SALCEF COSTRUZIONI EDILI E FERROVIARIE S.P.A.

REPORT ON OPERATIONS TO THE

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

Introduction

This Report, in conformity with the provisions laid down in art. 2428 of the Italian Civil Code, provides information on the Salcef Group and sets forth information pertaining to the operations and business outlook of the Group.

The Consolidated Financial Statements include the Financial Statements of the parent company Salcef Costruzioni Edili e Ferroviarie S.p.A. (hereinafter, also referred to as "Salcef Costruzioni", "Company" or "Parent Company"), and those of the other Italian and foreign investee companies, directly or indirectly controlled, adjusted to comply with the accounting principles applied by Salcef Costruzioni.

As at 31 December 2016 the companies included in the scope of the consolidation (hereinafter jointly referred to as "Group") are as follows:

- Salcef S.p.A., wholly-owned company, operating in the building and railway construction business;
- SRT S.r.l., wholly-owned company, engaged in routine and non-routine maintenance of Rolling Stock Machinery;
- RECO S.r.l, company wholly-owned by SALCEF, as a result of the acquisition of stakes from previous owners. It has been operating for many years in infrastructure engineering;
- Euro Ferroviaria S.r.l., wholly-owned company, operating in Italy in the construction and maintenance of railway superstructure works (permanent way);
- Salcef Polska S.p.Z.o.o., a wholly-owned company, established under Polish law, operating in Poland in the railway construction sector;
- Salcef Siegwart, company operating under Egyptian law, 75%-owned, operating in Egypt in the line of production of railway sleepers and products in concrete.

The other unconsolidated subsidiaries and associated companies, as described in detail in the Notes to the Consolidated Financial Statements which also provide motivations, have been valued at cost or by applying the Equity method, respectively.

Consolidated Production Value in 2016 amounted to 268 mln/Euros compared to 170 mln/Euros in 2015.

In terms of operating result, the Consolidated Financial Statements for the year ended 31 December 2016 closed with a net income, for the part pertaining to the Group, of 6.8 mln/Euros (3.15 mln/Euros in 2015).

Operating performance

2016 saw a considerable increase in the Salcef Group's business in terms of both output and the types of contracts undertaken in countries of operational and commercial interest.

The Parent Company has strengthened its presence in numerous foreign Countries whilst consolidating operations in

markets it was already operating in and considered strategic (Poland, Croatia, Egypt, Romania and Arab Emirates) and starting a new work contract in Saudi Arabia. In particular, during 2016 the company completed the procedures for the incorporation of Salcef S.p.A. Saudi Arabia Branch in the city of Riyadh, and works began on the construction of the Riyadh Metro Line 3, generating a considerable increase in turnover compared to 2015.

It should also be noted that Salcef S.p.A. also addressed foreign markets through the creation of a local branch. February 2016 saw the completion of the formalities for the incorporation of Salcef S.p.A. Roma Sucursala Bucuresti in the city of Bucharest (Romania), while work began for construction of the metropolitan permanent way for the new Bucharest Metro 5 line under contract from the Astaldi S.p.A. - FCC Construccion S.A. - UTI Grup S.A. - Activ Group Management S.r.l. Joint Venture.

With regard to work contracts assigned and executed in other countries, managed through local branches or subsidiaries, please note as follows:

- United Arab Emirates: construction of the railway line Shah-Abshan-Ruwais. In 2015, the Company completed the works referring to the contract, executing the entire route linking Ruwais to Abshan and the connection of the third hub of the site referred to as Shah. Therefore in 2016 the Company disposed of some of the plants owned locally, retaining only the equipment required to ensure the correct operation of the line constructed. The already launched tender procedures for the construction of further railway tracts which once operational are expected to enable the United Arab Emirates to employ an integrated railway network for the transport of goods and passengers, along with other tenders launched in Oman, Saudi Arabia and Qatar, have been suspended for reasons to do with the redefining of the expense and investment budgets of all the countries of the Arabian peninsula following the plunge in petrol prices.
- Egypt: Rehabilitation of the Cairo – Aswan line: the work contract consists in the rehabilitation of 200 km of the already existing railway line, increased to approx. 300 km. 2016 saw the completion of construction work on this contract, for a value of 8 mln./Euro (progress status 100%). Since the production of the sleepers required for renewal of the additional 100 km of railway requested by the Egyptian customer (ENR) was also completed, in May 2016 an agreement was reached with the partner Siegwart, a state-owned company registered in Egypt, for the sale of the factory with the adjoining plant, for a total of 3,250 thous./Euros.

  Also in Egypt, further to award of a new contract by the customer NAT – National Authority for Tunnel, relating to the construction of a railway depot at Kozzyka, the branch is to continue in operation, probably for the next three financial years. Work under this contract is scheduled to start at the end of 2017 and to continue for about two

years.

- Saudi Arabia: construction of Riyadh Line 3 Underground. In the month of November 2015 Salcef Costruzioni, as Leader of a Joint Operations set up between Salcef Costruzioni (60%) and the Saudi company Rhomberg Contracting Co. Ltd. (40%), was subcontracted for the design and construction of the underground superstructure for the new line 3 of Riyadh on behalf of Consorzio CWG, where Salini-Impregilo S.p.A. acts in the capacity of Leader. In July 2016, addendum no.1 to the original contract with Rhomberg Contracting Co. Ltd. was signed, increasing the holding of Salcef Costruzioni in the Joint Operation from 60% to 99.99%. Work began in 2016, with completion of phases for a value of 32 mln./Euro (progress made 28.93%).

On the other hand, with regard to the national context, the main consolidated companies through which the Group carries out the contracts awarded are Salcef S.p.A. and Euro Ferroviaria S.r.l., both wholly-owned by Salcef Costruzioni. In 2016, as in previous years, they developed most of their activity within the national territory in the execution of superstructure works (permanent way) almost exclusively on behalf of its key account Rete Ferroviaria Italiana S.p.A.. In the year, they consolidated their presence in the areas of greater interest, by acquiring long-term contracts for the routine and non-routine maintenance of permanent ways installations, electric traction and civil works/infrastructures.

The consolidated foreign companies, Salcef Polska S.p.z.o.o. and Salcef Siegwart, operated, though limitedly, not only with respect to direct contracts but also as strategic suppliers of raw materials.

Here follows a brief outline of the activities conducted in 2016 by each of the operational Divisions through which the Salcef group operates, and a description of prospects for the short term.

Superstructure works (permanent Way) Division

Responsible for maintenance, renewal and construction of permanent ways, intended as railway, tramway and underground superstructure work. This is a long-standing division of Salcef Costruzioni which employs the majority of employees and most of the high-performance and highly valuable rolling stock machinery.

The current contract portfolio of the division includes long-term contracts for routine and non-routine maintenance and, to a lesser degree, construction work, awarded by its key account Rete Ferroviaria Italiana S.p.A., and other clients which include ATAC S.p.A, Società Unica Abruzzese di Trasporto (TUA) S.p.A. and Strutture Trasporto Alto Adige S.p.A..

Technologies Division

This division is responsible for the execution of work in respect of contracts for electric traction, substations and railway signalling.

In 2016 the division increased its turnover due to the execution of works under new contracts involving the modification

of installations or the construction of new ones, in addition to its core business of routine and extraordinary maintenance works, mainly contracted by Rete Ferroviaria Italiana, and due to the continuation of contracts held by the former Tuzi Costruzioni Generali S.p.A. acquired further to the acquisition of this Corporate Division on 30 September 2015.

With the current work portfolio this division has secured, similarly to the permanent ways division, technologies and business continuity at least for the next three years with steady production levels.

Civil Engineering Works Division

The division is responsible for the execution of infrastructure construction and complex works, mainly in the railway sector.

The work in progress in this division, as well as its business-expanding marketing activity, is focused in the Centre-North regions of Italy and involves, for the most part, the execution of infrastructures on behalf of Rete Ferroviaria Italiana S.p.A. in respect of several contracts, and of other clients, such as:

- Società Unica Abruzzese di Trasporto (TUA) S.p.A. for the execution of non-routine maintenance work on rail tracks and track switches and related works for the Ferrovia Adriatico Sangritana;
- FERROVIENORD S.p.A. for the works to upgrade Paderno Dugnano station on the Milan-Seveso-Asso railway line.

The most sizeable jobs contracted out to the company on behalf of Rete Ferroviaria Italiana S.p.A. involve the previously mentioned construction of the railway link between Italy and Switzerland, along the Arcisate-Stabio route, and the doubling of the railway line Castelplanio-Montecarotto.

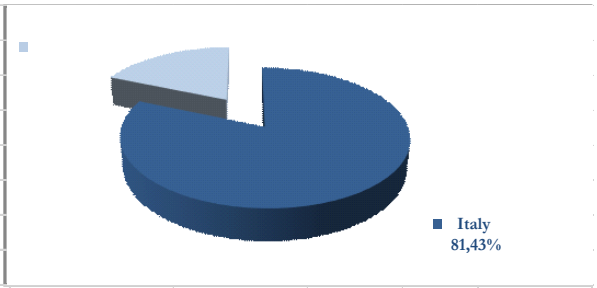
Engineering Division

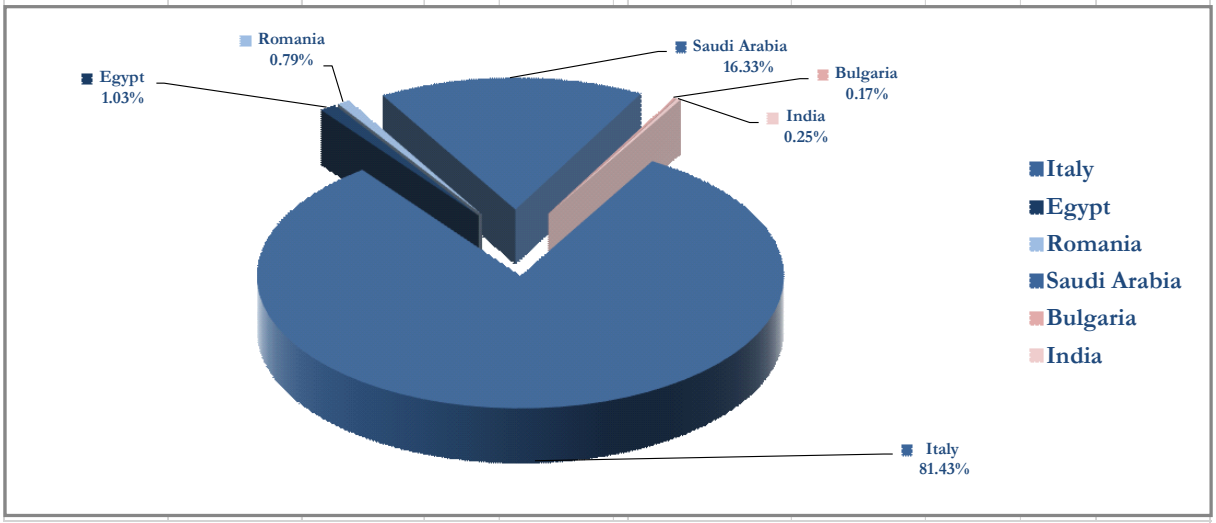
By way of completion, integration and support for the three divisions above-described, there is the engineering division which is responsible for all railway engineering activities. This division has been set up in the past few years in order to meet the increasing demand of external clients and the company's growing need for an efficient railway installation planning service. Following the acquisition of the 100% stake in Reco S.r.l. by Salcef Costruzioni, this division can truly be said to be well-established. It employs, on a permanent basis, about 20 employees all with different specialist skills; it provides assistance to the aforementioned operational divisions in the design and execution phases of the single contracts and in the essential preliminary phases to a project when taking part in tender procedures.

The Salcef Group's contracts portfolio, as at 31 December 2016, includes work for the rehabilitation and systematic maintenance of permanent ways (42.42%), infrastructural work and construction work in general (26.31%), as well as works in technologies lines (12.70%) as well as works currently being completed abroad (18.57%) by which business

operations relying on such operational structures as have been already set up and organized in the geographical areas of interest are secured; here below is a pie chart showing a breakdown of Salcef works portfolio by country as at 31 December 2016:

Division	Amount	%
Italy	451,383,529.91	81.43%
Egypt	5,737,074.90	1.03%
Romania	4,382,514.89	0.79%
Saudi Arabia	90,510,424.59	16.33%
Bulgaria	933,780.72	0.17%
India	1,380,000.00	0.25%
TOTAL	554,327,325.01	100%





With regard to the group's operating performance, here below are the main indices:

	31/12/2016	31/12/2015
(amounts in Euro/000)		
EBITDA	24,575	18,159
EBIT	16,617	8,499
EBITDA/Production	10%	11%
EBIT/Production	6%	5%
ROE	8%	4%

Note:
EBITDA: Difference between the Value of Production and Costs of Production, not including amortizations
EBIT: Earning before interest and taxes
Production: Algebraic sum of items A1 and A3 of Income Statement
ROE: Return on Equity

As the EBITDA, EBIT and ROE economic indicators provided above reveal, 2016 saw a considerable increase in production and profitability for the company's core business.

Here below are key financial ratios:

	31/12/2016	31/12/2015
(amounts in Euro/000)		
Net Working Capital (CCN)	32,163	62,237
Net Fixed Assets	39,786	44,087
Funds	(2,436)	(1,868)
Net Invested Capital (CIN)	69,513	104,457
covered by:		
PN	(88,632)	(85,843)
PFN	19,119	(18,613)

Notes:
CCN: Current assets, deferrals and accruals, current receivables net of current payables
PFN: Cash+cash equivalents+payables due to banks
CIN: Shareholders Equity and net Financial Position

With regard to investments in operating assets, the tangible fixed assets, consisting mainly of railway construction rolling stock, increased during the year by about 9,749 thous./Euros due to the acquisition of new machinery and the revamping of existing equipment. In particular, there was a net decrease in tangible fixed assets of 4,757 thous./Euro after deduction of amortisations of 7,087 thous./Euro for the financial year, due to the completion of some works abroad and the consequent disposal of buildings and plants.

Overall, the Company's financial situation is balanced as can be seen from the aforementioned ratios measuring the company's financial solidity.

The Group's companies are enrolled in the qualification registers set up by Rete Ferroviaria Italiana S.p.A. for the following works:

Salcef S.p.A.:

- Superstructure works (Permanent way) – unlimited amount;
- Electric traction – unlimited amount;
- Civil engineering works - unlimited amount;
- Railway signalling systems - up to 2,500,000 Euros;
- Substations - up to 2,070,000 Euros;

SRT S.r.l.:

- Maintenance of machinery - unlimited amount.

Euro Ferroviaria S.r.l.:

- Superstructure works (Permanent way) - unlimited amount.

RECO S.r.l.:

- Railway engineering services - up to 200,000 Euros;
- Track engineering services - up to 100,000 Euros;
- Tunnel engineering services - up to 100,000 Euros;
- Electric traction engineering services - up to 40,000 Euros;
- Design activities - up to 900,000 Euros.

The Parent Company, Salcef Costruzioni Edili e Ferroviarie S.p.A., is certified, for all the activities performed, under UNI EN ISO 9001 standards, for quality management purposes, and under ISO 14000 standards for environmental management purposes. Salcef S.p.A. is certified, for all the activities performed, under UNI EN ISO 9001 standards, for quality management purposes, under ISO 14000 standards for environmental management purposes, and under OHSAS 18000 for the safety and health management system.

Euro Ferroviaria S.r.l. is certified, for all the activities performed, under UNI EN ISO 9001 standards, for quality management purposes, under ISO 14000 standards for environmental management purposes and OHSAS 18000 for occupational health and safety management.

SRT S.r.l. is certified, for all the activities performed, under UNI EN ISO 9001 standards and is in possession of an ECM certificate for maintenance of rail vehicles.

RECO S.r.l. is certified, for all the activities performed, under UNI EN ISO 9001 standards.

With regard to the measures adopted in response to Italian Legislative Decree 231/2001 containing *"Legislation governing the administrative responsibility of the legal persons of companies and associations, including those without legal status",* Salcef Costruzioni, together with other Salcef Group companies (Salcef S.p.A. a Socio Unico; Euro Ferroviaria S.r.l.; Reco S.r.l. and SRT S.r.l.), considered and still considers it appropriate to increase their internal supervision of their operations, and to adopt Models of Governance in compliance with Legislative Decree 231/2001 and ISO-37001. To achieve this, in May 2017 PricewaterhouseCoopers, an international leader in corporate compliance, was contracted to update the risk assessment and monitoring system, to provide the basis for the complete review, implementation and updating of the Organisation, Management And Control Model (Governance Model) pursuant to Legislative Decree 231/2001, the Governance system and all company procedures, also with a view to compliance with the provisions of the ISO 37001 standard.

The consulting firm's activities will also concern the parent company Salcef Costruzioni, including its foreign branches, as well as the other Salcef Group companies, and will be concluded at the end of 2017 with various operating steps. On completion of these activities, the Company intends to obtain certification under ISO-37001 *"Anti-Bribery Management*

Systems", and it has already contracted the certifying body Kiwa Cermet Italia S.p.A. to manage this procedure.

With regard to human resources employed in the year, the Group performs its operations in full compliance with provisions of environmental law and health and safety at the workplace as well as applicable local laws.

This is a breakdown of the Group's workforce as at 31 December 2016:

Personnel 2016	Italy	Abroad	Total
Executives and managers	13	0	13
White-collar workers	158	62	220
Blue-collar workers	501	94	595
Apprentices	0	0	0
TOTAL	**672**	**156**	**828**

Performance of consolidated companies

Salcef S.p.A.

The Company, set up in November 2013, received in 2014 the business branch transferred by the parent company which operates in construction work and railways.

The year 2016 closed with a profit of 7,260 thous./Euros compared to 4,542 thous./Euros of the previous year, whereas the Value of production amounted to 200,358 thous./Euros compared to 107,326 of 2015.

The results are certainly encouraging, with an impressive increase in output and in the profitability of the company's core business.

The increase in production is the result of having more state funds available for investing in maintenance and rehabilitation projects in respect of existing railway systems and making new investments in railways, but mainly of the sizeable job contracted out to the company on behalf of Rete Ferroviaria Italiana S.p.A. in 2015 involving the construction of the railway link between Italy and Switzerland, along the Arcisate-Stabio route, expected to be completed by the end of next year.

During 2016, RFI continue to increase its projects to augment capacity on existing lines, making use of the good levels of public funds allocated for this purpose, and this is expected to continue during 2017. Most of the funds from this key account have been allocated to the main railroads, which make up the Company's core business in terms of maintenance work, therefore the increase in resources for maintenance and investments has had an entirely positive effect on the results generated by Salcef S.p.A. production which was able to employ its resources in terms of machinery and staff.

Euro Ferroviaria S.r.l.

This is the company of the group which operates in the permanent way (superstructure) sector, but with its focus on the Italian market.

The net profitability was around 11%, with an operating profit of 1,968 thous./Euros compared to 2,100 thous./Euros for the previous year, while the Value of Production was 38,513 thous./Euros compared to 46,896 thous./Euros in 2015.

The slight decrease in production is due solely to the reduction of the incidence of contracts relating to the construction of new railway permanent way, and especially the contract for the construction of the High Speed Rail Line between the cities of Brescia and Treviglio, while the number and size of the construction sites in operation for track maintenance and renewal on behalf of Rete Ferroviaria Italiana S.p.A. (also "RFI") were more or less stable compared to the previous financial year, and in any case higher, on average, than the trend of recent years.

Moreover, during 2017 this area of activity was organised with a new Operating Management for the Electric Railway Traction and Technological Works sectors, using the policy already adopted by the associated company Salcef S.p.A., which has been working in this sector for more than a decade. The underlying aim was to reinforce the Salcef Group's capacities in relation to the demand from the main customer RFI, and to establish a new operating organisation capable of increasing production in the specific sector concerned, also in view of the potential developments in this sector during the next three years, to be expected in view of RFI's business and investment plan.

RECO S.r.l.

This company, which operates in the field of design engineering, ended 2016 with a value of production of 1,458 thous./Euros, substantially in line with the previous year (1,754 thous./Euros).

Overall, Reco S.r.l. is financially sound, with a pre-tax profit of 196 thous./Euros and shareholders' equity of 592 thous./Euro.

SRT S.r.l.

This Company, set up in November 2013, owns all the assets which are destined to all of the following activities: designing, planning, construction and maintenance of rolling stock and other machinery; marketing and transformation of industrial products, finished and semi-finished products, in the railway sector, mechanical, electric and electronic industries, construction and installations; planning, construction, marketing, transformation, buying and selling of industrial products, finished and semi-finished products in general; transport, using the company's own means or the means of third parties, either on the company's behalf or that of third parties, on railway networks, roads, shipping routes, Italian and non-Italian, and the supply of integrated logistics services.

Almost all the operations in the year 2016 were carried out for the benefit of the companies of the Salcef group to which

SRT S.r.l. is bound under Framework Agreements for the routine and non-routine maintenance of all machinery.

The Company closed the year with a profit before tax amounting to 703 thous./Euros and a Shareholders' Equity, which is absolutely consistent with the company's objectives, amounting to 6,056 thous./Euros.

Salcef Siegwart

Salcef Siegwart ended 2016 with a value of production of 1,034 thous./Euros and an operating loss of 162 thous./Euros, having completed the production of railway sleepers (its core business) necessary for the renewal of the additional 100 km of railway requested by the Egyptian customer (ENR).

Salcef Polska Sp.z.o.o.

Salcef Polska Sp.z.o.o. ended 2016 with a value of production of 82 thous./Euros and a pre-tax loss of 201 thous./Euros, since it was no longer operational; the works awarded directly by the foreign customer Polish Railways (PKP) were completed in 2014 and the works awarded by Salcef Costruzioni Edili e Ferroviarie S.p.A. through the Polish branch through subcontracting agreements were completed in 2015.

Disclosure pursuant to art. 2428 of the Italian Civil Code

Research and development

The companies of the Group carried out no research and development activities in the year.

Secondary places of business

Please note that the companies of the Group have the following secondary places of business and local units:

State	Address	Type	Use
Poland	Warsaw, Via Lucka n. 15	Branch	Office
Romania	Bucharest, Str. BV. Decebal n. 17 – Blocco S – Sector 3	Branch	Office
Croatia	Zagreb, Uljca Ljudevita Gaja n. 55	Branch	Office
Egypt	Ard El Golf, Cairo - Flat No 4, 13 ELNozha Street	Branch	Office
Abu Dhabi	Abu Dhabi - Al Najda - Al Yasat Tower, Office 1202 PO BOX 108221	Branch	Office
Saudi Arabia	Riyadh - Olaya District, Al Nemer Center Building 2 - Office #304, PO BOX 57774	Branch	Office
Romania	Bucharest, Str. Bv. Decebal n. 17 Bloc S16, Sector 3	Branch	Office

Treasury shares and shares of controlling companies (entities)

The parent company does not possess shares or interests in controlling companies, either directly or through a corporate trust or a third party.

Treasury shares and shares of controlling companies purchased or disposed of in the yea

The companies of the Group have not purchased or sold treasury shares, nor shares or interests of controlling companies, not directly, nor through a corporate trust or a third party.

Relations with subsidiaries, associated companies, controlling companies and companies over which

parent companies exert control

With regard to operations carried out with related parties, please note that pursuant to art. 2427, paragraph 22-bis of the Italian Civil Code, in the year no significant operations have been carried out with related parties other than at arms' length, both in terms of "amounts involved", and in terms of reasons which led to the decision of entering into such operations, except where otherwise specifically mentioned in the Notes to the Financial Statements.

The breakdown of operations with related parties (unconsolidated companies) is shown here below:

FINANCIAL RELATIONS AS AT 31/12/2016	Financial assets	Trade receivables	Trade receivables	Payables payables
(Amounts in Euros/000)				
Unconsolidated subsidiaries				
Salcef Libya Joint Venture				
Salcef Mozambique Ltd.				
TOTAL	**0**	**0**	**0**	**0**
Associated companies				
Frejus S.c.a.r.l.		281	(35)	
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	353	1	(33)	
Consorzio Stabile Itaca S.c.a.r.l.		1,139	(97)	(4)
Tuzi Costruzioni S.r.l.	29		(15)	
TOTAL	**382**	**1,421**	**(180)**	**(4)**

OPERATING RELATIONS AS AT 31/12/2016	Revenues	Costs
(Amounts in Euros/000)		
Unconsolidated subsidiaries		
Salcef Libya Joint Venture		
Salcef Mozambique Ltd.		
TOTAL	**0**	**0**
Associated companies		
Frejus S.c.a.r.l.		(13)
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità		(9)
Consorzio Stabile Itaca S.c.a.r.l.		(57)
Tuzi Costruzioni S.r.l.		
TOTAL	**0**	**(79)**

Relations with subsidiaries and associated companies consist in trade relations for which costs which refer to consortia and other pooled companies have been charged back to one another.

Other information pursuant to art. 2428 of the Italian Civil Code

The Company is engaged in the maintenance, renewal and construction of superstructures (permanent way) and in the sector of infrastructures and civil engineering works, electric traction, mainly on behalf of Rete Ferroviaria Italiana S.p.A. and to a lesser degree third parties, Italian and foreign. The Company is not exposed to market risks owing to the fact that its key account is bound, under the services contract executed with the national Italian railways, to keep certain minimum maintenance levels on railway infrastructures and this also applies to external state clients managing railway

networks.

The Group is not exposed to risks of price variations for the work carried out since the valuable consideration for the work is pre-determined with clients by contract.

The Group is not exposed to significant risks of variations in financial flows since the trade relations it has in Italy are with clients whose financial solidity is guaranteed by the state and since the only contracts in relation to which it actually operates abroad are financed by the EU, the World Bank and Government Bodies.

The Company is not exposed to any significant price, credit or rate risks having, for this last type of risk mentioned, floating rate loans which enable the company to hedge against rate fluctuation risk.

The Group is exposed to risks tied to the fluctuation of the currencies in which it operates and does not make use of hedging instruments to cover for this risk since it is considered negligible.

It should also be noted that during October 2016 Agenzia delle Entrate – Direzione Regionale del Lazio – Settore Controlli Office Grandi Contribuenti ("Major Tax Payer" Office, Italian Inland Revenue) began a tax inspection of the accounts of Salcef Costruzioni. The inspection should be viewed as routine for the company which, having exceeded the threshold for consideration as a "Major Tax Payer" under current legislation, is automatically subject to regular tax inspections by the Inland Revenue.

The general tax inspection involved a check on the accounting procedures with regard to IRES, IRAP, VAT and withholding taxes for the 2013 fiscal year, and ended on 22 December 2016 with serving of a Tax Demand (*Processo Verbale di Constatazione,* PVC). In accordance with the provisions of art. 12 (7) of Italian Law no. 212/2000, the Company submitted a counter-plea with its comments on and arguments against the findings of the PVC, accompanied by the relevant documentation, and is awaiting the decision of the Inland Revenue with regard to the Demand for increased taxes, fines and interest.

On the basis of the information available, considering the assessments requested from the Company's accountant and the information received during meetings with the Inland Revenue, it can reasonably be estimated that the increased charges levied on the company, including taxes (IRES, IRAP and VAT), fines and interest, should not exceed 500 thous./Euros.

The Salcef Costruzioni and the other Group companies are parties to proceedings under civil and administrative law and to law suits related to the normal conduct of their business. On the basis of the information currently available, the company believes that these proceedings and law suits will not have significant negative repercussions for the Group's capital and financial situation or its trading result.

Business outlook

The Group in 2017, as in previous years, will continue to operate in the sectors of interest (permanent way, electric traction and technological systems, civil engineering work, infrastructure, design and engineering, production of sleepers, maintenance and construction of rolling stock), in Italy and abroad, in those countries where long-established entrepreneurial activity and business operations and the presence of plants, installations and skilled workers have ensured an efficient service over several years now. The size of expected production and profits for 2017 are substantially in line with the historical trend of the last years.

The work contracts acquired is guaranteed to employ the human resources for the next three years, with levels of production and margins that are comparable to the average balances generated in recent years.

More specifically, as far as the Italian market is concerned, during 2017, work will continue in particular on the works recently contracted under the Rete Ferroviaria Italiana S.p.A. three-year plan for 2015-2017, mainly involving the extraordinary and routine maintenance of permanent way in central Italy and electric traction systems, mainly in southern Italy. The tenders for the new 2018-2020 three-year plan are expected to be published and the contracts awarded in 2017, with amounts probably in line with those of the previous years.

Other major works which will be significant in terms of production for 2017 will relate to the completion of the new railway between Arcisate and Stabio (Varese) and the doubling of the track between Castelplanio and Montecarotto, together with infrastructure works on behalf of Ferrovia Adriatico Sangritana.

With regard to contracts abroad, 2017 will see the continuation of the works for construction of the Riyadh Metro Line 3 in Saudi Arabia. Moreover, in July 2016, under a Joint Operation between Salcef Costruzioni (30.58%) and Petroleum Projects and Technical Consultations Company "Petrojet" (69.42%), Salcef Costruzioni was awarded the contract for the construction of the new railway depot at Kozzyka for line 1 in Cairo (Egypt) on behalf of the National Authority for Tunnels. Creation of the worksites began during the early months of 2017. To conclude, Salcef Costruzioni signed a subcontracting agreement worth 1.4 mln/Euros with GMR Infrastructure Limited for technical support during the construction of an eastern freight corridor in India.

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Under a formal decision issued on 24 March 2017 the Sole Director decided, in accordance with art. 2364 (2) of the Italian Civil Code, to postpone the deadline for approval of the 2016 financial statements to 180 days after the end of the financial year, implementing art. 26 of the Articles of Association, which grants this option. The postponement was necessary due to the fact that Salcef S.p.A. holds equity investments in subsidiaries and associated companies, and

therefore had to await the approval of the Financial Statements of the associated companies in order to be able to set the correct value on these holdings for inclusion in its Financial Statements.

Signed

THE SOLE DIRECTOR

(Mr. Alessandro Di Paolo)

SALCEF COSTRUZIONI EDILI E FERROVIARIE S.P.A.

CONSOLIDATED ACCOUNTING REPORTS

FOR THE YEAR ENDED

31 DECEMBER 2016

BALANCE SHEET	31.12.2016	31.12.2015
ASSETS		
A) UNPAID SHAREHOLDERS SUBSCRIPTIONS	**€. -**	**€. -**
B) FIXED ASSETS		
I. Intangible assets		
1) Incorporation and expansion costs	€. 136,577	€. 186,639
3) Industrial and intellectual property rights	€. 150,054	€. 142,747
4) Concessions, licenses and trademarks	€. 11,855	€. 11,919
5) Goodwill	€. 950,259	€. 1,211,173
6) Intangible assets under construction and advances	€. 1,073,901	€. 330,651
7) Others	€. 1,132,620	€. 1,195,001
Total intangible assets	**€. 3,455,266**	**€. 3,078,130**
II. Tangible assets		
1) Lands and buildings	€. 5,523,716	€. 7,351,090
2) Plants and machinery	€. 22,414,510	€. 25,876,822
3) Industrial and commercial equipment	€. 1,079,439	€. 422,366
4) Other assets	€. 1,793,101	€. 2,065,996
5) Tangible assets under construction and advances	€. 5,266,139	€. 5,117,588
Total tangible assets	**€. 36,076,905**	**€. 40,833,862**
III. Financial assets		
1) Shareholdings:		
a) In subsidiaries	€. 2	€. 3
b) In associated companies	€. 63,900	€. 62,047
d-bis) In other companies	€. 2,120	€. 1,000
2) Receivables		
a) Due from subsidiaries	€. -	€. 3.423.000
b) Due from associated companies	€. 382,215	€. 593.932
d-bis) Due from others		
- due within one year	€. 458,668	€. 650,079
- due beyond one year	€. 187,855	€. 112,215
3) Other securities	€. 65,225	€. 65,225
Total financial assets	**€. 1,159,985**	**€. 4,907,501**
TOTAL FIXED ASSETS (B)	**€. 40,692,156**	**€. 48,819,493**
C) CURRENT ASSETS		
I. Inventories		
1) Raw materials, spares and consumables	€. 2,965,208	€. 4,752,088
3) Contract work in progress	€. 83,825,413	€. 81,133,933
Total Inventories	**€. 86,790,621**	**€. 85,886,021**
II. Receivables		
1) Receivables due from customers		
- due within one year	€. 61,257,159	€. 48,790,728
- due beyond one year	€. 4,601,270	€. 4,898,955
2) Receivables due from subsidiaries	€. -	€. 4,380
3) Receivables due from associated companies	€. 1,420,740	€. 2,082,626
5-bis) Tax receivables	€. 4,999,542	€. 3,342,306
5-ter) Prepaid taxes	€. 998,276	€. 895,729
5-quater) Receivables due from others	€. 10,648,781	€. 10,508,096
Total Receivables	**€. 83,925,768**	**€. 70,522,820**
III. Marketable securities	**€. -**	**€. -**
IV. Cash and cash equivalents		
1) Bank and postal deposits	€. 52,930,877	€. 26,106,753
3) Cash and other valuables on hand	€. 226,105	€. 68,482
Total cash and cash equivalents	**€. 53,156,982**	**€. 26,175,235**
TOTAL CURRENT ASSETS (C)	**€. 223,873,371**	**€. 182,584,076**
D) PRE-PAID EXPENSES AND ACCRUED INCOME	**€. 2,698,543**	**€. 2,491,413**
TOTAL ASSETS	**€. 267,264,070**	**€. 233,894,982**

BALANCE SHEET		31.12.2016		31.12.2015
LIABILITIES				
A)SHAREHOLDERS'EQUITY				
I. Capital	€.	200,000	€.	200,000
II. Share premium reserve	€.	-	€.	-
III. Revaluation reserves				
- Revaluation reserve L. 342/2000	€.	9,857,760	€.	9,857,760
- Revaluation reserve L. 266/2005	€.	16,542,092	€.	16,542,092
- Revaluation reserve L. 2/2009	€.	1,660,482	€.	1,660,482
IV. Legal reserve	€.	111,083	€.	111,083
V. Statut. reserves	€.	-	€.	-
VI.Other reserves				
- Extraord. reserve	€.	43,101,317	€.	44,601,317
- Reserve for gains on ex.rates	€.	266,278	€.	366,287
- Consolidation reserve	€.	8,240,843	€.	8,240,843
- Conversion reserve	(€.	3,173,139)	(€.	709,905)
VII. Negative reserve for treasury shares	€.	-	€.	-
VIII. Profits (losses) carried forw.	€.	5,003,787	€.	1,749,271
IX. Profit (loss) for the period	€.	6,791,791	€.	3,154,506
X. Negative reserve for treasury shares	€.	-	€.	-
TOTAL GROUP'S CONSOLID. SHAREHOLDERS' EQUITY	**€.**	**88,602,294**	**€.**	**85,773,736**
XI.Minor. inter. in sh.equity	€.	29,350	€.	69,738
TOT. SHAREHOLDERS' EQUITY (A)	**€.**	**88,631,644**	**€.**	**85,843,474**
B) FUNDS FOR RISKS & CHARGES				
2) For taxes, also deferred	€.	981,157	€.	1,235
3) Payable financial derivatives	€.	417,887	€.	482,553
4) Others	€.	7,763	€.	27,539
FUNDS FOR RISKS AND CHARGES (B)	**€.**	**1,406,807**	**€.**	**511,327**
C) EMPLOYEE SEVERANCE FUND	**€.**	**1,029,495**	**€.**	**1,356,547**
D) PAYABLES				
4) Payables to banks				
- due within one year	€.	14,817,326	€.	15,580,191
- due beyond one year	€.	19,285,874	€.	29,273,420
6) Advances	€.	9,176,352	€.	11,759,090
7) Payables to suppliers	€.	101,572,737	€.	58,186,849
10) Payables to associated companies	€.	184,102	€.	2,530,624
12) Tax payables	€.	8,991,163	€.	5,014,199
13) Payable to social security agencies	€.	2,529,585	€.	2,135,610
14) Other payables				
- due within one year	€.	15,758,718	€.	15,640,927
- due beyond one year	€.	3,795,643	€.	5,964,582
TOTAL PAYABLES (D)	**€.**	**176,111,500**	**€.**	**146,085,492**
E) ACCRUED EXPENSES AND DEFERRED INCOME	**€.**	**84,624**	**€.**	**98,142**
TOTAL LIABILITIES	**€.**	**267,264,070**	**€.**	**233,894,982**

INCOME STATEMENT		31.12.2016		31.12.2015
A) VALUE OF PRODUCTION				
1) Revenue from sales and services	€.	261,423,636	€.	156,841,400
2) Changes in inventories of products in progress, semi-finished and finished	€.	-	(€.	110,090)
3) Changes in contract work in progress	(€.	2,819,939)	€.	5,814,358
4) Increases of assets for internal work	€.	8,105,472	€.	5,418,994
5) Other revenues and proceeds	€.	1,443,003	€.	1,852,795
TOTAL VALUE OF PRODUCTION	**€.**	**268,152,172**	**€.**	**169,817,457**
B) COSTS OF PRODUCTION				
6) for raw materials, spares, consumables and goods	€.	71,873,061	€.	42,069,551
7) for services	€.	113,033,461	€.	66,966,804
8) for leases of goods from third parties	€.	9,684,249	€.	7,820,795
9) Labour costs:				
a) wages and salaries	€.	30,659,101	€.	24,400,352
b) social securities costs	€.	10,713,335	€.	7,912,200
c) employee severance payments	€.	1,666,382	€.	1,368,661
d) other costs	€.	6,978	€.	21,636
Total labour costs	€.	43,045,796	€.	33,702,849
10) Amortization, depreciation and write-downs:				
a) amortization of intangible assets	€.	910,853	€.	985,044
b) amortization of tangible assets	€.	7,086,520	€.	7,904,310
d) write-downs of receivables under current assets	€.	488,489	€.	451,800
Total amortization, depreciation and write-downs	€.	8,485,862	€.	9,341,154
11) Changes in inventories of raw materials, spares, consumables & goods	€.	1,080,255	(€.	1,146,631)
14) Sundry operating expenses	€.	4,372,194	€.	1,793,292
TOTAL COSTS OF PRODUCTION (B)	**€.**	**251,574,878**	**€.**	**160,547,814**
DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION (A - B)	**€.**	**16,577,294**	**€.**	**9,269,643**
C) FINANCIAL INCOME AND EXPENSES				
16) Other financial income				
d) Sundry income	€.	158,523	€.	378,775
Total other financial income	€.	158,523	€.	378,775
17) Interest and other financial expenses	(€.	3,606,924)	(€.	2,440,988)
17-bis) Exchange gains (losses)				
- Gains	€.	11,398,485	€.	1,632,487
- Losses	(€.	10,603,239)	(€.	776,556)
Total exchange gains (losses)	€.	795,246	€.	855,931
TOTAL FINANCIAL INCOME AND EXPENSES (C)	**(€.**	**2,653,155)**	**(€.**	**1,206,282)**
D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS				
18) Revaluations				
d) of derivative financial instruments	€.	64,666	€.	-
Total revaluations	€.	64,666	€.	-
19) Write-downs				
a) of shareholdings	(€.	23,187)	(€.	639,230)
b) Others	(€.	2,273)	(€.	131,536)
Total write-downs	(€.	25,460)	(€.	770,766)
TOTAL VALUE ADJUSTMENTS TO FINANCIAL ASSETS (D)	**€.**	**39,206**	**(€.**	**770,766)**
INCOME BEFORE TAXES (A - B +/- C +/- D)	**€.**	**13,963,345**	**€.**	**7,292,595**
20) Income tax				
a) Taxes for the period	€.	6,224,739	€.	4,139,406
b) Prepaid/deferred taxes	€.	375,422	(€.	67,288)
c) Taxes for previous years	€.	611,780	(€.	189)
21) Profit (loss) for the period	**€.**	**6,751,404**	**€.**	**3,220,666**
b) Profit (loss) attributable to minority interest	(€.	40,387)	€.	66,160
21) Profit (loss) for the period of the group	**€.**	**6,791,791**	**€.**	**3,154,506**

CASH-FLOW STATEMENT	31/12/2016	31/12/2015
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	6,751,404	3,220,666
Income tax	7,211,941	4,071,929
Interest payable	1,209,584	1,714,312
(Dividends)	-	-
(Capital gain)/Capital loss from selling business	2,015,038	(1,382,323)
1. Profit (loss) before income tax, interest, dividends and capital gains/losses on disposals	**17,187,967**	**7,624,584**
Adjustments for non-monetary elements which were not offset in the net current assets		
Provisions to funds	2,166,382	1,368,661
Amortization of fixed assets	7,997,373	8,889,354
Adjustments to value of financial assets and liabilities from derivative financial instruments	(64,666)	48,763
Write-downs for impairment losses	511,676	770,766
Other adjustments for non-monetary elements	1,562,983	403,037
Tot. adjustments for non-monetary elem.	*12,173,748*	*11,480,581*
2. Cash flow before changes in net current assets	**29,361,715**	**19,105,165**
Movement in net current assets		
(Increase) Decrease of inventories	(3,487,338)	403,279
(Increase) Decrease other receivables in current assets	(11,990,969)	36,245,514
Increase (Decrease) of payables owed to suppliers and other payables	41,039,366	2,908,338
Other movements in net current assets	(2,282,518)	7,084,338
Total movements in net current assets	*23,278,541*	*46,641,469*
3. Cash-flow after changes in net current assets	**52,640,256**	**65,746,634**
Other adjustments		
Interest cashed (paid)	(1,209,584)	(1,714,312)
(Income tax paid)	(4,252,779)	(826,744)
Dividends cashed	-	-
(Amount used of funds)	(1,993,434)	(1,616,38)
Total other adjust.	*(7,455,797)*	*(4,157,294)*
Cash-flow from operating activities (A)	**45,184,459**	**61,589,340**
B. CASH FLOW FROM INVESTING ACTIVITIES		
Tangible assets		
(Investments)	(9,749,292)	(8,767,421)
Disinvestments	3,137,688	2,245,233
Difference in exchange rates	2,248,518	(538,577)
Intangible assets		
(Investments)	(1,270,344)	(1,391,913)
Disinvestments	-	-
Difference in exchange rates	841	(4,250)
Financial assets		
(Investments)	(73,745)	(103,000)
Disinvestments	2,217,268	661,649
Acquisition/disposal of subsidiaries or business branches net of cash and cash equivalents	-	(9,675,756)
Cash-flow from investing activities (B)	**(3,489,066)**	**(17,574,035)**
C. CASH-FLOW FROM FINANCING ACTIVITIES		
Borrowed capital		
Increase (decrease) of short-term payables to banks	(2,850,756)	(31,019,231)
Loans received	14,455,000	30,733,000
Repayment of loans	(22,354,655)	(28,101,544)
Equity		
Increase of capital for valuable consideration	-	-
Disposal (purchase) of treasury shares	-	-
Dividends paid	(1,500,000)	-
Differences in exchange rate	(2,463,234)	45,789
Cash-flow from financing activities (C)	**(14,713,645)**	**(28,341,986)**
Increase (decrease) of cash and cash equivalents (A ± B ± C)	26,981,748	15.673.319
Cash and cash equivalents at 1st January	**26,175,234**	**10,501,915**
Cash and cash equivalents at 31st December	**53,156,982**	**26,175,234**

NOTES TO THE

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

GENERAL INFORMATION

Salcef Costruzioni Edili e Ferroviarie S.p.A. (hereinafter also referred to as "Salcef Costruzioni" or "Parent Company"), a joint-stock company with registered office in Rome (Italy), via di Pietralata no. 140, has been operating in the building and railway construction sector as well as in permanent way works for decades.

SCOPE OF CONSOLIDATION

The Consolidated Financial Statements of the Salcef Group include the Financial Statements of the parent company Salcef Costruzioni Edili e Ferroviarie S.p.A. and those of the other Italian and foreign subsidiaries, adjusted to comply with the accounting principles applied by Salcef Costruzioni.

As at 31 December 2016 the companies included in the scope of the consolidation (hereinafter jointly referred to as "Group") are as follows:

- Salcef S.p.A., wholly-owned company, operating in the building and railway construction business;
- SRT S.r.l., wholly-owned company, engaged in maintenance and construction of Rolling Stock Machinery;
- RECO S.r.l., wholly-owned company as a result of the acquisition of stakes from previous owners. It has been operating for many years in infrastructure engineering work;
- Euro Ferroviaria S.r.l., wholly-owned company, operating in Italy in the construction and maintenance of railway superstructure (permanent way);
- Salcef Polska S.p.Z.o.o., wholly-owned company, established in Poland and operational in the same sector of railway construction;
- Salcef Siegwart, 75% owned by SALCEF, established in Egypt for the construction of railway sleepers together with Egypt's public corporation Siegwart, which holds the other 25% and operating in the sector for the concrete works production.

NAME	OFFICE	CURRENCY	Share capital	Stake held (%)		Consolidation method
				Indirect	Direct	
Subsidiaries						
Euro Ferroviaria S.r.l.	Rome - Italy	Euro	100,000		100%	Full consolidation
Salcef Polska Sp.Z.o.o.	Warsaw - Poland	Zloty	1,500,000		100%	Full consolidation
Salcef Siegwart	Cairo - Egypt	Egyptian pound	500,000		75%	Full consolidation
RECO S.r.l. (formerly I.R. Ingegneri Riuniti S.r.l.)	Rome - Italy	Euro	100,000		100%	Full consolidation
Salcef S.p.A. a Socio Unico	Rome - Italy	Euro	60,000,000		100%	Full consolidation
SRT S.r.l. a Socio Unico	Rome - Italy	Euro	100,000		100%	Full consolidation
Unconsolidated subsidiaries						
Salcef Libya Joint Venture	Tripoli - Libya	Libyan dinar	1,000,000		65%	Cost
Salcef Mozambique Limitada	Maputo-Mozambique	Nuovo Metical Mozambico	350,000	5%	95%	Cost
Associated companies						
Frejus S.c.a.r.l.	Bologna - Italy	Euro	20,000		42.93%	Equity
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	Rome - Italy	Euro	50,000	50%		Equity
Consorzio Stabile Itaca S.c.a.r.l.	Balsorano (AQ) - Italy	Euro	61,000	31.15%		Equity
Tuzi Costruzioni S.r.l.	Rome - Italy	Euro	2,500		40%	Equity

The subsidiaries Salcef Libya Joint Venture and Salcef Mozambique Limitada have not been included in the scope of consolidation, since they are non-operational.

INTRODUCTION

The consolidated financial statements of the Salcef group have been drawn up in accordance with the provisions contained in Law Decree no. 127/91, interpreted and supplemented by the accounting principles issued by the *Organismo Italiano di Contabilità* (the 'OIC accounting principles''). The Financial Statements consist of the following documents: Balance Sheet, Income Statement, Cash-flow Statement and Notes to the Financial Statements.

These financial statements were drawn up in compliance with the changes to the law introduced by Italian Legislative Decree 139/2015, applicable from the 2016 financial year, and the consequent updates to the OIC accounting principles. The application of the new drafting principles did not have any significant effects on the items in the balance sheet, income statement or cash-flow statement for the current or previous financial years.

Each item of the Balance Sheet, Income Statement and Cash-flow Statement is shown on a like-for-like basis with the values as at 31 December 2016. When the items are not comparable, the amounts referring to the previous financial year have been adapted, and any comments on significant events and circumstances have been provided in the Notes to the Financial Statements.

The Cash-Flow Statement contains the increases or decreases in liquid assets during the financial year and was drawn up by the indirect method, applying the system set out in OIC accounting principle 10.

The Balance Sheet, the Income Statement and the Cash-flow Statement have been drawn up in Euro units, without decimal figures, whereas the amounts shown in the Notes to the Financial Statements are expressed in thousands of Euros, unless where otherwise specified.

Items with amount equal to zero in both the current and the previous financial years are not included in the financial statement documents.

Applying the principle of relevance as set forth in art. 2423 (4) of the Italian Civil Code, the Notes to the Financial Statements do not include comments on the financial statement items, even when specifically envisaged by art. 2427 of the Civil Code or other regulations, if both the amounts of the items and the relative information are irrelevant for the truthful, accurate representation of the company's capital and financial situation and trading result.

With regard to the Company's business and its relations with unconsolidated subsidiaries, affiliated and controlling entities, companies subject to the control of the same entities and other correlated parties, reference should be made to the Report on Operations drawn up by the Company's Directors to accompany these financial statements.

With effect from these financial statements, significant events occurring after the end of the financial year are set out in specific sections of these Notes to the Financial Statements. Moreover, due to the changes made to the structure of financial statements, with the removal of the memorandum accounts from the balance sheet, the total amount of the surety, guarantees and potential liabilities not set out in the balance sheet is discussed in a specific section of these Notes to the Financial Statements.

GENERAL REPORTING CRITERIA

The values of the financial statement items were assessed in accordance with the general criteria of prudence and on the accrual basis, on the assumption that the company will continue to trade; the items' relevance and their inclusion or otherwise were decided with reference to the scale of the transaction or contract, where compatible with the provisions of the Italian Civil Code and the OIC accounting principles.

In accordance with the principle of prudence, the individual asset or liability items or entries were evaluated singly, in order to prevent compensations between losses which had to be recognised and profits which should not be recognised because they were not realised. In particular, profits were only entered when accrued prior to the closure of the financial year, whereas risks and losses were considered even when they emerged after its end.

Since the accrual basis was applied, the effect of transactions was measured using accounting entries and attributed to the financial year to which they refer, rather than the year in which the relative collections and payments were made.

The evaluation criteria were not changed from the previous financial year, in order to allow comparison between the Company's financial statements over time, except for the cases referred to in the "Application of the new OIC accounting principles" section below.

No exceptional cases requiring the implementation of the waivers referred to in art. 2423 (5) of the Italian Civil Code, on

the grounds of incompatibility with the truthful, accurate representation of the Company's capital and financial situation and trading result, occurred during the financial year. Moreover, no write-ups of assets under the provisions of special legislation were carried out during the financial year.

Estimates have been made with regard to asset and liability items which are required when drawing up financial statements; such estimates have been commented on in the Notes. Final balance amounts may differ from such estimates. Estimates are reviewed periodically and the effects of the changes in the estimates, where not deriving from erroneous estimates, have been reported in the income statement of the year in which the same are considered necessary and appropriate, if the said changes impact the said year alone, and then reported in subsequent years, if the said changes affect both current and subsequent years.

The date of reference of the consolidated financial statements is the same as for those of the Parent Company Salcef Costruzioni Edili e Ferroviarie S.p.A..

The financial statements used for the consolidation are those as at 31 December 2016 drawn up by the administrative body of the controlling and controlled entities for the approval of their respective general meetings.

The connection between the amounts of the shareholders' equity and the net operating result as at 31 December 2016 recorded in the Salcef Costruzioni Edili e Ferroviarie S.p.a. financial statements and those entered in the consolidated financial statements is detailed in the note commenting on the consolidated shareholders' equity.

APPLICATION OF THE NEW OIC ACCOUNTING PRINCIPLES

The application of the new legal provisions introduced by Italian Legislative Decree 139/2015 and the new OIC accounting principles has led to changes in classification, due to the addition or deletion of financial statement items and changes to the evaluation criteria.

The effects of the changes in classification were applied retrospectively, as the balances from the previous year were also adjusted for the purposes of comparison only.

The effects of the changes to the evaluation criteria were applied retrospectively by adjusting the value of the shareholders' equity at the start of the 2016 financial year, by adjusting the "Profits/Losses carried forward" heading, also adjusting, for the purposes of comparison only, the shareholders' equity and comparative data as of the start of 2015, as if the new accounting principle had always been applied.

Pursuant to art. 12 (2) of Legislative Decree 139/2015, the Company took up the option of not applying the amortised cost criteria and the actualisation of receivables and payables arising prior to 1 January 2016.

The effects of the changes on the balance sheet and income statement items and on the comparative data for 2015 are

summarised in the following tables:

Amounts in Euro units	Fixed assets	Current assets	Funds for risks and charges	Payables	Shareholders' Equity
Balances as of 31 Dec. 2015 as per previous financial statements	48,819,493	182,584,076	(28,774)	(146,085,492)	(86,326,027)
- Speculative derivatives			(482,553)		482,553
Total variations	0	0	(482,553)	0	482,553
Balances as of 31 Dec. 2015 recalculated with the new principles	**48,819,493**	**182,584,076**	**(511,327)**	**(146,085,492)**	**(85,843,474)**
Balances as of 31 Dec. 2016 in accordance with previous principles	40,692,156	223,873,371	(988,920)	(176,111,500)	(89,049,531)
- Speculative derivatives			(417,887)		417,887
Total variations	0	0	(417,887)	0	417,887
Balances as of 31 Dec. 2016 in accordance with new principles	**40,692,156**	**223,873,371**	**(1,406,807)**	**(176,111,500)**	**(88,631,644)**

(Amounts in Euro units)	Operating result (A-B)	Financial income and charges	Adjustments to value of financial assets and liabilities	Taxes	Operating profit
Balances as of 31 Dec. 2015 as per previous financial statements	9,024,020	(1,194,094)	(770,766)	(4,072,118)	3,220,666
- Speculative derivatives					
- Reclassification of extraordinary charges	(1,364,637)	(49,251)		(6)	
- Reclassification of extraordinary income	1,610,260	37,063		195	
Total variations	245,623	(12,188)	0	189	0
Balances as of 31 Dec. 2015 recalculated with the new principles	**9,269,643**	**(1,206,282)**	**(770,766)**	**(4,071,929)**	**3,220,666**
Balances as of 31 Dec. 2016 in accordance with previous principles	17,246,395	(2,629,651)	(25,460)	(6,481,568)	6,686,738
- Speculative derivatives			64,666		64,666
- Reclassification of extraordinary charges	(2,183,743)	(31,195)		(165,365)	
- Reclassification of extraordinary income	1,014,111	2,510		(59,296)	
- Other reclassifications	500,531	5,181		(505,712)	
Total variations	(669,101)	(23,504)	64,666	(730,373)	64,666
Balances as of 31 Dec. 2016 in accordance with new principles	**16,577,294**	**(2,653,155)**	**39,206**	**(7,211,941)**	**6,751,404**

CONSOLIDATION PRINCIPLES AND CRITERIA

The consolidation principles adopted are as follows:

- The book value of the majority shareholdings held by the parent company is eliminated against the relative shareholders' equity as a result of taking over the assets and liabilities of the subsidiaries and using the full consolidation method, with the shareholders' equity and the income attributable to minority interests shown separately.
- The difference between the purchase cost of the shareholding and the book value of the subsidiary's shareholders equity at the date of the first consolidation is entered and charged against the asset and liability accounts of the subsidiary's own financial statements – where possible -.

- Any residual amount, if negative, to the extent to which it is attributable to the goodwill paid upon purchasing the shareholding, is entered under "Difference on consolidation" and is amortized for a period which reflects the estimated useful life of the goodwill.
- Any residual amount, where positive, is reported under the item "Consolidation Reserve" or, if an unfavourable result for the period is expected by the subsidiary in the financial periods immediately following the date of purchase, it is recorded under the item "Consolidation Fund for future risks and charges" and credited to the Income Statement systematically to the extent of the amount of loss incurred by the subsidiary.
- Payable and receivable accounts and cost and revenue on transactions between subsidiaries included in the consolidation have been eliminated. More specifically, all gains and losses not yet realized and deriving from intragroup transactions have been eliminated, net of the relative deferred tax effects.

EVALUATION CRITERIA

Intangible assets

Intangible assets have been reported, subject to the Board of Auditors' prior consent where required, at purchase cost and are shown net of amortization and of write-downs, if any. The purchase cost includes ancillary charges.

The charges to be spread over several periods, which include incorporation and expansion costs, are reported when their future useful value is demonstrated, i.e. when there is an objective correlation between the future benefits the Company is expected to enjoy and the amounts that can be recovered with reasonable certainty.

The intangible assets, which consist of patent rights, intellectual property rights of use and licenses are only entered in the assets side of the balance sheet if they can be individually identified, if the Company acquires the power to exploit the future economic benefits deriving from the asset and is able to limit third parties' access to it, and if their costs can be estimated with an acceptable degree of reliability.

Goodwill is only entered in the assets side of the balance sheet if it was acquired against payment, has a quantifiable value, originally consists of charges and costs with utility deferred over time, and which thus guarantee future economic benefits, and if it satisfies the criterion of the recouping of the relative cost.

Improvements to third-party assets and investments to increase their value are entered in the other intangible fixed assets if they cannot be separated from the assets concerned; otherwise, they are entered in the specific tangible fixed asset headings.

Down payments to suppliers for the purchase of intangible fixed assets are entered in the assets side of the balance sheet from the date when the obligation to pay the relative amounts comes into effect. Investments in intangible assets

currently in progress are entered as of the date when the first costs for the construction of the asset were incurred, and include the internal and external costs incurred for its realisation.

Intangible assets have been amortised on a straight line basis and the amortization amount referable to each period is recognised as incurred cost distributed over its entire useful life. The amortisation period starts as of the intangible asset becoming available and ready for use. The straight line amortisation method has been applied on the basis of expected benefits.

Here below follow details of intangibles amortized on a straight line basis:

- Incorporation and expansion costs have been amortized over five years.
- Intangible assets (patent rights, intellectual property rights of use, concessions, licences and brands) are amortised over their legal or contractual duration (whichever is shorter) and the residual potential for use. The capitalised costs of the purchase and adoption of accounting software are amortised over three financial years, in view of the duration of the licence.
- Goodwill is systematically amortised on the basis of its useful lifetime with reference to the period of time within which it is probable that the economic benefits relating to it will occur, and in all cases for a period not exceeding twenty years. Specifically, it is systematically amortised within a 10-year period, bearing in mind the evaluations made of the actual residual useful lifetime of the divisions acquired and calculated on the basis of the expected revenue flows.
- Other intangible assets - improvements to third-party assets: these are amortised over the future period of utility of the expenses incurred or, if shorter, the residual duration of the lease, bearing in mind any renewal period if the option lies with the Company.

There is no amortisation of investments in fixed assets in progress. The amortisation process starts when these values are reclassified in the relevant intangible fixed asset headings.

Tangible fixed assets

Tangible fixed assets are entered at the purchase or production cost, adjusted by the respective amortisations made and any write-downs. The purchase cost is the cost actually paid to acquire the asset and also includes the ancillary costs. The production cost includes all the direct costs and general production costs which can be reasonably imputed to the fixed asset, relating to the period of manufacture and up until the time when the asset can be used.

Routine maintenance costs, for recurrent maintenance and repairs performed to keep the asset in good working order and ensure that it reaches its expected useful lifetime with its original capacities and productivity, are entered in the

income statement for the financial year when they were incurred.

Extraordinary maintenance costs, consisting of expansions, modernisations, replacements and other improvements relating to the asset, which produce a significant, measurable increase in the asset's capacity, productivity or safety, or extend its useful lifetime, can be capitalised up to the limits of the salvage value of the asset.

Amortisations are calculated on a straight line basis based on expected residual useful life of the assets concerned.

Applying the principle of relevance as set out in art. 2423 (4) of the Italian Civil Code, and the provisions of the relevant accounting principle, during the first year of amortisation the rates are reduced by half, considering that the amortisation allocation obtained is not significantly different from the allocation calculated starting from the moment when the asset is available and ready for use.

There is no amortisation of land; if the value of buildings includes that of the land on which they stand, the value of the building is subdivided, on the base of estimates if necessary, to establish the correct value for amortisation.

The value for amortisation is the difference between the cost of the fixed asset, and, if it can be calculated, the residual value at the end of the useful lifetime, estimated when the amortisation plan is drawn up, and periodically reviewed in order to check that the initial estimate is still valid. The amortisation is stopped if, further to an update of the estimate, the presumable residual value is equal to or higher than the net book value.

The average amortisation rates used are as follows:

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

Tangible assets acquired through leases are recorded in the assets of the balance sheet at the time of exercising the right of redemption. Over the lease period, instalments are recorded in income statement, under production costs, for each referable period. The Notes show the effects on the items of the Financial Statements, on the shareholders' equity and profit at the end of the period which would have been generated from the application of the so-called "actuarial method".

Tangible fixed assets are written up, within the limits of their salvage value, only in the cases where the law requires or allows this. In previous financial years, for some categories of assets the parent company Salcef Costruzioni applied the monetary revaluations envisaged by Italian Laws no. 342 of 21 November 2000, no. 266 of 23 December 2005 and no. 2 of 28 January 2009.

Permanent impairment of tangible and intangible assets

If, at the closing date of the financial period, tangible and intangible assets show signs of having suffered permanent impairment, then the recoverable amounts are estimated.

Should the recoverable amount, intended as the higher of the value in use and fair value net of costs of disposal, be lower than the corresponding book value then the fixed assets will be written down.

When the recoverable amount cannot be estimated of a single fixed asset, the said analysis will be referred to the so-called "cash-generating unit" (hereinafter "UGC"), i.e., the smallest identifiable group of assets which includes the asset to be valued and generates incoming cash flows which are largely independent of the incoming cash flows generated from other assets or groups of assets.

The fair value is calculated by taking as reference, as a priority, a price agreed under a binding agreement of sale in an arm's length transaction or the market price in an active market. If neither binding agreement of sale nor active market exist, then the fair value will be determined on the basis of the best available information to reflect the amount the Company could obtain, at financial statement date, from selling the asset in an arm's length transaction between knowledgeable and willing parties. The said amount will also be based on the result of recent transactions for similar operations performed with regard to the sector in which the Company itself operates.

The recoverable amount is obtained by deducting costs of disposals from the fair value.

If there is a permanent impairment in value, the same will be accounted for by reducing the goodwill amount, if there is one, and then, reducing the other assets, proportionally to their net book value.

The written down amount is not recorded in subsequent years when the circumstances that led to the impairment no longer exist. The value is reinstated to the extent of the amount that the asset would have had if the writing down had never occurred, i.e. by taking into account the amortization or depreciation which would have been calculated had the asset not been written down. The write-down recorded with respect to goodwill and costs to be spread over several periods cannot be reinstated.

Please note that at closing date no signs were identified of potential impairment losses on intangible and tangible assets as referred to in the OIC 9, therefore no recoverable amounts and no write-downs have been calculated with respect to the same.

Financial assets

Shareholdings, bonds and treasury shares which are intended to remain long term as part of the Company's capital by

choice of the management or the actual capacity of the Company to hold them for a prolonged period of time are classified as financial assets. Otherwise, they are recorded under current assets.

It is by applying the evaluation criteria specific to the portfolio of origin that the decision is made as to any shift from financial assets to current assets and viceversa.

The recording of receivables under financial assets or current assets is based on the criterion of destination of those assets in respect of the company's core business and therefore, regardless of their due dates, receivables of a financial nature are recorded under financial assets while trade receivables are recorded under current assets. The criterion for the evaluation of receivables is set out below.

Shareholdings

Shareholdings in associated companies are assessed by the shareholders' equity method, while shareholdings in controlled entities not included in the consolidation and other enterprises are assessed using the cost method.

Shareholdings valued using the shareholders' equity method are initially entered at the purchase cost, including the related expenses. The related expenses comprise banking and financial intermediation costs, meaning commissions, charges and taxes.

When it is first entered, the purchase cost of the shareholding is compared with the value of the corresponding portion of the shareholders' equity as of the date of acquisition or, as an alternative, as recorded in the subsidiary's latest financial statements.

If a positive initial difference is obtained, if this is due to the higher value of the assets in the subsidiary's balance sheet when assessed at current values, or the inclusion of goodwill, the shareholding is entered at the purchase cost including this initial positive difference. Otherwise, the shareholding is written down and this difference is entered in the "write-downs of shareholdings" heading of the income statement.

In the event that a negative initial difference is due to the fact that the price paid for the stake was a good one, the shareholding is entered at the adjusted value of the shareholders' equity of the subsidiary (higher than the cost price), with the resulting difference offset by a non-distributable shareholders' equity reserve. If a negative initial difference is due to the inclusion of assets entered at values higher than their salvage value, liabilities entered at a value lower than their repayment value, or the forecast of unfavourable trading results, the shareholding is initially entered at a value equal to the cost incurred, and this difference is entered as a "Contingency fund for future risks". This fund, not included in the books, is used in subsequent financial years to offset the subsidiary's results, in order to reflect the assumptions made at the time of purchase.

Assessments by the shareholders' equity method were made using the financial statements as at 31 December 2016 approved by the subsidiaries' respective general meetings, or the draft financial statements formally drawn up by the subsidiary's administrative body if not yet approved by the general meeting.

The operating result (profit or loss) recorded in the subsidiary's financial statements and the relative shareholders' equity are adjusted by the same procedures as in the case of consolation. After these adjustments, the figure obtained from the subsidiary's financial statements is used to modify the value of the shareholding in proportion to the share of the capital held, offset in the income statement, while the value of the shareholding is reduced by the amount of the dividends received. Variations in the subsidiary's shareholders' equity not relevant for calculation of the trading result for the financial year lead to an increase or reduction in the value of the shareholding, and of the relevant non-distributable reserve, with no allocation to the income statement. In the event that the value of the shareholding becomes negative due to losses, its value is reduced to zero, and if the Company is legally or otherwise obliged to support the subsidiary, the losses in excess of the initial worth of the investment are entered in the books amongst the contingency funds.

In compliance with art. 2426 of the Italian Civil Code, in subsequent financial years the capital gains arising from the application of the shareholders' equity method, not absorbed by any losses on the part of the subsidiary itself, are entered in a non-distributable reserve. In the event that dividends are received from the subsidiaries, a corresponding portion of this reserve becomes distributable.

In case of lasting loss of value, the shareholding is written down even if this means that it has to be entered at a value below that obtained from application of the shareholders' equity method.

The other shareholdings are initially recorded at purchase or subscription price, inclusive of ancillary costs. Ancillary costs consist of costs directly referable to the operation such as banking and financial brokerage costs, commissions, charges and levies.

The value at which shareholdings are recorded is increased further to rights issues or the waiver of receivables held by the Company in relation to subsidiaries. Capital increases made without payment do not increase the value of shareholdings.

If the shareholdings have suffered at closing date impairment losses considered permanent, their book value is reduced to the lesser recoverable amount, which is based on future benefits which the Company is expected to obtain, until the book value equals zero. If the company is under an obligation to cover for the losses of its subsidiaries, provisions may be put aside under the liabilities, for the amount referable to the year, to account for the loss suffered.

If in subsequent years the circumstances which led to the write-down no longer exist, then the shareholding value will

be reinstated up to the limit of the original cost.

Inventory

Inventory is initially entered at the purchase or production cost and then evaluated at the cost or the corresponding salvage value assumed on the basis of market conditions, if lower.

The purchase cost is the actual purchase price plus accessory expenses. As well as the price of the material, the purchase cost of materials also includes freight and customs costs, other taxes and any other costs directly imputable to the material concerned. Returns, commercial discounts, allowances and premiums are deducted from costs.

The cost evaluation method used for fungible goods is the weighted average cost.

The salvage value assumed on the basis of market trends is equal to the estimated price of sale of goods and finished products during normal business, net of the presumed costs of completion and direct costs of sale. When establishing the salvage value assumed on the basis of market trends, the rate of obsolescence and stock turnover times are also considered.

Inventories the salvage value of which, assumed on the basis of market trends, is less than the relative book value are therefore written down.

In the event that the circumstances justifying write-down on the basis of the salvage value assumed on the basis of market trends cease to exist, the value adjustment made is cancelled, up to the limits of the cost originally incurred.

Contract work in progress

If there is a binding contract between the parties and if the Company is able to reliably measure the results of the order, works in progress are recorded on the basis of the progress made (or percentage of completion), a principle which means that the costs, earnings and margin are calculated on the basis of the activities carried out. The percentage of completion is established on the basis of physical measurements.

The evaluation reflects the best possible estimate of the work carried out as of the date of entry in the books. The forecasts used as the basis for evaluations are updated regularly. Any economic effects deriving from them are recorded in the books during the year when they took place.

The earnings from the contract include: fees agreed by contract, changes to works formalized in writing, review of prices, claims and incentives, to the extent that the same can be reliably estimated and reasonably recognized.

The contract work costs include: all costs referring directly to the contract work, indirect costs attributable to the production activity and which can be allocated to the contract itself, plus any other cost that can be specifically charged to the customer and allowable by contract.

Costs also include pre-operating expenses, i.e. those incurred in the initial phase of the contract before the work commissioned or the production process is started, and then post-operating costs, which are borne after the closing of the contract.

If the result of a long-term contract cannot be reliably estimated, the value of the works in progress is established on the basis of the costs incurred, if it is reasonable to believe that they will be recovered (i.e. without considering the margin).

In the income statement, the payments definitively acquired are indicated as earnings, while the amount of the variations in contract works in progress, equal to variation in inventories for works completed but not yet finally paid for at the start and end of the financial year respectively, is reported in the specific income statement item. These amounts are only included in the earnings when there is the certainty that the earnings due will be definitively paid to the Company as payment for the value of the works executed. In the event of provisional billing, down payments and payments on account are financial events irrelevant for the reporting of earnings, and are always included in the liabilities, since they are not necessarily calculated in relation to the value of the works executed. Conversely, once works are finally billed, the relative down payments and payments on account are deleted from the liabilities.

When it is probable that the total estimated costs of an individual order will exceed the total estimated earnings, the order is evaluated at cost and the probable loss for completion of the order is recorded as a decrease in the value of contract works in progress, during the financial year during which the loss becomes foreseeable, on the basis of an objective, reasonable evaluation of the current circumstances, regardless of the progress made with the order. If the loss exceeds the value of the works in progress, a special fund for risks and charges equal to the excess amount is created.

Receivables

The receivables included in the financial statement represent the right to demand fixed or calculable amounts of liquid assets from customers or other parties, at a specified or specifiable due date.

Receivables arising from the sale of goods and the provision of services are reported in accordance with the requirements set out in the section containing the comments on earnings. Receivables originating from reasons other than the exchange of goods and services are entered in the financial statement if there is "title" to the receivable, meaning that they actually represent a third-party obligation to the Group.

Receivables are evaluated on the amortised cost criterion, bearing in mind the time factor and the presumable salvage value.

The amortised cost criterion is not applied if its effects are negligible, usually in the case of short-term receivables or

when the transaction costs, commissions paid between the parties and any other difference between the initial value and the due date value of the receivable are insignificant. Moreover, pursuant to art. 12 (2) of Legislative Decree 139/2015, the Group took up the option of not applying the amortised cost criteria and the actualisation to all receivables arising prior to 1 January 2016. These receivables are initially entered at face value net of premiums, discounts and allowances envisaged by the contract or granted for any other reason, and are then always evaluated at face value plus interest calculated at the nominal interest rate, less amounts collected for principal and interest and net of the estimated write-downs and bad debts, included in the accounts to adjust the receivable to the presumable collection value. Discounts and allowances of a financial nature, irrelevant for calculation of the presumable collection value since they were not foreseeable at the time when the receivable was initially entered, are recorded at the time of collection as financial charges.

When the amortised cost criterion is applied, the initial entry value is the same as the face value of the receivable, unless actualisation is necessary as described below, net of all premiums, discounts and allowances, and including any costs which can be directly attributed to the transaction which generated the receivable. Transaction costs, any commissions and all differences between the initial value and the face value at the due date are included in the amortised cost using the effective interest criterion, with an interest rate calculated at the time when the receivable was initially entered and maintained for subsequent evaluations, except in cases where the contract specifies a variable interest rate tied to market rates. At the end of each financial year, the value of the receivables evaluated at the amortised cost is equal to the current value of future financial cash flows, less write-downs to the presumed collection value, discounted at the actual interest rate. Discounts and allowances of a financial nature, irrelevant for calculation of the amortised cost since they were not foreseeable at the time when the receivable was initially entered, are recorded at the time of collection as financial charges.

Trade receivables with due date more than 12 months after the initial date of entry, with no interest charged or with contract interest rates significantly different from the market interest rates, are initially entered at the value established by actualising the future cash flows to the market interest rate. The difference between the initial value of entry of the receivable thus established and the term value must be entered in the income statement as financial income throughout the duration of the receivable, using the effective interest rate criterion.

For financial receivables, the difference between the liquid assets paid and the current value of the future cash flows, established using the market interest rate, is entered in the financial charges or earnings in the income statement at the time of initial entry, unless the nature of the operation or contract makes it appropriate to classify this item differently

and thus include it in the accounts in another way.

With reference to the presumable collection value, the book value of receivables is adjusted by means of a sinking fund to allow for the probability that the receivables have lost value. This is done on the basis of specific indicators, assessments made on the basis of experience, and all other useful information, which give grounds for believing that the value of receivables has probably decreased. The sinking fund is estimated by analysing the individual receivables of significance and other receivables at the portfolio levels, and establishing the losses expected to be incurred on the receivables current as of the financial statement date. If the amortised cost is applied, the amount of the write-down is equal to the difference between the book value and the value of the estimated future cash flows, less the amounts not expected to be collected, actualised at the receivable's original effective interest rate.

Receivables are deleted from the financial statements when the contractual rights over the cash flows deriving from the receivable are extinguished, or when title to the contractual rights over the cash flows deriving from the receivable has been transferred, together, substantially, with all the risks relating to the receivable. All contract clauses are considered when evaluating the transfer of risks.

When the receivable is deleted from the financial statements in the above conditions, the difference between the amount invoiced and the book value of the receivable at the time of transfer is entered in the income statement as a bad debt, unless the transfer contract allows the identification of other economic component items of different kinds, including of a financial nature.

Financial derivatives

A financial derivative is a financial instruments or other contract with the following three characteristics:

a) its value varies in response to the variation in a specific interest rate, financial instruments quotation, goods price, exchange rate, price or rate index, credit rating, credit index or other parameter, always provided that, in the case of a non-financial variable, the aforesaid variable is not specific to one of the parties to the contract (sometimes called the underlier);

b) it does not require an initial net investment or requires an initial net investment less than that which would be required for other types of contracts which would be expected to respond to variations in market factors in a similar way;

c) it is regulated at a future date.

Contracts for the purchase and sale of goods which grant either contract party the right to liquidate the contract in cash or by means of financial instruments are also classified as financial derivatives, unless the following conditions are all

met simultaneously:

a) the contract has been agreed and is maintained in order to meet needs for the purchase, sale or use of goods;

b) the contract has been intended for this purpose ever since its agreement;

c) the contract is to be fulfilled through delivery of the goods.

Financial derivatives (hereinafter also simply "derivatives") are initially entered when the Company, by coming a party to the contract clauses (i.e. on the date of signing of the contract) becomes subject to the relative rights and obligations, and they are entered at fair value, even when they are incorporated in other financial derivatives.

Derivatives incorporated in hybrid contracts are separated from the non-derivative, primary contract and entered separately if the economic characteristics and risks of the incorporated derivative are not strictly correlated to those of the primary contract, and all the features included in the definition of a derivative financial instrument by OIC principle 32 are present. Verification of the existence of incorporated derivatives for separation and individual entry is performed only at the date of initial entry of the hybrid instrument or at the date of amendment of the contract clauses.

As of the date of each set of financial statements, derivative financial instruments are evaluated at fair value and entered in the balance sheet in the relative current or fixed asset headings (the latter if they are covering fixed assets or liabilities payable at over 12 months) for positive fair value, or the funds for risks and charges for negative fair value.

Fair value is the price which would be received for the sale of an asset or which would be paid for transfer of a liability in a normal transaction between market players as of the evaluation date and, in the case of unlisted derivatives, the Company calculates it with the aid of appropriate evaluation techniques, using assumptions, parameters and hierarchical levels specified by the relevant accounting principle.

Variations in fair value, compared to the previous years, for derivatives which do not meet the requirements for classification as hedging operations, are entered in the specific income statement items.

The information required by art. 2427-2 (1) of the Italian Civil Code concerning the fair value of derivative financial instruments, and the information required by OIC 32, is supplied in a specific section of the notes to the financial statements.

Cash and cash equivalents

These are the positive balances of the bank and post office deposits, cheques and cash and cash equivalents in hand at the end of the financial year. Bank and post office deposits and cheques are evaluated at the presumable collection value and cash and duty stamps in hand at face value, while foreign currency in hand is evaluated at the exchange rate in force as of the last day of the financial year.

Accruals and deferrals

Accruals and deferrals represent portions of income and expenses referable to the financial year for which cash will be received or paid in subsequent years.

Prepaid expenses and deferred income represent respectively portions of expenses and income for which cash was paid or received in the course of the year or in previous years but referable to one or more subsequent years.

Therefore the said items will only include portions of expenses and income, common to two or more years, whose amount will vary depending on the point in time when income and expenses are recorded as taking place.

At the end of each year, the conditions which gave rise to their initial recording are verified and, where necessary, value adjustments are made. More specifically, as well as considering the physical time in which payment takes place, when reporting accrued income the presumed salvage value is considered; as for prepaid expenses, the expense will be matched in the year in which the benefit is to be derived.

Provisions for risks and charges

Provisions for risks and charges are defined as liabilities, definite in nature, either certain or likely to be incurred, which are of uncertain timing and amount. In particular, provisions for risks are liabilities which are definite in nature and of probable occurrence and whose value is estimated, whereas provisions for charges reflect liabilities of definite nature and certain occurrence, of estimated amount or timing, arising from obligations outstanding at balance sheet and whose amount will only be confirmed in future years.

Provisions for risks and charges are preferably entered in the relevant classes of the income statement headings, giving prevalence to the criterion of classification by type of costs. The amount recognized as a provision is measured by using the best estimate of costs, including legal costs, at each balance sheet date. If in measuring the provisions, a range of variability of values is obtained then the provisions will reflect the best possible estimate between the maximum and minimum values of that range.

The subsequent use of the provisions is carried out directly and only with respect to expenses and liabilities for which the provisions were originally set up. Any negative differences or amounts exceeding the charges actually incurred are recognised in the income statement consistently with the original provision.

Employee severance payment fund

The Employee severance fund (TFR) represents the provision to which the employee is entitled in the event of termination of employment, pursuant to art. 2120 of the Italian Civil Code and account being taken of the changes in the

legislation introduced by Law 296/2006. It reflects the total accrued severance amount, which includes all forms of remuneration having a continuative basis, net of advances paid and partial amounts paid out under collective employment agreement or individual agreements or corporate agreements for which no repayment is required. The amount recorded under the liabilities in respect of severance payments will equal the debt the company would have *vis-à-vis* its employees, if the employment relationship had terminated at the date of closing of the financial year. Employee severance amounts referring to those employment relationships which, at closing date, are ceased and which are paid out in the following year are classified under payables.

Payables

Payables are liabilities of a specific nature and certain existence which represent obligations to pay fixed or calculable amounts of liquid assets to lenders, suppliers and other parties.

Payables originating from the purchase of assets are entered when the production process of the assets is completed and the transfer of ownership has substantially taken place, taking the transfer of risks and benefit as the parameter of reference. Payables related to services are entered when the services are received, i.e. when the service has been provided. Loan payables and those arising for reasons other than the acquisition of goods and services are entered at the time when the Company's payment obligation to the counterparty comes into effect. Payables for customer down payments are entered when the right to receive the down payment is established.

Payables are entered in the financial statements on the basis of the amortised cost criterion, bearing in mind the time factor.

The amortised cost criterion is not applied if its effects are negligible, usually in the case of short-term payables or when the transaction costs, commissions paid between the parties and any other difference between the initial value and the due date value of the payable are insignificant. Moreover, pursuant to art. 12 (2) of Legislative Decree 139/2015, the Company took up the option of not applying the amortised cost criterion and the actualisation of all payables arising prior to 1 January 2016. These payables are initially entered at face value net of premiums, discounts and allowances envisaged by the contract or granted for any other reason, and are then always evaluated at face value plus interest calculated at the nominal interest rate, less payments made for principal and interest. In the event of early payment, the difference between the residual book value of the payable and the expenditure made to extinguish it is entered in the financial income/charges in the income statement. Discounts and allowances of a financial nature, irrelevant for calculation of the initial entry value since they were not foreseeable at the time when the payable was initially entered, are recorded at the time of payment as financial income.

When the amortised cost criterion is applied, the initial entry value is the same as the face value of the payable, unless actualisation is necessary as described below, net of the transaction costs and all bonuses, discounts and allowances directly deriving from the transaction which generated the payable. Transaction costs, initial commissions receivable and payable, issue costs and premiums and discounts and all other differences between the initial value and the face value at the due date are included in the amortised cost using the effective interest criterion, with an interest rate calculated at the time when the payable was initially entered and maintained for subsequent evaluations, except in cases where the contract specifies a variable interest rate tied to market rates. At the end of each financial year, the value of the payables evaluated at the amortised cost is equal to the current value of future financial cash flows discounted at the effective interest rate. In the event of early payment, the difference between the residual book value of the payable and the expenditure made to extinguish it is entered in the financial earnings/charges in the income statement. Discounts and allowances of a financial nature, irrelevant for calculation of the amortised cost since they were not foreseeable at the time when the payable was initially entered, are recorded at the time of payment as financial earnings.

Trade payables with due date more than 12 months after the initial date of entry, with no interest charged or with contract interest rates significantly different from the market interest rates, and the relative costs, are initially entered at the value established by actualising the future cash flows to the market interest rate. The difference between the initial value of entry of the payable thus established and the term value must be entered in the income statement as a financial charge throughout the duration of the payable, using the effective interest rate criterion.

For financial payables, the difference between the liquid assets received and the current value of the future cash flows, established using the market interest rate, is entered in the financial earnings or charges in the income statement at the time of initial entry, unless the nature of the operation or contract makes it appropriate to classify this item differently and thus include it in the accounts in another way.

Payables are partially or totally deleted from the financial statements when the contractual and/or legal obligation is extinguished due to fulfilment or for other reasons, or transferred.

Foreign currency transactions, assets and liabilities

The assets and liabilities deriving from a foreign currency transaction are initially entered in Euro, applying the spot exchange rate between the Euro and the foreign currency in force as of the date of the transaction to the foreign currency amount.

Foreign currency monetary items, such as contingency funds relating to foreign currency liabilities, are converted in the financial statements at the spot exchange rate on the last day of the financial year. The relative exchange rate profits

and losses are imputed to the income statement for the year.

Foreign currency assets and liabilities of a non-monetary nature are entered in the balance sheet at the exchange rate at the time of their purchase, and therefore any positive or negative exchange rate differences do not lead to an independent, separate entry.

Any net profit deriving from the adjustment of monetary items in foreign currencies is included in the operating result, and during approval of the financial statements and consequent allocation of the result it is entered in a specific non distributable reserve. If the net result for the financial year is less than the profit not realised on the foreign currency items, the amount entered in the non distributable reserve is equal to the result for the financial year.

Earnings and Costs

Earnings, income, costs and charges are entered net of returns, discounts, allowances and bonuses and of the taxes directly related to the sale of products and the provision of services, on the accrual principle and with a prudential approach. Earnings originating from the sale of assets are entered when the production process of the assets is completed and the exchange has already taken place, meaning that transfer of ownership has taken place in substance if not formally, assuming the transfer of risks and benefit as the parameter of reference. Earnings for the provision of services are entered when the service has been provided.

Earnings, income, costs and charges relating to transactions in foreign currency are calculated at the spot exchange rate of the date when the relative operation took place.

If the amortised cost method is applied, interest is calculated using the effective interest criterion. Financial charges are entered for the amount accrued during the financial year.

Dividends

Dividends are entered in the financial statements as financial earnings in the financial year in which the Company's right to collect the relative amount arises, further to the resolution to distribute the profit or reserve is taken by the subsidiary's general meeting.

Financial earnings are not entered if the subsidiary distributes its own shares as dividend or assigns shares as part of a bonus issue.

Income tax for the period

Income tax for the period is calculated based on a realistic estimate of the tax to be levied in accordance with applicable tax laws and by applying the tax rates applicable at financial statements date.

The amount of tax payable is reported in the balance sheet at nominal value, net of advances paid, withholdings

incurred and tax credits to offset future taxes – refunds for those tax credits have therefore not been requested -; if the advances paid, the withholdings and credits exceed the tax owed, a tax receivable account will be reported in the statements. Tax receivables and payables are evaluated using the amortised cost criterion, unless they are payable within 12 months.

As parent company and issuer of the consolidated financial statements, Salcef Costruzioni has adopted the national consolidated taxation scheme with regard to IRES tax. The fiscal consolidation contract lasts for three years, 2014-2016, with Salcef S.p.A. a Socio unico and for one year (2016 fiscal year) with SI.TA. S.r.l.. The balance sheet includes the total IRES tax receivable/payable in relation to the Inland Revenue.

Deferred and prepaid income taxes are calculated on the cumulative amount of all existing temporary differences between tax assets and tax liabilities determined on the basis of financial reporting requirements and their value as recognized instead for tax reporting purposes, which will be cancelled during subsequent financial years.

Deferred and prepaid income taxes are recorded in the year in which temporary differences arise and they are calculated by applying the tax rates applicable in the year in which the temporary differences will reverse (i.e. yield amounts relevant for tax purposes), if the said rates are already determined at the closing date of the financial statements, if not, they are instead calculated on the basis of the rates applicable at closing date.

Prepaid (advanced) taxes on deductible temporary differences and on the benefit linked to carrying forward tax losses are reported and kept on the financial statements only when there is a reasonable likelihood of their being recovered in future years, by estimating taxable income or by estimating that there will be sufficient taxable temporary differences in the years in which the prepaid tax will reverse.

Any asset for prepaid taxes not entered in the books or reduced during previous financial years, since the conditions for its inclusion or maintenance in the financial statements were not met, is entered or restored in the financial year during which these conditions are met.

In the balance sheet, deferred and prepaid taxes are offset when certain prerequisites are satisfied (the possibility and the intention to offset), the balance arising from the offsetting of these taxes is entered under the specific items of the current assets, when it is an asset, and in the fund for risks and charges, if it is a liability.

The notes to the financial statements contain a table of the temporary differences which generated the deferred or prepaid taxes, specifying the rate of taxation applied and the variations from the previous financial year, and the income or cost amounts entered in the income statement or shareholders' equity and the items not included in the calculation, as well as the amount of the prepaid taxes entered in the financial statements relating to losses for the financial year or

previous financial years and the amount of the taxes not yet entered in the books.

Conversion of accounts and translation of financial statements in foreign currency

The financial statements are expressed by using the functional currency, which is the local currency or such other currency in which the majority of business transactions and assets and liabilities are denominated. The statements expressed in a currency other than the Euro are converted into Euro by applying the year-end exchange rate to entries of the assets and liabilities statements and by applying the average exchange rate to income statement balances. The differences originating from converting the net equity at the start of the year to the rates applicable at year-end are recorded directly in the translation reserve.

In the event of the disposal of the shareholding, the overall amount of the translation differences recorded in the reserve is accounted for in the Income Statement. The table here below shows the exchange rates used by the group.

CURRENCY	Code	31/12/2016	
		Spot convers. rate	Aver. conv. rate
Zloty (Poland)	PLN	4.4103	4.36321
Libyan Dinar (Libya)	EGP	19.2105	11.0706
New Leu (Romania)	RON	4.539	4.49043
Kuna (Croatia)	HRK	7.5597	7.53329
Arab Emirates Dirham (Abu Dhabi)	AED	3.86960	4.06344
Saudi Arabian Riyal (Saudi Arabia)	SAR	3.9545	4.15167

Events after closing date

The events after closing date which change conditions existing at financial reporting date and which require that changes be made to the assets and liabilities, in accordance with applicable accounting principles, are recorded in the financial statements on an accrual basis, to reflect the effect generated on the financial, cash-flow and operating situation of the company at closing date.

The events occurring after closing date which impact the conditions existing at financial reporting date but which do not require that any changes be made to the book values in accordance with applicable accounting principles - since they are referable to the following year - are not accounted for in the Financial Statements; they are however set out in the Notes to the Financial Statements to provide a more thorough understanding and clear picture of the Company's situation.

The time-limit within which the event must take place for it to be accounted for is the date of the draft statements by the directors, except when between the said date and that on which the General Meeting is expected to approve the said statements such events occur which require them to be changed.

COMMENT TO THE KEY ITEMS OF THE BALANCE SHEET

ASSETS

FIXED ASSETS

INTANGIBLE ASSETS

Intangible assets amount to 3,455 thous./Euros (3,078 thous./Euros as at 31 December 2015); the table here below provides a break-down of the changes.

	Incorporation and expansion costs	Industrial and intellectual patent rights	Concessions, licenses, trade marks & equiv.	Start up	Intangible assets in progress and advances	Other intangible assets	TOTAL
(amounts in Euros/000)							
31/12/2015 broken down as follows:							
Cost	251	152	563	6,243	331	3,005	10,545
Amortisation Fund	(65)	(9)	(551)	(5,032)	-	(1,810)	(7,467)
Initial value at 31/12/2015	**186**	**143**	**12**	**1,211**	**331**	**1,195**	**3,078**
Increases - cost		23	15		725	508	1.271
Decreases - cost							-
Reclassifications - cost		4	(4)		18		18
Exch. rate difference - cost	(4)					8	4
Other changes - cost							-
Amortisations	(49)	(20)	(11)	(261)		(570)	(911)
Decreases – Amort. Fund							-
Reclassifications – Amort. Fund.							-
Exch. rate difference – Amort. Fund.	3					(8)	(5)
Other changes – Amort. Fund							-
31/12/2016 broken down as follows:							
Cost	247	179	574	6,243	1,074	3,521	11,838
Amortisation Fund	(111)	(29)	(562)	(5,293)		(2,388)	(8,383)
Book value at 31/12/2016	**136**	**150**	**12**	**950**	**1,074**	**1,133**	**3,455**

The item Incorporation and Expansion Costs amounting to 136 thous./Euros, mainly refers to notary public's expenses and ancillary costs for the setting up and subsequent expansion of Salcef S.p.A. and of SRT S.r.l. in 2013 and to 120 thous./Euros for the costs incurred for the acquisition of the corporate division from Tuzi Costruzioni Generali S.p.A. in 2015.

Patent rights and intellectual property rights of use, amounting to 150 thous./Euros, include 135 thous./Euros paid by SRT to acquire industrial patents relating to technologies applicable in the railway construction industry and 15 thous./Euros for the software licenses acquired by Salcef Costruzioni and Salcef S.p.A..

Goodwill refers to business branch purchased from Tuzi Costruzioni Generali S.p.A. in 2015, whose net book value amounts to 388 thous./Euros, to acquisitions of business branches for valuable consideration, by the Parent Company; more specifically, these acquisitions were made in 2007 and their net book value amounts to 120 thous./Euros, in 2011 for a residual amount of 273 thous./Euros and in 2012 for a residual amount of 170 thous./Euros which specifically

refers to the purchase of RECO S.r.l. which operates in the engineering design sector.

Goodwill was included with the consent of the Board of Statutory Auditors.

Intangible fixed assets under construction and advances include costs internally incurred by SRT S.r.l. to design new railway machinery (1,074 thous./Euros).

The item Other Intangibles includes, for the most part, the amount of 256 thous./Euros, which refer to charges for taking out bank loans before 2016, 583 thous./Euros which refer to non-routine renovation work on the property located in Rome, in via di Pietralata n. 140, owned by third parties and rented by Salcef Costruzioni which has its administration offices there and 47 thous./Euros which refers to costs incurred in connection with obtaining the necessary licenses and certifications for operating the business, such as the SOA and the official documents certifying compliance with safety at work provisions, which are amortized on the basis of the duration of the aforementioned certifications and declarations.

TANGIBLE FIXED ASSETS

Net value of tangible assets as of 31 December 2016 amounts overall to 36,077 thous./Euros (40,834 thous./Euros as at 31 December 2015); the table here below provides a break-down of the changes.

	Land and buildings	Plant and machinery	Indust.& Commer. equipment	Other assets	Tang. fixed assets in progress & advances	TOTAL
(amounts in Euros/000)						
31/12/2015 broken down as follows:						
Cost	8,958	115,129	6,930	4,591	5,118	140,726
of which write-ups	*1,352*	-	-	-	-	*1,352*
Amortisation Fund	(1,607)	(89,252)	(6,508)	(2,525)	-	(99,892)
Accumulated impairments	-	-	-	-	-	-
Initial value 31/12/2015	**7,351**	**25,877**	**422**	**2,066**	**5,118**	**40,834**
Investments – historical cost		3,806	713	659	4,571	9,749
Disinvestments - historical cost	(824)	(7,548)	(396)	(500)	(45)	(9,313)
Reclassifications - historical cost		3,875	453		(4,346)	(18)
Other changes - historical cost						-
Exch.rate difference - historical cost	(1,000)	(1,966)	(85)	(135)	(32)	(3,218)
Amortisations	(192)	(5,819)	(456)	(620)		(7,087)
Divestments – Amortis. Fund	86	3,475	396	204		4,161
Reclassifications – Amort. Fund						-
Impairments						-
Other changes - Amortis. Fund						-
Exch.rate difference - Amortis. Fund	103	715	32	119		969
31/12/2016 broken down as follows:						
Cost	7,134	113,296	7,615	4,615	5,266	137,926
of which write-ups	*1,352*	-	-	-	-	*1,352*
Amortisation Fund	(1,610)	(90,881)	(6,536)	(2,822)	-	(101,849)
Accumulated impairments	-	-	-	-	-	-
Book value at 31/12/2016	**5,524**	**22,415**	**1,079**	**1,793**	**5,266**	**36,077**

Increases in the year 2016 (9,749 thous./Euros) refer, for the most part, to the purchase of new assets with technical

characteristics and performance suited to the service they are to run, and to the purchase of sizeable components of the aforementioned operating assets, including as part of non-routine maintenance required in terms of enhancing the efficiency and production capacity of the same assets. More specifically, the categories referring to Rolling Stock, Excavators and Mechanical Shovels are the main operating goods which form the core business therefore their respective asset categories, included under Plants and Machinery, have increased by 7,466 thous./Euros as a result of the renewing and/or increasing of their useful life following non-routine maintenance work and expenditures for improvements which structurally modified the rolling stock to make it operational on tracks and in respect of certain contracts having different characteristics.

The decreases (5,152 thous./Euros), on the other hand, related to assets no longer considered productive or useful for the Group's operations; in particular, the parent company Salcef Costruzioni decommissioned and sold some of the plants located in Abu Dhabi and sold the concrete sleeper production plant owned by the Egyptian branch to the partner Siegwart, a state-owned Egyptian company.

The item Land and Buildings includes for 4,175 thous./Euros the operational unit of SRT S.r.l., with the adjoining land to which the planning permission obtained from the municipality of Fano (PU) applies, purchased in 2015.

The Other Fixed Assets (1,793 thous./Euros) mainly include, trucks and motor-vehicles for 1,544 thous./Euros and office furniture and furnishings amounting to 245 thous./Euros.

The item Fixed assets under construction and advances (5,266 thous./Euros) contains costs incurred in respect of construction and non-routine maintenance of machinery and equipment which are not yet operational, executed for the most part by the subsidiary SRT S.r.l. on behalf of Salcef S.p.A..

FINANCIAL FIXED ASSETS

Financial assets amount to 1,160 thous./Euros, compared to 4,908 thous./Euros as at 31 December 2015.

Please find here below the changes occurred in 2016 in shareholdings in unconsolidated subsidiaries and associated companies.

Shareholdings	31/12/2015	Increases 2016	Decreases 2016	Reclassifications 2016	31/12/2016
(Amounts in Euros/000)					
Subsidiaries					
Salcef Libya Joint Venture	0				0
Salcef Mozambique Limitada	0				0
SI.TA. S.r.l.	0		0		0
TOTAL	**0**	**0**	**0**	**0**	**0**
Associated companies					
Frejus S.c.a.r.l.	8				8
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	25				25
Deposito Tranviario Togliatti S.c.a.r.l.	4		(4)		0
SASSARIOLBIA S.c. a r.l.	5		(4)	(1)	0
Consorzio Stabile Itaca S.c.a.r.l.	19		(19)		0
Capua S.c.a.r.l.	0	44	(44)		0
Tuzi Costruzioni S.r.l.	1	30			31
TOTAL	**62**	**74**	**(71)**	**(1)**	**64**
Other companies					
Concise Consorzio Stabile Soc. Cons. a r.l.	1				1
SASSARIOLBIA S.c. a r.l.	0			1	1
TOTAL	**1**	**0**	**0**	**1**	**2**

With regard to the decreases, SI.TA. S.r.l., Deposito Tranviario Togliatti S.c.ar.l. and Capua S.c.ar.l. were placed in liquidation and ceased trading on 20 December 2016, 29 December 2016 and 23 December 2016, respectively. The liquidation of SI.TA. S.r.l. generated financial income of 146 thous./Euros, as specified by the asset distribution plan, and bad debts for Salcef Costruzioni of 1,537 thous./Euros, equal to the quota of the loan granted to the controlled entity but not repaid. On the other hand, the liquidation of Deposito Tranviario Togliatti S.c.ar.l. generated a financial charge equal to the book value of the shareholding (4 thous./Euros) and bad debts of 10 thous./Euros due to the failure to repay the loan granted to the associated company. Capua S.c.ar.l. was put into liquidation with the generation of a financial charge of 36 thous./Euros, equal to the value of the shareholding less the write-down fund created as at 31 December 2015 to cover the losses made by the subsidiary in 2015 (8 thous./Euros) and a bad debt loss of 25 thous./Euros due to the failure to recover the loans granted, since no distribution plan was drawn up.

The reduction in the shareholding in Consorzio Stabile Itaca S.c.ar.l. is due to the write-down consequent on company losses in the 2015 and 2016 financial years, which Salcef was called upon to cover by the minutes of the Extraordinary General Meeting on 15 May 2017, at which the restoration of the company's Equity for the amount of 40,000 Euros was also approved. The write-down amounts to a total of 23 thous./Euros, equal to the book value of the shareholding (19 thous./Euros), plus the additional share of the losses to be covered, and entered as a payable (4 thous./Euros).

To conclude, the reduction in the shareholding in Sassariolbia S.ca.r.l. relates to the sale of 37.8% of the shares held to the fellow shareholder Italiana Costruzioni S.p.A., thus reducing the size of the stake held from 49% to 11.2%, with a

consequent reclassification of the financial statement value of the "shareholdings in other companies" heading.

The increase of 30 thous./Euros in the shareholding in the associated company Tuzi Costruzioni S.r.l. is due to the partial write-off of the receivable arising from the shareholders' loan, in order to meet the company's capitalisation needs.

As for loans receivable entered under financial assets, which overall amounted to 1,029 thous./Euros (4,779 thous./Euros in 2015), they mainly refer to zero-interest bearing loans granted to the companies of the Group. In particular, loans to associated companies are broken down as follows: 353 thous./Euros to Consorzio I.C.A.V. and 29 thous./Euros to Tuzi Costruzioni S.r.l.. The decrease compared to 2015 is basically due to the liquidation of Deposito Tranviario Togliatti S.c.a.r.l.

The amounts receivable, amounting to 647 thous./Euros (762 thous./Euros as at 31 December 2015) carry for the most part security deposits paid by the companies of the Group by way of security for the supply of goods and services to be received and to lessors for signed rentals of property (133 thous./Euros), the receivable amount due from the liquidator of the subsidiary Ferrovie Sarde S.c.a.r.l. deriving from the winding-up of the same company (54 thous./Euros), the receivable arising from the asset distribution plan of the liquidation of SI.TA. S.r.l. (146 thous./Euros) and customs bonds covering the transfer of equipment (204 thous./Euros).

The other securities (65 thous./Euros) refer to shares in securities investment funds.

CURRENT ASSETS

INVENTORIES

Inventories as at 31 December 2016 amounted to 86,791 thous./Euros (85,886 thous./Euros as at 31 December 2015) and consist of "raw materials, spares and consumables" for 2,965 thous./Euros and "contract work in progress" for 83,825 thous./Euros.

The inventories of "raw materials, spares and consumables" refer to consumables and miscellaneous material purchased for building works and permanent ways which has not yet been used at year-end. Compared to 2015 they went down by 1,787 thous./Euros following a year-end inventory reduction-oriented policy implemented in 2016.

Inventories	31/12/2016	31/12/2015	Change
(amounts in Euros/000)			
Inventories of raw materials, spares and consumables	2,965	4,752	(1,787)
TOTAL	**2,965**	**4,752**	**(1,787)**

Inventories at 31 December 2016 are broken down by geographical area as follows:

Country	31/12/2016	31/12/2015
(amounts in Euros/000)		
Italy	2,852	3,405
Egypt	113	1,347
TOTAL	**2,965**	**4,752**

Item 'Contract work in progress' refers to contracts agreed as a single unit of work and having a duration spanning several years. Item "Contract work in progress" reports progress amounts up to 31 December 2016 referring to contracts still underway, including requests put to clients for additional compensation; amounts were calculated on the basis of internal evaluations of the work which were then recognized as final by the clients through progress status reports.

Contract work in progress	31/12/2016	31/12/2015	Change
(Amounts in Euros/000)			
Contract work in progress	83,825	81,134	2,691
TOTAL	**83,825**	**81,134**	**2,691**

The item refers to the parent company for 9,001 thous./Euros, to Euro Ferroviaria S.r.l. for 11,163 thous./Euros and to Salcef S.p.A. for 63,661 thous./Euros.

The amount and the type of reserves entered in the financial statements for additional fees from clients is substantially the same as the previous year's, given that there has been an increase of work in progress at Group level at 31 December 2016 compared to previous year.

The table shown here below gives a breakdown of contract work in progress by geographical area:

Geographical area	31/12/2016	31/12/2015	Change
(amounts in Euros/000)			
Italy	75,416	75,219	197
Poland	268	480	(212)
Croatia	0	200	(200)
Egypt	11	1,444	(1,433)
Arab Emirates	0	1,877	(1,877)
Saudi Arabia	8,130	1,914	6,216
TOTAL	**83,825**	**81,134**	**2,691**

RECEIVABLES

Receivables due from clients

Receivables due from clients, which by contract become due within 12 months, amounted to 61,257 thous./Euros, net of the provision for bad debts set aside up to 31 December 2016 and amounting to 1,765 thous./Euros (Salcef S.p.A. for 703 thous./Euros, Salcef Costruzioni for 704 thous./Euros, Euro Ferroviaria S.r.l. for 348 thous./Euros and RECO S.r.l. for 10 thous./Euros).

Receivables due from clients payable beyond 12 months and amounting to 4,601 thous./Euros (4,899 thous./Euros as at 31 December 2015), consist of retention bonds invoiced to clients which will be cashed once the work to which they refer has undergone final testing.

Receivables due from clients	31/12/2016	31/12/2015	Changes
(Amounts in Euros/000)			
Receiv. due from custom. - *within 12 months*	63,021	50,205	12,816
Receiv.due from custom.- *beyond 12 months*	4,601	4,899	(298)
Provision for bad debts	(1,764)	(1,414)	(350)
TOTAL	**65,858**	**53,690**	**12,168**

The table here below shows the movements of the fund for bad debts as occurring in the year 2016:

Provision for bad debts	31/12/2015	Drawings/Issues	Amounts allocated	31/12/2016
(amounts in Euros/000)				
Provision for bad debts	(1,414)	138	(488)	(1,764)
TOTAL	**(1,414)**	**138**	**(488)**	**(1,764)**

Here below is a breakdown of receivables due from clients by geographical area:

Receivables due from clients	31/12/2016	%	31/12/2015	%	Change	%
(amounts in Euros/000)						
Italy	41,091	62.4%	34,829	64.9%	6,262	18%
Europe (Italy excluded)	4,070	6.2%	3,978	7.4%	91	2%
Egypt	3,555	5.4%	7,749	14.4%	(4,194)	-54%
Arab Emirates	2,925	4.4%	1,164	2.2%	1,761	151%
Mozambique	0	0.0%	5,970	11.1%	(5,970)	-100%
Saudi Arabia	14,217	21.6%	0	0%	14,217	-
TOTAL	**65,858**		**53,690**		**12,168**	

Receivables due from associated companies

Receivables due from associated companies amounted to 1,421 thous./Euros (2,083 thous./Euros as at 31 December 2015) and for the most part refer to trade receivables due from Frejus S.c.ar.l. (281 thous./Euros) and from Consorzio Itaca S.c.a.r.l. (1,139 thous./Euros).

Tax receivables

Tax receivables	31/12/2016	31/12/2015	Change
(Amounts in Euros/000)			
Indirect taxes	592	529	63
Direct taxes	183	453	(270)
Receivable amount for IRES/IRAP	1,112	1,112	0
Taxes levied abroad	3,113	1,077	2,036
Receivable amount for IRES refund	0	127	(127)
Other tax receivables	0	44	(44)
Total tax receivables	**5,000**	**3,342**	**1,658**

The tax receivables item, which amounted to 5,000 thous./Euros (3,342 thous./Euros as at 31 December 2015), mainly consists of:

- receivables for indirect taxes from the revenue agency (mainly VAT) levied in Italy and abroad, amounting to 592 thous./Euros;
- receivable amount due from the revenue agency for the higher IRES paid, with reference to the tax periods from 2007 to 2011, paid as a result of the non-deduction of the IRAP relating to the personnel and equivalent staff costs, for which a refund was requested by application sent electronically in March 2013, pursuant to art. 2, paragraph 1-quater, of decree law no. 201/2011 (903 thous./Euros referable to the parent company and 209 thous./Euros referable to Euro Ferroviaria S.r.l.);
- receivable amount on the income tax of 3,113 thous./Euros levied abroad;
- receivable amount due from the revenue agency for the current IRES and IRAP, amounting to 155 thous./Euros and 28 thous./Euros, referring to the Italian consolidated companies.

Deferred tax assets

Deferred tax assets, totalling 998 thous./Euros (896 thous./Euros as at 31 December 2015), reflect the application of the tax legislation of the Countries in which the group operates. A breakdown and the movements of the account are shown in the table here below:

Receivables for prepaid taxes	31/12/2015	Provisions set aside	Drawings	Other changes	31/12/2016
(Amounts in Euros/000)					
Amortization of goodwill	392	41	(63)	-	370
Depreciation on revalued buildings	58	-	-	-	58
Provision for bad debts	45	-	-	-	45
Exchange rate differences	29	3	(29)	-	3
Others	374	202	(48)	(4)	524
TOTAL	**896**	**246**	**(140)**	**(4)**	**998**

Receivables due from others

The balance of this item of receivables is made up as follows:

Receivables due from others	31/12/2016	31/12/2015	Change
(Amounts in Euros/000)			
Advance on no-recourse receivables	8,251	5,453	2,798
Advances to suppliers	806	551	255
Receivables from staff and worksites	1,038	552	486
Receiv. on hold on behalf of th.parties (A.T.I.)	5	2,758	(2,753)
Receiv. due from social security/welfare agencies	103	181	(78)
Other receivables	446	1,013	(567)
TOTAL	**10,649**	**10,508**	**141**

No-recourse assignments of receivables were performed by Salcef S.p.A. and Euro Ferroviaria S.r.l., in respect of receivables due from clients, and the balance of 8,251 thous./Euros refers to the amount yet to be cashed by the two companies, 6,053 thous./Euros and 2,198 thous./Euros, respectively.

The table here below provides an breakdown of the changes and due dates of the receivables shown under the current assets:

Receivables entered in current assets	Value at start of year	Change during the year	Value at year end	Amount due within 1 year	Amount due beyond 1 year	of which remainder due after 5 years
(amounts in Euros/units)						
Receivables due from clients	53,689,683	12,168.746	65,858,429	61,257,159	4,601,270	-
Receivables due from subsidiaries	4,380	(4,380)	0	-	-	-
Receivables due from ass. comp.	2,082,626	(661,886)	1,420,740	1,420,740	-	-
Tax receivables	3,342,306	1,657,236	4,999,542	4,999,542	-	-
Deferred tax assets	895,729	102,547	998,276	998,276	-	-
Other receivables	10,508,096	140,685	10,648,781	10,648,781	-	-
TOTAL	**70,522,820**	**13,402,948**	**83,925,768**	**79,324,498**	**4,601,270**	**0**

CASH AND CASH EQUIVALENTS

Cash and cash equivalents amounted to 53,157 thous./Euros compared to 26,175 thous./Euros in the previous year; the breakdown is shown in detail in the table here below:

Cash and cash equivalents	31/12/2016	31/12/2015	Change
(amounts in Euros/000)			
Bank and post office deposits	52,931	26,107	26,824
Cash and other valuables at hand	226	68	158
TOTAL	**53,157**	**26,175**	**26,982**

As far as bank and postal deposits are concerned, please note that the balance mainly refers to Salcef S.p.A for 28,827 thous./Euros, Euro Ferroviaria S.r.l. for 11,106 thous./Euros and the Parent Company for 12,251 thous./Euros.

The increase compared to the previous financial year is due mainly to the liquidity generated by the new Riyadh Metro Line 3 contract in Saudi Arabia and the receipt, at the end of December 2016, of payments of invoices by R.F.I. S.p.A. and amounts withheld as surety by the Egyptian customer.

PREPAID EXPENSES AND ACCRUED INCOME

Prepaid expenses and accrued income amounted to 2,699 thous./Euros (2,491 thous./Euros as at 31 December 2015) and, for the most part there were accrued income amounts referring to the following:

- insurance premiums relating to worksites (1,714 thous./Euros);
- down-payments paid out to lease companies (160 thous./Euros);
- commissions on bank guarantees (358 thous./Euros);
- rents (189 thous./Euros).

The balance is for the most part referable to Salcef S.p.A. for 1,311 thous./Euros, to the Parent Company for 1,238 thous./Euros and to Euro Ferroviaria S.r.l. for 142 thous./Euros.

LIABILITIES

SHAREHOLDERS' EQUITY

The movement of the items making up the shareholders' equity is as follows:

	Share capital	Legal reserve	Revaluation reserves	Other reserves	Ret. earnings and loss carried forward	Profit (loss) for the period	Group's SE	SE + profit attrib. to third parties
(amounts in Euros/000)								
Shareholders' equity 31/12/2015	200	111	28,060	52,499	1,749	3,155	85,774	70
Allocation of previous year's profit					3,155	(3,155)	-	
Distribution of dividends				(1,500)			(1,500)	
Change in the translation reserves				(2,464)			(2,464)	
Other variations / Reclassifications				(100)	100		-	
Profit (Loss) for the period						6,792	6,792	(40)
Shareholders' equity 31/12/2016	**200**	**111**	**28,060**	**48.435**	**5,004**	**6,792**	**88,602**	**30**

The share capital underwritten and fully paid in at 31 December 2016 is represented by no. 200,000 ordinary shares each having the nominal value of 1 Euro, equal to a total of 200,000 Euros.

The Legal Reserve (111 thous./Euros) consists of income allocated in previous years in conformity to Italian laws.

The item Revaluation Reserves reports the values relating to the writing up of property, plant and equipment pursuant to laws L.342/2000, L.266/2005 and L.2/2009 for an overall amount of 28,060 thous./Euros.

The Other Reserves include:

- the Extraordinary Reserve, amounting to 43,101 thous./Euros, which is made up by earnings referable to previous years and allocated by the shareholders' meeting;
- the Reserve for gains on exchange rates for 266 thous./Euros, set up by Salcef Costruzioni upon approval of the financial statements at 31 December 2014 for unrealized net foreign exchange gains;
- Consolidation Reserve amounting to 8,241 thous./Euros;

- Foreign currency reserve which includes the foreign currency translation reserve, for the financial statements of foreign branches and subsidiaries (negative for 3,173 thous./Euros).

Here below is the reconciliation table recording amounts referable to the shareholders equity and net result for the period at 31 December 2016 shown in the Financial Statements of Salcef Costruzioni Edili e Ferroviarie S.p.A. and those reported in the Consolidated Financial Statements:

Description	Profit	Shareholders' Equity
(amounts in Euros/000)		
Salcef Costruzioni Edili e Ferroviarie S.p.A.	2,685	74,552
Contributions of subsidiaries	9,430	14,811
Dividends	(5,000)	-
Elimination of intra-group margins	(347)	(923)
Goodwill	(17)	192
Total Consolidated Shareholders' equity	**6,751**	**88,632**

FUNDS FOR RISKS AND CHARGES

The contingency funds include the deferred taxes fund (481 thous./Euros), the value of the payable financial derivatives undersigned by Salcef Costruzioni and Salcef S.p.A. (418 thous./Euros), other contingency funds (8 thous./Euros) and the allocations made to the tax fund (500 thous./Euros) further to the estimate of the costs to be met in view of the results of the tax inspection begun in October 2016 by Agenzia delle Entrate – Direzione Regionale del Lazio – Settore Controlli Ufficio Grandi Contribuenti ("Major Tax Payer Office", Inland Revenue) in relation to Salcef Costruzioni, which concluded with the issue of a Tax Demand on 22 December 2016.

The transactions which took place in the heading in question during the 2016 financial year are set out below:

Contingency funds	31/12/2015	Drawings/ Issues	Allocations	Other variations	31/12/2016
(amounts in Euros/000)					
Deferred tax fund	1	481	-	(1)	481
Tax fund	0	-	500	-	500
Payable financial derivatives	483	(65)	-	-	418
Shareholding depreciation funds	8	(8)	-	-	0
Tax claim risk fund	19	(5)	-	(6)	8
TOTAL	**511**	**403**	**500**	**(7)**	**1.407**

The fund for deferred tax at 31 December 2014 mainly referred to temporary differences generated on unrealized net gains on exchanges by Salcef Costruzioni; the table here below shows the changes occurring in the closing year:

Fund for deferred tax	31/12/2015	Provisions	Drawings	Other changes	31/12/2016
(amounts in Euros/000)					
Exchange rate differences	0	481	-	-	481
Other	1	-	-	(1)	0
TOTAL	**1**	**481**	**0**	**(1)**	**481**

The tax inspection referred to previously involved a check on the accounting procedures of Salcef Costruzioni with regard to IRES, IRAP, VAT and withholding taxes for the 2013 fiscal year, and ended on 22 December 2016 with serving of a Tax Demand (*Processo Verbale di Constatazione, PVC*). In accordance with the provisions of art. 12 (7) of Italian Law no. 212/2000, the Company submitted a counter-plea with its comments on and arguments against the findings of the PVC, accompanied by the relevant documentation, and is awaiting the decision of the Inland Revenue with regard to the Demand for increased taxes, fines and interest.

With regard to financial derivatives, as at 31 December 2016 the Parent Company and Salcef S.p.A. were parties to Interest Rate Swap contracts with Unicredit S.p.A., signed on 2015 and expiring in 2021 with notional capital of Euro 14,681,818, and signed in 2014 and expiring on 2018, with a notional capital of Euro 5,000,000, respectively; the value adjustments are entered in the income statement included in these financial statements, as is the fair value of the contracts, which are still running.

EMPLOYEE SEVERANCE PAYMENTS

Here below is a breakdown of the movements in the Employee Severance Fund in the year:

Employee severance payments	31/12/2015	Provision	Amounts paid out/Amounts paid into pension funds	Other changes	31/12/2016
(amounts in Euros/000)					
Employee severance fund	1,356	1,666	(732)	(1,261)	1,029
TOTAL	**1,356**	**1,666**	**(732)**	**(1,261)**	**1,029**

The overall balance represents the amounts allocated to the employee severance fund owed by law for the employees working in the Italian companies, net of both advances and pensions paid out to employees and payments to supplementary schemes and treasury.

PAYABLES

Payables due to banks

This payable account for amounts payable to banks both within and after 12 months amounted to 34,103 thous./Euros (44,854 thous./Euros as at 31 December 2015) and includes the debt as at 31 December 2016 of the Salcef group owed to lending institutions for receiving advances on invoices issued against contracts and/or certification of work progress status, the so-called "self-liquidating" formula, and for current account overdrafts and loans outstanding. Here below is a breakdown of the item.

Payables due to banks	31/12/2016	31/12/2015	Changes
(amounts in Euros/000)			
c/a overdrafts	12	0	12
Advances	43	2,894	(2,851)
Bank loans	34,048	41,960	(7,912)
TOTAL	**34,103**	**44,854**	**(10,751)**

Bank loans have been contracted under the following terms: an Euribor-linked flexible interest rate. With a view to neutralizing the effect of any rising interest rates Interest Rate Swap contracts were executed by the parent Company and by Salcef S.p.A..

Here below is a table breaking down bank loans outstanding at 31 December 2016 by due date:

Bank loans	31/12/2016	from 1 to 2 yrs	from 2 to 5 yrs	beyond 5 yrs
(Amounts in Euros/000)				
Bank loans	34,048	22,730	11,318	0
TOTAL	**34,048**	**22,730**	**11,318**	**0**

Down-payments

The item down-payments (9,176 thous./Euros; 11,759 thous./Euros as at 31 December 2015) consists of advances by clients on contracts awarded. The said amounts consist of advances by principals in connection with future work on contracts underway and which are invoiced on a work progress basis (SAL) by sending reports that are then approved by the said principals.

As at 31 December 2016 this heading related mainly to the Saudi Arabian contract (8,781 thous./Euros) and the contractual down payment received from Ferrovienord S.p.A. for the start of the works at Paderno Dugnano station on the Milan-Seveso-Asso railway line (268 thous./Euros).

As at 31 December 2015, this heading mainly included the down payment received from Rete Ferroviaria Italiana S.p.A. for the start of the works to complete the new Arcisate – Stabio (Varese) link, completely recouped during 2016.

Payables due to suppliers

The item payables due to suppliers amounts to 101,573 thous./Euros (58,187 thous./Euros as at 31 December 2015), refer to trade payables due to suppliers for invoices received and to be received. The balance is attributable for the most part to Salcef S.p.A. (76,634 thous./Euros), to the parent company (9,885 thous./Euros), to Euro Ferroviaria S.r.l. (11,511 thous./Euros) and to SRT (3,237 thous./Euros).

Here below is a table showing payables due to suppliers, broken down by geographical area:

Payables due to suppliers	31/12/2016	%	31/12/2015	%	Change	%
(amounts in Euros/000)						
Italy	92,961	91.5%	54,237	93.2%	38,724	71%
Europe (Italy excludes)	1,754	1.7%	1,441	2.5%	313	22%
Egypt	609	0.6%	2,141	3.7%	(1,532)	-72%
Arab Emirates	99	0.1%	368	0.6%	(269)	-73%
Saudi Arabia	6,150	6.1%	0	0.0%	6,150	-
TOTAL	**101,573**		**58,187**		**43,386**	

Payables due to associated companies

Payables due to associated companies, amounting to 184 thous./Euros (2,531 thous./Euros as at 31 December 2015) mainly consist of trade payables for costs re-charged by pooled companies and consortia and referable to Salcef Costruzioni (35 thous./Euros), to Salcef S.p.A. (129 thous./Euros) and to Euro Ferroviaria S.r.l. (16 thous./Euros).

The decrease compared to the previous year arises mainly from the reclassification of the payable to Sassariolbia S.c.ar.l. in the payables to others item (1,253 thous./Euros) further to sale of part of the shareholding in the company, discussed earlier, and the closure of Deposito Tranviario Togliatti S.c.a.r.l., with the consequent refunding of the debt.

Tax payables

Tax payables, amounting to 8,991 thous./Euros (5,014 thous./Euros as at 31 December 2015), for the most part consist of the debt owed to the revenue agency in relation to the Irpef calculated on self-employment and other forms of freelance work, employees' work and employee severance amounts (1,321 thous./Euros), of the VAT debt payable to the revenue agency (1,486 thous./Euros), of the current IRES and IRAP debt (3,040 thous./Euros) and of the current foreign tax debts (3,119 thous./Euros).

Tax payables	31/12/2016	31/12/2015	Change
(Amounts in Euros/000)			
Payables due to Rev. Ag. for withhold.tax	1,321	1,084	237
Payables due to Rev. Ag for VAT	1,486	667	819
Payable for IRES	2,402	1,885	517
Payable for IRAP	638	292	346
Tax payables for taxes assessed	0	0	0
Foreign tax payables	3,119	1,077	2,042
Other tax payables	25	9	16
TOTAL	**8,991**	**5,014**	**3,977**

Payables due to social security agencies

Payables due to social security agencies amounted to 2,530 thous./Euros (2,136 thous./Euros as at 31 December 2015) and refer almost in their entirety to sums owed at December 2016 in connection with INPS, to private pension fund and

to Construction Workers' fund. Most of the balance of this account is attributable to Salcef S.p.A. (1,901 thous./Euros).

Other Payables

The other payables, amounting to 19,554 thous./Euros (21,605 thous./Euros as at 31 December 2015), include for the most part salaries and wages owing in connection with the December 2016 monthly payments (2,149 thous./Euros), debts for leave accrued and not taken holidays at the close date (1,234 thous./Euros), the debts payable to the companies belonging to the temporary pooling of enterprises (A.T.I.) and referable to the collection – by Salcef S.p.A. and Euro Ferroviaria S.r.l., acting as leader companies of the association, of invoices issued by the latter to the client against work executed (8,821 thous./Euros). The item also includes the payable amount owing by the Parent Company to Ermes Gestioni S.r.l., amounting to 880 thous./Euros, and the one owing by Salcef S.p.A. to Tuzi Costruzioni Generali S.p.A. which is equal to the amount outstanding at 31 December 2016 on the purchase of the business unit (5,965 thous./Euros); of the said amount, which is to be paid in monthly instalments, 2,169 thous./Euros is repayable within twelve months and the residual part (3,796 thous./Euros) beyond twelve months and in any event within five years.

Other payables	31/12/2016	31/12/2015	Change
(amounts in Euros/000)			
Payables to employees	3,383	2,531	852
Third-party payables held (temp. consortia)	8,821	9,553	(732)
Payables to shareholders	880	880	0
Payables for purchase of company division	5,965	8,134	(2,169)
Sundry payables	505	508	(3)
TOTAL	**19,554**	**21,606**	**(2,052)**

The table below details the variation in and due dates of the debts:

Debts	Value at start of year	Variation during year	Value at end of year	Amount due during year	Amount due after end of year	of which remainder due after 5 years
(amounts in Euro units)						
Payables due to banks	44,853,611	(10,750,411)	34,103,200	14,817,326	19,285,874	
Down-payments	11,759,090	(2,582,738)	9,176,352	9,176,352		
Payables due to suppliers	58,186,849	43,385,888	101,572,737	101,572,737		
Payables due to associated companies	2,530,624	(2,346,522)	184,102	184,102		
Tax payables	5,014,199	3,976,964	8,991,163	8,991,163		
Payables due to Social Security Agencies	2,135,610	393,975	2,529,585	2,529,585		
Other payables	21,605,509	(2,051,148)	19,554,361	15,758,718	3,795,643	
TOTAL	**146,085,492**	**30,026,008**	**176,111,500**	**153,029,983**	**23,081,517**	**0**

At the date of closing there are no payables whose due date exceeds five years.

COMMENT ON KEY ITEMS OF INCOME STATEMENT

PRODUCTION VALUE

Revenue from sales and services – Variations in contract work in progress

Revenues	2016	2015	Change
(amounts in Euro/000)			
Revenues from sales and services	261,424	156,668	104,756
Revenues from inventories of finished and semi-finished products	0	(110)	110
Revenues from changes in contract work in progress	(2,820)	5,814	(8,634)
TOTAL	**258,604**	**162,372**	**96,232**

Revenues from sales and services mainly refer to the value of the contract work awarded which was executed in the financial year and accepted by the respective principals.

Revenues from changes in contract work in progress, instead, refer to the value of the work executed in the year but yet to be completed.

Here below is a break-down by geographical area of the revenues from sales and services:

Revenues by geogr. area	2016	%	2015	%	Change
(amounts in Euro/000)					
Italy	218,286	83.5%	125,656	80.1%	92,630
European Union	696	0.3%	1,416	0.9%	(720)
Egypt	11,079	4.2%	22,379	14.3%	(11,300)
Mozambique	0	0%	6,144	3.9%	(6,144)
Arab Emirates	2,615	1.0%	1,246	0.8%	1,369
Saudi Arabia	28,748	11.0%	0	0%	28,748
TOTAL	**261,424**		**156,841**		**104,583**

Capitalized costs for self-constructed assets

The item capitalized costs for self-constructed assets (8,105 thous./Euros; 5,419 thous./Euros in 2015) refers to the value of the direct cost (materials, workmanship and other direct costs) of the work executed internally on assets, mainly rolling stock and worksite machinery belonging to the companies of the group. The aforementioned non-routine maintenance work is carried out by the subsidiary SRT S.r.l. at the works located on the industrial estate of Fano (PU).

Other revenues and proceeds

The other revenues and proceeds, which amounted to 1,443 thous./Euros (1,853 thous./Euros in 2015 mainly refer to the re-charging of costs and/or the refund for expenses incurred on behalf of third parties (392 thous./Euros) and to capital gains on disposals of assets as part of the Company's ordinary course of replacement process and turnover of such assets (844 thous./Euros).

Other revenues and proceeds	2016	2015	Change
(amount in Euro/000)			
Amounts charged back to third parties	245	16	229
Compensation from insurance claims and misc.	147	76	71
Gains from disposal of assets	844	1,571	(727)
Other	207	190	17
TOTAL	**1,443**	**1,853**	**(410)**

COSTS OF PRODUCTION

Costs of production went from 160,548 thous./Euros in 2015 to 251,575 thous./Euros in 2016 proportionally to the increase in the value of production (+ 58%).

Costs of raw materials, spares and consumables

Costs of raw materials, spares and goods, net of the variation in inventories, amounted overall to 72,953 thous./Euros.

Costs of raw materials, spares and goods	2016	2015	Change
(amounts in Euro/000)			
Purchases for raw materials, spares and goods	71,873	42,070	29,803
Variation in inventories	1,080	(1,147)	2,227
TOTAL	**72,953**	**40,923**	**32,030**

Costs of services

Costs for services amounted to 113,033 thous./Euros (66,967 thous./Euros in 2015) and for the most part they include costs charged by subcontractors, consortia and subsidiary consortia and transport costs.

Costs for services	2016	2015	Changes
(amounts in Euro/000)			
Maintenance carried out by third parties	1,799	1,611	188
Third parties contracted to perform work, consulting & outsour.work	69,225	34,584	34,641
Board and lodging for employees on assignment	6,885	6,234	651
Costs for seconded personnel	2,321	1,249	1,072
Insurances and sureties	3,467	2,787	680
Costs re-charged by third parties	11,487	7,196	4,291
Compensation to collaborators	243	361	(118)
Utilities	789	515	274
Compensation to Directors	161	157	3
Compensation to Auditors	103	130	(26)
Commercial expenses	225	234	(9)
Overheads and admin. costs	917	383	533
Costs for tender procedures	141	153	(12)
Transport	11,255	7,629	3,626
Cars and motor-vehicles	1,010	806	204
Penalties and claims	1,170	1,120	50
Other costs for services	1,835	1,818	17
TOTAL	**113,033**	**66,967**	**46,065**

The contracts which generated the large variations in terms of increases in costs for services are the construction of the

Arcisate-Stabio section of the rail link between Italy and Switzerland, the doubling of the track on the railway line between Castelplanio and Montecarotto, and the construction of the Riyadh Metro Line 3 (Saudi Arabia).

Costs for assets leased from third parties

Costs for assets leased from third parties amount to 9,684 thous./Euros (7,821 thous./Euros in 2015) and are made up as follows:

Costs on Leased Assets	2016	2015	Change
(Amounts in Euro/000)			
Hire	5,819	4,426	1,393
Lease costs	2,538	2,315	223
Rent expense	1,327	1,080	247
TOTAL	**9,684**	**7,821**	**1,863**

Labour Costs

Labour costs include all direct and indirect costs referring to employees, here below is a breakdown of such costs:

Labour costs	2016	2015	Change
(amounts in Euro/000)			
Wages and salaries	30,659	24,400	6,259
Welfare and social security costs	10,713	7,912	2,801
Severance amounts, pensions and equivalent	1,667	1,369	298
Other costs	7	22	(15)
TOTAL	**43,046**	**33,703**	**9,343**

Here is a breakdown of the staff by company and by category:

Workforce	2016	2015	Average
Salcef Costruzioni Edili e Ferroviarie S.p.A.	200	178	189
Euro Ferroviaria S.r.l.	76	73	74
Salcef Polska Sp.Z.o.o.	0	16	8
Salcef Siegwart	0	0	0
RECO S.r.l.	20	15	17
Salcef S.p.A. a Socio Unico	500	427	463
SRT S.r.l.	32	29	30
TOTAL	**828**	**738**	**781**

Workforce 2016	Italy	Abroad	Total
Managers and executives	13	0	13
White-collar workers	158	62	220
Blue-collar workers	501	94	595
Apprentices	0	0	0
TOTAL	**672**	**156**	**828**

Sundry Operating Expenses

Sundry operating expenses are shown in the table here below:

Sundry Operating Expenses	2016	2015	Var
(amounts in Euros/000)			
Losses on disposals of assets	2,859	199	2.660
Indirect taxes and levies	718	937	(219)
Fines and penalties	153	432	(279)
Other operating expenses	642	225	417
TOTAL	**4,372**	**1,793**	**2,579**

The capital losses arose from the sale of assets as part of the Group's normal operations (2,859 thous./Euros); in particular 2,419 thous./Euros relate to the decommissioning and sale of the plants in Abu Dhabi and 223 thous./Euros to the sale of the sleeper production plant in Egypt.

FINANCIAL INCOME AND EXPENSES

Financial operations yielded a negative result and are down by 2,653 thous./Euros (negative for 1,206 thous./Euros in 2015); they are shown in the table here below:

Net Result from Financial Operations	2016	2015	Change
(amounts in Euro/000)			
Financial income			
Interest earned	8	333	(325)
Other financial income	151	46	105
TOTAL	***159***	***379***	***(220)***
Financial Expenses			
Interest expense	(1,347)	(1,839)	492
Financial Expenses	(688)	(602)	(86)
Loss on financial loans	(1,572)	0	(1,572)
TOTAL	***(3,607)***	***(2,441)***	***(1,166)***
Net Gains (Losses) on exchange			
Gains on exchange	11,398	1,632	9.766
Loss on exchange	(10,603)	(776)	(9,827)
TOTAL	***795***	***856***	***(61)***
TOTAL	**(2,653)**	**(1,206)**	**(1,447)**

The increase in financial costs arises basically from the loss on the financial receivable in relation to SITA S.r.l., which was liquidated during 2016.

VALUE ADJUSTMENTS TO FINANCIAL ASSETS

Value adjustments to financial assets amounted to 39 thous./Euros (negative for 771 thous./Euros in 2015).

In particular, the write-ups (65 thous./Euros) refer to the increase in the fair value of the derivatives included in the contingency funds, while the write-downs refer to the bad debt in relation to Salcef Mozambique (2 thous./Euros) and the shareholding in the associated company Consorzio Stabile Itaca S.c.ar.l, as already described (23 thous./Euros).

In 2015, this heading comprised the write-down of the shareholdings in Salcef Mocambique (9 thous./Euros), SI.TA. S.r.l. (622 thous./Euros) and Capua S.c.a.r.l. (9 thous./Euros), and the write-down of financial receivables which had

become unrecoverable from Salcef Mozambique and the partner in the subsidiary Salcef Libya Joint Venture, amounting to 65 thous./Euros and 66 thous./Euros respectively.

Income tax for the period

Here is a breakdown of the income tax:

Taxes	2016
(amounts in Euro/000)	
IRES	4,767
IRAP	1,458
Current tax	**6,225**
Variation, deferred tax assets	(106)
Variation, deferred tax liabilities	481
Deferred tax	**375**
Taxes for previous fin. years	**612**
TOTAL	**7,212**

Here below is the reconciliation table showing the theoretical and actual tax:

IRES	**2016**	
Description	**Taxable basis**	**Tax**
(amounts in Euros/000)		
Result before tax	13,963	
Theoretical tax	*27.5%*	3,840
Permanent differences increasing the taxable basis	3,280	
Non-deductible non-operating items	1,878	
Write-down of shareholding	639	
Unrealized foreign exchange losses	1,799	
Temporary diff. for goodwill amortization	0	
Other variations	5,323	
Unrealized foreign exchange gains	(3,904)	
Temporary differences for goodwill amortization	(202)	
Deductible taxes (IRAP)	(382)	
Other variations	(5,059)	
Taxable basis	17,335	
Actual tax	*34.1%*	4,767

IRAP	**2016**	
Description	**Taxable basis**	**tax**
(amounts in Euro/000)		
IRAP taxable basis	57,123	
Theoretical tax	*4.56%*	2,605
Labour costs (in costs for services)	8,556	
Other non-deductible costs	3,527	
Goodwill amortization	463	
Other variations	(3,347)	
IRAP deductions (Wedge)	(34,348)	
Taxable basis	31,974	
Actual tax	*30.59%*	1,458

SURETY, GUARANTEES AND POTENTIAL LIABILITIES

Bonds and guarantees amount to 154,696 thous./Euros (165,179 thous./Euros as at 31 December 2015) and refer to the amount still outstanding at the end of the year with regard to the leasing contracts taken out by Salcef S.p.A. (3,080 thous./Euros), the bank guarantees issued to the Group companies by the Banks in favour of third parties as bonds for the proper fulfilment of contractual obligations (93,014 thous./Euros) and the bank guarantees issued in favour of Banks with regard to loans taken out by Salcef Group companies (51,000 thous./Euros).

With regard to potential liabilities, reference should be made to the comments already provided concerning the fiscal risks relating to the Tax Demand served on Salcef Costruzioni by the Inland Revenue for the 2013 fiscal year.

The information required by art. 2427 (22) of the Italian Civil Code with regard to financial leasing agreements in force as of 31 December 2016 is provided below. The payable for leasing agreements with due date beyond 12 months amounts to 943 thous./Euros; there are no payables with residual duration in excess of five years.

DESCRIPTION OF ITEM	2016
(amounts in Euro/000)	
A) CURRENT CONTRACTS	
Assets held under financial leasing contracts at the end of the previous financial year, net of total amortisations	7,250
Assets acquired under financial leasing contracts during the financial year	158
Assets held under financial leasing contracts redeemed during the financial year, net of total amortisations	190
Amortisations for the financial year	(1,574)
Prepaid expenses	(18)
Adjustments/revaluations on assets held under financial leasing agreements	0
Assets held under financial leasing contracts at the end of the financial year, net of total amortisation	**5,854**
B) ASSETS REDEEMED	
C) LIABILITIES	
Implicit indebtedness for financial leasing contracts at the end of the previous financial year	5,372
Payables arising during the financial year	158
Capital repayments and redemptions during financial year	(2,450)
Implicit indebtedness for financial leasing contracts at the end of the financial year	**3,080**
D) GROSS TOTAL EFFECT AT THE END OF THE FINANCIAL YEAR (A+B-C)	**2,774**
E) FISCAL EFFECT	**(763)**
F) EFFECT ON NET SHAREHOLDERS' EQUITY AT END OF FINANCIAL YEAR (D-E)	**2,011**
Effect on income statement:	
Reversal of financial leasing operation instalments	2,467
Reversal of deferrals initial maxi-instalment	95
Entry of financial charges on financial leasing operations	(183)
Entry of:	
Amortisation allocations	(1,553)
Adjustments/revaluations on assets held under financial leasing agreements	0
Effect on pre-tax result	**826**
Entry of tax effect	**(256)**
Effect on result for the financial year on entry of financial leasing operations using the financial method	**570**

FURTHER INFORMATIONS

Compensation owing to the independent auditing company

As required under art. 2427, par. 1 n. 16-bis of the Italian Civil Code, the compensation owing to the independent auditing company KPMG S.p.A. for auditing the accounts of the Salcef Group (Parent Company and its subsidiaries) amount in total to 84 thous./Euros.

Operations with related parties (art. 2427 of the Italian Civil Code point 22-bis)

With regard to operations with related parties, under art. 2427, par. 22-bis of the Italian Civil Code, the Company informs that in the year no significant operations have been entered into other than at normal market conditions, in terms of both "price", and reasons for entering into the same, except where otherwise specified in these Notes to the Financial Statements.

Here below is a table showing operations with related parties not eliminated on consolidation:

FINANCIAL RELATIONSHIPS AT 31/12/2016	Financial assets	Trade receivables	Trade payables	Financial payables
(amounts in Euro/000)				
Unconsolidated subsidiaries				
Salcef Libya Joint Venture				
Salcef Mozambique Ltd.				
TOTAL	**0**	**0**	**0**	**0**
Associated companies				
Frejus S.c.a.r.l.		281	(35)	
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	353	1	(33)	
Consorzio Stabile Itaca S.c.a.r.l.		1.139	(97)	(4)
Tuzi Costruzioni S.r.l.	29		(15)	
TOTAL	**382**	**1.421**	**(180)**	**(4)**

OPERATING RELATIONSHIPDS AT 31/12/2016	Revenues	Costs
(amounts in Euro/000)		
Unconsolidated subsidiaries		
Salcef Libya Joint Venture		
Salcef Mozambique Ltd.		
TOTAL	**0**	**0**
Associated companies		
Frejus S.c.a.r.l.		(13)
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità		(9)
Consorzio Stabile Itaca S.c.a.r.l.		(57)
Tuzi Costruzioni S.r.l.		
TOTAL	**0**	**(79)**

Lastly, relations with subsidiaries and associated companies refer to transactions arising from costs re-charged by consortia and other cooperatives companies and referable to the Company and viceversa.

For further information as to payables/receivables please refer to the comments provided for each specific item.

Events after the end of the year

As of the date of writing of this report, there were no events occurring after the end of the financial year with a potential significant impact on the Company's equity, economic and financial situation as of 31 December 2016.

Signed

The Sole Director

(Mr. Alessandro Di Paolo)