)*
Total	€.	-	(€.	366,816)
TOTAL ADJUSTMENTS (D)	**€.**	**-**	**(€.**	**282,506)**
PROFIT BEFORE TAXES (A-B+-C+-D)	**€.**	**55,424,337**	**€.**	**45,077,412**
20) Income taxes				
a) current	*€.*	*17,112,247*	*€.*	*16,454,552*
b) deferred	*€.*	*44,356*	*(€.*	*1,461,107)*
c) taxes relative to prior years	*(€.*	*140,075)*	*€.*	*704,978*
Total	€.	17,016,528	€.	15,698,423
21) Net profit for the year	**€.**	**38,407,809**	**€.**	**29,378,989**
b) Net profit (loss) for the year attributable to minority interests	€.	-	€.	-
21) Net profit for the year attributable to the group	**€.**	**38,407,809**	**€.**	**29,378,989**

CASH FLOW STATEMENT		2019		2018
A. CASH FLOWS FROM OPERATING ACTIVITIES				
Net profit for the year	€.	38.407.809	€.	29.378.989
Income taxes	€.	17.016.528	€.	15.698.423
Interest expense	€.	889.707	€.	930.719
Dividends	(€.	5.118)	€.	-
Net gains on the sale of assets	(€.	518.399)	(€.	283.925)
1. Profit for the year before income taxes, interest, dividends and gains/losses on sales	**€.**	**55.790.527**	**€.**	**45.724.206**
Adjustments for non-monetary items that did not affect net working capital				
Accruals to provisions	€.	2.345.669	€.	3.784.983
Amortisation and depreciation	€.	14.129.990	€.	11.335.956
Adjustments to derivatives	€.	-	(€.	84.310)
Write-downs for impairment losses	€.	1.417.894	€.	3.920.516
Other adjustments for non-monetary items	(€.	2.581.041)	(€.	641.103)
Total adjustments for non-monetary items	*€.*	*15.312.512*	*€.*	*18.316.042*
2. Cash flows before changes in net working capital	**€.**	**71.103.039**	**€.**	**64.040.248**
Changes in net working capital				
(Increase) Decrease in inventory	(€.	6.232.181)	€.	7.788.732
Increase in receivables	(€.	586.923)	(€.	3.094)
Decrease in trade payables and other payables	(€.	4.016.683)	(€.	5.251.536)
Other changes in net working capital	(€.	2.565.906)	€.	3.327.345
Total changes in net working capital	*(€.*	*13.401.693)*	*€.*	*5.861.447*
3. Cash flows after changes in net working capital	**€.**	**57.701.346**	**€.**	**69.901.695**
Other adjustments				
Net interest paid	(€.	793.888)	(€.	830.568)
Income taxes paid	(€.	25.066.315)	(€.	15.590.687)
Dividends collected	€.	5.118	€.	-
Use of provisions	(€.	1.380.641)	(€.	1.154.690)
Total other adjustments	*(€.*	*27.235.726)*	*(€.*	*17.575.945)*
Cash flows from operating activities (A)	**€.**	**30.465.620**	**€.**	**52.325.750**
B. CASH FLOWS FROM INVESTING ACTIVITIES				
Tangible fixed assets				
Investments	(€.	27.888.070)	(€.	26.359.443)
Disinvestments	€.	942.292	€.	1.913.937
Exchange differences	(€.	38.714)	(€.	30.461)
Intangible fixed assets				
Investments	(€.	17.071.506)	(€.	2.204.852)
Exchange differences	€.	14	€.	-
Financial fixed assets				
Investments	(€.	305.603)	(€.	1.394.660)
Disinvestments	€.	-	€.	-
Current financial assets				
Investments	(€.	23.842.420)	€.	-
Disinvestments	€.	-	€.	65.675
Cash flows used in investing activities (B)	**(€.**	**68.204.007)**	**(€.**	**28.009.804)**
C. CASH FLOWS FROM FINANCING ACTIVITIES				
Third-party funds				
Increase (Decrease) in short-term bank borrowings	€.	3.718.892	(€.	204.861)
New loans	€.	27.330.700	€.	31.000.000
Repayment of loans	(€.	24.584.999)	(€.	30.029.936)
Own funds				
Capital increase against payment	€.	101.648.293	€.	-
Dividends paid	(€.	30.000.000)	(€.	4.700.000)
Exchange differences	€.	452.521	€.	1.434.617
Cash flows from (used in) financing activities (C)	**€.**	**78.565.407**	**(€.**	**2.500.180)**
Increase in liquid funds (A ± B ± C)	€.	40.827.022	€.	21.815.766
Opening liquid funds	**€.**	**41.332.178**	**€.**	**19.516.412**
Closing liquid funds	**€.**	**82.159.200**	**€.**	**41.332.178**

NOTES TO THE

CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED

31 DECEMBER 2019

GENERAL INFORMATION

Salcef Group S.p.A. (the "parent") is a company limited by shares with its registered office in Rome (Italy) in Via di Pietralata 140 that has been active for decades in the railway construction and maintenance sector.

Industrial Stars of Italy 3 S.p.A. ("Indstars 3") merged into Salcef Group S.p.A. on 31 October 2019 and the parent's share capital increased accordingly by €100 million. Following such business combination, Salcef Group S.p.A. was listed on the multi-lateral AIM market managed by the Italian Stock Exchange on 8 November 2019.

This transaction, which is part of the Salcef Group's plan to develop and expand its business, began on 15 April 2019 with the signing of a master agreement with Indstars 3 governing the business combination of the two companies. Indstars 3 was a special-purpose acquisition company ("SPAC") which was listed on the AIM market of the Italian Stock Exchange. It raised €150 million from Italian and foreign investors and was to be merged into a target company. On 11 July 2019, the shareholders of Indstars 3 unanimously approved the business combination with Salcef Group S.p.A., after the shareholders of the latter had, in turn, approved the same on 10 July 2019.

The merger was finalised on 8 November 2019 when the parent began trading financial instruments on the AIM market. The merger took effect from the first day of the statutory year of the merged company, Indstars 3, underway upon the legal effects of the merger. Therefore, the operations of Indstars 3 were included in the financial statements of the merging company, Salcef Group S.p.A., starting from 1 July 2019 (Indstars 3 ends the year at 30 June).

Reference should be made to the directors' report for further information on the business combination.

The consolidated financial statements of the Salcef Group have been prepared in accordance with the provisions of article 2423 and following articles of the Italian Civil Code and Legislative decree no. 127/91, interpreted in the context of and integrated by the reporting standards promulgated by the Italian Accounting Standard Setter (the "OIC"). They consist of a balance sheet, a profit and loss account, a cash flow statement and these notes.

The cash flow statement shows the reasons for increases and decreases in liquid funds during the year and has been prepared under the indirect method, using the layout provided for by OIC 10.

The amounts presented in the balance sheet, profit and loss account and cash flow statement are in Euros, without decimal points, while those disclosed in the notes are expressed in thousands of Euros, except as otherwise specified.

Captions with a nil balance in both the current and previous years have been omitted.

Supplementary disclosures deemed necessary are provided when the information required by specific laws is inadequate to give a true and fair view. Specifically, the following tables are provided in the notes:

- the statement reconciling net equity and net profit for the year of the parent with those of the group;
- the statement of changes in net equity.

Reference should be made to the directors' report that accompanies these consolidated financial statements for information on transactions with unconsolidated subsidiaries, associates, parents, subsidiaries of parents and other related parties.

The post-balance sheet events and total off-balance sheet commitments, guarantees and contingent liabilities are commented on in a specific section of these notes.

Consolidation scope

The group's consolidated financial statements include the financial statements of Salcef Group S.p.A. (the "parent") and the subsidiaries that the parent controls as per article 26 of Legislative decree no. 127/91.

A list of group companies consolidated using the line-by-line method is as follows:

- Salcef S.p.A. single-member company, a wholly-owned subsidiary active in the construction and railway works sector;
- SRT S.r.l. single-member company, a wholly-owned subsidiary that constructs and provides maintenance on rolling stock;
- RECO S.r.l. single-member company, a wholly-owned subsidiary following the acquisition of interests from the previous owners and active in the infrastructure design sector;
- Euro Ferroviaria S.r.l. single-member company, a wholly-owned subsidiary operating in Italy in the construction and maintenance of permanent way systems;
- Overail S.r.l. single-member company, a wholly-owned subsidiary acquired on 27 September 2017 that produces and sells reinforced, vibrated and prestressed concrete railway sleepers, precast slabs in reinforced vibrated concrete for urban transport systems and tunnel segments. In their extraordinary meeting of 4 April 2019, the company's quotaholders decided to change its name from Vianini Industria S.r.l. to Overail S.r.l.;
- H&M Bau GmbH, a wholly-owned subsidiary acquired on 7 October 2018 that operates in the German railway market and specialises in construction and railway superstructures works. The company changed its name to Salcef Bau GmbH on 31 January 2020.
- Coget Impianti S.p.A., a wholly-owned subsidiary acquired on 30 July 2019. Established in 1983, it designs, constructs and provides maintenance of distribution and contact power lines for electrical traction, mainly railway transport.

	REGISTERED OFFICE	CURRENCY	Share/ quota capital	Investment (%)		Consolidation method
				Indirect	Direct	
Subsidiaries						
Euro Ferroviaria S.r.l. single-member company	Rome - Italy	Euro	100,000		100%	Line-by-line
RECO S.r.l. single-member company	Rome - Italy	Euro	100,000		100%	Line-by-line
Salcef S.p.A. single-member company	Rome - Italy	Euro	60,000,000		100%	Line-by-line
SRT S.r.l. single-member company	Rome - Italy	Euro	100,000		100%	Line-by-line
Overail S.r.l. single-member company (*)	Rome - Italy	Euro	100,000		100%	Line-by-line
H&M Bau GmbH	Hellental - Germany	Euro	25,000		100%	Line-by-line
Coget Impianti S.p.A. single-member company	Corteno Golgi (Brescia) - Italy	Euro	1,000,000		100%	Line-by-line
Unconsolidated subsidiaries						
Consorzio Stabile Itaca S.c.ar.l.	Rome - Italy	Euro	40,000	96.06%		Equity
Salcef Polska Sp.Z.o.o.	Warsaw - Poland	Zloty	1,500,000		100%	Equity
Salcef Egypt Construction	Cairo - Egypt	Egyptian pound	500,000		99.98%	Equity
Associates						
Frejus S.c.a.r.l.	Bologna - Italy	Euro	20,000		42.93%	Equity
Sesto Fiorentino S.car.l.	Rome - Italy	Euro	10,000	47.68%		Equity
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	Rome - Italy	Euro	50,000	50.00%		Equity

NOTE:
(*) = formerly Vianini Industria S.r.l. single-member company

During the year, the consolidation scope changed as follows.

Coget Impianti S.p.A. is classified by Ferrovie dello Stato in the specialisation category "Interventions on contact lines for traction and high and medium voltage lines" and has recorded excellent financial figures. Indeed, it doubled its production revenues in 2018 thanks to important contracts in Germany and Austria. With the acquisition of this company, the Salcef Group aims to strengthen its leadership in the railway electrical traction segment and expand into the energy distribution power lines segment. Furthermore, the group can boost its growth in Austria and Germany, begun in 2018 with the acquisition of H&M Bau.

Salcef Polska Sp.Z.o.o. and Salcef Siegwart were excluded from the consolidation scope given their immateriality for the purposes of the true and fair view of the group's financial position, financial performance and cash flows. Similarly, Consorzio Stabile Itaca S.c.ar.l. was not consolidated.

Specifically, Salcef Polska was put into liquidation in August 2019 and Salcef Egypt Construction is no longer operative, while Consorzio Stabile Itaca is not a profit-making entity. In fact, its business object is to be of mutual benefit to its members; therefore, all its costs incurred directly and indirectly in carrying out its activities are recharged to its members in line with their investment percentages, which is why its inclusion in the consolidated financial statements would have been immaterial.

Reporting date of the consolidated financial statements and financial statements to be consolidated

The reporting date of the consolidated financial statements and the financial statements to be consolidated is the same as that of the parent and all of the companies included in the consolidation scope.

Basis of consolidation

The consolidated financial statements were drawn up on the basis of the financial statements of the consolidated companies that have been approved by the share/quotaholders or boards of directors.

The accounting policies adopted to prepare the consolidated financial statements are those used by the parent to prepare its separate financial statements.

Asset and liability items in the group companies' financial statements with names and contents that are the same as or similar to those in the consolidated financial statements where they will be consolidated are measured using the same criteria.

The carrying amounts of the assets, liabilities, costs, revenues and cash flows of subsidiaries directly and indirectly controlled by the parent are consolidated on a line-by-line basis.

Line-by-line consolidation involves the following steps:

- adjustments for alignment with the group accounting policies and any other consolidation adjustments, such as reclassifications;
- combination of the financial statements or financial information to be consolidated, irrespective of the investment percentage. The profit and loss accounts of companies acquired or sold during the year are combined for the period the investment was held by the group;
- elimination of the carrying amount of investments in consolidated companies against the corresponding portion of the group's portion of the subsidiary's net equity at the acquisition date.

  Any positive difference is allocated, where possible, to the acquired identifiable asset to the extent of such asset's present value up to its recoverable amount, and to the assumed identifiable liability, including the related tax effects. Any positive difference not fully allocated to the separately identifiable assets and liabilities acquired is allocated to the intangible fixed assets caption Goodwill, unless it must be expensed in full or in part. The remaining difference is only allocated to goodwill if all the requirements for recognition as such are met under the relevant accounting standards.

  Any residual amount that cannot be allocated to the assets and liabilities or goodwill is expensed under Other operating costs.

  Where possible, any negative differences are recognised as a decrease in assets recognised at higher carrying amounts than their recoverable amounts and liabilities recognised at lower carrying amounts than their settlement amounts, net of the related tax effect. If it cannot be attributed to forecast losses but, rather, to a good deal, any

residual negative difference is recognised in the specific Consolidation reserve under equity.

Any residual unallocated negative difference fully or partly related to expected losses is recognised under the Provisions for future risks and charges which will be used in future years to reflect the assumptions made upon acquisition irrespective of whether the expected losses actually occur.

Retained earnings and other equity-related reserves of the subsidiaries, as well as any other changes in equity captions of the subsidiaries after the date of acquisition are, to the extent attributable to the group, accounted for as an increase in consolidated net equity, usually in the caption Reserves and retained earnings of consolidated companies, except for differences arising from exchange rate gains or losses of the foreign investees, which are treated as described below;

- elimination of the balances and transactions between consolidated companies and internal or intragroup profits or losses, if significant;
- recognition of any deferred tax assets and/or liabilities;
- elimination of dividends received from the consolidated companies and the write-downs of equity investments in the consolidated companies, so that they are not counted twice;
- reclassification of shares of the parent held by consolidated companies to caption A)X Reserve for own shares;
- calculation of minority interests in consolidated net equity and net profit or loss for the year, which are shown separately in the consolidated financial statements;
- measurement of unconsolidated control investments in associates and entities under common control using the equity method;
- analysis and correct representation of the acquisition of additional investments in already consolidated companies and the sale of investment with or without loss of control, as well as other changes to the consolidation scope;
- preparation of the consolidated financial statements.

BASIS OF PREPARATION

The consolidated financial statements captions have been measured in accordance with the general principles of prudence and accruals on a going-concern basis. Captions have been recognised and presented in accordance with the substance over form principle, if in compliance with the Italian Civil Code and the OIC. In addition, the same accounting policies were applied as in previous years for the purposes of materiality and comparability.

Accordingly:

- The group measures the individual assets and liabilities separately, in order to avoid offsetting profits on certain items against losses on other items. Specifically, the group recognises profits only if realised before the reporting date, whereas it considers risks and losses on an accruals basis, even when they become known after the reporting date.
- The group recognises income and charges on an accruals basis regardless of their collection or settlement date. Accruals-based accounting affects the timing with which income and expense are taken to profit or loss in order to determine the net profit or loss for the year.
- The directors performed a forward-looking assessment of the group's ability to operate a business that will generate profits for the foreseeable future, or at least twelve months from the reporting date. The assessment showed that there are no significant uncertainties with respect to the group's ability to continue as a going concern.
- Identifying rights, obligations and conditions of transactions was based on their contractual terms and conditions and by comparing them with the accounting standards to check that the balance sheet and profit and loss account items were correctly recognised or derecognised.
- The accounting policies are the same as those applied in the previous year in order to measure the group's results consistently over time.

  No exceptional events took place during the year, which would have led the group to depart from the accounting policies, as permitted by article 29.4 of Legislative decree no. 127/91, in order to give a true and fair view of its financial position and results of operations. Moreover, the group did not make any revaluations under specific laws.
- The materiality of the individual items comprising financial statements captions was assessed in the overall context of the consolidated financial statements. Both qualitative and quantitative elements were considered in quantifying materiality.

  Under the principle of materiality set out in article 29.3-bis of Legislative decree no. 127/91, these notes do not include disclosures on the financial statements captions whose amount or related disclosure are immaterial for the purposes of giving a true and fair view of the group's financial position, results of operations and cash flows, including those specifically required by article 38 of Legislative decree no. 127/91 or other provisions.
- Each balance sheet, profit and loss account and cash flow statement caption presents the corresponding figures of the previous year. Where necessary, the latter are adjusted for comparative purposes and the related effects are disclosed in the notes, if material.

ACCOUNTING POLICIES

Intangible fixed assets

Intangible fixed assets are recognised at acquisition cost, with the prior consent of the board of statutory auditors, where required. They are stated net of accumulated amortisation and any impairment losses. The acquisition cost includes the related transaction costs.

Deferred charges, which include start-up and capital costs, are recognised when their income generating potential is demonstrated, the related future economic benefits flowing to the group can be objectively matched thereto and their recovery can be reasonably estimated.

Intangible fixed assets, comprising patents, intellectual property rights and licences, are recognised as assets only if they can be identified individually, the related future economic benefits will flow to the company that recognises them, which can limit third-party access to such benefits, and their cost can be estimated with sufficient reliability.

Goodwill is recognised as an asset only if acquired against consideration, may be quantified, originates from charges and costs with a long-term useful life which ensure future economic benefits and can, therefore, be recovered.

Leasehold improvements are recognised under other intangible fixed assets when they cannot be separated from the related assets, otherwise they are recognised under the relevant tangible fixed assets captions.

Payments on account to suppliers for intangible fixed assets are recognised when the related payments are due. Assets under development are recognised when the initial costs to develop the asset are incurred and they include the related internal and external costs.

Intangible fixed assets are amortised systematically and the amortisation expensed each year reflects the allocation of the cost incurred over their entire useful life. Amortisation begins when the asset is available for use. The amortisation pattern depends on how the benefits are expected to flow to the group.

Intangible fixed assets are amortised on a straight-line basis, as follows:

- Start-up and capital costs are amortised over five years.
- Intangible fixed assets (patents, intellectual property rights, concessions, licences and trademarks) are amortised over the shorter of the legal or contractual term and their residual useful life. Costs capitalised following the purchase and implementation of accounting software are amortised over three years based on the licence term.
- Goodwill is amortised systematically over its useful life, i.e., the period of time within which the related economic benefits will probably arise which, in any case, cannot exceed twenty years. Specifically, goodwill is amortised systematically over ten years, considering the assessments made of the actual residual useful life of business units

acquired and calculated on the basis of estimated future income.

- Other - leasehold improvements are amortised over the shorter of their useful life and the residual lease term, considering any renewal period, if at the group's option.

Assets under development are not amortised. The amortisation process begins when these assets are reclassified to their relevant intangible fixed asset caption.

Tangible fixed assets

Tangible fixed assets are recognised at purchase or production cost, adjusted by accumulated depreciation and write-downs. The purchase cost is the cost actually incurred to purchase the asset and includes the related transaction costs. The production cost includes all directly attributable charges and the reasonably attributable portion of other costs incurred from production up to when the asset is available for use.

Ordinary maintenance costs related to recurring maintenance and repairs to keep assets in good working order to ensure their expected useful life, capacity and original productivity, are expensed when incurred.

Extraordinary maintenance costs incurred to expand, modernise, replace or improve an asset are capitalised within the limits of its recoverable amount if they result in a significant and measurable increase in its production capacity, safety or useful life.

Depreciation is calculated systematically and on a straight-line basis, using rates held to reflect the asset's estimated useful life. It begins when the asset becomes available for use.

In accordance with the principle of materiality set out in article 2423.4 of the Italian Civil Code and the applicable reporting standard, the depreciation rates are halved in the first year in which the asset is available for use.

Land is not depreciated. If the carrying amount of the building also includes the underlying land, the carrying amount of the building is separated for depreciation purposes.

The amount to be depreciated is the difference between the cost of the asset and, when it can be calculated, the residual amount at the end of its useful life which is estimated when the depreciation plan is prepared and periodically revised in order to check that the initial estimate is still valid. When the check shows that an asset's estimated residual value is equal to or higher than its carrying amount, the asset is no longer depreciated.

The average depreciation rates applied are as follows:

Average rate	
Industrial buildings	3%
Plant and equipment	15%
Industrial and commercial equipment	30%
Other assets	20%

Assets under finance leases are recognised in the balance sheet assets if and when the purchase option is exercised. During the lease term, the lease payments are recognised in the profit and loss account as production costs on an accruals basis. The notes disclose the effects that would have affected the financial statements captions, net equity and the net profit (loss) for the year had the "financial method" (IAS 17) been applied.

Tangible fixed assets are revalued, to the extent of their recoverable amount, only if the law requires or permits so. Pursuant to Laws no. 324 of 21 November 2000, no. 266 of 23 December 2005 and no. 2 of 28 January 2009, certain categories of assets were revalued in previous years.

Write-downs for impairment losses on tangible and intangible fixed assets

If, at the reporting date, there are indications of impairment losses on tangible and intangible fixed assets, the recoverable amount of such assets is estimated.

If the recoverable amount, being the higher of value in use and fair value less costs to sell, is lower than the corresponding carrying amount, the assets are written down.

When the recoverable amount of an asset cannot be estimated, it is tested for impairment at cash-generating unit ("CGU") level, that is, the lowest identifiable level for assets, which includes the assets to be measured and generates cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets.

Fair value is determined based on the price agreed in a binding sales agreement in an orderly transaction, or as market price on an active market. If there is no binding sales agreement or an active market, fair value is determined on the basis of the best available information such to reflect the amount the group could obtain, at the reporting date, from the sale of the asset in an orderly transaction between knowledgeable and willing parties. In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry.

Costs of disposal are subtracted from fair value in the calculation of the recoverable amount.

If an impairment loss is identified, it is firstly recognised as a decrease in goodwill, if any, and then in the other assets proportionally to their carrying amount.

The write-down is not maintained in subsequent years if the reasons therefor cease to exist. The write-down is reversed up to the amount the asset would have had if the write-down had never taken place, that is, net of the amortisation/depreciation that would have been recognised in the absence of the write-down. Write-downs of goodwill and deferred charges cannot be reversed.

No indicators of impairment of intangible and tangible fixed assets as per OIC 9 were identified at the reporting date. Therefore, the group did not calculate their recoverable amount or write them down.

Financial fixed assets

Equity investments and debt instruments which the group intends and has the capacity to hold in the long term are recognised under financial fixed assets. Otherwise, they are recognised under current assets. Transfers in or out of the two categories are recognised in accordance with the accounting policies applicable to the portfolio which the asset comes from.

Receivables are recognised under fixed or current assets depending on their intended use in relation to the group's ordinary activities that generate them. Accordingly, financial receivables are recognised under financial fixed assets, whereas trade receivables are recognised under current assets, regardless of their due date. They are measured as detailed below.

Equity investments

Investments in unconsolidated subsidiaries and associates are measured using the equity method.

Equity-accounted investments are initially recognised at acquisition cost, including the related transaction costs, which comprise bank and financial brokerage charges, i.e., commissions, costs and taxes.

Upon initial recognition, the acquisition cost of an equity investment is compared to the relevant share of the investee's net equity at the acquisition date or, alternatively, that resulting from its most recent financial statements.

If an initial positive difference is identified which can be attributed to higher carrying amounts of the investee's assets, measured at present value, or to goodwill, the investment is recognised at acquisition cost, including the initial positive difference. Otherwise, the investment is impaired and the write-down is recognised as a write-down of equity investments in the profit and loss account.

If an initial negative difference is identified which can be attributed to a good deal, the investment is recognised at the investee's higher net equity, adjusted compared to its cost, recognising an undistributable reserve in net equity as a balancing entry. Should the initial negative difference be attributable to assets recognised at higher carrying amounts than their recoverable amounts, liabilities recognised at lower carrying amounts than their settlement amounts or forecast losses, the investment is initially recognised at acquisition cost and the difference is recorded off-the-books as a provision for future risks and charges. The group will use this provision in future years to adjust the investee's net profits or losses, in order to reflect the assumptions made upon acquisition.

For equity accounting purposes, the group used the financial statements at 31 December 2018 approved by the investees' share/quotaholders, or the draft financial statements formally prepared by the investees' boards of directors, if the share/quotaholders' meetings called to approve the financial statements have not yet been held.

The net profit or loss for the year and net equity shown in an investee's financial statements are subject to the same adjustments required for consolidation purposes. The group's share of an investee's adjusted net profit or loss increases or decreases the carrying amount of the investment, with a balancing entry in the profit and loss account. Dividends received reduce the investment's carrying amount. Changes in the investee's net equity that did not affect its net profit or loss for the year increase or decrease its carrying amount and the specific undistributable reserve, without affecting the group's profit and loss account. If, as a result of net losses, the carrying amount of an investment becomes negative, it is written off and, should the group be legally or otherwise bound to support its investee, the losses exceeding the write-off are recognised in the provisions for risks and charges.

If any impairment losses are identified, the investment is written down, even when the resulting carrying amount is lower than the amount arising from equity accounting.

Other investments are initially recognised at acquisition or incorporation cost, including the related transaction costs. The latter comprise costs that are directly attributable to the transaction such as, for example, bank and financial brokerage fees, commissions, expenses and taxes.

The carrying amount of investments rises as a result of capital increases against consideration or the group's waivers of repayment of receivables from the investees. Any bonus issue does not increase the investments' carrying amount.

They are written down for impairment, when their carrying amount decreases to below their recoverable amount at the reporting date. The recoverable amount is calculated based on the economic benefits the group expects to receive from the investment. They are written down to the extent of the carrying amount. If the group has an obligation to cover an investee's losses, it sets up a provision under liabilities to cover its share of the investee's deficit.

Equity investments are written back up to their original cost if the reasons for the write-downs cease to exist.

Inventory

Inventory is initially recognised at purchase or production cost and subsequently measured at the lower of cost and estimated realisable value based on market trends.

Purchase cost is the actual cost paid upon purchase including related charges. The purchase cost of materials includes their price, transport costs, customs and other duties and other directly attributable costs. Returns, commercial discounts, rebates and bonuses are deducted from costs.

Production cost includes all direct costs and the reasonably attributable portion of indirect costs incurred from production up to when the asset is available for use, based on normal production capacity. Production cost excludes general and administrative costs, distribution costs and research and development costs.

The group has adopted the weighted average cost model.

The estimated realisable value based on market trends is the estimate of ordinary sales prices of goods and finished products, net of estimated completion costs and direct sales costs. Obsolescence and turnover are also taken into account in calculating the estimated realisable value based on market trends.

Raw materials and supplies used in manufacturing finished goods are not written down if the realisable value of such goods is expected to be equal to or higher than their production cost. Moreover, should the price of raw materials and supplies decrease and the cost of finished goods exceed their realisable value, the raw materials and supplies are written down to their net realisable value, assumed to be the best estimate of their market price.

Therefore, inventory items whose estimated realisable value based on market trends is lower than their carrying amount are written down.

Should the reasons for the write-down applied as an adjustment to the realisable value based on market trends cease to exist, in whole or in part, the write-down is reversed to the extent of the originally incurred cost.

Contract work in progress

If the group has a binding agreement with the counterparty and is able to measure the contract profit or loss reliably, contract work in progress is recognised based on the stage of completion (or percentage of completion), whereby contract costs, revenues and profits or losses are recognised on the basis of the work performed. The group measures the percentage of completion using the physical measurement approach.

This method reflects the best estimate of work performed at the reporting date. The underlying estimates are updated regularly. Any resulting profits or losses are recognised in the profit and loss account when the update is made.

Contract revenues include all contractual consideration, as well as approved variations to work, price escalation clauses, claims and incentives to the extent they can be determined reliably and their collection is reasonably certain.

Contract costs include all costs directly attributable to the contract, indirect costs attributable to the entire production process and attributable to the contract, as well as any other costs that may be specifically charged to the customers under the contract terms.

Contract costs also include pre-operating costs, i.e., those costs incurred in the initial stage of the contract before the contract work or production process begins, and those to be incurred after the completion of the contract.

If the group is unable to determine the outcome of a contract reliably, its carrying amount is calculated on the basis of the costs incurred, if their recovery is reasonably certain and, therefore, without recognising any profit.

The group recognises the consideration to which it is definitively entitled as revenue, while it recognises the change in

contract work in progress, which is the difference between the opening and closing inventory for work carried out and not yet definitively settled, in the specific profit and loss account caption. Accrued revenues are recognised only when the group is certain that it will collect them as consideration for the work carried out. In the case of progress billings, since advances and payments on account are financial transactions, they do not affect revenue recognition and are always recognised as liabilities as they are not necessarily calculated on the basis of work carried out. Upon final billing, the group reverses the relevant amount of advances and payments on account from liabilities.

When the total estimated costs of an individual contract are likely to exceed total estimated revenues, the contract is measured at cost and the probable loss to complete the contract is recognised as a decrease in contract work in progress when it is forecast, based on an objective and reasonable assessment of the existing circumstances and regardless of the contract's stage of completion. If the loss exceeds the carrying amount of contract work in progress, the difference is accrued in a provision for risks and charges.

Receivables

Receivables are rights to receive fixed or determinable amounts of cash or its equivalent, or goods/services of an equivalent amount, from customers or other third parties at identified or identifiable due dates.

Receivables arising from the sale of goods and supply of services are recognised in accordance with the requirements set out in the section on revenues. Receivables arising for other reasons are recognised if they result in a right to a receivable, i.e., if they actually give rise to a third party obligation to the group.

Receivables are recognised at amortised cost, considering the time value of money and their estimated realisable value.

The amortised cost method is not applied when its effects are not significant, which is usually the case for current receivables or when transaction costs, commissions paid between the parties and any other difference between the original and recoverable amounts at the due date are insignificant. Furthermore, pursuant to article 12.2 of Legislative decree no. 139/2015, the group opted not to recognise receivables arising before 1 January 2016 at amortised cost and did not discount them. In this case, receivables are initially recognised at their nominal amount, net of bonuses, discounts and allowances contractually provided for or, in any case, granted. They are subsequently measured at their nominal amount plus interest calculated at the nominal interest rate, reduced by principal and interest collected and net of estimated write-downs and expected credit losses recognised to adjust their carrying amount to their estimated realisable value. Cash discounts and allowances, that were not included in the calculation of the estimated realisable value as they could not be determined when the receivable was originally recognised, are recognised upon collection as financial charges.

When the group recognises receivables at amortised cost, their carrying amount at initial recognition is their nominal amount, unless discounting is necessary, as described later on, net of any bonuses, discounts and allowances, as well as any directly attributable transaction costs. The amortised cost calculation using the effective interest method includes transaction costs, commissions and any difference between the initial carrying amount and the nominal amount at their due date. The effective interest rate is calculated upon initial recognition and maintained for subsequent measurements, except when variable rates indexed to market rates have been contractually agreed. At each reporting date, the carrying amount of receivables measured at amortised cost is the present value of future cash flows, less impairment losses recognised to bring them into line with their estimated realisable value, discounted using the effective interest rate. Cash discounts and allowances that were not included in the calculation of the amortised cost as they could not be determined when the receivable was originally recognised, are recognised upon collection as financial charges.

Trade receivables due after one year upon initial recognition that do not bear interest or bear contractual interest at rates that significantly differ from market rates are initially recognised at their present value by discounting future cash flows using market interest rates. The difference between the carrying amount at initial recognition and the terminal value is recognised in the profit and loss account as interest income over the receivable's life, using the effective interest method. With regard to loans and borrowings, the group recognises the difference between the cash received and the present value of future cash flows calculated using the market rate as financial income or charges upon initial recognition, except when the transaction's or contract's substance requires its allocation to another caption and a different accounting treatment.

The group recognises these receivables at their estimated realisable value by writing down their carrying amount through the provision for bad debts, in order to provide for any risk of impairment. To this end, the group considers specific indicators based on past trends and any other useful information about a probable impairment. The write-downs are estimated on an individual basis for significant receivables and collectively for the others, by calculating the expected impairment losses at the reporting date. The amount of the impairment loss on receivables measured at amortised cost is the difference between their carrying amount and the estimated present value of future cash flows discounted using the receivables' original effective interest rate, net of any expected irrecoverable amounts.

Receivables are derecognised when the contractual rights to the cash flows from the receivable are extinguished or title thereto is transferred along with nearly all the related risks. To verify transfer of the risks, the group considers all the contractual clauses.

When the above-mentioned conditions are met and the receivable is derecognised, any difference between the amount

collected and the receivable's carrying amount is recognised as an impairment loss in the profit and loss account, unless another classification, including financial, may be identified based on the transfer agreement.

The receivables that are transferred without substantially transferring all the risks are not derecognised and are treated as mentioned above. Any advance on the agreed consideration received from the transferee is recognised as a financial liability in the balance sheet.

Current financial assets

Debt instruments

Debt instruments are initially recognised at acquisition or subscription cost, including the related transaction costs, calculated using the amortised cost method, and are subsequently measured at the lower of amortised cost and estimated realisable value based on market trends.

The amortised cost method is not applied when its effects are insignificant with respect to the amount determined using the rules set for companies that prepare financial statements in condensed format pursuant to article 2435-bis of the Italian Civil Code. In general, the effects are insignificant when:

- the debt instruments are expected to be held in the long term but the transaction costs, commissions paid between the parties and any other difference between the original and recoverable amounts at the due date are insignificant; or
- they are expected to be held in portfolio for less than 12 months.

As the group availed of this option, debt instruments are recognised at purchase or subscription cost, including the related transaction costs. The latter comprise bank and financial brokerage fees, commissions, expenses and stamp duties.

The cost does not include interest accrued at the purchase date, which shall be recognised as such. In other words, the cost of a fixed income listed security is its clean price (the principal value only).

Derivatives

A derivative is a financial instrument or other contract with all three of the following characteristics:

a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the underlying);

b) it requires no initial net investment or an initial net investment that is smaller than that required for other types of contracts that would be expected to have a similar response to changes in market factors;

c) it will be settled in the future.

Goods purchase and sale contracts that give either party the right to settle the contract in cash or using other financial instruments are also considered derivatives, except when all of the following conditions apply:

a) the contract was agreed and is maintained to satisfy the needs of purchases, sales or use of goods;

b) they have had that purpose since when they were entered into;

c) their expected performance is the delivery of the non-financial item.

The group recognises a derivative when it becomes party to its contractual provisions, i.e., when it signs the contract and is, therefore, subject to its rights and obligations. It recognises derivatives, including embedded derivatives, at fair value.

Derivatives embedded in hybrid contracts are separated from the non-derivative host and recognised separately if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative provided for in OIC 32. The group assesses whether it is required to separate an embedded derivative and recognise it separately only at the hybrid instrument's initial recognition or at the date when its contractual clauses are amended.

At each reporting date, the group measures derivatives at fair value and presents them in the specific balance sheet captions as current or fixed (in the case of hedges of fixed assets or liabilities due after one year) assets, if their fair value is positive or under provisions for risks and charges, if their fair value is negative.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The group measures the fair value of unlisted derivatives using adequate valuation techniques and the assumptions, parameters and fair value hierarchy levels required by the relevant OIC.

Fair value gains or losses on derivatives that do not meet the hedge accounting requirements are recognised in the specific profit and loss account captions.

Hedge accounting

A derivative qualifies for hedge accounting if all of the following criteria are met:

a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items;

b) at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge;

c) the hedging relationship meets the qualitative and quantitative hedge effectiveness requirements.

Therefore, if the group uses derivatives as hedges from a management perspective but the hedging relationship does not

fully meet hedge accounting requirements, it recognises them based on the general treatment described earlier.

The hedge effectiveness is documented at initial recognition and also on an ongoing basis. At each reporting date, the group assesses whether the hedging relationship is still effective.

If all the requirements mentioned above are met, hedging relationships may be accounted for using the following models.

Fair value hedges

If a derivative is designated as a hedge of the exposure to changes in fair value of a recognised asset or liability or a firm commitment that is attributable to a particular risk and could affect the net profit or loss, the gain or loss on both the hedging instrument and the hedged item attributable to the hedged risk is recognised in the specific profit and loss account caption, to the extent that the gain or loss on the hedged item does not exceed the fair value gain or loss of the hedging instrument. Any surplus is recognised in the profit and loss account caption affected by the hedged item. As a waiver of the OIC, the fair value gain or loss attributable to the hedged risk adjusts the carrying amount of the hedged item in the balance sheet to the extent, for assets, of their recoverable amount.

Cash flow hedges

If a derivative is designated as a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, a firm commitment or a highly probable forecast transaction and could affect the net profit or loss, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in the specific net equity reserve, whereas the ineffective portion of the gain or loss on the hedging instrument is recognised in the profit and loss account.

The gains or losses accumulated in the net equity reserve are reclassified to the profit and loss account in the year or over the years during which the hedged future cash flows affect the net profit or loss. If a firm commitment or a highly probable forecast transaction subsequently results in the recognition of a non-financial asset or liability, the associated gains or losses that were recognised in the specific reserve are reclassified from net equity to the carrying amount of the asset (to the extent of its recoverable amount) or liability upon its recognition.

When the group discontinues hedge accounting for a cash flow hedge, but the hedged future cash flows are still expected to occur, the amount that has been accumulated in the reserve remains in net equity until the future cash flows occur. If the hedged future cash flows are no longer expected to occur or the forecast transaction is no longer highly probable, that amount is immediately reclassified from the reserve to the profit and loss account.

The disclosures required by article 2427-bis.1 of the Italian Civil Code on the fair value of derivatives and those required by OIC 32 are provided in a specific section of these notes.

Liquid funds

These are the positive balances of bank and postal accounts and cheques, as well as the cash-in-hand and cash equivalents at year end. Bank and postal account deposits and cheques are recognised at their estimated realisable value, cash and revenue stamps at their nominal amount, while foreign currency is measured at the closing rate.

Prepayments and accrued income and accrued expenses and deferred income

Accrued income and expenses are respectively portions of income and expenses pertaining to the year but that will be collected/paid in subsequent years.

Prepayments and deferred income are respectively portions of expenses and income collected/paid during the year or in previous years but pertaining to one or more subsequent years.

Accordingly, these captions comprise only portions of expenses and income relating to two or more years, whose amount varies on a time or economic accruals basis.

At each year end, the group analyses the conditions underlying their initial recognition and makes any necessary adjustments. Specifically, the balance of accrued income varies not only over time, but also based on its expected realisable value, whereas that of prepayments is based on the existence of future economic benefits matching the deferred costs.

Provisions for risks and charges

Provisions for risks and charges are recognised to cover specific liabilities that are certain or probable, but whose amount or due date is unknown at the reporting date. Specifically, provisions for risks relate to specific liabilities whose occurrence is probable and amount estimated, while provisions for charges relate to specific liabilities, whose occurrence is certain and amount or due date estimated, that arise from obligations already taken on at the reporting date but which will be paid in subsequent years.

Accruals to provisions for risks and charges are primarily recognised in the profit and loss account section to which the transaction relates, privileging the classification of costs by nature. The amount of the accruals to the provisions is based on the best estimate of costs, including the legal expenses, at each reporting date.

If the measurement of the accruals gives a range of values, the accrual represents the best possible estimate between the upper and lower thresholds of the range.

The provisions are subsequently used directly and solely for those costs and liabilities for which they were originally set up. If they are not sufficient or are redundant, the shortfall or surplus is recognised in the profit and loss account in line with the original accrual.

Employees' leaving entitlement

The Italian employees' leaving entitlement (TFR) is the benefit to which employees are entitled in any case of termination of employment pursuant to article 2120 of the Italian Civil Code and considering the changes in legislation introduced by Law no. 296/2006. The overall accrued benefit considers any type of continuous remuneration and is net of any payments on account and partial advances paid by virtue of national or individual labour contracts or group agreements which are not required to be repaid, and net of amounts transferred to supplementary pension funds or to the INPS (the Italian social security institution) treasury fund.

The related liability is the amount that the group would have paid had all employees left at the reporting date. The amount due to employees who had already left the group at the reporting date but that will be paid in the following year is reclassified to payables.

Payables

Payables are specific and certain liabilities that are obligations to pay fixed or determinable sums of cash or its equivalent to financial backers, suppliers or other parties. They are recognised under the various liability captions depending on their nature (or origin) in relation to ordinary operations, irrespective of the timeframe within which they will be settled.

Payables arising from the purchase of goods are recognised when the production process for the goods has been completed and the substantial transfer of title has taken place, with the transfer of risks and benefits being the key parameter. Payables relating to services are recognised once the services have been delivered, i.e., when they have been carried out. Loans and borrowings and payables unrelated to the procurement of goods and services are recognised when the group has an obligation vis-a-vis the counterparty. Payables for advances from customers are recognised when the right to collect the advance arises.

Payables are recognised at amortised cost, considering the time value of money.

The amortised cost method is not applied when its effects are not significant, which is usually the case for current payables or when transaction costs, commissions paid between the parties and any other difference between the original and recoverable amounts at the due date are not significant. Furthermore, pursuant to article 12.2 of Legislative decree no. 139/2015, the group opted not to recognise payables arising before 1 January 2016 at amortised cost and did not discount them. In this case, payables are initially recognised at their nominal amount, net of bonuses, discounts and allowances contractually provided for or, in any case, granted. They are subsequently measured at their nominal amount plus interest calculated at the nominal interest rate, reduced by principal and interest paid. In the event of early settlement, the

difference between the residual outstanding amount and the outlay to settle the obligation is recognised as financial income or charges. Cash discounts and allowances that were not included in the calculation of the carrying amount at initial recognition as they could not be determined when the payable was originally recognised, are recognised upon settlement as financial income.

When the group recognises payables at amortised cost, their carrying amount at initial recognition is their nominal amount, unless discounting is necessary, as described later on, net of bonuses, discounts and allowances, as well as any attributable transaction costs. The amortised cost calculation using the effective interest method includes transaction costs, initial commission income and expense, issue costs, premiums and discounts and any difference between the initial carrying amount and the nominal amount at their due date. The effective interest rate is calculated upon initial recognition and maintained for subsequent measurements, except when variable rates indexed to market rates have been contractually agreed. At each reporting date, the carrying amount of payables measured at amortised cost is the present value of future cash flows discounted using the effective interest rate. In the event of early settlement, the difference between the residual outstanding amount and the outlay to settle the obligation is recognised as financial income or charges. Cash discounts and allowances that were not included in the calculation of the amortised cost as they could not be determined when the payable was originally recognised, are recognised upon settlement as financial income.

Trade payables due after one year upon initial recognition that do not bear interest or bear contractual interest that significantly differs from market rates and the related costs are initially recognised at their present value by discounting future cash flows at market interest rates. The difference between the carrying amount at initial recognition and the terminal value is recognised in the profit and loss account as interest expense over the payable's life, using the effective interest method.

With regard to loans and borrowings, the group recognises the difference between the cash received and the present value of future cash flows calculated using the market rate as financial income or charges upon initial recognition, except when the transaction's or contract's substance requires its allocation to another caption and a different accounting treatment.

Payables are derecognised, in whole or in part, when the relevant contractual and/or legal obligations are extinguished for settlement or other reasons, or are transferred.

Foreign currency transactions, assets and liabilities

Assets and liabilities generated by foreign currency transactions are initially recognised in Euros, applying the transaction-date spot rate between the Euro and foreign currency to the foreign currency amount.

Foreign currency monetary items, including the provisions for risks and charges related to foreign currency liabilities, are translated using the closing spot rates. Any resulting gains or losses are taken to the profit and loss account.

Non-monetary foreign currency assets and liabilities are maintained in the balance sheet at the transaction-date exchange rate. Consequently, any exchange rate gains or losses are not recognised separately.

Any unrealised net exchange rate gain on foreign currency monetary items forms part of the net profit or loss for the year and, when the financial statements and consequent allocation of the net profit or loss for the year are approved, it is recognised in a undistributable reserve. Should the net profit for the year be lower than the unrealised net exchange rate gain, the amount recognised in the undistributable reserve is equal to the net profit for the year.

Revenues and costs

Revenues and income, costs and charges are stated net of returns, allowances, discounts and premiums, as well as taxes directly related to the sale of goods or provision of services, in compliance with the accruals and prudence concepts. Revenues from the sale of goods are recognised when the production process for the goods has been completed and the exchange has already taken place i.e., upon the substantial rather than formal transfer of title, with the transfer of risks and benefits being the key parameter. Revenues from the provision of services are recognised once the services have been provided, i.e., when they have been carried out.

Revenues and income, costs and charges relating to foreign currency transactions are translated using the spot exchange rate ruling on the date of the relevant transaction.

When the amortised cost method is applied, interest is recognised using the effective interest method. Other financial charges are recognised for the amount accrued during the year.

Dividends

Dividends are recognised as financial income when the group obtains the right to collect them, following the resolution of an investee's shareholders to distribute profits or reserves.

If an investee distributes own shares or assigns shares as part of a bonus issue as a dividend, the group does not recognise any financial income.

Income taxes

Current income taxes for the year are calculated on the basis of a realistic forecast of the taxable profit under the relevant tax legislation and applying the enacted tax rates at the reporting date. The related tax payable is stated at its nominal amount in the balance sheet, net of payments on account, withholding taxes and tax receivables which may be offset and have not been claimed for reimbursement. A tax asset is recognised for payments on account, withholdings and receivables

exceeding the taxes payable. Tax receivables and payables are measured at amortised cost, except when they are due within one year.

As the parent and consolidator, Salcef Group S.p.A. has set up a domestic tax consolidation scheme for IRES purposes with its subsidiaries Salcef S.p.A. single-member company, Euro Ferroviaria S.r.l. single-member company, RECO S.r.l. single-member company and SRT S.r.l. single-member company. The agreement has a three-year term from 2017 to 2019. The subsidiary Overail S.r.l. single-member company also joined the domestic tax consolidation scheme in 2019. The balance sheet shows the overall IRES receivable/payable.

Deferred tax assets and liabilities are calculated on the accumulated amount of all temporary differences between the carrying amounts of assets and liabilities and their tax base that will reverse in subsequent years.

Deferred tax assets and liabilities are recognised when the temporary differences arise and are calculated at the tax rates that will be applicable in the year in which the temporary differences reverse, if they have already been established at the reporting date, otherwise at the enacted tax rates at the reporting date.

The deferred tax assets on deductible temporary differences and on the benefit connected with the carry forward of tax losses are recognised and maintained only when their future recoverability is reasonably certain, through the forecast of future taxable profits or the availability of sufficient taxable temporary differences in the years in which they reverse.

Deferred tax assets not recognised or impaired in prior years as the requirements for their recognition were not met are recognised or reinstated in the year in which the relevant requirements are met.

Deferred tax assets and liabilities are offset if the relevant requirements are met (offsetting ability and intention) and the resulting positive or negative balance is respectively stated under the specific captions of current assets or provisions for risks and charges.

These notes present a schedule of the temporary differences which led to the recognition of deferred tax assets and liabilities, specifying the rate applied, changes over the previous year, amounts taken to the profit and loss account or net equity, captions excluded from the calculation, the amount of deferred tax assets recognised on net losses for the current or previous years and the amount of taxes not yet recognised.

Translation of foreign currency items and financial statements

The financial statements used for consolidation purposes are prepared in the group companies' functional currency, which is the local currency or the currency in which they carry out most of their transactions and in which their assets and liabilities are denominated. Foreign currency financial statements are translated into Euros using the closing rates for balance sheet captions and the average rate for profit and loss account captions. Exchange differences arising on the

translation of opening equity using the closing rates are recognised directly in the translation reserve.

The cumulative exchange differences in the translation reserve are reclassified to profit or loss when an equity investment is sold. The following table shows the exchange rates used by the group.

CURRENCY	Code	31/12/2019	
		Spot closing rate	Average rate
Polish zloty	PLN	4.2568	4.2976
Egyptian pound	EGP	18.0192	18.8383
Romanian leu	RON	4.7830	4.7453
Croatian kuna	HRK	7.4395	7.4180
UAE dirham	AED	4.1257	4.1113
Saudi riyal	SAR	4.2128	4.1980
Norwegian krone	NOK	9.8638	9.8511
Swiss franc	CHF	1.0854	1.1124

Use of estimates

The preparation of consolidated financial statements requires management to make estimates that affect the carrying amount of assets and liabilities and the related disclosures. Actual results may differ. Estimates are revised regularly and the effect of any changes, if not due to errors, are recognised in the profit and loss account when the estimates are changed, if they affect just one year, and also in the following years, if they affect both the current and subsequent years.

Post-balance sheet events

These events modify conditions existing at the reporting date. They require adjustments to the carrying amounts of recognised assets and liabilities in accordance with the relevant accounting policy. They are recognised on an accruals basis to present their reporting-date effect on the group's financial position, financial performance and cash flows.

The post-balance sheet events that modify situations existing at the reporting date but do not require adjustments to the carrying amounts under the relevant accounting policy as they relate to the subsequent year are not recognised but are disclosed in the notes if necessary to give a more complete view of the group's position.

The date within which an event shall be considered a post-balance sheet event is the date on which the directors prepare the draft financial statements, unless events that take place during the period from such date to the date on which the financial statements are expected to be approved by the shareholders have a significant impact on the financial statements.

NOTES TO THE MAIN BALANCE SHEET CAPTIONS

ASSETS

FIXED ASSETS

INTANGIBLE FIXED ASSETS

Intangible fixed assets amounted to €19,650 thousand (31 December 2018: €5,278 thousand). The following table sets out the changes therein during the year.

(€'000)

	Start-up and capital costs	Industrial patents and intellectual property rights	Concessions, licences and trademarks	Goodwill	Assets under development and payments on account	Other	TOTAL
Balance at 31 December 2018:							
Cost	366	994	-	4,252	2,698	3,419	11,729
Acc. amortisation	(326)	(652)	-	(2,364)	0	(3,109)	(6,451)
Carrying amount at 31 December 2018	**40**	**342**	**0**	**1,888**	**2,698**	**310**	**5,278**
Increases - cost	5,995	244	46	9,554	734	498	17,071
Decreases - cost					(10)	0	(10)
Reclassifications - cost	37	99			(1,185)	1,103	54
Exchange differences - cost	5						5
Other variations - cost	3	13				2,056	2,072
Amortisation	(1,236)	(266)	(3)	(698)		(849)	(3,052)
Other variations - Acc. amortisation	(3)	(13)				(1,746)	(1,762)
Decreases - Acc. amortisation	(5)						(5)
Reclassifications - Acc. amortisation							0
Exchange differences - Acc. amort.						(1)	(1)
Balance at 31 December 2019:							
Cost	6,406	1,350	46	13,806	2,237	7,076	30,921
Acc. amortisation	(1,570)	(931)	(3)	(3,062)	0	(5,705)	(11,271)
Carrying amount at 31 December 2019	**4,836**	**419**	**43**	**10,744**	**2,237**	**1,371**	**19,650**

Start-up and capital costs increased overall by €6,032 thousand due to the capitalisation of costs incurred for the merger of Indstars 3 into Salcef Group S.p.A. and the listing of the parent's shares on the AIM (alternative investment market).

Industrial patents and intellectual property rights amount to €419 thousand and mainly consist of the industrial patents acquired by SRT S.r.l. for railway technologies (€237 thousand), intellectual property rights acquired by Overail during the year (€40 thousand), software user licences acquired by the parent, Salcef S.p.A., SRT S.r.l., H&M Bau GmbH and RECO S.r.l. (€90 thousand) and patents contributed by Vianini S.p.A. with the business unit in 2017 (€52 thousand).

Concessions, licences and trademarks mainly include costs incurred by the parent to register the Salcef Group trademark (€41 thousand).

Goodwill refers to the business unit acquired from Tuzi Costruzioni Generali S.p.A. in 2015 (€242 thousand) and the parent's acquisitions of business units against consideration, one in 2011 (€68 thousand) and one in 2012 (residual amount of €97 thousand) related to the acquisition of RECO S.r.l., active in the design segment. At 31 December 2017, the group recognised goodwill arising on the contribution of a business unit by Vianini S.p.A. to Vianini Industria S.r.l., now Overail, (€274 thousand) and the goodwill arising on the difference between the cost incurred by the group to acquire the investment in Overail S.r.l. and its share of the investee's net equity at the acquisition date (€365 thousand).At 31 December 2018, the group recognised goodwill arising on the difference between the cost incurred by the group to acquire the investment in H&M Bau GmbH and its share of the investee's net equity at the acquisition date (31 December 2019: €42 thousand).Finally, at 31 December 2019, the group recognised goodwill arising on the difference between the cost incurred by the group to acquire the investment in Coget Impianti S.p.A and its share of the investee's net equity at the acquisition date (€9,156 thousand). The acquisition cost of such investment was estimated for the variable part of the consideration yet to be paid and accrued in the provision for charges, as discussed in more detail later on.

Assets under development and payments on account include costs incurred by SRT S.r.l. to design new railway machinery (€2,161 thousand), payments on account made by Overail to purchase production management software (€36 thousand) and payments on account made by RECO S.r.l. to purchase design software (€40 thousand), not yet in use at the reporting date.

Other intangible assets mainly consist of costs fully incurred by SRT S.r.l. to design new railway machinery (€1,104 thousand), non-recurring leasehold improvements carried out on the leased property in Via Pietralata 140, Rome where the parent has its administrative office (€183 thousand) and costs incurred to obtain the certifications and attestations to perform its activities, such as the SOA (certification required in Italy to submit tenders for public works contracts) and occupational safety certifications (€37 thousand), which are amortised over the term of such certifications and attestations.

TANGIBLE FIXED ASSETS

Tangible fixed assets amounted to €73,384 thousand (31 December 2018: €57,990 thousand). The following table sets out the changes therein during the year.

(€'000)

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments	TOTAL
Balance at 31 December 2018:						
Cost	9,716	132,331	10,386	4,630	12,667	169,730
of which: revaluations	*1,250*	-	-	-	-	*1,250*
Acc. depreciation	(1,843)	(98,119)	(8,652)	(3,126)	-	(111,740)
Acc. impairment losses	-	-	-	-	-	-
Carrying amount at 31 December 2018	**7,873**	**34,212**	**1,734**	**1,504**	**12,667**	**57,990**
Investments - Historical cost		12,302	506	1,304	10,374	24,486
Disposals - Historical cost	(45)	(1,951)	(29)	(1,205)		(3,230)
Write-downs - Historical cost	(1,647)					(1,647)
Reclassifications - Historical cost	4,654	9,708	(115)	(57)	(14,190)	-
Other variations - Historical cost		8,441	2,779	3,262	749	15,231
Exchange differences - Historical cost	2	49	14	9		74
Depreciation	(189)	(8,985)	(1,221)	(682)		(11,077)
Disposals - Acc. depreciation	14	1,683	29	1,081		2,807
Write-downs - Acc. depreciation	615					615
Reclassifications - Acc. depreciation		(49)	46	3		-
Other variations - Acc. depreciation		(6,708)	(2,524)	(2,595)		(11,827)
Exchange differences - Acc. depr.		(14)	(14)	(9)		(38)
Balance at 31 December 2019:						
Cost	14,327	160,880	13,541	7,943	9,600	206,291
Acc. depreciation	(2,019)	(112,192)	(12,336)	(5,328)	-	(131,875)
of which: revaluations	*456*	-	-	-	-	*456*
Acc. impairment losses	(1,032)	-	-	-	-	(1,032)
Carrying amount at 31 December 2019	**11,276**	**48,688**	**1,205**	**2,615**	**9,600**	**73,384**

The increase during the year is part of the group's major investment plan in tangible fixed assets for the 2018/2019 period. Most assets are eligible for the tax benefits introduced by the Industria 4.0 plan. Specifically, when certain requirements are met, companies can avail of the so-called "hyper-amortisation", i.e., for assets purchased or ordered in 2018, including those expected to be delivered in 2019, they can apply a 150% increase on the acquisition cost deductible for tax purposes, while complying with the depreciation plan applicable to each asset. Following an amendment to the legislation, the increase for assets acquired or ordered in 2019, including those expected to be delivered in 2020, is now applied over brackets, with percentages ranging from 50% to 170%.

Investments include the acquisition of Coget Impianti S.p.A. which joined the group on 30 July 2019, leading to an increase in tangible fixed assets at 31 December 2019 for a net carrying amount of €3,404 thousand (under Other variations in the above table), of which €15,231 thousand is recognised as an increase to historical cost and €11,827 thousand as an increase to accumulated depreciation.

The decreases of €423 thousand relate to assets that are no longer used in production nor are relevant to the group's activities.

Land and buildings include SRT's operating offices (€4,138 thousand), and related land worth €938 thousand, and the industrial site housing the railway sleeper production plant in Aprilia owned by Overail (€6,925 thousand).

In relation to SRT's premises, the old office building was demolished during the year, leading to a write-down of the related carrying amount by €1,032 thousand, and the new building was inaugurated in December at a construction cost of €1,192 thousand.

The SRT-owned operating facilities in Fano (Pesaro-Urbino) were revalued in the financial statements at 31 December 2018 pursuant to article 15 of Law decree no. 185 of 29 November 2008, converted with amendments by Law no. 2 of 28 January 2009, in turn amended by article 5 of Law decree no. 5 of 10 February 2009, converted with amendments by Law no. 33 of 9 April 2009. €699 thousand of the above-mentioned write-down of €1,032 thousand refers to such revaluation which, therefore, shows a residual carrying amount of €456 thousand at the reporting date.

The carrying amount of the industrial site at Aprilia, on the other hand, is broken down into land (€2,284 thousand) and buildings (€4,641 thousand). €3,462 thousand of the latter refers to costs capitalised in December 2019 following the roll out of four newly-built warehouses.

The increases in plant and machinery mainly refer to the purchase of assets with technical features and performances suitable for the group's operations and significant parts of these assets, including for extraordinary maintenance to improve their efficiency and output. Specifically, the rolling stock and excavators and bulldozers are the main operating assets for the group's core business. The related asset categories included under plant and machinery increased by €10,698 thousand, due to the renewal and/or extension of the assets' useful lives as a result of extraordinary maintenance and costs to improve the assets, which include structural modifications to the rolling stock so they can be used on tracks and for contracts with different characteristics.

The other assets (€2,615 thousand) mainly consist of vehicles and cars (€2,288 thousand) and office furniture, fittings and equipment (€325 thousand).

Assets under construction and payments on account (€9,600 thousand) include costs incurred for the construction and extraordinary maintenance of machinery and equipment not yet in use, mainly performed by SRT S.r.l. single-member company on behalf of Salcef S.p.A. and Euro Ferroviaria S.r.l. (€3,603 thousand). Furthermore, they include the costs incurred by SRT S.r.l. (€4,585 thousand) and Overail S.r.l. (€1,141 thousand) to expand the Fano warehouse and the Aprilia facility, respectively, for assets not yet ended and/or pending testing at the reporting date.

FINANCIAL FIXED ASSETS

Financial fixed assets amount to €1,597 thousand, compared to €1,310 thousand at 31 December 2018.

Equity investments

Changes in investments in unconsolidated subsidiaries and associates during the year are set out in the following table.

(€'000)

	31/12/2018	Increases	Decreases	31/12/2019
Subsidiaries				
Consorzio Stabile Itaca S.c.a.r.l.	36			36
Salcef Polska Spzoo	219			219
Salcef Egypt Construction	0			0
TOTAL	**255**	**0**	**0**	**255**
Associates				
Frejus S.c.a.r.l.	8			8
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	25			25
Sesto Fiorentino S.c.a.r.l.	5			5
TOTAL	**38**	**0**	**0**	**38**
Other companies				
Concise Consorzio Stabile Soc. Cons. a r.l.	1			1
SASSARIOLBIA S.c. a r.l.	1			1
TOTAL	**2**	**0**	**0**	**2**
TOTAL EQUITY INVESTMENTS	**295**			**295**

Receivables

Receivables of €1,301 thousand (31 December 2018: €1,014 thousand) mainly include non-interest bearing loans granted to group companies and specifically the associate Consorzio I.C.A.V. (€353 thousand) and Sesto Fiorentino S.c.ar.l. (€325 thousand).

Receivables from others of €622 thousand (31 December 2018: €360 thousand) mainly include guarantee deposits paid by group companies to guarantee the supply of goods and services to be received and for property leases (€464 thousand) and the amount due from the liquidator of the subsidiary Ferrovie Sarde S.c.a.r.l. due to its winding-up (€54 thousand).

CURRENT ASSETS

INVENTORY

Inventory of €111,269 thousand (31 December 2018: €104,207 thousand) include raw materials, consumables and supplies of €4,637 thousand, work in progress of €6,246 thousand and contract work in progress of €100,386 thousand.

Raw materials, consumables and supplies include consumables and other materials purchased for the construction and

permanent way systems works and not yet used at the reporting date (€895 thousand), materials for the maintenance of rolling stock and railway equipment by SRT (€2,520 thousand) and Overail's materials necessary for the production of railway sleepers (€1,222 thousand).

(€'000)

	31/12/2019	31/12/2018	Variation
Raw materials, consumables and supplies	4,637	3,201	1,436
TOTAL	**4,637**	**3,201**	**1,436**

A breakdown of raw materials at the reporting date by geographical segment is as follows:

(€'000)

	31/12/2019	31/12/2018
Italy	4,637	3,201
TOTAL	**4,637**	**3,201**

Work in progress and semi-finished products amount to €6,246 thousand and relate to works carried out at the Fano workshop (€5,336 thousand) and the consideration paid to acquire a plot of land in the Cerveteri municipality (€910 thousand) on which real estate units to be sold will be built. A breakdown of the caption at the reporting date by geographical segment is as follows:

(€'000)

	31/12/2019	31/12/2018	Variation
Work in progress and semi-finished products	6,246	4,210	2,036
TOTAL	**6,246**	**4,210**	**2,036**

(€'000)

	31/12/2019	31/12/2018
Italy	6,246	4,210
TOTAL	**6,246**	**4,210**

Contract work in progress refers to work contracts agreed as a unit where the works last over several years. This inventory caption includes the partial measurement at the reporting date of the contracts underway, including requests to customers for additional fees, calculated on the basis of the internal reports on the works that are then acknowledged definitively by the customer by certifying progress reports.

(€'000)

	31/12/2019	31/12/2018	Variation
Contract work in progress	100,386	96,787	3,599
TOTAL	**100,386**	**96,787**	**3,599**

€2,511 thousand relates to the parent, €14,283 thousand to Euro Ferroviaria S.r.l., €61,042 thousand to Salcef S.p.A., €16,928 thousand to Overail S.r.l., €1,503 thousand to H&M Bau GmbH and €4,119 to Coget Impianti S.p.A..

The disputes in progress between the Salcef Group and the Polish customer PKP PLK S.A. for the request of additional claims were settled separately in the first half of 2019. Specifically, the actions pending before the Warsaw district court in relation to "contract 193 Koscierzyna-Gdynia" and "contract 192 Reda - Hel" were closed following the signing of settlement agreements whereby the Salcef Group is entitled to approximately PLN37 million (€8,689 thousand). That amount was much higher than the amount recognised under contract work in progress in the consolidated financial statements at 31 December 2018 (€5,110 thousand) as a reserve for additional fees requested from customers, which the group was reasonably certain of recovering. At 31 December 2019, contract work in progress includes €0.8 thousand in additional fees requested from customers which the group is reasonably certain of recovering. The amount of the reserve is lower than the amount whose collection is defined "probable".

Pursuant to OIC 29.55, the inventory amounts at the previous year end were reclassified as they could not be compared. Specifically, in the consolidated financial statements at 31 December 2018 the inventory of contract work in progress of H&M Bau GmbH was stated gross of payments on account from customers which were recognised in the specific liabilities caption. At 31 December 2019, following a closer analysis of the payments on account invoiced that are considered definitive, the subsidiary's inventory recognised net of the payments on account and the comparative figures were reclassified accordingly. Such reclassification meant that payments on account and contract work in progress were €3,581 thousand lower than the amounts recognised in the consolidated financial statements at 31 December 2018.

The following table shows a breakdown of contract work in progress by geographical segment:

(€'000)

	31/12/2019	31/12/2018	Variation
Italy	95,781	90,944	4,837
Germany	1,503	152	1,351
Romania	91	0	91
Poland	0	5,110	(5,110)
Austria	500	0	500
Egypt	1,919	0	1,919
Saudi Arabia	592	581	11
TOTAL	**100,386**	**96,787**	**3,599**

RECEIVABLES

Trade receivables

Trade receivables contractually due within one year amount to €69,058 thousand net of the provision for bad debts of €4,670 thousand (Salcef S.p.A. single-member company: €1,395 thousand; Salcef Group S.p.A.: €2,700 thousand; Euro Ferroviaria S.r.l.: €290 thousand; Overail S.r.l.: €59 thousand and Coget Impianti S.p.A.: €226 thousand).

(€'000)

	31/12/2019	31/12/2018	Variation
Trade receivables - *due within one year*	73,728	72,154	1,574
Trade receivables - *due after one year*	12,759	11,827	932
Provision for bad debts	(4,670)	(4,115)	(555)
TOTAL	**81,817**	**79,866**	**1,951**

The following table shows changes in the provision for bad debts during the year:

(€'000)

	31/12/2018	Utilisations/ Releases	Accruals	Other variations	31/12/2019
Provision for bad debts	(4,115)	17	(386)	(186)	(4,670)
TOTAL	**(4,115)**	**17**	**(386)**	**(186)**	**(4,670)**

Trade receivables due after one year, amounting to €12,759 thousand (31 December 2018: €11,827 thousand), comprise performance bonds invoiced and/or to be invoiced to customers that will be collected once the related works are tested.

A breakdown of trade receivables by geographical segment is as follows:

(€'000)

	31/12/2019	%	31/12/2018	%	Variation	%
Italy	64,709	79.1%	55,148	69.1%	9,561	17%
Europe (excluding Italy)	3,401	4.2%	3,987	5.0%	(586)	-15%
Egypt	485	0.6%	201	0.3%	284	141%
United Arab Emirates	1,065	1.3%	1,258	1.6%	(193)	-15%
India	72	0.1%	0	0.0%	72	0%
Saudi Arabia	12,085	14.8%	19,272	24%	(7,187)	-37%
TOTAL	**81,817**	**100%**	**79,866**	**100%**	**1,951**	

From subsidiaries

Receivables from subsidiaries of €2,778 thousand (31 December 2018: €4,524 thousand) refer to trade receivables from Consorzio Stabile Itaca S.c.ar.l. (€2,070 thousand) and amounts due to Coget Impianti S.p.A. from its subsidiary COEL Powerlines (€708 thousand). The latter is a company incorporated in Austria (ARGE) set up on 17 June 2019 by Coget Impianti together with another Italian company to perform important works on the construction and replacement of a

railway line and central warehouse in Austria. Coget Impianti holds 51% of the subsidiary.

From associates

Receivables from associates of €374 thousand (31 December 2018: €372 thousand) refer to trade receivables from Frejus S.c.ar.l. (€281 thousand), Consorzio I.C.A.V. (€1 thousand) and Sesto Fiorentino S.c.ar.l. (€92 thousand).

Tax receivables

(€'000)

	31/12/2019	31/12/2018	Variation
Indirect taxes	12,163	9,428	2,735
Direct taxes	2,621	718	1,903
IRES credit for IRAP	0	843	(843)
Taxes paid abroad	2,214	2,120	94
Other current tax receivables	8	10	(2)
TOTAL	**17,006**	**13,119**	**3,887**

As shown in the table above, tax receivables of €17,006 thousand (31 December 2018: €13,119 thousand) are comprised of:

- indirect taxes (mainly VAT) paid in Italy and abroad (€12,163 thousand);
- direct taxes on income paid abroad (€2,214 thousand);
- IRES (corporate income tax) credit under the 2019 domestic tax consolidation scheme (€1,455 thousand);
- 2019 IRES credit related to Coget Impianti (€395 thousand);
- 2019 IRAP credit (€195 thousand, of which €4 thousand related to RECO, €138 thousand to Euro Ferroviaria and €53 thousand to Salcef Group S.p.A.).

Deferred tax assets

Deferred tax assets of €3,582 thousand (31 December 2018: €2,368 thousand) are a result of the application of the tax laws ruling in the countries where the group operates. A breakdown of the caption and changes therein are analysed below:

(€'000)

Deferred tax assets	31/12/2018	Accruals	Utilisations	Other variations	31/12/2019
Amortisation of goodwill	384	169	(10)		543
Depreciation of revalued buildings	127		(34)		93
Tax loss	0			1,235	1,235
Provision for bad debts	1,068	94	(86)		1,076
Exchange differences	133	9	(133)		9
Other	656	110	(138)	(2)	626
TOTAL	**2,368**	**382**	**(401)**	**1,233**	**3,582**

Deferred tax assets recognised on the tax loss (€1,235 thousand) were acquired under the merger of Indstars 3 into Salcef Group S.p.A. and will be used when the latter leaves the domestic tax consolidation scheme.

Deferred taxes were calculated by applying a rate of 24% or 27.9% to the temporary differences that led to the deferred tax assets.

From others

A breakdown of receivables from others is as follows:

(€'000)

	31/12/2019	31/12/2018	Variation
Advances on trade receivables assigned without recourse	2,964	2,664	300
Advances to suppliers	976	1,643	(667)
Personnel and work sites	943	832	111
Suspended amounts with third parties (consortia)	1,821	630	1,191
Social security institutions	313	283	30
Other receivables	685	1,013	(328)
TOTAL	**7,702**	**7,065**	**637**

The assignment without recourse of trade receivables by Salcef S.p.A., Euro Ferroviaria S.r.l. and Overail S.r.l. near the end of 2019 (€2,964 thousand) relates to the portion of the factored receivables of these three companies not yet collected by the factor of €1,589 thousand, €234 thousand and €441 thousand, respectively.

A breakdown of changes in receivables and an ageing analysis are provided in the following table:

(€'000)

	Opening balance	Variation of the year	Closing balance	Overdue by less than one year	Overdue by more than one year	Of which overdue by more than five years
Trade receivables	79,866	1,951	81,817	69,058	12,759	0
From subsidiaries	4,524	(1,746)	2,778	2,778	0	0
From associates	372	2	374	374	0	0
From parents	0	12	12	12	0	0
Tax receivables	13,119	3,887	17,006	17,006	0	0
Deferred tax assets	2,368	1,214	3,582	3,582	0	0
From others	7,065	637	7,702	7,702	0	0
TOTAL	**107,314**	**5,957**	**113,271**	**100,512**	**12,759**	**0**

CURRENT FINANCIAL ASSETS

Other securities

Other securities, of €23,842 thousand, are investments at the reporting date in mutual fund units, certificates and policies made by Salcef Group S.p.A. in order to use cash and cash equivalents obtained as a result of the merger with Indstars 3.

LIQUID FUNDS

This caption amounts to €82,159 thousand compared to €41,332 thousand at 31 December 2018, as follows:

(€'000)

	31/12/2019	31/12/2018	Variation
Bank and postal accounts	82,134	41,284	40,850
Cash-in-hand and cash equivalents	25	48	(23)
TOTAL	**82,159**	**41,332**	**40,827**

The bank and postal accounts are mostly held by the parent (€53,585 thousand), Salcef S.p.A. (€22,396 thousand), Euro Ferroviaria S.r.l. (€2,421 thousand), Coget Impianti (€1,225 thousand), SRT S.r.l. (€1,094 thousand) and Overail S.r.l. (€1,309 thousand).

PREPAYMENTS AND ACCRUED INCOME

Prepayments and accrued income amount to €4,700 thousand (31 December 2018: €5,241 thousand) and refer fully to prepayments related to costs incurred during the year but pertaining to subsequent years, mainly:

- prepaid insurance instalments on work sites and prepaid sureties fees (€1,813 thousand);
- prepaid downpayments and payments to lease companies (€2,766 thousand);
- rental and lease prepayments (€77 thousand).

The balance mainly relates to Salcef S.p.A. (€1,058 thousand), the parent (€304 thousand), Euro Ferroviaria S.r.l. (€2,979 thousand), Overail S.r.l. (€127 thousand) and Coget Impianti S.p.A. (€128 thousand).

The lease downpayments refer to four finance leases entered into by Euro Ferroviaria S.r.l. in 2018 to purchase machinery (one ballast cleaning machine and three tamping machines). The ballast cleaning machine was delivered at the end of 2018, while two tamping machines were delivered in July and August 2019. Accordingly, the subsidiary began paying the relevant lease instalments. The third tamping machine was delivered at the end of December 2019.

The above leases are part of Euro Ferroviaria S.r.l.'s investment plan in tangible fixed assets that began in 2018. Most assets are eligible for the tax benefits introduced by the Industria 4.0 plan. Specifically, when certain requirements are met, companies can avail of the so-called "hyper-amortisation", i.e., for assets purchased or ordered in 2018, including those expected to be delivered in 2019, they can apply a 150% increase on the acquisition cost deductible for tax purposes, while complying with the depreciation plan applicable to each asset. Following an amendment to the legislation, the increase for assets acquired or ordered in 2019, including those expected to be delivered in 2020, is now applied over brackets, with percentages ranging from 50% to 170%.

LIABILITIES

NET EQUITY

Changes in net equity captions are set out below:

(€'000)

Net equity	Share capital	Legal reserve	Revaluation reserve	Other reserves	Hedging reserve	Retained earnings	Net profit for the year	Net equity attributable to the group	Attributable to minority interests
Balance at 31/12/2017	**200**	**111**	**28,060**	**46,690**	**-**	**8,057**	**28,288**	**111,406**	**17**
Allocation of prior year net profit						28,288	(28,288)	-	
Dividend distribution						(4,700)		(4,700)	
Variation in translation reserve				1,434				1,434	
Other variations/reclassifications				(975)	(25)	975		(25)	(17)
Net profit for the year							29,379	29,379	-
Balance at 31/12/2018	**200**	**111**	**28,060**	**47,149**	**(25)**	**32,620**	**29,379**	**137,494**	**-**
Allocation of prior year net profit						29,379	(29,379)	-	
Dividend distribution				(30,000)				(30,000)	
Variation in translation reserve								-	
Other variations/reclassifications	59,800	(26)		46,012	13	(366)		105,433	
Net profit for the year							38,408	38,408	
Balance at 31/12/2019	**60,000**	**85**	**28,060**	**63,161**	**(12)**	**61,633**	**38,408**	**251,335**	**-**

The fully paid-up share capital amounts to €60,000,000 and comprises 39,850,000 shares, all without a nominal amount, broken down into the following categories:

a) 37,490,000 ordinary shares;

b) 2,000,000 performance shares;

c) 360,000 special shares.

The legal reserve of €85 thousand includes prior year profits allocated in accordance with Italian law.

The revaluation reserves of €28,060 thousand were set up for the revaluations of property, plant and equipment made in accordance with Laws no. 342/2000, no. 266/2005 and no. 2/2009.

The other reserves include:

- the extraordinary reserve of €13,460 thousand that includes prior year profits allocated thereto by the shareholders;
- the consolidation reserve of €8,241 thousand;
- the translation reserve (negative amount of €3,708 thousand) that comprises the translation of foreign branches' balances and the translation of the financial statements of foreign subsidiaries;
- goodwill, of €45,167 thousand, arose on the merger and refers to the difference between the share capital increase of the merged company, Salcef Group S.p.A., and the portion of the net equity of the merging company attributable to minority interests at 8 November 2019 (the transaction date).

A reconciliation of the parent's net equity at 31 December 2019 and its net profit for the year then ended with those of

the group is presented below:

(€'000)

	Net profit for 2018	Net equity at 31/12/2018
Salcef Group S.p.A.	5,399	84,455
Contribution of subsidiaries	40,125	53,174
Dividends	(16,000)	-
Elimination of intragroup profits and losses	(41)	(1,365)
Goodwill	(104)	1,230
Total net equity	**29,379**	**137,494**

	Net profit for 2019	Net equity at 31/12/2019
Salcef Group S.p.A.	22,852	182,753
Contribution of subsidiaries	45,889	59,496
Dividends	(30,000)	-
Elimination of intragroup profits and losses	60	(1,305)
Goodwill	(393)	10,391
Total net equity	**38,408**	**251,335**

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges include deferred tax liabilities (€25 thousand), the tax provision (€916 thousand), derivatives agreed by Salcef S.p.A. (€16 thousand) and other provisions for risks and charges (€3,473 thousand).

A breakdown of this caption is as follows:

(€'000)

	31/12/2018	Utilisations/ Releases	Accruals	Other variations	31/12/2019
Deferred tax liabilities	-		25		25
Tax provision	750		166		916
Derivatives	33			(17)	16
Provisions for charges	0		2,280		2,280
Provision for litigation	1,163	(322)	352		1,193
TOTAL	**1,946**	**(322)**	**2,823**	**(17)**	**4,430**

Deferred tax liabilities include the temporary difference generated on the net unrealised exchange rate gains of Salcef Group S.p.A.. The following table provides a breakdown of the temporary differences that generated deferred taxes, with the relevant rates applied:

(€'000)

	Temporary differences	Rate %	31/12/2019
Unrealised exchange differences	103	24%	25
TOTAL			**25**

The tax provision (€916 thousand) reflects a prudent estimate of the tax charges that the Salcef Group may incur in the event of tax audits, inspections or assessments. The accrual of the year (€166 thousand) refers to a tax assessment underway at Salcef Group S.p.A.'s Egyptian branch.

Derivatives refer to Salcef S.p.A.'s interest rate swap with Unicredit S.p.A., signed in June 2018 and expiring in 2021, with a notional amount of €2,506,054. The IRS was signed to hedge cash flows from the reimbursement of interest paid on the €5,000,000 floating-rate 36-month loan granted in 2018 by the same bank. Therefore, it was designated as a cash flow hedge and the fair value gains or losses thereon are fully recognised in the specific net equity reserve, A) VII Hedging reserve, at each reporting date, without calculating the ineffective portion of the hedge, and is thus taken to the profit and loss account (section D). The hedging reserve will be reclassified to the profit and loss account over the years and to the extent the cash flows generated by the hedge have an effect on the net profit or loss for the year.

With regard to other provisions for risks and charges, €322 thousand was utilised at the reporting date and €352 thousand was accrued as the estimate of the probable charges the Salcef Group will incur in respect of the disputes underway or the claims currently pending and being assessed in which the group may be asked to pay for the damage suffered by the counterparty.

Finally, provisions for charges include €2,280 thousand accrued as an estimate of the variable fee yet to be paid by Salcef Group S.p.A. for the acquisition of the investment in Coget Impianti.

EMPLOYEES' LEAVING ENTITLEMENT

Changes in the employees' leaving entitlement during the year were as follows:

(€'000)

	31/12/2018	Accrual	Utilisations/ Payments to pension funds	Other variations	31/12/2019
Employees' leaving entitlement	948	1,994	(1,059)	(1,020)	863
TOTAL	**948**	**1,994**	**(1,059)**	**(1,020)**	**863**

The balance is the amount of employees' leaving entitlement accrued by employees of the Italian companies as per the law net of advances and payments to employees and amounts transferred to supplementary and treasury funds

PAYABLES

Bank loans and borrowings

Bank loans and borrowings due within and after one year total €49,056 thousand (31 December 2018: €43,559 thousand) and include the payable due to banks at the reporting date for advances received on invoices issued on contracts and/or certifications of progress reports (self-liquidating credit), overdrafts on current accounts and portions of loans to be repaid.

The following table shows a breakdown of the caption.

(€'000)

	31/12/2019	31/12/2018	Variation
Current account overdrafts	0	1	(1)
Advances	16	16	0
Bank loans and borrowings	49,040	43,542	5,498
TOTAL	**49,056**	**43,559**	**5,497**

The bank loans have floating interest rates indexed to the Euribor.

The following table shows a breakdown of bank loans by maturity bracket.

(€'000)

	31/12/2018	From 1 to 2 years	From 2 to 5 years	After 5 years
Bank loans and borrowings	43,542	35,397	8,145	0
TOTAL	**43,542**	**35,397**	**8,145**	**0**

	31/12/2019	From 1 to 2 years	From 2 to 5 years	After 5 years
Bank loans and borrowings	49,040	44,242	4,798	0
TOTAL	**49,040**	**44,242**	**4,798**	**0**

Loans and borrowings from other financial backers

Loans and borrowings from other financial backers amount to €1,064 thousand and refer to a customer's incorrect payment of invoices factored without recourse at the end of 2019.

Payments on account

Payments on account of €6,900 thousand (31 December 2018: €6,069 thousand) comprise contractual advances paid by customers under contracts acquired during the year. They include an advance paid by a customer for future works which will then be invoiced based on progress reports issued and then approved by the customer.

At 31 December 2019, the caption refers to:

- the advance received from NAT - National Authority for Tunnels (€492 thousand) for the construction of a new railway station in Kozzyka (Egypt);
- the advance received from ATAC S.p.A. (€10 thousand) for maintenance services on permanent way systems on

the "Roma-Civita Castellana-Viterbo" section;

- the advance received from ATAC S.p.A. (€182 thousand) for maintenance services on permanent way systems on Line C of the Rome Metro;
- the advance received from ATAC S.p.A. (€6 thousand) for works on the "Anagnina-Ottaviano" section and the Osteria del Curato warehouse;
- the advance received from R.F.I. S.p.A. (€1,931 thousand) for commencement of works on permanent way systems and civil works on various sections of the Cagliari-Golfo Aranci section;
- the advance received from R.F.I. S.p.A. (€203 thousand) for the commencement of the noise abatement works in the Sesto Fiorentino municipality;
- the advance received by SRT S.r.l. (€99 thousand) for the construction of a machine;
- the advance received by Salcef S.p.A.'s Abu Dhabi branch (€3,977 thousand) for the commencement of works to build the track of the new railway line between Ruwais and Ghuweifat, under the contract signed with the joint venture between China State Construction Engineering Corporation and SK Engineering and Construction (from South Korea) on 14 September 2019.

Pursuant to OIC 29.55, the amounts at the previous year end were reclassified as they could not be compared. Reference should be made to the section on Inventory for a more detailed explanation.

Trade payables

Trade payables of €90,305 thousand (31 December 2018: €107,499) include payables for invoices received and to be received. They mostly refer to Salcef S.p.A. single-member company (€51,185 thousand), the parent (€4,628 thousand), Euro Ferroviaria S.r.l. (€7,392 thousand), Overail S.r.l. (€16,918 thousand) and SRT S.r.l. (€5,846 thousand).

The following table provides a breakdown of trade payables by geographical segment:

(€'000)

	31/12/2019	%	31/12/2018	%	Variation	%
Italy	85,561	94.7%	103,763	96.5%	(18,202)	-18%
Europe (excluding Italy)	2,175	2.4%	1,398	1.3%	777	56%
Egypt	475	0.5%	45	0.04%	430	956%
United Arab Emirates	56	0.06%	14	0.01%	42	300%
Saudi Arabia	2,038	2.3%	2,279	2.1%	(241)	-11%
TOTAL	**90,305**	**100%**	**107,499**	**100%**	**(17,194)**	

Payables to subsidiaries

Payables to subsidiaries amount to €715 thousand (31 December 2018: €144 thousand) and refer to costs recharged by

the subsidiary Consorzio Stabile Itaca S.c.ar.l. (€706 thousand) and financial payables to Salcef Polska (€9 thousand).

Payables to associates

Payables to associates of €2,863 thousand (31 December 2018: €1,023 thousand) include costs recharged by the consortium companies and consortia to the parent (€71 thousand), Salcef S.p.A. single-member company (€2,765 thousand) and Euro Ferroviaria S.r.l. (€27 thousand).

Tax payables

Tax payables of €3,319 thousand (31 December 2018: €10,456 thousand) mostly consist of withholdings on the December 2019 remuneration of consultants and employees (€1,665 thousand), indirect taxes payable (€505 thousand), current IRES and IRAP (€486 thousand) and foreign current tax payables (€483 thousand).

(€'000)

	31/12/2019	31/12/2018	Variation
Substitute tax	1,665	1,523	142
Indirect taxes	505	363	142
IRES	119	6,545	(6,426)
IRAP	367	1,068	(701)
Taxes paid abroad	483	518	(35)
Other current tax payables	180	439	(259)
TOTAL	**3,319**	**10,456**	**(7,137)**

The other current tax payables include the substitute tax on the higher values of the carrying amount of property, plant and equipment and intangible assets, including goodwill, acquired with the business unit contributed by Vianini S.p.A. to Overail S.r.l. (€180 thousand) compared to their tax base.

Social security charges payable

Social security charges payable of €2,513 thousand (31 December 2018: €2,284 thousand) almost fully comprise December 2019 monthly payments due to INPS (the Italian social security institution), private pension funds and Cassa Edile (bilateral construction industry board). Most of the payable relates to Salcef S.p.A. single-member company (€1,468 thousand).

Other payables

Other payables of €16,430 thousand (31 December 2018: €11,220 thousand) mainly include amounts due to employees for unpaid wages and salaries for December 2019 (€2,454 thousand) and untaken holidays at year end (€1,556 thousand) and amounts due to consortium members related to the collection by Salcef S.p.A., as lead contractor, of amounts for invoices it had issued to the customers for contract work performed (€2,247 thousand).

(€'000)

	31/12/2019	31/12/2018	Variation
Employees	4,010	3,463	547
Third parties (consortia)	2,247	6,489	(4,242)
Sundry payables	10,173	1,268	8,905
TOTAL	**16,430**	**11,220**	**5,210**

Sundry payables include the amount still due to be paid by Salcef Group S.p.A. for the acquisition of the investment in Coget Impianti (€5,598 thousand) and dividends that Coget Impianti has yet to distribute to former shareholders (€3,447 thousand).

A breakdown of changes in payables and an ageing analysis are provided in the following table:

(€'000)

	Opening balance	Variation of the year	Closing balance	Overdue by less than one year	Overdue by more than one year	Of which overdue by more than five years
Bank loans and borrowings	43,559	5,497	49,056	31,302	17,754	0
Loans and borrowings from other financial backers	0	1,064	1,064	1,064	0	0
Payments on account	6,069	830	6,899	6,899	0	0
Trade payables	107,499	(17,194)	90,305	90,305	0	0
Payables to subsidiaries	144	571	715	715	0	0
Payables to associates	1,023	1,840	2,863	2,863	0	0
Tax payables	10,456	(7,137)	3,319	3,319	0	0
Social security charges payable	2,284	229	2,513	2,513	0	0
Other payables	11,220	5,210	16,430	16,430	0	0
TOTAL	**182,254**	**(9,090)**	**173,164**	**155,410**	**17,754**	**0**

The group companies have no payables with an estimated residual amount due after more than five years.

NOTES TO THE MAIN PROFIT AND LOSS ACCOUNT CAPTIONS

PRODUCTION REVENUES

Turnover from sales and services – Change in work in progress, semi-finished products and finished goods and change in contract work in progress

(€'000)

	2019	2018	Variation
Turnover from sales and services	291,256	312,315	(21,059)
Change in semi-finished products and finished goods	2,042	1,791	251
Change in contract work in progress	(2,336)	(9,253)	6,917
TOTAL	**290,962**	**304,853**	**(13,891)**

Turnover from sales and services mainly relates to contract work carried out during the year and accepted by the customers.

Revenues from change in finished goods and semi-finished products refer to the work carried out by SRT at the Fano workshop.

Revenues from change in contract work in progress refer to the work carried out during the year but not yet completed.

A breakdown of turnover from sales and services by geographical segment is as follows:

(€'000)

	2019	%	2018	%	Variation
Italy	258,796	88.85%	283,572	90.80%	(24,776)
Europe (excluding Italy)	22,617	7.77%	5,668	1.81%	16,949
Egypt	3,030	1.04%	444	0.14%	2,586
Asia	2,300	0.79%	310	0.10%	1,990
Saudi Arabia	4,514	1.55%	22,321	7.15%	(17,807)
TOTAL	**291,256**	**100%**	**312,315**	**100%**	**(21,059)**

Internal work capitalised

Internal work capitalised of €15,868 thousand (2018: €12,757 thousand) includes €13,978 thousand for the direct cost (materials, labour and other direct costs) of work performed internally on tangible fixed assets, principally rolling stock and site machinery, owned by the group companies. This work consists of extraordinary maintenance performed by SRT S.r.l. at the Fano (Pesaro-Urbino) workshop.

Other revenues and income

Other revenues and income of €4,368 thousand (2018: €1,430 thousand) mainly refer to costs recharged and/or reimbursements of costs incurred on behalf of third parties (€711 thousand) and gains on the sale of group assets being

routinely replaced (€654 thousand)

(€'000)

	2019	2018	Variation
Recharges to third parties	711	1,246	(535)
Insurance and other compensation	2,667	9	2,658
Gains on sale of assets	654	355	299
Other sundry income	336	(180)	516
TOTAL	**4,368**	**1,430**	**2,938**

Insurance compensation includes the amount received by SRT S.r.l. (€2,638 thousand) for damage caused by a supplier of materials in relation to the construction of the new office building in Fano.

PRODUCTION COST

Production cost decreased from €269,856 thousand in 2018 to €254,734 thousand in 2019 (-5.6%). This decrease was higher than the reduction in production revenues (-4.7%).

Raw materials, consumables, supplies and goods

This caption amounts to €62,196 thousand net of changes in inventory.

(€'000)

	2019	2018	Variation
Raw materials, supplies and goods	63,618	57,070	6,548
Change in inventories	(1,422)	15	(1,437)
TOTAL	**62,196**	**57,085**	**5,111**

Services

This caption of €111,525 thousand (2018: €135,356 thousand) may be analysed as follows:

(€'000)

	2019	2018	Variation
Maintenance	3,636	2,312	1,324
Subcontracting, consultancy and third party services	68,405	90,976	(22,571)
Bed and board for employees on business trips	9,001	8,434	567
Costs of employees on secondment	574	1,604	(1,030)
Insurance and sureties	4,787	3,924	863
Costs recharged by third parties	3,047	2,968	79
Consultants' and temporary workers' fees	4,066	5,076	(1,010)
Utilities	952	883	69
Directors' fees	783	268	515
Statutory auditors' fees	123	60	63
Commercial costs	784	573	211
General and administrative costs	644	563	81
Tender costs	181	116	65
Transport	11,358	13,847	(2,489)
Vehicles and cars	1,282	1,121	161
Fines and compensation	314	540	(226)
Other services	1,588	2,091	(503)
TOTAL	**111,525**	**135,356**	**(23,831)**

Use of third party assets

This caption amounts to €7,830 thousand (2018: €8,545 thousand) and may be analysed as follows:

(€'000)

	2019	2018	Variation
Leases	3,772	6,055	(2,283)
Lease costs	2,589	837	1,752
Rent	1,469	1,653	(184)
TOTAL	**7,830**	**8,545**	**(715)**

Personnel expenses

This caption includes all direct and indirect expenses related to the group's employees as follows:

(€'000)

	2019	2018	Variation
Wages and salaries	40,158	37,089	3,069
Social security contributions	13,109	12,665	444
Employees' leaving entitlement, pensions and other benefits	1,994	1,945	49
Other costs	268	90	178
TOTAL	**55,529**	**51,789**	**3,740**

A breakdown of the group's workforce by company and category is as follows:

	2019	2018	Average
Salcef Group S.p.A.	99	96	97
Euro Ferroviaria S.r.l. single-member company	98	98	98
RECO S.r.l. single-member company	19	20	19
Salcef S.p.A. single-member company	565	561	564
Overail S.r.l. single-member company	33	36	34
SRT S.r.l. single-member company	64	47	48
H&M Bau GmbH	35	20	27
Coget Impianti S.p.A. single-member company	85	n.a.	n.a.
TOTAL	**998**	**878**	**887**

31 December 2019	Italy	Abroad	Total
Managers	26	-	26
White collars	195	40	235
Blue collars	641	96	737
TOTAL	**862**	**136**	**998**

Other operating costs

Other operating costs are analysed as follows:

(€'000)

	2019	2018	Variation
Loss on the sale of assets	136	71	65
Indirect taxes and duties	802	314	488
Fines and penalties	282	127	155
Other costs	866	1,184	(318)
TOTAL	**2,086**	**1,696**	**390**

The loss on the sale of assets refers to the group's normal operations (€136 thousand).

FINANCIAL INCOME AND CHARGES

Net financial charges amount to €1,039 thousand (2018: €3,824 thousand) and may be analysed as follows:

(€'000)

	2019	2018	Variation
Financial income			
Income from equity investments	5	0	5
Income from securities	333	57	276
Interest income	29	178	(149)
Other financial income	79	23	56
TOTAL	***446***	***258***	***188***
Financial expense			
Interest expense	(995)	(1,041)	46
Financial expense	(274)	(439)	165
Losses on financial receivables	(4)	(1,890)	1,886
TOTAL	***(1,273)***	***(3,370)***	***2,097***
Exchange rate gains and losses			
Exchange gains	593	322	271
Exchange losses	(805)	(1,034)	229
NET EXCHANGE RATE LOSSES	***(212)***	***(712)***	***500***
NET FINANCIAL CHARGES	**(1,039)**	**(3,824)**	**2,785**

ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES

Adjustments to financial assets and liabilities during the year include the fair value gain on the derivatives recognised under provisions for risks and charges (€84 thousand) and write-downs of investments in Salcef Polska Sp.Z.o.o and in Salcef Egypt Construction (€186 thousand) and loan granted to Salcef Egypt Construction (€178 thousand).

Income taxes

Income taxes may be analysed as follows:

(€'000)

	2019
IRES	13,408
IRAP	3,485
Foreign income tax	219
Current taxes	**17,112**
Change in deferred tax assets	19
Change in deferred tax liabilities	25
Deferred taxes	**44**
Prior year taxes	**(140)**
TOTAL	**17,016**

A reconciliation between theoretical and effective tax charges is as follows:

(€'000)	2019	
IRES	**Tax base**	**Tax rate**
Pre-tax profit	55,424	
Theoretical tax	*24%*	13,302
Sundry permanent increases	5,684	
Sundry temporary increases	417	
Sundry permanent decreases	(2,382)	
Sundry temporary decreases	(2,188)	
Deductible taxes (IRAP)	(119)	
Other variations	(969)	
Tax base	55,867	
Effective tax	*24%*	13,408

(€'000)	2019	
IRAP	**Tax base**	**Tax rate**
IRAP tax base	111,993	
Theoretical tax	*4.58%*	5,129
Personnel expenses (included in services)	9,740	
Other non-deductible costs	3,862	
Lease interest	0	
Sundry temporary increases	39	
Sundry temporary decreases	(267)	
Other variations	(3,385)	
Untaxable foreign personnel expenses	(3,628)	
Deduction of IRAP (tax wedge)	(34,835)	
Tax base	83,519	
Effective tax	*4.17%*	3,485

COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

Commitments and guarantees amount to €99,824 thousand (31 December 2018: €86,872 thousand) and include the residual amount still due at the reporting date on the lease agreements signed by Euro Ferroviaria S.r.l. (€7,601 thousand), sureties given by banks to the group companies on behalf of third parties to guarantee the correct performance of ongoing commercial relationships (€87,410 thousand) and sureties given to banks for the group companies' loans (€4,813 thousand).

The information required as per article 2427.22 of the Italian Civil Code on finance leases at 31 December 2019 is provided

herebelow. Lease payables due after one year amount to €4,733 thousand, while there are no payables with a residual amount due after more than five years.

(€'000)

	2019
A) LEASES	
Assets under finance lease at the end of the previous year, net of total depreciation	6,162
Assets acquired under finance lease during the year	5,400
Assets under finance lease redeemed during the year, net of total depreciation	0
Depreciation of the year	(1,104)
Prepayments	0
Impairment losses/gains on assets under finance lease	0
Assets under finance lease at year end, net of total depreciation	**10,458**
B) REDEEMED ASSETS	**0**
C) LIABILITIES	
Finance lease payables at the end of the previous year	5,448
Payables arisen during the year	4,320
Repayment of principals and redemptions during the year	(2,167)
Finance lease payables at the end of the previous year	**7,601**
D) OVERALL GROSS EFFECT AT YEAR END (A + B - C)	**2,857**
E) TAX EFFECT	**(686)**
F) EFFECT ON NET EQUITY AT YEAR END (D - E)	**2,171**
Effect on the profit and loss account:	
Elimination of finance lease instalments	2,234
Elimination of prepaid downpayments	329
Recognition of financial charges on finance leases	(67)
Recognition of:	
Depreciation	(1,104)
Impairment losses/gains on assets under finance lease	0
Effect on profit before taxes	**1,392**
Recognition of the tax effect	**(385)**
Effect of finance leases on the net profit for the year	**1,007**

EXTRAORDINARY TRANSACTIONS

Merger

As mentioned earlier, Indstars 3 was merged into Salcef Group S.p.A. on 31 October 2019. The transaction was finalised on 8 November 2019 when Salcef Group S.p.A. began trading financial instruments on the AIM market. The merger took effect from the first day of the statutory year of the merged company, Indstars 3, underway upon the legal effects of the merger. Therefore, the operations of Indstars 3 were included in the financial statements of the merging company, Salcef Group S.p.A., starting from 1 July 2019.

Upon finalisation of the business combination, Salcef Group S.p.A.'s share capital was increased to €60,000,000 and the difference between such share capital increase of the merging company and the portion of the net equity of the merged

company attributable to minority interests was taken to the specific equity reserve, called goodwill. Therefore, a gain on share swap of €45,167 thousand resulted from the business combination as the share capital increase was lower than the corresponding portion of the net equity of the merged company attributable to minority interests.

The information required by paragraph 4.5 of OIC 4 is set out in the table below in order to provide a greater understanding of the accounting effects of the transaction. It provides the following for both the balance sheet and the profit and loss account:

a) the amounts from the prior year financial statements of the merging company;

b) the opening balances recognised for the merged company;

c) the balances of the merged company included in the consolidated financial statements.

(€'000)

BALANCE SHEET	Merging company balances at 31/12/2018	Indstars 3 balances at 30/06/2019 (*)	Indstars 3 balances at 08/11/2019
Assets			
B) Fixed assets	122,918	310	310
C) Current assets	61,892	155,059	103,959
D) Prepayments and accrued income	528	223	13
TOTAL ASSETS	**185,338**	**155,592**	**104,282**
Liabilities			
A) Net equity, of which:			
- Share capital	200	1,980	1,980
- Reserves	54,267	152,667	102,987
- Net profit (loss) for the year/period	27,307	320	(728)
B) Provisions for risks and charges	1,422	0	0
c) Employees' leaving entitlement	42	0	
D) Payables	102,092	625	43
E) Accrued expenses and deferred income	8	0	
TOTAL LIABILITIES	**185,338**	**155,592**	**104,282**

(*) = closing date of Indstars 3's financial year

(€'000)

PROFIT AND LOSS ACCOUNT	Merging company balances for 2018	Indstars 3 balances for the year ended 30/06/2019 (*)	Indstars 3 balances for the period from 01/07/2019 to 08/11/2019
A) Production revenues	19,460	7	0
B) Production cost	22,190	2,083	1,025
Operating loss (A-B)	(2,730)	(2,076)	(1,025)
C) Net financial income	29,836	1,161	297
D) Adjustments to financial assets and liabilities	0	0	0
Profit (loss) before taxes (A-B+-C+-D+-)	27,106	(915)	(728)
22) Income taxes	(201)	(1,235)	0
23) Net profit/(loss) for the year/period	27,307	320	(728)

(*) = closing date of Indstars 3's financial year

OTHER INFORMATION

Independent auditors' fees

As per article 2427.1.16-bis of the Italian Civil Code, the fees paid to the independent auditors KPMG S.p.A. for the statutory audit of the consolidated financial statements of the Salcef Group (parent and subsidiaries) total €100 thousand.

Related party transactions (article 2427.22-bis of the Italian Civil Code)

In accordance with article 2427.22-bis of the Italian Civil Code, it is noted that the group did not carry out significant related party transactions at other than market conditions during the year, either in terms of the prices applied or the reasons underlying them, except for that set out in these notes.

Transactions with related parties that were not eliminated via the consolidation process are as follows:

(€'000)

ASSETS AND LIABILITIES AT 31/12/2019	Financial fixed assets	Trade receivables	Trade payables	Loans and borrowings
Unconsolidated subsidiaries				
Consorzio Stabile Itaca S.c.a.r.l.		1,496	(706)	
Salcef Polska S.p.zoo				(9)
COEL Powerlines		708		
TOTAL	**0**	**2,204**	**(706)**	**(9)**
Associates				
Frejus S.c.a.r.l.		281	(71)	
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	353	1	(55)	
Sesto Fiorentino S.c.a.r.l.	325	92	(2,737)	
TOTAL	**678**	**374**	**(2,863)**	**0**
Parents				
Finhold S.r.l.		12		
TOTAL	**0**	**12**	**0**	**0**

(€'000)

2019 REVENUES AND COSTS	Revenues	Costs
Unconsolidated subsidiaries		
Consorzio Stabile Itaca S.c.a.r.l.	2,188	(735)
Salcef Polska S.p.zoo	21	(184)
COEL Powerlines	37	
TOTAL	**2,246**	**(919)**
Associates		
Frejus S.c.a.r.l.		(6)
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità		(4)
Sesto Fiorentino S.c.a.r.l.	1	(1,826)
TOTAL	**1**	**(1,836)**

Transactions with subsidiaries and associates mainly refer to commercial transactions linked to costs recharged by and to the consortium companies and consortia.

Reference should be made to the notes to the specific captions for further information on receivables and payables.

Post-balance sheet events

No events have taken place since the reporting date that would have a significant impact on the group's financial position at 31 December 2019 or its financial performance and cash flows for the year then ended.

With regard to the Covid-19 (Coronavirus) health emergency, the parent immediately set up a task force to manage the related risks, constantly updating the legal representatives of the group companies on developments, in order to best manage the risks linked to the epidemic and ensure the safety of everyone involved in the group's production and management activities in any way.

Salcef Group S.p.A., together with all of the subsidiaries, swiftly took the most efficient measures to inform all employees, suppliers, subcontractors and other parties that have any relations with the Salcef Group about the safeguards necessary and/or useful to limit the risk of contagion and to manage any situations of risk or infection.

To date there have been no events of contagion or situations of particular risk recorded. With regard to production activity, following the latest measures issued by the Italian Prime Minister to tackle the COVID-19 emergency, the group is solely performing rail maintenance activities requested by RFI S.p.A. in order to ensure the safety of railway traffic, with a very limited use of means and people, at least until 3 April 2020. Considering the uncertainty of how long such measures will be in place, it is not currently possible to reliably determine and quantify the impact that the current health crisis could have on the group's financial position and performance in 2020. In any case, the above events do not qualify as post-balance sheet events that need to be reflected in the financial statements figures at 31 December 2019.

Furthermore, the current situation of the health emergency is being reflected on the financial markets, with losses on instruments held in portfolio by Salcef Group S.p.A.. Such losses were not reflected in the financial position at 31 December 2019 as they are not deemed to be impairment losses.

Signed

CEO

Valeriano Salciccia

SALCEF GROUP S.p.A.

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

2019 DIRECTORS' REPORT

Introduction

Pursuant to the requirements of article 2428 of the Italian Civil Code, this directors' report provides information about the Salcef Group's financial position and performance.

The consolidated financial statements comprise the financial statements of the parent, Salcef Group S.p.A. (the "company" or the "parent"), and those of the Italian and foreign companies that it directly or indirectly controls, adjusted to comply with group accounting policies.

At 31 December 2019, the consolidation scope includes the following companies (together the "group"):

- Salcef S.p.A. single-member company, a wholly-owned subsidiary active in the construction and railway works sector;
- SRT S.r.l. single-member company, a wholly-owned subsidiary that provides routine and extraordinary maintenance services for rolling stock;
- RECO S.r.l. single-member company, a wholly-owned subsidiary which has been active in the infrastructure works design sector for years;
- Euro Ferroviaria S.r.l. single-member company, a wholly-owned subsidiary operating in Italy in the construction and maintenance of permanent way systems;
- Overail S.r.l. single-member company, a wholly-owned subsidiary acquired on 27 September 2017 that produces and sells reinforced, vibrated and prestressed concrete railway sleepers, precast slabs in reinforced vibrated concrete for urban transport systems and tunnel segments. In their extraordinary meeting of 4 April 2019, the company's quotaholders decided to change its name from Vianini Industria S.r.l. to Overail S.r.l.;
- H&M Bau GmbH, a wholly-owned subsidiary acquired on 7 October 2018 that operates in the German railway market and specialises in construction and railway superstructures works. The company changed its name to Salcef Bau GmbH on 31 January 2020.
- Coget Impianti S.p.A., a wholly-owned subsidiary acquired on 30 July 2019. Established in 1983, it designs, constructs and provides maintenance of distribution and contact power lines for electrical traction, mainly railway transport.

Other unconsolidated subsidiaries and associates are measured at equity, as detailed in the notes to the consolidated financial statements.

Performance

Production revenues amounted to €311 million in 2019, compared to €319 million in 2018.

The group made a net profit of €38.4 million for the year attributable to the owners of the parent, compared to €29.4 million for 2018.

2019 was a turning point for the Salcef Group with an important merger and resulting listing on the AIM market of the Italian Stock Exchange, in addition to the acquisition of a new company, the expansion of its operations abroad and, finally, in terms of production volumes.

With regard to the first event, Industrial Stars of Italy 3 S.p.A. ("Indstars 3") merged into Salcef Group S.p.A. on 31 October 2019 and the parent's share capital increased accordingly by €100 million. Following such business combination, Salcef Group S.p.A. was listed on the multi-lateral AIM market managed by the Italian Stock Exchange on 8 November 2019.

This transaction, which is part of the Salcef Group's plan to develop and expand its business, began on 15 April 2019 with the signing of a master agreement with Indstars 3 governing the business combination of the two companies. Indstars 3 was a special-purpose acquisition company ("SPAC") which was listed on the AIM market of the Italian Stock Exchange. It raised €150 million from Italian and foreign investors and was to be merged into a target company. On 11 July 2019, the shareholders of Indstars 3 unanimously approved the business combination with Salcef Group S.p.A., after the shareholders of the latter had, in turn, approved the same on 10 July 2019.

The merger was decided on the basis of Salcef Group S.p.A.'s financial position as per the financial statements at 31 December 2018 (approved by the shareholders on 5 April 2019) and Indstar 3's financial position at 31 December 2018 (approved by the board of directors on 19 March 2019). The transaction was finalised on 8 November 2019 when Salcef Group S.p.A. began trading financial instruments on the AIM market. The merger took effect from the first day of the statutory year of the merged company, Indstars 3, underway upon the legal effects of the merger. Therefore, the operations of Indstars 3 were included in the financial statements of the merging company, Salcef Group S.p.A., starting from 1 July 2019.

Upon finalisation of the business combination, Salcef Group S.p.A.'s share capital was increased to €60,000,000 and the difference between such share capital increase of the merging company and the portion of the net equity of the merged company attributable to minority interests was taken to the specific equity reserve, called goodwill. Therefore, a gain on share swap of €45,167 thousand resulted from the business combination as the share capital increase was lower than the corresponding portion of the net equity of the merged company attributable to minority interests.

In relation to the second event, on 30 July 2019, Salcef Group S.p.A. signed the closing agreement for the acquisition of the entire share capital of Coget Impianti S.p.A.. Established in 1983, this company designs, constructs and provides maintenance of distribution and contact power lines for electrical traction, mainly railway transport. It is classified by Ferrovie dello Stato in the specialisation category "Interventions on contact lines for traction and high and medium voltage lines" and has recorded excellent financial figures. Indeed, it doubled its production revenues in 2018 thanks to important contracts in Germany and Austria. With this acquisition, the Salcef Group aims to strengthen its leadership in the railway electrical traction segment and expand into the energy distribution power lines segment. Furthermore, the group can boost its growth in Austria and Germany, begun in 2018 with the acquisition of H&M Bau.

In 2019, Salcef S.p.A. Saudi Arabia Branch almost completed the works on the Riyadh Metro Line 3 in Riyadh. Salcef S.p.A. Roma Sucursala Bucuresti also continued work on the metro permanent way systems for the new Line 5 of the Bucharest Metro on behalf of the Astaldi S.p.A. - FCC Construccion S.A. - UTI Grup S.A. - Activ Group Management S.r.l. joint venture.

With respect to the foreign contracts managed through local branches or subsidiaries:

- United Arab Emirates: in May 2019, the subsidiary Salcef S.p.A. set up a branch in the United Arab Emirates in order to tap into the important development opportunities offered by the Middle East in the permanent way systems segment and following preliminary sales agreements signed with certain segment operators for tenders pending assignment. On 14 September 2019, the branch signed a contract worth approximately €40 million with the joint venture between China State Construction Engineering Corporation and SK Engineering and Construction (from South Korea) for works to build the track of the new railway line between Ruwais and Ghuweifat, at the border with Saudi Arabia, slated to begin in 2020 and end by 2022.
- Egypt: building of the railway station in Kozzyka. In July 2016, the Salcef Group was awarded the contract to build a new railway station in Kozzyka for Line 1 of Cairo metro (Egypt) by the National Authority for Tunnels as part of a joint operation in which it has a 30.58% interest. The Petroleum Projects and Technical Consultations Company "Petrojet" holds the other 69.42% stake in the joint operation. The contract assigned to the Salcef Group was worth approximately €7 million. Work site activities started in early 2017, construction commenced in 2018 for an amount of approximately €0.2 million and production worth roughly €4.9 million was carried out in 2019. The works are expected to be completed in 2020.
- Saudi Arabia: construction of Line 3 of the Riyadh Metro. In November 2015, the Salcef Group, as leader of a joint operation between itself (60%) and the Saudi company Rhomberg Contracting Co. Ltd. (40%), was awarded the subcontract for the design and construction of the metro superstructure for the new Line 3 of the Riyadh Metro on

behalf of the CWG consortium led by Salini-Impregilo S.p.A.. In July 2016, Addendum 1 to the original contract signed with Rhomberg Contracting Co. Ltd. was finalised and the parent increased its interest in the joint operation from 60% to 99.99%. Works continued during the year with production worth €107 million carried out by year end (percentage of completion: 97.80%). The construction work will be completed in 2020.

- India: technical assistance - Project package-201 & 202: western corridor for freight transport in India. In 2016, the Salcef Group signed a subcontracting agreement with GMR Infrastructure Limited worth €1.4 million to provide technical assistance with the construction of a western freight transport corridor in India. It continued to provide its services in 2019 for a value of €0.06 million at year end.
- Romania: rehabilitation of the Frontiera-Curtici-Simeria railway line. The Salcef Group, as a partner (1.00%) in two joint ventures set up with Astaldi S.p.A. (leader), F.C.C. Construccion S.A. and Thales Systems Romania S.r.l., was awarded two large contracts for the rehabilitation of two adjacent railway lots on the Frontiera-Curtici-Simeria railway line, part of the European IV Corridor (Sublots 2A and 2B) for roughly €7.5 million. Works started in 2018 with production of approximately €0.6 million, while production of €1.4 million was carried out in 2019. Works are expected to continue for about three more years.
- Norway: services contract for the renovation of 150 km of tracks. In 2019, Salcef S.p.A. opened a branch in Norway which signed a €9 million contract with Baneservice A.S. for the lease of machinery and specialised personnel to renovate 150 km of tracks of the Norwegian railway network for the 2018-2020 period. Production worth €2.7 million was carried out in 2019.

  The Norwegian branch signed another important services contract in 2019 with the joint venture between Acciona and Ghella S.p.A. for the construction of 40 km of tracks for the Follo Line in Norway worth roughly €6.8 million.

Finally, Salcef Group S.p.A.'s Croatian branch "Salcef S.p.A. – Podruznica Zagreb", based in Zagreb, was definitively closed at the end of September 2019.

Salcef S.p.A. opened two new branches, one in Croatia and one in Switzerland, to strengthen the company's business in these countries, which offer excellent prospects in terms of investments in the railway sector. They are currently not operative, however, since no contracts have yet been awarded.

The group carries out its works in Italy through Salcef S.p.A., Euro Ferroviaria S.r.l. and Overail S.r.l.. Like in previous years, the former two companies' activities in 2019 consisted of permanent way systems works performed almost solely for their main customer, Rete Ferroviaria Italiana S.p.A.. Specifically, they strengthened their position in the areas of greatest interest to them thanks to long-term contracts for the routine and extraordinary maintenance of permanent way

systems, electrical traction systems and multidisciplinary railway works. Overail S.r.l. produced sleepers for its key customer Rete Ferroviaria Italiana S.p.A. as part of a three-year project to renew and perform extraordinary maintenance on the permanent way systems on the existing lines of the RFI - Lotto Centro network.

The Salcef Group is comprised of eight main companies and 11 foreign branches. The group companies manufacture and provide maintenance of plant for railway infrastructure and tram and metro systems and constructs infrastructure to link areas and enable the transport of freight and people using its specific know-how and equipment.

The group's business model and expertise are collected in six business units defined by type of activity and the relevant operating units, set up at one or more group companies active in one or more specific business, subject to the central control and coordination of the parent, Salcef Group S.p.A..

Thanks to an integrated business model, the Salcef Group can optimise its resources to the utmost and fully grasp different market opportunities, while at the same time offering tailored solutions to its customers.

The group operates via the following business units:

- TRACK & LIGHT CIVIL WORKS: this business unit performs maintenance, renewal and construction of permanent way systems, i.e., railway, tram and metro superstructure works;
- ENERGY, SIGNALLING & TELECOMMUNICATION: this business unit performs contracts in the electrical traction, substations and railway signalling sector, in addition to works for the distribution of electrical energy at low, medium and high voltage via overhead and underground lines;
- HEAVY CIVIL WORKS: this business unit performs contracts that comprise various categories of specialisation, together with infrastructural works;
- RAILWAY MATERIALS: this business unit produces one-piece railway sleepers, tunnel segments and slabs for urban transport systems;
- RAILWAY MACHINES: this business unit designs, constructs, sells, leases and performs maintenance of machinery for the construction and maintenance of railway infrastructure;
- ENGINEERING: this business unit provides railway design and engineering services.

A brief description of the activities performed in 2019 by each of the group's business units is provided below with a short-term outlook.

TRACK AND LIGHT CIVIL WORKS

This business unit is the group's core business. It carries out construction, maintenance and renewal of railways, trams and metros. It accounts for most of the group's employees and employs high performance operating machinery of

significant economic value.

Specifically, the group provides its customers with the following services through this business unit:

- construction of ballast tracks for both high speed and traditional lines and of unballasted tracks for urban rail, tram and metro systems;
- track renewal and maintenance;
- lease of railway vehicles.

The Salcef Group is one of the few operators on the reference market which provides its customers with a fully mechanised system for the renewal of tracks. This method uses a railway vehicle (known as a work train) which avoids service interruptions and cuts production costs, while maintaining high performance levels in terms of speed and precision, with minimal disruption to railway services. At present, Salcef group companies have four renewal work sites which operate continuously in Italy, entailing a significant investment in terms of high performance machinery. The group thus has strong operating potential unique to only a few competitors in Europe.

Each site is fully mechanised and boasts teams dedicated to specific tasks, ensuring compliance with the highest quality and occupational safety standards, as well as daily average production among the highest on the global market, with the potential to build up to 2 km of tracks a day and to renew up to 1 km of tracks per day with partial closure to rail traffic.

Track renewal and maintenance are the group's core business and account for most of the non-cyclical production, i.e., the production less exposed to the ups and downs of the business cycle. Indeed, routine and extraordinary infrastructure maintenance is difficult to reduce as it relates to the need to maintain the functional standards of the railway infrastructure and the safety of rail traffic.

This production segment requires important operating skills which mainly comprise the ownership of expensive rolling stock and specialised personnel authorised to operate the above machines, with partial closure to rail traffic.

In accordance with the contracts signed with their customers and, in particular, with Rete Ferroviaria Italiana S.p.A., which owns and operates Italy's railway network, the Salcef Group and, specifically, Salcef S.p.A., operates through its sites on a steady basis, ensuring routine maintenance and renewal for most of central Italy's railway lines.

The business unit's current order backlog mainly includes long-term routine and extraordinary maintenance contracts, as well as construction contracts, mostly awarded by the key customer Rete Ferroviaria Italiana S.p.A. and, to a lesser extent, other customers, such as ATAC S.p.A..

ENERGY, SIGNALLING & TELECOMMUNICATION

This business unit performs contracts in the electrical traction, substations and railway signalling sector.

Like the Track and Light Civil Works business unit, and excepting only the construction of new systems, which in any event accounts for a residual portion of turnover, this business unit's activities meet the definition of non-cyclical activities. Indeed, the elements comprising the electric traction and the signalling systems are subject to natural wear and tear which require ongoing and scheduled maintenance.

Every year, the Salcef Group operates on at least 100 km of tracks (i) building foundations and support poles (ii) installing new overhead lines while dismantling the old ones, (iii) installing ground and protection circuits.

The business unit also builds and maintains the substations which power the traction systems and installs signalling systems on aprons and stations.

It boosted its turnover in 2019 thanks to the acquisition of Coget Impianti S.p.A. which designs, constructs and provides maintenance of railway electrification systems and overhead and underground lines for the distribution of electrical energy at low, medium and high voltage.

Again like for the Track and Light Civil Works business unit, its current order backlog guarantees this unit work for at least the next three years with substantially stable production levels.

HEAVY CIVIL WORKS

In order to offer an increasingly wide range of services to its customers, the Salcef Group has leveraged its operational capacity to perform multidisciplinary works, i.e., works comprising different types of specialist work.

This business unit includes contracts related to the construction of new railway lines, the doubling of existing lines, the construction of new systems at complex stations or the upgrade of railway nodes. Usually, these contracts entail construction works, including the construction of bridges, tunnels and infrastructures in general, as well as permanent way, electrical traction and signalling systems.

Over the past few years, in order to upgrade and speed up the existing railway lines, including the secondary lines, Rete Ferroviaria Italiana S.p.A. planned many projects, usually of a medium size, involving activities typical of this business unit.

Thanks to its registrations with the Qualification registers kept by Rete Ferroviaria Italiana S.p.A. for all types of works, the Salcef Group provides its customers with an integrated service, offering greater competitiveness and more effective coordination of the various tasks.

RAILWAY MATERIALS

This business unit produces one-piece railway sleepers, tunnel segments and slabs for urban transport systems. It is fully managed by the subsidiary Overail S.r.l. (formerly Vianini Industria S.r.l.).

All production is carried out at the Overail-owned Aprilia site which has plant for producing reinforced concrete railway

sleepers and plant for making other concrete products, such as tunnel segments and prefabricated slabs for urban and rail transport systems.

The business unit operates both directly, with contracts with Rete Ferroviaria Italiana S.p.A. for the supply of railway sleepers and with Metro C S.ca.r.l. for the production and supply of segments and slabs for the new metro line in Rome, and as a supplier to other group companies, almost exclusively for the supply of railway sleepers for the renewal and construction of railway lines.

The business unit became part of the Salcef Group in September 2017 following the acquisition of 100% of Vianini Industria S.r.l., a company that has been working in the sector for decades.

Numerous new products are currently being developed.

RAILWAY MACHINES

This business unit is fully managed by the wholly-owned subsidiary SRT S.r.l., which was identified by the group's operating companies (Salcef S.p.A. and Euro Ferroviaria S.r.l., in particular) as the party in charge of rolling stock maintenance. It designs, builds and maintains rolling stock used for the maintenance of railway infrastructure and freight transport.

SRT S.r.l. operates from Via del Bersaglio 2, Fano (Pesaro-Urbino). Its workshop, warehouses and office block are deemed strategic for group purposes as it has direct access to the Italian railway network.

Starting from 2017, its customer base has been extended to include third party companies. Specifically, in 2019, the company won an important foreign contract worth approximately €2.3 million for the supply of SGMNS railway hopper wagons with DHS conveyor belts. The project was entirely designed and developed by SRT S.r.l. at its facility in Fano. The wagons were delivered in February 2019.

SRT S.r.l.'s contracts, related to both Italian and foreign customers, mainly comprise the provision of the railway wagons it builds (both SGMNS and KGMNS models), featuring fittings specifically developed for the transport of railway and inert material and tailored to specific customer needs.

SRT S.r.l. also won an important contract, despite its limited amount, for the maintenance of means of work on behalf of Rete Ferroviaria Italiana S.p.A., as part of the Ancona Territorial Production Department.

Finally, the subsidiary designed and built a track grinder which was subsequently transferred to the related company Salcef S.p.A single-member company. After obtaining the necessary approval and having successfully completed an initial trial period, such related company has already completed several contracts for Italian customers managing railway infrastructures.

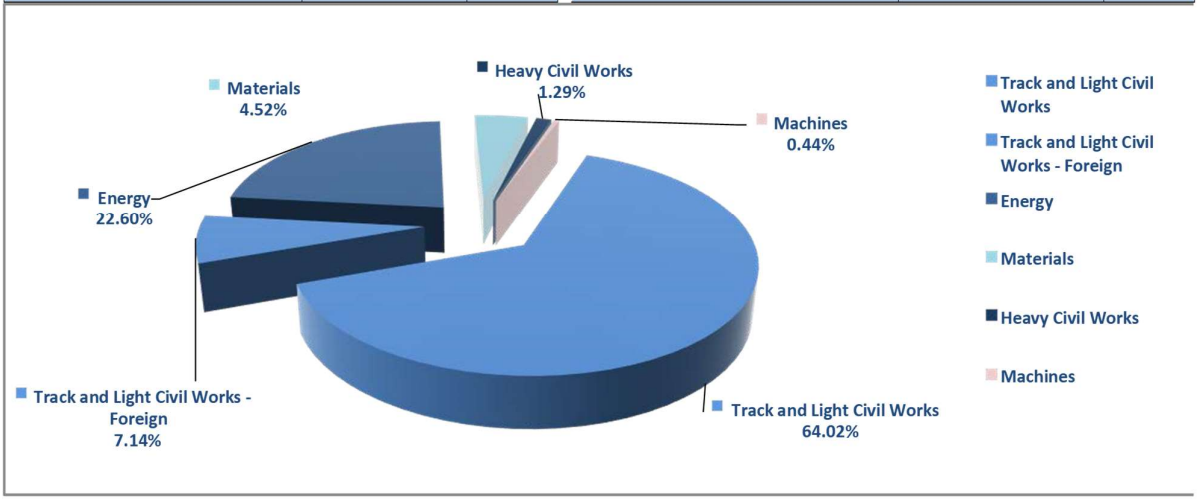
ENGINEERING

This business unit has a key role as it complements, integrates and assists the other business units and is responsible for railway engineering. It has been reorganised over recent years in response to the rising demand for an efficient railway system design service and to meet the requests of third party customers. The business unit currently has about 22 employees specialised in different areas and organised to support the above operating segments during the executive design stage of each contract and the pre-tender preliminary design stage.

At year end, the group's order backlog includes permanent way systems routine maintenance and renewal work (71.15%), multidisciplinary railway works (1.29%), energy sector works (22.60%), sleepers and prefabricated products production (4.52%) and work on machinery (0.44%), which ensure continuity using the existing operating units active in the relevant geographical areas. The group's order backlog at 31 December 2019 is analysed below by country:

Business unit	Amount	%
ITALY	496,633,432.09	82.61%
ABROAD	104,558,531.31	17.39%
TOTAL	601,191,963.39	100.00%

Business unit	Amount	%
Track and Light Civil Works	384,862,531.38	64.02%
Track and Light Civil Works - Foreign	42,914,264.03	7.14%
Energy	135,846,612.02	22.60%
Materials	27,179,208.08	4.52%
Heavy Civil Works	7,768,929.42	1.29%
Machines	2,620,418.48	0.44%
TOTAL	601,191,963.39	100.00%



The group's key profit and loss account indicators are as follows:

(€'000)

	2019	2018
EBITDA	72,032	64,569
EBIT	56,464	48,902
EBITDA/Production revenues	23.1%	20.2%
EBIT/Production revenues	18.1%	15.3%
ROE	15.3%	21.4%

Note:
EBITDA: The difference between production revenues and production cost, before amortisation, depreciation, write-downs and accruals
EBIT: Profit before taxes less net financial income or charges
ROE: Net profit over net equity

As shown by the above EBITDA, EBIT and ROE indicators, the group recorded an improvement in the profitability of its core business in 2019.

The key statement of financial statement indicators are as follows:

(€'000)

	31/12/2019	31/12/2018
Net trade working capital (NTWC)	82,709	62,407
Other changes in net working capital	11,432	4,590
Net fixed assets	106,606	75,619
Provisions	(5,293)	(2,894)
Net invested capital (NIC)	195,453	139,722
covered by:		
NE	(251,335)	(137,494)
NFP	55,882	(2,227)

Note:
NWC: Current assets, prepayments and accrued income, accrued expenses and deferred income, current receivables net of current payables
NFP: Liquid funds, other securities and bank loans and borrowings
NIC: Net equity and net financial position

With respect to investments in operating assets, tangible fixed assets (mostly rolling stock) increased by approximately €24,486 thousand following the acquisition of new machinery and the revamping of some existing machinery. Specifically, tangible fixed assets showed a net increase of €15,394 thousand net of depreciation of €11,077 thousand. The increase is part of the group's major investment plan in tangible fixed assets for the 2018/2019 period. Most assets are eligible for the tax benefits introduced by the Industria 4.0 plan. Specifically, when certain requirements are met, companies can avail of the so-called "hyper-amortisation", i.e., for assets purchased or ordered in 2018, including those expected to be delivered in 2019, they can apply a 150% increase on the acquisition cost deductible for tax purposes, while complying with the depreciation plan applicable to each asset. Following an amendment to the legislation, the increase for assets

acquired or ordered in 2019, including those expected to be delivered in 2020, is now applied over brackets, with percentages ranging from 50% to 170%.

Investments include the acquisition of Coget Impianti S.p.A. which joined the group on 30 July 2019, leading to an increase in tangible fixed assets at 31 December 2019 for a net carrying amount of €3,404 thousand.

Overall, the group's financial position is sound as can be seen from the above indicators.

The group companies are included in the relevant registers kept by Rete Ferroviaria Italiana S.p.A. for the following works:

Salcef S.p.A. single-member company:

- Permanent way systems - unlimited amount;
- Electrical traction - unlimited amount;
- Civil works on existing lines - unlimited amount;
- Substations - up to €2,070,000;
- Technological systems to respond to emergencies in existing tunnels - up to €2,000,000;
- Railway signalling - up to €2,500,000;
- Civil works on existing tunnels - up to €18,000,000.

SRT S.r.l. single-member company:

- Machinery maintenance - unlimited amount.

Euro Ferroviaria S.r.l. single-member company:

- Permanent way systems - unlimited amount;
- Electrical traction systems - up to €2,070,000.

RECO S.r.l. single-member company:

- Engineering services for railway tracks - up to €200,000;
- Engineering services for the permanent way systems - up to €100,000;
- Engineering services for tunnels - up to €100,000;
- Engineering services for electrical traction systems - up to €40,000;
- Design assistance - up to €900,000.

Overail S.r.l. single-member company:

- Production of reinforced, vibrated and prestressed concrete sleepers - unlimited amount.

The parent is UNI EN ISO 9001 (quality management system) and ISO 14.001 and OHSAS 18.001 certified for all its

activities.

Salcef S.p.A. is UNI EN ISO 9001 (quality management system), ISO 14001 (environmental management system) and OHSAS 18001 (occupational health and safety management system) certified for all its activities.

Euro Ferroviaria S.r.l. is UNI EN ISO 9001 (quality management system), ISO 14001 (environmental management system) and OHSAS 18001 (occupational health and safety management system) certified for all its activities.

SRT S.r.l. is UNI EN ISO 9001 (quality management system) and ECM (railway maintenance) certified for all its activities.

RECO S.r.l. is UNI EN ISO 9001 (quality management system) certified for all its activities.

Overail S.r.l is UNI EN ISO 9001 (quality management system), ISO 14.001 (environmental management system) and OHSAS 18.001 (occupational health and safety management system) certified for all its activities.

Coget Impianti S.p.A. is ISO 37001:2016 certified and received the new ISO 37001 certificate from a different certifying body on 25 March 2019.

With respect to the measures introduced by Legislative decree no. 231/2001 on the administrative liability of legal entities, companies and associations, including without legal personality, Salcef Group S.p.A. and other group companies have decided and still believe it necessary to increase their internal controls over their activities and have introduced the organisational models required by Legislative decree no. 231/2001 and ISO 37001. To this end, on 27 February 2019, the parent's board of directors approved a new version of the organisational, management and control model, the group's code of conduct and ethics, its disciplinary code and by-laws for its supervisory body in accordance with Legislative decree no. 231 of 8 June 2001 and in application of the new rules. The group set up an internal audit unit to assess the overall suitability of the internal controls and, in particular, the effectiveness of the controls in place to prevent the predicate crimes as per Legislative decree no. 231/01. The internal audit unit will provide this service to the other group companies as part of the services coordinated by the parent.

Finally, the parent's board of directors approved the 2019 audit plan of the internal audit and compliance unit on 27 February 2019.

With respect to its workforce, the group carries out its activities in full compliance with the relevant environmental and occupational hygiene regulations as well as applicable foreign legislation.

At year end, the group's workforce comprised the following employees:

31 December 2019	Italy	Abroad	Total
Managers	26	-	26
White collars	195	40	235
Blue collars	641	96	737
TOTAL	**862**	**136**	**998**

Performance of the group companies

Salcef S.p.A. single-member company

Set up in November 2013, this company received a civil construction and railway construction business unit from the parent in 2014.

Salcef made a net profit of €36,630 thousand for the year compared to €31,091 thousand for 2019, and recorded production revenues of €206,510 thousand against €224,128 thousand for 2018.

These results are very positive with a considerable improvement in core business profitability. Production revenues decreased by 7.9%, followed by a more than proportional reduction in production cost (-16.1%). Specifically, the contracts that accounted for the highest production volumes in the year were those for the renewal and maintenance of the railway lines as part of the three-year plan defined by RFI S.p.A. for the 2017-2019 and the 2018-2020 three-year periods (the master agreements).

During the year, RFI S.p.A. continued to increase the projects to upgrade the existing railway lines availing of the large public funds made available for this purpose and this will continue in 2020. Most of its funds are earmarked for the main railway lines, which is the company's core maintenance business. Therefore, an increase in the resources for maintenance work and investments has had a positive effect on Salcef S.p.A.'s production, and it was thus able to properly deploy its employees and machinery.

Euro Ferroviaria S.r.l. single-member company

This group company is active in the permanent way systems sector and focuses on the Italian market.

Its net profitability is equal to 21.9% (2018: 31.2%) and it made a net profit of €3,255 thousand for the year compared to €4,563 thousand for 2018, after tax of €78 thousand, and recorded production revenues of €34,953 thousand against €56,038 thousand for 2018.

Both EBITDA and EBIT decreased during the year due to a drop in production and a non-proportional decrease in related costs. Indeed, the fall in production cost (-36%) was less than proportional to the decrease in production revenues (-38%),

thus causing a slight worsening in EBITDA and EBIT. The latter was also impacted by the higher investments made by the company which led to a rise in depreciation. However, as a direct consequence of such investments in tangible fixed assets, there was a reduction in equipment lease costs, causing a positive effect on the EBITDA margin which increased from 14.9% in 2018 to 16.8%.

The contracts that accounted for the highest production volumes in the year were those for the renewal and maintenance of the railway lines as part of the three-year plan defined by RFI S.p.A. for the 2018-2019 period (the master agreements).

As part of the investment plan implemented by Euro Ferroviaria over the past two years in order to acquire more equipment in response to the growth in its business volumes, in 2018 the company entered into four finance leases to purchase machinery (one ballast cleaning machine and three tamping machines), most of which are eligible for the tax benefits introduced by the Industria 4.0 plan mentioned earlier. The ballast cleaning machine was delivered at the end of 2018, while two tamping machines were delivered in July and August 2019. Accordingly, the subsidiary began paying the relevant lease instalments. The third tamping machine was delivered at the end of December 2019.

Finally, a new operating unit active in the railway electrical traction and technological works sector is being set up, alongside the related company Salcef S.p.A. which has been active in this sector for about ten years. The group decided to set up this unit to increase its capacity to meet the demand of its key customer RFI S.p.A.. The new operating unit will augment production in this sector, also given the development expected over the next three years, based on RFI S.p.A.'s business plan and forecast investments.

RECO S.r.l. single-member company

This company is active in the design sector and recorded production revenues of €1,546 thousand for the year, substantially in line with the previous year's figure of €1,557 thousand.

It has a sound financial position with a pre-tax profit of €249 thousand and net equity of €1,023 thousand.

SRT S.r.l. single-member company

Set up in November 2013, the company carries out design, construction and maintenance of rolling stock for the maintenance of railway infrastructure and freight transport.

It earned production revenues of €17.9 million in 2019 (€18.2 million in 2018) essentially split among three areas:

1) routine and extraordinary maintenance of rolling stock performed directly at the work sites of Salcef S.p.A. and Euro Ferroviaria S.r.l.;
2) extraordinary maintenance of rolling stock at the Fano (Pesaro-Urbino) site, mainly belonging to Salcef S.p.A.;
3) construction of railway equipment (e.g., flat carts) for sale to both group companies and third parties.

Specifically, 85.9% of its activities in 2019 was performed for group companies on the basis of master agreements for routine and extraordinary maintenance of all their machinery with the other 14.1% being carried out for third parties.

SRT S.r.l. made a net profit of €240 thousand for the year compared to €324 thousand for 2018, after tax of €228 thousand, and recorded production revenues of €26,310 thousand against €18,229 thousand for 2018.

Overail S.r.l. single-member company

This company was set up on 30 May 2017 and joined the Salcef Group on 27 September 2017.

In their extraordinary meeting of 4 April 2019, the company's quotaholders decided to change its name from Vianini Industria S.r.l. to Overail S.r.l..

This subsidiary produces:

- reinforced, vibrated and prestressed concrete railway sleepers;
- reinforced, vibrated concrete precast slabs for urban transport systems;
- reinforced vibrated concrete tunnel segments.

Overail S.r.l. made a net profit of €5,167 thousand for the year compared to €3,684 thousand for 2018, after tax of €2,126 thousand, and recorded production revenues of €40,774 thousand against €33,173 thousand for 2018. There was an improvement in core business profitability during the year. Indeed, production revenues increased by 22.9%, followed by a less than proportional rise in production cost (+20.5%). Thus, costs as a percentage of production revenues decreased from 83.2% to 81.6%.

Most of the sleeper production was carried out for its key customer Rete Ferroviaria Italiana S.p.A. as part of a three-year plan to renew and perform extraordinary maintenance on the permanent way systems on existing lines of the RFI - Lotto Centro network. This work is to be carried out in the 2018-2020 three-year period.

In 2020, Overail S.r.l. will continue to work under the permanent way systems extraordinary maintenance plan. This contract guarantees the subsidiary an order backlog of approximately €30 million, in addition to potential increases in supplies requested by the customer, pursuant to the contractual provisions.

Furthermore, as part of its project to upgrade and renew its production capacity, the company has almost finalised a far-reaching investment plan for its Aprilia production facility. Specifically, and to comply with the requirements of the Industria 4.0 regulations, at the end of 2019 it rolled out a new reinforced prestressed concrete railway sleeper production plant, connected to the internal management system.

In addition, it has also scheduled other extraordinary maintenance and other work to upgrade some areas and buildings in its production facility in 2020.

H&M Bau GmbH

This company joined the Salcef Group in October 2018. It changed its name to Salcef Bau GmbH on 31 January 2020.

The company mainly works with DB Netz, Germany's rail infrastructure operator, and specialises in railway superstructure works. At the reporting date, its order backlog amounted to €9.4 million and related entirely to Germany.

It recorded production revenues of €8 million for the year, compared to €4.7 million in 2018.

Coget Impianti S.p.A.

This company joined the group in July 2019. Established in 1983, it designs, constructs and provides maintenance of distribution and contact power lines for electrical traction, mainly railway transport.

It made a net profit of €3,012 thousand for the year, of which €1,776 thousand is attributable to the Salcef Group. It recorded production revenues of €18,797 thousand, of which €8,243 thousand was generated in the period from July to December 2019.

The company's performance in terms of turnover and profits has been positive in recent years, thanks to its production effectiveness, scale synergies and acquisition of important contracts with good profit margins in Austria and Germany, leading to it registering to pay taxes in such countries.

Its positive performance has continued into the first quarter of 2020, with regard to results both in foreign contracts and on the Italian railway and energy sectors.

Disclosure pursuant to article 2428 of the Italian Civil Code

Research and development activities

The group companies did not carry out research and development activities during the year.

Branches

The group companies have the following branches and local units:

Country	Address	Type	Use
Poland	Warsaw, Ul Lucka 15	Branch	Offices
Romania	Bucharest, Str. BV. Decebal 17 – Block S – Sector 3	Branch	Offices
Croatia	Zagabria, Uljca Ljudevita Gaja 55	Branch	Offices
Egypt	Ard El Golf, Cairo - Flat No 4, 13 ELNozha Street	Branch	Offices
Abu Dhabi	Abu Dhabi - Al Najda - Al Yasat Tower, Office 1202 PO BOX 108221	Branch	Offices
Saudi Arabia	Riyadh - Olaya District, Al Nemer Center Building 2 - Office #304, PO BOX 57774	Branch	Offices
Romania	Bucharest, Str. Bv. Decebal n. 17 Bloc S16, Sector 3	Branch	Offices
Norway	Osloa, Biskop Gunnerus' gate 14 A0185	Branch	Offices
Switzerland	Mendrisio, Via Franscini 16-CC 1658 - 6850	Branch	Offices
Italy	Fano (Pesaro-Urbino), 61032 - Via del Bersaglio, 2	Branch	Construction
Italy	Aprilia (Latina), 04011 - Via Nettunense, Km 24.20	Facility	Production
Italy	Rovato (Brescia), 25038 - Via Gavia, 20-26	Warehouse	Production

Treasury shares and parent shares

The parent does not hold shares or quotas of its parents either directly or indirectly via trustees or nominees.

Treasury shares and parent shares purchased or sold during the year

The group companies did not purchase or sell treasury shares or shares or quotas of parents either directly or indirectly via trustees or nominees.

Related party transactions

In accordance with article 2427.22-bis of the Italian Civil Code, it is noted that the group did not carry out significant related party transactions at other than market conditions during the year, either in terms of the prices applied or the reasons underlying them, except for that set out in the notes to the financial statements.

Related party transactions (with unconsolidated companies) are broken down as follows:

(€'000)

ASSETS AND LIABILITIES AT 31/12/2019	Financial fixed assets	Trade receivables	Trade payables	Loans and borrowings
Unconsolidated subsidiaries				
Consorzio Stabile Itaca S.c.a.r.l.		1,496	(706)	
Salcef Polska S.p.zoo				(9)
COEL Powerlines		708		
TOTAL	**0**	**2,204**	**(706)**	**(9)**
Associates				
Frejus S.c.a.r.l.		281	(71)	
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	353	1	(55)	
Sesto Fiorentino S.c.a.r.l.	325	92	(2,737)	
TOTAL	**678**	**374**	**(2,863)**	**0**
Parents				
Finhold S.r.l.		12		
TOTAL	**0**	**12**	**0**	**0**

(€'000)

2019 REVENUES AND COSTS	Revenues	Costs
Unconsolidated subsidiaries		
Consorzio Stabile Itaca S.c.a.r.l.	2,188	(735)
Salcef Polska S.p.zoo	21	(184)
COEL Powerlines	37	
TOTAL	**2,246**	**(919)**
Associates		
Frejus S.c.a.r.l.		(6)
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità		(4)
Sesto Fiorentino S.c.a.r.l.	1	(1,826)
TOTAL	**1**	**(1,836)**

Transactions with subsidiaries and associates mainly refer to commercial transactions linked to costs recharged by and to the consortium companies and consortia.

Other information pursuant to article 2428 of the Italian Civil Code

The group performs maintenance, renewal and construction of permanent way systems and is active in the infrastructure and civil works construction sector as well as the electrical traction systems sector. It mainly works for RFI S.p.A. and, to a lesser extent, Italian and foreign customers. Therefore, it is not exposed to market risk as its main customer is required to maintain minimum maintenance levels of the railway infrastructure as per the existing service contract and this is also true of the foreign public sector customers that operate their local railway systems.

The group is not exposed to price risks as it agrees the consideration for its work with its customers in contracts.

It is not exposed to any specific cash flow risks as it works with customers whose financial solidity is guaranteed by the state in Italy and it only works abroad on contracts funded by the EU and government bodies.

The group is not exposed to significant price, credit or interest rate risks as it has agreed hedges for its floating rate loans that mitigate interest rate risks.

It is exposed to currency risk and does not hedge against this risk as it is immaterial.

The parent and other group companies are involved in civil and administrative proceedings and legal actions related to their normal business operations. Based on the currently-available information, they believe that these proceedings and actions will not have a negative effect on the group's financial position, financial performance and cash flows.

Outlook

Like in previous years, in 2020, the group will continue to operate in its sectors of interest (permanent way systems, electrical traction and technological works, multidisciplinary railway works, design, maintenance and construction of rolling stock and production of reinforced, vibrated and prestressed concrete sleepers) in Italy and abroad in those countries where it already has a strong base and its specialised plant and personnel have ensured efficient service for many years. Revenue and profitability for 2020 are expected to be substantially in line with those of the last few years.

Naturally, it is impossible to accurately predict the financial effects that the Coronavirus pandemic could have on the operations of Salcef group companies. At today's date, there have not been significant productivity losses for most of the group's operating facilities, but should the health emergency continue, it can be expected to have repercussions on the production of some of the business units.

The order backlog guarantees continuity for the current workforce for at least the next two years, with production and profit margins in line with the average results for the last few years.

In 2020, Salcef S.p.A., Euro Ferroviaria S.r.l. and Overail S.r.l. will continue to work under the national master agreements covering the renewal and maintenance of RFI S.p.A.'s tracks and turnouts for the 2018-2020 three-year period, specifically the lots in central and north-west Italy. Indeed, as a result of the large amounts earmarked by the customer for the maintenance and upgrading of its existing equipment and infrastructure, the three-year investment plan is significantly higher for all the work categories related to maintenance of the railway infrastructure, in line with Ferrovie dello Stato S.p.A.'s 2019-2023 five-year plan.

Furthermore, in 2020, Overail S.r.l. will complete the supply of segments of an initial amount of roughly €9 million, related to the new tunnel of section T3 of the Rome Metro Line C with the customer Metro C S.c.ar.l.. It is also currently

manufacturing concrete slabs also to be supplied for the Rome Metro Line C.

Abroad, the work on Line 3 of the Riyadh Metro in Saudi Arabia will be completed during 2020. The contractual relationship will continue, covering the warranty period.

Furthermore, the construction of a new railway station in Kozzyka for Line 1 in Cairo, Egypt, by the National Authority for Tunnels will continue, as will the works in Romania related to contracts for the rehabilitation of two adjacent railway lots on the Frontiera-Curtici-Simeria railway line, part of the European IV Corridor (Sublots 2A and 2B). Given the complexity of the latter works, they are expected to continue for about three more years.

Salcef S.p.A.'s Norwegian branch will continue leasing machinery and specialised personnel to Baneservice A.s. to renovate 150 km of tracks of the Norwegian railway network, which will continue until 2020. As mentioned earlier, the Norwegian branch will also begin to provide services under a new contract signed in 2019 with the joint venture between Acciona and Ghella S.p.A. for the construction of 40 km of tracks for the Follo Line project in Norway worth roughly €6.8 million.

The new branch set up in Abu Dhabi by Salcef S.p.A. will roll out works to build the track of the new railway line between Ruwais and Ghuweifat, at the border with Saudi Arabia, on behalf of the joint venture between China State Construction Engineering Corporation and SK Engineering and Construction. Specifically, the group will build 277,654 metres of track along the main line and 3,091 metres of secondary track, for a total of 280 km. It will also install 27 turnouts and construct long welded rails by building a welding plant. This is part of the project approved by Etihad Rail, the operator of the United Arab Emirates national railway, for the construction of infrastructure to link the border of the United Arab Emirates to Saudi Arabia. Once the works have been completed, the railway will extend for a total of 605 km, from Ghuweifat to the port of Fujairah. When all of the project phases have finished, a 1,200 km network will connect the main industrial, manufacturing, production, urban and commercial cities of the United Arab Emirates. Therefore, it is a strategically important contract which will be an integral part of the "Gulf Railway", a rail network totalling 2,177 km, aiming to connect all the member states of the Gulf Cooperation Council (GCC) in the Persian Gulf.

With respect to the investments necessary to develop the business of the individual group companies, extraordinary maintenance and other work to upgrade some areas and buildings in Overail S.r.l.'s production facility in Aprilia will be finalised in 2020. The works to upgrade and extend SRT S.r.l.'s production facility in Fano will also be completed during the year.

Signed

CEO

Valeriano Salciccia