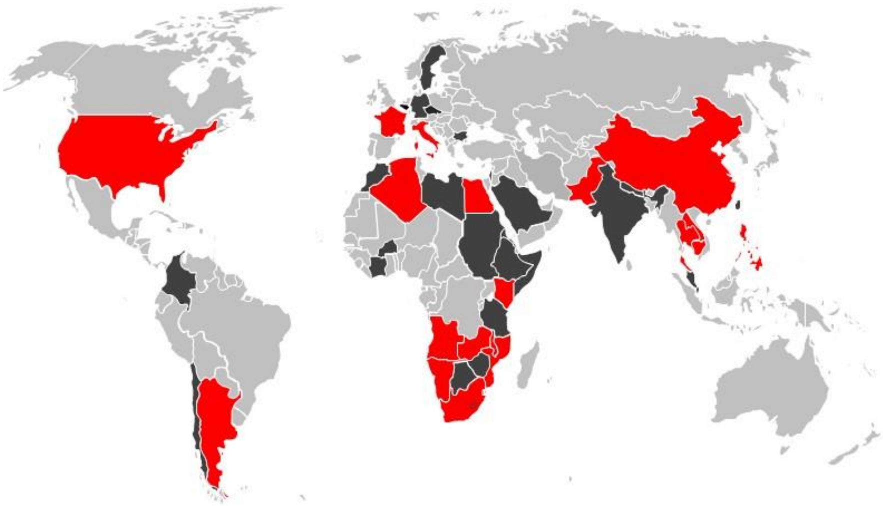
Filippine, Angat Water Transmission Improvement Project (AWTIP)

FINANCIAL REPORT AS AT DECEMBER 31, 2018

CMC IN THE WORLD



In the past

Botswana	Lybia
Burkina Faso	Malaysia
Belgium	Morocco
Bulgaria	Nepal
Chile	Saudi Arabia
Colombia	Singapore
Czech Republic	Somalia
Eritrea	Sudan
Ethiopia	Swaziland
Germany	Sweden
India	Taiwan
Ivory Coast	Tanzania
Lebanon	Zimbabwe

Today

Algeria	**Malawi**
Angola	**Mozambique**
Argentina	**Namibia**
China	**Pakistan**
Egypt	**South Africa**
France	**Thailand**
Italy	**The Philippines**
Kenya	**USA**
Laos	**Zambia**
Lesotho	

OFFICES WORLDWIDE

Registered office/headquarters
48122 RAVENNA - Via Trieste n. 76
Tel. +39 0544 428111
Fax +39 0544 428554
cmc.cmc@cmcra.com
www.cmcra.com

Rome office
Via Bissolati, 76 -00187 Rome
Tel. +39 06 42020425
Fax +39 06 42390728
cmcroma@cmcra.com

Algeria
- CMC Algeria Branch
- CMC RAVENNA EURL

Immeuble KPMG Lot 94 Z-A Bab Ezzouar 16042
ALGIERS
Tel. +213/ 21/922677
Fax +213/21/923135

Angola
- CMC Sucursal de Angola

Bairro Benfica - Quarteirão D
Estrada Vila da Clemência , Casa Nr 573
Luanda
Tel. + 244 222007635

Argentina
- CMC di Ravena Argentina Branch

Bouchard 599, Piso 20, Oficina 2006,
Buenos Aires
Código Postal C1106ABG
Argentina

Bulgaria
- C.M.C. di Ravenna Sofia Branch

No 165A Tsar Boris III blvd., floor 4, office 11
1618 Sofia

China
- CMC Asia – Shanghai Representative Office

Rm 506, Bld 1 No. 2, No. 2899 GuangFu West Road
Putuo District, Shanghai
Tel. +86/21/61245539
Fax +86/21/61245537
cmccomp@126.com

- CMC China Branch

Qinghai YDJH Water Diversione Main Line
810100 Dabankou Village, Baokuxiang Town,
Datong County, Xi'ning City, Qinghai Province
Tel. +86/18793297067 - 18709702995
cmccomp@126.com

- CMC COMPANY

Mo Xiujuan, Changyu Garden, Chongwen St., Xiaoyi City
Lvliang, Shanxi Province
Tel. +86/18335877908

- CMC di RAVENNA – HONG KONG BRANCH

30 Canton Road- Silvercord – Hong-Kong
Kowloon – Tsim Sha Tsui, Tower 2 – Unit 508/A

Egypt
- CMC di Ravenna – Egypt Branch

Nile City, Tower, 22nd Floor, Cornish El Nile Ramlet Beau Lac
11624 Cairo
Tel +20 24618537
Fax +2022461 18501

France
- CMC DI RAVENNA FRANCE Sarl

15 Rue Taitbout, PARIS
Tel. +26/944393
Fax +26/944396

India
- CMC di Ravenna -India Representative Office

Unit 608, 6th Floor, Andheri Kurla Road
Marol, Andheri (E), Mumbai
400059 Maharashtra
Tel. +9122 40998111

Kenya
- Cmc Kenya Branch

6th Floor, Galana Road,Galana Plaza
P.O Box 18264 -00100,Nairobi

Laos
- CMC Laos Branch

House number 122, Unit 05,
Saphanthongtai Village
Sisattanak district
VIENTIANE
Tel. +856 21 353502

Lebanon
- CMC Ravenna - Lebanon Branch

Burotec building - 2nd floor - Pasteur Street - Saifi - Beirut –
Lebanon.
P.O. Box: 16-5053
Phone: +961 01-444054
Fax: +961 01-566054

Lesotho
- CMC-Botjheng Joint Venture

Block D 9th Floor, Kingsway Road, Maseru
- CMC Lesotho Branch

  2nd Floor, Metropolitan Life Building, Kingsway, MASERU

Tel. +266 5251-0262/ 5252-0262 / 5253-0262 / 5254-0262

Libya
- CMC Libya – Tripoli Representative Office
- Consorzio L.E.C. – Libyan Expressway Contractors

Tripoli
Tel. +1 (718) 720 6966
Fax +1 (718) 816 5689

Malawi
- CMC Malawi Branch

P.O. Box E720 BLANTYRE
Tel. +265999786660

Mozambique

- SULBRITA, LDA

Av. Rua do Carvao
Bairro: Lingamo Matola no 11134
Tel. +258 82 3273 540

- CMC AFRICA AUSTRAL LDA
- CMC MAPUTO BRANCH

Av. Vladimir Lenine, 174, 9° e 10° Andares, Maputo
Tel. +258 82 327 3590 / 84 398 4357 /21 343 900
info@cmcaa.co.mz

Namibia

- CMC di Ravenna – Namibia Branch

344 Independence Avenue
Windhoek, Namibia
P.O. Box 1571

- CMC / Otesa JV

P.O. Box 96504, 18 Goethe Street, Windhoek, Namibia
Tel +264 61 248 000
Fax +264 61 248 001

Nepal

- CMC di Ravenna – Nepal Branch

Pandol Marg, No.513 Baluwater,
Kathamandu - P.O. Box 25731,
Tel. +977 1 4439662 Fax +977 1 4430112

Pakistan

- CMC DI Ravenna Pakistan branch

Office 316, 3rd Floor
Emirates Tower, M-13, f-7 Markaz
Islamabad, Pakistan

Philippines

- C.M.C. di Ravenna – Filippine Branch (Philippine Branch)

Tycoon Centre Office Condominium
Unit No. 2703, Pearl Drive, Ortigas Center
1605 Pasig City, Metro Manila
Tel: (02) 633-5798 / 633-5877

Singapore

- CMC di Ravenna Singapore Branch

11 A Tampines Avenue 1
Singapore 528693
Tel. +65 67845101
Fax +65 67847491

South Africa

- CMC Sud Africa Branch

2nd Floor, Block A, EOH Business Park, P.O. Box 4857,
Osborne Lane, Atlasville, Bedfordview, 1465, R.S.A.
Tel: +27 (0) 116160910
Fax: +27 (0) 116160815

- SIDE INVESTMENTS (Pty) Ltd

Unit 4, 3 Joseph Road, Tunney Industrial Ext. 9, Germiston
info.cmcsa@cmcra.com

- DUNROSE INVESTMENTS (Pty)Ltd.
- MORESIDE INVESTMENTS (Pty) Ltd
- SIDEBAR MANUFACTURING (Pty) Ltd

10 Winter Street, Industrial Area - P.P. Box 586
BARBERTON, 1300 R.S.A.

Thailand

- CMC di Ravenna -Thailand Representative Office

209 K Tower (Tower A) 10th Floor
Sukhumvit 21 Road (Asoke)
Klongtoey Nuea, Watthana
Bangkok 10110
Tel. +66 2 664 0642
Fax +66 2 664 0643

Zambia

- CMC Bomar JV

Plot 148 Lubengele Way
Kamenza Township
P.O. BOX 11206
Chililabombwe – Copperbelt – Zambia
Tel + 260 963595598

- CMC di Ravenna - Zambia Branch

Plot 101 Chinyunyu Road
Emmasdale,
P.O Box 35628
Lusaka - Zambia
Tel +260 96 751 5463

USA

- LM Heavy Civil Construction, LLC

100 Hancock Street, Suite 901
Quincy, MA 02171
Tel. +1 617-845-8000
Fax +1 617-845-8001

- DiFazio Industries

38 Kinsey Place, Staten Island, NY 10303
www.difazioind.net

BUSINESS AREAS

CMC Group has a proud record of delivering world-class infrastructural projects, with a focus on the following business areas:

Transport
Roads, motorways
Tunnels, bridges and viaducts
Railways and underground
Airports

Water and irrigation works
Dams
Hydroelectric plant
Tunnels
Aqueducts
Irrigation channels

Ecology and environment
Water treatment and sanitation services
Sewage systems
Treatment of toxic waste

Building projects
Civil and public buildings (hospitals and clinics, schools, sport structures, correctional facilities)
Executive and service buildings (hypermarkets, shopping malls, post offices)
Hotels and resorts
Industrial plants (power stations, silos)
Maintenance and refurbishment

Water control and marine works
Coastal protection, piers and jetties, dredging

Integrated territorial development projects

ORGANISATION CHART

Domestic operations

Overseas operations

CMC **I**mmobiliare Spa **(Real estate)**

CORPORATE GOVERNANCE

Board of Directors (1)

Chairman

Alfredo Fioretti

Deputy

Valerio Giuliani

Advisors:

Grazia Benazzi

Marcello Cacucciolo

Mauro Calandrini

Fabio Monti

Andrea Sanulli

Managing Director

Paolo Porcelli

Independent Auditors (2)

Deloitte & Touche S.p.a.

Audit Committee (1) ex art. 6 Legislative Decree 231/2001

Chairman

Desiree Fondaroli

Members

Nicoletta Cavallo

Riccardo Suprani

Statutory Auditors (1)

Chairman

Gian Luca Bandini

Auditors

Maurizio Rivalta

Gian Marco Venturi

(1) In charge for the 2017-2020 period

(2) In charge until approval of the 2019 financial statement

TABLE OF CONTENTS

INTRODUCTION

Cooperativa Muratori Cementisti - C.M.C. di Ravenna ("CMC" or "the Company" or the "Parent Company") is the Parent Company of the CMC Group, and carries out construction activities directly or indirectly in Italy and abroad.

In recent years, the Company has been seriously affected by the crisis that has characterized the construction sector in which it operates, both on the national market, for the reasons that will be spelt out below, and on the international market. With reference to the national construction market, there has been a deterioration in the macroeconomic scenario, heavily influenced by factors such as:

- extended payment terms taken by public bodies and problems involved in collecting receivables from contracting entities;
- a reduction in operating margins caused by the need for heavier discounting to win tenders and the huge amount of red tape involved in the assignment and carrying out of tenders;
- a different, more restrictive assessment compared with the past by banks when deciding whether to give businesses financial support;
- more time needed to define the higher costs incurred during the production phase for additional works not contracted with the contracting entities, which more and more frequently use the settlement instruments provided for by the regulations relating to public works, forcing companies to go to court;
- higher operating costs, service costs in particular, due to a greater recourse to subcontracting and third-party processing, which is reflected in a significant deterioration in operating margins.

In particular, although Italian legislation provides that companies carrying out public works are to be paid within 60 days of issuance of the works progress reports, on average, public bodies take much longer than that to pay, causing a serious slowdown in the commercial cycle of companies, which in turn entails difficulties and delays in paying suppliers. This is due to their own financial difficulties and to the time needed for contracting entities to issue payment orders.
In this context, the changes introduced by the new procurement code have further accentuated the crisis in the sector, leading to a reduction in companies' industrial margins, especially on public contracts, with a consequent decline in their economic results. Giving priority to the criterion of the most economically advantageous offer - now preferential in the choice of contractor - has led to competitive dynamics based exclusively on discounts, which already significantly reduce the margins of contracts at the tender stage.
Furthermore, the new procedure for assigning and carrying out public works, which requires that the completion of each stage and the start of the next one are conditional on obtaining authorisation and administrative provisions, has made the timing of construction work much longer, which translates into an increase in the fixed costs incurred by contractors and a high degree of reserves and claims against the contracting entities.
These are the main reasons that have brought the Company to its current state of crisis, especially in Italy.

The balance sheet shows that, in absolute terms, the Company's adjusted net financial indebtedness went from Euro 580 million to Euro 825 million in the three years from 2015 to 06/30/2018. This deterioration in financial exposure was related to the slowdown in the collection of receivables and other assets, including work in progress, which in the same period went from Euro 588 million to around Euro 800 million at a consolidated level.
Note that net financial indebtedness consists of total financial debt, less cash and cash equivalents and other securities, while adjusted net financial indebtedness consists of net financial indebtedness plus shareholder loans. These are alternative performance indicators not defined by Italian Accounting Standards or by IFRS, but used by management to monitor and evaluate the Company's operating performance; they should not, therefore, be considered a substitute measure for evaluating the trend in the Company's financial result. Furthermore, these measures may not be comparable with those used by other companies.
The constant decline in net financial indebtedness was accompanied by an increase in the value of production. However, the increase in the value of production led to a rising demand for financial support.
The high level of work in progress not being converted into cash accumulated over the last few years (also due to principals' growing payment difficulties), represented the main external cause that led to the

Company's liquidity crisis, as the rising values of work in progress were not reflected in rising collections of receivables.

The increase in CMC's production volumes inevitably led to the need to resort to higher debt, as generally happens for companies with high levels of turnover.

The Company was confident that the amounts that it expected to receive would have allowed it to regain a reasonable degree of financial equilibrium, as had happened in the past, despite the financial tension that arose in previous years, as reflected in the annual and interim financial statements regularly prepared and approved, but always considered to be surmountable, also in light of the important foreign orders that CMC was gradually winning, bringing the order backlog to record levels.
At the end of last November, the amounts received by CMC in the period September-November 2018 amounted to 52 million euro, compared with the 136.7 million euro expected, and the Company was unable to meet its obligations, receiving injunctions, foreclosures and bankruptcy claims by dissatisfied creditors.

Unfortunately, the receipts that were expected did not arrive, causing a growing liquidity crisis, which in turn triggered off a chain reaction, preventing the Company from regular execution of its contracts and timely fulfilment of its obligations.

At the end of this process, on 4 December 2018 CMC Ravenna filed an appeal pursuant to art. 161, paragraph 6, of the Bankruptcy Law for admission to the composition with creditors procedure, subject to later submission of the Proposal, Plan, legal documentation and the Professional's Report.

KEY EVENTS

On 28 June 2019, CMC's Board of Directors decided to postpone approval of the 2018 financial statements beyond the legal deadline; this on the assumption that only in the following months, at least closer to the creditors' hearing (originally scheduled for 11/13/2019), if not once its outcome was known, the Company would have objectively been in a better position to prepare the financial statements correctly, particularly in terms of going concern, depending on the outcome of the composition with creditors.
To date, CMC has updated the Composition Proposal and the underlying composition plan, which will be filed with the Court of Ravenna in the coming days.
In this regard, it is recalled that through the **Composition Plan** ("The Plan") CMC intends to honour the commitments resulting from the composition with creditors, once it has been approved as the Company hopes. In particular, the CMC Composition Plan provides evidence of the cash flows generated to service the settlement requirement, to show the feasibility of the arrangement, which is expected to be completed within two years of its approval. The Composition Plan is based on an **Economic Financial Plan** ("EFP") which lasts until 12/31/2024, so beyond the period of the Composition Plan. With the EFP, CMC intended to provide a series of forward-looking documents which, by covering a longer period than the Composition Plan, will provide the creditors with better and broader information on the Company's financial and economic developments, even after execution of the Composition.
The new hypotheses, analysed and formulated with the methodological support of professional advisors, have led to different assessments of certain assets, liabilities and contingent liabilities as of 31 December 2018.
In other words, although all the activities needed to define the accounting balances were completed long ago, changes to the Plan that became necessary or were deemed appropriate inevitably led to significant changes in the valuations and estimates affecting numerous figures in the balance sheet and income statement and, consequently, in the note disclosures as well.

This report was approved by the Board of Directors of the Parent Company, COOPERATIVA MURATORI & CEMENTISTI - CMC DI RAVENNA, on 16 December 2019 and presents the Group's consolidated results for 2018.

Unless stated otherwise, the figures are shown in millions of euro in order to facilitate their comprehension and clarity.

- The main contracts awarded during the year are summarised below:

  Italy

  - Università degli Studi of Rome – construction of a new building. The total amount of the contract comes to € 30 million (100% CMC).
  - Università degli Studi di Milano “Bicocca” – construction of a new building. The total amount of the works was worth € 64 million (65% CMC's share)

  International

  - Mozambique – Anadarko expansion camp. The total amount of the contract comes to € 70 million (100% CMC).
  - Lesotho – construction of a hydraulic tunnel in Polihali. The overall amount for the work totals € 34 (33% CMC's share).

- On 5 May 2018 the Shareholders' Meeting approved the 2017 financial statements.
- In July the CMC di Ravenna's BoD meeting appointed Paolo Porcelli as new General Manager. Porcelli succeeds the former General Manager, Roberto Macrì, after 20 years of collaboration with CMC, 10 of which as General Manager. Paolo Porcelli, 51 years old, with a degree in civil engineering, entered CMC in 1999. In these years he has held several key management roles, including manager of South African affairs and, most recently, the head of the international division.
- At the beginning of August, Bolognetta Scpa, the company that carries out the works relating to the SS 121 Palermo Lercara-Friddi highway, presented Anas, the customer, with a variant valued at approximately 60 million euro. Of this amount, about a third relates to work already carried out, while the rest relates to work still to be carried out.
- The contract in Kuwait relating to the primary urbanization of the South Al Mutlaa Housing Project was terminated in October. The project includes the construction, completion and maintenance of roads and infrastructure networks for four of the eight districts assigned to a Chinese contractor for the construction of a new city 40 km from Kuwait City. Following cancellation of the contract, China Gezhouba Group Co Ltd, the principal, enforced the guarantees for good execution and the contractual advance. CMC is taking legal action to obtain all of the amounts pending.
- Following the submission to Anas of a proposal for a variant in August, in October an additional contract was signed with Anas relating to the contract for the construction of the SS 121 Palermo Lercara-Friddi motorway for approximately 60 million euro. The additional contract also established early repayment of the invoices factored without recourse for an amount of approximately € 30 million, which was then carried out in November.
- In November, CMC's Board of Directors found that, in an already structurally problematic market, for reasons that arose spontaneously without any predictability, related to the lack of income based on the certificates and/or the stage of completion of the work, the Company was facing a serious cash crisis. For these reasons, the Company appointed leading consultants, Mediobanca and Studio Trombone Dottori Commercialisti Associati, as financial advisors and the team of Andrea Zoppini and Fabrizio Corsini, as legal consultants. They very rapidly identified the measures needed to overcome this difficult situation while ensuring business continuity, followed by a negotiated restructuring of the Company's financial exposure.

- On 4 December 2018 CMC Ravenna filed an appeal pursuant to art. 161, paragraph 6, Bankruptcy Law for admission to the composition with creditors procedure, subject to later submission of the Proposal, the Plan and the legal documentation.
- The Court of Ravenna with decree of 7 December 2018 granted the Company a 60-day deadline for filing the proposal for a composition with creditors, the Plan and related documentation.
- In December, having realised that the customer Melamchi Water Supply Development Board had not paid the amount contractually owed, CMC formally terminated the contract (concerning the construction of hydraulic and irrigation works in Nepal), by letter dated 17 December 2018 (following a formal notice and warning on 30 November 2018), and an appeal pursuant to articles 669-bis, 669-ter and 700 of the Italian Code of Civil Procedure in order to inhibit the payment of the counter-guarantees issued to banks (unfortunately not achieved). CMC initiated all legal procedures against the customer for the recovery of the sums due and related damages.

UPDATE ON KEY RELEVANT MARKET

The international cycle

The Group's activities in the construction sector in Italy and abroad are naturally influenced by trends in the economy and it is important to understand how the situation is likely to develop.

The system of supranational institutions and multilateral rules which has supported integration and world economic development since the post-war period has entered a phase of severe difficulty. The trend towards open trade, which had intensified in recent decades, has stopped. The sharp slowdown in international trade observed during 2018 reflected the tensions connected, first of all, with the new protectionist strategy pursued by the United States.

The share of intermediate assets made outside national borders is large; protectionist measures increase the cost of production and end up backfiring on domestic companies, amplifying the impact of tariffs on consumers. The repercussions on production are not limited to those directly produced by the barriers to trade, but also derive from a worsening in business confidence, a downward revision of investment plans and greater volatility in international financial markets.

The International Monetary Fund expects global growth to drop to 3.3% this year, the lowest since the contraction in 2009. This weakening is widespread, affecting areas that represent over 70% of the world economy. The projections are suggesting a recovery around mid-year, supported by expansionary economic policies in the main countries and the consequent improvement in the financial market conditions. However, the risks, also of a geopolitical nature, remain significant.

The slowdown mainly affects the euro area economy, which is more open to international trade than the United States and Japan. Dependence on foreign demand is particularly high in Germany, the most vulnerable nation in this respect, but also in France, Italy and Spain, countries very integrated in the global value chains, including intra-European ones.

The sharp drop in business confidence is holding back investment. The decline in activity in the automotive industry contributed to the deterioration of the macroeconomic scenario in the second half of 2018. The growth projections for the euro area have been gradually revised downwards. According to the main international institutions, the growth in GDP would amount to just over 1% this year and around 1.5% in 2020; the risk of a less favourable trend is not negligible. The weakness in production affected actual and expected inflation. These developments correspond to the European Central Bank's forecast of a slower convergence of price growth towards a target level close to 2%.

Last March the Governing Council of the ECB announced that monetary policy will remain expansionary for longer than previously indicated; in the Council's forecasts, official rates will remain at their current low levels at least until the end of 2019 and, in any case, as long as necessary to achieve price stability. The Eurosystem will continue to reinvest in full and for an extended period of time the resources deriving from the repayments of maturing securities held as part of the financial asset purchase programme. A new series of targeted long-term refinancing operations will be conducted from next September, aimed at preserving favourable credit conditions and the orderly transmission of monetary impulses. The Council has reiterated its readiness to adapt all the tools at its disposal to ensure that inflation continues to converge towards the target.

In Italy, GDP decreased slightly in the second half of 2018. Considering the full year, growth was 0.9%, slightly more than half that of 2017. A negative impact was also caused by the deceleration of business activity in Germany and an increase in uncertainty, which was affected by higher tensions on public securities. The result was a sharp downsizing of corporate investment plans. Household spending also slowed, reflecting the deteriorating economic outlook and the stalemate in employment since the summer.

In the private sector, the increase in permanent labour contracts has resumed, driven by the transformations of fixed-term contracts. The latter have been affected by the limitations introduced by the "Dignity Decree" in the second half of the year. However, together with the worsening economic situation, the new constraints tend to reduce the likelihood of a person remaining employed when their fixed-term contract expires.

In 2018 inflation was 1.2%; the underlying component, net of energy and food products, remained below 1%. The dynamics of prices remained lower than that of the euro area; labour costs and corporate profit margins were affected by the weakening of the economy. Although the product showed a slight increase in the first quarter, there is a widespread consensus around forecasts that growth this year will be well below the already modest figure achieved in 2018. To go back to higher investment rates and more robust consumer spending requires that trade tensions subside and that global financial market conditions remain favourable; above all, it requires a higher level of confidence on the part of households and businesses.

Official thinking is that the introduction of the so-called "citizenship income" and the new pension measures ought to lead to an increase in GDP of about 0.6 percentage points in the three-year period 2019-2021, without considering the restrictive effects of how they are to be paid for. These assessments are acceptable on the assumption that all of the funds allocated get spent. On the other hand, those relating to the effects on employment, which would be half a percentage point higher in 2021, have ample margins of uncertainty.

Tensions on the Italian government bond market weigh on the growth prospects. The yield on ten-year bonds is almost one percentage point higher than the figures seen in April last year; the spread with respect to the corresponding German bonds increased by 160 basis points, to around 280; the one versus the Spanish bond was up by 140 percentage points, to 190. Premiums on credit default swaps indicate that both credit risk and the risk of redenominating debt in a currency other than the euro continue to push up yields on Italian government bonds; they are closely related risks that in situations of tension can suddenly sharpen in the perception of the markets. Up to now the transmission of the higher cost of public securities to the cost of banks' loans to businesses and households has been limited, thanks to ample liquidity and the fact that intermediaries' balance sheets are looking better. However, signs of tension are beginning to emerge: According to surveys, lending policies, while remaining generally relaxed, are gradually tightening, especially for small businesses, following the deterioration of the macroeconomic scenario and the increase in banks' funding costs. Other conditions being equal and without taking into account the negative effects on household and business confidence, it is estimated that an increase in government bond yields of 100 basis points would result in a 0.7% reduction in GDP over three years.

As also recognized in the Economic and Financial Document, the economic slowdown tends to increase the public deficit for the current year. The increase in the proportion of debt to GDP could exceed that indicated in the Government's programmes (by almost half a percentage point), which include around 18 billion of proceeds from privatizations (one percentage point of GDP).

The Italian economy

Our country can rely on strengths capable of supporting the business in an unfavourable situation. During the current decade, exports of goods have kept pace with foreign demand, interrupting the previous long phase of falling world market share. The balance of current items has turned positive since 2013 and the surplus has now stood at around 2.5% of GDP for three years; the net position abroad is almost in balance.

The ability to compete on international markets has benefited from the recomposition of exports towards productions that are less exposed to the pressures of emerging countries and made by companies that are larger and more efficient.

Household debt stood at 41% of GDP at the end of last year, compared with 61% of all other euro area countries; the value of accumulated savings, more than 60 per cent in real estate, exceeded 8 times income, compared with an estimate of 7 for the rest of the area.

Corporate debt is also limited: its incidence on GDP was 69 percent, compared with 112 of the other countries. Overall, the economy is struggling to recover from the double recession. GDP is still over 4 percentage points lower than 2007, 7% less in per capita terms. The employment rate, while rising to the 59% level recorded in that year, is still 9 points lower than the euro area average. Southern Italy is falling further behind in terms of development, as unemployment exceeds 18% of the labour force, versus 7% in Central and Northern Italy; the gap is 4 points higher than 2007.

It is not just a problem of low aggregate demand. Even in the decade leading up to the crisis, Italy grew less than the other euro area countries, on average by around one percentage point per year. Despite the measures taken, the ability of our economy to grow and achieve high levels of employment continue to be affected by the unsatisfactory quality of public services, the inadequate infrastructure, the low degree of competition, as well as the distortions associated with widespread tax evasion and corruption and the problems caused by organized crime. The result is still an economic environment that is not very favourable to companies, their growth, investments and business.

Limiting the research for cyclical relief by increasing the public deficit can prove to be ineffective, even counterproductive if it leads to a worsening of the financial conditions and of household and business confidence. The risk of a "restrictive expansion" is not to be underestimated; the expansionary effect of a budget plan can be more than offset by the restrictive effect linked to the increase in the cost of financing for the state and for the economy as a whole.

The high ratio between public debt and GDP remains a tight constraint; to loosen it, there must be no delay in defining a rigorous and credible strategy for its reduction in the medium term. Compared with the rest of the euro area, the cost of debt is higher and economic growth is lower here. On average, over the past four years, Italy is the only country, along with Greece, to present a positive and large gap between these two variables, equal to one percentage point, a gap that increases the relationship between debt and GDP by 1.3 points per year. Over the same period, GDP growth exceeded the average debt burden in France by 0.3 percentage points and by one point in Spain. When the gap between the cost of debt and economic growth is positive, a primary surplus is needed - income above expenditure net of interest - even if only to stabilize the debt; the wider the gap, the greater the surplus that is needed.

The increase of one percentage point of the average interest rate on the issue of Italian government bonds recorded in 2018 followed a decrease of about three points between 2012 and 2017. The risk of a further widening of the difference between the debt burden and the growth rate of GDP must be countered. Only careful budget discipline and solid prospects for a return to higher growth rates in the economy can boost confidence in the government bond market and reduce yields towards those that are common in the rest of the euro area.

In order for the public budget to contribute to a lasting increase in the rate of growth of output, profound interventions are needed on the composition of public spending and revenue. A wider space should be devoted to programmes that are most capable of stimulating the economy, rather than to subsidies and transfers. These should be complemented by measures aimed at containing the distortions induced by taxation, in particular in the labour market, and at strengthening the action to combat tax evasion. However, increases in public expenditure or reductions in revenue must be placed in a framework that guarantees their financial sustainability and precise intentions, priorities and sources of funding.

Spending on public investment is around 2% of GDP, one third less than the beginning of this decade. The objective of recovering, half of the ground that has been lost, in three years, with planned spending increases of the order of 10% per year, presupposes a significant improvement in the ability to move from identifying the works to their actual construction. But it is not enough to spend more; efficiency in the use of resources must be increased, improving the process of selection, assignment and execution of works: in the international comparison, Italy's delay is greater in terms of works carried out than expenses made.

A primary surplus of less than half a percentage point, such as the one that would be obtained in 2020 if the VAT safeguard clauses foreseen in the current legislation were deactivated without compensation, would not be compatible with a reduction in the ratio of debt to GDP; it would have negative repercussions on the risk premium of public securities and, in this way, on the economy. It is consistent with these concerns that deactivation of the VAT clauses in the budget should be subordinated to the identification of compensatory measures. For all viable options, the potential effects on demand, economic activity and income distribution must be assessed accurately and transparently.

Looking ahead, the country needs a major tax reform. From the early seventies of the last century, new forms of taxation were introduced and a complex set of concessions and exemptions was progressively defined, in the absence of an organic design, not always with coherent guidelines. This stratification process would continue if only a few concessions are reviewed or the structure of a single tax is changed. Instead, this process should be stopped, to design a stable structure that gives certainty to those who produce and consume, invest and save, with an intervention aimed at rewarding work and promoting business, taking into account how all elements of the tax system interact: between the level of indirect taxation and that of aid for lower incomes; between the rates of direct taxes and the deductions and detractions that accompany them; between income support and job incentives; between the various exceptions to the general tax regime envisaged for each tax base; between all these components and the fight against tax evasion, to be implemented by taking full advantage of available technologies.

Italy is ageing rapidly and the population is tending to shrink; these are characteristics that are common to many countries in the European Union, especially Italy. In the median scenario of the forecasts published by Eurostat, in the next 25 years, the share of the population aged 65 or over will reach 28 per cent in the Union as a whole, 33% in Italy; financial pressures on pension and care systems will consequently increase. The population aged between 20 and 64 will decrease by 6 million in our country, despite the hypothesis of a net influx from abroad of 4 million people in this age group. The reduction in production capacity associated with demographic trends must be contrasted with decisive increases in participation in work and productivity.

Although it has risen from 61% to 66% in the last twenty years, the rate of participation in work is still 8 percentage points lower than the European average. As in other countries, the increase has mainly affected older workers, in connection with the changes made to the pension system. Female participation has also increased, from 47 to 56 percent. However, the increase is lower than that recorded in the rest of the European Union and the employment rate for men is still 19 points higher than for women, one of the largest gaps in Europe. This indicates that there is considerable potential for an increase in participation in work and it highlights the need to identify and introduce decisive measures, services and incentives designed to increase female employment.

Immigration can make a contribution to the country's production capacity, but Italy has to face the difficulties that we encounter in attracting highly qualified workers, as well as in integrating and training those who come from other countries. The number of immigrants to Italy has exceeded the number of Italian emigrants every year since the early 1990s; after a slight decline during the sovereign debt crisis, the balance has continued to rise, reaching almost 190,000 people in 2018, 0.3% of the population. The share of graduates among foreigners, almost 13%, is less than half the average in the European Union. Productivity and entrepreneurial ability are also negatively affected by the progressive increase in the share of young people and graduates who leave Italy every year, reflecting structural delays in the economy: emigration of young people reached 0.5% in 2017, increasing fivefold over ten years; for the graduates, equal to 0.4%, has doubled.

Italy has responded late to the technological revolution and economic growth has suffered accordingly. The sectors that make up the digital economy today account for 5% of total value added, compared with around 8% in Germany and an average of 6.6% in the European Union. Since the start of the sovereign debt crisis, the weighting of these sectors has been reduced in our country, in contrast to the European average. But for the sustainability of economic and social development, and in order not to compromise environmental balances, one cannot help but invest in advanced and environmentally friendly technologies.

The gap with the rest of the Union concerns almost all the purposes for which companies can adopt innovative technologies; the delay in the automation of production is marked compared with countries with a sector specialization similar to ours, such as Germany. The development of new generation telecommunication networks remains limited. The role played by the public administration in introducing new technologies is not what it could be: the digital public services development index prepared by the European Commission places Italy in 19th place in the Union.

A fragmented production structure, largely composed of small companies, with a high degree of overlap between ownership and management, hardly open to external inputs of capital, technology and professionalism, has contributed to slowing down the spread of the digital economy. In 2017, less than a fifth of companies with between 20 and 49 employees had adopted at least one advanced technology (such as robotics and artificial intelligence applications); the share rises to a third among medium-sized enterprises and exceeds half for those with 250 employees or more. The gap between small and large companies widens with the increase in technological complexity.

The fragmentation of the production structure has a negative impact on the innovative capacity of companies: private sector research and development spending was 0.8% of GDP in 2017, less than the half of the average for OECD countries. Public sector R&D spending is low as well (0.5% against 0.7%). The impact on GDP of resources dedicated to the university system, just under 1%, is about a third lower than the OECD average.

In recent years, incentives have been introduced to support investments, research & development and the creation of innovative companies. The measures have proven to be effective overall. Some of these incentives were confirmed with the latest budget law or with last April's "Growth Decree", with changes mainly in favour of small and medium-sized companies. The effectiveness of industrial policy requires a stable regulatory framework that can facilitate change across the economy.

The limited investment in innovation is accompanied by a level of knowledge and skills of Italian students and adults which is also low in international comparisons; these are delays that influence each other, in a vicious circle that must be reversed. Investments in training that span the entire working life are also necessary to avoid the risk that the spread of new technologies, and lower demand as a result for work in businesses that is most affected by automation and digitization, would increase inequalities in income and opportunities and hence reduce employment.

Italy's problems are magnified in the South, which was affected by the double recession more than the rest of the country. In the southern regions, above all the environment in which enterprises conduct their business, must improve, above all in the protection of legality. The technological gap to be filled is even wider: the share of value added attributable to the digital economy, close to 2.5%, is more than three points lower than North Central. The skills deficit must be reduced, the effectiveness of public policies increased, the quality of administrations and infrastructures improved: 70% of "unfinished works" are located in these regions, and only 30% of them are represented by public works.

About one third of the Italian population lives in the South and almost a quarter of GDP is produced there. The Southern regions are undergoing a further impoverishment due to the emigration of their younger and more educated resources, mostly towards the Central and North of the country. Over the past ten years, the overall migration balance has been slightly positive, but a significant net outflow of young graduates has been observed. It is a trend that entails immediate social costs and which negatively affects development prospects.

Over time, attempts have been numerous to face the difficulties of the southern economy, with very different interventions in the approach and, overall, disappointing in the results. Support measures can contribute to the growth of these territories; however, they must not distort the incentives to companies and workers, hindering the use of resources in more productive ways. To improve the economic conditions in the South and the Islands and to increase their growth potential, long-term lines of action must be defined and implemented, with full use of the possibilities offered by European and national funding. It is necessary to intervene on the factors underlying the backwardness of the South; we cannot rely only on attempts to compensate for it with monetary transfers. The effects of public investment in education and infrastructure on the Southern economy can be very significant.

The Italian market

The growth expectations for 2018 in the construction sector have been disappointed. The uncertain sector dynamics - mainly caused by the lack of recovery in investments - and the negative numbers recorded in recent years in the public works sector have compromised the positive estimates announced for 2018. Percentages of positive investments were recorded only in the private residential and non-residential sectors, but these were not sufficient to revive the entire sector. Ance has estimated 1.5% growth in investment in absolute terms for last year. Definitely too little, especially in light of the devastating crisis of previous years.

Difficulties weighing on the country system as a whole considering that construction represents one of the main economic drivers. Its prolonged blockage has undoubtedly had an impact on the downsizing of our country's growth forecasts: from +1.5% assumed in the 2018 Budget Law, we have moved on to the latest forecast of the European Commission according to which our gross domestic product in 2019 will grow by only 0.2%. As pointed out by Ance, the recovery of the economy needs the fundamental contribution of the construction sector which (on its own) represents 8% of Italian GDP. This contribution did not materialise and continues not to materialise. Despite the fact that the appropriations for public works foreseen by the government gave sector operators some hope, the long-awaited recovery of investments did not come about: indeed, in 2018 they decreased by more than 3% compared with the previous year. According to the study, the construction sector as a whole has lost nearly 70 billion in investments over the past 11 years. Specifically, from 2008 to 2018, the negative numbers that affected the residential construction sector (-66.1%, over -35 billion euro) and private non-residential buildings (-27.3%, -15 billion euro) contributed to a 35% drop. The only positive note is in housing maintenance, where investments have increased by about 8 billion euro. A scenario that certainly contributes to the incessant bleeding of jobs and the continuous closure of small and medium-sized Italian enterprises. According to a report by the Casse Edili, in the first 9 months of 2018 there was a loss of 0.3% in registered workers and 0.9 in the number of hours worked. The report estimates that 620,000 workers have lost their jobs since the start of the crisis.

According to estimates released by the National Institute of Statistics (Istat), the entire construction production ended the year with an increase of almost one percentage point compared with 2017. The apparently positive trend depends on several factors, including the favourable trend in the number of permits to build both in the residential and non-residential construction segment and growth of almost 0.5% in the quantities of cement delivered (estimate by the Italian Technical Association economic report - Aitec). For 2018, the study estimates growth of 3% in investments in new homes, driven by an increase in build permission granted and by the opening up of medium/long-term access to credit for businesses. Same trend in the redevelopment of housing stock in which investments (on their own) account for 37% of the total value with an increase of 0.5% compared with 2017. A further increase was also recorded in private non-residential buildings which grew by 4.8% in 2018, also thanks to the good performance of the non-residential real estate market.

However, the growth in private sector investment is not enough to offset the losses recorded in the public works sector. The study shows that the estimates made only a year earlier were revised in a distinctly negative way in light of the difficulties in implementing the measures envisaged by the government: despite the gradual increase in appropriations (from 10.4% in 2016 to 26.2% in 2018), only a small part was actually spent on construction projects.

According to Ance estimates, 2019 should have been an encouraging year of recovery for construction companies: the € 3 billion of additional investment in new private residential and non-residential construction - added to the extra € 1.2 billion for building maintenance and the additional € 800 million for public works - should have led to 2% growth in the total resources allocated to the sector. Too bad that Ance had to revise down these estimates once again, due to the worsening economic conditions in the country. According to this report, the Budget law for 2019 represents a return to the past: it focuses more on current expenditure, financed for the most part by deficit, to the detriment of a greater presence of capital expenditure, i.e. investment. The current forecasts drawn up by Ance show a 1.1% increase in spending. More than a billion less than the figures of the initial hypothesis. Not to mention the scenario that lies ahead for 2020.

The sector's situation deteriorated between 2017 and 2018 following episodes of serious crisis on the part of some major Italian operators (i.e. Astaldi, Condotte, GLF, CMC, etc.) which initiated bankruptcy or receivership procedures. On the other hand, Salini Impregilo has created Progetto Italia to involve the banks and public institutions (CDP) to try and give the country an answer on this extremely penalizing market situation for construction companies, which has been reaping victims for the last decade.

In 2018 CMC made a considerable effort to tackle and resolve the problems of the most important projects in the portfolio, especially in the Sicilian area (Maxilotto road SS 640 Agrigento-Caltanissetta lots 1 and 2, and the highway SS 121 Palermo-Lercara Friddi) entering into a contract with what is the most important customer on the domestic market: ANAS. In this negotiation it has been possible to involve all public institutions and political forces to find out a solution that would allow the completion of the works in progress, recognizing the companies involved the right consideration for the works already performed and laying the foundations for finishing the works in a reasonable period of time, safeguarding the many jobs of the families involved in carrying out the works.

The commitment made this year was also addressed to the projects, in Sicily, of the Circumetnea of Catania - Nesima and Stesicoro lots, where works continued thanks to the long-standing relationship between CMC and the customer.

The works relating to the Camerano Hospital Complex (€ 34m), the railway works of LTF St Martin Le Porte (€ 63m), the Trento Tre treatment plant (€ 24m) are not particularly problematic.

Lastly, works relating to the Milano-Seregno metro (€ 103m) and the Bicocca (€ 47m), the Cosenza Rende metro (€ 88m) and works at the University of Rome 3 (€ 28m) are also starting up.

Interest in the concessions is excluded *a priori*, as we have left, like in the case of SAT, and from those still in existence such as the TE, of which we have already started the divestment process which could end in the coming years.

The international scenario

While still marking a positive underlying trend, the international economy has shown further signs of deceleration, accompanied by a progressive heterogeneity of trends between countries. Based on the most recent monthly data by volume of the Central Planning Bureau, in October 2018, world trade grew by 1.1% compared with the previous month, recovering on the previous economic downturn. The increase acquired up to October (+3.6%) continues, however, to confirm the lower dynamism in trade compared with the previous year's figure (+4.2%). In addition, the December Markit/IHS's PMI Global index relating to new export orders fell below the expansion threshold (49.7, down from 50 in November), suggesting that the sector's phase of deceleration is continuing.

Alongside the cyclical ones, the factors slowing down the international economy include the uncertainty generated by the still unfinished process of Brexit and the effects of the continuing tensions on tariffs between the United States and China. The agreement reached at the end of the year between the Italian government and the European Commission on the budgetary manoeuvre did help at least partially reduce the tensions on international financial markets.

In December 2018, for the first time in 19 months, the PMI Caixin/Markit index for the manufacturing sector fell below the expansion threshold, again with unfavourable signals for domestic orders and exports. To reduce the risks of a hard landing of the economy, the Chinese central bank recently approved a further reduction in the banks' reserves and carried out an injection of liquidity into the system of 800 billion yuan. The risks of the slowdown in the world economy were also incorporated into the December monetary policy decisions of both sides of the Atlantic. The Governing Council of the European Central Bank (ECB) has confirmed the end of net asset purchases, but has kept the reference rates unchanged and has declared itself ready to adjust all its instruments to ensure that inflation steadily continues to approach its target. The Federal Open Market Committee (FOMC) meeting ended with the expected rate hike on Fed funds by 25bps, between 2.25% and 2.5%, but also with a downward revision of the adjustment path that will depend explicitly on how the US economy evolves.

Negative signals multiplied in December in the United States, despite the resilience of the labour market, with unemployment still at all-time lows (3.9%, up from 3.7% in November 2018) and the creation of non-agricultural jobs in excess of expectations (312 thousand, up from 176 thousand in November). The index prepared by the Conference Board, which measures consumer confidence, has touched its lowest values since last July and all the main surveys on the manufacturing sector have shown decisive downward corrections. The shutdown of more than 25% of federal administrative activities taking place since 22 December, also creates uncertainty for the evolution of the US economy due to the political differences between the Republican President Trump and the House of Representatives, which has a Democratic majority.

In the second half of December, the exchange rate of the euro against the dollar showed a slight tendency towards appreciation, setting the monthly average at 1.138 dollars, stable on November 2018. In the same period, Brent prices fell, reaching an average of 56.6 dollars a barrel, down on the previous month's price (66.1). According to the EuroZone Economic Outlook (EZEO) jointly developed by Ifo, Istat and KOF, the euro area economy is expected to grow at moderate and constant rates in the first part of the year (+0.3%) supported by improvements in internal demand.

Signs of weakness in the euro area economy continue. In October 2018, industrial production showed a modest increase in the economy (+0.2%, -0.6% in September). Furthermore, in November, the German and French production data were particularly negative, showing a cyclical contraction of 1.9% and 1.3% respectively.

The labour market does not seem to have been affected by the slowdown in economic activity, in fact, in November the unemployment rate in the euro area touched the lowest value since October 2008 (7.9%). The flash estimate for December showed a further slowdown in inflation (the headline figure was +1.6%, while for the core component it was +1.1%). The new data also incorporated a downward revision for the month of November (+1.9% compared with the previous +2.0%) due to a weaker contribution by the energy and food components than initially estimated.

In December 2018, the €-coin indicator fell for the second consecutive month (0.42, having been 0.47 in November), continuing to suffer from the worsening in business and consumer confidence and tensions in the stock markets. The European Commission's Economic Sentiment Indicator also posted a sharp drop of 2.2 points in December. The worsening in sentiment was widespread in all sectors with the exception of retail trade and affected the five major Member States with different intensities (Spain -3.0 p., France -2.0 p., Germany −1.9 p. and Italy −1.4 p.).

The global slowdown has continued in 2019 as well and monetary policies have become more accommodating. The contraction in international trade and the attenuation of world growth have continued. The risks associated with trade tensions, the slowdown in the Chinese economy and uncertainty regarding the timing and modalities of the United Kingdom's exit from the European Union (Brexit) remain significant. Global financial conditions have become very expansive; the increased uncertainty about growth prospects and the very accommodating stance taken by the central banks have translated into a sharp drop in long-term yields.

The Governing Council of the ECB has introduced new expansionary measures. In the euro area, the contraction of German industry, particularly vulnerable to world trade, is marked, but the weakening has extended to other sectors and countries. There is an increased risk that the unfavourable cyclical phase will lead to a prolonged decrease in inflation, as expected by financial markets, businesses and households. The Governing Council of the ECB, confirming the assessments already expressed in the previous months, has adopted a broad package of expansionary measures, with broad consensus even if with different assessments on individual instruments. The analyses produced by the Bank of Italy confirm that the measures activated are necessary and appropriate to counter cyclical risks and weak prospects for prices.

Exports continued to increase in Italy, despite the contraction in world trade. The current account surplus has further widened to 2.8% of GDP; overseas sales are said to have weakened in the following months, however. The new duties announced by the US administration to the European Union will concern a relatively limited share of Italian exports to the United States, but the indirect effects could be significant.

Between June and August 2019, non-resident investors made large purchases of Italian public securities; the inflows helped to reduce the Bank of Italy's net indebtedness on the European TARGET2 payment system, which subsequently increased in September due to the technical effect of large net repayments of Treasury securities concentrated in the month. The country's balance of payments is close to breakeven.

The number of employees increased thanks to the growth in services, while it stagnated in industry; however, the hours worked decreased. According to available indicators, employment remained stable in the third quarter. Contractual wages have slowed, following a rising share of contracts which have to wait for renewal after they expired.

On the Italian securities markets, conditions have become significantly more expansive: 10-year government bond yields touched their low since the introduction of the euro in the third quarter and have remained very low in historical terms (0.94%); the spread over ten-year German bonds (down to 138 basis points) returned close to the values of early 2018. This was helped by a decrease in the uncertainty perceived by operators regarding the orientations of economic policy and attitudes towards European institutions. The risk premium for the redenomination of public debt returned to the levels of the first half of 2018.

The fall in sovereign yields led to a significant decrease in the cost of wholesale bank deposits, which fell to the levels of early 2018, and in yields on corporate bonds. The cost of loans to businesses and households decreased slightly.

The government plans for 2020 a net debt higher than expected in the trend forecast by almost one percentage point of GDP; the deficit would remain unchanged with respect to the one forecast for the current year; the expected drop in interest expenditure would offset the decline in the primary surplus. The fiscal policy stance would be slightly expansive, reflecting cancellation of the VAT safeguard clauses - only partially offset by other measures - as well as other interventions including a reduction in the tax wedge on labour and higher investments. These budget choices are motivated by a macroeconomic framework that is less favourable than expected and by downside risks that are not to be overlooked. Government programmes prefigure a path of gradual descent of the debt burden on the economy.

The foreign market

Our foreign operations have been for decades-a key aspect of the CMC's leadership and positioning in the marketplace. The limited size of the company compared with the international giants has imposed a focus on geographical markets and technology specialisations where we can play to the competitive advantages that we have acquired.

The most important area for CMC in terms of work portfolio and turnover has been, for years, Southern Africa and 2018 confirms this. There has been a change in our purchasing strategy in Mozambique, through our local subsidiary CMC Africa Austral Lda, we are now oriented towards acquiring jobs only from foreign private entities, such as the Coca Cola Company and the American oil company Anadarko.

After the end of the works on the huge hydroelectric project at Ingula, several medium-sized contracts were acquired in South Africa, including the works at the Port of Durban, which to date has been terminated following the business rescue procedure implemented locally.

Also worth mentioning is our entry into Namibia, where we have acquired a contract for the construction of a road.

Over the past two years, expectations of major acquisitions in Kenya, a new country for us, have materialized. Kenya has impressive infrastructure development projects, particularly the construction of dams. CMC has acquired a fairly important portfolio of projects in this country, giving birth to new prospects on the African continent. The recent political and social vicissitudes of the country have made the situation critical and we are carefully evaluating which scenarios can be envisaged in the short term.

To conclude this tour of Africa, we should remember our long-standing presence in Algeria with now just a single project in progress for road works, while the project in Egypt, together with other local and international companies, for the construction of two road tunnels under the Suez Canal is basically finished.

Another area where CMC has been present for a long time is the Asian market, where our presence in various historical countries such as China, the Philippines and Laos is confirmed. Also to be pointed out, the completion of the works in Singapore and our exit from the company with a local partner in the Mumbai project in India.

As regards Nepal, the interruption and early termination of the projects in the country was due to the financial difficulties that did not allow us to complete the works entrusted by the local client.

In South America, after the early conclusion of the works in Chile, together with the partner Hochtief, an important project has been launched in Argentina for the construction of sewage systems on the outskirts of Buenos Aires.

Moving on to the US market, this is a critical moment for our subsidiary LMH CC, a company based in Boston (100% CMC) which specializes in railway construction. There are no particular difficulties for Di Fazio Industries, which is based in New York and specializes in the underground wiring in that city. CMC holds 67% of its shares, after the acquisition of 33% in 2017. During 2019, following the serious crisis that hit CMC, with the approval of the bodies in charge of the procedure, the shareholding of approximately 18% of Di Fazio Industries was sold, becoming a 49% minority shareholder to allow the company to be more dynamic when participating in local tenders.

The Middle East, which should have become an important new area for CMC with a substantial order backlog in Lebanon, Dubai and Kuwait, has proven to be difficult for us to carry out the works because of the serious financial crisis that has gripped our company, forcing us to abandon the scene. Whereas the project in Pakistan remains open.

The same fate happened to the works relating to the construction of a road bypass in Stockholm in Sweden in JV with the Italian company Vianini, where the client Trafikverket unilaterally cancelled the contract on spurious grounds.

The Romagna region

We are the largest firm in the province of Ravenna and, as such, cannot avoid our responsibility to participate in its economic growth. Every firm is the offspring of its territory: overall economic and social development and the human resources that are available in the area have a direct impact on companies' entrepreneurial capacity.

In a world that is changing very rapidly, it is fairly obvious that if it wants to maintain the current level of employment and social development, Ravenna will have to place its bets not only on tourism, but on all activities that pass through the port. For this reason we have always expressed our availability and our interest, within the limits of our capabilities and resources, in initiatives that concern the development and growth of the activities of the port of Ravenna.

REVIEW OF THE RESULTS AS AT DECEMBER 31, 2018

Please note that the following measures, including operating margin and EBITDA are alternative performance indicators not defined by Italian Accounting Standards or by IFRS, but used by management to monitor and evaluate the Company's operating performance; they should not, therefore, be considered a substitute measure for evaluating the trend in the Company's financial result. Furthermore, these measures may not be comparable with those used by other companies.

The table below sets out the income statement items for the years ended 31 December 2018 and 31 December 2017 and the percentage change between the two periods:

	Twelve months ended December 31,		% of
	2018	2017	change
	(€ in milllion)		
Revenue[(1)]	513.6	826.2	(38)
Work in progress[(2)]	(445.3)	60.4	(837)
Other income and proceeds[(3)]	16.5	20.7	(20)
Total turnover	**84.8**	**907.4**	**(91)**
Raw materials, comsumables and goods[(4)]	(111.1)	(138.1)	(20)
Services, lease and hire[(5)]	(506.4)	(551.5)	(8)
Personnel	(114.4)	(121.1)	(6)
Provisions for risk and charges[(6)]	(418.3)	(0.6)	69,617
Other operating costs	(31.2)	(23.6)	32
EBITDA	**(1,096.6)**	**72.5**	**(1,613)**
Depreciation, amortisation and write-offs of receivables	(298.9)	(21.3)	1,303
Operating profit	**(1,395.5)**	**51.2**	**(2,827)**
Net financial income and charges[(7)]	(252.0)	(44.7)	464
Income before tax	**(1,647.5)**	**6.5**	**(25,524)**
Income taxes	(26.9)	(4.7)	472
Net income	**(1,674.4)**	**1.8**	**(94,167)**

(1) It includes revenues from the sales and services.

(2) Includes (i) changes in work in progress, changes in semi-finished and finished products and, (ii) change in contract work in progress.

(3) Includes, among others, deferred charges, internal construction of fixed assets, gains on the disposal of fixed assets, use of provisions, recharge of expenses to subcontractors, proceeds from insurance claims and other income.

(4) Represents the sum of purchases of raw and ancillary materials, consumables and goods and changes in the related inventories, as reported in our financial statements.

(5) Includes (i) service costs and (ii) lease and rental costs.

(6) Includes provisions for risks.

(7) Includes (i) financial income and charges and (ii) adjustments to financial assets.

Turnover

In 2018, the value of production fell by € 822.6 million, from € 907.4 million in 2017 to € 84.8 million, due to the sharp slowdown in the execution of works caused by the severe financial crisis that gripped CMC in 2018, the write-down of some inventories of work in progress, as well as the impacts on the estimate of work in progress deriving from higher final costs or lower revenues than expected, as explained more fully in the notes.

The table below provides a breakdown of our turnover by category:

	Twelve months ended December 31,		% of change
	2018	2017	
	(€ in millioni)		
Revenue	513,6	826,2	(37,8)
Construction revenue	*506,2*	*817,3*	*(38,1)*
Revenue from other activities	*7,4*	*8,9*	*(16,9)*
Work in progress	*(445,3)*	*60,4*	*(836,9)*
Other income and proceeds	16,5	20,7	(20,4)
Increases in fixed assets for internal work	*0,5*	*0,6*	*(16,7)*
Other	*16,0*	*20,1*	*(20,5)*
Total turnover	**84,8**	**907,4**	**(90,7)**

The change in the value of production in 2018, compared with the same period of 2017, is substantially attributable to the decrease in contract work in progress, as explained in the notes.

KEY BALANCE SHEET AND CASH FLOW ITEMS

Net working capital

Net working capital is the sum of inventories, receivables, payables and other elements of working capital, as detailed in the following table, which summarises its composition at 31 December 2018 and 2017.

	December 31, 2018	December 31, 2017
	(€ in million)	
Inventories[1]	5,6	37,0
Raw materials and consumables	*5,6*	*36,9*
Work in progress and semi-finished products	-	*0,1*
Finished products and goods	-	-
Contract work in progress	271,0	718,4
Receivables from clients	128,2	205,4
Receivables from subsidiary and associated[2]	633,8	640,2
Other current assets[3]	102,0	158,7
Total current assets	**1.140,6**	**1.759,7**
Contractual advances payments from clients	112,6	139,6
Advances	4,8	2,9
Trade payables to suppliers	378,2	277,7
Payables to subsidiary and associated	730,9	679,9
Other current liabilities[4]	154,4	133,9
Reserves for risks and charges	537,3	10,1
Total current liabilities	**1.918,1**	**1.244,1**
Net Working Capital	**(777,5)**	**515,6**

(1) Represents inventories excluding contract work in progress, which is disclosed separately, and advances, which have been included in other current assets.

(2) Includes receivables from subsidiary and associated companies shown under current assets and the amounts due from subsidiary and associated companies classified as financial fixed assets.

(3) Includes tax receivables, deferred tax assets, other current receivables, accrued income and prepayments, advances and other receivables included among non-current financial assets.

(4) Includes tax payables, social security payables, other payables, accrued expenses and deferred income.

Net working capital passed from € 515.6 million at 31 December 2017 to € (777.5) million at 31 December 2018 with a negative difference of € 1,293.1 million.

Total current assets decreased by € 619.1 million compared with December 2017, mainly due to the sharp drop in contract work in progress and receivables from customers. For more details on the reasons for this decrease, please read the comments in the explanatory notes.

Total current liabilities increased by € 674 million in December 2018 with respect to the figure at 31 December 2017, mainly due to an increase in provisions to cover risks and costs of € 527.2 million and to trade payables of € 100.5 million.

Capital expenditure

Our intangible and tangible capital expenditure requirements consist mainly of expenditure on plant and machinery required for construction activities, such as logistics infrastructure for construction sites as well as machinery and equipment. In the ordinary course of business, we are called upon to make investments in special purpose entities, which have been created to execute the projects in which we participate. These investments are recorded in the financial statements as financial fixed assets. In addition, in recent years we have made investments in concession companies for the construction and maintenance of Milan's external eastern ring road (TEM) and the Livorno-Civitavecchia motorway (SAT—Società Autostrada Tirrenica) of 3.24% and 3.75% (through Holcoa Spa), respectively. Furthermore, selective investments have been made in construction companies in markets deemed to be strategic, such as LMH and Di Fazio in the United States. CMC intends to dispose of its other investment in road concessions (TEM) as soon as the conditions are favourable enough to do so.

The table below provides a summary of capital expenditure made in 2018 and 2017:

	December 31, 2018	December 31, 2017
	(€ in million)	
Capital expenditures in intangible fixed assets[(1)]	(0,5)	(0,7)
Capital expenditures in tangible fixed assets[(2)]	15,5	(25,3)
Total capital expenditures	**15,0**	**(26,0)**

(1) Represents total expenditure in the period on intangible assets net of disposals.
(2) Represents total expenditure in the period on tangible assets net of disposals. In the ordinary course of business, CMC makes sure its equipment is always efficient and in good working order in the various areas in which it operates and ensures there is a correct logistics management of the equipment, inclusive of the sale and purchase of machinery to have the maximum return from the current and future use thereof.

Total capital expenditure on intangible and tangible fixed assets in 2018 amounted to € (0.5) million. The total for 2017 amounted to € (0.7) million.

Total capital expenditure on tangible fixed assets in 2018 amounted to € 15.5 million, € 25.3 million in 2017. This turnaround was caused by the financial crisis that hit our company in 2018.

Net financial indebtedness

Net financial indebtedness consists of total financial debt, less cash and cash equivalents and other securities, while adjusted net financial indebtedness consists of net financial indebtedness plus shareholder loans.

We point out that the financial measures indicated below, including the net adjusted financial indebtedness and net financial indebtedness represent alternative performance indicators not defined by Italian Accounting Standards or by IFRS, but used by management to monitor and evaluate the Company's operating performance; they should not, therefore, be considered a substitute measure for evaluating the trend in the

Company's financial result. Furthermore, these measures may not be comparable with those used by other companies.

The table below sets out our net financial indebtedness at 31 December 2018 and 2017, as well as the adjustments necessary to arrive at adjusted net financial indebtedness.

	December 31, 2018	December 31, 2017
	(€ in million)	
Cash and cash equivalents[1]	(18,2)	(67,2)
Short-term financial assets[2]	(0,4)	(0,8)
Liquid assets	**(18,6)**	**(68,0)**
Short-term bank loans and borrowings	172,9	124,7
Revolving Credit Facility	165,0	
Notes issued on July 2017	255,9	
Notes issued on November 2017	335,7	
Other short-term debt	1,3	4,1
Current financial debt	**930,8**	**128,8**
Net current financial debt	**912,2**	**60,8**
Notes issued on July 2017		244,5
Notes issued on November 2017		303,5
Revolving Credit Facility		98,2
Non-current bank loans and borrowings		11,6
Other non-current loans		0,9
Non-current financial debt	**-**	**658,7**
Total financial debt[3]	**930,8**	**787,5**
Net financial position	**912,2**	**719,5**
Shareholder loans	8,3	10,7
Total adjustments	**8,3**	**10,7**
Adjusted net financial position	**920,5**	**730,2**

(1) Cash and cash equivalents include cash and bank and post office deposits.

(2) Includes negotiable securities held by CMC.

(3) The reported total financial debt does not include shareholder loans, nor does it include performance or similar guarantees or other types of guarantees issued pro-rata on behalf of subsidiaries and other entities.

Net financial indebtedness at 31 December 2018 amounted to € 912.2 million, € 192.7 million higher than the balance at 31 December 2017.

Adjusted net financial indebtedness at 31 December 2018 amounted to € 920.5 million, an increase of € 190.3 million compared with the balance at 31 December 2017 of € 730.2 million.

With admission to the composition plan, all debts, including financial debts, were all considered short-term ones.

The increase in the values related to the two bond loans is attributable to the fact that these payables were considered short-term for an amount equal to the nominal value plus the interest accrued at the end of the period.

In 2017, due to the application of amortised cost, transaction costs were distributed over the duration of the amortisation plan by applying the effective interest rate.

Cash flow statement

In accordance with Italian accounting principles and in order to provide greater clarity, we have prepared the cash flow statement relating to the financial statements at 31 December 2018.

The following table summarises the cash flow statements, with comparative for the year ended 31 December 2017:

	Twelve months ended December 31, 2018	Twelve months ended December 31, 2017
	(€ in million)	
Cash and cash equivalents at start of the period	**67,2**	**32,7**
Cash flow generated by operating activities	(194,6)	(129,7)
Cash flow generated by/(used in) investing activities	15,3	(27,2)
Cash flow generated by/(used in) financing activities	130,3	191,4
Cash and cash equivalents at the end of the period	**18,2**	**67,2**

Cash flow generated by operating activities amounted to € (194.6) million in 2018 compared with € (129.7) million in 2017. The decrease in cash and cash equivalents is substantially attributable to the negative result for the year and to the change in net working capital.

Cash flow generated by/(used in) investing activities amounted to € 15.3 million in 2018 compared with € (27.2) million in 2017. The decrease is mainly attributable to the divestment of tangible assets.

Cash flow generated by/(used in) financing activities amounted to € 130.3 million in 2018 compared with € 191.4 million in 2017. The change is essentially attributable to a greater use of bank credit lines.

OFF-BALANCE SHEET ARRANGEMENTS

Guarantees

A characteristic feature of our construction activities is that we are generally required to provide performance guarantees to guarantee the full and due performance of the contract. We are also required to issue these same guarantees on behalf of our subsidiaries and associated companies as well as other guarantees relating to contractual advances, the release of retentions and price revisions. At 31 December 2018, the total amount of guarantees issued was € 953.431 thousand compared with € 953.394 thousand at 31 December 2017.

For more details on commitments and guarantees, reference should be made to the explanatory notes.

BACKLOG

The backlog has undergone significant negative changes compared with the previous year due to the dissolution or termination of various contracts both in Italy and abroad; as explained above, this was due to factors mainly attributable to failings on the part of customers, in both contractual and financial terms, which sometimes led to a sharp slowdown in the execution of the works.
In particular, reference is made to the projects of Anas-Savona Albissola and Cassa Depositi e Prestiti-Rome in Italy and to the projects in Kuwait, Nepal, Lebanon, Zambia, Sweden and South Africa abroad, as reported in the comments on the period and in those following at the end of the year.

Two groups of projects are identified in the Composition Plan:

- perimeter projects that include those contracts that the Group intends to pursue and conclude on a business continuity basis;
- projects outside the perimeter which includes all those contracts that have already been terminated, suspended or interrupted, which only involve dismantling construction sites and closing administrative and contractual matters that are pending.

The backbone of the Composition Plan for the first years is therefore made up of the first group of projects, to which will be added further acquisitions in Italy and abroad as a result of participating in public tenders compatibly with the company situation and the availability of endorsement credits, which are essential for companies operating in our sector.

Current and future orders in continuity will contribute to providing the financial flows to satisfy the creditors, both privileged and unsecured, as well as the "creditors in pre-deduction", obviously, as they have first claim.

It should be noted that the perimeter of the continuity projects includes the works of the SS640 Agrigento-Caltanissetta road (lot 2), the SS121 Palermo-Lercara Friddi road in Sicily following the request for a composition with creditors presented by the special purpose companies set up to do the Empedocle 2 Scpa and Bolognetta Scpa works. Subsequently, the composition plans of the two companies were presented to the Court of Ravenna representing a situation of business continuity, supported by frequent positive meetings with the client ANAS. We are now awaiting the opening decree of the Court of Ravenna regarding the composition plans that have been submitted; if accepted, they would put these two projects back in the running. They worth a total of approximately € 300 million of works still to be carried out.

Similar reasoning applies to AGA's order to automate the motorway in Algeria, included among the orders of the perimeter of continuity following agreements in an advanced phase of definition with a Chinese company that has become available as the contractor of the residual works to be carried out for a total value of approximately € 60 million.

Backlog by geographical area

The table below provides a breakdown of the backlog by geographical area at 31 December 2018, related to the projects in continuity of the Composition Plan, compared with 2017:

	December 31, 2018	December 31, 2017
	(€ in million)	
Italy ……………………………………………………………….	**467,8**	**948,9**
Southern Africa …………..……………………………………….	124,3	792,3
Asia…………..……………..………………………………………….	187,8	416,6
Northern Africa…..…………………..…………………………………	-	197,1
Eastern Africa …………..…………………………………………	389,5	618,3
South America..…………..………………………………………	125,9	170,0
North America..…………..………………………………………..	81,8	260,7
Europe……...………………..………………………………………..	-	168,1
Middle east...……………..……………………………………….	-	156,8
Total International……..……………………………………….	**909,3**	**2.779,9**
Total backlog…………...……………………………………….	**1.377,1**	**3.728,8**

Backlog by nature

The table below provides a breakdown of the backlog by nature at 31 December 2018 and 2017:

	December 31, 2018	December 31, 2017
	(€ in million)	
Transport Infrastructure…...………………………………………….	302,6	1.695,6
Road and motorways..……………………………….…………	*6,7*	*1.374,0*
Railways and subways...………………………………………	*295,9*	*321,6*
Water and Irrigation Works……………………………………….	744,4	1.417,2
Building Projects..………………………………………………	318,3	307,1
Water Control and Marine Works………………..…………………	11,8	12,8
Mining and Waste Treatment Infrastructure Works…...……….	-	296,1
Total backlog…………..………………………………………	**1.377,1**	**3.728,8**

Our order backlog, which is entirely attributable to our construction activities, amounted to € 1,377.1 million at 31 December 2018, compared with € 3,728.8 million at the 2017 year end, of which 66% consisted of international orders (75% at the end of 2017).

KEY PROJECTS

Currently CMC is involved in various projects both in Italy and abroad. The following table illustrates the main projects, both in and out of the perimeter, at 12/31/2018 divided by type of works and geographical area:

Country	Project	Contract Value (1)	Completion percentage (2)	Backlog (3)	CMC % of partecipation (4)	Expected completion year (5)
		(€ in milioni, eccetto le percentuali)				
Transport Infrastructure						
Roads and motorways						
Italy	Motorway SS640 Agrigento/Caltanisetta (section 1)…………………	355.1	98.5%	5.3	80%	2020
Namibia	Windhoek - Okahandja rehabilitation of road	9.7	87.1%	1.3	100%	2020
Railways and subways						
Italy	Light Rail Transit System Milano - Seregno……..	120.2	0.8%	119.2	100%	2021
Italy	Light Rail Transit System Cosenza-Rende	89.4	0%	89.4	100%	2020
France	French exploration tunnel Part of the Turin-Lyon Railway Project………….	8,0	67.1%	2.6	16%	2020
Italy	Metro lotto Nesima -- Catania (Sicily)……………	84.3	52.7%	39.9	100%	2020
Italy	Metro lotto Stesicoro -- Catania (Sicily)……………	58.9	24%	44.8	100%	2020
Water and Irrigation Works						
Kenya	Itare Dam water supply Project………………	240.5	34.9%	156.6	100%	2020
China	Middle Shanxi River Diversion Project…………	44.6	60%	17.8	75%	2020
Laos	Hydrorelectric plant Nam Theun 1 - Contract A	180.3	38.9%	110.2	40%	2020
Kenya	Arror Dam water supply Project………………	128.7	0%	128.7	51%	2020
Kenya	Kimwarer Dam water supply Project………………	104.1	0%	104.1	51%	2021
Philippines	Angat - Tunnel Water Transmission	63.7	67.5%	20.7	100%	2020
Argentina	Water supply project a Lomas	133.2	5.5%	125.9	100%	2021
Philippines	Novaliches-Balara Acqueduct NBQ4 Water Supply Project….	47,0	17%	39,0	50%	2021
Italy	Water Softener of Trento……..	23.8	0%	23.8	45%	2020
Lesotho	Polihali Diversion Tunnel……..	13.8	0%	13.8	33%	2021
Building Projects						
Italy	Restructuring Milan University buildings ….………………,,	41.3	0%	41.3	100%	2020
Italy	Restructuring Rome University buildings ….………………,,	27.7	0%	27.7	100%	2020
Italy	New Hospital "Ospedale dei Castelli" in Ariccia…….	44.1	90%	4.4	50%	2020
Italy	US Navy Guardian Angel buildings….	13.6	0%	13.6	70%	2020
Italy	Hospital - Camerano	34.9	0%	34.9	71%	2020
Mozambique	Resettlement camp…………….	118.9	41.4%	69.7	100%	2020
Mozambique	Expansion camp…………….	39.6	0%	39.6	100%	2020
Water Control and Marine Works						
Italy	Molfetta Commercial Port……..	28.6	59%	11.7	39%	2021

(1) Represents the Company's share of the value of the contract

(2) Represents the percentage of work completed over the project's contractual duration, calculated by applying the "cost to cost" method, which compares the value of the costs actually incurred with the value of the estimated costs to complete.

(3) Represents the portion pertaining to the Company relating to the contractual value still to be performed obviously included in the order backlog.

(4) Represents the portion of share capital of the project companies pertaining to the Company

(5) Reflects the expected completion date of the work envisaged in the contract, taking into account any additional agreements or acts stipulated with the client.

NON CORE ACTIVITIES

The following amounts determined in accordance with art. 2426.4 of the Italian Civil Code are those used for the preparation of the consolidated financial statements. They differ from those reported in the financial statements of the subsidiary in the accounting treatment of leasing contracts as finance leases.

CMC IMMOBILIARE Spa € million	2014	2015	2016	2017	2018
Revenue	2.2	2.7	2.8	2.9	2.7
Pre-tax net income	0.1	0.1	0.2	0.4	(4.5)
Shareholders funds	27.8	26.9	25.7	26.0	20.6

CMC Immobiliare Spa is a special purpose vehicle for the future development of Ravenna's "Darsena di Città" and manages the Group's properties, after having acquired building land and the Ravenna headquarters from the Parent Company, as well as GED's factory in Cesena under a property lease.
The decrease in equity in 2018, compared with the previous year, is mainly attributable to the negative net result caused by the provision of € 3.9 million set aside for the write-down of receivables from the parent company CMC di Ravenna in a composition with creditors and the elimination of deferred tax assets of the previous year for € 1.0 million.

SIC Spa (recovery plan) € million	2014	2015	2016	2017	2018
Revenue	9.5	4.2	6.6	7.3	n.a.
Pre-tax net income	(1.8)	(1.5)	(0.7)	(0.4)	n.a.
Shareholders funds	2.0	1.5	1.0	0.9	n.a.

2018 was a difficult year for a sector strongly affected by a collapse in demand, which led to ACR Srl in liquidation being admitted to a creditors' composition. The latter company is equally held by SIC and Acmar, which has also been admitted to a creditors' composition. As a consequence of this event, SIC has returned to the company branch leased to the ACR company in recent years.
Unfortunately, following the enormous difficulties facing the construction sector, SIC Spa was forced to apply to the Ravenna Court for admission to the creditors' composition procedure in February 2019, after which it presented its composition plan within the term required by law.
We are now awaiting the decree from the Court of Ravenna to open the procedure.

GED Srl (in bankruptcy) € million	2014	2015	2016	2017	2018
Revenue	13.0	7.0	18.6	15.2	n.a.
Pre-tax net income	(2.1)	(2.2)	--	--	n.a.
Shareholder funds	5.5	3.8	3.8	3.8	n.a.

In a market situation deeply in crisis and again following the vicissitudes of the parent company CMC di Ravenna, in a composition with creditors, on which it depended heavily in economic and financial terms, the subsidiary GED Srl was also forced to submit to the Ravenna Court an application for admission to the creditors' composition procedure in February 2019. Unfortunately, in the following months it was not possible to present a proposal and a composition plan and on 27 June the Court of Ravenna issued a bankruptcy ruling for GED Srl, appointing Mr Mandrioli and Mr Monari as the receivers.
As a result of these events, the Shareholders' Meeting did not discuss and did not approve the financial statements at 31 December 2018.

HUMAN RESOURCES

In 2018 the number of permanent employees fell by 24 persons, while the number of local employees in Italy and abroad increased by 2,054 persons, mainly due to the start of works abroad, in Mozambique and Laos using large numbers of local workers.

The net balance is therefore an increase in employees of 2,030 people.

HUMAN RESOURCES	Workers		Employees/Manager		Total	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Fixed personnel	83	95	312	324	395	419
Local personnel (Italy and Overseas)	6,294	4,434	2,017	1,823	8,311	6,257
Totale	**6,377**	**4,529**	**2,329**	**2,147**	**8,706**	**6,676**

In January 2019, the union consultation procedure for the start of the Extraordinary Government-assisted Lay-off Schemes (CIGS in Italian) was initiated at the Ministry of Labour and Social Policies in Rome, a procedure that ended on 4 February 2019 with a positive outcome and the signing of an Agreement. The CIGS was obtained starting from 18 February 2019 for the maximum period possible by law.

In February 2019, a communication was presented to the competent bodies for the start of the collective dismissal procedure for managers, in order to reduce their number, based on the efforts being made to improve efficiency. This decision was taken during the Board of Directors' meeting due to and as a consequence of the financial tension in which the Cooperative is at present, which requires a drastic containment of all costs, also through the downsizing of management staff in the absence of any social safety net for that category.

RISK MANAGEMENT

The complex and detailed process of risk management is an element of strategic importance to the Parent Company, so that our objectives can be met in terms of maximising and safeguarding value for our members. The diversitydiversification of the Parent Company's operations, both in core sectors and those held for disposal, poses varying challenges for management whose outcome, in many cases, is difficult to predict. Specific strategies have been devised for managing the various types of operations and for constantly monitoring the related risks that may arise, with a view to limiting as far as possible any fluctuations in the economic and financial flows deriving from changes in the situations found on a case-by-case basis.
In this regard, the analysis of performance by sector of activity discusses the current areas of risk, providing information to facilitate comparison with the consolidated financial statements for the prior year, together with details any new situations identified at the time of preparing these financial statements.
This list of specific risks is followed by further, more general considerations about the physiological risk associated with the complexity of the Company's activities. In this regard, the following principal types of risk are identified and monitored:

(i) operational risk, associated with the performance of work and relations with the individual principals;
(ii) financial risk, comprising:

- market risk deriving from exposure to fluctuations in interest rates, in the exchange rates between the euro and the other currencies in which the Parent Company and the Group operate and, with regard to plant engineering, the volatility of certain raw material prices;
- credit risk deriving from exposure to possible losses due to the failure of principals to meet their obligations;
- liquidity risk deriving from the financial resources available to the Company be insufficient to meet outstanding obligations on the agreed basis and due dates.
- risk of currency restrictions could generate difficulties be encountered in transferring available liquid funds from foreign locations to the parent company.

INTERCOMPANY TRANSACTION

Relations between Group companies, both as part of vertically-integrated production and with regard to the provision of services, are settled at market terms. More specifically:

- sales and purchases at arm's-length terms;
- rentals at property market terms;
- interest at rates applied in banking practice.

These transactions primarily comprise:

- services supplied by central department:

- operational services giving technical and organisational support;
- financial services regarding the negotiation of loans and the granting of guarantees needed for the performance of works;
- administrative, fiscal, corporate and insurance-related services.

- trade transactions consisting of the purchase of machines, spare parts, raw materials and other materials needed for the performance of contracts;
- contractual relations deriving from work allocated to GED and SIC, which specialise in the production of prefabricated items and the supply of construction materials.

Based on the information received from Group companies, there have not been any atypical or unusual transactions.
Please refer to the paragraph "Other activities" for a brief description of the activities carried out by these companies during 2018.

RESEARCH & DEVELOPMENT

In compliance with the requirements of art. 2428 of the Italian Civil Code, please note that research and development activities were undertaken in 2017, the costs of which are reflected in the financial statements.

In particular, during 2018, the actions relating to the progress of the SICS project (Integrated Smart Shipyard System) continued. The general objective of the project is to introduce advanced ICT solutions applied to the management of construction sites in order to make the construction process more transparent towards the customer and the contracting entities, to implement the level of security documented on the construction site and to optimize and innovate the quality and control procedures of the building process.

Another project developed during the year is RIGERS, or 'Regeneration of cities: intelligent buildings and networks'; it is a national project selected and admitted to the MIUR (Ministry of Education, University and Research) facilities.
The project proposes to create an integrated system to support the sustainable regeneration of cities, buildings and networks, in order to increase energy efficiency and at the same time to reduce emissions. A tool capable of managing data relating to the operation of buildings and city networks in real time and capable of communicating with other information systems already in use at the various PAs.

HEDGING INSTRUMENTS

CMC holds derivative financial instruments which are recorded in the financial statements at fair value at the time the derivative contract is entered into and when there are subsequent changes in fair value. The method of accounting for gains and losses deriving from changes in fair value varies according to whether or not the conditions exist for the application of hedge accounting as described below.

CMC does not hold any financial derivatives specifically to hedge against currency risks. At the beginning of any hedging transaction it documents the hedging relationship, the risk management objectives and the hedging strategy, as well as identifying the hedging instrument, the element or the operation hedged and the nature of the risk being hedged. In addition, at the beginning of the transaction and subsequently on an ongoing basis, the Company documents whether the hedging instrument complies with the required conditions of effectiveness in offsetting the exposure to changes in fair value of the hedged item or of the financial flows attributable to the hedged risk.

The Cooperative only holds 3 interest rate swaps (IRS) to hedge interest rates, as indicated in a specific attachment to the notes.

Based on the above documentation, the derivatives used for specific hedging purposes are classified and accounted for as follows:

(a) Fair value hedge - If a derivative is designated as a hedge of the exposure to changes in the current value of an asset or a liability in the financial statements attributable to a particular risk that can determine effects on the income statement, the gain or loss deriving from subsequent assessments of the current value of the hedging instrument are recognized in the income statement. The gain or loss on the hedged item, attributable to the hedged risk, changes the carrying value of this item and is recognized in the income statement.

(b) Cash flow hedge - If a derivative is designated to hedge exposure to fluctuations in the cash flows of an asset or liability in the financial statements or of a highly probable transaction expected to take place, which could have effects on the income statement, the effective portion of the gains or losses on the financial instrument is recognized in equity. The accumulated gain or loss is reversed from equity and recognized in the income statement in the same period in which the hedged transaction is recognized. The gain or loss associated with a hedge or that part of the hedge that has become ineffective is recognized in the income statement immediately. If a hedging instrument or hedging relationship is closed, but the hedged transaction has not yet been realized, the cumulative gains and losses, recorded up to that moment in equity, are recognized in the income statement when the related transaction takes place. If the hedged transaction is no longer deemed probable, the unrealized gains and losses suspended in equity are immediately recognized in the income statement.

Hedging purposes are assessed from a strategic point of view. If these assessments do not comply with the provisions of OIC 32 for the purpose of applying hedge accounting, the related derivatives fall into the category of "Financial instruments at fair value in the income statement".

MEMBERSHIP POLICY

There have been some changes in the membership structure in the year to 12.31.2018: the mutualistic categories suffer the effects of retirements, while the category of sustaining/financing members has changed due to the exit of the sustaining member (under Law no. 59/1992), namely the Provincial Federation of Cooperatives of Ravenna.

Coopfond Spa is the only member remaining in the category of financing members.

MEMBERSHIP
(Number of members)

Category	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Cooperative employees	389	361	340	323
Retired employees	539	532	520	498
Supporting shareholders	1	1	1	-
Financing shareholders	1	1	1	1
Total	**930**	**895**	**862**	**822**

Admission of Cooperative members

At 12.31.2018, there were 323 cooperative members with a decrease of 17 units compared with the previous year, as well as 5 new admissions and 22 departures, partly retirements and partly resignations.

The average age was 49.9 at the end of 2018 versus 49.4 in 2017, a slight increase.

Pursuant to the last paragraph of art. 2528 of the Italian Civil Code, it is specified that in CMC the requirements and procedures for admission to membership are governed by the internal Regulations of the cooperative members, a complex set of internal rules which guarantees transparency and fair treatment to the process.

Consistent with these regulations and having identified favourable conditions for the entry of new members, on 22 December 2017 the Board set the minimum holding for admission as a cooperative member at € 7,500 for 2018 (having been stable at 3,750 since 2002), together with an admission fee of € 50; at the same time, pursuant to the Regulations, the Board appointed the Directors and the Commission tasked with evaluating the applications.

A resolution for the admission of new members was adopted by the Board on 3 May 2018.
Subsequent communications with the members were all carried out on the required basis and timescale: notification of members of their admission and establishment of the additional working relationship pursuant to Law 142/2001.
No applications for admission as a cooperative member in 2018 were rejected.

COOPERATIVE MEMBERS
(breakdown by role)

Role	12/31/2016		12/31/2017		12/31/2018	
	N.	%	N.	%	N.	%
Workers	90	24.9	82	24.1	72	22.3
Admin. employees	146	40.4	144	42.4	134	41.5
Middle management	85	23.6	79	23.2	86	26.6
Directors	40	11.1	35	10.3	31	9.6
Total	**361**	**100**	**340**	**100**	**323**	**100**

The breakdown by qualifications confirms the processes of outsourcing the cooperative's professional group, which inevitably reflects on the structure of the membership.

Share capital

Subscribed share capital has gone from Euro 25.2 million at 12.31.2017 to Euro 17.3 million at 12.31.2018.

The decrease of approximately € 8 million is mainly attributable to the withdrawal of the Provincial Federation of Cooperatives as a sustaining member for Euro 8.06 million and in part to the liquidation of the shares paid to members who went into retirement.

SUBSCRIBED SHARE CAPITAL
(in millions of Euro)

Category	12/31/2016	12/31/2017	12/31/2018
Cooperative employees	14.3	13.7	13.3
Retired employees	2.0	2.2	2.7
Supporting shareholders	8.0	8.0	-
Financing shareholders	1.3	1.3	1.3
Total	**25.6**	**25.2**	**17.3**

Prevalent nature of the business as a mutual society.

Once again, the activities of the Cooperative during 2018 were focused on achieving the cooperative objectives set out in the articles of association and on strengthening the key role of cooperative members within the ownership structure, notwithstanding the fact that events in 2015 gave rise to the loss of CMC's prevalent status as a mutual society.
On 09.16.2016 the Shareholders' Meeting have confirmed their desire to continue to maintain and respect the fundamental cooperative principles, even though the prevalence required by art. 2512 of the Italian Civil Code ceased to exist for objective reasons.

Corporate events

In the meeting held on 3 May 2018, the Board of Directors formalized the resignation from the office of director of Marco Travanini and replaced him by appointing the member Andrea Sanulli in compliance with the Company Articles of Association and internal Social Regulations on the functioning of the Board of Directors. The Shareholders' Meeting held on 5 May 2018 ratified the appointment of Mr Sanulli as a director.

During 2018 the Shareholders' Meeting also approved some changes to the "*Internal regulations governing the appointment, composition and functioning of the corporate bodies".*

In July 2018 the Board of Directors approved a new top management structure for the Cooperative.
In fact, during the meeting on 26.07.2018, the Board of Directors decided to revoke the mandate and powers assigned to the General Manager Mr Roberto Macrì and appointed as the new General Manager Mr Paolo Porcelli, with suitable powers for the running and management of the Company.

On 2 December 2018 the Cooperative's Board of Directors resolved to request the Cooperative's admission to the composition with creditors procedure "with reserve" pursuant to art. 161, sixth paragraph of Royal Decree no. 267/1942 (the Bankruptcy Law, or "BL").
Subsequently, on 4 December 2018, the Company filed an application for a composition with creditors pursuant to art. 161, paragraph VI, BL with a view to continuing in business pursuant to art. 186 bis BL, which was accepted by decree of the Court of Ravenna on 12.07.2018.

On 11.20.2018 the Federation of Cooperatives of the Province of Ravenna, a sustaining member, formalized its withdrawal from the Cooperative's corporate structure by requesting the liquidation of its shares.
At the meeting on 12.21.2018 the Board of Directors formalized the resignation of Mr Giovanni Monti from the office of director.

Ethics and Responsibility - Process management system

In May 2018 CMC obtained ISO 37001 certification of its management system for the prevention of corruption.
The certification body SGS Italia subsequently issued its Merit Award certificate to the Cooperative for having acquired four certifications of its management systems: Environmental Management System certified in accordance with UNI EN ISO 14001:2015; Quality Management System certified in compliance with UNI EN ISO 9001:2015 and Occupational Health and Safety Management System certified in compliance with OHSAS18001:2007 and ISO 37001.

Corporate communication

In recent years, the Cooperative has decided to focus more on the question of communication.
The profound changes taking place in the economic and social system have led to an acknowledgement of the fact that communication is an essential tool to transmit externally a favourable image of the company, but also to encourage a sharing of goals and objectives within the company based on widespread knowledge and participation.
So no longer a specialized service, but an articulated network of channels, tools and messages aimed at building an integrated communication system capable of supporting the huge challenges that businesses face in the era of globalization. The objective is to enhance those intangible resources such as "visibility", "reputation" and "credibility" that undoubtedly contribute to the success of a company.

In line with this decision, in 2018 a new contract was signed with the consulting and strategic communication company Comin & Partners of Rome.

There was also a continuing commitment to strengthen and upgrade CMC's communication network consisting of various tools that make more use of modern technologies: the corporate website (in Italian and English), the app "CMC Ravenna", blog, social network, house organ "La Betoniera" (in Italian and English), intranet "Il Ponte" and the Social Responsibility Report.

POST BALANCE SHEET EVENTS

- On 31 January 2019, CMC filed an application for an extension of the deadline for filing the composition plan and with a decree on 6 February 2019, the Court of Ravenna accepted this request by extending it for another 60 days.
- In January, following a specific request pursuant to art. 169 bis BL, the Company requested and obtained the Court of Ravenna's authorization - granted by decree of 24 February 2019 - to cancel the contract with Cassa Depositi e Prestiti SpA for the refurbishment of a property complex located in Rome, given that it was impossible for CMC to complete the works and in order not to cause further damage.
- In January, the client KCM - Konkola Copper Mines Plc in Zambia sent CMC notification of termination of the Letter of Intent (LOI) dated 25 October 2017 pursuant to clauses 26.2 and 26.3. Clause 26.1 of the LOI provides for termination of the agreement in the event of the contractor's default and, among other things, if it goes into liquidation, both provisional and definitive, voluntary or mandatory, unless it remedies the situation within 14 days. On 25 January 2019, CMC responded to this notification by refusing it, as it was incorrect and unfounded, as discussed with the Company's Management. In particular, CMC rejected any accusation made by the client with regard to bankruptcies and violations, as nothing had been proven or demonstrated by KCM. In addition, CMC in turn notified its intention to terminate the contract by virtue of the fact that the client had not remedied non-payment of the amounts due, not fulfilling its contractual obligations. On 21 May 2019, the provisional liquidator of the client KCM was appointed, in the person of Mr. Milingo Lungu, appointed by the judge of the Court of Zambia, following the company's bankruptcy.
- In January, the union consultation procedure for the start of the CIGS was initiated at the Ministry of Labour and Social Policies in Rome, a procedure that ended successfully on 4 February 2019, with the signing of an Agreement. The CIGS was obtained starting from 18 February 2019 for the maximum period possible by law.
- In February 2019, a communication was presented to the competent bodies for the start of the collective dismissal procedure for managers, in order to reduce their number, based on the efforts being made to improve efficiency. This decision was taken during the Board of Directors' meeting due to and as a consequence of the financial tension in which the Cooperative is at present, which requires a drastic containment of all costs, also through the downsizing of management staff in the absence of any social safety net for that category.
- The contract for the Greater Beirut Water Supply Project in Lebanon was interrupted in March, following termination by the client CDR - Council for Development and Reconstruction following the financial difficulties that beset CMC, which prevented it from doing the work even prior to the pre-composition with creditors. CMC has taken legal action to recover the amounts due.
- In mid-March Trafikverket, the Swedish Transport Agency which is responsible for the construction, management and maintenance of state roads and railways, cancelled contracts with Lovon Samverkan AB (LSAB), the Swedish company created by the joint venture between Vianini Lavori, of the Caltagirone group, and CMC for the construction of two road tunnels in Stockholm. The Swedes complained of alleged labour shortages dating back to 2018, but for the two Italian companies, these grounds are spurious. The issue is now in the hands of lawyers, but in the meantime il Messaggero, a newspaper published by Caltagirone, which talked about "environmental difficulties" in relation to this experience, highlights the flaws of the former Swedish model.
- On 8 April 2019, the Company deposited, on elimination of the reserve referred to in the original appeal of 4 December 2018 pursuant to ex art. 161, paragraph 6, BL, the application and the plan of the composition with creditors, together with the report drawn up pursuant to art. 161, paragraph 3, BL by Claudio Trenti, chartered accountant and auditor in Modena, professional who meets the requirements of art. 67, paragraph 3, letter d), BL.
- With a subsequent decree of 7 May 2019, filed with the Bankruptcy Registry on 8 May 2019, the Court of Ravenna granted CMC a term pursuant to ex art. 162 BL of fifteen days - later extended until 29 May

2019 - so that it could make certain changes and additions to the composition proposal, also scheduling the hearing to discuss the appeal on 5 June 2019.

- On 29 May 2019, CMC then filed the integrated application according to the Court's requests for clarification and on 5 June 2019 the hearing was held for the discussion with a view to verifying the conditions for the Company's admission to the Composition with Creditors Procedure.
  The "Original" Composition Proposal (filed on 29 May 2019) provides, in addition to full payment of the "creditors in pre-deduction", of privileged creditors (within the limits set out in art. 160, second paragraph, BL, as regards the VAT and credit claims of the lessor), and of Strategic Suppliers (unsecured belonging to Class 1), partial and non-monetary satisfaction - through *datio in solutum* of Participating Financial Instruments (hereinafter PFI), extinguishing the related liabilities - of the other unsecured creditors, i.e. the "Effective" creditors, divided into two Classes, no. 2 and no. 3, depending on the financial or non-financial nature of the credit, as well as third-party creditors "Guaranteed" by CMC and "Potential" ones, entered respectively in Classes 4 and 5 (not effective on the Reference Date of 3/12/2018, but which could have become effective after the Reference Date). The *datio in solutum* presupposes prior "remission", by each unsecured creditor, of a portion equal to 80% of the principal and interest making up their receivable, as a consequence of approving the arrangement (i.e. a haircut of 80% of the amount due), and the fulfilment of the other 20% of the receivable by assigning PFIs, at a ratio of 1 PFI with a nominal value of Euro 1 for each Euro 1 of converted credit, without prejudice to the extinction of every amount due to the holder.
  No satisfaction is expected for the "Postergati" (subordinated) creditors included in Class 6.

- in addition to some amendments to the Articles of Association, in order to better regulate the PFIs envisaged by the Composition with Creditors Agreement, the Extraordinary Shareholders' Meeting of 16 May 2019 approved the original PFI Regulation and resolved to issue participatory financial instruments - subject to the Court of Ravenna's approval of the Composition with Creditors; in execution of the same - having the characteristics and discipline referred to in the Regulation, setting the nominal amount up to a maximum of Euro 500,000,000 and the maximum time limit for issue at four years from the date of the meeting, and therefore no later than 16 May 2023, in two or more tranches, delegating to the Board of Directors any further decisions and activities that may be necessary, useful or otherwise functional or connected to the issue of PFIs. Following their hoped-for approval, the PFIs will then be issued by the Board of Directors, having been delegated specific powers to do this, without prejudice to the fact that the issue by the Shareholders' Meeting, which has already taken place, will become effective with the approval, to which will then automatically follow the *datio in solutum* of the PFIs to unsecured creditors who are effective on that date;

- The Court of Ravenna with a decree issued on 12 June 2019, filed on the same date in the Bankruptcy Chancellery then declared the Composition with Creditors procedure open, appointing Alessandro Farolfi as Delegated Judge and confirming Andrea Ferri Antonio Gaiani and Luca Mandrioli as Judicial Commissioners, already named in the pre-composition phase.

- With the same decree of 12 June 2019, the Court of Ravenna also arranged for the creditors to be summoned before the Delegated Judge on 13 November 2019. In accordance with art. 177 BL, it should be noted that the composition must be approved with the favourable vote of the creditors who represent the majority of the claims admitted to voting.

- In August, a settlement agreement was signed with the Integra Consortium to reach a solution regarding the different relationships between the two companies (as well as with the two project companies Empedocle 2 Scpa and Bolognetta Scpa), also in relation to the Sicilian projects of the maxi-lot SS 640 Agrigento Caltanissetta (lot 2), highway SS 121 Palermo-Lercara Friddi and the Turin underground line 1 project (Lingotto-Benghazi section). The agreement reached brought mutual benefits to the parties by regulating the contractual relationships of the various works in question.

- On 13 September 2019, the Board of Directors decided to ask the Court of Ravenna to postpone the creditors' meeting; the reasons for this request for postponement were found in the Company's decision to modify the Original Composition Proposal and the underlying Plan, in order to acknowledge the effects of some events subsequent to their filing (such as, among others, the agreements entered into with Cooperare SpA and with INTEGRA Soc. Coop. Consortium, the filing of the composition proposals of the project companies EMPEDOCLE 2 Scpa and BOLOGNETTA Scpa, updates on the evolution of some orders envisaged in the plan), as well as improving the Original Composition Proposal, through the revision of the participatory financial instruments issued by the Extraordinary Shareholders' Meeting of 16 May 2019, as well as the request for new finance.

- On 27 September the Court of Ravenna set a new date for the creditors' meeting on 11 March 2020. The Court found that the postponement did not lead to additional costs for a complex procedure such as that of CMC, both in terms of absolute values and the creditors involved, therefore accepting the request for an extension and granting a more appropriate term for making changes to the plan and to all the related formalities.
- In October, a medium-term loan agreement was finalized with Cooperare SpA for an amount of Euro 25 million granted to the Cooperative in the same month of October. On the other hand, negotiations are underway for the concession of new finance to the Cooperative in execution of the composition with creditors.
- On 12 December 2019, the Ordinary and Extraordinary Shareholders' Meeting confirmed the PFI issue resolution of 16 May 2019 and then approved:
    - in extraordinary session, the amendments to the Articles of Association and the attached PFI Regulation to provide for the option of Converting the PFIs into bonds,
    - in ordinary session, authorizing the Board of Directors to issue the Bond Loan ("BL") to service conversion of the PFIs, on the basis of the essential characteristics provided by the Bond Loan Regulation, already approved for this purpose by the Board of Directors on 25 November 2019.

By incorporating these amendments into the modified Composition Proposal, soon to be filed, the Company's intention was to allow its unsecured creditors in Classes 2-3-4-5 - destined in any case to be satisfied by *datio in solutum* of the PFIs following approval of the Composition - to convert them into Bonds at a Conversion Ratio of 1 (one) Bond (with a nominal value of Euro 1) for every 2 (two) PFIs (with a nominal value of Euro 1 each). The attribution of this additional right has the objective of making the Composition Proposal more "attractive", especially for those creditors who, for various reasons, may not like PFIs and prefer Bonds, which they can acquire in this way, by exercising the conversion right of the PFIs attributed to them automatically on the hoped-for approval of the Composition;

- on the same date (12 December 2019), the Board of Directors approved - as they had been amended - the Company's equity, economic and financial situation at 3 December 2018 (the day prior to the date of publication of the pre-composition appeal in the Register of Companies), the new Economic-Financial Plan, the consequent Composition Plan and the amendments to the Composition Proposal, pursuant to art. 152 BL; the Composition is expected, as before, to take effect within two years from the approval, assumed to be on 30/06/2020, so that the Composition Plan develops over this period of time (and therefore until 30/6/2022); the Economic-Financial Plan, on the other hand, lasts until 31/12/2024, so beyond the period of the Plan, in order to provide a series of forward-looking documents which, in going beyond the duration of the Composition Plan, allow the creditors better and more extensive information on the Company's financial and economic developments before and after execution of the Composition, also to demonstrate its economic "feasibility";
- on 16 December 2019, the Board of Directors co-opted a new Director, Davide Mereghetti, also appointing him Managing Director, granting him the related powers.

CONCLUSION

The liquidity crisis mentioned above had serious consequences on the operations of the Company and the group, resulting in:

- a substantial blockage (or at best a significant slowdown) of the activities on construction sites opened in Italy and abroad in the last part of 2018 and in the first few months of 2019
- the need to resort to extraordinary layoffs (CIGS) for CMC employees which, however, on the basis of the agreements between the Ministries of Labour and Economic Development and the Region, Company and Trade Union, only started on 18 February, involving 746 direct workers in Italy, of whom 381 at the Ravenna office. Another 184 employees working on construction sites in Sicily have to be added to the list.
- The need to approve a staff reduction plan. On 5 April, the Cooperative launched the layoff procedure to reduce staff by 45 workers "working at and on the books of the Ravenna office" in implementation of the agreement signed by CMC and the trade unions on 4 February at the Ministry of Labour. Among the measures envisaged there was "a personnel management plan which, in order to safeguard employment levels, included, among other measures, the activation of a collective dismissal reduction procedure, based on the non-opposition criterion...". There are no cash contributions by the Cooperative for those who leave their jobs. A table was then opened at the Region for the redundancy of 20 managers.
- the cancellation of several contracts acquired in previous years and in progress
- The revocation of certain contracts by the Integra Consortium.

The events described above led to a significant loss reflected in the income statement at 31 December 2018 and, therefore, to the capital deficit of € 1,552.7 million reflected in the balance sheet at the same date. This loss is mainly attributable to:

- the complete write-down of receivables and work in progress on contracts that have been terminated. In this regard, it should be noted that any future benefits deriving from the possible outcome of the disputes initiated by the Company aimed at realizing both the revenues accrued at the termination date and the compensation for damages for customers' breaches of contract are not reflected in these financial statements in the absence of elements attesting reasonable certainty that they could be realized, particularly for the uncertainties about going concern.
- the allocation under liabilities of a provision for charges connected to the risks of enforcement of sureties and/or claims for damages in relation to the orders referred to in the previous point and/or other contracts still in progress.
- accounting for significant losses incurred and/or expected at the end of the year deriving from blockage of the works in the last part of 2018 and in the first few months of 2019, including those relating to any penalties for delayed completion of the works.
- the write-down of the book value of some equity investments against forecasts of losses incurred and/or estimated on subsidiaries and associates attributable to factors similar to those described above.
- revision of the estimates of collection of receivables and works in progress in light of the status of disputes in progress with clients and partners involved in the works.

In particular, maintaining the going-concern assumption requires the occurrence of the following circumstances, still subject to considerable uncertainty:

– positive outcome of the Composition Procedure, with the hoped-for approval. Only in this case a gain will be accounted for which will allow the closing of the financial statements at 31 December 2020, or, presumably, a previous interim financial report to be approved following the desired approval, with a result that is expected to be sufficient to guarantee coverage of the losses shown in these financial statements. The Plan is currently being analysed by the Commissioners appointed by the Ravenna Court who will have to file their report pursuant to art. 172 of the Bankruptcy Law by 27 January 2020. This step is then preparatory to approval of the Composition by the creditors, invited for this purpose to the meeting scheduled for 11 March 2020. Failure by the creditors to approve the plan and/or its non-approval by the Court would lead to the start of a different bankruptcy procedure which would inevitably lead to CMC losing its status as a going concern.

- realization of the assumptions and results envisaged by the Composition Plan and the underlying Economic and Financial Plan (EFP) relating to the period 2019-24 serving the Composition Proposal as they are functional to the generation of sufficient cash flows not only to ensure operations, but also to satisfy the privileged creditors, strategic suppliers and debts in pre-deduction according to the methods provided for in the composition proposal.
  In this regard, we would recall that the EFP was drafted starting from the order forms elaborated by the project managers of the sites managed directly by CMC in Italy and abroad and that, while providing for a significant reduction in the Company's revenue volumes compared with past years, assumes that breakeven will be achievable again from 2021. Achieving the objectives set out in the Plan presupposes at an economic level:
  - the Company's ability to reacquire credibility on the market within a reasonably short time, a necessary condition to acquire the works needed to guarantee the production levels expected in 2022 and 2023,
  - the possibility of achieving the objectives in terms of definition and collection of claims,
  - the effective possibility of divesting some non-strategic assets (land, buildings, plants and machinery that are no longer functional) within the terms set by the EFP
  - the ability to achieve a significant reduction in structural costs in order to align them with the new dimensions of the company and the group.
  - The appropriateness of the provisions for risks set aside in these financial statements, in particular with reference to the risks of enforcing the guarantees.
- Realization of the assumptions and objectives of the cash plan included in the Composition Plan and, in particular, for the period of twelve months from the date of approval of these draft financial statements, as it is essential for the purposes of assessing whether the going-concern assumption still applies. This assumes:
  - the Company's ability to operate in the coming years with limited recourse to bank loans
  - the ability to obtain a cash line of Euro 30 million in 2020 in addition to the signature lines needed to acquire new contracts.
  - The definition and collection of a significant amount of claims as envisaged in the Economic and Financial Plan. Postponement of these agreements could compromise the Cooperative's ability to source the necessary cash to fulfil its obligations in the short term.

In light of the above, the Board of Directors has appropriately requested and obtained the information needed to assess the reasonableness of all the above circumstances, which represent significant uncertainties that may raise doubts about the Cooperative's ability to continue operating on the basis of the going-concern assumption, thus deeming it appropriate to use this assumption in preparing these financial statements. In particular, the Board of Directors based its conclusions on the basis of the following considerations, with reference to each of the elements of uncertainty set out above:

- The amended Composition Proposal approved on 12 December 2019 was prepared in order to incorporate some preliminary observations submitted to the attention of the advisors by certain categories of creditors.

- The Economic and Financial Plan underlying the Composition Plan to service the Proposed Composition with Creditors was drawn up with the support of expert consultants in the sector (and at the time subjected to an Independence Business Review by a leading firm of auditors). The EFP also includes a sensitivity analysis which highlights CMC's ability to meet the conditions of the Composition Proposal, even if less is collected in terms of variants and claims.

- Management has prepared an interim financial report at 30 June 2019 which shows only a slight loss in economic performance, despite being heavily influenced by significant operational difficulties in the first few months of the current year. The values reflected in this report are in line with the EFP forecasts for 2019.

- Also from a financial point of view, the Company is regularly honouring its obligations relating to the pre-deduction payables, thanks to the definition of certain claims both in Italy and abroad, which have generated important amounts of cash. This has made it possible to keep open the sites that fall within the perimeter of continuity identified in the Plan, without generating excessive slowdowns in carrying out the works. It has been possible to maintain a certain regularity in payments of suppliers in pre-deduction and of wages and salaries, followed by regular payment of social security contributions that allowed the Cooperative to always have a regular DURC and therefore be able to collect receivables from clients. Through an agreement with the Bologna Tax Authorities, it has also been possible to regularize all tax liabilities for 2018 by offsetting our VAT credit of € 10.5 million. We are confident that negotiations with clients will lead to the award of some works in Italy, with the continuation of the works at the port of Molfetta, and abroad with lots adjacent to those built by the Company in the Philippines and Namibia.

- On the financial front, we have already mentioned the signing of a medium-term loan agreement with Cooperare Spa for an amount of Euro 25 million, which was disbursed in November, while negotiations for a loan to the Cooperative are at an advanced stage. As mentioned previously, this loan should then be replaced by a cash line of credit from a bank.

- The MIT has undertaken to coordinate the launch of a technical discussion between the Company and ANAS to find a solution for the dispute that CMC has opened against the state company for 1.2 billion, and completion of the works on the lots of the SS Caltanissetta-Agrigento and the SS Palermo-Agrigento. We are also formalizing a settlement with Anas Spa relating to the claims and the signing of contracts for the works to continue.

In light of the above considerations, the Directors have adopted the going-concern assumption in preparing the financial statements for the year ended 31 December 2018, as they consider it reasonable that the crisis that CMC is facing can be overcome through the various measures already taken and still to be undertaken, as outlined above. In summary, they believe that, even in a context characterized by significant uncertainties, it is reasonable to expect that:

- The Composition Proposal can be received well by the creditors and, subsequently, be approved by the Court with the times mentioned above, allowing full coverage of the losses reflected in these financial statements and, at the same time, ensuring a level of capitalization of the Cooperative that is adequate in relation to the volumes of activities envisaged in the 2019-24 Economic and Financial Plan .
- The assumptions and objectives reflected in the EFP are reasonably achievable (also taking into account the results of the sensitivity analysis), in particular those relating to the acquisition of new contracts, the level of realization of claims, the disposal of non-strategic assets and the reduction in overheads, allowing compliance with the commitments undertaken towards the creditors involved in the Composition.
- The assumptions and objectives relating to the cash plan included in the EFP (particularly with reference to the period of twelve months from the date of approval of these draft financial statements) are reasonably achievable in particular with reference to obtaining the cash and endorsement lines of credit and the timing of realization of the claims that are expected to be collected by the end of 2020.

FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2018

BALANCE SHEET

INCOME STATEMENT

CASH FLOW STATEMENT

A S S E T S	2018		2017	
A) RECEIVABLE FROMSHAREHOLDERS FOR PAYMENTS DUE				
I) Subscribed capital not paid up		21,625		18,033
Total recivable from shareholders		**21,625**		**18,033**
B) FIXED ASSETS				
I) Intangible fixed assets				
1) plant and expansion costs		-		-
2) development costs		-		-
3) industrial patent rights and intellectual property rights		1,903,711		1,016,363
4) concessions, licences, trade-marks and similar rights		-		12,765
5) goodwill		-		-
6) fixed assets in progress and advances		295,928		1,354,672
7) others		-		102,566
a) contracts' deferred charges	-		102,566	
Total intangible fixed assets		***2,199,639***		***2,486,366***
II) Tangible fixed assets				
1) land and buildings		9,019,953		9,917,714
2) plant and machinery		24,589,665		49,441,305
3) industrial and commercial equipment		6,317,034		16,161,990
4) other assets		127,842		44,011
5) fixed assets in progress and advances		16,138,747		19,673,101
Total tangible fixed assets		***56,193,241***		***95,238,121***
III) Financial assets				
1) investments in		100,136,824		261,930,689
a) subsidiary companies	191,428,468		191,294,602	
b) associated companies	22,951,238		22,951,238	
c) parent companies				
d) controlled by parent companies				
d bis) other companies	40,710,037		48,190,719	
- investments write off	(154,952,919)		(505,870)	
2) receivables from		176,128,275		201,793,933
a) subsidiary companies		152,259,339		151,767,542
1) due within 12 months	152,259,339		151,767,542	
b) associated companies		9,259,638		39,138,843
1) due within 12 months	9,259,638		39,138,843	
c) parent companies		-		-
d) controlled by parent companies		-		-
1) due within 12 months	-		-	
2) due after 12 months	-		-	
d bis) others		14,609,298		10,887,548
1) due within 12 months	13,433,113		9,682,213	
2) due after 12 months	1,176,185		1,205,335	
3) other securuties		-		-
4) derivatives financial instruments		-		-
Total financial fixed assets		***276,265,099***		***463,724,622***
Total fixed assets		**334,657,979**		**561,449,109**
C) CURRENT ASSETS				
I) Inventories				
1) raw materials and consumables		5,588,492		36,923,415
2) work in progress and semi-finished products		-		122,000
3) contracts in progress		271,018,346		718,372,926
4) finished products and goods		-		-
5) advances		13,669,514		27,731,190
Total inventories		***290,276,352***		***783,149,531***
II) Receivables from				
1) clients		128,240,110		205,401,512
a) due within 12 months	119,785,120		175,706,606	
b) due after 12 months	8,454,990		29,694,906	
2) subsidiary companies		443,391,503		410,660,454
a) due within 12 months	443,391,503		410,660,454	
b) due after 12 months	-		-	
3) associated companies		28,811,355		38,570,469
a) due within 12 months	28,811,355		38,570,469	
b) due after 12 months	-		-	
5 bis) taxes		26,956,543		41,553,704
a) due within 12 months	26,956,543		41,487,314	
b) due after 12 months	-		66,390	
5 ter) pre-paid taxes		-		22,501,188
a) due within 12 months	-		22,501,188	
5 quater) others		40,701,054		37,922,018
a) due within 12 months	40,701,054		34,387,817	
b) due after 12 months	-		3,534,201	
Total receivables		***668,100,565***		***756,609,345***
III) Financial assets				
5) other securuties		379,249		761,249
Total financial assets		***379,249***		***761,249***
IV) Cash and cash equivalents				
1) bank and postal accounts		18,022,403		66,745,970
2) cheques		-		-
3) cash on hand		220,419		422,520
Total Cash and cash equivalents		***18,242,822***		***67,168,490***
Total Current Assets		**976,998,988**		**1,607,688,615**
D) ACCRUED INCOME AND PREPAYMENTS		**5,967,710**		**18,094,300**
TOTAL ASSETS		**1,317,646,302**		**2,187,250,057**

LIABILITIES	2018		2017	
A) SHAREHOLDERS' EQUITY				
I) Capital		17.290.906		25.203.483
1) Shared capital	17.290.906		25.203.483	
II) Paid-in capital		-		-
III) Revaluation reserve		-		-
IV) Legal reserve		87.515.550		86.984.670
V) Statutory reserves		-		-
VI) Other reserves		16.917.603		18.243.420
1) extraordinary reserve	32.047.692		31.144.199	
2) conversion reserve	(22.288.711)		(20.059.401)	
3) reserve ex art. 2426 c.c.	7.158.622		7.158.622	
VII) Cash flow hedge reserve		-		-
VIII) Retained earnings		-		-
IX) Profit (loss) for the year		(1.674.424.792)		1.769.599
Total Shareholders' Equity		**(1.552.700.733)**		**132.201.172**
B) RESERVES FOR RISKS AND CHARGES				
1) for pension payment and similar obligation		-		-
2) for taxes		1.257.645		-
3) derivatives financial instruments		-		-
4) other		536.049.564		10.064.532
a) contractual risks	198.506.734		-	
b) overseas operations	178.601.278		4.169.344	
c) other risks and charges	158.941.552		5.895.188	
Total funds for risks and charges		**537.307.209**		**10.064.532**
C) SEVERANCE INDEMNITY		**13.064.306**		**12.638.012**
D) PAYABLES				
1) bond		*591.561.439*		*548.022.886*
a) due within 12 months	591.561.439		-	
b) due after 12 months	-		548.022.886	
2) convertible debentures		-		-
3) shareholders loan		*8.270.727*		*10.704.929*
a) due within 12 months	8.270.727		2.244.370	
b) due after 12 months	-		8.460.559	
4) banks		*337.941.951*		*234.487.921*
a) due within 12 months	337.941.951		124.666.921	
b) due after 12 months	-		109.821.000	
5) other loans		*1.343.254*		*5.035.506*
a) due within 12 months	1.343.254		4.120.506	
b) due after 12 months	-		915.000	
6) advances		*4.768.910*		*2.926.093*
a) due within 12 months	4.768.910		2.926.093	
b) due after 12 months	-		-	
7) suppliers		*378.237.166*		*277.702.046*
a) due within 12 months	377.118.756		264.564.593	
b) due after 12 months	1.118.410		13.137.453	
8) payables represented by credit instruments		-		-
9) payables to subsidiary companies		*683.649.724*		*626.091.910*
a) due within 12 months	683.649.724		626.091.910	
b) due after 12 months	-		-	
10) *payables to associated companies*		*47.213.506*		*53.793.453*
a) due within 12 months	47.213.506		53.793.453	
b) due after 12 months	-		-	
11 bis) controlled by parent companies		-		-
a) due within 12 months	-		-	
b) due after 12 months	-		-	
12) taxes		*25.915.845*		*24.837.487*
a) due within 12 months	25.915.845		24.837.487	
b) due after 12 months	-		-	
13) payables to social security and welfare institutions		*10.647.068*		*3.520.756*
a) due within 12 months	10.647.068		3.403.910	
b) due after 12 months	-		116.846	
14) other		115.876.522		91.129.694
a) due within 12 months	115.876.522		72.754.262	
b) due after 12 months	-		18.375.432	
15) advance payments from clients and customers		*112.626.134*		*139.639.275*
a) due within 12 months	112.626.134		34.324.467	
b) due after 12 months	-		105.314.808	
Total payables		**2.318.052.246**		**2.017.891.956**
E) ACCRUED LIABILITIES AND DEFERRED INCOME		**1.923.274**		**14.454.385**
TOTAL LIABILITIES		**1.317.646.302**		**2.187.250.057**

	INCOME STATEMENT	2018		2017	
A) VALUE OF PRODUCTION					
1)	revenues from sales and services		513,604,102		826,184,378
2)	variations in inventories of work in progress, semi-finished and finished products		(122,000)		-
3)	variations in contracts in progress		(445,193,696)		60,434,054
4)	increases in fixed assets for internal work		498,553		641,716
5)	other income and proceeds		16,041,824		20,120,331
a)	capitalisation of deferred charges	343,157		341,910	
b)	use of reserves	119,470		-	
c)	other income	15,579,197		19,778,421	
	Total value of production		**84,828,783**		**907,380,479**
B) PRODUCTION COSTS					
6)	raw materials, consumables and goods		(97,217,455)		(146,050,585)
7)	services		(467,065,006)		(514,956,214)
8)	lease and hire		(39,257,598)		(36,455,926)
9)	personnel		(114,445,213)		(121,148,017)
a)	wages and salaries	(86,130,325)		(93,897,344)	
b)	social security contributions	(20,245,622)		(21,360,092)	
c)	severance indemnity	(4,058,121)		(3,904,071)	
d)	pension payments and similar obligations	-		-	
e)	other costs	(4,011,145)		(1,986,510)	
10)	depreciation, amortization and writedown of receivables		(298,884,754)		(21,277,765)
a)	intangible fixed assets	(798,635)		(1,894,491)	
b)	tangible fixed assets	(22,755,965)		(16,600,147)	
c)	other fixed asset writeoffs	(748,879)		-	
d)	writedowns of receivables included in current assets	(274,581,275)		(2,783,127)	
11)	variations in inventories of raw materials, consumables and goods		(13,872,987)		7,993,151
12)	provisions for risks		(418,322,768)		-
13)	other provisions		-		(621,274)
14)	other operating costs		(31,222,633)		(23,584,138)
	Total production costs		**(1,480,288,414)**		**(856,100,768)**
	Difference between value and cost of production (A-B)		**(1,395,459,631)**		**51,279,711**
C) FINANCIAL INCOME AND CHARGES					
15)	*income from investments*		*2,915,274*		*4,368,356*
a)	in subsidiary companies	2,901,261		4,335,623	
b)	in associated companies	-		-	
c)	in parent companies	-		-	
d)	in controlled by parent companies	-		-	
e)	in other companies	14,013		32,733	
16)	*other financial income*		*5,603,011*		*6,983,265*
a)	from receivables entered in the fixed assets		-		-
b)	from securities entered in the fixed assets that do not costitute investments		-		-
c)	from securities entered in the current assets that do not costitute investments		-		-
d)	other income		5,603,011		6,983,265
	1) from subsidiary companies	3,858,486		4,388,014	
	2) from associated companies	3,305		263,898	
	7) from others	1,741,220		2,331,353	
17)	*interest and other financial charges*		*(93,772,097)*		*(61,080,222)*
a)	from subsidiary companies	(2,703,088)		(3,130,059)	
b)	from associated companies	(25,949)		(36,910)	
d)	from others	(91,043,060)		(57,913,253)	
17 bis)	*exchange profits and losses*		*(4,885,749)*		*5,866,460*
a)	exchange profits	37,601,025		48,893,874	
b)	exchange losses	(42,486,774)		(43,027,414)	
	Total Financial Income and Charges (15+16-17±17bis)		**(90,139,561)**		**(43,862,141)**
D) ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS AND LIABILITIES					
18)	*revaluation*		-		*10,775,563*
a)	of investments	-		10,775,563	
19)	*devaluation*		*(161,888,965)*		*(11,637,753)*
a)	of investments	(161,506,965)		(11,637,753)	
c)	of securities entered in the current assets that do not costitute investments	(382,000)		-	
	Total Adjustments to Value of Financial Assets (18-19)		**(161,888,965)**		**(862,190)**
	Income before tax (A-B+C+D+E)		**(1,647,488,157)**		**6,555,380**
20)	income tax		(26,936,635)		(4,785,781)
a)	current	(6,400,798)		(9,448,525)	
b)	previous periods	(612,896)		(755,891)	
c)	advance/deferred	(19,922,941)		5,418,635	
21)	**Net income (loss)**		**(1,674,424,792)**		**1,769,599**

CASH FLOW STATEMENT

Cash Flow (indirect method)	December 31, 2018	December 31, 2017
A. Cash flows from operating activities		
Profit (loss) for the year	*(1,674,425)*	*1,770*
Income tax	*26,937*	*4,786*
Financial (Income)/Charges/Rate exchange	*88,169*	*48,230*
(Dividend collected)	*(2,915)*	*(4,368)*
1. Income before tax, interests, dividends	***(1,562,234)***	***50,418***
Other adjustments		
Net change funds for risks and charges	*525,985*	*1,136*
Net change severance indemnity	*426*	*582*
Technical assets depreciation	*23,505*	*16,600*
Intangible assets depreciation	*799*	*1,894*
Write-down of receivables	*274,581*	*2,783*
Devaluation of financial assets	*161,889*	*11,638*
(Revaluation of financial assets)	*-*	*(10,775)*
	987,185	***23,858***
2. Cash Flow before NWC changes	***(575,049)***	***74,276***
*Decrease/(increase) inventories**	*492,873*	*(74,656)*
*Decrease/(increase) clients***	*(197,420)*	*65,218*
Decrease/(increase) receivables from group companies	*6,415*	*60,653*
Decrease/(increase) receivables from others	*8,096*	*(18,438)*
Decrease/(increase) accruals&deferred	*12,127*	*(757)*
Increase/(decrease) advances	*1,843*	*(119,600)*
Increase/(decrease) payables to suppliers	*100,535*	*4,447*
Increase/(decrease) payables to group companies	*50,978*	*(85,921)*
Increase/(decrease) accrued liabilities and deferred income	*223*	*(20)*
Increase/(decrease) payables to others	*4,860*	*13,736*
	480,530	***(155,338)***
3. Cash Flow after NWC changes	***(94,519)***	***(81,062)***
Otther adjustments		
Financial Income/(Charges)/Rate exchange	*(100,923)*	*(48,230)*
Income tax paid	*(2,099)*	*(4,786)*
Dividend collected	*2,915*	*4,368*
Decrease in reserve for risks		
	(100,107)	***(48,648)***
CASH FLOW FROM OPERATING ACTIVITIES (A)	***(194,626)***	***(129,710)***
B. CASH FLOWS FROM INVESTMENTS		
Tangible fixed assets net (investments)/disinvestments	*15,540*	*(25,347)*
Intangible fixed assets net (investments)/disinvestments	*(512)*	*(649)*
Financial assets net (investments)/disinvestments	*(95)*	*(1,256)*
Other securities net (investments)/disinvestments	*382*	*-*
CASH FLOW FROM INVESTMENTS (B)	***15,315***	***(27,252)***
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Third party financing		
Increase/(Decrease) payables to banks	*103,454*	*(61,796)*
Increase/(Decrease) bonds payables	*43,539*	*254,419*
Increase/(Decrease) payables to other loans	*(3,692)*	*(484)*
Equity financing		
Decrease/(increase)receivables from shareholders for payments due	*(4)*	*2*
Increase/(Decrease) shared capital	*(7,913)*	*(363)*
Increase/(Decrease) payables in shareholders loan	*(2,434)*	*(1,493)*
Other Increase/(Decrease) in shareholders equity	*(2,511)*	*1,873*
(Dividend paid)	*(53)*	*(715)*
CASH FLOW FROM FINANCING ACTIVITIES (C)	***130,386***	***191,443***
Increase/(Decrease) Cash and Cash Equivalents	***(48,925)***	***34,481***
Cash and Cash Equivalents as of January, 1st	***67,168***	***32,687***
CASH AND CASH EQUIVALENTS AS END OF THE PERIOD	**18,243**	**67,168**

(*) It includes the change in the provision for inventories

(**) It excludes the allowance for doubtful accounts

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 31, 2018

(in thousands of euro)

GROUP ACTIVITIES

Cooperativa Muratori Cementisti - C.M.C. di Ravenna (also CMC or "the Company" or the "Parent Company") is the Parent Company of the CMC Group, and carries out directly construction activities in Italy and abroad.
Pursuant to and for the purposes of articles 163 and 171, paragraph 2, BL, and in accordance with article 54 of Regulation (EU) 2015/848 of the European Parliament and of the Council of 20 May 2015, relating to insolvency proceedings, it is recalled that the Court of Ravenna with a decree issued on 12 June 2019, filed on the same date in the Bankruptcy Registry - to eliminate the reserve referred to in the appeal presented on 4 December 2018 pursuant to ex art. 161, paragraph 6, BL. - declared the Composition with Creditors Procedure open in favour of CMC DI RAVENNA SOC. COOP., with registered office in Via Trieste 76, Ravenna, registered in the Ravenna Company Register under no. 00084280395, appointing Alessandro Farolfi as Delegated Judge and Andrea Ferri, Antonio Gaiani and Luca Mandrioli as Judicial Commissioners.

FORMAT AND CONTENT OF THE FINANCIAL STATEMENTS

The financial statements as at 31 December 2018, and these notes have been prepared pursuant to the Italian Civil Code on financial statements as revised by Decree Law 139/15 in application of the European Directive 2013/34.

The reference format of the Cash Flow Statement is the indirect method envisaged by OIC 10. As required by this OIC, the categories preceded by capital letters and the subtotals preceded by Arabic numbers have not been grouped. As admitted by OIC 10, however, the Directors believed that for a true and correct representation of the Company's financial situation, it was necessary:

1) to add some more cash flows to those envisaged in the OIC 10 standard format;
2) to group together certain cash flows with respect to those envisaged in the OIC 10 standard format.

The law has been integrated and interpreted, where necessary, on the basis of the accounting principles set out by the Italian Accounting Body (OIC) and, where missing, by those of the International Accounting Standards Board (IASB), to the extent that they are compatible with Italian law.

The purpose of the explanatory notes is to provide, analyse, explain and, in some cases, supplement the information reported on the face of the financial statements. They contain the disclosures required by art. 2427 of the Italian Civil Code which are consistent with the amendments introduced by Decree Law 139/15 and with other standards recommended by the Italian Accounting Profession.

Consistent with the requirements of the Italian Civil Code and the approach adopted in the prior year, new captions have been added to the financial statements if their content is not covered by any of the captions specified in arts. 2424 and 2425. The preparation of these financial statements has taken account of any contingencies or losses relating to the year, even if they became known after year end.

Going-concern assumption subject to significant uncertainties

This section aims, on the one hand, to identify uncertainties also in light of the economic and financial situation of the Cooperative and the Group and, on the other, to identify the measures that have been found and shared by the Directors to remedy them, as well as the stage of completion and the probability that these measures will be adopted and will be implemented within the times scheduled. In light of this, considerations regarding the going-concern assumption used to draw up these financial statements will be developed. Despite the significant uncertainties analysed below, we would like to anticipate that today there is a path that, according to the directors, appears reasonably suitable to allow the Cooperative and the Group to overcome the current crisis situation and to meet their commitments to creditors.

As mentioned previously in the report on operations, the Cooperative and a number of Group companies had to face a situation of serious financial strain in the last few months of 2018 which led to the presentation of a request for a composition with creditors "with reserve" pursuant to art. 161, sixth paragraph of RD 267/1942, which entails significant uncertainties in relation to business continuity.

Despite the presence of a portfolio of works that had recorded strong growth in 2017 and 2018, reaching € 4.66 billion at 30 June 2018, the Company has had to face a serious liquidity crisis starting from October 2018 that Management has deemed mainly attributable to the postponement of expected payments (for works that are finished, in progress or to be started, in Italy and abroad) of approximately € 108 million. These delays concerned non-payment by ANAS of two works in Sicily (the Agrigento-Caltanissetta highway), the failure to collect a certificate for an ongoing contract and an advance for a new order in Kenya for water works (for a total of around 60 million euro) and delayed collections relating to an advance on another water project in Nepal (equal to about 10 million euro) for which the contract was signed in September 2018.

These events weighed particularly on the financial situation of CMC, which had already seen in previous years a progressive increase in the indebtedness attributable to the difficulties in collecting receivables from public sector clients (in particular ANAS; in fact, CMC's balance sheet at 31 December 2017 showed a net receivable balance for invoices issued and/or to be issued, work in progress and claims accounted for in excess of Euro 350 million, which increased further in 2018). Although the management believed that the causes of these delays had all been removed, the expected payments still did not arrive. For this reason, on 9 November 2018 the Board of Directors of the Cooperative, taking note of the situation of intense cash strain, appointed leading advisors (Mediobanca and Studio Trombone Dottori Commercialisti Associati, as financial advisors, and the team of Andrea Zoppini and Fabrizio Corsini, as legal advisors) to identify, in the shortest possible time, the measures needed to overcome this difficult situation on a business continuity basis and then negotiate a radical restructuring of its financial exposure. On that occasion, the Directors also announced that, due to the need to investigate the reasons for the difficulties that were weighing on the Company's cash situation and to identify the most appropriate measures to deal with them, the Cooperative would not have paid on time, at the 15 November 2018 deadline, the interest instalment to holders of the bond loan issued on 16 November 2017 (XS1717576141), whose securities were traded on the Euro MTF Market segment of the Luxembourg Stock Exchange.

On 2 December 2018 the Board of Directors resolved to request the Company's admission to the Composition with Creditors Procedure "with reserve" pursuant to art. 161, sixth paragraph of Royal Decree no. 267/1942 (the Bankruptcy Law, or "BL"). The related Pre-Composition Appeal was submitted to the Court of Ravenna on 4 December 2018. At that time, the Directors communicated that in view of the solvency crisis, access to the Composition with reserve was the most effective way of securing the company's assets and thus protect all stakeholders. They also announced the start of processing of the Composition Plan, designed to resolve the Company's debt exposure and a rebalancing of its financial situation through recourse (presumably) to a composition with business continuity pursuant to art. 186-bis BL.

On 7 December 2018, the Court of Ravenna admitted the Company to the Composition with Creditors Procedure, so-called "with reserve", pursuant to art. 161, paragraph 6, BL by assigning a term of 60 days for presentation by the Company of a proposal for a composition with creditors, also appointing three Judicial Commissioners, in the persons of Antonio Gaiani, Luca Mandrioli and Andrea Ferri.

On 28 December 2018, the IPM Department of the Luxembourg Stock Exchange announced to the Company that it had ordered the suspension from trading of all listed bonds issued by CMC.

On 25 March 2019, pursuant to art. 152 BL, the Board of Directors resolved to approve and submit to the Court of Ravenna the Composition Proposal, the Composition Plan and the documentation required under article 161, paragraphs 2 and 3, of the Bankruptcy Law.

On 30 March 2019, CMC's Shareholders' Meeting unanimously approved the corporate crisis plan based on the proposal for a composition with creditors with business continuity.

On 8 April 2019, on elimination of the reserve referred to in the Pre-Composition appeal of 4 December 2018, the Company submitted its application for a Composition with Creditors. With a subsequent decree of 7 May 2019, the Court of Ravenna granted a term of fifteen days, later extended to 29 May 2019, so that it could make certain changes and additions to the Composition Proposal, also scheduling the hearing to discuss the appeal on 5 June 2019. On 29 May 2019, CMC then filed the integrated application according to the Court's requests for clarification and on 5 June 2019 the hearing was held for the discussion with a view to verifying the conditions for the Company's admission to the Composition with Creditors Procedure. The "Original" Composition Proposal, filed on 29 May 2019, provided for:

- full payment of the "creditors in pre-deduction", of privileged creditors (within the limits set out in art. 160, second paragraph, BL, as regards the VAT and credit claims of the lessor), and of Strategic Suppliers (unsecured belonging to Class 1),
- partial and non-monetary satisfaction - through *datio in solutum* of Participating Financial Instruments (hereinafter PFI), extinguishing the related liabilities - of the other unsecured creditors, i.e. the "Effective" creditors, divided into two Classes, no. 2 and no. 3, depending on the financial or non-financial nature of the credit, as well as third-party creditors "Guaranteed" by CMC and "Potential" ones, entered respectively in Classes 4 and 5 (not effective on the Reference Date of 3/12/2018, but which could have become effective after the Reference Date). The *datio in solutum* presupposes prior "remission", by each unsecured creditor, of a portion equal to 80% of the principal and interest making up their receivable, as a consequence of approving the arrangement (i.e. a haircut of 80% of the amount due), and the fulfilment of the other 20% of the receivable by assigning PFIs, at a ratio of 1 PFI with a nominal value of Euro 1 for each Euro 1 of converted credit, without prejudice to the extinction of every amount due to the holder.

- No satisfaction is expected for the "Postergati" (subordinated) creditors included in Class 6.

For these purposes, the Composition Proposal envisages for business continuity and the consequent generation of the related cash flows, recovery of claims and other receivables, the disposal of certain assets (property, in particular) and a substantial *datio in solutum*. More specifically, the Composition Proposal envisages that the Company continues in business in order to generate positive cash flows (including those related to contracts in progress) in excess of the immediate financial needs of current operations, ensuring the best satisfaction of creditors, as well as continuing employment and commercial relationships.

In addition to the cash flows of contracts in progress and to be acquired, the proposal as submitted envisages the collection and realization of other assets such as:

- Claims to customers following contractual variations or higher non-contractual charges incurred by CMC (claims)
- Receivables from Italian and foreign clients, not included in the perimeter of contract continuity
- Other receivables, such as those of a fiscal nature
- Receivables from investee companies, net of legal compensation
- Buildings held directly or indirectly
- plant, machinery and equipment not used in ongoing contracts

For a better reading of what follows, please note that the **Composition Plan** ("The Plan") represents the programme through which CMC intends to honour the commitments resulting from the approval. In particular, the CMC Composition Plan provides evidence of the cash flows generated to service the settlement requirement, to show the feasibility of the arrangement, which is expected to be completed within two years of its approval. The Composition Plan is based on an **Economic Financial Plan** ("EFP") which lasts until 31/12/2024, so beyond the period of the Composition Plan. With the EFP, CMC intended to provide a series of forward-looking documents which, covering a longer period than the Composition Plan, will provide the creditors with better and broader information on the Company's financial and economic developments, even after execution of the Composition.

in addition to some amendments to the Articles of Association, in order to better regulate the PFIs envisaged by the Composition with Creditors Agreement, the Extraordinary Shareholders' Meeting of 16 May 2019 approved the original PFI Regulation and resolved to issue participatory financial instruments - subject to the Court of Ravenna's approval of the Composition with Creditors; in execution of the same - having the characteristics and discipline referred to in the Regulation, setting the nominal amount up to a maximum of Euro 500,000,000 and the maximum time limit for issue at four years from the date of the meeting, and therefore no later than 16 May 2023, in two or more tranches, delegating to the Board of Directors any further decisions and activities that may be necessary, useful or otherwise functional or connected to the issue of PFIs;

The Court of Ravenna with a decree issued on 12 June 2019 declared the Composition with Creditors Procedure open, appointing Alessandro Farolfi as Delegated Judge and Andrea Ferri, Antonio Gaiani and Luca Mandrioli as Judicial Commissioners. With the same decree of 12 June 2019, the Court of Ravenna also arranged for the creditors to be summoned before the Delegated Judge on 13 November 2019 in order to vote. In accordance with art. 177 BL, it should be noted that the composition must be approved with the favourable vote of the creditors who represent the majority of the claims admitted to voting. Furthermore, since claims are divided into different classes, the Composition is considered approved if this majority also occurs in the majority of classes.

On 13 September 2019, the Board of Directors decided to ask the Court of Ravenna to postpone the creditors' meeting. The reasons for this request for postponement are to be found in the Company's decision to modify the Original Composition Proposal and the underlying Plan, in order to acknowledge the effects of some events subsequent to their filing (such as, among others, the agreements entered into with Cooperare S.p.A. and with INTEGRA Soc. Coop. Consortium, the filing of the composition proposals of the project companies EMPEDOCLE 2 Scpa and BOLOGNETTA S.c.p.a., updates on the evolution of some orders envisaged in the plan), as well as improving the Original Composition Proposal, through the revision of the participatory financial instruments issued by the Extraordinary Shareholders' Meeting of 16 May 2019, as well as the request for new finance. In particular, the Company decided to allow its unsecured creditors in Classes 2-3-4-5 - destined in any case to be satisfied by *datio in solutum* of the PFIs following approval of the Composition - to convert them into Bonds at a Conversion Ratio of 1 (one) Bond (with a nominal value of Euro 1) for every 2 (two) PFIs (with a nominal value of Euro 1 each). The attribution of this additional right has the objective of making the Composition Proposal more "attractive", especially for those creditors who, for various reasons, may not like PFIs and prefer Bonds, which they can acquire in this way, by exercising the conversion right of the PFIs attributed to them automatically on the hoped-for approval of the Composition;

On 27 September the Court of Ravenna set a new date for the creditors' meeting on 11 March 2020. The Court found that the postponement did not lead to additional costs for a complex procedure such as that of CMC, both in terms of

absolute values and the creditors involved, therefore accepting the request for an extension and granting a more appropriate term for making changes to the plan and to all the related formalities.
On 12 December 2019, the Ordinary and Extraordinary Shareholders' Meeting confirmed the PFI issue resolution of 16 May 2019 and then approved:

- in extraordinary session, the amendments to the Articles of Association and the attached PFI Regulation to provide for the option of Converting the PFIs into bonds,
- in ordinary session, authorizing the Board of Directors to issue the Bond Loan ("BL") to service conversion of the PFIs, on the basis of the essential characteristics provided by the Bond Loan Regulation, already approved for this purpose by the Board of Directors on 25 November 2019.

On the same date, the Board of Directors approved, as they had been amended:

- the Company's equity, economic and financial situation at 3 December 2018 (the day prior to the date of publication of the pre-composition appeal in the Register of Companies),
- the new Economic-Financial Plan,
- the consequent Composition Plan and the amendments to the Composition Proposal, pursuant to art. 152 BL;

the Composition is expected, as before, to take effect within two years from the approval, assumed to be on 30/06/2020, so that the Composition Plan develops over this period of time (and therefore until 30/6/2022); the Economic-Financial Plan, on the other hand, lasts until 31/12/2024, so beyond the period of the Plan, in order to provide a series of forward-looking documents which, in going beyond the duration of the Composition Plan, allow the creditors better and more extensive information on the Company's financial and economic developments before and after execution of the Composition, also to demonstrate its economic "feasibility".

In parallel, other Group companies are also involved in bankruptcy proceedings. In particular:

- Bolognetta and Empedocle 2 submitted an application for a Composition with Creditors to the Court of Ravenna on 4 February 2019, subject to art. 161 c. 6 BL and on 3 September 2019 filed an application for admission to the Composition with Creditors Procedure with business continuity.
- GED and SIC presented the request for a Composition with Creditors pursuant to art. 161 c. 6 BL. On 27 September 2019 SIC filed an application, again with the Court of Ravenna, for admission to the Composition with Creditors Procedure with business continuity.
- On 27/06/2019, the subsidiary GED was declared bankrupt by the Court of Ravenna, which authorized it to continue operating provisionally for a period of 3 months, which was not extended at the end of September.

The liquidity crisis mentioned above had serious consequences on the operations of the Cooperative and of the Group, resulting in:

- a substantial blockage (or at best a significant slowdown) of the activities on construction sites opened in Italy and abroad in the last part of 2018 and in the first few months of 2019 with a significant impact on the estimate of final costs and on the order margins;
- the need to resort to extraordinary layoffs (CIGS) for CMC employees which, however, on the basis of the agreements between the Ministries of Labour and Economic Development and the Region, Company and Trade Union, only started on 18 February, involving 746 direct workers in Italy, of whom 381 at the Ravenna office. Another 184 employees working on construction sites in Sicily have to be added to the list.
- The need to approve a staff reduction plan. On 5 April, the Cooperative launched the layoff procedure to reduce staff by 45 workers "working at and on the books of the Ravenna office" in implementation of the agreement signed by CMC and the trade unions on 4 February at the Ministry of Labour. Among the measures envisaged there was "a personnel management plan which, in order to safeguard employment levels, included, among other measures, the activation of a collective dismissal reduction procedure, based on the non-opposition criterion...". There are no cash contributions by the Cooperative for those who leave their jobs. A table was then opened at the Region for the redundancy of 20 managers.
- cancellation of the following contracts acquired in previous years, the completion of which was already in difficulty in the second half of 2018:
    - **Cornubia Interchange to Meridian Drive (South Africa) - Economic Development and City Enterprises.** It is a project that has been completed, involving the construction of a bridge in Durban. On 14 December 2018 termination of the contract was communicated to the client, due to the persistent delay in payment of the certified amounts (for ZAR 7,349,535.50, excluding interest, equal to approximately € 450 thousand). Following this act, various steps were taken to recover the amounts due from the client.
    - **Primary, Secondary Development and Ore Production at Shaft 3 (Konkola East Area) – Zambia Branch - KCM Plc.** The contract, which was acquired in the last quarter of 2017, concerns the excavation of a copper mine owned by Konkola Copper Mines Plc. On 24 January 2019, the client

notified termination to CMC. On 25 January 2019 CMC replied to this notification, refusing it, considering it incorrect and unfounded. In addition, CMC in turn notified its intention to terminate the contract by virtue of the fact that the client had not remedied non-payment of the amounts due, not fulfilling its contractual obligations. On 21 May 2019, the temporary liquidator of the client KCM was appointed by the judge of the Court of Zambia following its bankruptcy.

  - **Port de Mohammedia (Morocco) ANP Agence Nationale des Ports -** 2015 contract for the construction of new moorings for large ships used for LPG transport in the port of Mohammedia. This project has been terminated. The customer notified termination of the contract to CMC on 14 April 2017.
  - **Melamchi - Excavations for water transfer (Nepal) - MELAMCHI CORP.** Order related to the excavation of about 20.5 km of tunnels along the course of the Melamchi river and an internal access road of about 500 metres. The contract was signed in July 2013, whereas work began in 2014 with an expected duration of 36 months. The works were suspended because the contract was terminated by CMC with a note dated 17 December 2018 and subsequently by the client with a note dated 20 January 2019.
  - **Solu order (Nepal)** This is a contract to build a hydroelectric project. The work was meant to be completed in three years (starting in 2017). The works were suspended because the contract was terminated by the contractor (CMC).
  - **Greater Beirut Water Supply Project – GBWS Project (Lebanon) - COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION (CDR)** This is the project relating to the extraction of water of the Al Awali river in Beirut, stipulated in July 2015 and to be carried out in about 4 years. This project has been terminated as “termination” has been notified to the client.
  - **2 Lots of Singapore underground (Singapore) LTA – LAND TRANSPORT AUTHORITY** This is a project for the construction of two lots of the Singapore metro. The contract was terminated by the client. With a first note dated 4 January 2019, LTA informed CMC of the fact that, being in financial difficulties and having initiated the composition process, pursuant to clause 67.1.2 of the contract, it could be automatically terminated, unless LTA was willing to restore it and continue on the basis of the same clause. With a second note on 4 January 2019, the client said that they were willing to consider the possibility of restoring and continuing the relationship with CMC, proposing a meeting with representatives of CMC, which was held in Singapore on 7 January 2019. Some time after the meeting, the client enforced the guarantee.

- The revocation of certain contracts by the Integra Consortium. In particular:
  - Redevelopment of the Ravenna covered market
  - Construction of tunnels in the Poggioreale-Capodichino section
  - Road maintenance works for the Municipality of Ravenna
  - Turin metro line 1, Lingotto-Benghazi section

The events described above led to a significant loss reflected in the income statement at 31 December 2018 and, therefore, in the capital deficit of € 1,552.7 million that can be seen in the balance sheet at that date.

This loss is mainly attributable to the following factors:

- the complete write-down of receivables and work in progress on contracts that have been terminated. In this regard, it should be noted that any future benefits deriving from the possible outcome of the disputes initiated by the Company aimed at realizing both the revenues accrued at the termination date and the compensation for damages for customers' breaches of contract are not reflected in these financial statements in the absence of elements attesting reasonable certainty that they could be realized, particularly for the uncertainties about going concern;
- the allocation under liabilities of a provision for charges connected to the risks of enforcement of sureties and/or claims for damages in relation to the orders referred to in the previous point and/or other contracts still in progress;
- accounting for significant losses incurred and/or expected at the end of the year deriving from blockage of the works in the last part of 2018 and in the first few months of 2019, including those relating to any penalties for delayed completion of the works;
- the write-down of the book value of some equity investments against forecasts of losses incurred and/or estimated on subsidiaries and associates attributable to factors similar to those described above;
- revision of the estimates of collection of receivables and works in progress in light of the status of disputes in progress with clients and partners involved in the works.

The complex situation of the Group described above required Management of the Cooperative to carry out particularly careful assessments regarding the going-concern assumption. In particular, on approval of the 2018 draft financial statements, the Board of Directors proceeded to carry out all the necessary assessments regarding the continued existence of the going-concern assumption, taking into account, for this purpose, all the information available relating to foreseeable future events and, in particular, in the relative future at least - but not limited to - twelve months after the balance sheet date for the financial year ended 31 December 2018.

In particular, maintaining the going-concern assumption requires the occurrence of the following circumstances, still subject to considerable uncertainty:

- the positive outcome of the Composition Procedure. Only in this case a gain will be accounted for which will allow the closing of the financial statements at 31 December 2020, or, presumably, a previous interim financial report, with a result that is expected to be sufficient to guarantee coverage of the losses shown in these financial statements. The Plan is currently being analysed by the Commissioners appointed by the Ravenna Court who will have to file their report pursuant to art. 172 of the Bankruptcy Law by 27 January 2020. This step is preparatory to approval of the composition by the creditors, for which the deadline is 31 March 2020. Failure by the creditors to approve the plan and/or its non-approval by the Court of Ravenna would lead to the start of a different bankruptcy procedure which would inevitably lead to CMC losing its status as a going concern;

- realization of the assumptions and results envisaged by the Composition Plan and the underlying Economic and Financial Plan (EFP) relating to the period 2019-24 serving the Composition Proposal as they are functional to the generation of sufficient cash flows not only to ensure operations, but also to satisfy the privileged creditors, strategic suppliers and debts in pre-deduction according to the methods provided for in the composition proposal. In this regard, we would recall that the EFP was drafted starting from the order forms elaborated by the project managers of the sites managed directly by CMC in Italy and abroad and that, while providing for a significant reduction in the Company's revenue volumes compared with past years, assumes that breakeven will be achievable again from 2021. Achieving the objectives set out in the Plan presupposes at an economic level:
  - the Company's ability to reacquire credibility on the market within a reasonably short time, a necessary condition to acquire the works needed to guarantee the production levels expected in 2022 and 2023,
  - the possibility of achieving the objectives in terms of definition and collection of claims,
  - the effective possibility of selling some non-strategic assets (land, buildings, plants and machinery that are no longer functional) within the terms set by the EFP
  - The ability to achieve a significant reduction in structural costs in order to align them with the new dimensions of the Company and the Group.
  - The appropriateness of the provisions for risks set aside in these financial statements, in particular with reference to the risks of enforcing the guarantees.
- Achievement of the assumptions and objectives of the cash plan included in the Composition Plan mentioned above, particularly in the 12 months from the approval date of these draft financial statements. This assumes:
  - the Company's ability to operate in the coming years with limited recourse to bank loans
  - the ability to obtain a cash line of Euro 30 million in 2020 in addition to the signature lines needed to acquire new contracts.
  - The definition and collection of a significant amount of claims as envisaged in the Economic and Financial Plan. Postponement of these agreements could compromise the Cooperative's ability to source the necessary cash to fulfil its obligations in the short term.

In light of the above, the Board of Directors has appropriately requested and obtained the information needed to assess the reasonableness of all the above circumstances, which represent significant uncertainties that may raise doubts about the Cooperative's ability to continue operating on the basis of the going-concern assumption, deeming it appropriate to use this assumption in preparing these financial statements. In particular, the Board of Directors based its conclusions on the basis of the following considerations, with reference to each of the elements of uncertainty set out above:

- The amended Composition Proposal approved on 12 December 2019 was prepared in order to incorporate some preliminary observations submitted to the attention of the advisors by certain categories of creditors.

- The Economic and Financial Plan to service the Proposed Composition with Creditors was drawn up with the support of expert consultants in the sector (and at the time subjected to an Independence Business Review by a leading firm of auditors). The EFP also includes a sensitivity analysis which highlights CMC's ability to meet the conditions of the Composition Proposal even in the presence of lesser realizations in terms of changes and claims.

- Management has prepared an interim financial report at 30 June 2019 which shows only a slight loss in economic performance, despite being heavily influenced by significant operational difficulties in the first few months of the current year. The values reflected in this report are in line with the EFP forecasts for 2019.

- Also from a financial point of view, the Company is regularly honouring its obligations relating to the pre-deduction payables, thanks to the definition of certain claims both in Italy and abroad, which have generated important amounts of cash. This has made it possible to keep open the sites that fall within the perimeter of continuity identified in the Plan, without generating excessive slowdowns in carrying out the works. It has been possible to maintain a certain regularity in payments of suppliers in pre-deduction and of wages and salaries, followed by regular payment of social security contributions that allowed the Cooperative to always have a regular DURC and therefore be able to collect receivables from clients. Through an agreement with the Bologna Tax Authorities, it has also been possible to regularize all tax liabilities for 2018 by offsetting our VAT credit of € 1.5 million. We are confident that negotiations with clients will lead to the award of some works in Italy, with the continuation of the works at the port of Molfetta, suspended a few years ago due to an investigation of prosecutor in Trani, and abroad with lots adjacent to those built by us in the Philippines and Namibia.

  On the financial front, we would mention the signing of a medium-term loan agreement with Cooperare Spa for an amount of Euro 25 million, which was disbursed in November, while negotiations for a Euro 30 million loan to the Cooperative are at an advanced stage.
- The MIT has undertaken to coordinate the launch of a technical discussion between the Company and ANAS to find a solution for the dispute that CMC has opened against the state company for 1.2 billion, and completion of the works on the lots of the SS Caltanissetta-Agrigento and the SS Palermo-Agrigento. We are formalizing a settlement relating to the claims and the signing of contracts for the works to continue.

In light of the above considerations, the Directors have adopted the going-concern assumption in preparing the financial statements for the year ended 31 December 2018, as they consider it reasonable that the crisis that CMC is facing can be overcome through the various measures already taken and still to be undertaken, as outlined above. In summary, they believe that, even in a context characterized by significant uncertainties, it is reasonable to expect that:

- The Composition Plan should be received well by the creditors and, subsequently, approved by the Court with the times mentioned above, allowing full coverage of the losses reflected in these financial statements and, at the same time, ensuring a level of capitalization of the Cooperative that is adequate in relation to the volumes of activities envisaged in the 2019-24 Economic and Financial Plan;
- The assumptions and objectives reflected in the EFP are reasonably achievable (also taking into account the results of the sensitivity analysis), in particular those relating to the acquisition of new contracts, the level of realization of claims, the disposal of non-strategic assets and the reduction in overheads, allowing compliance with the commitments undertaken towards the creditors involved in the Composition;
- The assumptions and objectives relating to the cash plan included in the EFP (particularly with reference to the period of twelve months from the date of approval of these draft financial statements) are reasonably achievable, in particular with reference to obtaining the cash and endorsement lines of credit and the timing of realization of the claims.

It should be noted that failure to approve and authorize the Composition Plan would inevitably lead to the start of a different bankruptcy procedure, with the consequent loss of the Cooperative's status as a going concern and recognition of significant adjustments to the assets and further liabilities not reflected in the financial statements at 31 December 2018. It should also be acknowledged that the existence and overcoming of the situations of uncertainty mentioned above depends only partially on internal variables and factors that can be controlled by Management, whereas in other respects it depends on external factors that have been assessed according to the reasonableness criteria explained above.

ACCOUNTING POLICIES

The principal accounting policies applied in preparing the financial statements are explained below:

Intangible fixed assets

Intangible fixed assets are recorded at purchase cost including directly-related charges, at their contributed value or at the cost directly incurred to create them; they are amortised over their expected useful lives.
Industrial patents and intellectual property rights are amortised on a straight-line basis over five years, as required by Italian civil law.

Deferred charges related to contracts, such as start-up costs, construction site costs, studies and designs, and the costs for contractual guarantees are valued and classified under contract work in progress.

The costs for participating in tenders still awaiting an outcome are valued and classified under contract work in progress.

Research and development costs are charged to income in the year they are incurred.

If an asset is found to be impaired after its initial recognition at purchase or production cost, it is written down accordingly; if the reasons for writedowns cease to apply in subsequent years, the original value is reinstated, net of amortisation, with the exception of goodwill and deferred charges for which the reversal of an impairment loss is prohibited.
An impairment loss takes place when the recoverable value of an asset is lower than its book value. The difference is recognized in the income statement as an impairment loss (i.e. a permanent loss in value). At each reporting date, the Cooperative assesses whether there is any indication that an asset may have suffered an impairment loss.
The recoverable value is represented by the greater of the fair value of an asset or a cash-generating unit less costs to sell and its value in use and is determined asset by asset unless a particular asset generates cash flows that are largely dependent on those generated by other assets or groups of assets. The value in use is determined on the basis of the present value of future cash flows that are expected to originate from an asset. The calculation of the value in use includes an estimate of the future incoming and outgoing cash flows that will derive from continuous use of the asset and its final disposal, and the application of an appropriate discount rate to those future cash flows. In determining the value in use, the estimates of future cash flows include projections of the incoming cash flows deriving from continuous use of the asset, projections of the outgoing cash flows which necessarily occur to generate incoming cash flows from continuous use of the asset (including outgoing cash flows to make the asset usable) and which can be directly attributed or allocated to the asset based on a reasonable and consistent criterion and the net cash flows, if any, that are expected to be received (or disbursed) for disposal of the asset at the end of its useful life, in a regular transaction between market operators on the valuation date. To determine the value in use of an asset, the present value of the estimated future cash flows is calculated, before tax, by applying a pre-tax discount rate, which reflects the current market valuations of the time value of money and the specific risks of the business.

Tangible fixed assets

Tangible fixed assets are recorded at purchase cost, including related charges, or at their construction cost, comprising the direct costs incurred plus a reasonable allocation of indirect costs. The carrying amount of certain assets has also been adjusted in accordance with specific monetary revaluation laws. Amounts are stated net of the related accumulated depreciation.
If an asset is found to be impaired after its initial recognition at purchase or production cost, it is written down accordingly; if the reasons for writedowns cease to apply in subsequent years, the original value is reinstated, net of depreciation.
Repairs and maintenance costs are charged to income in the year they are incurred; the cost of upgrades and improvements that extend the useful life of an asset are capitalised and depreciated at the rate applicable to the asset in question.

Additions relating to fixed assets produced in-house are measured in accordance with the actual usage of materials, internal labour and general expenses.
Related costs, such as transport, freight, insurance and customs charges pertaining to the transfer of machinery are capitalised as "ordinary deferred charges" and are amortised based on the stage of completion of the related contract.
Operating assets with a unit cost of less than Euro 500 are subject to considerable wear and tear and are depreciated in full in the year of purchase.

Repairs and maintenance costs are charged to income in the year they are incurred; the cost of upgrades and improvements that extend the useful life of an asset are capitalised and depreciated at the rate applicable to the asset in question.

Depreciation is calculated on a systematic basis using rates deemed representative of the residual useful lives of the assets concerned.

The rates applied by asset category are set out below:

Land and buildings		**Industrial and commercial equipment**	
- Industrial buildings	3.0%	- Excavators and loaders	20.0%
Plant and machinery		- Transport vehicles	20.0%
- Temporary construction	12.5%	- Motor cars, motor vehicles and similar	25.0%
- General plant	10.0%	- Ordinary office furniture and machines	12.0%
- Specific plant and machinery	15.0%	- Electronic office machines	20.0%
- Formwork and metal sheet piles	25.0%	- Hardware	20.0%
- Sundry equipment	40.0%		

When an asset enters into service, depreciation is charged in proportion to the number of days it is used in the entire year.
The depreciation of assets used on specific contracts is calculated on the basis of their stage of completion, in order to distribute the cost over the entire period of use.
Finance leases are accounted for by charging the fees to the income statement on an accrual basis, and recording the asset at the redemption value at the end of the lease itself.

Regardless of the depreciation charged, if there is a permanent loss in value after initial recognition of the purchase or production cost, determined according to the criteria mentioned above in the paragraph on intangible assets, the value of the asset is adjusted by means of a write-down; if the reasons for writedowns cease to apply in subsequent years, the original value is reinstated, net of depreciation.

Finance leases

Finance leases are accounted for according to the balance sheet method, recording the fees paid in the income statement in accordance with the accrual principle. A specific section of the notes provides the additional information required by law relating to the representation of finance leases according to the financial method, where significant.

Financial fixed assets

Equity investments are valued using the cost method, with the exception of the more significant subsidiaries and associates, for which the equity method is used.
For equity investments valued using the cost method, the book value in the financial statements is determined on the basis of the purchase or subscription price or the value attributed to the assets transferred. Cost is written down in the case of impairment, when the investments have incurred losses that are unlikely to be recovered from profits earned in the immediate future. The original value is reinstated in subsequent years if the reasons for the write-down no longer apply.
In the cases of application of the equity method, the investments in subsidiaries and associates are entered in the balance sheet for an amount equal to the corresponding fraction of equity resulting from the last balance sheet drawn up in compliance with arts. 2423 and 2423 bis of the Italian Civil Code, after deducting dividends and making the adjustments required by the accounting policies applied in drawing up the financial statements. The profit is recognized among the "Adjustments to financial assets: revaluations of equity investments", therefore in item D.18.a., with as the contra-entry an increase in "Financial fixed assets: equity investments" in the balance sheet. Conversely, the loss is recognized among the "Adjustments to financial assets: provision for equity investments" (item D.19.a) and leads to a reduction in the "Financial fixed assets: equity investments" indicated above.
The other financial fixed assets comprising receivables are stated at their estimated realisable value.

Inventories

Inventories of raw and ancillary materials are stated at the lower of weighted-average purchase or production cost (including related charges and direct cost allocations) or their corresponding market value.

Inventories related to direct property initiatives, classified as “Work in progress”, are measured with reference to the costs incurred, represented by the purchase cost of the land and related charges, plus construction costs, adjusted, if necessary, to bring them into line with their estimated realisable value.

Long-term contract work in progress, classified as "Contract work in progress", is essentially measured on a stage-of-completion basis, based on the costs actually incurred in relation to the costs foreseen to complete the work and total agreed revenues ("cost-to-cost method").

Progress reports approved by customers are recognised as revenue in the period and are deducted from the value of inventories. Closing inventories, measured on the basis described above, represent the production carried out since the last approved progress report.

Contract work in progress with a duration of less than one year is recognised on a “completed contract basis". Revenue is recognised solely on completion of the contract. Previously, closing inventories were measured with reference to the costs actually incurred.

As already explained in the paragraph relating to "Intangible assets", deferred charges relating to the orders, such as start-up costs, site costs, studies and designs, and the costs for contractual guarantees, are assessed and classified under contract work in progress.

The costs for participating in tenders still awaiting an outcome, as long as they are specifically incurred for a contract whose assignment was reasonably certain, are also valued and classified under contract work in progress.

Claims for additional revenue not yet approved by the client are recognised on a prudent basis. Accordingly, the reimbursement of extra costs incurred for the completion of works or the extra revenues requested are only recognised as the deferral of costs or the recognition of revenues if the timing and extent of collection is reasonably certain.

Receivables

Receivables are measured at amortised cost as long as the impact of the application of this measurement criterion does not significantly differ from nominal value, taking into account the time factor and the estimated net realisable value. In particular, receivables are initially measured at face value, net of allowances, discounts and rebates and inclusive of any costs directly attributable to the transaction that gave rise to the receivable. Transaction costs, any commission receivable or payable and any difference between the initially recognised amount and the face value at the due date are included in the computation of amortised cost using the effective interest method.

An allowance for doubtful accounts has been set up to cover the risk of non-collection of receivables, the adequacy of which is verified periodically and, in any event, every year end, taking into account any existing uncollected amounts or balances unlikely to be collected, as well as the general economic conditions of the sector and of the country concerned.

Receivables sold without recourse are derecognised from the balance sheet.

Cash and cash equivalents

Cash and cash equivalents are booked at their nominal amount.

Accruals and deferrals

These items comprise costs and revenues relating to more than one year, which are recognized in accordance with the accrual basis over time principle.

Provisions for risks and charges

The provisions for risks and charges are recovered to cover known or likely losses and liabilities, the timing and extent of which cannot be determined at year end. The provisions reflect the Directors' best possible estimate based on the information available.
Contingencies that only might give rise to a liability are described in the explanatory notes, without recording any related provisions.
Provisions are also recorded to cover contract risks arising in relation to still incomplete work in progress for third parties in Italy and abroad.

Employee termination indemnities

Employee termination indemnities are recorded by the Group's Italian companies to cover the entire liability to employees accrued in accordance with current legislation and collective and in-house payroll agreements. Law 296 dated 27 December 2006 (2007 Finance Law) introduced new rules for the termination indemnities accruing from 1 January 2007. Pursuant to the reform of supplementary pensions:

- the termination indemnities accumulated up to 31 December 2006 are retained by the business;

- the amounts accruing from 1 January 2007 are, depending on the explicit or tacit choices made by each employee:
  a) paid to a supplementary pension fund;
  b) retained by the business, which pays them into the INPS treasury fund.

  The amounts accruing from 1 January 2007 are charged, as before, to the "Employee termination indemnities" caption of the income statement. In the balance sheet, the “Employee termination indemnities” caption represents the residual balance of the provision outstanding at 31 December 2006, as appropriately revalued using official indices. The “payables to social security and welfare institutions” caption includes the accrued termination indemnities not yet paid over to the pension funds and other welfare institutions.

Payables

Payables are measured at amortised cost as long as the impact of the application of this measurement criterion does not significantly differ from nominal value, taking into account the time factor and the estimated net realisable value. In particular, receivables are initially measured at face value, net of transaction costs and allowances, discounts and rebates directly attributable to the transaction that gave rise to the payable. Transaction costs, any commission receivable or payable and any difference between the initially recognised amount and the face value at the due date are included in the computation of amortised cost using the effective interest method.

Derivative contracts

Financial derivatives are booked at fair value. Changes in fair value measurement are recognised in the income statement, or, if the instrument is used to hedge changes in future cash flows from another financial instrument or another planned transaction, they are recognised directly in equity as a positive or negative equity reserve; this reserve is transferred to the income statement to the extent of and in the period corresponding to the occurrence of or the change in cash flows from the hedged instrument or on the occurrence of the hedged transaction. If the fair value at the reference date is positive, it is recognised as a financial derivative asset in financial fixed assets or in current financial assets. If the amount is negative, it is recognised as a financial derivative liability in provisions for risks and charges.

Foreign currency translation methods

Receivables and payables originally denominated in foreign currencies are recorded using the exchange rates ruling on the transaction dates. The exchange differences realised on the collection of receivables and the settlement of payables denominated in foreign currencies are recognised in the income statement. At the balance sheet date, foreign currency receivables and payables and foreign currency monetary amounts are reported using the closing rate. Profits and losses deriving from the translation using year-end rates of current receivables and payables, including the current portion of long-term receivables and payables, and of liquid funds held in foreign currencies, are respectively credited and debited to the income statement as components of financial income (caption C.17 bis). Any net profit deriving from the alignment of foreign currency balances using the year-end exchange rates is initially recognised as part of income for the year. On approval of the financial statements and the related allocation of results, any such profits not absorbed by losses are credited to a non-distributable reserve until they have been realised, pursuant to para. 8-bis of Art. 2426 of the Italian Civil Code.
With regard to forward contracts used to hedge the exchange rate risk on a specific long term contract, the work in progress is translated to Euro using the exchange rate at the date of execution of the forward contract used as a hedge, without exceeding the hedged amount. The exchange rate fluctuation relating to forward contracts between the date of execution of the forward contract and the forward exchange rate provided for by the contract is recognised in the income statement on an accrual basis over the length of the forward contract, in accordance with Accounting standard 26.

Costs and revenues

These are recognised in accordance with prudence and matching principles. In particular, revenue from long term contracts is recognised in accordance with the criteria previously described in relation to the measurement of contract work in progress inventory. Revenue from short term contracts and from other services is recognised when the service is rendered; revenues from sales of goods are recognised upon transfer of ownership, which generally coincides with the delivery or shipment of the goods; Revenue from and the cost of services are recognised when the service is rendered; lastly, financial revenues are recognised on an accrual basis over time.

Dividends

Dividends received, with the exception of companies carried at equity, are accounted for when the right to collection by the participating company arises as a consequence of the resolution passed by the Shareholders' Meeting of the investee company to distribute the profit or reserves.

Income taxes

These are based on the taxable income estimated with reference to current regulations, taking account of applicable exemptions and available tax credits. Deferred tax assets and liabilities are also recognised in the balance sheet on the temporary differences arising between the carrying amounts for assets and liabilities and their values for fiscal purposes. In particular, deferred tax assets are recognised only when they are likely to be recoverable against future taxable income.

Commitments and risks

Risks relating to the provision of secured and unsecured guarantees on behalf of third parties are stated at the amount of the guarantee provided.

Presentation of the figures

For the sake of clarity and understandability, all the amounts reported in the notes and in the attachments are stated in thousands of Euro.

Preparation of the consolidated financial statements

The Company holds controlling interests and will prepare the Group's consolidated financial statements, which represent an addition to the financial statements for the purpose of providing adequate disclosure on the equity, financial and economic situation of the Company and the Group. These financial statements, together with the report on operations and report of the control bodies, will be available to the public in accordance with the law.

Exemptions pursuant to paragraph four of Art. 2423 of the Civil Code.

Confirmation is hereby given that, with respect to the attached financial statements, no exemptions were availed of, pursuant to paragraph four of Art. 2423 of the Civil Code.

Significant subsequent events

For this information, please read the report on operations.

Other information

As mentioned above, some recent events have led to the cancellation of contracts in progress for the construction of orders in Nepal, Kuwait and Zambia. The deterioration of local relations has forced the company to abandon the offices where its branches operated, thus abandoning the operational activity on site. The bookkeeping was transferred to another location, but relations with the audit firms in charge of the audit of the accounting records ceased prematurely. The financial statements at 31 December 2018 reflect the balances on the accounts of the branches operating in these countries which were reconstructed on the basis of the documentation that was recovered on abandonment of the local offices as well as on the basis of the documentation available at the registered office and the balance confirmation requests. The main balances relating to these branches are shown below:

	Kuwait Branch	Nepal Branch	Zambia Branch	Aggregate
FIXED ASSETS	0	405,436	100,101	505,537
CURRENT ASSETS	19,795,352	10,207,955	35,925,906	65,929,213
ACCRUED INCOME AND PREPAYMENTS	91,842	0	121,260	213,102
TOTAL ASSETS	**19,887,194**	**10,613,392**	**36,147,267**	**66,647,852**
EQUITY	(81,239,834)	(88,868,938)	(13,692,166)	(183,800,938)
RESERVES FOR RISKS AND CHARGES	69,444,067	32,520,209	4,474,370	106,438,646
SEVERANCE INDEMNITY	46,713	238,771	113,658	399,142
PAYABLES	31,636,248	66,723,350	45,251,404	143,611,002
TOTAL LIABILITIES	**19,887,194**	**10,613,392**	**36,147,267**	**66,647,852**
VALUE OF PRODUCTION	25,102,206	(18,134,243)	26,391,530	33,359,493
PRODUCTION COSTS	104,427,937	74,071,439	46,177,820	224,677,196
DIFFERENCE BETWEEN VALUE AND COST OF P	(79,325,731)	(92,205,682)	(19,786,290)	(191,317,703)
FINANCIAL INCOME AND CHARGES	(1,873,279)	(1,100,896)	53,524	(2,920,651)
INCOME BEFORE TAX	(81,199,011)	(93,306,578)	(19,732,766)	(194,238,355)
INCOME TAX	0	501,309	0	501,309
NET INCOME (LOSS)	**(81,199,011)**	**(93,807,887)**	**(19,732,766)**	**(194,739,664)**

The company also carried out a detailed analysis of the branches' accounting results and considered it prudent to allocate some provisions for risks and write-downs in order to take into account the potential liabilities resulting from termination of the orders, the subsequent and potential enforcement, the write-down of receivables and fixed assets that are difficult to recover and charges that CMC can reasonably bear after the end of the year.

COMMENTS ON THE MAIN CAPTIONS OF THE FINANCIAL STATEMENTS

ASSETS

Due from members

The balance relates to amounts due from members for shares subscribed but not yet paid.

Fixed assets

The legally-required information about intangible and tangible fixed assets is presented in schedules attached to these explanatory notes.

Intangible fixed assets

"Industrial patents and intellectual property rights" comprise the cost of acquiring the rights to use application software. The changes are reported in the attached table. The increase in 2018 compared with the previous year is mainly attributable to capitalisation of costs relating to the development of management software previously accounted for under "Assets in process of formation and advance payments".

The item "Assets in process of formation and advance payments" mainly includes the costs and advances incurred for the acquisition of intangible assets that have not yet entered into operation. In particular, this item includes the capitalisation of software that is being implemented. The decrease in the year is due to completion of the installation of software started in previous years and the reclassification of the related costs to "Industrial patents and intellectual property rights".

"Deferred charges" related to orders include start-up and construction site costs, as well as costs for studies and designs and/or to obtain the issue of contractual guarantees. In consideration of the Company's financial and operational difficulties, it was deemed appropriate to write off the residual value of the costs capitalised in previous years.

Tangible fixed assets

Land and buildings mainly refer to two plots of land located in Ravenna (one in Porto Fuori and one in via dell'Idrovora) of Euro 8 million and two commercial-industrial complexes located in San Martino and Sant'Arcangelo of Euro 0.6 million. The carrying value of the land located in Ravenna was not subject to any write-down as it is considered recoverable, also on the basis of the results of an appraisal prepared by an independent professional which justifies its value.

The carrying value of the industrial and commercial plant and machinery and equipment items was subject to significant write-downs of Euro 13.9 million and Euro 11.1 million respectively, in order to take into account the operational difficulties encountered by the Company. In particular, the machinery located in countries that the Cooperative had to abandon following the termination or forced closure of certain contracts have been completely written off. The main write-downs were the following:

Branches (€ in million)	Plant and machinery	Industrial and Commercial equipment
Algeria branch	1.1	0.5
Angola branch	0.5	0.5
China branch	2.7	-
Kenya branch	2.7	6.4
Kuwait branch	0.1	0.1
Lebanon branch	1.6	0.5
Nepal branch	1.7	1.1
Pakistan branch	0.7	-
Zambia branch	2.8	2.0
TOTAL	**13.9**	**11.1**

The residual value of these categories has been adjusted to reflect the situation that the Company is facing. The Directors have had higher value assets subjected to an expert appraisal. These appraisals were prepared by independent professionals who estimated the selling value of the assets concerned or their expected market value at the end of the contract: the net book value of these assets covered by an appraisal represents approximately 42%.

As regards the net book value of the assets not covered by an appraisal, the recoverability of the value and any further necessary write-downs were considered when estimating the final costs of the contracts where these assets are used and in the related valuation of work in progress or, alternatively, internal appraisals on the recoverability of the value have been considered.

The net decrease in "Assets under construction and payments on account" compared with the previous year, approximately Euro 3.5 million, can be detailed as follows:

- increases of approximately € 13 million, mainly attributable to increases of € 5.6 million for the set-up of machinery for the construction of new projects in the Argentina area and approximately € 6.9 million for advances paid for the purchase of a mole.

- allocation of a write-down provision of € 16.3 million, mainly relating to the write-down of some moles located in China (for approximately € 14.5 million) as there is little chance of recovering their value.

With regard to the valuation of assets under construction, the same considerations made previously with reference to Plant and Machinery and Equipment apply. It should be noted that they include Euro 6.9 million relating to the net book value of a mole located in China, originally purchased for the construction of an order in Kenya. Even though work on this contract is currently suspended and the contract has not been included in the continuity perimeter, the Directors did not deem it necessary to write down the book value, believing that, even in a context of uncertainty, the conditions for its realization could be created through either use of the asset and/or its sale to third parties.

Pursuant to Art. 10 of Law 72/83, disclosure is hereby made of assets that have been revalued.

Revaluations	***Law 576/75***	***Law 72/83***	***Law 413/91***	***Total***
Building at Via Faunia – Roma	-	-	242	**242**
Factory complex at S. Arcangelo (RN)	1	111	151	**263**
Total	***1***	***111***	***393***	***505***

At 31 December 2018 these revaluations have been depreciated for a total of € 444 thousand.

With respect to the disclosures required by paragraph 22, Art. 2427 of the Civil Code for lease transactions, reference should be made to the attachments to the explanatory notes.

It should also be noted that the Cooperative's properties are not being used as collateral.

Financial fixed assets

Equity investments

Due to CMC's crisis situation, which culminated with the application for a composition with creditors, the provision for the write-down of equity investments was increased in the financial statements at 31 December 2018 to Euro 154,952. The distribution of this amount between subsidiaries, associates and others is shown in the following table:

Investments	***Subsidiaries***	***Associates***	***Others***	***December 31, 2019***
Book value	191,428	22,951	40,710	**255,089**
Investment write-off	(13,727)	(21,270)	(1,955)	**(154,952)**
Net book value	***59,701***	***1,681***	***38,755***	***100,137***

As shown in the tables below:

1) some investments in subsidiaries and associated companies have a carrying value higher than the corresponding portion of equity determined pursuant to point no. 4 of art. 2426 of the Italian Civil Code. In such cases, the Directors did not write down the book value of the investment, as there is no indication of an impairment loss considering the expected future profitability of these companies and/or agreements with the shareholders;
2) some equity investments in subsidiaries and associates have a negative share of equity determined in accordance with point no. 4 of art. 2426 of the Italian Civil Code: in these cases, there are signs of impairment, so the Directors have reflected the losses in "Payables to subsidiaries and associates" or in "Provisions for risks and charges".

Overall, it is reasonable to say that the “fair value” of the equity investments is not lower than their book value.

Additional disclosures relating to subsidiaries and associates, as required by Art. 2427 of the Civil Code are provided as an attachment.

a) Subsidiary companies

The following table provides a comparison between the carrying value and the corresponding portion of equity, as derived from the latest approved financial statements of subsidiary companies and adjusted in accordance with paragraph 4 of Art. 2426 of the Civil Code concerning the preparation of consolidated financial statements.

Subsidiaries	**Equity**	**CMC stake %**	**Equity quota** **(a)**	**Net book value** **December 31, 2018** **(b)**	**Diff.** **(a-b)**	**Net book value** **December 31, 2017** **(c)**
Acquapura Scrl (***) (N)	20	60	12	-	12	12
Alvisi Srl (N)	(229)	90	(206)	-	(206)	2,244
Ancona Newport Scrl (***) (N)	100	53	53	-	53	53
Ausa	10	52	5	5	0	5
BE Infrastrutture Srl	(110)	70	(77)	-	(77)	70
Bolognetta Scpa (****) (N)	20,000	80	16,000	-	16,000	16,000
Novabala J.V. Corporation (*)	1,027	50	514	293	221	293
CMC G.T.R.E.K. Groupement (N)	0	0	0	1	(1)	0
CMC Africa Austral Lda (Mozambico) (*)	33,442	100	33,442	7,839	25,603	33,442
CMC Bomar JV (*) (N)	3,968	100	3,968	-	3,968	4,519
CMC Bothjeng JV(N)	(4,631)	100	(4,631)	-	(4,631)	-
CMC di Ravenna Eurl (Algeria) (*) (N)	(548)	100	(548)	-	(548)	-
CMC di Ravenna Sarl (Francia) (*)	4,484	100	4,484	3,500	984	4,745
CMC di Ravenna USA Inc. (Stati Uniti) (*) (N)	(28)	100	(28)	-	(28)	1
CMC di Ravenna - Pg Mavundla J.V. (N)	47,794	51	24,375	1	24,374	-
CMC Engoa Groupment (N)	0	0	0	1	(1)	-
Cmc Embassy	(711)	100	(711)	-	(711)	1,663
CMC Holding Overseas S.p.A. (*)	12,016	55	6,609	5,000	1,609	17,100

CMC Immobiliare S.p.A. (*)	36,129	96	34,684	16,000	18,684	35,717
CMC Itinera Kenya J.V.	100	51	51	-	51	51
CMC ltd Song da J.V. (*) (****) (N)	23,503	40	9,401	-	9,401	9,401
CMC Mota-Engil J.V. (Malawi) (***) (N)	0	100	0	-	0	-
Cmc Otesa (*) (N)	158	100	158	-	158	7,844
CMC Railway J.V. Ltd (Swaziland) (N)	0	100	0	-	0	-
CMC Sdn Bhd (Malesia) (***) (N)	0	100	0	-	0	-
Colfiorito Srl (N)	10	52	5	-	5	5
Concrete Finance Srl	(53)	100	(53)	-	(53)	50
Conero Scrl	20	71	14	-	14	14
Empedocle Soc. cons. p.a. (N)	30,000	80	24,000	24,000	-	24,000
Empedocle 2 Soc. cons.p.a. (N)	30,000	82	24,600	-	24,600	24,600
Fontana Nuova (in liquidazione)	20	51	10	-	10	10
GED Srl (***) in fallimento (N)	1,597	80	1,278	-	(1,278)	1,278
Gruppo Immobiliare (*) (N)	(1,803)	100	(1,803)	-	(1,803)	-
Ipertre Scrl	20	70	14	-	14	14
Iniziative Immobiliari Siciliane Srl (*)	6,414	100	6,414	3,000	3,414	6,414
JV CMC/CCC	20	66	13	-	13	13
Letimbro Srl	(15,226)	51	(7,765)	-	(7,765)	51
Norte scrl (****) (N)	10	54	5	5	0	5
Ospedale dei Castelli Scrl	50	50	25	25	-	25
Montefiore Scrl (N)	0	0	0	-	-	-
Ravenna Tunnel Scrl	120	99	119	-	119	119
Side Investments Ltd (Sud Africa) (*) (N)	77	100	77	-	77	86
Soc.Adriatica Impianti e Cave S.p.A. (*) (N)	914	86	786	-	786	782
Solarmaas Srl (in liquidazione) (***) (N)	42	51	21	-	21	36
Villamarina Scrl (in liquidazione)	100	51	51	-	51	51
Mazara Hospital Scrl	10	60	6	6	-	6
Italia 61 Scrl in fallimento (N)	0	100	0	-	-	30
Padiglioni Expo Scrl (in liquidazione)	50	51	26	25	1	25
LMH CC JV MBTA (N)	1,061	49	520	-	520	520
T o t a l				**59,701**		**191,294**

(*) Valued using the equity method according to the criteria indicated above.

(**) Company liquidated

(***) Values referring to the financial statements of the subsidiary at 12/31/2017

(****) Classified under associated investments at 12/31/2017

(N) Attention is drawn to the fact that these companies have been evaluated on the basis of the draft financial statements made available to Management of the Cooperative by the respective corporate bodies, even if these drafts have not yet been approved. Based on available information, it is not expected that the final version that will be approved will deviate significantly from the figures indicated above.

The most significant changes compared with the previous year are detailed below:

Empedocle 2 ScpA - Equity investment valued at cost for which, on the date of approval of CMC's financial statements, its accounts have not yet been approved. It should be noted that the investee has submitted an application for a composition with creditors pursuant to art. 161 c.6 of the BL on 02/04/2019 at the Court of Ravenna. The application was accepted on 02/06/2019. The valuation of the equity investment took into account the effects deriving from the creditors' approval of the investee's composition plan.

Given that for the analysis of the underlying contract, please refer to the following paragraph on work in progress and that in previous years it was not believed to be any impairment of the equity investment since the investee passes on to the associated companies both revenues and related costs of the contract, when preparing the draft financial statements at 31 December 2018, given the difficulty of foreseeing the possibility of the Consortium receiving its claims from CMC, the Directors prudently decided to write down the entire investment.
Note that this investment is part of an agreement between CMC, the Integra Consortium and the Company, as commented on more fully under "Trade receivables".

CMC Immobiliare SpA - Investment valued at equity based on financial statements at 12.31.18 approved by the AGM. The investment was valued on the basis of the presumed post-sale realizable value of the assets held by the subsidiary, determined on the basis of an appraisal prepared by an independent expert.

CMC Africa Austral LDA - Investment valued at equity with financial statements at 12.31.18 approved by the AGM. The write-down of the investment was made to recognize the negative result of the investee, equal to approximately Euro 25.4 million, which was mainly determined by:

- the write-down of work in progress for approximately Euro 6.1 million to cancel claims registered in previous years
- a provision for risks of around € 4 million, mainly relating to tax liabilities and write-downs of trade receivables for € 10.5 million.
- the negative result of financial activities for approximately Euro 2.6 million.

Taking into account the effects of the consolidation entries, the book equity of the investee company amounts to approximately Euro 12.5 million. The greater write-down made reflects a prudent estimate of the higher expected losses on realization of some of the company's assets,

Bolognetta ScpA - Investment valued at cost for which, on the date of approval of CMC's financial statements, the accounts have not yet been approved. It should be noted that the investee has submitted an application for a composition with creditors pursuant to art. 161 c.6 of the BL on 02/04/2019 at the Court of Ravenna. The application was accepted on 02/06/2019. The valuation of the equity investment took into account the effects deriving from the creditors' approval of the investee's composition plan.

Given that for the analysis of the underlying contract, please refer to the following paragraph on work in progress and that in previous years it was not believed to be any impairment of the equity investment since the investee passes on to the associated companies both revenues and related costs of the contract, when preparing the draft financial statements at 31 December 2018, given the difficulty of foreseeing the possibility of the Consortium receiving its claims from CMC, the Directors prudently decided to write down the entire investment.
Note that this investment is part of an agreement between CMC, the Integra Consortium and the Company, as commented on more fully under "Trade receivables".

CMC HOLDING OVERSEAS SPA - Investment valued at equity with financial statements at of 12.31.18approved by the AGM. It is a holding company which holds CMC's investments in Sulbrita, LMH and CMC NY**.** The write-down of the investment in CMC Overseas substantially includes the write-downs of the investments held by it in LMH, completely written down, and Sulbrita, partially written down.

CMC Otesa JV - Namibia - Investment valued at equity for which, at the date of approval of CMC's financial statements, the accounts have not yet been approved. The investment was written down in full following the loss at 12.31.18 which effectively wiped out the subsidiary's equity. The JV's loss reflects the waiver of some claims. This waiver eliminated the contract's margins and led to the loss recorded at 12.31.18. The value of equity is substantially in line with the carrying value of the investment.

EMPEDOCLE S.c.p.a. Investment valued at cost for which, on the date of approval of CMC's financial statements, the accounts have not yet been approved. The investment is carried at € 24 million (in line with the previous year). This valuation is based on the assumption that, given the substantial completion of the work and the definition of reserves with the client, the subscribed and unpaid capital of Euro 18 million will not be called up. The net value of Euro 6 million is deemed by the Directors to be recoverable against a tombstone agreement to end a dispute with ANAS (the client), due to be signed by 31.12.2019, which should pay Empedocle Euro 47 million.

CMC Bomar - Zambia - Investment carried at equity for which, at the date of approval of CMC's financial statements, the accounts have not yet been approved. The investment, which at 31 December 2017 was recognized in the financial statements at a value of € 4,519 thousand, was completely written down in consideration of the bankruptcy of the contracting company of the order managed through this investee. It is not currently expected that the subsidiary's crisis situation will lead to further disbursements by the Cooperative.

CMC Bothjeng - Against a capital deficit of around Euro 5 million, CMC's receivables from the investee have been written down by around Euro 5 million. The book value of the investment is therefore zero, in line with the value of the subsidiary's PN.

Letimbro - In view of the pro-quota capital deficit of the subsidiary, equal to approximately € 8 million, the investment was written down 100% and a specific provision for risks was set up to cover the guarantees issued to the investee.

Iniziative Immobiliare Siciliane S.r.l. - Investment valued at equity which approved the financial statements on the date of approval of CMC's financial statements. It is a company established in 2003, which has exclusively dealt with the construction of the Gravina shopping centre in Catania (called "Katanè"). The works, entrusted to the parent company CMC di Ravenna and started at the beginning of 2007, were completed in the first few months of 2009 and in the same year the entire shopping centre was sold to IGD SIIQ S.p.A. (shopping mall and hypermarket) and IPERCOOP SICILIA S.p.A. (Technological systems of the hypermarket portion only) as promised.
On 12 October 2018, the investee signed a proposal for the assignment without recourse of receivables deriving from what was eventually recognized by the Court of Ravenna in litigation with IGD. The investment was written down by Euro 3.4 million to reflect the impact of the assignment of future receivables and align it with the investee's net equity.

Alvisi S.r.l. - Equity investment valued at cost with financial statements as of 12.31.18 approved by the shareholders' meeting. It is a real estate company that has built properties, most of which have been sold, and which owns a plot of building land located in Faenza and Massa Lombarda. Given CMC's crisis and the risk that the bank will enforce the guarantees on the land, the investment, previously carried at Euro 2.3 million, has been completely written down.

CMC Embassy S.r.l. - Equity investment valued at cost with financial statements as of 12.31.18 approved by the shareholders' meeting. It is a real estate company established on 06/09/201509/06/2015 with the object of carrying out real estate transactions and more specifically the purchase of land for building purposes, its division into lots and their resale, construction and sale of real estate units, the purchase and sale of existing buildings, the demolition of buildings, the reconstruction and refurbishment of them, the management of the common services relating to these properties, the construction of urbanization works. In the last months of 2018, CMC Embassy made a write-down of the remaining properties of Euro 983,825. This write-down generated negative equity which at 31 December 2018 was equal to Euro 710,890. The equity investment was written down in full, no provision was made to cover future losses, but the receivable of Euro 2 million from the subsidiary was completely written down.

GED - Grandi Elementi Dimensionali S.r.l. - The equity investment was completely written down following the bankruptcy of the investee decreed on 27 June 2019 by the Court of Ravenna, with sentence no. 31/19.

CMC ltd Song From JV - Equity investment carried at equity which, on the date of approval of the CMC financial statements, has not yet approved its financial statements. Although the pro-quota value of the investee's net equity is equal to Euro 9.4 million, the Directors have prudently written down it 100%, since the client communicated termination of the work in December 2019.

CMC di Ravenna France - Equity investment valued at equity with financial statements as of 12.31.18 approved by the shareholders' meeting. The company, 100% owned by CMC, dealt with the Koudiat Acerdoune order in Algeria: the order was completed several years ago. The investee company has a claim towards the Algerian client ANBT (Agence Nationale des Barrages et Transferts) promoted by the majority French partner (Razel S.A.), owner of the work. The investment was written down by € 1,245 thousand, remaining at a residual value of € 3,500 thousand which represents the amount that the Directors believe they can recover on the definition of this claim.

b) *Associated companies*

The following table provides a comparison between the carrying value and the corresponding portion of equity, as derived from the latest approved financial statements of associated companies and adjusted in accordance with paragraph 4 of Art. 2426 of the Italian Civil Code:

Associated companies	Equity	CMC stake %	Equity quota (a)	Net book value December 31, 2018 (b)	Diff. (a-b)	Net book value December 31, 2017 (c)
Antares Scrl	3,215	28	900	840	60	840
Autostrade Romagna 1 Soc. cons. p.a.	1,000	35	350	350	-	350
Baglio La Camperia S.p.a. (*)	500	20	100	-	100	100
Consorzio JV CB	20	50	10	-	10	13
Constructora Nuevo Maipo SA (Cile) (***)	-	30	-	-	0	10
Elaion Soc.Cons. A.r.l. (*)	10	40.5	4	-	4	4
FDA Srl (in liquidazione) (*)	1,164	20	233	205	28	857
Granarolo Immobiliare S.p.a.	281	30	84	-	84	605
Holcoap Spa (*)	55	15	8	-	8	17
Itaca Soc. cons. r.l. (in liquidazione)	10	34.6	3	-	3	4
Lodigiani - CMC Sdn (Malesia)	-	50	0	-	-	7
Mirandola Scrl	20	45.1	9	-	9	9
Molfetta Newport Scrl	50	38.5	19	19	0	19
Opera 2 Soc. cons. r.l. (in liquidazione) (***)	-	0	0	-	-	-
Opera 3 Soc. cons. r.l. (in liquidazione)	30	34.67	10	-	10	10
Paco Srl	50	49	25	25	(1)	25
Piombone Soc. cons. r.l. (in liquidazione)	100	49	49	-	49	49
Rodano Consortile Soc. cons. r.l. (*)	250	46.43	116	-	116	116
Sistema 2 Soc. cons. r.l. (in liquidazione) (*)	30	37	11	-	11	11
Sistema 3 Soc. cons. r.l. (in liquidazione)	(470)	41	(193)	-	(193)	12
Trentro Tre	20	45	9	9	-	9
Under Water Anchors Srl	79	33.33	26	-	26	50
Val di Chienti Soc. cons. p. a.	70,000	28	19,600	-	19,600	19,600
Venaus Soc. cons. r.l.	100	47.82	48	235	(187)	235
T o t a l				**1,683**		**22,952**

(*) Figures as per the financial statements at 31/12/2017

(**) Financial statements not approved

(***) Company sold / liquidated

VAL DI CHIENTI S.c.p.a. - The investee took out a lawsuit against the client for the recognition of reserves on the work carried out, winning at the first two levels of judgement. Following the appeal in Cassation by ANAS, the client, the claim was not recognized. The equity investment was therefore written down in full while receivables from the investee for € 15.5 million and payables to the investee of € 31 million were recorded in the financial statements.

c) *Other companies*

Details are provided below of equity investments in other companies:

Other companies	Sector	CMC stake %	Net book value December 31, 2018	Net book value December 31, 2017
Aeroporto della Romagna S.p.A.	Società concessionaria aeroportuale	5.39	97	98
Azienda Libico Italiana	Coord. Comm.le	0.33	-	9
CFI Cooperazione Finanza Impresa S.c.p.a.	Finanziario	0.7	6	6
Cons. C.A.V.E.T. (Consorzio Alta Velocità' Emilia-Toscana)	Edile	11.27	611	611
Cons. CO.RI.RE.	Coord. Scientifico	14	-	7
Cons. Coop. di Costruzioni (CCC - BO)	Associaz. Categ.	1.82	1,011	1,011
Cons. Coop. di Produzione e Lavoro (CONSCOOP - FO)	Associaz. Categ.	2.86	103	111
Cons. Costruttori TEEM	Edile	11.61	-	2
Cons. Integra	Associaz. Categ.	2.86	1,200	1,200
Cons. Lec Libyan an Express	Coord.Edile	11	-	1
Cons. Mantov. Coop. di Produz. e Lav. "Virgilio"	Associaz. Categ.	0.15	-	-
Cons. Miteco	Edile	11.04	-	1
Cons. Pedelombarda 2	Edile	25	-	-
Cons. Prometeo (in liquidazione)	Edile	0.01	-	10
Cons. Toscano Costruzioni - C.T.C.	Immobiliare	6.91	-	30
Cons. Venice Link	Edile	12	-	-
Coop. Culturale "Luigi Luzzati" Soc. coop. r.l.	Culturale-Ricreativo	31.32	-	28
Coop. Servizi Cultura Soc. coop. r.l.	Culturale-Ricreativo	95.56	-	574
Coop. Terremerse Soc. coop r.l.	Servizi	1.33	3	3
Cooperare S.p.a.	Associaz. Categ.	0.01	-	53
Kostruttiva (ex Co.Ve.Co.) Soc.conSrl	Associaz. Categ.	3.84	-	11
CNS – Consorzio Nazionale Servizi	Associaz. Categ.	12	12	12
Eurolink S.c.p.a.	Edile	13	19,500	19,500
Federazione delle Coop. della Prov. di Ravenna	Associaz. Categ.	12.3	-	7,193
Federcoop "Nullo Baldini" Soc. Coop. r.l.	Finanziario e servizi	3.84	64	64
Fincooper Soc.coop.r.l.	Finanziario	0.93	-	176
I.GE.I. (Inps Gestione Immobiliare) S.p.A.	Immobiliare	9.6	-	744
Immobiliare Riminese Malatesta Srl	Immobiliare	0.44	-	8
Immofil Srl	Immobiliare	18.75	-	200
Istituto Coop. ICIE	Ricerca e Studi	3.41	-	41
ISI Service Romagna Scrl	Servizi	12	-	12
Nomisma – Società' di Studi Economici - S.p.A.	Ricerca e Studi	0.21	11	11
Passante di Mestre S.c.p.a.	Edile	12	667	780

Platano S.c.n.c.	Edile	16.67	-	0
Porto Intermodale Ravenna S.p.a.	Edile	0.21	354	354
Qua.S.Co. Soc. cons. r.l.	Ricerca e Studi	0.23	1	1
SAT Lavori Soc. cons. r.l.	Edile	12.99	-	13
S.C.S. Consulting S.p.A.	Ricerca e Studi	0.44	11	11
Soped S.p.A.	Editoriale	1.63	-	100
Tangenziale Esterna S.p.A.	Concessionaria	3.235	15,041	15,041
Other			63	164
Total			***38,755***	***48,191***

The most significant change compared with the previous year concerns the Federation of Cooperatives, for Euro 7.2 million.

Federation of Cooperatives of the Province of Ravenna - The company made a request, on 10/06/18, to withdraw as a shareholder, as it is no longer able to participate in the corporate purposes, requesting early redemption of its shares for contingent operational needs. As communicated to us by the company's management, this request was accepted by the Board of Directors of the Federation of Cooperatives of Ravenna with a communication dated 15 October 2018. In relation to the request for early liquidation of the capital equal to Euro 7,193,050, Federcoop made an advance payment of Euro 4 million; the remainder of the shares will be paid once the 2018 financial statements have been approved by Federation of Cooperatives of the Province of Ravenna.
The book value of the investment was written down to zero, recording a receivable from Federation of Cooperatives of the Province of Ravenna of Euro 3.2 million.

EUROLINK S.c.p.a. - Consortium company created to carry out the contract for the construction of the Bridge over the Straits of Messina: this work was never carried out due to termination of the contract decided unilaterally by the public sector client and the subsequent liquidation of the client company Stretto di Messina S.p.A.

The investment has not been written down for two reasons:

- The probability of success of a claim which, as reported by the company's management, could fluctuate between Euro 50 million (CMC's share) in the best case and Euro 8 million in the worst case.
- The project is not expected to go forward (to date the company is only handling legal fees). The Directors believe that the unpaid share capital of € 14.6 million will not be requested.

Consortium Cooperative of Construction (CCC) - The equity investment was not subject to write-down, as there are no elements that suggest that there are impairment losses. We did not obtain supporting documentation regarding the investee's long-term plan.

TE - The book value has not been written downs as it is not expected that impairment losses will emerge from the imminent sale of the investment.

Financial receivables

Financial receivables	***December 31, 2018***	***December 31, 2017***
Subsdiaries	*152,259*	*151,767*
Associated companies	*9,260*	*39,139*
Other	*14,609*	*10,888*
Total	***176,128***	***201,794***

The amounts due to/from subsidiaries and associates are analysed in an attachment and commented in the paragraph on relationships with Group companies. Financial receivables from subsidiaries and associates have been written down by around € 53 million; however, this write-down also takes into account the adjustments made to trade receivables from subsidiaries and associates. The provision was recorded in full to reduce the carrying value of trade receivables (see the section on trade receivables).

The Directors have made the following write-downs, when the potential offsets between receivables and payables to the same entity, foreseen in the opening balance sheet of the Composition Plan but not yet carried out in the accounts, present a positive balance that is considered difficult to recover. The main write-downs are shown below:

- Italia 61 - financial receivables were written down in full by Euro 8.8 million following the bankruptcy of the investee company.
- JV CMC-CCC - trade receivables have been fully written down by € 5.4 million as the company is currently inactive and the Directors do not believe there are assets that will allow collection of the amounts due;
- SIC - financial and trade receivables were written down by € 4.4 million following the opening of the company's composition with creditors, bringing the credit exposure to € 400,000;
- BOTJHENG - financial receivables have been fully written down by Euro 6.9 million as the contract has been completed, there are no collections from third parties and the company is now inactive.
- RAZEL - The financial receivable is equal to Euro 3.3 million and has been written down entirely because the company is currently inactive. The Directors do not believe there are assets that will allow collection of the amount due.
- SIDEBAR - The financial receivable of Euro 3.2 million has been fully written down as the company is currently inactive. The Directors do not believe that there are assets that will allow collection of the amount due.

The decrease in financial receivables from associated companies is mainly attributable to the total write-down of the receivable from Constructora Nuevo Maipo SA - CHILE for approximately Euro 24 million. The Company's Management, also in light of the legal opinions received from its consultants, deemed it prudent to completely write down the existing receivable, leaving only the value of contract work in progress for Euro 13.8 million as indicated below.

Other financial receivables consist of the following:

Other financial receivables	***December 31, 2018***	***December 31, 2017***
Guarantee deposits	*1,041*	*1,343*
Loans to other companies	*5,657*	*5,352*
Contributions to associations and/or entities	*24*	*23*
Other	*7,887*	*4,170*
Total	***14,609***	***10,888***

CURRENT ASSETS

Closing inventories

These consist of the following:

Inventories	***December 31, 2018***	***December 31, 2017***
Raw materials and consumables	*13,390*	*36,923*
- Write-down provision	*(7,802)*	*-*
Work in progress and semi-finished products	*-*	*122*
Contract work in progress	*271,018*	*718,373*
Finished products and goods	*-*	*-*
Advances	*13,670*	*27,730*
Total	***290,276***	***783,148***

Raw, ancillary and consumable materials

The decrease of Euro 31.3 million compared with the same period of the previous year is attributable to:

- write-downs made directly on the account (for raw and ancillary materials and consumables at the CMC's head office) for Euro 9 million or through the allocation of a specific write-down provision (for raw and ancillary materials and consumables at the branches) for Euro 7.8 million. Total write-downs are equal to Euro 16.8 million;
- reduction in inventories of raw materials compared with the previous year due to the use on contracts for Euro 14.5 million.

The write-down of inventories during the year led to the adjustment of the cost of raw materials and consumables at construction sites for orders completed or for which termination has been announced, as they are considered by the Directors to be no longer recoverable or usable on other construction sites. Write-downs by country are detailed below: as can be seen, the write-downs mainly concerned the value of the inventories of raw materials and consumables on sites in China, Kenya, Angola, Nepal and Zambia.

Entity	€ in million
Algeria branch	0.5
Angola branch	3.2
China branch	2.3
Kenya branch	1.9
Lebanon branch	1.8
Nepal branch	3.1
Zambia branch	2.8
CMC Head Office	1.1
TOTAL	**16.8**

Inventories of contract work in progress

The decrease in work in progress is attributable in part to the termination of some contracts and the prudential assessment of some projects in progress. With regard to the terminations, conclusions or revocations of the contracts, it should be noted that they involved orders in Nepal, Lebanon, Kuwait, Zambia, South Africa, Morocco, Singapore and in Italy (CDP, Metro Turin, Conad Montefiore).

Contract work in progress are representative of the production carried out by the Company and not yet invoiced to customers. In some cases they also include requests from customers for variations and additional fees, which historically arise during the execution of the works. During the year and in previous years, the company has recognized requests for additional fees not yet approved by the client: At 31 December 2018, there is Euro 191 million in "Contract work in progress". Despite the uncertainty linked to the outcome of the disputes initiated to obtain recognition of these amounts, Management of the Cooperative believes that their realization is reasonably certain after an examination of the documentation relating to these proceedings. This recovery estimate is also reflected in an analysis prepared by a leading consultancy firm.

The comparative table with 2017 figure is shown below:

Principal	***Description***	***December 31, 2018***	***December 31, 2017***	***Var.***
ANAS SPA	SS 640 AGRIGENTO CALTANISSETTA LOTTO 2	37,006	185,125	(148,119)
ANAS SPA	SS 640 AGRIGENTO CALTANISSETTA	32,426	78,378	(45,952)
RIFT WALLEY WATER SERVICES BOARD (RVWSB)	PROGETTO IDRICO-DIGA ITARE (KENYA)	30,970	13,667	17,303
CIRCUMETNEA	STAZIONE MONTE PO/STESICORO	30,756	56,236	(25,480)
A.G.A. (AG. GESTION AUTOROUTES)	COSTRUZIONE SERVIZI PER AUTOSTRADA LOTTO EST (ALGERIA)	21,117	22,532	(1,415)
ANAS SPA	LAVORI A SAVONA	17,414	22,117	(4,703)

SHANXI MIDDLE YELLOW RIVER WATER RESOURCE DEVELOPMENT CO. LTD.	SCAVO PER TRASFERIMENTO ACQUE FIUME SHANXI	9,354	20,452	(11,098)
ISTITUTO NAC. ESTRADA DE ANGOLA	AUTOSTRADA LUANDA SOYO (ANGOLA)	8,446	26,674	(18,228)
MINISTERO DELLE INFRASTRUTTURE	METROTRANVIA MILANO	8,211	7,684	527
EPIC ALGERIENNE DES EAUX	DISSALATORE DOUAOUDA (ALGERIA)	5,218	5,451	(233)
ANP-AGENCE NATIONAL DES PORTS - MAROCCO	MAROCCO-PORTO MOHAMMEDIA	4,426	3,674	752
REGIONE CALABRIA	METROTRANVIA COSENZA-RENDE	3,669	2,455	1,214
NHPC LIMITED	INDIA-PARBATI TUNNEL IDROELETTRICO	3,454	4,802	(1,348)
ANAS SPA	SS 121 - PALERMO LERCARA FRIDDI	52	52,351	(52,299)
MELAMCHI CORP.	SCAVI PER TRASF. ACQUE (NEPAL)	-	31,109	(31,109)
CONSORTIUM PETROJET	TUNNEL STRADALE - ISMAILA (EGITTO)	-	8,950	(8,950)
CASSA DEPOSITI E PRESTITI	RISTRUTTURAZIONE PALAZZO - Roma	-	11,185	(11,185)
SANRAL	RIABILITAZ. TRATTO STRADALE A EDGECOMBE (SUD AFRICA)	-	14,035	(14,035)
LTA – LAND TRANSPORT AUTORITY	2 LOTTI METROPOLITANA (SINGAPORE)	-	14,782	(14,782)
VAL DI CHIENTI SCPA	ESECUZ. DEI SUB LOTTI COLFIORITO MUCCIA	-	15,471	(15,471)
COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION (CDR)	ACQUEDOTTO DI BEIRUT (LIBANO)	-	11,218	(11,218)
LINEA METRO 1 TORINO	LINGOTTO BENGASI	-	20,008	(20,008)
OTHER		58,499	90,017	(31,518)
TOTAL		***271,018***	***718,373***	***(447,355)***

The reduction in the value of contract work in progress is attributable to the redefinition of the order margins, in light of the composition with creditors. These margins have undergone a drastic reduction due to the estimate of higher final costs and lower expected revenues.

The main changes concerned:

SS 640 Agrigento Caltanissetta Lot 2 (Empedocle 2), SS 640 Agrigento Caltanisetta (Empedocle) and SS Palermo-Lercara Friddi (Bolognetta)

The change in work in progress relating to these orders compared with the previous year is mainly attributable to an increase in the final costs and revision of the claims defined and/or being defined with ANAS.

Ferrovia Circumetnea – Stesicoro and Ferrovia Circumetnea - Tratta NESIMA-MISTERBIANCO

The change in work in progress relating to these contracts compared with the previous year is mainly attributable to an increase in the final costs also due to the blockage of the works between the end of 2018 and the beginning of 2019.

CMC-ITINERA JV - ARROR (Kenya) and CMC-ITINERA JV - KIMWARER (Kenya)

The change in work in progress relating to these contracts (in the table under the item "Other") compared with the previous year is linked to the current difficulty in continuing the contracts and the consequent uncertainty about being able to realize these amounts.

Cassa Depositi e Prestiti, Alto Maipo, Mount Edgecombe junction (South Africa) - SANRAL (South African National Roads Agency Limited), Cornubia Interchange to Meridian Drive (South Africa) - Economic Development and City Enterprises, Primary, Secondary Development and Ore Production at Shaft 3 (Konkola East Area) – Zambia Branch - KCM Plc, Melamchi - Excavations for water transfer (Nepal) - MELAMCHI CORP., Project Solu (Nepal), Project Greater Beirut Water Supply Project – GBWS Project (Libano) - COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION(CDR), 2 Lots of Singapore underground (Singapore) LTA – LAND TRANSPORT AUTHORITY

These are completed projects (outside the perimeter), as they have been terminated or suspended.

Advances

The decrease in the item, equal to Euro 14 million, compared with the same period of the previous year, is mainly attributable to the reduction of Euro 6.4 million in Lebanon and Euro 4.8 million in South Africa, following the receipt of the goods and upon receipt of the respective purchase invoices.

The main advances paid to suppliers for material in stock were paid for orders made in the following countries:

Entity	€ in million
CMC Head Office	4.1
Kenya branch	1.1
Philippines branch	1.2
Argentina branch	1.5
Nepal branch	3.2
Total	***11.1***

Receivables

These consist of the following:

Due to CMC's crisis situation, which culminated in the request for admission to the composition with creditors procedure, the allowance for doubtful accounts was increased to Euro 149,411 thousand in the financial statements at 31 December 2018 to prudently reflect the risks of not being able to collect certain claims against third parties subject to disputes or for which the counterparty is in financial difficulties.

This allowance for doubtful accounts amounts to Euro 149 million and is detailed as follows:

- 53 million euro relating to the write-down of intercompany receivables as indicated in the comment on financial receivables;
- 89 million euro relating to the write-down of receivables from third party customers;
- 7 million euro relating to the write-down of other receivables as indicated below.

The Parent Company has initiated multiple lawsuits to recover these receivables, obtaining some positive results both in Italy and abroad.

Receivables	***December 31, 2018***	***December 31, 2017***
From customer:		
- for works and supplies	*277,651*	*208,447*
- less allowance for doubtful accounts	*(149,411)*	*(3,044)*
- for interests on overdue payments	*1,370*	*(120)*
- less allowance for interest on overdue payments	*(1,370)*	*120*
Total from customers	***128,240***	***205,403***
Due from subsidiaries	*443,392*	*410,660*
Due from associated companies	*28,811*	*38,570*

Receivables from tax authorities	*26,957*	*41,553*
Deferred tax assets	*-*	*22,501*
Other	*40,701*	*37,922*
Total receivables	***668,101***	***756,609***

With regard to the above, it should be noted that the main write-downs made when preparing the financial statements at 31 December 2018 concerned:

Valore Reale SGR S.p.A. - This is a receivable relating to the order for the construction of a commercial complex in Garbagnate Milanese (MI). The client, Valore Reale SGR S.p.A. is a closed-end real estate fund reserved for qualified investors called "Fondo Bramante". The work commenced in 2012. The Company's total receivable is equal to Euro 6.38 million, of which Euro 5.86 million already invoiced and Euro 513 thousand referring to withholding taxes recorded on an accrual basis but still to be invoiced (period 2012 - 2013).
This receivable was once considered recoverable by virtue of both the recovery process in progress and a guarantee issued at the time by the Municipality of Garbagnate Milanese when the contract was stipulated. The guarantee is considered enforceable even if it would take some time to do so. When preparing the financial statements at 31 December 2018, the Company's management deemed it prudent to make a write-down equal to the entire amount of the receivable shown in the financial statements at 31 December 2018 (unchanged compared with the balance at 31 December 2017).

Mercati Agro-Alimentari Sicilia S.c.p.A. - This is a receivable relating to the contract for the construction of the new Agri-Food Market in Catania (CT) for which the client is Mercati Agro-Alimentari di Sicilia S.c.p.A. (hereinafter MAAS), a publicly controlled company. The works have been completed and testing was successful. The total receivable for CMC at 12/31/2018, unchanged compared with 31/12/2017, amounts to Euro 11.29 million and refers to certificates issued for Euro 11.10 million and amounts withheld as collateral for Euro 195 thousand. The client has not yet paid these balances as it is experiencing financial difficulties.
Negotiations are currently underway to settle this dispute. In June 2019, a final offer to close the matter was proposed by the customer, but it was not considered acceptable by the Company. The Ministry of Economic Development was directly involved in this negotiation in order to unblock the situation and remove the mortgage from the properties (already completed) in order to start the commercial activities for which they were designed. Although the company intends to take all possible legal action to recover the amount due, when drafting the financial statements at 31 December 2018, it was prudently decided to make a partial write-down of the receivable.

Cogeco 7 S.r.l. - This is a credit relating to the contract for the renovation of the Cassa Depositi e Prestiti SpA building in Piazza Dante 25, Rome. The client is Cassa Depositi e Prestiti SpA, owner of the property, and Cogeco Srl, a company to which CMC has subcontracted part of the works. The receivable shown by the Company at 31 December 2017 and 31 December 2018 is equal to Euro 1.2 million. Even though the arbitration panel has expressed its opinion on the pending dispute with a final judgement on 5 September 2019 substantially in favour of CMC, the Company's management has prudently decided to make a write-down provision for the entire amount due.

Boccadarno Porto di Pisa S.p.A. - This is a receivable relating to the contract to build the tourist port of Marina di Pisa (PI). The contract has been completed. The gross receivable at 31 December 2017 was equal to Euro 1.4 million against which a provision of approximately Euro 1 million had been booked to reflect the impact of the Company applying for a composition with creditors pursuant to art. 161, sixth paragraph, BL. On 20/08/2018, the detailed report of the Judicial Commissioner on the Boccadarno Composition with Creditors was published, on the basis of which, for prudential purposes, a further write-down of approximately 95% of the entire receivable shown in the financial statements.

Aster Sudan Branch - This is a receivable relating to the contract for the construction of the Corinthia Hotel in Khartoum (Sudan) in which Aster Associate Tecnoimpianti was a subcontractor. Given the nature of the contract with this entity, the Cooperative has both a receivable position and a payable position. Although it is considered possible to offset the residual receivable shown in the financial statements at 31 December 2018, equal to Euro 6 million, with the payable to Aster, taking into account the sentence of July 2019 that was unfavourable to CMC, it was decided, from a prudential perspective , to make a provision for the entire amount of the receivable.

Epic Algérienne des Eaux - ADE (ALGERIA BRANCH) - This is a receivable for a contract relating to the construction of a concrete tank with a capacity of 30,000 m³ and two pipes for drinking water linking it to the desalination station and the Douaouda water network. The project has been terminated. The receivable of € 4.256 million at 31 December 2018 has been completely written down.

Gabinete Tecn. Gestao (ANGOLA BRANCH) - this is the amount due from the client for which the Company completed the UIGE project that was terminated in 2012. The receivable amounted to € 3.256 million at 31 December 2018. This balance was written down by 40% at 31 December 2017, while at 31 December 2018 it was written down prudently by 100%.

IST. NACIONAL ESTRADA DE ANGOLA - INEA (ANGOLA BRANCH) - This is a receivable of Euro 2.127 million relating to withholding tax withheld by the client, which was deemed improper as the project was exempt from this tax. During 2018, some tax reviews were initiated by the Company in order to understand whether this receivable could be transformed into a tax credit and offset against a tax payable entered in the liabilities of the branch for Euro 944 thousand. At the moment these review are on stand-by and the receivable has been prudently written down, also in consideration of the fact that the Company is not currently present with personnel in Angola and there are no interlocutors to recover this credit.

QINGHAI (CHINA BRANCH) - This is a receivable of € 1.938 million at 3 December 2018 relating to a contract for the construction of a tunnel that was completed in 2018. It refers to the sale of spare parts to the client. These assets have not yet been taken over by the client and are still available to the Cooperative. Nonetheless, it was decided to make a prudent write-down of the credit.

CHINA GEZOUBA GROUP CONTR. (KUWAIT BRANCH) - This is a receivable related to the contract for the urbanization of some Kuwait City streets for which CMC has notified termination to the client. The receivable of € 2.6 million at 31 December 2018, relating to withholding tax on certificates issued, has been fully written down in light of the termination, even though a lawsuit has been initiated to recover all outstanding balances.

Guarantee retentions (LEBANON BRANCH) - The receivable relates to guarantee retentions on certificates issued equal to Euro 10.861 million at 31 December 2018 (Euro 6.909 million at 31 December 2017). This credit was completely written down during 2018 in light of the termination notice received from the client. At the same time, a lawsuit was initiated with the client for full recovery of these receivables.

M.A. KHARAFI (MALAWI BRANCH) - This is a receivable relating to a contract for the construction of a highway that was completed several years ago. The receivable of € 3.244 million at 31 December 2018 (€ 3.097 million at 31 December 2017) was written down by € 2.231 million at 31 December 2018. The part of the receivable does not written down corresponds to the debt of the same amount that the Company has towards a subcontractor (Herbo) for approximately Euro 1.035 million. In any case, legal action is underway to collect all of this receivable, even the part that has been written down.

Melamchi Water Supply Development Board - MWSDB (NEPAL BRANCH) - This is a receivable relating to a contract for the excavation of approximately 20.5 km of tunnels to divert water from the Melamchi River. This project has been terminated. The receivable of Euro 6.127 million at 31 December 2018 (Euro 2.574 million at 31 December 2017) was partially written down during the year by Euro 3.024 million for the following reasons:

- Write-down of € 3.024 million with reference to guarantee retentions: this amount is fully written down at 31 December 2018 as the client sent notice of termination when the Company stopped work due to a lack of financial resources.
- The other € 3.100 million refer to an invoice issued for a claim submitted to the DAB (Dispute Adjudication Board), net of advances received for on-site materials of Euro 1,548 million and residual contractual advances of approximately Euro 837 thousand. The residual amount of Euro 718 thousand has been written down.

However, legal action has been taken to collect the receivable written down at 3 December 2018.

KONKOLA COPPER MINES Plc - KCM (ZAMBIA BRANCH) - This is a receivable relating to a contract acquired by the Company in joint venture with the South African company Bomar Project Pty in the last quarter of 2017, which concerned the excavation of an underground copper mine. This project has been terminated. The receivable of € 7.040 million at 31 December 2018 (€ 2.824 million at 31 December 2017) was written down during the year by € 438 thousand as the client went bankrupt, but the receivable was not written down entirely as there is a payable owed to the client for advances of USD 6.5 million.

There are the following situations of uncertainty relating to receivables outstanding at 31 December 2018:

Grandi Lavori Fincosit SpA - This is a receivable relating to a contract for the construction of the Maxilotto 1 as part of the Marche Umbria Quadrilateral Project, for which the general contractor is the Val di Chienti ScpA project company, owned 28% by CMC, 28% by GLF, 36% by Strabag and 8% by COCI (bankrupt). The principal is Quadrilatero Marche – Umbria S.p.A. (shareholder ANAS S.p.A.). The works allocated to CMC have been completed, but the contract is not yet finished. The balance shown at 31 December 2018 of Euro 31.8 million refers almost entirely to the costs passed on to Grandi Lavori Fincosit SpA (GLF) based on an agreement between CMC and GLF dated 2010 according to which, of the 28% of costs in the Val di Chienti budget that were up to CMC, 19.63% would be passed on to GLF. Consequently, CMC, on an actual and non-formal level, holds 8.27% of the total costs. GLF is in a composition with creditors. With GLF, the Company also has a payable balance of approximately Euro 30.4 million. Management believes that the net exposure is fully collectable, also in light of the bank guarantees given to CMC, so no provision was made at 31 December 2018.

Integra Consortium - This is a receivable relating to various contracts in which the Company participates through the Consortium for a total of Euro 59.7 million. From an asset point of view, this mainly concerns invoicing for certificates that CMC billed to the Consortium for these contracts. CMC also has a payable balance with this customer of around Euro 78.7 million. Subsequent to the end of the year, a settlement agreement was signed with the Integra Consortium which redefines the perimeter of the contracts entrusted to CMC, as well as the exact definition of the amounts agreed as owing between the two, whose net benefits will impact the results in 2019.

Due from tax authorities

These consist of the following:

Receivables form tax authorities	***December 31, 2018***	***December 31, 2017***
Income tax		
- Italy	625	464
- Overseas	5,124	4,830
VAT		
- Italy	18,166	30,259
- Overseas	2,659	3,958
Witholding tax (IRPEF)		
- Italy	216	8
- Overseas	38	-
Other taxes		
- Italy	52	52
- Overseas	75	1,982
Total	**26,957**	**41,554**

Following numerous meetings with the Regional Tax Revenue Agency of Bologna, in August 2019 a final proposal was made to the Agency, given CMC's insolvency, to compensate part of the VAT credit accrued with the tax declaration for 2018 with tax payables for Ires in 2017, staff withholdings for 2018 and the amount due under the agreed assessment in 2016. The amount of the compensation is Euro 10,647 thousand.

The residual post-compensation credit was the subject of a rebate request already forwarded to the Revenue Agency, pending the presentation of guarantees being issued by a leading Italian insurance company.

As regards tax receivables from foreign countries, the Company has made a reconstruction, which is considered the best estimate by the Directors. The amount is currently uncertain due to operating difficulties encountered in certain countries.

Deferred tax assets

Due to CMC's crisis situation, in the financial statements at 31 December 2018, deferred tax assets in Italy and abroad were eliminated, net of deferred tax liabilities, with the net effect on the income statement. The table is shown below:

	December 31, 2018			*December 31, 2017*		
	Temporary differences	**Tax effect**	**Rate %**	**Temporary differences**	**Tax effect**	**Rate %**
Deferred tax assets						
- Join Venture dvidends	-	-	24.00%	-	-	24.00%
- interest expense	-	-	24.00%	50,700	12,168	24.00%
- tax loss	-	-	24.00%	-	-	24.00%
- no tax deductible provisions	-	-	27.90%	20,151	5,622	27.90%
- write-down of investment	-	-	24.00%	504	121	24.00%
- provision for specal risks	-	-	24.00%	400	96	24.00%
- contributions deductible on a cash basis	-	-	24.00%	300	72	24.00%
- foreign tax credits	-	-	24.00%	19,142	4,594	24.00%
- cash flow hedge	-	-	24.00%	-	-	24.00%
- exchange rates	-	-	24.00%	-	-	24.00%
- maintenance charges (above 5% threshold)	-	-	24.00%	1,592	382	24.00%
Deferred tax liabilities						
- Joint Venture dividends	-	-	24.00%	(2,308)	(554)	24.00%
Deferred tax assets (liabilities)		**-**			**22,501**	

	Balance at December 31, 2017	**Income statement**	**Balance at December 31, 2018**
Deferred tax assets			
- interest expense	12,168	(12,168)	-
- no tax deductible provisions	5,622	(5,622)	-
- write-down of investment	121	(121)	-
- provision for specal risks	96	(96)	-
- contributions deductible on a cash basis	72	(72)	-
- foreign tax credits	4,594	(4,594)	-
- maintenance charges (above 5% threshold)	382	(382)	-
Deferred tax liabilities			
- Joint Venture dividends	(554)	554	-
Effect on income statement	**22,501**	**(22,501)**	**-**

Receivables are analysed by geographical area below, as required by art. 2427 of the Italian Civil Code:

Receivables	***ITALY***	***AFRICA***	***ASIA***	***EUROPE***	***SOUTH AMERICA***	***TOTAL***
From customers	*61,944*	*21,671*	*43,731*	*435*	*459*	**128,240**
From Subsidiaries	*360,332*	*82,184*	*875*	*0*	*0*	**443,392**
Form Associated	*28,811*	*0*	*0*	*0*	*0*	**28,811**
Taxes	*19,060*	*2,779*	*3,908*	*3*	*1,206*	**26,957**
Deferred tax assets	*0*	*0*	*0*	*0*	*0*	**0**
Others	*31,750*	*5,677*	*3,169*	*10*	*95*	***40,701***

Total	501,897	112,311	51,684	448	1,761	668,101

The amount due from customers is stated net of the allowance for doubtful accounts.

"Other receivables" mainly include amounts due from INPS and from the Joint Ventures. The provision made for this balance amounts to Euro 8.3 million and is included in the allowance for doubtful accounts for trade receivables of Euro 149.4 million.

Cash and cash equivalents

"Cash and cash equivalents" include the cash balances and equivalents held by the head office and at the various construction sites.

This item (cash and cash equivalents translated into Euro and referred to the current account of Branches and Parent Company) is made up as follows:

Details of cash and cash equivalents	*December 31, 2018*	*December 31, 2017*
- Euro	12,665	24,844
- Dinari (Algeria)	405	10,539
- Peso (Argentina)	17	9,741
- Kwanza (Angola)	12	1,362
- Dollars (USA)	3,491	12,828
- Peso (Philippines)	248	779
- Renminbi (Yuan - China)	33	109
- Dollars (Singapore)	70	677
- Rand (South Africa)	643	5,212
- Rupees (Nepal)	58	57
- Lev (Bulgaria)	2	4
- Kes (Kenya)	33	175
- Other currencies	547	842
Total	**18,243**	**67,169**

The reduction in the item compared with the same date of the previous year is illustrated in the cash flow statement.

Accrued income and prepayments

The composition of the item is detailed as follows:

Accrued income and prepayments	*December 31, 2018*	*December 31, 2017*
Accrued income		
- interest	*-*	*-*
- others	*20*	*107*
Deferred costs		
- insurance	*2,331*	*4,687*
- guarenteee	*412*	*1,254*
- interest	*-*	*4,533*
- rental fees	*478*	*429*
- leasing fee	*915*	*4,135*

- others	*1,812*	*2,948*
Total	***5,968***	***18,093***

The prepaid lease instalments mainly concern machinery used in foreign contracts; the reduction compared with the previous year is due to the interruption of certain lease contracts. The reduction in prepayments for financial charges is mainly attributable to a correct reclassification in 2018 of bank interest expense under payables to banks, without reclassifying the prior year item.

LIABILITIES AND EQUITY

Equity

The statement of changes in equity during the year is attached.

Share capital

The share capital consists of 345,378 shares with a par value of Euro 50 each, in addition to some Euro 22 thousand of fractional shares due to revaluation.

Legal reserve

It includes the allocation of the results for the period as envisaged by the Company's Articles of Association.

Extraordinary reserve

It includes the allocation of the results for the period as established by the shareholders' resolutions.

Cumulative translation adjustment

It includes the net effect deriving from the conversion into Euro of the balances relating to permanent organizations abroad which have a high management autonomy and which adopt multi-currency accounting.

Reserve art. 2426 Italian Civil Code, paragraph 1.4)

It includes the effects of the valuation with the equity method of some categories of investments in subsidiaries and associates.

Valuation reserve for foreign currency assets and liabilities

In accordance with Art. 2426 of the Italian Civil Code, paragraph 1.8- bis), this reserve includes the net gain arising from adoption of the previous year-end exchange rates for the translation of assets and liabilities in foreign currencies.

Changes in the membership base in 2018 are as follows:

	Active shareholders	**Pensioner shareholders**	**Financing shareholders**	***Total***
Year beginnig	**340**	**520**	**2**	**862**
New members	5	-	-	5
Leavers	(14)	(30)	(1)	(45)
Retirements	(8)	8	-	-
As of December 31, 2018	**323**	**498**	**1**	**822**

Regarding the information required by art. 2427 of the Italian Civil Code art. 4 and 7-bis relating to the equity items, please refer to the "Attachments" to these notes, which also provide information on the possibility of using the reserves, the unrestricted portion and the uses made in the three previous years.

It should be remembered that in the event of negative equity, determined by large losses, art. 182-sexies BL establishes that from the date of submission of the application - be it admission to a composition with creditors or approval of the restructuring agreement or an injunction related to a pre-agreement pursuant to the sixth paragraph of art. 182-bis BL - and until court authorization has been given, the rules established by the Italian Civil Code regarding losses in excess of one third of the share capital do not apply and the cause of dissolution of the company due to reduction or loss of the share capital pursuant to articles 2484, no. 4 and 2545-duodecies of the Italian Civil Code is not operative.

Provisions for risks and charges

Provisions for risks and charges	*December 31, 2018*	*December 31, 2017*
Contract risks	*198,507*	*-*
Overseas/foreign operations	*178,601*	*4,169*
Other risk and chargesi	*158,941*	*5,895*
Taxes	*1,258*	*0*
Total	***537,307***	***10,064***

The “Provision for risks and charges” has been recorded by making a best estimate, based on information currently available, of potential losses on contracts performed directly, with others or via companies, as well as to take account the value of certain equity investments, as discussed earlier.

Due to CMC's crisis situation, which culminated in the request for admission to the composition with creditors procedure, the provisions for risks in the financial statements at 31 December 2018 were increased to Euro 537 million.

The main provision relates to the risk associated with the potential enforcement of bank and insurance guarantees given in favour of clients in Italy and abroad for good execution, contractual advances and guarantee retentions which, in some cases, have already taken place during the course of 2019. This allocation amounts to a total of some Euro 364 million (Euro 83 million to the contractual risks provision of Euro 199 million, Euro 173 million to the foreign operations risks provision of Euro 179 million and Euro 108 million to the provision for other risks and charges of Euro 159 million). This amount was determined by the Directors of the Company following detailed analysis of the banking documentation available to it. In estimating the provision, the Directors have considered the amount of guarantees already enforced at the date of preparation of the financial statements and/or analysed the situations in which existing guarantees are likely to be enforced in the near future. The provision includes in particular:

- liabilities for sureties already enforced at the date of preparation of these financial statements for some Euro 219 million. The Cooperative has taken legal action against the contracting entities that enforced these guarantees, considering them unfairly enforced and requesting for the amounts involved to be reimbursed. To date, the outcome of these disputes is to be considered uncertain and for this reason the provision has been made;
- liabilities for sureties not yet enforced to date for approximately Euro 143 million. In this case, Management has assessed the probability of enforcement of the guarantee in the light of the situation of the various contracts, the relationship with the contracting entities and the situation of the guaranteed investee companies. The amount booked represents the best estimate of the probable liability that could arise.

Another important item in the provision is an allocation of approximately Euro 129 million (Euro 73 million to the contractual risks provision of Euro 199 million, Euro 6 million to the foreign operations risks provision of Euro 179 million and Euro 51 million to the provision for other risks and charges of Euro 159 million) to cover:

- risks related to international disputes that could end negatively for CMC. Although in the context of uncertainty linked to the preliminary phase in which there are some legal disputes, based on the analyses carried out and the related probability of losing, in light of the information available at the date of these financial statements, the Directors believe that the provision allocated to the financial statements represents the best estimate of the potential risk that could emerge on the conclusion of these proceedings;
- so-called final costs or disposal costs of plant and construction sites for contracts that have been terminated, also on the basis of the costs actually incurred after the end of the year;
- risks relating to requests from suppliers for additional amounts of money, which at present have not been recognized by Management as they are not considered due. Since these requests are or could be the subject of litigation, the Management has deemed it appropriate to make a prudent provision against the risk of losing.

The contractual risk provision of Euro 199 million also includes:

- an allocation of approximately Euro 30 million relating to the estimated costs for managing the composition with creditors procedure. These costs mainly refer to the costs of the procedure and to the various professionals involved in various capacities. Although almost all of these amounts refer to services rendered or to be returned after 31 December 2018, it was deemed appropriate to proceed with their allocation in continuity with the approach adopted when drafting the set of accounts at 3 December 2018 that underlay the application for a composition with creditors;
- an allocation of approximately Euro 13 million relating to default interest which the Cooperative has prudently allocated to deal with any requests from suppliers.

The provision for current and deferred taxes is equal to Euro 1.3 million and mainly refers to an estimate of the current taxes of some foreign branches.

The Cooperative is party to a number of disputes arising in the ordinary course of business. In particular, we would mention that:

- in relation to the Headrace Tunnel of Hydroelectric Plant project in Alto Maipo (Chile), carried out in collaboration with Hochtief Solutions AG, through the vehicle company Constructora Nuevo Maipo SA (of which we hold a 30% stake), on 7 June 2017, the client and owner of the land, Alto Maipo S.p.A., a Chilean company, delivered a notification of complaint concerning the violation of various contractual obligations by Constructora Nuevo Maipo SA, simultaneously filing an arbitration request before the International Chamber of Commerce, claiming alleged damage. Consequently, Alto Maipo S.p.A. activated the guarantees on the performance obligations granted in relation to this project, for a total of Euro 79.5 million, 30% of which was counter-guaranteed by UniCredit S.p.A. which should have had recourse against us. Execution was initially suspended (Constructora Nuevo Maipo SA received an injunction from the local Chilean court), but in the end the suspension order was revoked on 10 July 2017. Consequently, we agreed to waive the suspension order that we had obtained on 13 June 2017 from the Civil Court of Ravenna, following our petition for an urgent precautionary injunction on 12 June 2017 against UniCredit S.p.A., and in the end we paid the Italian counter-guarantor an amount of Euro 19.5 million. Constructora Nuevo Maipo SA has filed a counterclaim for damages against Alto Maipo S.p.A. with the ICC (International Chamber of Commerce) for unlawful termination of the Alto Maipo contract, also requesting reimbursement of the amounts taken by Alto Maipo from the existing bank guarantees. The exchange of the pleadings between the parties began on 3 August 2018. Work on the pleadings and questions then continued during 2018 and the oral hearing before the ICC's court of arbitration was held in May and June 2019 in Santiago. We intend to continue supporting Constructora Nuevo Maipo SA in its dispute with Alto Maipo and AES Gener.
- with a summons issued in February 2017, the Public Prosecutor of Ravenna ordered the referral to trial of Massimo Matteucci, former chairman of CMC's Board of Directors, Dario Foschini, CMC's former CEO, Guido Leoni, CMC's former deputy chairman, Maurizio Fucchi, CMC's former deputy chairman and Alfredo Fioretti, at the time of the facts CMC's deputy chairman, accused, together with others, of the crimes referred to in arts. 256 paragraph 1 letter a), paragraphs 2 and 4, and paragraph 3 of Legislative Decree 152/06. The allegations concerned the handling of materials from dredging works contracted by the Port Authority of Ravenna to CMC. The first instance ended with the acquittal of Matteucci, Leoni and Fioretti, and the conviction of Fucchi and Foschini. The lawyers have appealed against the sentence handed down against Fucchi and Foschini, while the Prosecutor's Office appealed against the acquittal of Fioretti. Appeal proceedings are still pending.
  The Company believes that it operated correctly and that there is a chance of a decision in its favour;
- In October 2013, the public prosecutor's office of the Court of Trani commenced a criminal investigation into how the contract for the construction of the new Molfetta port was awarded. The contract was awarded in 2006 to a consortium headed up by the Company. The accusation against CMC is that it knowingly participated in a project organised fraudulently by Molfetta Town Hall. The investigation includes, among others, the previous Chairman of our Board of Directors (now deceased) and our former Managing Director as the legal representatives of CMC and Molfetta Newport S.c.a.r.l. The precautionary measures requested by the public prosecutor against the Company and its employees (including a request for interdiction prohibiting the continuation of its operations pursuant to Decree 231/2001) were rejected and revoked by the competent Court. The proceedings are still ongoing. The Directors of the Cooperative believe that the proceedings will confirm that the CMC Group operated correctly;
- with regard to the criminal proceedings brought against the C.A.V.E.T. Consortium and certain individuals, including some former managers of the Consortium, the appeal proceedings ended with a decision handed down on 27 June 2011, which reversed the lower court's decision in full, reversing the convictions handed down by the lower court and finding both the Consortium and the individuals indicted not guilty of any of the charges. The Public Prosecutor of the Court of Florence appealed against this decision to the Court of Cassation, which, on 18 March 2013, cancelled part of the decision made by the Florence Court of Appeal, ordering that the case be returned to it for a rehearing. The reinstated proceedings referred to the Florence Court of Appeal got under way on 30 January 2014 and, on 21 March 2014, the Court handed down a decision by which it rejected most of the charges raised by the Public Prosecutor, but upheld them in a number of important circumstances. The ruling of the Court of Appeal of Florence was challenged by all the defendants and by C.A.V.E.T, as a party liable under civil law and, in September 2014, the related appeals were filed with the Court of Cassation.
  On 21 April 2016, Criminal Chamber IV of the Court of Cassation handed down a decision by which it annulled without reinstatement the decision handed down on 21 March 2014 by the Florence Court of Appeal with respect to all criminal charges and most of the civil aspects, allowing recourse to the competent civil Court of Appeal only for some of the civil aspects.
  The Ministry of the Environment has in fact brought proceedings before the Florence Civil Court of Appeal, seeking a ruling on the existence of environmental damage and to order CAVET and certain individuals already charged in the criminal proceedings to adopt appropriate remedial measures that still have to be determined;
- In June 2012, the public prosecutor's office of the Court of Latina commenced a criminal investigation against, among others, the Chairman of the Company's Board of Directors and the Managing Director, with reference to an alleged violation of art. 256 of Decree 152/2006 relating to the handling and transport of non-hazardous materials. The proceedings are still pending.

The Directors do not believe that these proceedings will lead to any liabilities for the Company;

- In July 2011, following the death of one of the Cooperative's workers, the public prosecutor's office of the Court of Perugia initiated criminal proceedings against one of the Cooperative's managers for an alleged violation of art. 100 of Decree 81/2008 and art. 589 of the Italian Penal Code. The proceedings are still pending.
  The Directors do not believe that these proceedings will lead to liabilities for the Cooperative.
- in July 2019 the Public Prosecutor of Nairobi requested the start of criminal proceedings against, among others, the Joint Venture CMC - Itinera s.c.p.a., a company set up by CMC and Itinera S.p.A. for the execution of construction works for the Arror and Kimwarer dams in Kenya entrusted by the Kerio Valley Development Authority (a government agency) and its chairman Paolo Porcelli, who holds the position of General Manager of the Cooperative. The charges brought against Porcelli and the JV, later extended to the Cooperative and its administrative body in office in 2014, allege "conspiracy to defraud" and "fraudulent acquisition of public property" against the State of Kenya. At present, no elements or evidence have emerged to support these accusations and the Cooperative has made every effort to demonstrate its extraneousness to the crimes that its representatives are alleged to have committed.

Employee termination indemnities

The changes in the period can be summarized as follows:

T.F.R.	*December 31, 2018*	*December 31, 2017*
Year beginning	**12,638**	**12,056**
Accrual	4,058	3,904
Paid over	(3,632)	(3,322)
As of December 31, 2018	**13,064**	**12,638**

Payables

Due to members for loans

	December 31, 2018	*December 31, 2017*
Shareholder' loan account	***8,271***	***10,706***

During 2018 the Cooperative repaid part of the members' loan for an amount of Euro 2,435 thousand.

Bonds

Balance as of December 31, 2017	***548,023***
Variation	*43,538*
Balance as of December 31, 2018	***591,561***

The item includes payables for bond loans, in principal and interest accrued as of 3 December 2018.

The increase in the amounts associated with the two bond loans is attributable to the fact that these payables were considered short-term for an amount equal to the nominal value plus accrued interest. In 2017, due to the application of amortised cost, transaction costs were distributed over the duration of the amortisation plan by applying the effective interest rate.

Details of the operations are shown below with an explanatory table to support them:

- issue, in July 2017, of an unsecured bond loan with a nominal amount of Euro 250 million, maturing in 2022, and a coupon rate of 6.875%. The cost of the initial transaction was Euro 5,994 thousand, leading to an effective interest rate of 7.6%. Interest accrued at 3 December 2018 is equal to Euro 5,920 thousand;
- issue, in November 2017, of an unsecured bond loan with a nominal amount of Euro 325 million, maturing in 2023, and a coupon rate of 6%. The cost of the initial transaction was Euro 16,557 thousand, plus Euro 5,297 thousand in residual costs of the bond loan being repaid, leading to an effective interest rate of 7.75%. Interest accrued at 3 December 2018 is equal to Euro 10,641 thousand;
-

Bonds	***December 31, 2018***	***December 31, 2017***	***Var.***
Bonds 6,875% - July 2017			
- par value	*250,000*	*250,000*	*-*
- amortization		*(5,519)*	*5,519*
- interest	*5,920*		*5,920*
	255,920	***244,481***	***11,439***
Bonds 6,000% - November 2017			
- par value	*325,000*	*325,000*	*-*
- amortization		*(21,458)*	*21,458*
- interest	*10,641*		*10,641*
	335,641	***303,542***	***32,099***
Total	***591,561***	***548,023***	***43,538***

In relation to payables to bondholders, please also take into account the comments made previously in the section on business continuity regarding the composition proposal.

Due to banks

	December 31, 2018	***December 31, 2017***
Payables due to banks	***337,942***	***234,488***

The change in this item during the year is analysed in the statement of cash flows.

The above borrowing is hedged by contracts recorded on the basis described in the "Accounting policies" section of these notes.

The overall payables include pooled loans entered into with a medium-long term maturity, but following the admission to the composition procedure, they have accelerated, becoming all past due. They are made up of:

Lender	***December 31, 2018***	***December 31, 2017***
Syndicated loans		
- Mediocredito Centrale (Ago-18)	-	3.893
- Mediocredito Centrale (Nov-18)	290	-
- Banco Popolare (Mar-19)	408	1.020
- Interbanca - Banca IFIS (Feb-2020)	10.000	13.333
- Banco Popolare E.R. (Nov-18)	-	745
- Banca Credito Cooperativa (Ago-2020)	230	-
- Banca Credito Cooperativa (Dic-2020)	1.575	2.100
- Cassa di Risparmio di Ravenna (Dic-2021)	9.320	-
- Revolving Credit Facility (Dic-2019)	165.000	98.217
Total Syndicated loans	**186.823**	**119.308**

The original maturities of the loans are indicated in brackets.

In relation to amounts due to banks, account should also be taken of the comments made previously in the section on business continuity regarding the composition proposal.

Due to other providers of finance

Details of these payables are as follows:

Due to other financers	December 31, 2018	December 31, 2017
COOP. SERVIZI CULTURA	1,220	1,220
FACTORING	123	3,815
Total	***1,343***	***5,035***

These payables bear interest at market rates and do not include any amounts due beyond five years.

Payments on account from customers and principals

For the comment on this item, refer to what is indicated in "Accounting policies" and to the comment on "Inventories".

Advances from customers and principals

Advances from customers consist of the following:

Advance from customers and principals	December 31, 2018	December 31, 2017
ITARE DAM (KENYA)	36,130	36,130
ALGERIA -AGA AUTOSTRADA EST	18,299	16,032
LIBANO -GRATER WATER	12,192	22,325
NEPAL – SAHAS URJA Ltd - SOLU KHOLA (DUDH KOSHI) IMPIANTO IDROELETTRICO	7,223	10,865
ARGENTINA - RIO SUBTERANEO A LOMAS	6,420	13,773
ANGOLA – GABINETO TECNICO DE INVESTIMENTOS PUBLICOS	5,565	4,423
ZAMBIA-MILLENNIUM CHALLENGE DRAINAGE PROJECT	5,564	4,311
CINA - SHANXI	5,364	4,785
MWSS-AWTIP CONTRACTAL ADVANCE (FILIPPINE)	4,529	8,334
CINA – QINGHAI XINING	2,870	806
REGIONE SICILIA E.S.A.	2,586	2,586
COMMERCIANTI INDIPENDENTI ASS.	2,294	463
NEPAL – MELAMCHI WATER SUPPLY DEVELOPMENT BOARD	837	6,117
PROVINCIA AUTONOMA DI TRENTO	940	-
MALAWI - MINISTRY IF AGRICULTURE IRRIGATION AND WATER DEVELOPMENT	392	703
LTF TORINO – LIONE	166	1,044
AMMINISTRAZIONE PROVINCIALE DI FOGGIA	-	1,114
FERROVIA CIRCUMETNEA (Fce)	-	4,748
OTHERS	1,255	1,080
TOTAL	**112,626**	**139,639**

This item mainly comprises advances received for work still to be performed and does not include any amounts due beyond five years.

Trade payables

These consist of the following:

	December 31, 2018	December 31, 2017
Payables to suppliers	***378,237***	***277,702***

The financial crisis that hit the Cooperative, which culminated in the request for admission to a composition with creditors, unfortunately also affected the payments made to the assignees, subcontractors, suppliers and consultants, generating an increase in the amounts due to suppliers of Euro 101 million compared with the previous year.
In relation to trade payables, account should also be taken of the comments made previously in the section on provisions for risks, as well as what is mentioned in the section on business continuity regarding the composition proposal.

Due to subsidiaries and associates

Details of this item are provided in the table attached to the notes. These payables mainly refer to commercial transactions relating to the "cost transfers" received from consortium companies and consortia in which the Cooperative participates for the construction of works, as well as amounts due to them in relation to the commitments undertaken to cover losses made by them. The portion falling due after twelve months refers to payables to companies in liquidation, which partially offset receivables from the same companies, which will only be settled at the end of the liquidations.

Due to tax authorities

This item consists of the following:

Debiti Tributari	***December 31, 2018***	***December 31, 2017***
VAT		
- Italy	30	1,771
- Overseas	3,142	3,742
Income tax		
- Italy	6,349	7,166
- Overseas	8,621	8,089
Withholding tax (IRPEF)		
- Italy	5,280	2,443
- Overseas	938	307
Other taxes		
- Italy	1,142	1,346
- Overseas	414	967
Total	***25,916***	***24,837***

See the comment on “Due from tax authorities”.
All tax years are closed up to the year ended 31 December 2014, both for direct taxes (Art. 43 DPR 600/73) and for VAT (Art. 57 DPR 633/72).

As regards tax payables to foreign countries, the Company has made a reconstruction, which is considered the best estimate by the Directors. The amount is currently uncertain due to operating difficulties encountered in certain countries.

Other payables

Other payables are summarized below:

Other payables	***December 31, 2018***	***December 31, 2017***
Subscribed capital to be paid	*14,925*	*14,925*
Sundry amounts due to partners in JV	*46,938*	*57,526*
Employees for unpaid payroll	*15,272*	*8,631*
Ristorni	*493*	*493*
Others	*38,249*	*9,555*
Total	***115,876***	***91,130***

The "Sundry amounts due to partners in JV" refer to commercial transactions with the members of the main consortia that are active and with Group companies.

There has been an increase in payables to employees for wages and salaries, caused by the financial crisis that hit CMC during the second half of 2018, which prevented the regular payment of wages and salaries. The situations can be regularized once the composition procedure has been authorized.

"Other" includes payables accrued to former members following their withdrawal or retirement.

Accrued expenses and deferred income

The composition of the item is as follows:

Accrued liabilities and deferred income	*December 31, 2018*	*December 31, 2017*
Accrued expensive		
- interest charge	*380*	*13,134*
- insurance expensive	*962*	*968*
- guarantee charges	*581*	*167*
- other	*-*	*11*
Deferred income		
- leasing	*-*	*135*
- interest	*-*	*40*
Total	***1,923***	***14,455***

The most significant decrease relates to interest on bond loans: please refer to the comment in the section on Bonds.

Commitments and guarantees

Commitments for guarantees are summarized below:

Guarantees	**December 31, 2018**
Bank loans	95,512
Client advance	248,111
Bid Bond	17,666
Performance bond	462,173
Duties	18,393
Security bond	4,843
Temporary security bond	9,271
Payment	23,900
Leasing JV	2,845
VAT	15,403
Ritenuta a garanzia	31,055
Others	24,257
Total	**953,431**

Commitments for guarantees provided by third parties on behalf of the Group in favour of subsidiaries, associates and third parties are almost entirely relate to performance guarantees, advances, the release of amounts withheld in guarantee and price revisions. The most significant guarantees were provided in Italy for road construction work in Sicily, being the SS640 Agrigento – Caltanisetta stretch (lots 1 and 2) and the SS1 Palermo – Lercara Friddi stretch, as well as for the HST project (Bologna-Milan stretch), and abroad for the hydroelectric plants in South Africa, contracts in Nepal, Kuwait, Kenya, Laos and the Philippines, and the construction of an aqueduct in Beirut, Lebanon. Total guarantees given by third parties at 31 December 2017 amounted to Euro 953,394.

Secured guarantees in favour of third parties relate to pledges on shares of Val di Chienti Scpa and Tangenziale Esterna Spa, which amount in total to € 34,641 thousand.

At the date of preparation of the financial statements, below is a list of the guarantee enforcements suffered during the course of 2019 by CMC or by subsidiaries and associates in favour of which CMC had given bank and insurance guarantees, as also reported in the section on "Principal events during the year" and "Subsequent events":

Enforcements	*Total*
Nepal	*46,870*
Kuwait	*68,582*
South Africa	*4,000*
Lebanon	*29,673*
Singapore	*10,976*
Kenya	*6,800*
Zambia	*6,811*
India	*3,644*
USA	*7,143*
Bulgaria	*492*
Weden	*19,475*
Overseas	***204,466***
Empedocle Scpa	*481*
Empedocle 2 Scpa	*1,000*
GED Srl	*249*
Letimbro Scpa	*9,087*
CDP	*2,000*
Montefiore Scpa	*2,057*
Isopensione	*26*
Italy	***14,900***
Total	***219,366***

The Cooperative's commitments for lease instalments still outstanding at the end of 2018 and not shown under liabilities amount to a total of Euro 14,891 thousand. Please refer to the attachment to these notes for details.

At 31 December 2018, the notional value of the underlying relating to Interest Rate Swaps arranged with primary banks is Euro 55.6 million. For more information on derivative contracts and their fair values, see the specific attachment.

Income Statement

Revenue from sales and services consists of the following:

Revenue from sales and services	*Italy*	*Overseas*	*2018 (Annual)*	*2017 (Annual)*
Contract revenue	*426,937*	*39,121*	*466,058*	*740,304*
Sundry services	*27,963*	*18,496*	*46,459*	*69,921*
Sales of materials	*15,061*	*(13,974)*	*1,087*	*15,959*
Total	***469,961***	***43,643***	***513,604***	***826,184***

As regards the fees for contracts, reference should be made to the section on "Accounting policies".

The item "Capitalization of amounts benefiting future years" in 2018 refers, residually, to construction site set-up costs capitalized in Intangible Assets and amortized on the basis of the stage of completion of the contracts in question, for which the Company deemed irrelevant and uneconomical their analysis at the year-end in order to reclassify them in contract work in progress given their modest value and the fragmentation of amounts making up the total.

The item "Sundry income", totalling Euro 15,579 thousand, mainly consists of capital gains on the disposal of goods, damage reimbursements and the remaining part mainly of charges to Group companies and sale of materials. Pursuant to Law 124/2017, it should be noted that the Company received contributions from the Emilia Romagna Region in 2018 for Euro 108,437.

The total amount of “Cost of services” comprises:

Cost of services	***2018 (Annual)***	***2017 (Annual)***
Sub-contracts	*123,201*	*123,658*
Services for works in JV	*179,453*	*280,101*
Transport, lease and hire	*35,184*	*18,448*
Travel costs and canteen	*11,649*	*10,890*
Consultancy, lawyers and notaries	*20,331*	*17,680*
Utilities	*4,517*	*5,184*
Studies and desing	*2,508*	*2,323*
Oteher services	*90,222*	*56,672*
Total	***467,065***	***514,956***

The breakdown of personnel costs is already provided in the income statement.
It should be noted that the total average number of employees, both members and non-members, employed in the Cooperative, is 4,746.
The decrease in personnel costs compared with last year is linked to a lower use of personnel.

"Other operating expenses" are made up as follows:

Other operating expenses	***Italy***	***Overseas***	***2018 (Annual)***	***2017 (Annual)***
Insurance and custom duties	*4,577*	*5,855*	*10,432*	*7,856*
Social activities	*753*	*327*	*1,080*	*1,746*
Losses on machinery sale	*-*	*-*	*0*	*5*
Taxes	*154*	*349*	*503*	*1,997*
Performance bond	*3,542*	*1,401*	*4,943*	*3,257*
Indemniity	*6*	*269*	*275*	*533*
Other	*6,079*	*7,911*	*13,990*	*8,190*
Total	***15,111***	***16,111***	***31,223***	***23,584***

"Other operating costs" mainly include the expenses involved in the stipulation of contracts, both relating to works acquired and to other types of contracts (financial, insurance, consultancy, etc.), and the costs incurred for participation in Italian and international tenders. "Other operating costs" include the costs involved in closing branches.

"Other financial income" is made up as follows:

Financial income	***2018 (Annual)***	***2017 (Annual)***
Interest income - customers	*383*	*576*
Interest income – banks	*489*	*348*
Other income	*869*	*1,407*
Total	***1,741***	***2,331***

"Income from investments in subsidiaries" mainly concerns, for Euro 2,838 thousand, the interest on receivables due from CMC Africa Austral Lda in Mozambique.

"Other financial charges" are made up as follows:

Other financial charges	***2018 (Annual)***	***2017 (Annual)***
Interest expenses – banks	*14,656*	*15,505*
Interest expenses – bond	*33,846*	*31,164*

Bond charges	*26,977*	*1,968*
Guarantee charges	*5,137*	*5,247*
Other financial cost	*9,872*	*3,654*
Interest expense in member' loan	*113*	*164*
Interest expense – other providers of finance	*442*	*211*
Total	***91,043***	***57,913***

The balance of other financial charges increased by 33,130 thousand, mainly as a result of expensing the cost involved in issuing the bonds, the revolving credit facility and commissions, which were amortised over the duration of the credit lines.

Details of the "Adjustments to financial assets" are given in the following table:

Adjustment to financial assets and liabilities	***2018 (Annual)***	***2017 (Annual)***
Revaluation financial assets		
C.F.C. JV - FILIPPINE		205
CMC ITD SONG DA JV - LAOS		5,478
CMC OTESA JV - NAMIBIA		4,894
G.E.D. S.R.L.		199
OTHERS		-
TOTAL	**-**	***10,776***
Write-down financial assets		
EMPEDOCLE 2 S.C.P.A.	(28,650)	
CMC IMMOBILIARE S.P.A.	(19,717)	
VAL DI CHIENTI S.C.P.A.	(19,600)	
CMC AFRICA AUSTRAL LDA	(25,602)	(7,277)
BOLOGNETTA S.C.P.A.	(19,000)	
CMC HOLDING OVERSEAS SPA	(12,100)	(380)
CMC ITD SONG DA JV - LAOS	(9,401)	
CMC OTESA JV - NAMIBIA	(7,844)	
CMC BOMAR - ZAMBIA	(4,519)	(1,079)
INIZIATIVE IMMOBILIARI SICILIANE SRL	(3,414)	(149)
ALVISI S.R.L.	(2,292)	
CMC EMBASSY S.R.L.	(1,663)	
G.E.D. S.R.L.	(1,278)	
CMC DI RAVENNA FRANCE SARL	(1,245)	(145)
S.I.C.-SOC.ADRIATICA IMPIANTI E CAVE SPA	(782)	(318)
IGEI S.P.A. IN LIQUIDAZIONE	(744)	
FDA S.R.L. IN LIQUIDAZIONE	(652)	
GRANAROLO IMMOBILIARE S.P.A.	(605)	(106)
COOPERATIVA SERVIZI CULTURA	(574)	
LMH CMC JV 04 MBTA (USA)	(520)	(122)
OTHERS	(1,687)	(1,284)
TOTAL	***(161,889)***	***(10,860)***

For a comment on the write-downs of equity investments, please refer to the explanation in the section on "Equity investments".

Income taxes

"Current and deferred income taxes" of € 26,936 thousand, include € 6,400 thousand of current taxes, € 613 thousand of taxes relating to previous years and € 19,923 thousand of deferred taxes.
Considering the negative result recorded in the 2018 financial statements, which determines a loss also from a tax point of view, no provision for Italian taxes (IRAP and IRES) has been made, whereas provisions have been made for the various foreign branches, based on their local financial statements, for a total of € 6,163 thousand, net of deferred taxes.
The amount of € 19,923 thousand mainly refers to the prudent "write-down" of the deferred tax assets existing at 31/12/2017 of € 22,501 thousand, as reported also in the section on "Deferred tax assets". As regards branch taxes, please refer to the comments on tax receivables and payables.

Remuneration of directors, board of statutory auditors and independent auditors

The Directors who are also cooperative members have waived their remuneration per the Membership Regulations, while the other Directors have received total remuneration of Euro 6 thousand.
For 2018, the Cooperative's Board of Statutory Auditors received total remuneration of Euro 62.4 thousand, duly booked to the income statement.
The independent auditors received fees in 2018 of Euro 128.1 thousand for the audit of the statutory and consolidated financial statements of the Cooperative and a fee of Euro 15.5 thousand for the accounting control.

ATTACHMENTS

- STATEMENT OF CHANGES IN INTANGIBLE FIXED ASSETS
- STATEMENT OF CHANGES IN TANGIBLE FIXED ASSETS
- STATEMENT OF CHANGES IN FINANCIAL FIXED ASSETS
- MEASUREMENT OF DERIVATIVES
- INFORMATION PURSUANT TO EX ART. 2427 N. 22 C.C. (ITALIAN CIVIL CODE)
- RECEIVABLES AND PAYABLES DUE FROM/TO SUBSIDIARY AND ASSOCIATED COMPANIES
- STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
- INFORMATION EX ART. 2427 CC N. 7 BIS (RESERVES)
- CERTIFICATE OF PREVALENCE
- INFORMATION REQUIRED FOR THE PAYMENT OF THE REBATE, PURSUANT TO TO ART. 2545-SEXIES OF THE ITALIAN CIVIL CODE

STATEMENT OF CHANGES IN INTANGIBLE FIXED ASSETS

		plant and expansion costs	Industrial patent	Concessions licenses and trademarks	Asset in process of formation and advance payments	Contracts' deferred charges	Total
December 31, 2017							
Cost		0	11,185	13	1,355	1,649	14,202
Acc. Amortization		0	(10,168)	0	0	(1,547)	(11,715)
Net book Value		**0**	**1,017**	**13**	**1,355**	**102**	**2,487**
Movements 2018							
Increases	Cost	0	1,579	0	0	0	1,579
Decreases	Cost To dare	0	0	0	(1,052)	1	(1,051)
	Amortization	*0*	0	(15)			(15)
Amortization		0	(691)	(5)	0	(103)	(799)
Exchange and Recl. difference		0	0	0	0	0	0
December 31, 2018							
Cost		0	12,764	13	303	1,650	14,730
Acc.Amortization		0	(10,859)	(20)	0	(1,650)	(12,529)
Net book value		**0**	**1,905**	**(7)**	**303**	**0**	**2,200**

STATEMENT OF CHANGES IN TANGIBLE FIXED ASSETS

	Land and buildings	*Plant and machinery*	*Industrial and Commercial equipment*	*Other assets*	*Construction in progress and advance*	*Total*
December 31, 2017						
Cost	10,653	120,432	48,169	44	19,673	198,971
Acc. Depreciation	(735)	(70,991)	(32,007)	-	-	(103,733)
Net book value	**9,918**	**49,441**	**16,162**	**44**	**19,673**	**95,238**
Movments 2018						
Cost increase	0	8,220	6,158	84	13,790	28,252
Cost decrease	(831)	(438)	(999)	-	(1,619)	(3,887)
Write-down	(18)	(13,830)	(11,100)		(15,706)	(40,654)
Depreciation	(49)	(18,803)	(3,904)	-	-	(22,756)
December 31, 2018						
Cost	9,822	128,214	53,328	128	31,844	223,336
Acc. Write-down	-18	(13,830)	(11,100)		(15,706)	(40,654)
Acc. Depreciation	(784)	(89,794)	(35,911)	0	0	(126,489)
Net book value	**9,020**	**24,590**	**6,317**	**128**	**16,138**	**56,193**

STATEMENT OF CHANGES IN FINANCIAL FIXED ASSETS

	December 31, 2018	**Revaluation (Devaluation)**	**Other**	***December 31, 2017***
Investment in:				
- subsidiaries	191,428	(7,050)	7,183	191,295
- associated	22,951	0	0	22,951
- other	40,710	(10)	(7,471)	48,191
Investment write-off	(154,952)	(154,446)	0	(506)
	100,137	**(161,506)**	**(288)**	**261,931**
Financial credit	176,128	0	(25,284)	201,794
Total	***276,265***	***(161,506)***	***(25,572)***	***463,725***

MEASUREMENT OF DERIVATIVES

Contract	Net Amount 12/31/2018	Interest rate - Exchange rate	Expiry Date	MARK TO MARKET (€/000) Posit.	Negat.	Net
Interest rate derivates						
Irs Forward Start	2,700	Euribor 6 months	02/05/2019	0	(22)	(22)
Irs Forward Start	357	Euribor 3 months	03/31/2019	0	(1)	(1)
Irs Forward Start	40,000	Euribor 3 months	12/31/2019	0	(118)	(118)
Total	**55,550**			**0**	**(141)**	**(141)**

INFORMATION PURSUANT TO EX ART. 2427 N. 22 C.C. (ITALIAN CIVIL CODE)

	2018 Amount in Euro/000
a) Assets	
Current contracts	
Goods on financial lease at the end of the previous financial year, net of overall depreciation.	34,159
+ Goods purchased on financial lease during the year	7,697
- Goods on financial lease redeemed during the year	-
- Depreciation of the year	(12,624)
+/- Value adjustment/recovery for goods on financial lease	-
Goods on financial lease at the end of the year, net of overall depreciation	**29,232**
b) Liabilities	
Debts incurred for financial leasing operations at the end of the previous financial year	25,002
+ debts incurred during the year	6,542
- Repayment of capital shares and redemptions during the year	(11,123)
Debts incurred for financial leasing operations at the end of the year	**20,421**
c) Overall gross effect at the end of the year (a-b)	8,811
d) Fiscal effect	-
e) Effect on net financial standing at the end of the year (c-d)	8,811
The effect on the Profit and Loss Account can be represented as follows	
Rent offset for financial leasing operations	11,228
Financial expenses entries for financial leasing operations	(813)
Entries for:	
- Depreciation rates:	
- on current contracts	(12,624)
- on redeemed goods	-
- Value adjustment/recovery for goods on financial lease	-
Effect on pre-tax result	**(2,209)**
Fiscal effect entry	-
Effect on year-end result of the entries for leasing operations calculated according to the financial method	**(2,209)**

RECEIVABLES AND PAYABLES FROM/TO SUBSIDIARY COMPANIES

Receivables / Payables – Subsidiary companies	*Financial Receivables*	*Trade Receivables*	*Financial Payables*	*Trade payables*	*Total 2018*	*Total 2017*
Acquapura Scrl	*1,309*	*1,307*	*-*	*(3,069)*	*(453)*	***361***
ACR Srl	*-*	*-*	*-*	*-*	*-*	***834***
Alvisi Srl	*157*	*365*	*(80)*	*-*	*442*	***421***
Ancona Newport Scrl	*-*	*103*	*-*	*(186)*	*(83)*	***200***
Ausa Scrl	*-*	*1,256*	*-*	*(3,274)*	*(2,019)*	***(1,181)***
Autostrada SARC 3 Scrl	*-*	*-*	*-*	*-*	*-*	***-***
BE Infrastrutture Srl	*-*	*865*	*-*	*(904)*	*(39)*	***(29)***
Bolognetta Scpa	*-*	*14,916*	*-*	*(39,230)*	*(24,314)*	***(38,845)***
C.F.C. JV	*-*	*224*	*(99)*	*-*	*125*	***58***
Cedir Scrl (in liquidazione)	*39*	*251*	*-*	*-*	*290*	***290***
CMC Africa Austral Lda	*73,003*	*72,845*	*-*	*(98,480)*	*47,368*	***59,450***
CMC Algerie Eurl	*3,248*	*670*	*-*	*(3,494)*	*423*	***554***
CMC Bomar JV	*465*	*53*	*-*	*(2,436)*	*(1,918)*	***(2,263)***
CMC Botjheng JV	*37,209*	*5*	*(19,747)*	*(12,635)*	*4,832*	***6,433***
CMC di Ravenna - Impregilo - PG Mavundla JV	*-*	*32,430*	*-*	*(32,843)*	*(413)*	***(9,469)***
CMC di Ravenna France Sarl	*105*	*-*	*-*	*(316)*	*(211)*	***(222)***
CMC di Ravenna Mota-Engil JV (Liwonde-Naminga)	*-*	*-*	*(821)*	*-*	*(821)*	***(708)***
CMC Embassy Srl	*1,737*	*213*	*-*	*-*	*1.950*	***1,724***
CMC Engoa Groupement	*-*	*25*	*-*	*(1)*	*24*	***(1,518)***
CMC GRC JV	*-*	*2,164*	*-*	*(442)*	*1,723*	***1,122***
CMC Holding Overseas Spa	*67*	*74*	*-*	*(18)*	*123*	***110***
CMC Immobiliare Spa	*-*	*2,063*	*-*	*(6,040)*	*(3,978)*	***(3,804)***
CMC ltd Song Da JV	*-*	*555*	*-*	*(180)*	*375*	***1,087***
CMC Itinera Kenya JV	*0*	*577*	*(6,800)*	*(12,084)*	*(18,307)*	***2,231***
CMC Malaysia Sdn Bhd	*732*	*75*	*-*	*(693)*	*115*	***105***
CMC Mavundla Eastern Basin JV	*-*	*4,307*	*-*	*(4,404)*	*(97)*	***(477)***
CMC NY Construction Llc	*6,873*	*149*	*(6)*	*(13)*	*7,003*	***6,987***
CMC OTESA JV	*-*	*3,992*	*-*	*(393)*	*3,599*	***2,635***
CMC Razel JV	*3,261*	*-*	*-*	*-*	*3,261*	***3,254***
CMC Swaziland (Pty) by pass	*-*	*14*	*-*	*(68)*	*(55)*	***(53)***
CMC Tamega JV	*-*	*-*	*-*	*-*	*-*	***-***
CMC Tecrover	*-*	*2,647*	*-*	*(297)*	*2,350*	***2,076***
CMC USA Inc.	*-*	*-*	*-*	*(1)*	*(1)*	***(1)***
CMC Wbho JV	*-*	*-*	*-*	*(2)*	*(2)*	***(1,985)***
Colfiorito Scrl	*-*	*734*	*-*	*(10,902)*	*(10,167)*	***(15,089)***
Conero Scrl	*-*	*1,030*	*-*	*(3,036)*	*(2,006)*	***(889)***
Consorzio Nazionale Servizi	*-*	*366*	*-*	*-*	*366*	***366***
Cooncrete Finance Srl	*-*	*94*	*-*	*(342)*	*(248)*	***24***
Cooptre Scrl	*-*	*-*	*-*	*-*	*-*	***-***
Empedocle 2 Scpa	*-*	*134,695*	*-*	*(191,400)*	*(56,705)*	***(50,887)***
Empedocle Scpa	*-*	*93,349*	*-*	*(114,306)*	*(20,957)*	***(19,375)***
Esino Scrl (in liquidazione)	*-*	*-*	*-*	*-*	*-*	***-***

Fontana Nuova Scrl	-	*94*	-	*(52)*	*42*	***41***
G.T.R.E.K. Groupement CMC di Ravenna	-	*199*	-	-	*199*	***252***
Ged Srl	-	*1,134*	*(44)*	*(12,429)*	*(11,340)*	***(6,430)***
Ghilina Scrl (in liquidazione)	-	*1*	-	-	*1*	***1***
Groupement G.R.I.E.A.	-	*3,043*	-	-	*3,043*	***6,180***
Gruppo Immobiliare Srl	*936*	*1,887*	-	-	*2,823*	***2,903***
Iniziative Imm.ri Siciliane Srl	-	*669*	-	*(3,177)*	*(2,508)*	***(269)***
Iper Tre Ravenna Scrl	-	*562*	-	*(593)*	*(31)*	***(804)***
Italia 61 Scrl	*8,825*	*25,685*	-	*(46,955)*	*(12,444)*	***(17,285)***
JV CMC/CCC	-	*20,462*	-	*(15,050)*	*5,412*	***8.272***
La Quercia 2 Scrl	-	*94*	-	-	*94*	***94***
Le Vigne Scrl	-	-	-	-	-	-
Letimbro Scrl	-	*5,941*	-	*(23,434)*	*(17,493)*	***(15,760)***
LM Heavy Civil Construction Llc	*1,618*	-	*(437)*	*(81)*	*1,100*	***829***
LMH CMC USA JV	-	*186*	-	-	*186*	***186***
Lovon Samverkan AB	-	-	-	-	-	***8***
Macrodue 2002 Scrl	-	-	-	-	-	-
Mazara Hospital Scrl	-	*397*	-	*(282)*	*115*	***157***
Montefiore Scrl	-	*448*	-	*(1,457)*	*(1,009)*	-
Norte Scrl	*521*	*1,495*	-	-	*2,015*	***2,079***
Ospedale dei Castelli Scrl	-	*2,143*	-	*(3,863)*	*(1,720)*	***(1,702)***
Padiglioni Expo Scrl	-	*32*	-	*(31)*	*1*	***228***
Polis Trento Scrl (in liquidazione)	-	*1*	-	-	*1*	***1***
Ravenna Tunnel Scpa	-	*263*	-	*(382)*	*(119)*	***(104)***
Side Investment Pty Ltd	*4,468*	*1,308*	*(107)*	*(2,669)*	*3,000*	***3,555***
Sidebar Manufacturing Pty Ltd	*3,153*	-	-	-	*3,153*	***4,192***
Società Adriatica Impianti e Cave Spa	*3,144*	*3,440*	-	*(1,670)*	*4,915*	***4,407***
Solarmaas Srl	-	*7*	-	-	*7*	***7***
Sulbrita Lda	*1,389*	*1,146*	*(217)*	*(980)*	*1,337*	***2,113***
Triclinio Scrl	-	-	-	-	-	-
Villamarina Scrl	-	*345*	-	*(700)*	*(355)*	***(342)***
TOTAL	**152,259**	**443,392**	**(28,357)**	**(655,293)**	**(87,999)**	**(63,664)**

RECEIVABLES AND PAYABLES FROM/TO ASSOCIATED COMPANIES

Receivables / Payables – Associated companies	*Financial Receivables*	*Trade Receivables*	*Financial Payables*	*Trade Payables*	*Total 2018*	*Total 2017*
ACR s.r.l.	-	645	-	-	**645**	**-**
Antares Scrl	-	446	-	-	**446**	**330**
Arabia Saudita JV	1,201	-	-	-	**1,201**	**1,201**
Autostrade Romagna 1 Scpa	-	-	-	(350)	**(350)**	**(347)**
Baglio la Camperia Spa	70	-	-	-	**70**	**70**
CMC ltd Song Da JV	-	284	-	-	**284**	**671**
Colispa Scrl (in liquidazione)	-	-	-	(21)	**(21)**	**(21)**
Consorzio C.G.L. (in liquidazione)	-	1	-	-	**1**	**1**
Consorzio Costruttori TEEM	-	-	-	-	**-**	**2,799**
Consorzio JV CB	65	135	-	(6)	**194**	**214**
Consorzio Lybian Expressway Contractors	-	-	-	(7)	**(7)**	**(7)**
Constructora Nuevo Maipo SA	-	135	-	(114)	**21**	**26,077**
Elaion Scrl	30	652	-	(336)	**346**	**296**
Eurolink Scpa	-	-	-	-	**-**	**1,561**
Fda Srl	-	-	-	(141)	**(141)**	**(138)**
Gammon CMC JV	-	-	-	-	**-**	**-**
Granarolo Immobiliare Spa	100	6	-	-	**106**	**106**
Habitur	-	-	-	-	**-**	**-**
Holcoap Spa	-	-	-	(57)	**(57)**	**(57)**
Itaca Scrl	-	133	-	(92)	**41**	**65**
ITARE Srl	-	2	-	-	**2**	**29**
LMH CMC JV04	-	-	-	(183)	**(183)**	**(183)**
Lodigiani-CMC Malaysia Sdn Bhd	792	33	-	-	**825**	**825**
Lovon Samverkan AB	1,870	277	-	-	**2,147**	**838**
Mirandola Scrl	-	154	-	(128)	**26**	**28**
Molfetta New Port Scrl	-	3,638	-	(2,319)	**1,319**	**408**
Opera 2 Scrl	-	-	-	-	**-**	**-**
Opera 3 Scrl	-	31	-	(22)	**9**	**10**
PACO Srl	-	-	(8)	-	**(8)**	**(18)**
Passante di Mestre Scpa	-	-	-	-	**-**	**(51)**
Piombone Scrl	-	-	-	(69)	**(69)**	**(69)**
Pizzarotti-CMC Ra Sep	-	-	-	(16)	**(16)**	**(16)**
Rodano Scrl	-	1	-	(14)	**(13)**	**643**
S.C.S. Consulting Spa	-	-	-	(5)	**(5)**	**(5)**
Sistema 2 Scrl	-	57	-	(8)	**49**	**54**
Sistema 3 Scrl	-	2,426	-	(3,499)	**(1,073)**	**(195)**
Trento Tre Scrl	81	2,949	-	(4,184)	**(1,154)**	**(1,062)**
Under Water Anchors Srl	96	3	-	-	**99**	**91**
Val di Chienti Scpa	-	15,310	-	(30,825)	**(15,515)**	**(12,918)**
Venaus Scrl	4,954	1,494	(478)	(4,331)	**1,639**	**2,686**
TOTAL	**9,260**	**28,811**	**487**	**46,727**	**(9,143)**	**23,916**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	SHARE CAPITAL	LEGAL RESERVE	OTHER RESERVES	NET PROFIT	EQUITY
YEAR END 2017	**25,203**	**86,985**	**18,243**	**1,770**	**132,201**
Share capital					
- new subscription	37	-	-	-	37
- additional subscription	-	-	-	-	-
- ristorni	467	-			467
- paid off	(8.698)	-	-	-	(8.698)
Allocation of net income:					
- revaluation of share capital	282	-	-	-282	-
- legal reserve	-	531	-	-531	-
- extraordinary reserve	-	-	904	(904)	-
- conversion reserve		-	(2.229)	-	(2.229)
- dividicends	-	-	-		-
- matual fund	-	-	-	-53	-53
ex. Art. 2426 C.C. co.1, n.4	-	-	-	-	-
Net profit of the period	-	-	-	(1.674.425)	(1.674.425)
December 31, 2018	**17.291**	**87.516**	**16.918**	**(1.674.425)**	**(1.552.700)**

INFORMATION EX ART.2427 CC N. 7 BIS

Description	*Balance as at December 31, 2018*	*Distributable*	*Distributable Quota*	*Application in the last 3 years*	
				to cover losses	*other*
Share capital					
- Share capital	17,291	-	-	-	-
Reserves					
- Legal reserve	87,516	B	-	-	-
- Extraordinary reserve	32,048	B	-	-	-
- Conversion reserve	(22,289)	-	-	-	-
- Riserve ex art. 2426 c.c. co. 1, n. 4	7,159	A, B	-	-	-
- Valuation reserve for foreign currency assets and liabilities	-	B	-	-	-
Total	**121,725**	**-**	**-**	**-**	**-**

Legend:
A: for increase in capital
B: to cover losses
C: for distribution to the members

Pursuant to art. 56 of the current Articles of Association, the "Legal reserve" is not distributable and cannot be divided among the members during the life of the Cooperative nor upon winding up.

The "Extraordinary reserve" includes the portion of profits of the Cooperative subject to taxation, as required by the tax reform introduced by the new Consolidated Act currently in force.

The "Currency translation reserve" reflects the net effect of the conversion on the basis of current exchange rates at the end of the year of the balance sheet and income statement figures relating to the permanent organizations abroad that adopt multi-currency accounting.

The “Reserve ex art. 2426 Italian Civil Code paragraph 1.4” includes the impact of accounting for investee companies under the equity method, as mentioned previously.

The “Valuation reserve for foreign currency assets and liabilities” incorporates the difference between the positive and negative exchange rate adjustments relating to the previous year, of a non-distributable nature as it consists of gains that have not yet been realized, but can be used to hedge losses.

CERTIFICATE OF PREVALENCE PURSUANT TO ARTICLES 2512 AND 2513 OF THE ITALIAN CIVIL CODE

In 2018 the Cooperative respected all the subjective requirements, but not the objective prevalence conditions referred to in art. 2513 of the Italian Civil Code, with a percentage of activity carried on with members equal to 33.42% of the overall activity. The technical peculiarities of the prevalence condition for 2018 are analysed below.

To verify the status of a "Cooperative with prevailing mutuality", reference has to be made to three types of requirements:

- the existence - already from 2004 - of the subjective conditions referred to in article 2514 of the Italian Civil Code, adaptation of the articles of association by the 31 March 2005 deadline, as required by article 223-duodecies of the implementation provisions of the Italian Civil Code;
- registration (by 31 March 2005) in the Register of Cooperative Companies, held at the Ministry of Productive Activities, in the appropriate section of cooperatives with prevailing mutuality;
- the existence of the objective mutual exchange conditions prevailing with the cooperative members (article 2513 of the Italian Civil Code) as measured by the income statement for the year.

With reference to the first requirement, at the Extraordinary Shareholders' Meeting on 27 November 2004, the Cooperative amended its Articles of Association in compliance with the new regulations implemented by legislative decree no. 6/2003 comprising those set out in article 2514 of the Italian Civil Code.

With regard to the second requirement, our Cooperative is registered in the Register of Cooperative Companies in the section of cooperatives with prevailing mutuality, under number A108053, category of Production and Work Cooperatives, as prescribed by article 2512 last paragraph of the Italian Civil Code.

For the purpose of calculating the prevalence indicated in the third and final point, and of the specific preparatory need for the division of the cost of labour relating to the work of the members with respect to that recorded for third parties, in accordance with the requirements of article 2513, paragraph 1 letter b) of the Italian Civil Code, the following comparisons were made:

- as regards subordinate employment relationships, to the comparison of the cost attributable to members accounted for separately using payrolls and any other document required by current legislation relating to employee members, as noted in item B9) Personnel costs of members, referred to in letters a), b), c), d) and e), with respect to the total of item B9 of the income statement;
- as regards self-employment relationships and services for collaborators, no comparison was made as the articles of association of our Cooperative expressly provide in article 11 paragraph 1.d) "Individuals who at the time of submission of the application for admission are to all intents and purposes hired at the Company's registered office in Ravenna with an open-ended employment relationship".
- as regards the cost of workers who are non-members, we separated those of foreign nationality employed in local foreign businesses. Decree of the Ministry of Productive Activities of 30 December 2005, in fact, specifies, in derogation from the criteria for defining the prevalence referred to in art. 2513 of the Italian Civil Code, that "in work cooperatives - for the sole purpose of calculating the prevalence - the personnel cost (B9) is not calculated for the labour costs of non-member workers of foreign nationality employed in activities carried on by the cooperative outside the borders of the Italian Republic".

Therefore, the prevalence condition is documented, with reference to the provisions of article 2513 of the Italian Civil Code, paragraph 1.b), from the relationship between the following accounting figures:

		2018 (Annual)	2017 (Annual)
B9) – Personnel	Euro	114,445,214	121,148,017
B13) – Other cost	Euro	0	621,274
Less overseas personnel	Euro	(36,199,877)	(36,941,104)
Net labour cost	**Euro**	**78,245,337**	**84,828,187**
Members cost	**Euro**	**25,979,008**	**28,818,837**
Result		**33.20%**	**33.97%**

The cost of the members is therefore less than 50% of the total labour cost referred to in art. 2425 of the Italian Civil Code, determining, for the fifth consecutive year, a failure to achieve the "objective" prevalence conditions (the activity carried on with members represents 33.20% of the overall activity) and therefore, pursuant to art. 2545 octies of the Italian Civil Code the loss of the status of cooperative with prevailing mutuality.

With the approval of the financial statements as at 31 December 2015, the Cooperative had lost the status of cooperative with prevalent mutuality since neither in 2014 nor in 2015 reach the objective prevalence parameters envisaged in art. 2513 of the Italian Civil Code.
Having issued financial instruments, the Cooperative was therefore required to draw up the extraordinary financial statements referred to in paragraph 2 of art. 2545 octies of the Italian Civil Code.
The financial statements have been prepared with reference date 31 December 2015 as indicated in the circular of the Ministry of Productive Activities no. 648 of 13 January 2006 and approved by the shareholders' meeting of 16 September 2016.

INFORMATION REQUIRED FOR THE PAYMENT OF THE REBATE, PURSUANT TO TO ART. 2545-SEXIES OF THE ITALIAN CIVIL CODE

Given the loss in 2018, the possibility of allocating a bonus to the members was obviously not taken into consideration, as the profit requirement was missing.
For comparison purposes, however, the calculation for attribution of the bonus made the previous year is shown in the following table.

	2018	2017
Profit for the period		1,769,599
Increase		
Drawback		492,700
Decrease		
Financial activity variation		-
Overall margin		***2,262,299***
Shareholders cost		28,818,837
Personnel cost		121,769,291
Mutuala aid percentage		***23.67%***
Shareholders activity margin		**535,413**

Deloitte & Touche S.p.A.
Piazza Malpighi, 4/2
40123 Bologna
Italia

Tel: +39 051 65811
Fax: +39 051 230874
www.deloitte.it

INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND TO ARTICLE 15 OF THE LAW No. 59 OF JANUARY 31, 1992

To the Shareholders of
Cooperativa Muratori & Cementisti - C.M.C. di Ravenna Società Cooperativa
Via Trieste, 76
48122 Ravenna

and to **Lega Nazionale Cooperative e Mutue**
Ufficio Certificazioni

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Disclaimer of opinion

We have audited the financial statements of Cooperativa Muratori & Cementisti - C.M.C. di Ravenna Società Cooperativa (the Company), which comprise the balance sheet as at December 31, 2018, the statement of income and statement of cash flows for the year then ended and the explanatory notes.

We do not express an opinion on the financial statements of the Company due to the effects of the uncertainties described in the *Significant going concern uncertainty* paragraph of the *Reasons for Disclaimer of Opinion* section of this report, while considering the matters highlighted in the *Other findings* paragraph of the same section of this report.

Reasons for Disclaimer of Opinion

Significant uncertainties over the going concern assumption

In the paragraph of the Notes "Going-concern assumption subject to significant uncertainties", the Directors have disclosed the events that led to a situation of severe financial distress and resulted in filing a request, on December 4, 2018, for a bankruptcy procedure called "*concordato preventivo con riserva*" under Article 161(6) of R.D. 267/1942 ("Bankruptcy Law"). The Directors also disclosed how the financial problems had a significant impact on the Company's results and on its equity, mainly because of the stop of a significant portion of operating activities and the cancellation of several major contracts, including some still in progress. This is reflected in the financial statements as at December 31, 2018, which report a loss of Euro 1,674 million and a net deficit of Euro 1,553 million.

With a decree issued on June 12, 2019, the Court of Ravenna opened the bankruptcy procedure, which is based on a proposal for an arrangement with creditors, approved by the Board of Directors on December 12, 2019 ("Composition Proposal"), which provides for different percentages of satisfaction of the various classes of creditors, in the manner described in the Notes to the Financial Statements and which, if approved, would enable the losses reported in the financial statements as at December 31, 2018 to be fully covered.

The Directors stated that the possibility to continue to operate as a going concern reflected in the Composition Proposal is based on the expectation to generate cash flows in excess of current operating needs, that will be achieved through management of contract work in progress, the recovery of amounts relating to litigation with clients and the collection of troubled receivables, as well as through the disposal of certain assets. As disclosed in the Notes to the Financial Statements, the Commissioners appointed by the Court of Ravenna shall issue their report under the terms of Article 172 of the Bankruptcy Law, presumably by January 27, 2020, and the court has set March 11, 2020 as the new date for approval of the Composition Proposal by the creditors in accordance with Article 177 of the Bankruptcy Law.

The Directors described the significant uncertainties and the risks related to the crisis faced by the Company. Specifically, they disclosed that they relate to: (i) approval of the Composition by the creditors within the agreed deadline and its subsequent approval by the Court of Ravenna, (ii) the Company's ability to achieve the objectives set out in the Economic-Financial Plan ("EFP") for the period 2019-2024 in order to be able to proceed as envisaged by the Composition Proposal in terms of the satisfaction of privileged creditors, strategic suppliers and preferential creditors, in the manner set out in the Composition Proposal, (iii) the capacity of the Company to generate the cash flows indicated in the BP for a period of twelve months from the date of approval of the financial statements, which is based, in particular, on obtaining a credit facility of Euro 30 million, as necessary for a full relaunch of operating activities, and on respecting the timetable set out in the Composition Proposal for the collection of amounts relating to claims/litigation, so as to ensure that the Company is capable of fulfilling its obligations within this period.

The Directors also disclosed the reasons why, having assessed the above uncertainties, they decided to prepare the financial statements as at December 31, 2018 on a going concern basis. They have highlighted the fact that, in their opinion, the arrangement with creditors while the Company continues to operate is the best option for the creditors, and they have stated that the creditors' failure to approve the Composition Proposal and the resulting failure to obtain Court approval of the Composition with Creditors, would inevitably lead to a different bankruptcy procedure, that would see the Company cease to operate as a going concern and require significant adjustments to the carrying value of assets and the incurring of additional liabilities not reflected in the financial statements as at December 31, 2018.

The matters described above highlight the fact that the Company's ability to operate as a going concern is subject to many, significant uncertainties with potential interactions and possible cumulative effects on the financial statements.

Other findings

- The financial statements as at December 31, 2018 reflect a provision for risks and charges of around Euro 30 million, which has been accrued against the estimated costs to be incurred for management of the bankruptcy procedure, even though no actual obligations were in place at the reporting date. Consequently, no provision should have been made in the financial statements as at December 31, 2018 and, therefore, the loss for the period and the net deficit as at December 31, 2018 are overstated by around Euro 30 million, before the tax effect which is difficult to quantify at present.

- The financial statements as at December 31, 2018 include amounts relating to the accounting records of several branches (Nepal, Kuwait and Zambia) established in prior years, in order to carry out some contracts. As disclosed in the Notes, the Company decided to abandon its operating activities in the countries covered by these branches and transferred the bookkeeping to another location. The relationship with the audit firm, which had been appointed has been terminated. Consequently, as we have been unable to perform alternative procedures, we are unable to conclude on the correctness of the amounts recorded under the various financial statement captions in connection with the above branches, as disclosed in a schedule included in the Notes to the Financial Statements.

- During our work, we did not receive a response from most of the banks to our request for information about their relations with the Company, nor did we receive a response to our request for information as sent to a number of legal advisors. Such responses would have provided to us evidences supporting the analysis made by the Company Management in relation to legal claims against the Company and the risk of enforcement of guarantees issued by third parties on behalf of the Company and the related probability. Consequently, although we have obtained the documentation supporting the estimates and analysis performed by the Company Management, the lack of the above responses prevents us to conclude on the completeness of the amounts allocated to the provisions for risks and charges in the financial statements as at December 31, 2018, as detailed in the Notes thereto.

We have performed our audit in compliance with international standards on auditing (ISA Italia). Our responsibility under those standards is described in more details in the *Auditors' Responsibility for the Audit of the Financial Statements* section of this report. We are independent of the Company in accordance with regulations and standards on ethics and independence applicable under Italian requirements for the audit of financial statements. Nonetheless, as a result of the matters described in this section, we have been unable to form an opinion on the Company's financial statements.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

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

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going bconcern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

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

As part of an audit, in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Disclaimer of opinion pursuant to Art.14 par.2 (e) of Legislative Decree 39/2010

The Directors of Cooperativa Muratori & Cementisti - C.M.C. di Ravenna Società Cooperativa are responsible for the preparation of the report on operations of Cooperativa Muratori & Cementisti - C.M.C. di Ravenna Società Cooperativa as at December 31, 2018, including its consistency with the related financial statements and its compliance with the law.

We have carried out the procedures set forth in Auditing Standard (SA Italia) no. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of Cooperativa Muratori & Cementisti - C.M.C. di Ravenna Società Cooperativa as at December 31, 2018 and on its compliance with the law, as well as to make a statement about any material misstatements.

Given the importance of the matters described in the *Reasons for disclaimer of opinion* section of the Report on the Audit of the Financial Statements, we are unable to express an opinion on the consistency of the report on operations with the financial statements of Cooperativa Muratori & Cementisti - C.M.C. di Ravenna Società Cooperativa as at December 31, 2018 and on its compliance with the law, as well as to make a statement in terms of Article 14(2)(e) of Legislative Decree 39/2010 on the basis of the knowledge and understanding of the business and related environment obtained in the course of the audit.

Compliance with legal requirements and the articles of association on the matter of cooperation

The Directors are responsible for compliance with legal requirements and the articles of association on the matter of cooperation and, specifically, with the requirements contained in Articles 4, 5, 7, 8, 9 and 11 of Law no. 59 of January 31, 1992, where applicable, as well as with statements made in terms of Article 2513 of the Italian Civil Code.

As required by the Decree of the Ministry of Economic Development dated November 16, 2006, we have verified the Company's compliance with the abovementioned requirements for the year ended December 31, 2018.

DELOITTE & TOUCHE S.p.A.

Signed by
Alberto Guerzoni
Partner

Bologna, Italy
January 17, 2020

This report has been translated into the English language solely for the convenience of international readers.