SALCEF COSTRUZIONI EDILI E FERROVIARIE S.P.A.

REPORT ON OPERATIONS TO THE

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DICEMBER 2017

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 the trading results 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 standards applied by Salcef Costruzioni.

As at 31 December 2017 the companies included in the scope of the consolidation (hereinafter jointly referred to as "Group") are as follows:

- Salcef S.p.A. a Socio Unico, wholly-owned company, operating in the building and railway construction business;
- SRT S.r.l. a Socio Unico, wholly-owned company, engaged in routine and non-routine maintenance of Rolling Stock Machinery;
- RECO S.r.l. a Socio Unico, wholly-owned company. It has been operating for many years in the infrastructure engineering sector;
- Euro Ferroviaria S.r.l. a Socio Unico, 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;
- Vianini Industria S.r.l. a Socio Unico, acquired on 27 September 2017 and wholly owned, operating in the production and distribution of reinforced, vibrated and prestressed concrete railway sleepers, vibrated reinforced concrete slabs for underground railways and vibrated reinforced concrete railway tunnel lining segments.

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.

Operating performance

The consolidated Value of Production in 2017 amounted to 332 mln/Euros, compared to 268 mln/Euros in FY 2016.

In terms of trading result, the Consolidated Financial Statements as at 31 December 2017 show a net profit for the group of 28.3 mln/Euros. (6.8 mln/Euros in 2016).

FY 2017 was particularly important for the Salcef Group, both because it saw a considerable increase in the Group's business in terms of production and due to the major acquisition operation concluded.

Specifically, on 27 September 2017 Salcef Costruzioni Edili e Ferroviarie S.p.A. acquired the entire share capital of Vianini Industria S.r.l. a Socio Unico, for a price of about 8.8 mln/Euros. Vianini Industria was incorporated on 30 May 2017 under deed Record no. 200616, Folder no. 72623 issued by Notary Public Maurizio Misurale in Rome, and on 14 July 2017 it received from Vianini S.p.A., a listed company belonging to the Caltagirone Group, the transfer to its assets of the company division which owns the historic plant for the manufacture of concrete railway sleepers and other concrete items at Aprilia. Vianini S.p.A. is a long-established supplier of the Ferrovie dello Stato Group; since the 1960s it has produced more than 13 million sleepers and it has constructed components for a very large number of infrastructure projects, such as, for example, the sleepers for the Rome - Naples high speed line and the tunnel lining segments and concrete track slabs for the new Rome Subway Line C.

The acquisition of this new company was due to the Salcef Group's desire to reinforce its production capacities and enhance its offering of services to customers who manage or build railway and urban transport infrastructures in Italy and abroad. In fact, the Salcef Group operates in several railway industry sectors in Italy and abroad, and has many years' experience in the manufacture of railway sleepers, a business previously undertaken at the plant constructed in Cairo, which was operated from 2012 to 2016. The aim of the acquisition is therefore to establish a synergy between the production and installation of track components, in order to meet the need of customers, especially Rete Ferroviaria Italiana, and offer the international market more and more integrated, complete services.

Turning to production activities, work continued during 2017 for the construction of the Riyadh Metro Line 3 by Salcef S.p.A. Saudi Arabia Branch in the city of Riyadh, generating a considerable increase in turnover compared to 2016, while work began on construction of the metropolitan permanent way for the new Bucharest Metro 5 line by Salcef S.p.A Roma Sucursala Bucuresti 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, during 2017 Salcef Costruzioni shut down the remainder of the logistics centre, which was retained almost for the whole of 2017, in order to provide parking space for the railway vehicles needed to manage the guarantee period for the works, which has now come to an end. 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%) and in 2017 some residual activities were carried out, with a production value of 0.8 mln/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 2018 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 Operation 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 from 60% to 99,9% in the Joint Operation. Construction continued during 2017, with completion of phases for a value of 51 mln/Euro (progress made 77.58%). Construction of the subway will be completed during 2018.

- India: Technical Support - Project packet-201 & 202: India eastern freight corridor. In 2016, Salcef Costruzioni signed a subcontracting agreement worth 1.4 mln/Euro with GMR Infrastructure Limited for technical support during the construction of an eastern freight corridor in India. This consulting activity began in 2017, with production of works with value 0.7 mln/Euro.

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. a Socio Unico and Euro Ferroviaria and, since 2017, also through the company Vianini Industria. In 2017, as in previous years, the first two companies, 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 particular, 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. Vianini Industria, on the other hand, produced sleepers for its main customer, Rete Ferroviaria Italiana S.p.A., under the three-year plan for renewal and extraordinary maintenance on the railway permanent way on lines in operation, on the RFI network – Central Section, work on which was completed early in 2018.

The foreign consolidated companies, Salcef Polska S.p.z.o.o. and Salcef Siegwart, operated only on a very small scale, mainly supplying staff on secondment.

Here follows a brief outline of the activities conducted in 2017 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 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 customers 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 2017 the division increased its turnover (+ 11.16%) thanks 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.

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

Civil Engineering Works Division

It 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 customers, 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 construction of the railway link between Italy and Switzerland, along the Arcisate-Stabio and the doubling of the railway line Castelplanio-Montecarotto, both already nearly completed.

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 customers and today it employs, on a permanent basis, about 22 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.

Machinery division

SRT, a wholly-owned subsidiary of Salcef Costruzioni, has been chosen by the Salcef Group operating companies (Salcef S.p.A. a Socio Unico and Euro Ferroviaria) as contractor for the maintenance of their railway vehicles. In fact, the Company's business is the design, construction and maintenance of rolling stock for maintenance work on railway infrastructures and for the transportation of goods.

Since FY 2017, SRT's customer base has included not only Group companies but also third parties.

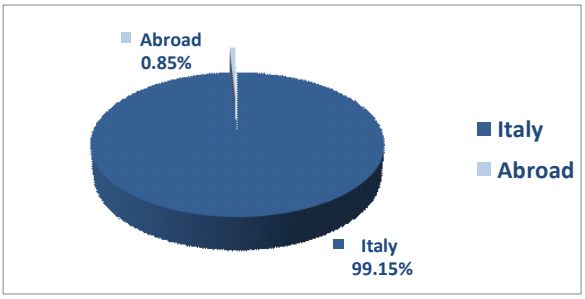
SRT mainly works from its operations centre in Fano (PU), at via del Bersaglio n. 2; this site, with workshops and an office building, is considered strategic for the Group, since it has direct access to the Italian railway network.

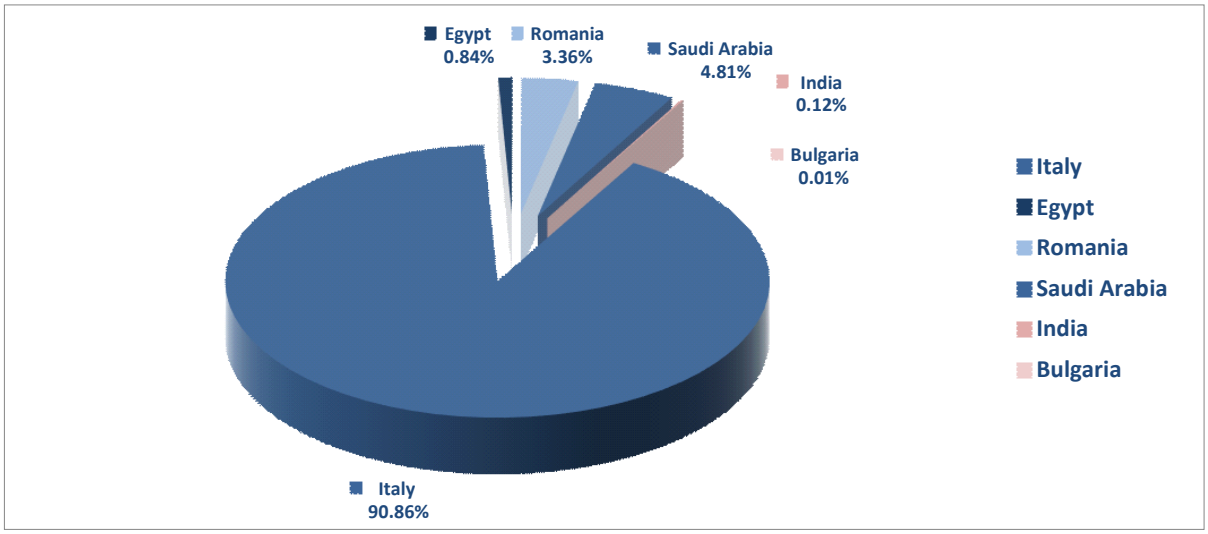
The Salcef Group’s contracts portfolio, as at 31 December 2017, includes work for the rehabilitation and systematic maintenance of permanent ways (65.15%), infrastructural work and construction work in general (8.31%), works in the technology sector (7.88%), production of sleepers and prefabricated concrete components (9.32%), works abroad (9.14%) and works on machinery (0.20%), which guarantee the company continuity of operations through the same

organisations, already established in the geographical zones of interest; the following is a detailed survey of the Salcef Group's contract portfolio as at 31 December 2017, country by country:

(amounts in Euro/units

Division	Amount	%
Italy	785,534,685	90.86%
Egypt	7,261,263	0.84%
Romania	29,081,562	3.36%
Saudi Arabia	41,583,934	4.81%
India	1,020,000	0.12%
Bulgaria	57,967	0.01%
TOTAL	864,539,411	100.00%





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

(amounts in thous./Euros)

	2017	2016
EBITDA	51,635	25,063
EBIT	41,819	16,617
EBITDA/Production	16%	10%
EBIT/Production	13%	6%
ROE	25%	8%

Notes:
EBITDA: Difference between the Value of Production and Costs of Production, not including amortizations
EBIT: Earnings before interest and taxes
Production: Algebraic sum of items A1, A2 and A3 of Income Statement
ROE: Return on Equity

As the EBITDA, EBIT and ROE economic indicators provided above reveal, 2017 saw a considerable increase in production and profitability for the Group's core business.

Here below are key financial ratios:

(amounts in thous./Euros)

	31/12/2017	31/12/2016
Net Working Capital (CCN)	79,291	31,422
Net Fixed Assets	56,695	40,592
Funds	(1,529)	(2,436)
Net Invested Capital (CIN)	134,457	69,578
Covered by:		
PN	(111,422)	(88,632)
PFN	(23,034)	19,054

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

As regards the investments in operating assets, the tangible fixed assets, consisting mainly of railway construction rolling stock, increased during the year by about 23,307 thous./Euros due to the acquisition of new machinery and the revamping of existing equipment. In particular, there was a net increase in tangible fixed assets of 8,289 thous./Euros, after deduction of amortisation for the financial year of 8,375 thous./Euros, as a result both of the transfer by Vianini S.p.A. of the company division which owns the plant for the production of railway sleepers and other items in concrete in Aprilia to Vianini Industria S.r.l. a Socio Unico, and of the policy adopted by Euro Ferroviaria, which decided to acquire more equipment in order to cater for the growth in its business, with the aim of reducing the costs of hiring equipment from the affiliate company Salcef S.p.A. a Socio Unico.

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. a Socio Unico:

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

- Civil engineering works in tunnels in operation – Up to Euro 18,000,000.

SRT S.r.l. a Socio Unico:

- Maintenance of machinery - unlimited amount.

Euro Ferroviaria S.r.l.:

- Superstructure works (Permanent way) - unlimited amount;
- Electric traction – up to 2,070,000 Euros.

RECO S.r.l. a Socio Unico:

- 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 support activities - up to 900,000 Euros.

Vianini Industria S.r.l. a Socio Unico:

- Production of prestressed vibrated reinforced concrete sleepers - Unlimited amount.

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. a Socio Unico 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 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 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 is certified, for all the activities performed, under UNI EN ISO 9001 standards.

Vianini Industria holds quality assurance certification under the UNI EN ISO 9001 standard, as well as ISO 14001 certification for its environmental management and OHSAS 18001 for the management of its Occupational Health and Safety system.

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, Reco, SRT and Vianini Industria), 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 the month of May 2017, PriceWaterhouseCoopers, an international leader in corporate compliance, was contracted to update the risk assessment and monitoring system, and on 31 October 2017 the Sole Director of Salcef Costruzioni approved a new edition of the Organization, Management and Control Model (Governance model) pursuant to Legislative Decree no. 231 of 8 June 2001, of the "Group Code of Ethics and Conduct", the "Labour Regulations" and the "Disciplinary Code". Moreover, a "Supervisory Body Charter" was adopted and the company decided to take part in the Training and Communication Plan introduced by the parent company Salcef Costruzioni, with the appropriate additions to cover the specific risk profiles, in order to ensure that all Model recipients are aware of the new rules introduced. To allow this, the Parent Company has also established an Internal Auditing Function capable of assessing the overall adequacy of the internal control system, in particular by monitoring the efficacy of the measures adopted to prevent the commission of the "specified offences" referred to by Legislative Decree 231/01; the companies belonging to the Salcef Group will be able to make use of this internal auditing activity as part of the services provided by the Parent Company.

Finally, in order to obtain certification under the ISO-37001 *"Anti-bribery management systems"* standard, on 13 April 2018 the Sole Director of Salcef Costruzioni approved the Internal Audit & Compliance Function Mandate and Plan for 2018 - 2019.

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 2017:

Personnel 2017	Italy	Abroad	Total
Executives and managers	13	0	13
White-collar workers	167	58	225
Blue-collar workers	499	89	588
TOTAL	**679**	**147**	**826**

Performance of consolidated companies

Salcef S.p.A. a Socio Unico

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 2017 closed with a profit of 18,485 thous./Euros compared to 7,260 thous./Euros of the previous year, whereas the Value of production amounted to 240,992 thous./Euros compared to 200,358 thous./Euros of 2016.

The results are certainly encouraging, with an impressive increase in output and in the profitability of the company's core business. The orders which accounted for the highest proportion of production activities in 2017 were railway line renewal and maintenance works, undertaken in the context of the three-year plan issued by RFI S.p.A. for 2015-2017 (the "Framework Agreements"), and the construction of the Arcisate-Stabio section of the rail link between Italy and Switzerland, contracted by Rete Ferroviaria Italiana S.p.A. in 2015 and now nearing completion.

During 2017, 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 2018. 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. a Socio Unico production which was able to employ its resources in terms of machinery and staff.

Euro Ferroviaria S.r.l. a Socio Unico

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 19.6%, with an operating profit of 2,367 thous./Euros compared to 1,968 thous./Euros of the previous year, while the Value of Production was 44,739 thous./Euros compared to 38,513 thous./Euros in 2016.

The increase in production activity was due to the contracts for railway line renewal and maintenance works, undertaken in the context of the three-year plan issued by RFI S.p.A. for 2015-2017 (the "Framework Agreements").

In addition, 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. a Socio Unico, 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 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. a Socio Unico

This company, which operates in the field of design engineering, ended 2017 with a value of production of 1,427 thous./Euros, substantially in line with the previous year (1,458 thous./Euros).

Overall, Reco S.r.l. is financially sound, with a pre-tax profit of 137 thous./Euros and shareholders' equity of 676 thous./Euros.

SRT S.r.l. a Socio Unico

The Company, incorporated in November 2013, carries out the design, construction and maintenance of rolling stock for maintenance work on railway infrastructures and for the transportation of goods.

In FY 2017 it generated turnover of 15.7 mln/Euros, basically spread across three different areas:

1) Routine and extraordinary maintenance work on railway construction vehicles performed directly on the worksites of Salcef S.p.A. a Socio Unico and Euro Ferroviaria S.r.l. a Socio Unico;
2) Extraordinary maintenance work on railway construction vehicles performed at the Fano (Pesaro and Urbino) plant, mainly on vehicles belonging to Salcef S.p.A. a Socio Unico;
3) Construction of railway vehicles (e.g. stake wagons) intended for sale both to Salcef Group companies and to third parties.

In detail, in 2017, 79% of business was conducted with Salcef Group companies, with which SRT has framework agreements for the routine and extraordinary maintenance of all machinery, and 21% with third-party customers.

The 2017 financial year ended with a net profit of 749 thous./Euros compared to 441 thous./Euros the previous year, after deduction of taxes of 360 thous./Euros, while the Value of Production was 15,690 thous./Euros compared to 12,806 thous./Euros in 2016.

Vianini Industria S.r.l. a Socio Unico

The company was incorporated on 30 May 2017 and on 14 July 2017, with effect from 24 July 2017, it received from Vianini S.p.A. the company division which owned the historic plant for the manufacture of concrete railway sleepers and other concrete items at Aprilia. The company division's main business is the production and sale of:

- Railway sleepers in prestressed, vibrated reinforced concrete;
- Metropolitan railway track slabs in vibrated reinforced concrete;
- Tunnel lining segments in vibrated reinforced concrete.

Vianini Industrie became part of the Salcef Group on 27 September 2017 with the acquisition by Salcef Costruzioni Edili e Ferroviarie S.p.A. of 100% of the share capital of Vianini S.p.A. at a cost of about 8.8 mln/Euros.

The 2017 financial year ended with a net profit of 919 thous./Euros, after deduction of taxes of 422 thous./Euros, while the Value of Production was 9,010 thous./Euros. Most sleeper production was for the company's main customer, Rete Ferroviaria Italiana S.p.A., under the three-year plan for renewal and extraordinary maintenance on the railway permanent way on lines in operation, on the RFI network – Central Section, work on which was completed early in 2018.

Salcef Siegwart

Salcef Siegwart ended 2017 with a value of production of 21 thous./Euros and an operating loss of 50 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 2017 with a value of production of 100 thous./Euros and a pre-tax profit of 1 thous./Euro, since it is 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 – Block 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
Italy	Ozieri (SS), 07014 - Località Fraigas, snc	Plant	Production
Italy	Fano (PS), 61032 - Via del Bersaglio, 2	Branch	Construction
Italy	Aprilia (LT), 04011 - Via Nettunense, Km 24,20	Factory	Production

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 entities 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:

(amounts in thous./Euros)

FINANCIAL RELATIONS AT 31/12/2017	Financial assets	Trade receivables	Trade payables	Financial payables
Unconsolidated subsidiaries				
Consorzio Stabile Itaca S.c.a.r.l.		13,944	(259)	
Salcef Libya Joint Venture				
Salcef Mozambique Ltd.				
TOTAL	**0**	**13,944**	**(259)**	**0**
Associated companies				
Frejus S.c.a.r.l.		281	(51)	
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	353	1	(45)	
Gestioni Immobiliari - Servizi - Appalti S.r.l.	330		(9)	
TOTAL	**683**	**282**	**(105)**	**0**

(amounts in thous./Euros)

OPERATING RELATIONS AT 31/12/2017	Revenues	Costs
Unconsolidated subsidiaries		
Consorzio Stabile Itaca S.c.a.r.l.	17	(238)
Salcef Libya Joint Venture		
Salcef Mozambique Ltd.		
TOTAL	**17**	**(238)**
Associated companies		
Frejus S.c.a.r.l.		(16)
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità		(12)
Gestioni Immobiliari - Servizi - Appalti S.r.l.		
TOTAL	**0**	**(28)**

Relations with subsidiary and affiliate companies mainly refer to trading relations involving the rebilling of costs by

consortium member companies and by the consortia to which the Group belongs, and vice-versa.

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

The Salcef Group 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.

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

As in previous years, in 2018 the Group will continue to operate in its business sectors (railway permanent way, electric traction and technological works, infrastructure civil engineering works, design, maintenance and construction of rolling stock, and production of prestressed, vibrated reinforced concrete sleepers) in Italy and abroad, in the countries where it already has a consolidated business presence and the presence of specialist staff and plants has been providing an efficient service for a number of years. The size of expected production and profits for 2018 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.

In particular, 2017 saw the publication by RFI S.p.A. of its calls for bids under the national Framework Agreements for track and switching point renewal and maintenance for the 2018-2020 three-year period, and Salcef S.p.A. a Socio Unico, Euro Ferroviaria and Vianini Industria are members of the Temporary Consortia which have won the contracts for the Central and North West Italy areas, for amounts higher than those for the previous three-year period. Thanks to the massive allocation of funds by the customer RFI for the maintenance and modernisation of existing systems and infrastructures, there have been large increases compared to the investment plan for the previous three years in all categories of railway infrastructure maintenance works, in line with the 2017-2027 Plan of Ferrovie dello Stato S.p.A..

Moreover, Vianini Industria has signed a prestige supply contract worth 9 mln/Euros with the Customer Metro C S.c.ar.l. for the supply of tunnel lining segments for the T3 section of the Rome Metro C Line, with delivery scheduled during 2018 and 2019.

In 2017, SRT also signed two contracts with third-party customers for a total of 4.2 mln/Euros for the supply of railway construction vehicles, the effects of which will basically be felt during FY 2018.

In view of this ongoing growth, the intention is to make further investments to expand the business of the individual Group companies. In fact, the works to expand and modernise the Fano production plant, which began in 2017, will continue; for this purpose, in January 2018 a plot of about 6,000 square metres of land, also containing a small technical building, was purchased from Rete Ferroviaria Italiana S.p.A. for 264 thous./Euros.

In order to expand and renew its production capacity, Vianini has also planned a massive investment plan for the Aprilia industrial complex. In particular, in accordance with the requirements of the Italian legislation providing state aid for Industry 4.0, a new plant for the production of prestressed reinforced concrete has been ordered and will be delivered, put into production and interconnected with the company's ERP system during 2018. As well as this major investment, the company will also undertake extraordinary maintenance and revitalisation of some areas and buildings of the same industrial complex, for a total planned investment of about 10 mln/Euros, during 2018.

With regard to contracts abroad, 2018 will see the completion of the works for construction of the Riyadh Metro Line 3 in Saudi Arabia.

It should also be remembered that 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 and production operations will

start during 2018.

In Romania, Salcef Costruzioni, as a shareholder with a stake limited to 1.00% in two joint ventures established with Astaldi S.p.A. (Leader), F.C.C. Construccion S.A. and Thales Systems Romania S.r.l., has won two important contracts for the rehabilitation of two contiguous sections of railway on the "Frontier-Curtici-Simeria", line, European Corridor IV, Subsections 2A and 2B, for a total amount, allocated to Salcef Costruzioni, of about 7.5 mln/Euros. Work will start in 2018 and is scheduled to last about 4 years.

****

Under a formal decision issued on 23 March 2018 the Sole Director decided, in accordance with art. 2364 (2) of the Italian Civil Code, to postpone the deadline for approval of the 2017 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 Costruzioni holds equity investments in subsidiaries and associated companies, and therefore had to await the approval of the Financial Statements of the subsidiaries and 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

(Alessandro Di Paolo)

SALCEF COSTRUZIONI EDILI E FERROVIARIE S.P.A.

CONSOLIDATED ACCOUNTING REPORTS

FOR THE YEAR ENDED

31 DECEMBER 2017

BALANCE SHEET	31.12.2017		31.12.2016	
ASSETS				
A) SUBSCRIBED CAPITAL UNPAID	**€.**	**-**	**€.**	**-**
B) FIXED ASSETS				
I. Intangible fixed assets				
1) Incorporation and expansion costs	€.	118,093	€.	136,577
3) Industrial patent rights and intellectual property rights	€.	248,361	€.	150,054
4) Concessions, licenses and trademarks	€.	-	€.	11,855
5) Goodwill	€.	1,510,704	€.	950,259
6) Intangible assets under construction and advances	€.	1,476,117	€.	1,073,901
7) Others	€.	821,603	€.	1,132,620
Total intangible fixed assets	**€.**	**4,174,878**	**€.**	**3,455,266**
II. Tangible fixed assets				
1) Land and buildings	€.	7,674,595	€.	5,523,716
2) Plant and machinery	€.	30,654,653	€.	22,414,510
3) Industrial and commercial equipment	€.	1,999,443	€.	1,079,439
4) Other fixed assets	€.	1,334,724	€.	1,793,101
5) Tangible assets under construction and advances	€.	2,702,868	€.	5,266,139
Total tangible fixed assets	**€.**	**44,366,283**	**€.**	**36,076,905**
III. Financial fixed assets				
1) Investments				
a) in subsidiaries	€.	36,503	€.	2
b) in associated companies	€.	70,901	€.	63,900
d-bis) in other companies	€.	2,120	€.	2,120
Total investments	€.	109,524	€.	66,022
2) Receivables:				
b) Due from associated companies				
- due within one year	*€.*	*683,435*	*€.*	*382,215*
- due beyond one year	*€.*	-	*€.*	-
Total receivables due from associated companies	€.	683,435	€.	382,215
d-bis) Due from others				
- due within one year	*€.*	*257,570*	*€.*	*458,668*
- due beyond one year	*€.*	*214,346*	*€.*	*187,855*
Total receivables due from others	€.	471,916	€.	646,523
Total receivables	€.	1,155,351	€.	1,028,738
3) Other securities	€.	-	€.	65,225
Total financial fixed assets	**€.**	**1,264,875**	**€.**	**1,159,985**
TOTAL FIXED ASSETS (B)	**€.**	**49,806,036**	**€.**	**40,692,156**

BALANCE SHEET	**31.12.2017**	**31.12.2016**
C) CURRENT ASSETS		
I. Inventory		
1) Raw, ancillary and consumable materials	€. 4,724,807	€. 2,965,208
3) Contract work in progress	€. 96,302,241	€. 83,825,413
4) Finished products and goods	€. 7,741,621	€. -
Total inventory	**€. 108,768,669**	**€. 86,790,621**
II. Receivables		
1) Due from customers		
- due within one year	*€. 64,462,256*	*€. 61,257,159*
- due beyond one year	*€. 7,829,791*	*€. 4,601,270*
Total receivables due from customers	€. 72,292,047	€. 65,858,429
2) Receivables due from subsidiaries	€. 13,943,601	€. -
3) Receivables due from associated companies	€. 282,145	€. 1,420,740
5-bis) Tax receivables	€. 17,492,430	€. 4,999,542
5-ter) Prepaid taxes	€. 1,244,422	€. 998,276
5-quater) Receivables due from others	€. 14,377,238	€. 10,648,781
Total receivables	**€. 119,631,883**	**€. 83,925,768**
III. Marketable securities		
4) Other investments	€. 450	€. -
6) Other securities	€. 65.225	€. -
Total marketable securities	**€. 65,675**	**€. -**
IV. Cash and cash equivalents		
1) Bank and postal deposits	€. 19,281,790	€. 52,930,877
3) Cash and other valuables on hand	€. 234,622	€. 226.105
Total cash and cash equivalents	**€. 19,516,412**	**€. 53,156,982**
TOTAL CURRENT ASSETS (C)	**€. 247,982,639**	**€. 223,873,371**
D) ACCRUED INCOME AND PREPAID EXPENSES	**€. 2,358,869**	**€. 2,698,543**
TOTAL ASSETS	**€. 300,147,544**	**€. 267,264,070**

BALANCE SHEET		31.12.2017		31.12.2016
LIABILITIES				
A) SHAREHOLDERS' EQUITY				
I. Capital	€.	200,000	€.	200.000
II. Share premium reserve	€.	-	€.	-
III. Revaluation reserve				
- 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*
Total revaluation reserve	€.	28,060,334	€.	28,060,334
IV. Legal reserve	€.	111,083	€.	111,083
V. Statutory reserves	€.	-	€.	-
VI. Other reserves				
- Extraordinary reserve	*€.*	*43,101,317*	*€.*	*43,101,317*
- Reserve for gains on exchange rates	*€.*	*2,004,823*	*€.*	*266,276*
- Consolidation reserve	*€.*	*8,240,843*	*€.*	*8,240,843*
- Conversion reserve	*(€.*	*6,657,410)*	*(€.*	*3,173,139)*
Total other reserves	€.	46,689,573	€.	48,435,299
VII. Negative reserve for treasury shares	€.	-	€.	-
VIII. Profit/(loss) carried forward	€.	8,057,033	€.	5,003,787
IX. Profit/(loss) for the financial year	€.	28,287,640	€.	6,791,791
X. Negative reserve for treasury shares	€.	-	€.	-
TOTAL GROUP'S CONSOLIDATED SHAREHOLDERS' EQUITY	**€.**	**111,405,663**	**€.**	**88,602,294**
XI. Minority interest in shareholders' equity	€.	16,740	€.	29,350
TOTAL SHAREHOLDERS' EQUITY (A)	**€.**	**111,422,403**	**€.**	**88,631,644**
B) PROVISIONS FOR LIABILITIES AND CHARGES				
2) For taxes, including deferred taxes	€.	247,045	€.	981,157
3) Payable financial derivatives	€.	227,910	€.	417,887
4) Others	€.	7,763	€.	7,763
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES (B)	**€.**	**482,718**	**€.**	**1,406,807**
C) EMPLOYEE SEVERANCE PAYMENT	**€.**	**1,046,584**	**€.**	**1,029,495**
D) PAYABLES				
4) Payables due to banks				
- due within one year	*€.*	*16,150,840*	*€.*	*14,817,326*
- due beyond one year	*€.*	*26,399,673*	*€.*	*19,285,874*
Total payables due to banks	€.	42,550,513	€.	34,103,200
6) Advances	€.	2,842,451	€.	9,176,352
7) Payables due to suppliers	€.	114,439,240	€.	101,572,737
9) Payables due to subsidiaries	€.	258,527	€.	-
10) Payables due to associated companies	€.	104,506	€.	184,102
12) Tax payables	€.	15,564,830	€.	8,991,163
13) Payables due to social security agencies	€.	2,075,856	€.	2,529,585
14) Other payables				
- due within one year	*€.*	*9,217,606*	*€.*	*15,758,718*
- due beyond one year	*€.*	*-*	*€.*	*3,795,643*
Total other payables	€.	9,217,606	€.	19,554,361
TOTAL PAYABLES (D)	**€.**	**187,053,529**	**€.**	**176,111,500**
E) ACCRUED EXPENSES AND DEFERRED INCOME	**€.**	**142,310**	**€.**	**84,624**
TOTAL LIABILITIES	**€.**	**300,147,544**	**€.**	**267,264,070**

INCOME STATEMENT	31.12.2017	31.12.2016
A) VALUE OF PRODUCTION		
1) Revenues from sales and services	€. 306,738,181	€. 261,423,636
2) Changes to works in progress, semi-finished and finished goods	€. 34,661	€. -
3) Changes in contract work in progress	€. 13,442,757	(€. 2,819,939)
4) Increases of fixed assets for internal work	€. 8,511,498	€. 8,105,472
5) Other income and revenues	€. 3,280,100	€. 1,443,003
TOTAL VALUE OF PRODUCTION (A)	**€. 332,007,197**	**€. 268,152,172**
B) COSTS OF PRODUCTION		
6) for raw, ancillary and consumable materials and goods	€. 72,701,968	€. 71,873,061
7) for services	€. 147,111,074	€. 113,033,461
8) for leases and rentals	€. 10,076,291	€. 9,684,249
9) Labour costs:		
a) wages and salaries	*€. 35,114,452*	*€. 30,659,101*
b) social security costs	*€. 11,642,367*	*€. 10,713,335*
c) severance pay	*€. 1,755,146*	*€. 1,666,382*
d) other costs	*€. 526,566*	*€. 6,976*
Total labour costs	€. 49,038,531	€. 43,045,796
10) Amortization, depreciation and write-downs:		
a) amortization of intangible fixed assets	*€. 1,041,651*	*€. 910,853*
b) depreciation of tangible fixed assets	*€. 8,374,671*	*€. 7,086,520*
d) write-downs of receivables included in current assets and liquid assets	*€. 581,723*	*€. 488,489*
Total amortization, depreciation and write-downs	€. 9,998,045	€. 8,485,862
11) Changes to inventories of raw, ancillary and consumable materials & goods	(€. 1,214,859)	€. 1,080,255
14) Sundry operating expenses	€. 2,658,742	€. 4,372,194
TOTAL COSTS OF PRODUCTION (B)	**€. 290,369,792**	**€. 251,574,878**
DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION (A - B)	**€. 41,637,405**	**€. 16,577,294**
C) REVENUES AND EXPENSES		
15) Income from equity investments	€. -	€. -
16) Other financial income:		
d) Other income	*€. 180,395*	*€. 158,523*
Total other financial income	€. 180,395	€. 158,523
17) Interest and other financial expenses	(€. 1,612,076)	(€. 3,606,924)
17-bis) Exchange gains (losses)		
- Gains	*€. 1,867,215*	*€. 11,398,485*
- Losses	*(€. 1,270,122)*	*(€. 10,603,239)*
Total exchange gains (losses)	€. 597,093	€. 795,246
TOTAL REVENUES AND EXPENSES (C)	**(€. 834,588)**	**(€. 2,653,155)**
D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES		
18) Write-ups		
d) of derivative financial instruments	*€. 189,977*	*€. 64,666*
Total write-ups	€. 189,977	€. 64,666
19) Write-downs:		
a) of equity investments	*(€. 8,080)*	*(€. 23,187)*
b) Others	*€. -*	*(€. 2,273)*
Total write-downs	(€. 8,080)	(€. 25,460)
TOTAL VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES (D)	**€. 181,897**	**€. 39,206**
INCOME BEFORE TAXES (A - B +/- C +/- D)	**€. 40,984,714**	**€. 13,963,345**
20) Income tax		
a) Income tax for the period	*€. 13,908,398*	*€. 6,224,739*
b) Prepaid/deferred tax	*(€. 475,072)*	*€. 375,422*
c) Taxes for previous years	*(€. 723,641)*	*€. 611,780*
Total income tax for the period	€. 12,709,685	€. 7,211,941
21) Profit (Loss) for the period	**€. 28,275,029**	**€. 6,751,404**
b) Profit /(loss) attributable to minority interest	(€. 12,611)	(€. 40,387)
21) Profit (loss) for the period of the group	**€. 28,287,640**	**€. 6,791,791**

CASH-FLOW STATEMENT

	31.12.2017	31.12.2016
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	€. 28,275,029	€. 6,751,404
Income tax	€. 12,709,685	€. 7,211,941
Interests payables	€. 890,190	€. 1,209,584
(Capital gain)/Capital loss from selling business	€. 445,599	€. 2,015,038
1. Profit (loss) before income tax, interest, dividends and capital gains/losses on disposals	**€. 42,320,503**	**€. 17,187,967**
Adjustments for non-monetary items which were not offset in the net current assets		
Provisions to funds	€. 1,755,146	€. 2,166,382
Amortization of fixed assets	€. 9,416,322	€. 7,997,373
Adjustments to value of financial assets and liabilities from derivative financial instruments	(€. 189,977)	(€. 64,666)
Write-downs for impairment losses	€. 589,803	€. 511,676
Other adjustments for non-monetary items	(€. 391,202)	€. 1,562,983
Total adjust. for non-monetary items	*€. 11,180,092*	*€. 12,173,748*
2. Cash flow before changes in net current assets	**€. 53,500,595**	**€. 29,361,715**
Changes in net current assets		
(Increase) Decrease of inventories	(€. 28,311,949)	(€. 3,487,338)
(Increase) Decrease of current asset receivables	(€. 19,820,347)	(€. 11,990,969)
Increase (Decrease) of payables owed to suppliers and other payables	€. 13,045,433	€. 41,039,366
Other changes in net current assets	(€. 31,856,557)	(€. 2,282,518)
Total changes in net current assets	*(€. 66,943,420)*	*€. 23,278,541*
3. Cash-flow after changes in net current assets	**(€. 13,442,825)**	**€. 52,640,256**
Other adjustments		
Interests cashed/(paid)	(€. 890,190)	(€. 1,209,584)
(Income tax paid)	(€. 2,238,552)	(€. 4,252,779)
(Amounts used of funds)	(€. 868,506)	(€. 1,993,434)
Total other adjust.	*(€. 3,997,248)*	*(€. 7,455,797)*
Cash-flow from operating activities (A)	**(€. 17,440,073)**	**€. 45,184,459**
B. CASH FLOW FROM INVESTING ACTIVITES		
Tangible assets		
(Investments)	(€. 14,807,750)	(€. 9,749,292)
Disinvestments	€. 5,975,705	€. 3,137,688
Exchange differences	€. 220,840	€. 2,248,518
Intangible assets		
(Investments)	(€. 1,481,404)	(€. 1,270,344)
Exchange differences	€. -	€. 841
Financial assets		
(Investments)	(€. 292,179)	(€. 73,745)
Disinvestments	€. -	€. 2,217,268
Financial assets not held as fixed assets		
(Investments)	(€. 450)	€. -
Acquisition/disposal of subsidiaries or business branches net of cash and cash equivalents	(€. 8,778,301)	€. -
Cash-flow from investing activities (B)	**(€. 19,163,539)**	**(€. 3,489,066)**
C. CASH-FLOW FROM FINANCING ACTIVITIES		
Borrowed capital		
Increase (decrease) of short-term payables to banks	€. 3,695	(€. 2,850,756)
Loans received	€. 29,915,000	€. 14,455,000
Repayment of loans	(€. 21,471,382)	(€. 22,354,655)
Equity		
Dividends paid	(€. 2,000,000)	(€. 1,500,000)
Exchange differences	(€. 3,484,271)	(€. 2,463,234)
Cash-flow from financing activities (C)	**€. 2,963,042**	**(€. 14,713,645)**
Increase (decrease) of cash and cash equivalents (A ± B ± C)	(€. 33,640,570)	€. 26,981,748
Cash and cash equivalents as at 1st January	**€. 53,156,982**	**€. 26,175,234**
Cash and cash equivalents as at 31st December	**€. 19,516,412**	**€. 53,156,982**

NOTES TO THE

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017 the companies included in the scope of the consolidation (hereinafter jointly referred to as "Group") are as follows:

- Salcef S.p.A. a Socio Unico, wholly-owned company, operating in the building and railway construction business;
- SRT S.r.l. a Socio Unico, wholly-owned company, engaged in maintenance and construction of Rolling Stock Machinery;
- RECO S.r.l. a Socio Unico, 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. a Socio Unico, 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;
- Vianini Industria S.r.l. a Socio Unico, acquired on 27 September 2017 and wholly owned, operating in the production and distribution of reinforced, vibrated and prestressed concrete railway sleepers, vibrated reinforced concrete slabs for underground railways and vibrated reinforced concrete railway tunnel lining segments.

Company name	OFFICE	CURRENCY	Share capital	Stake held (%)		Consolidation method
				Indirect	Direct	
Subsidiaries						
Euro Ferroviaria S.r.l. a Socio Unico	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. a Socio Unico	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
Vianini Industria S.r.l. a Socio Unico	Rome - Italy	Euro	100,000		100%	Full consolidation
Unconsolidated subsidiaries						
Consorzio Stabile Itaca S.c.a.r.l.	Rome - Italy	Euro	40,000	91,26%		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
Gestioni Immobiliari - Servizi - Appalti S.r.l. (*)	Rome - Italy	Euro	20,000		40%	Equity

NOTES:
(*) =formerly Tuzi Costruzioni S.r.l.

With regard to the acquisition of Vianini Industria S.r.l. a Socio Unico, it should be noted that the company was incorporated on 30 May 2017 and on 14 July 2017, with effect from 24 July 2017, it received from Vianini S.p.A. the company division which owned the historic plant for the manufacture of concrete railway sleepers and other concrete items at Aprilia. It became part of the Salcef Group on 27 September 2017 with the acquisition by Salcef Costruzioni Edili e Ferroviarie S.p.A. of 100% of the share capital of Vianini S.p.A. at a cost of about 8.8 mln/Euros. As explained in greater detail in the Report on Operations, the acquisition of Vianini Industria was due to the Salcef Group's desire to reinforce its production capacities and enhance its offering of services to customers who manage or build railway and urban transport infrastructures in Italy and abroad.

During 2017, Salcef S.p.A. a Socio unico increased its stake in Consorzio Stabile Itaca S.c.ar.l. further to the compensation of the company's losses as of 31 December 2016, pursuant to art. 2482-c of the Civil Code and the restoration of the company's Share Capital to Euro 40,000 approved by the Extraordinary General Meeting held on 15 May 2017. After several shareholders decided not to underwrite the capital increase approved, Salcef S.p.A. a Socio Unico gained a controlling interest in Consorzio Stabile Itaca S.c.ar.l. by increasing its stake from 31.15% to 91.26%. The same Extraordinary General Meeting approved the transfer of the Consortium's registered office from via Cisterna n. 3 - Balsorano (L'Aquila) to via di Pietralata 140 – Rome, while an Extraordinary General Meeting held on 26 October 2017 appointed a Sole Administrator and adopted new Articles of Association. Even though the stake in Consorzio Stabile Itaca S.c.ar.l. has become a controlling interest, the company was not included in the consolidation area because it is a non-profit organisation with the sole purpose of enabling its member companies to enjoy the benefits of cooperation. Therefore, all direct and indirect costs incurred at any time by this company during the fulfilment of its corporate purpose are charged to the member companies in proportion to their stakes in its share capital, unless otherwise agreed

if works are assigned to them. Obviously, therefore, the financial statements of Consorzio Itaca are completely "transparent" and negligible in relation to its Members, and there is no point in including this company in the consolidation area.

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 standards"). The Financial Statements consist of the following documents: Balance Sheet, Income Statement, Cash-flow Statement and Notes to the Financial Statements.

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 standard 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 Group's capital and financial situation and trading result.

If the information required by specific articles of law is not sufficient to provide a truthful, accurate representation, the necessary additional information is provided.

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.

Significant events occurring after the end of the financial year as well as the total amount of the surety, guarantees and

potential liabilities not set out in the balance sheet are set out in specific sections 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 standards.

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.

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 2017 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 2017 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.

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 Provision for future liabilities 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 fixed assets

Intangible fixed 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 fixed 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.

Advances 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 fixed 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 are amortised in a period of five years, or in a period of three years with regard to the three-year registration on the local Register of Companies of Saudi Salcef S.p.A. Company Branch.
- Intangible fixed 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 fixed 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. Amortisation starts from the moment when the fixed asset is available and ready for use.

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.

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

Tangible fixed 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 the 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 "financial 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 fixed assets

If, at the closing date of the financial period, tangible and intangible fixed 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 net 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 fixed assets

Investments, 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 (equity investments)

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.

Investments 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 equity investments" 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 "Provision for liabilities and charges". 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 2017 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 materials, 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 production cost includes all the direct and indirect costs, considering the quotas which can be reasonably imputed to the product relating to the period of manufacture and up until the time when the asset can be used, considered on the basis of normal production capacity. The production cost does not include general and administrative costs, distribution costs or research and development 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.

The raw and ancillary materials used for the manufacture of finished products are not the subject of write-downs if it is expected that the said finished products can be sold for a value equal to or higher than their production cost. If, therefore, in the event of a decrease in the price of the raw and ancillary materials, the cost of the finished products exceeds their realisation value, the raw and ancillary materials are written down to the net salvage value, taking their market price as the best estimate.

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, revenues 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 revenues 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 revenues, 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 revenues when there is the certainty that the revenues 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 revenues, 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 revenues, 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 provision for liabilities 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, or goods/services of equivalent value, 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 revenues. 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 (realizable) 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 salvage value. Discounts and allowances of a financial nature, irrelevant for calculation of the presumable salvage 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 presumable salvage 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, as well as relevant proceeds, 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 item "revenues and expenses" 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 salvage value, the book value of receivables is adjusted by means of a provision for bad debts 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 provision for bad debt 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.

Transferred receivables all the risks relating to which have not been substantially transferred are retained in the financial statements and are subject to the general evaluation rules set out above. Any advance of a part of the agreed amount by the transferee is entered in the balance sheet as a financial liability.

Marketable securities (Financial assets not held as fixed assets)

Investments

Equity holdings are initially entered at the purchase cost, including the accessory costs, and then individually valued at the lower of the purchase cost or the saleable value which can be estimated on the basis of the market trend. In the event that some or all of the circumstances justifying the value adjustment due to a recovery of the market value cease to exist, the adjustment is cancelled out down to, but not below, the purchase cost.

Debt securities

Debt securities are initially entered at the purchase or underwriting cost, including the accessory costs, established on the amortised cost principle, and then valued at the lower of the purchase cost or the saleable value which can be estimated on the basis of the market trend. Any write-down to this lower value is carried out individually for each type of security. In the event that some or all of the circumstances justifying the value adjustment due to a recovery of the market value cease to exist, the adjustment is cancelled out down to, but not below, the amortised cost.

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 standard 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 provisions for liabilities or 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 (liquid assets)

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 salvage 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

Accrued income and accrued expenses 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 liabilities and charges

Provisions for liabilities 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 liabilities represent 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 liabilities 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.

Severance payment

The severance payment (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. The payables are classified into the various payable headings on the basis of their nature (or origin) in relation to the core business, regardless of the period of time within which the debts must be repaid.

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 revenues/expenses 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 revenues/expenses 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 income.

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 expense 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 revenues/expenses item 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 provisions for liabilities and charges 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 entered in 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.

Revenues and costs

Revenues, 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. Revenues 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. Revenues for the provision of services are entered when the service has been provided.

Revenues, 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 income 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 income is 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, 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 the three-year period 2017-2019 and was agreed with the subsidiaries Salcef S.p.A. a Socio Unico, Euro Ferroviaria S.r.l. a Socio Unico, RECO S.r.l. a Socio Unico and SRT S.r.l. a Socio Unico. 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 provisions for liabilities 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	31/12/2017	
		Spot convers. rate	Aver. conv. rate
Zloty (Poland)	PLN	4.1770	4.2563
Egyptian pound (Egypt)	EGP	21.3309	20.1464
New Leu (Romania)	RON	4.659	4.5687
Kuna (Croatia)	HRK	7.4400	7.4644
Arab Emirates Dirham (Abu Dhabi)	AED	4.4044	4.1461
Saudi Arabian Riyal (Saudi Arabia)	SAR	4.4974	4.2351

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 FIXED ASSETS

Intangible assets amount to 4,175 thous./Euros (3,455 thous./Euros as at 31 December 2016); the table here below provides a break-down of the changes.

(Amounts in Euro/000)

Intangible fixed assets	Incorporation and expansion costs	Industrial patent & intellectual property rights	Concessions, licenses trade marks & equiv.	Goodwill	Intangible assets in progress and advances	Other intangible assets	TOTAL
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)
Initial value at 31/12/2016	**136**	**150**	**12**	**950**	**1,074**	**1,133**	**3,455**
Contribution - cost		75		392			467
Increases - cost	121	53		521	589	197	1,481
Decreases - cost							-
Reclassifications - cost		12	(12)		(187)		(187)
Exchange rate difference - cost						(31)	(31)
Other changes - cost		(1)				1	-
Amortisations	(90)	(41)		(352)		(509)	(992)
Other changes – Amort. Fund	(49)						(49)
Decreases – Amort. Fund							-
Reclassifications – Amort. Fund.							-
Exchange rate difference – Amort. Fund						31	31
31/12/2017 broken down as follows:							
Cost	368	318	562	7,156	1,476	3,688	13,101
Amortisation Fund	(250)	(70)	(562)	(5,645)		(2,866)	(9,393)
Book value at 31/12/2017	**118**	**248**		**1,511**	**1,476**	**822**	**4,175**

The item Incorporation and Expansion Costs amounting to 118 thous./Euros, mainly refers to notary public's expenses and ancillary costs for the setting up and subsequent expansion of Salcef S.p.A. a Socio Unico and of SRT S.r.l. a Socio Unico in 2013 as well as the costs incurred for the acquisition of the corporate division from Tuzi Costruzioni Generali S.p.A. in 2015. The increase for the financial year represents the costs incurred for the registration of Saudi Salcef S.p.A. Company Branch in the local Register of Companies, valid for three years.

The patent rights and intellectual property rights of use, amounting to 248 thous./Euros, include the amount of 150 thous./Euros paid by SRT for the purchase of industrial patents relating to railway vehicle technologies, 21 thous./Euros for the costs of software user licences purchased by Salcef Costruzioni, Salcef S.p.A. a Socio unico and RECO, and 75 thous./Euros for patents conferred by Vianini S.p.A. with the company division.

The goodwill refers to the company division acquired from Tuzi Costruzioni Generali S.p.A. in 2015, the net book value of which is 339 thous./Euros, and the acquisition of company divisions, against payment, by the Parent Company in 2007 and 2011, the net book value of which is 205 thous./Euros, and in 2012 for a residual value of 170 thous./Euros relating

to the acquisition of RECO S.r.l., working in the design sector. The increase for the financial year refers for the amount of 392 thous./Euros to the goodwill generated during the transfer of the company division to Vianini Industria S.r.l. by Vianini S.p.A., and for 521 thous./Euros to the compensation difference generated by the comparison between the cost incurred by Salcef Costruzioni for acquisition of the holding in Vianini Industria and the value of the corresponding part of the subsidiary's net book assets as of the consolidation date.

Incorporation and expansion costs and goodwill were entered with the consent of the Board of Auditors.

Intangible fixed assets under construction and advances include costs internally incurred by SRT S.r.l. to design new railway machinery (1,431 thous./Euros).

The item Other Intangible Fixed Assets includes, for the most part, the amount of 184 thous./Euros, which refer to charges for taking out bank loans before 2016, 482 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 40 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 fixed assets as of 31 December 2017 amounts overall to 44,366 thous./Euros (36,077 thous./Euros as at 31 December 2016); the table here below provides a break-down of the changes.

(amounts in Euro/000)

Tangible fixed assets	Land and buildings	Plant and machinery	Indust.&Commer. equipment	Other assets	Tang. fixed assets in progress and advances	TOTAL
31/12/2016 broken down as follows:						
Cost	7,134	113,296	7,615	4,466	5,266	137,777
of which write-ups	*1,301*	-	-	-	-	*1,301*
Amortisation Fund	(1,610)	(90,881)	(6,536)	(2,673)	-	(101,700)
Accumulated impairments	-	-	-	-	-	-
Initial value 31/12/2016	**5,524**	**22,415**	**1,079**	**1,793**	**5,266**	**36,077**
Contribution – historical cost	3,469	4,843				8,312
Investments – historical cost		10,281	1,960	250	2,504	14,995
Disinvestments - historical cost	(1,133)	(6,960)	(120)	(408)	(1,796)	(10,417)
Disinvestments - historical cost		3,271			(3,271)	-
Other changes - historical cost						-
Exch.rate difference - historical cost	(144)	(83)	(26)	(12)		(265)
Amortisations	(175)	(6,635)	(969)	(596)		(8,375)
Divestments – Amortis. Fund	119	3,512	61	303		3,995
Reclassifications – Amort. Fund						-
Impairments						-
Other changes - Amortis. Fund						-
Exch. rate difference - Amortis. Fund	14	11	14	5		44
31/12/2017 broken down as follows:						
Cost	9,326	124,648	9,429	4,296	2,703	150,402
of which write-ups	*1,250*	-	-	-	-	*1,250*
Amortisation Fund	(1,652)	(93,993)	(7,430)	(2,961)	-	(106,036)
Accumulated impairments	-	-	**1,999**	**1,335**	**2,703**	**44,366**
Book value at 31/12/2017	**7,674**	**30,655**				

The increases for FY 2017 derive for the amount of 8,312 thous./Euros from the transfer, by Vianini S.p.A., of the company division which owns the Aprilia plant for the construction of concrete railway sleepers and other concrete items to Vianini Industria S.r.l. a Socio Unico. The land and building item includes the industrial area of the Aprilia plant, of which 2,188 thous./Euros refers to land and 1,280 thous./Euros to the building.

The other increases, amounting to 14,995 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 Plant and Machinery, have increased by 13,790 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 2017 investments were impacted considerably by the policy adopted by Euro Ferroviaria, which decided to acquire more equipment in order to cater for the growth in its business, with the aim of reducing the costs of hiring equipment from the affiliate company Salcef S.p.A. a Socio Unico.

The decreases (3,995 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 facilities, plants and equipment located at Abu Dhabi.

Taking a more detailed look at the composition of the various financial statement headings, the land and building heading represents, for the amount of 4,027 thous./Euros, the SRT operating headquarters, with the adjoining land covered by the planning permission granted by the municipality of Fano (PU), purchased in 2015, and for the amount of 3,449 thous./Euros the industrial area of the railway sleeper production plant at Aprilia, acquired by Vianini Industria as explained earlier.

The Other Fixed Assets (1,335 thous./Euros) mainly include, trucks and motor-vehicles for 1,147 thous./Euros and office furniture and furnishings amounting to 180 thous./Euros.

The item Fixed assets under construction and advances (2,703 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. a Socio Unico on behalf of Salcef S.p.A. a Socio Unico and Euro Ferroviaria.

FINANCIAL FIXED ASSETS

Financial fixed assets amount to 1,265 thous./Euros, compared to 1,160 thous./Euros as at 31 December 2016.

Shareholdigns (investments)

Please find here below the changes occurred in 2017 in shareholdings in unconsolidated subsidiaries and associated companies.

(amounts in Euro/000)

Shareholdings	31/12/2016	Increases 2017	Decreases 2017	Reclassifications 2017	31/12/2017
Subsidiaries					
Consorzio Stabile Itaca S.c.a.r.l.	0			37	37
Salcef Libya Joint Venture	0		0		0
Salcef Mozambique Limitada	0		0		0
TOTAL	**0**	**0**	**0**	**37**	**37**
Associated companies					
Frejus S.c.a.r.l.	8				8
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	25				25
Consorzio Stabile Itaca S.c.a.r.l.	0	45	(8)	(37)	0
Gestioni Immobiliari - Servizi - Appalti S.r.l. (*)	31	7			38
TOTAL	**64**	**52**	**(8)**	**(37)**	**71**
Other companies					
Concise Consorzio Stabile Soc. Cons. a r.l.	1				1
SASSARIOLBIA S.c. a r.l.	1				1
TOTAL	**2**	**0**	**0**	**0**	**2**
TOTAL SHAREHOLDINGS	**66**				**110**

NOTES:
(*) = formerly Tuzi Costruzioni S.r.l.

The increase in the stake of Consorzio Stabile Itaca S.c.ar.l. was due to the compensation of the company's losses as of 31 December 2016, pursuant to art. 2482-c of the Civil Code and the restoration of the company's Share Capital to Euro 40,000 approved by the Extraordinary General Meeting held on 15 May 2017. As already stated, after several shareholders decided not to underwrite the capital increase approved, Salcef S.p.A. a Socio Unico gained a controlling interest in Consorzio Stabile Itaca S.c.ar.l. by increasing its stake from 31.15% to 91.26%, leading to the reclassification of the financial statement value in the "investments in subsidiaries" heading.

During 2017, Tuzi Costruzioni S.r.l. changed its company name to Gestioni Immobiliari - Servizi - Appalti S.r.l. (shortened to G.I.S.A. S.r.l.) after the identification and assessment of new plans for the development of its business, which also required an expansion of its corporate purpose. The increase of 7 thous./Euros in the stake arises from the underwriting of the increase in the Share Capital from Euro 2,500.00 to Euro 20,000.00 approved with the aim of supporting the intended development plans and thus the investments required, and the relative funding needs.

With regard to the decrease in this heading, the stakes in Salcef Mozambique Limitada and Salcef Libya Joint Venture were completely written off, since during 2017 the investigations carried out confirmed that it would be impossible to obtain any refund of the capital invested at the time of incorporation, even as liquidation, also considering the information, already received in the past, that the said subsidiaries had been deleted from the respective registers of companies.

Receivables

The loans receivables entered under financial assets, which overall amounted to 1,155 thous./Euros (1,029 thous./Euros in 2016), 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 330 thous./Euros to G.I.S.A. S.r.l..

The amounts receivable due from others, amounting to 472 thous./Euros (647 thous./Euros as at 31 December 2016) 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 (187 thous./Euros) and 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 decrease from the previous year is due to the reduction in customs deposits as guarantees for the transfer of vehicles, which fell from 204 thous./Euros as at 31 December 2016 to 14 thous./Euros in 2017. In addition, the receivable arising from the plan for distribution of the liquidation of S.I.TA. S.r.l., amounting to 146 thous./Euros as at 31 December 2016, was collected in 2017 for the amount of 32 thous./Euros, with the remaining amount of 114 thous./Euros written off as not recoverable.

CURRENT ASSETS

INVENTORY

Inventories as at 31 December 2017 amounted to 108,769 thous./Euros (86,791 thous./Euros as at 31 December 2016) and consist of "raw, ancillary and consumable materials" for 4,725 thous./Euros, "contract work in progress" for 96,302 thous./Euros and of finished products for 7,742 thous./Euros.

The item "raw, ancillary and consumable materials" refers to consumables and miscellaneous material purchased for building works and permanent ways which has not yet been used at year-end and to materials in stock necessary for the rolling stock and railway vehicle maintenance business operated by SRT.

(amounts in Euro/000)

Inventory	31/12/2017	31/12/2016	Change
Inventories of raw, ancillary and consumable materials	4,725	2,965	1,760
TOTAL	**4,725**	**2,965**	**1,760**

Inventories of raw materials as at 31 December 2017 are broken down by geographical area as follows:

(amounts in thous./Euros)

Geographical area	31/12/2017	31/12/2016
Italy	4,725	2,852
Egypt	0	113
TOTAL	**4,725**	**2,965**

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 2017 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 (S.A.L.).

(Amount in thous./Euros.)

Contract work in progress	31/12/2017	31/12/2016	Var
Contract work in progress	96,302	83,825	12,477
TOTAL	**96,302**	**83,825**	**12,477**

The item refers to the parent company for 7,326 thous./Euros, to Euro Ferroviaria for 15,712 thous./Euros and to Salcef S.p.A. a Socio Unico for 73,264 thous./Euros.

The amount and the type of reserves entered in the financial statements for additional fees from clients has decreased compared to the previous year's, although there has been an increase of work in progress as of 31 December 2017 compared to previous year.

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

(Amounts in thous./Euros.)

Geographical area	31/12/2017	31/12/2016	Change
Italy	83,866	75,416	8,450
Poland	5,472	268	5,204
Egypt	0	11	(11)
Saudi Arabia	6,964	8,130	(1,166)
TOTAL	**96,302**	**83,825**	**12,477**

The inventories of finished products amount to 7,742 thous./Euros and refer to processes relating to the sleeper production business of Vianini Industria. The changes in this heading and the inventories as at 31 December 2017 by geographical area are set out below:

(Amounts in thous./Euros)

Inventory	31/12/2017	31/12/2016	Change
Finished products	7,742	0	7,742
TOTAL	**7,742**	**0**	**7,742**

(amounts in thous./Euros.)

Geographical area	31/12/2017
Italy	7,742
TOTAL	**7,742**

RECEIVABLES

Receivables due from clients

Receivables due from clients, which by contract become due within 12 months, amounted to 64,462 thous./Euros net of the provision for bad debts set aside up to 31 December 2017 and amounting to 2,051 thous./Euros (Salcef S.p.A. a Socio Unico for 1,053 thous./Euros, Salcef Costruzioni for 579 thous./Euros, Euro Ferroviaria for 382 thous./Euros, RECO for 9 thous./Euros and Vianini Industria for 28 thous./Euros).

Receivables due from clients payable beyond 12 months and amounting to 7,830 thous./Euros (4,601 thous./Euros as at 31 December 2016), consist of retention bonds invoiced and/or to be invoiced to clients which will be cashed once the work to which they refer has undergone final testing.

(amounts in thous./ Euros)

Receivables due from clients	31/12/2017	31/12/2016	Change
Receiv. due from custom. *-within 12 months*	66,513	63,021	3,492
Receiv. due from custom. - *beyond 12 months*	7,830	4,601	3,229
Provision for bad debts	(2,051)	(1,764)	(287)
TOTAL	**72,292**	**65,858**	**6,434**

The table here below shows the changes of the provision for bad debts as occurring in the year 2017:

(amounts in thous./Euros)

Provision for bad debts	31/12/2016	Drawings/Issues	Amounts allocated	31/12/2017
Provision for bad debts	(1,764)	295	(582)	(2,051)
TOTAL	**(1,764)**	**295**	**(582)**	**(2,051)**

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

(amounts in thous./Euros)

Receivables from customers	31/12/2017	%	31/12/2016	%	Change	%
Italy	45,187	62.5%	41,091	62.4%	4,096	10%
Europe (Italy excluded)	4,645	6.4%	4,070	6.2%	575	14%
Egypt	271	0.4%	3,555	5.4%	(3,284)	-92%
Arab Emirates	998	1.4%	2,925	4.4%	(1,927)	-66%
Saudi Arabia	21,191	29.3%	14,217	22%	6,974	49%
TOTAL	**72,292**	**100%**	**65,858**	**100%**	**6,434**	

Receivables due from subsidiaries

The receivables from subsidiaries, amounting to 13,944 thous./Euros, refer to trade receivables held with Consorzio Stabile Itaca S.c.a.r.l., entered in this financial statement heading after the company acquired a controlling stake in the consortium as explained earlier. As at 31 December 2016 the receivable amounted to 1,139 thous./Euros.

Receivables due from associated companies

Receivables due from associated companies amounted to 282 thous./Euros (1,421 thous./Euros as at 31 December 2016) and refer to trade receivables due from Frejus S.c.ar.l. (281 thous./Euros) and from Consorzio I.C.A.V. (1 thous./Euros). The decrease in this heading is due solely to the reclassification of the previous receivable held with Consorzio Stabile Itaca S.c.ar.l. in the receivables with subsidiaries heading.

Tax receivables

(amounts in thous./Euros.)

Tax receivables	31/12/2017	31/12/2016	Change
Indirect taxes	11,969	592	11,377
Direct taxes	155	183	(28)
Receivable amount for IRES/IRAP	948	1,112	(164)
Taxes levied abroad	4,415	3,113	1,302
Other tax receivables	6	0	6
TOTAL	**17,493**	**5,000**	**12,493**

As shown in the table above, the tax receivables item, which amounted to 17,493 thous./Euros (5,000 thous./Euros as at 31 December 2016), mainly consists of:

- receivables for indirect taxes from the revenue agency (mainly VAT) levied in Italy and abroad, amounting to 11,969 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 45 thous./Euros referable to the parent company and Euro Ferroviaria S.r.l. a Socio Unico);
- receivable amount on the income tax of 4,415 thous./Euros levied abroad;
- IRES 2017 tax receivable of 155 thous./Euros relating to Euro Ferroviaria.

The considerable increase in tax receivables compared to the previous financial year is due basically to the increase in the receivables held with the Inland Revenue for VAT, which has affected the Italian operating companies further to the

introduction of the split payment VAT scheme, under which the tax payable on the sale of goods and services to public sector authorities or companies is withheld and paid by the latter instead of by the supplier or service provider. In order to collect the VAT receivable accrued as at 31 December 2017, Salcef Costruzioni, in its capacity as parent company under the Group VAT fiscal scheme, submitted a quarterly claim in October 2017 for 4,109 thous./Euros relative to the third quarter of 2017 and a second refund claim in April 2018 for a total of 6,744 thous./Euros with its annual VAT return, covering the rest of the receivable relative to the 2017 financial year.

Prepaid tax assets

Prepaid tax assets, totalling 1,244 thous./Euros (998 thous./Euros as at 31 December 2016), 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:

(amounts in thous./Euros)

Receivables for prepaid taxes	31/12/2016	Provisions set aside	Drawings	Other changes	31/12/2017
Amortization of goodwill	384	62	(56)		390
Depreciation on revalued buildings	58				58
Provision for bad debts	45				45
Exchange rate differences	3	16	(4)		15
Others	509	294	(70)	4	737
TOTAL	**998**	**372**	**(130)**	**4**	**1,244**

Receivables due from others

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

(amounts in thous./Euros.)

Receivables due from others	31/12/2017	31/12/2016	Change
Advance on no-recourse receivables	6,119	8,251	(2,132)
Advances to suppliers	769	806	(37)
Receivables from staff and worksites	1,113	1,038	75
Receiv. on hold on behalf of th.parties (A.T.I.)	5,086	5	5,081
Receiv. due from social security/welfare agencies	94	103	(9)
Other receivables	1,196	446	750
TOTAL	**14,377**	**10,649**	**3,728**

No-recourse assignments of receivables were performed by Salcef S.p.A. a Socio Unico and Euro Ferroviaria S.r.l. a Socio Unico, in respect of receivables due from customers, and the balance of 6,119 thous./Euros refers to the amount yet to be cashed by the two companies, 5,790 thous./Euros and 329 thous./Euros, respectively.

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

(amounts in thous.Euros)

Receivables included 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 with residual duration of more than 5 years
Receivables due from customers	65,858	6,434	72,292	64,462	7,830	0
Receivables due from subsidiaries	0	13,944	13,944	13,944	0	0
Receivables due from ass. comp.	1,421	(1,139)	282	282	0	0
Tax receivables	5,000	12,493	17,493	17,493	0	0
Prepaid tax assets	998	246	1,244	1,244	0	0
Other receivables	10,649	3,728	14,377	14,377	0	0
TOTAL	**83,926**	**35,706**	**119,632**	**111,802**	**7,830**	**0**

FINANCIAL ASSETS NOT HELD AS FIXED ASSETS

Other investments

This item includes the value, of 450 Euros, of the stake in the Sirti Alliance for Infrastructures S.c.a r.l. (S.A.I. S.c.ar.l.) consortium underwritten by Euro Ferroviaria when the consortium was incorporated in February 2017, equivalent to 4.5% of the Share Capital. In April 2018 this stake was sold to the majority shareholder Sirti S.p.A. at its nominal value.

Other Securities

The other securities, amounting to 65 thous./Euros, refer to investment trust holdings of Salcef Costruzioni, reclassified from the other securities heading of the financial fixed assets because they were entirely sold in 2018, generating income of about 57 thous./Euros.

CASH AND CASH EQUIVALENTS (LIQUID ASSETS)

Cash and cash equivalents amounted to 19,516 thous./Euros compared to 53,157 thous./Euros in the previous year; the breakdown is shown in detail in the table here below:

(amounts in thous./Euros)

Cash and cash equivalents	31/12/2017	31/12/2016	Change
Bank and post office deposits	19,282	52,931	(33,649)
Cash and other valuables at hand	234	226	8
TOTAL	**19,516**	**53,157**	**(33,641)**

As far as bank and postal deposits are concerned, please note that the balance mainly refers to Salcef S.p.A. a Socio Unico for 13,018 thous./Euros, Euro Ferroviaria for 620 thous./Euros, the Parent Company for 4,351 e thous./Euros and SRT for 1,129 thous./Euros.

The decrease compared to the previous financial year is due mainly to the fact that at the end of December 2016 large sums were collected under the new Riyadh Metro Line 3 contract in Saudi Arabia, from invoices issued to R.F.I. S.p.A., and from amounts withheld as surety by the Egyptian customer.

ACCRUED INCOME AND PREPAID EXPENSES

Accrued income and prepaid expenses and amounted to 2,359 thous./Euros (2,699 thous./Euros as at 31 December 2016) and, for the most part there were accrued income amounts referring to the following:

- insurance premiums relating to worksites (1,547 thous./Euros);
- down-payments paid out to lease companies (39 thous./Euros);
- commissions on bank guarantees (217 thous./Euros);
- rents (326 thous./Euros).

The balance is for the most part referable to Salcef S.p.A. a Socio Unico for 1,192 thous./Euros, to the Parent Company for 901 thous./Euros, to Euro Ferroviaria for 172 thous./Euros and to Vianini Industria for 77 thous./Euros.

LIABILITIES

SHAREHOLDERS' EQUITY

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

(amounts in thous./Euros)

Shareholders' equity	Share capital	Legal reserve	Revaluation reserves	Other reserves	Ret. earnings & losses carried forward	Profit (Loss) for the period	Group's SE	SE + profit attrib. to third parties
Balance at 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)
Balance at 31/12/2016	**200**	**111**	**28,060**	**48,435**	**5,004**	**6,792**	**88,602**	**30**
Allocation of previous year's profit				1,739	5,053	(6,792)	-	
Distribution of dividends					(2,000)		(2,000)	
Change in the translation reserves				(3,484)			(3,484)	
Other variations / Reclassifications							-	
Profit (Loss) for the period						28,288	28,288	(13)
Balance at 31/12/2017	**200**	**111**	**28,060**	**46,690**	**8,057**	**28,288**	**111,406**	**17**

The share capital underwritten and fully paid in at 31 December 2017 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 profits referable to previous years and allocated by the shareholders' meeting;

- the Reserve for gains on exchange rates for 2,005 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 6,657 thous./Euros).

Here below is the reconciliation table recording amounts referable to the shareholders equity and net result for the period at 31 December 2017 shown in the Financial Statements of Salcef Costruzioni Edili e Ferroviarie S.p.A. and those reported in the Consolidated Financial Statements:

(Amounts in thous./Euros)

Description	Profit	Shareholders' Equity
Salcef Costruzioni Edili e Ferroviarie S.p.A.	13,249	82,279
Contributions of subsidiaries	22,484	29,811
Dividends	(7,000)	-
Elimination of intra-group margins	(403)	(1,325)
Goodwill	(55)	657
Total Consolidated Shareholders' equity	**28,275**	**111,422**

PROVISION FOR LIABILITIES AND CHARGES

The provisions for liabilities and charges (contingency funds) include the deferred taxes fund (247 thous./Euros), the value of the payable financial derivatives undersigned by Salcef Costruzioni and Salcef S.p.A. a Socio Unico (228 thous./Euros) and other contingency funds (8 thous./Euros).

The transactions which took place in the heading in question during the 2017 financial year are set out below:

(amounts in thous./Euros)

Provision for liabilities and charges	31/12/2016	Drawings/Issues	Allocations	31/12/2017
Provision for deferred tax	481	(481)	247	247
Tax fund	500	(500)		0
Payable financial derivatives	418	(190)		228
Tax claim risk fund	8			8
TOTAL	**1,407**	**(1,171)**	**247**	**483**

The fund for deferred taxes as at 31 December 2017 relates to the temporary differences generated on the net profits on exchange rates not realised by Salcef Costruzioni; the table below details the change in this fund during the year under consideration:

(amounts in thous./Euros)

Provision for deferred tax	31/12/2016	Provisions	Drawings	31/12/2017
Exchange differences	481	247	(481)	247
TOTAL	**481**	**247**	**(481)**	**247**

The tax fund as at 31 December 2016 contained an allocation of 500 thous./Euros covering 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 (Inland Revenue). This 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 with the taxpayer's acceptance of the tax demand; the matter was concluded through payment of 283 thous./Euros, including fines and interest, in April 2018. The positive difference of 217 thous./Euros compared to the tax fund allocated was transferred to the taxes for previous financial years heading of the income statement.

With regard to financial derivatives as at 31 December 2017, 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 11,590,909.11, and signed in 2014 and expiring in 2018, with a notional capital of Euro 2,500,000, 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 INDEMNITY FUND

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

(amounts in thous./Euros)

Severance pay	31/12/2016	Contributions	Provisions	Drawings/Payments to pension funds	Other changes	31/12/2017
Employee severance fund	1,029	136	1,755	(868)	(1,005)	1,047
TOTAL	**1,029**	**136**	**1,755**	**(868)**	**(1,005)**	**1,047**

The payment of 136 thous./Euros to this fund refers to the severance pay entitlement of the employees transferred with the transfer of the company division from Vianini S.p.A. to Vianini Industria.

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 42,551 thous./Euros

(34,103 thous./Euros as at 31 December 2016) and includes the debt as at 31 December 2017 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.

(amounts in thous./Euros)

Payables due to banks	31/12/2017	31/12/2016	Change
c/a overdrafts	7	12	(5)
Advances	21	43	(22)
Bank loans	42,523	34,048	8,475
TOTAL	**42,551**	**34,103**	**8,448**

Bank loans have been contracted under the following terms: an EURIBOR-linked flexible interest rate.

Here below is a table breaking down bank loans outstanding at 31 December 2017 by due date:

(amounts in thous./Euros)

Bank loans	31/12/2017	1 to 2 years	2 to 5 years	beyond 5 years
Bank loans	42,523	29,599	12,924	0
TOTAL	**42,523**	**29,599**	**12,924**	**0**

Advances

The item advances (down-payments) amounting to 2,842 thous./Euros (9,176 thous./Euros as at 31 December 2016) 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 2017 this heading related mainly to the Saudi Arabian contract (2,145 thous./Euros), while the down payment, of 268 thous./Euros as at 31 December 2016, received from Ferrovienord S.p.A. for the start of the works at Paderno Dugnano station on the Milan-Seveso-Asso railway line, was completely recouped during the 2017 financial year.

Payables due to suppliers

The item payables due to suppliers amounts to 114,439 thous./Euros (101,573 thous./Euros as at 31 December 2016), 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. a Socio Unico (84,254 thous./Euros), to the parent company (5,440 thous./Euros), to Euro Ferroviaria (10,761 thous./Euros), to Vianini Industria (9,257 thous./Euros) and to SRT (4,465 thous./Euros).

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

(amounts in thous./Euros)

Payables due to suppliers	31/12/2017	%	31/12/2016	%	Change	%
Italy	110,874	9.,88%	92,961	91.5%	17,913	19%
Europe (Italy excluded)	1,214	1.06%	1,754	1.7%	(540)	-31%
Egypt	122	0.11%	609	0.6%	(487)	-80%
Arab Emirates	6	0.01%	99	0.1%	(93)	-94%
Saudi Arabia	2,223	1.94%	6,150	6.1%	(3,927)	-64%
TOTAL	**114,439**	**100%**	**101,573**	**100%**	**12,866**	

Payables to subsidiaries

The payables to subsidiaries amount to 259 thous./Euros and refer to the costs transferred by the subsidiary Consorzio Stabile Itaca S.c.ar.l..

Payables due to associated companies

Payables due to associated companies, amounting to 105 thous./Euros (184 thous./Euros as at 31 December 2016), mainly consist of trade payables for costs re-charged by pooled companies and consortia and referable to Salcef Costruzioni (51 thous./Euros), to Salcef S.p.A. a Socio Unico (31 thous./Euros) and to Euro Ferroviaria (22 thous./Euros). The decrease compared to the previous year is due to the reclassification of the receivable held with Consorzio Stabile Itaca S.c.ar.l. in the receivables with subsidiaries heading, as explained earlier.

Tax payables

Tax payables, amounting to 15,564 thous./Euros (8,991 thous./Euros as at 31 December 2016), for the most part consist of the debt owed to the revenue agency in relation to withholding taxes calculated on self-employment and other forms of freelance work, employees' work and employee severance amounts (1,310 thous./Euros), of the VAT debt payable to the revenue agency (23 thous./Euros), of the current IRES and IRAP debt (10,865 thous./Euros) and of the current foreign tax debts (2,454 thous./Euros).

(amounts in thous./Euros)

Tax payables	31/12/2017	31/12/2016	Change
Payables due to Rev. Ag. for withhold.tax	1,310	1,321	(11)
Payables due to Rev. Ag for VAT	23	1,486	(1,463)
Payable for IRES	9,491	2,402	7,089
Payable for IRAP	1,374	638	736
Tax payables for taxes assessed	283	0	283
Foreign tax payables	2,454	3,119	(665)
Other tax payables	630	25	605
TOTAL	**15,565**	**8,991**	**6,574**

The other tax payables heading includes the payable to the Inland Revenue for revaluation substitution tax further to the

recouping, from the fiscal point of view, of the higher values assigned in the financial statements to the tangible and intangible fixed assets, including the goodwill, at the time of acquisition of the company division transferred to Vianini Industria by Vianini S.p.A. (623 thous./Euros).

Payables due to welfare and social security agencies

Payables due to social security agencies amounted to 2,076 thous./Euros (2,530 thous./Euros as at 31 December 2016) and refer almost in their entirety to sums owed at December 2017 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. a Socio Unico (1,379 thous./Euros).

Other Payables

The other payables, amounting to 9,217 thous./Euros (19,554 thous./Euros as at 31 December 2016), include for the most part salaries and wages owing in connection with the December 2017 monthly payments (1,997 thous./Euros), debts for leave accrued and not taken holidays at the close date (1,499 thous./Euros) and 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. a Socio Unico and Euro Ferroviaria - acting as leader companies of the association, of invoices issued by the latter to the client against work executed (2,626 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. a Socio Unico to Tuzi Costruzioni Generali S.p.A. - which has entered into an arrangement with its creditors – equal to the amount outstanding at 31 December 2017 on the purchase of the business unit (1,446 thous./Euros). This debt is payable in monthly instalments and expires before the end of the next financial year.

(amounts in thous./Euros)

Other payables	31/12/2017	31/12/2016	Change
Payables to employees	3,496	3,383	113
Third-party payables held (temp. consortia)	2,626	8,821	(6,195)
Payables to shareholders	880	880	0
Payables for purchase of company division	1,446	5,965	(4,519)
Sundry payables	769	505	264
TOTAL	**9,217**	**19,554**	**(10,337)**

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

(amounts in thous./Euros)

Payables	Value at start of year	Change in the year	Vale at end of year	Amount due during year	Amount due after end of year	of which with residual duration of more than 5 years
Payables due to banks	34,103	8,448	42,551	16,151	26,400	0
Advances	9,176	(6,334)	2,842	2,842	0	0
Payables due to suppliers	101,573	12,866	114,439	114,439	0	0
Payables due to subsidiaries	0	259	259	259	0	0
Payables due to associated companies	184	(79)	105	105	0	0
Tax payables	8,991	6,574	15,565	15,565	0	0
Payables due to Welfare and Social Security Agencies	2,530	(454)	2,076	2,076	0	0
Other payables	19,554	(10,337)	9,217	9,217	0	0
TOTAL	**176,111**	**10,943**	**187,054**	**160,654**	**26,400**	**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

Revenues from sales and services – changes in inventories and contract work in progress

(amounts in thous./Euros)

Revenues	2017	2016	Change
Revenues from sales and services	306,738	261,424	45,314
Revenues from invent. of finished/semi-finished products	35	0	35
Revenues from changes in contract work in progress	13,443	(2,820)	16,263
TOTAL	**320,216**	**258,604**	**61,612**

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.

The revenues due to changes in inventories of finished and semi-finished products refer to processes relating to the sleeper production business of Vianini Industria.

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 breakdown by geographical area of the revenues from sales and services:

(amounts in thous./Euros)

Revenues by geogr. area	2017	%	2016	%	Change
Italy	247,446	80.67%	218,286	83.50%	29,160
Europe (Italy excluded)	1,583	0.52%	696	0.27%	887
Egypt	1,444	0.47%	11,079	4.24%	(9,635)
India	635	0.21%	0	0%	635
Arab Emirates	27	0.01%	2,615	1.00%	(2,588)
Saudi Arabia	55,603	18.13%	28,748	11.00%	26,855
TOTAL	**306,738**	**100%**	**261,424**	**100%**	**45,314**

Capitalized costs for self-constructed assets

The item, amounting to 8,511 thous./Euros (8,105 thous./Euros in 2016) 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. a Socio Unico at the works located on the industrial estate of Fano (PU).

Other income and revenues

The item, which amounted to 3,280 thous./Euros (1,443 thous./Euros in 2016), mainly refers to the re-charging of costs and/or the refund for expenses incurred on behalf of third parties (694 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 (1,308 thous./Euros).

(amounts in thous./Euros)

Other income and revenues	2017	2016	Change
Amounts charged back to third parties	694	245	449
Compensation from insurance claims and misc.	683	147	536
Gains from disposal of assets	1,308	844	464
Others	595	207	388
TOTAL	**3,280**	**1,443**	**1,837**

COSTS OF PRODUCTION

Costs of production increased from 251,575 thous./Euros in 2016 to 290,370 thous./Euros in 2017, further to the increase in production (+23.81%); however, the increase in costs was less in percentage terms than that in output (+15.42%).

Costs of raw, ancillary and consumable materials

Costs of raw, ancillary and consumable materials, net of the variation in inventories, amounted overall to 71,487 thous./Euros.

(amounts in thous./Euros)

Costs of raw, ancillary materials and goods	2017	2016	Change
Purchases for raw, ancillary materials and goods	72,702	71,873	829
Variation in inventories	(1,215)	1,080	(2,295)
TOTAL	**71,487**	**72,953**	**(1,466)**

Costs for services

Costs for services amount to 147,111 thous./Euros (113,033 thous./Euros in 2016); their detailed composition is provided in the table below:

(amounts in thous./Euros)

Costs for services	2017	2016	Change
Maintenance carried out by third parties	2,151	1,799	352
Third parties contracted to perform work, consult.& outsour.work	104,005	69,225	34,780
Board and lodging for employees on assignment	7,599	6,885	714
Costs for seconded personnel	2,302	2,321	(19)
Insurances and sureties	3,285	3,467	(182)
Costs re-charged by third parties	5,352	11,487	(6,135)
Compensation to collaborators and temporary staff	4,313	243	4,070
Utilities	898	789	109
Compensation to Directors	170	161	10
Compensation to Auditors	81	103	(22)
Commercial expenses	509	225	284
Overheads and admin. costs	547	917	(369)
Costs for tender procedures	47	141	(94)
Transport	12,147	11,255	892
Cars and motor-vehicles	1,083	1,010	73
Penalties and claims	351	1,170	(819)
Other costs for services	2,269	1,835	434
TOTAL	**147,111**	**113,033**	**34,078**

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 10,076 thous./Euros (9,684 thous./Euros in 2016) and are made up as follows:

(amounts in thous./Euros)

Costs on Leased Assets	2017	2016	Change
Hire	6,338	5,819	519
Lease costs	2,180	2,538	(358)
Rent expenses	1,558	1,327	231
TOTAL	**10,076**	**9,684**	**392**

Labour Costs

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

(amounts in thous./Euros)

Labour costs	2017	2016	Change
Wages and salaries	35,114	30,659	4,455
Welfare and social security costs	11,642	10,713	929
Severance amounts, pensions and equivalent	1,755	1,667	88
Other costs	527	7	520
TOTAL	**49,038**	**43,046**	**5,992**

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

Workforce	2017	2016	Average
Salcef Costruzioni Edili e Ferroviarie S.p.A.	122	200	161
Euro Ferroviaria S.r.l. a Socio Unico	88	76	82
Salcef Polska Sp.Z.o.o.	2	0	1
Salcef Siegwart	0	0	0
RECO S.r.l. a Socio Unico	22	20	21
Salcef S.p.A. a Socio Unico	514	500	507
Vianini Industria S.r.l. a Socio Unico	36	0	18
SRT S.r.l. a Socio Unico	42	32	37
TOTAL	**826**	**828**	**827**

Workforce 2017	Italy	Abroad	Total
Managers and executives	13	0	13
White-collar workers	167	58	225
Blue-collar workers	499	89	588
TOTAL	**679**	**147**	**826**

Sundry operating expenses

Sundry operating expenses are shown in the table here below:

(amounts in thous./Euros)

Sundry Operating Expenses	2017	2016	Change
Losses on disposals of assets	1,628	2,859	(1,231)
Indirect taxes and levies	343	718	(375)
Fines and penalties	141	153	(12)
Other operating expenses	547	642	(95)
TOTAL	**2,659**	**4,372**	**(1,713)**

The capital losses arose from the sale of assets as part of the Group's normal operations (1,628 thous./Euros).

REVENUES AND EXPENSES

Financial operations yielded a negative result and are down by 835 thous./Euros (negative for 2,653 thous./Euros in 2016); they are shown in the table here below:

(amounts in thous./Euros)

Net Result from Financial Operations	2017	2016	Change
Revenues			
Interest earned	56	8	48
Other financial income	124	151	(27)
TOTAL	***180***	***159***	***21***
Financial Expenses			
Interest expense	(955)	(1.347)	392
Financial Expenses	(543)	(688)	145
Loss on financial loans	(114)	(1,572)	1,458
TOTAL	***(1,612)***	***(3,607)***	***1,995***
Net Gains (Losses) on exchange			
Gains on exchange	1,867	11.398	(9.531)
Loss on exchange	(1,270)	(10,603)	9,333
TOTAL	***597***	***795***	***(198)***
TOTAL	**(835)**	**(2,653)**	**1,818**

VALUE ADJUSTMENTS TO FINANCIAL ASSETS

Value adjustments to financial assets amounted to 182 thous./Euros (39 thous./Euros in 2016).

In particular, the write-ups (190 thous./Euros) refer to the increase in the fair value of the derivatives included in the provisions for liabialites and charges, while the write-down refers to the shareholding in the associated company Consorzio Stabile Itaca S.c.ar.l, as already described (8 thous./Euros).

Income tax for the period

Here is a breakdown of the income tax:

(amounts in thous./Euros)

Taxes	2017
IRES	11,075
IRAP	2,833
Current tax	**13,908**
Variation, deferred tax assets	(242)
Variation, deferred tax liabilities	(234)
Deferred tax	**(476)**
Taxes for previous fin. years	**(723)**
TOTAL	**12,709**

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

(amounts in thous./Euros)	2017	
IRES	**Tax base**	**Tax**
Profit before tax	40,985	
Theoretical tax expense	*24%*	9,836
Permanent differences increasing tax base	4,295	
Non-deductible non-operating items	510	
Write-down of shareholding	8	
Unrealized foreign exchange losses	4,304	
Temporary diff. for goodwill amortization	388	
Other variations	7,826	
Unrealized foreign exchange gains	(3,329)	
Temporary differences for goodwill amortization	(202)	
Deductible taxes (IRAP)	(896)	
Other variations	(7,743)	
Tax base	46,146	
Actual tax expense	*27%*	11,075

(amounts in thous./Euros)	2017	
IRAP	**Tax base**	**Tax**
IRAP tax base	88,259	
Theoretical tax expense	*4.56%*	4,025
Labour costs (in costs for services)	15,122	
Other non-deductible costs	3,064	
Other variations	(3,163)	
IRAP deductions (wedge)	(42,340)	
Tax base	60,942	
Actual tax expense	*4.65%*	2,833

SURETY, GUARANTEES AND POTENTIAL LIABILITIES

Bonds and guarantees amount to 116,731 thous./Euros (154,696 thous./Euros as at 31 December 2016) 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. a Socio Unico (878 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 (81,080 thous./Euros) and the bank guarantees issued in favour of Banks with regard to loans taken out by Salcef Group companies (34,773 thous./Euros).

The information required by art. 2427 (22) of the Italian Civil Code with regard to financial leasing agreements in force as of 31 December 2017 is provided below. The payable for leasing agreements with due date beyond 12 months amounts to 95 thous./Euros; there are no payables with residual duration in excess of five years.

(amounts in thous./Euros)

Description	2017
A) CURRENT CONTRACTS	
Assets held under financial leasing contracts at the end of the previous financial year, net of total amortisations	5,644
Assets acquired under financial leasing contracts during the financial year	0
Assets held under financial leasing contracts redeemed during the financial year, net of total amortisations	(204)
Amortisations for the financial year	(1,574)
Prepaid expenses	(21)
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	**3,866**
B) ASSETS REDEEMED	**0**
C) LIABILITIES	
Implicit indebtedness for financial leasing contracts at the end of the previous financial year	3,080
Payables arising during the financial year	0
Capital repayments and redemptions during financial year	(2,202)
Implicit indebtedness for financial leasing contracts at the end of the financial year	**878**
D) GROSS TOTAL EFFECT AT THE END OF THE FINANCIAL YEAR (A+B-C)	**2,988**
E) FISCAL EFFECT	**(717)**
F) EFFECT ON NET SHAREHOLDERS' EQUITY AT END OF FINANCIAL YEAR (D-E)	**2,271**
Effect on income statement:	
Reversal of financial leasing operation instalments	2,073
Reversal of deferrals initial maxi-instalment	121
Entry of financial charges on financial leasing operations	(75)
Entry of:	
Amortisation allocations	(1,589)
Adjustments/revaluations on assets held under financial leasing agreements	0
Effect on pre-tax result	**530**
Entry of tax effect	**(148)**
Effect on result for the financial year on entry of financial leasing operations using the financial method	**382**

FURTHER INFORMATIONS

Fees paid 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 59 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:

(amounts in thous./Euros)

FINANCIAL RELATIONS AT 31/12/2017	Financial assets	Trade receivables	Trade payables	Financial payables
Unconsolidated subsidiaries				
Consorzio Stabile Itaca S.c.a.r.l.		13,944	(259)	
Salcef Libya Joint Venture				
Salcef Mozabique Ltd.				
TOTAL	**0**	**13,944**	**(259)**	**0**
Associated companies				
Frejus S.c.a.r.l.		281	(51)	
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	353	1	(45)	
Gestioni Immobiliari - Servizi - Appalti S.r.l.	330		(9)	
TOTAL	**683**	**282**	**(105)**	**0**

(amounts in thous./Euros)

OPERATING RELATIONS AT 31/12/2017	Revenues	Costs
Unconsolidated subsidiaries		
Consorzio Stabile Itaca S.c.a.r.l.	17	(238)
Salcef Libya Joint Venture		
Salcef Mozambique Ltd.		
TOTAL	**17**	**(238)**
Associated companies		
Frejus S.c.a.r.l.		(16)
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità		(12)
Gestioni Immobiliari - Servizi - Appalti S.r.l.		
TOTAL	**0**	**(28)**

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 2017.

Signed

The Sole Director

(Alessandro Di Paolo)