SALCEF GROUP S.P.A.

REPORT ON OPERATIONS TO THE

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 economic results and business outlook of the Group.

The Consolidated Financial Statements include the Financial Statements of the parent company Salcef Group S.p.A. (hereinafter, also referred to as "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 Group S.p.A..

At its Extraordinary General Meeting on 12 November 2018, the Parent Company changed its name from Salcef Costruzioni Edili e Ferroviarie S.p.A. to Salcef Group S.p.A..

As at 31 December 2018 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 permanent way (superstructure) works;
- 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;
- H&M Bau GmbH, acquired on 7 October 2018 and wholly owned, operating on the Germany railway market, specialising in construction and railway superstructure works.

As explained in detail, with reasons, in the Notes to the Financial Statements, the unconsolidated subsidiaries and associated companies were evaluated by the Net Shareholders' Equity method.

Operating performance

The consolidated Value of Production in 2018 amounted to 319 mln/Euros, compared to 333mln/Euros in FY 2017.

In terms of economic result, the Consolidated Financial Statements as at 31 December 2018 show a net profit for the

group of 29.4 mln/Euros. (28.3 mln/Euros in 2017).

FY 2018 was particularly important for the Salcef Group, both due to the major acquisition operation concluded, in terms of the output achieved and for expansion in foreign markets.

With regard to the first point, as part of its project for development and expansion in its business in Western European countries, on 7 October 2018 Salcef Group S.p.A. acquired 100% of the equity of H&M, Bau GmbH, which had already been operating on the German railway market for decades, at a price of 1.45 mln/Euros. The Company, formerly owned by the two historic partners Mr Hermes and Mr Meinen, mainly works with German railway infrastructure operator DB Netz, and specialises in railway superstructure works. H&M currently has a turnover of about 4 mln/Euros per annum and employs about 20 people; the Salcef Group intends to increase production capacity by contributing entrepreneurial skills and technical and financial resources.

With regard to production activities, during 2018 work was almost completed on the construction of the Riyadh Metro Line 3 by Salcef S.p.A. Saudi Arabia Branch in the city of Riyadh, while work continued 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 in 2017 the company had disposed of the remainder of its logistics centre, considering that the guarantee period for the work had also expired. The tenders for the construction of a further three sections, which when operational will provide the United Arab Emirates with an integrated railway network for the transport of freight and passengers, began again in 2018 after a hiatus of several years, and contracts will probably be awarded in the first six months of 2019. The Salcef Group companies did not participate in the tenders directly, because their value is very high and they cover the realisation of all the infrastructure works, but they are ready to supply their services as subcontractors/suppliers to the successful general contractors. Although the works under the previous contract have been completed, the branch established in Abu Dhabi has been kept in operation and holds all the necessary authorisations and certifications required by the Emirates for the specific forms of business involved.
- Egypt: Construction of Kozzyka railway depot. It should be remembered that in July 2016, under a Joint

Operation between Salcef Group (30.58%) and Petroleum Projects and Technical Consultations Company "Petrojet" (69.42%), Salcef Costruzioni, now Salcef Group S.p.A., 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, with a value, for the part contracted to the Salcef Group S.p.A. of about 7 mln./Euros. Creation of the worksites began during the early months of 2017 and the first production operations, for a value of about 0.2 mln/Euros, began during 2018. The works are expected to continue for the next two financial years.

With regard to the previous contract for the renewal of the 200 km, subsequently increased to 300 Km, of the Cairo – Aswan line, works were completed in 2016, with output worth 8 mln/Euros, while in 2017 residual activities were undertaken, and these continued in 2018.

- Saudi Arabia: construction of Riyadh Line 3 Underground. In the month of November 2015 Salcef Costruzioni, now Salcef Group S.p.A., as Leader of a Joint Operation set up between Salcef Group S.p.A. (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 Group S.p.A. from 60% to 99,9% in the Joint Operation. Construction continued during 2018, with completion of phases for a value of 100 mln/Euros (progress made 93.50%). Construction of the subway will be completed during 2019.
- India: Technical Support - Project packet-201 & 202: India eastern freight corridor. In 2016, Salcef Group S.p.A. signed a subcontracting agreement worth 1.4 mln/Euros with GMR Infrastructure Limited for technical support during the construction of an eastern freight corridor in India. This consulting activity continued in 2018, with production of works with value 0.3 mil/Euros.
- Romania: Rehabilitation of the Frontier-Curtici-Simeria line. The Salcef Group S.p.A., 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 Group S.p.A., of about 7.5 mln/Euros. Work began in 2018, with output of about 0.6 mln/Euros, and is expected to continue for about the next 4 years.

Moreover, during 2018 Salcef S.p.A. a Socio Unico opened a branch in Norway which signed a contract, worth a total of 9 mln/Euros, for the supply of services for the hire of machinery and the provision of specialist staff with the customer

Baneservice A.s., relating to renewal works on 150 km of track on the Norwegian railway network during 2018-2020.

Last but not least, Salcef S.p.A. a Socio Unico opened new branches in Croatia and Switzerland which, although not operational because they do not yet hold any contracts, were established to boost the company's sales operations in these countries, which have excellent prospects in terms of investments in the railway industry specifically.

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, Euro Ferroviaria and Vianini Industria. In 2018, 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 multidisciplinary railway works. 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.

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.

Railway Permanent Way Division

The Railway Permanent Way (Superstructure) Division is the Group's core business and operates in the construction, maintenance and renewal of railway, tram and metropolitan railway lines. This division employs the majority of the workforce and uses high-efficiency machinery of considerable value in financial terms.

More specifically, via the Railway Permanent Way Division, the Group offers its customers the following services:

- construction of high speed and standard tracks on ballast, and un-ballasted tracks for urban transport, tram and metropolitan railway systems;
- track renewal and maintenance;
- railway vehicle hire.

The Salcef Group is one of the few operators on its market able to offer its customers a completely mechanised track renewal system. This method consists of the use of a railway vehicle (a "renewal train

"), which allows continual operation and, while keeping performance levels in terms of precision and speed high, reduces production costs, and has a low impact on the railway service. At present, the Group companies have 4 renewal units operating continually in Italy, with a considerable investment in high-productivity machinery. These resources provide

the Group with very high operating potential, and it has only a few competitors Europe-wide.

Each unit, entirely mechanised and staffed by teams assigned to specific activities, guarantees compliance with very demanding quality and occupational safety standards, with some of the highest daily average productivity levels on the global market, with operating potential of track construction of up to 2 km per day, and track renewal with partial interruption of railway traffic of up to 1 km per day.

Track renewal and maintenance is the Group's core business, and it is where most of its non-cyclic production (i.e. business less subject to fluctuating economic cycles) takes place. In fact, it is difficult for customers to cut down on both ordinary and extraordinary infrastructure maintenance, since it is necessary in order to maintain the functional standards of railway infrastructure and the safety of rail travel.

The company's organisation in this production segment requires high operating capabilities, mainly involving the possession of expensive railway maintenance vehicles, together with a workforce of skilled staff authorised to work on this machinery with partial interruption of railway traffic.

Under contracts signed with its customers, and especially Rete Ferroviaria Italiana S.p.A., the owner and manager of the domestic railway network, the Salcef Group, and in particular Salcef S.p.A. a Socio Unico, operates permanently using its own units to provide routine maintenance and renewal on most railway lines in central Italy.

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, to a lesser extent, other customers which include ATAC S.p.A, Società Unica Abruzzese di Trasporto (TUA) S.p.A. and StruttureTrasporto Alto Adige S.p.A..

Railway Technology Division

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

As for the Railway Permanent Way Division - with the sole exception of the construction of new infrastructures, which however only accounts for a residual part of turnover - the business engaged in is defined as non-cyclic, as electric traction and signalling system components are subject to natural wear and wear and tear, meaning that continual, regular maintenance is required.

Every year, the Salcef Group undertakes works on at least one hundred kilometres of track, including: (i) construction of plinths and posts, (ii) installation of new overhead lines with dismantling of the old ones, (iii) installation of earth and safety circuits.

The Railway Technology Division is also responsible for the construction and maintenance of the substations which supply power to traction systems, and for the installation of signalling systems on yards and boxes.

In 2018 the division maintained almost exactly the same turnover as in 2017 (21 mln/Euros), undertaking both contracts involving the modification of installations or the construction of new ones and 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.

Multidisciplinary Works Division

In order to offer the various customers a wider and wider range of services, the Salcef Group has expanded its management capacity, enabling the fulfilment of multidisciplinary contracts, requiring works in several different specialist areas.

Typical contracts handled by this Division are those involving the construction of new railway lines, the doubling of existing lines, the construction of new infrastructure in complex stations, or the updating of railway nodes. These contracts generally require construction works, such as the realisation of bridges, tunnels and civil engineering works in general, as well as of buildings and infrastructures, together with railway permanent way, electric traction and signalling.

During the last few years, in order to upgrade and increase the speed of even secondary existing railway lines, Rete Ferroviaria Italiana S.p.A. has planned a large number of generally medium-sized projects, within the field of operation of this Division. Since it is registered with the current Rete Ferroviaria Italiana S.p.A. Registers of Qualified Suppliers for all categories of works, the Salcef Group offers its customers an integrated service, ensuring greater competitiveness and effective interfacing.

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 20 employees all with different specialist skills; it provides assistance to the aforementioned operational divisions in the design and execution phases of the single contracts and in the essential preliminary phases to a project when taking part in tender procedures.

Machinery division

SRT, a wholly-owned subsidiary of Salcef Group S.p.A., has been chosen by the Salcef Group operating companies (in

particular, 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.

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.

Since FY 2017, SRT's customer base has included not only Group companies but also third parties. In particular, during the last financial year two contracts were concluded for the supply of railway wagons with third-party customers, for a total amount of over 4 mln/Euros, with deliveries during both 2017 and 2018, the year when fulfilment of this contract was completed.

During 2018 another important export order was obtained for the value of about 2.3 mln/Euros, for the supply of SGMNS railway wagons fitted with hopper with DHS conveyor belts, a design entirely originated and developed by SRT at its Fano plant. All these wagons were delivered during February 2019.

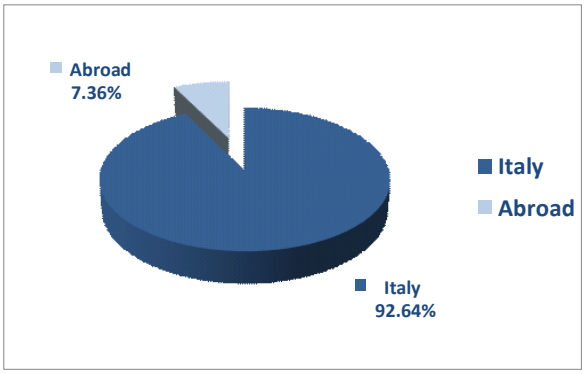
SRT's contracts, with both Italian and foreign customers, mainly involve the supply of both SGMNS and KGMNS railway wagons built by the company, complete with special equipment specifically designed for the transportation of railway materials and aggregates and tailored to the clientele's specific needs.

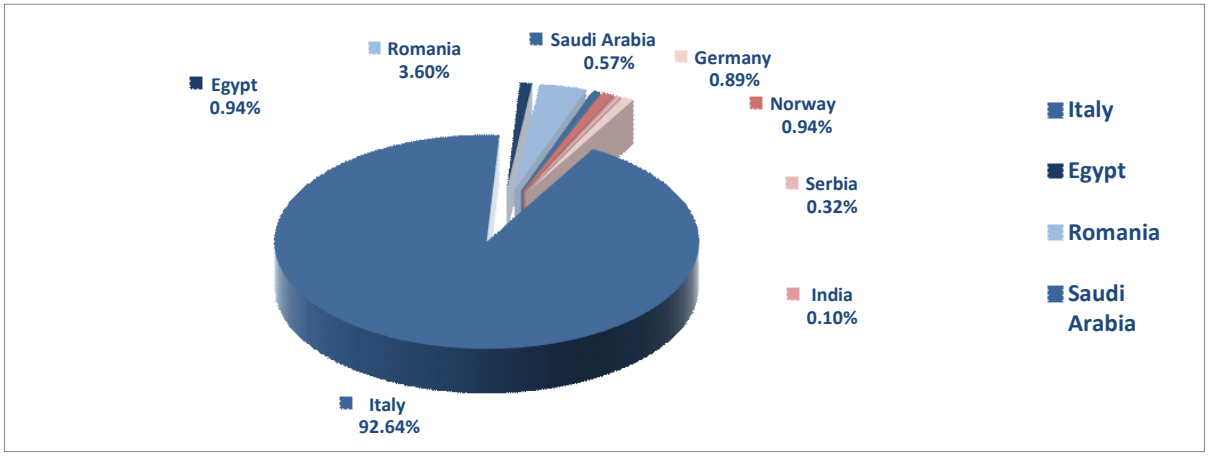
SRT has also won an important order, although for a small amount, for the maintenance of equipment on behalf of Rete Ferroviaria Italiana S.p.A., for the Ancona District Management Office.

Last but not least, the company has designed and built a rail grinding machine, subsequently sold to the affiliate company Salcef S.p.A. a Socio Unico, which has already been used, after homologation and after the successful completion of an initial trial period, for several contracts for Italian railway infrastructure management companies.

The Salcef Group’s contracts portfolio, as at 31 December 2018, includes work for the rehabilitation and systematic maintenance of permanent ways (68.84%), multidisciplinary railway work (2.99%), works in the technology sector (14.39%), production of sleepers and prefabricated concrete components (6.32%), works abroad (7.04%) and works on machinery (0.42%), 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 2018, country by country:

Division	Amount	%
Italy	660,100,922.37	92.64%
Egypt	6,719,434.51	0.94%
Romania	25,640,620.83	3.60%
Saudi Arabia	4,060,114.04	0.57%
Norway	6,690,868.47	0.94%
India	710,000,00	0.10%
Serbia	2,280,000.00	0.32%
Germany	6,362,146.09	0.89%
TOTAL	712,564,106.31	100.00%





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

Amounts in thous./Euros

	2018	2017
EBITDA	64,569	51,635
EBIT	48,902	41,819
EBITDA/Production	21%	16%
EBIT/Production	16%	13%
ROE	21%	25%

Notes
EBITDA: Difference between the Value of Production and Costs of Production, not including amortizations, depreciations and provisions
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, 2018 saw an increase in the profitability of the Group's core business.

Here below are key financial ratios:

Amounts in thous./euros

	31/12/2018	31/12/2017
Net Working Capital (CCN)	66,996	79,291
Net Fixed Assets	75,619	56,695
Funds	(2,894)	(1,529)
Net Invested Capital (CIN)	139,722	134,457
Covered by:		
PN	(137,494)	(111,422)
PFN	(2,227)	(23,034)

Notes:
CCN: Current assets, deferrals and accruals, current receivables net of current payables
PFN: Cash+cashequivalents+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 26,359 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 13,624 thous./Euros, after deduction of amortisation for the financial year of 10,285 thous./Euros. This increase relates to the major plan for investment in tangible assets undertaken by the Salcef Group for 2018/2019, which to a large extent benefit from the tax breaks provided by the Italian Industry 4.0 incentive law. Under this scheme, provided certain requirements are met, companies are able to implement "hyper-amortisation", meaning that they can increase the normally deductible fiscal cost by 150%, while continuing to comply with the amortisation plan for the individual asset.

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 € 2,070,000;
- Technological emergency systems in tunnels in operation – up to € 2,000,000;
- Railway signalling systems – up to € 2,500,000;

- Civil engineering works in tunnels in operation – up to € 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.

RECO S.r.l. a Socio Unico:

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

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

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

The Parent Company, Salcef Group S.p.A., is certified, for all the activities performed, under UNI EN ISO 9001 standards, for quality management purposes, and under ISO 14001 standard and OHSAS 18.001.

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 14001 standards for environmental management purposes, and under OHSAS 18001 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 14001 standards for environmental management purposes and OHSAS 18001 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 Group S.p.A., 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 this end, please note that on 31 October 2017 the Sole Director of Salcef Group S.p.A. 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 a Training and Communication Plan was implemented 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, on 13 April 2018 the Sole Director of Salcef Group S.p.A. 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 2018:

Workforce 2018	Italy	Abroad	Total
Executives and managers	21	-	21
White-collar workers	167	36	203
Blue-collar workers	556	98	654
TOTAL	**744**	**134**	**878**

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 2018 closed with a profit of 31,091 thous./Euros compared to 18,485 thous./Euros of the previous year, whereas the Value of production amounted to 224,128 thous./Euros compared to 240,992 thous./Euros of 2017.

The results are certainly encouraging, with an impressive increase in the profitability of the company's core business; the reduction in output was accompanied by a less than proportional decrease in the correlated costs. The orders which accounted for the highest proportion of production activities in 2018 were railway line renewal and maintenance works, undertaken in the context of the three-year plan issued by RFI S.p.A. for both the 2017-2019 and the 2018-2020 periods (the "Framework Agreements").

During 2018, 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 2019. 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 31.2% (19.6 in 2017), with an operating profit of 4,563 thous./Euros compared to 2,367 thous./Euros of the previous year, after the deduction of taxes of 1,859 thous/Euros, while the Value of Production was 56,038 thous./Euros compared to 44,739 thous./Euros in 2017.

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 2018-2020 (the "Framework Agreements).

During the last two years, Euro Ferroviaria has increased its level of company investments in order to equip itself with more of its own resources to cater for the growth in its business, meaning less rental of machinery from the affiliate Salcef S.p.A. a Socio Unico.

Within this tangible asset investment plan, during 2018 Euro Ferroviaria signed four financial leasing contracts for the purchase of machinery, including a ballast cleaner and three ballast renewal machines, which to a large extent benefit from the tax breaks provided by the Italian Industry 4.0 incentive law.

Moreover, the company is also attempting to organise a new Operating Management, to handle the Electric Railway Traction and technological works sector, like the affiliate 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 2018 with a value of production of 1,557 thous./Euros, substantially in line with the previous year (1,427 thous./Euros).

Overall, Reco S.r.l. is financially sound, with a pre-tax profit of 274 thous./Euros and shareholders' equity of 855 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 2018 it generated turnover of 18.2 mln/Euros (15.7 mln/Euros in 2017), 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 Group companies and to third parties.

In detail, in 2018, 90.6% of business was conducted with Salcef Group companies, with which SRT has framework agreements for the routine and extraordinary maintenance of all machinery, and 9.4% with third-party customers.

The 2018 financial year ended with a net profit of 324 thous./Euros compared to 749 thous./Euros the previous year, after deduction of taxes of 201 thous./Euros, while the Value of Production was 18,229 thous./Euros compared to 16,707 thous./Euros in 2017.

Vianini Industria S.r.l. a Socio unico

The company was incorporated on 30 May 2017 and joined the Salcef Group on 27 September 2017. In the month of 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.

The 2018 financial year ended with a profit of 3,684 thous./Euros, compared with 919 thous./Euros for the previous year, after deduction of taxes of 1,749 thous./Euros, while the Value of Production was 33,173 thous./Euros, compared to 9,010 thous./Euros for the previous year. This increase is due to the fact that in 2017 the company was only operational for the last four months of the year, while in 2018 it was fully operational for the whole year.

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, to be done in the three-year period 2018 – 2020.

H&M Bau GmbH

As part of its project for development and expansion in its business in Western European countries, on 7 October 2018 Salcef Group S.p.A. acquired 100% of the equity of H&M, Bau GmbH, which had already been operating on the German railway market for decades.

H&M mainly works with German railway infrastructure operator DB Netz, and specialises in railway superstructure works. Its portfolio of works as at 31 December 2018 amounted to 6.2 mln/Euros, entirely in Germany.

The company ended FY 2018 with a value of production of about 4.7 mln/Euros, of which 1.6 mln/Euros relates to the Salcef Group since it was realised in the last quarter of the year.

Disclosure pursuant to art. 2428 of the Italian Civil Code

Research and development

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

Secondary places of business

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

State	Address	Type	Use
Poland	Warsaw, Via Lucka n. 15	Branch	Office
Romania	Bucharest, Str. BV. Decebal n. 17 – Blocco S – Sector 3	Branch	Office
Croatia	Zagreb, UljcaLjudevitaGaja n. 55	Branch	Office
Egypt	Ard El Golf, Cairo - Flat No 4, 13 ELNozha Street	Branch	Office
Abu Dhabi	Abu Dhabi - Al Najda - Al YasatTower, Office 1202 PO BOX 108221	Branch	Office
Saudi Arabia	Riyadh - Olaya District, Al NemerCenter Building 2 - Office #304, PO BOX 57774	Branch	Office
Romania	Bucharest, Str. Bv. Decebal n. 17 Bloc S16, Sector 3	Branch	Office
Norway	Osloa, BiskopGunnerus' gate 14 A0185	Branch	Office
Switzerland	Mendrisio, Via Franscini 16-CC 1658 - 6850	Branch	Office
Italy	Ozieri (SS), 07014 - LocalitàFraigas, 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 entities (companies)

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 entities (companies) purchased or disposed of in the year

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 31/12/2018	Financial assets	Trade receivables	Trade payables	Financial payables
Unconsolidated subsidiaries				
Consorzio Stabile Itaca S.c.a.r.l.		4,524	(134)	
SalcefPolskaS.p.zoo			(10)	
TOTAL	**0**	**4,524**	**(144)**	**0**
Associated companies				
FrejusS.c.a.r.l.		281	(63)	
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	353	1	(49)	
Sesto Fiorentino S.c.a.r.l.	300	90	(911)	
TOTAL	**653**	**372**	**(1,023)**	**0**

Amounts in thous./Euros

OPERATING RELATIONS 2018	Revenues	Costs
Unconsolidated subsidiaries		
Consorzio Stabile Itaca S.c.a.r.l.	7,162	(78)
SalcefPolskaS.p.zoo		(110)
TOTAL	**7,162**	**(188)**
Associated companies		
FrejusS.c.a.r.l.		(5)
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità		(1)
Sesto Fiorentino S.c.a.r.l.	287	(1,332)
TOTAL	**287**	**(1,338)**

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 railway 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 Group 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 Group 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.

Salcef Group S.p.A. 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 Group believes that these proceedings and law suits will not have significant negative repercussions for the Group's capital and financial situation or its economic result.

Business outlook

As in previous years, in 2019 the Group will continue to operate in its business sectors (railway permanent way, electric traction and technological works, multidisciplinary railway 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 2019 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.

During 2018, Salcef S.p.A. a Socio Unico, Euro Ferroviaria and Vianini Industria, as members of the Temporary Consortia, won the contracts relating to the national Framework Agreements for track and switching point renewal and maintenance for the 2018-2020 three-year period awarded by RFI S.p.A. 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, during 2019 Vianini Industria will complete the supply of tunnel lining segments, for a residual value of almost 5 mln/Euros, out of the initial amount 9 mln/Euros, for the new tunnel on the T3 section of the Rome Metro C Line, for the Customer Metro C S.c.ar.l..

With regard to contracts abroad, 2019 will see the completion of the works for construction of the Riyadh 3 Metro Line in Saudi Arabia, for which however the contract relationship will continue even subsequently, throughout the guarantee period for the works. Moreover, activities will also continue on the construction of the new railway depot at Kozzyka for Cairo line 1 (Egypt) on behalf of the National Authority for Tunnels for at least two financial years, and production work will proceed in Romania under the two contracts for the rehabilitation of two adjoining sections of railway on the "Frontier-Curtici-Simeria" line, European Corridor IV, Main Subsections 2A and 2B, the completion time for which is about four years in view of the complexity of the works. Last but not least, the Norwegian branch of Salcef S.p.A. a Socio Unico will continue its hire of machinery and the provision of specialist staff for the customer Baneservice A.s., relating to renewal works on 150 km of track on the Norwegian railway network, activities which are to continue until FY 2020.

It should be noted that in November 2018 the Ordinary General Meeting of Salcef Group S.p.A. resolved to proceed with the closure of the Croatian branch, called "Salcef S.p.A. – Podruznica Zagreb", of Zagreb, since the company's business in the relative country had been completed and the guarantee period had also expired. February 2019 saw completion of the activities necessary for collection of all receivables outstanding and payment of all payables due, and therefore the branch can be considered closed as of the date of writing of these Notes.

With regard to the investments needed to grow the business of the individual Group companies, the new Vanini Industria plant for the production of prestressed reinforced concrete sleepers will be handed over, commissioned and interconnected to the company's ERP system during 2019. As well as this major investment, which meets the requirements for tax breaks under the Italian Industry 4.0 incentives scheme, the company will also undertake extraordinary maintenance and revitalisation of some areas and buildings at the Aprilia industrial complex, for a total planned investment of about 12 mln/Euros, to be entirely competed during 2019. The works for the expansion and modernisation of SRT's Fano production plant will also be completed during the next financial year.

Complementary information

It should be noted that on 15 October 2018, the General Meeting of Salcef Group S.p.A. resolved to entrust the Company's management to a three-member Board of Directors, in accordance with art. 15 of the articles of association, since it is considered that a collegial governing body is better able to respond to the Company's management needs. Due to the Salcef Group S.p.A's growth, the increase in volumes, the expansion of its operations not only domestically but increasingly on the foreign markets, and the direction and coordination of the subsidiaries, the Shareholders decided it was preferable to place the Company's administration in the hands of a Board of Directors consisting of three members with the necessary expertise in the specific sector in which the company operates.

signed

The Chief Executive Officer

(Valeriano Salciccia)

SALCEF GROUP S.P.A.

CONSOLIDATED ACCOUNTING REPORTS

FOR THE YEAR ENDED

31 DECEMBER 2018

CONSOLIDATED BALANCE SHEET		31.12.2018		31.12.2017
ASSETS				
A) SUBSCRIBED CAPITAL UNPAID	**€.**	**-**	**€.**	**-**
B) FIXED ASSETS				
I. Intangible fixed assets				
1) Incorporation and expansion costs	€.	39,920	€.	118,093
3) Industrial patent rights and intellectual property rights	€.	341,993	€.	248,361
5) Goodwill	€.	1,887,727	€.	1,510,704
6) Intangible assets under construction and advances	€.	2,698,600	€.	1,476,117
7) Others	€.	309,953	€.	821,603
Total intangible fixed assets	**€.**	**5,278,193**	**€.**	**4,174,878**
II. Tangible fixed assets				
1) Land and buildings	€.	7,872,813	€.	7,674,595
2) Plant and machinery	€.	34,212,556	€.	30,654,653
3) Industrial and commercial equipment	€.	1,733,843	€.	1,999,443
4) Other fixed assets	€.	1,504,580	€.	1,334,724
5) Tangible fixed assets under construction and advances	€.	12,666,654	€.	2,702,868
Total tangible fixed assets	**€.**	**57,990,446**	**€.**	**44,366,283**
III. Financial fixed assets				
1) Investments:				
a) in subsidiaries	€.	255,713	€.	36,503
b) in associated companies	€.	37,668	€.	70,901
d-bis) in other companies	€.	2,120	€.	2,120
Total investments	€.	295,501	€.	109,524
2) Receivables				
b) From associated companies				
- due within one year	*€.*	*653,465*	*€.*	*683,435*
- due beyond one year	*€.*	-	*€.*	-
Total receivables due from associated companies	€.	653,465	€.	683,435
d-bis) Due from others				
- due within one year	*€.*	*132,379*	*€.*	*257,570*
- due beyond one year	*€.*	*227,724*	*€.*	*214,346*
Total receivables due from others	€.	360,103	€.	471,916
Total receivables	€.	1,013,568	€.	1,155,351
3) Other securities	€.	750	€.	-
Total financial fixed assets	**€.**	**1,309,819**	**€.**	**1,264,875**
TOTAL FIXED ASSETS (B)	**€.**	**64,578,458**	**€.**	**49,806,036**

CONSOLIDATED BALANCE SHEET		31.12.2018		31.12.2017
C) CURRENT ASSETS				
I. Inventory				
1) Raw, ancillary and consumable materials	€.	3,201,658	€.	3,216,397
2) Work in progress and semi-finished products	€.	4,209,839	€.	1,508,410
3) Contract work in progress	€.	100,368,066	€.	104,043,862
4) Finished products and goods	€.	7,575	€.	-
Total inventory	**€.**	**107,787,138**	**€.**	**108,768,669**
II. Receivables				
1) Due from customers				
- due within one year	*€.*	*68,038,601*	*€.*	*64,462,256*
- due beyond one year	*€.*	*11,827,226*	*€.*	*7,829,791*
Total receivables due from customers	€.	79,865,829	€.	72,292,047
2) Receivables due from subsidiaries	€,	4,524.090	€.	13,943,601
3) Receivables due from associated companies	€.	372,231	€.	282,145
5-bis) Tax receivables	€.	13,118,533	€.	17,492,430
5-ter) Prepaid taxes	€.	2,368,269	€.	1,244,422
5-quater) Receivables due from others	€.	7,064,798	€.	14,377,238
Total receivables	**€.**	**107,313,750**	**€.**	**119,631,883**
III. Financial assets not held as fixed assets				
4) Other investments	€.	-	€.	450
6) Other securities	€.	-	€.	65,225
Total financial assets not held as fixed assets	**€.**	**-**	**€.**	**65,675**
IV. Cash and cash equivalents				
1) Bank and postal deposits	€.	41,283,705	€.	19,281,790
3) Cash and other valuables on hand	€.	48,473	€.	234,622
Total cash and cash equivalents	**€.**	**41,332,178**	**€.**	**19,516,412**
TOTAL CURRENT ASSETS (C)	**€.**	**256,433,066**	**€.**	**247,982,639**
D) ACCRUED INCOME AND PREPAID EXPENSES	**€.**	**5,240,864**	**€.**	**2,358,869**
TOTAL ASSETS	**€.**	**326,252,388**	**€.**	**300,147,544**

CONSOLIDATED BALANCE SHEET	31.12.2018	31.12.2017
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	*€. 1,029,352*	*€. 2,004,823*
- Consolidation reserve	*€. 8,240,843*	*€. 8,240,843*
- Conversion reserve	*(€. 5,222,793)*	*(€. 6,657,410)*
Total other reserves	€. 47,148,719	€. 46,689,573
VII. Negative reserve for treasury shares	(€. 24,781)	€. -
VIII. Profit/(loss) carried forward	€. 32,620,144	€. 8,057,033
IX. Profit/(loss) for the financial year	€. 29,378,989	€. 28,287,640
X. Negative reserve for treasury shares	€. -	€. -
TOTAL GROUP'S SHAREHOLDERS' EQUITY	**€. 137,494,488**	**€. 111,405,663**
XI. Minority interest capital and reserves	*€. -*	*€. 29,351*
XII. Minority interest profit (loss)	*€. -*	*(€. 12,611)*
TOTAL MINORITY INTEREST SHAREHOLDERS' EQUITY	€. -	€. 16,740
TOTAL GROUP'S CONSOLIDATED SHAREHOLDERS' EQUITY (A)	**€. 137,494,488**	**€. 111,422,403**
B) PROVISIONS FOR LIABILITIES AND CHARGES		
2) For taxes, including deferred taxes	€. 750,000	€. 247,045
3) Payable financial derivatives	€. 32,606	€. 227,910
4) Others	€. 1,163,176	€. 7,763
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES (B)	**€. 1,945,782**	**€. 482,718**
C) EMPLOYEE SEVERANCE PAYMENT	**€. 947,979**	**€. 1,046.584**
D) PAYABLES		
4) Payables due to banks		
- due within one year	*€. 20,113,896*	*€. 16,150,840*
- due beyond one year	*€. 23,445,571*	*€. 26,399,673*
Total payables due to banks	€. 43,559,467	€. 42,550,513
6) Advances	€. 9,649,652	€. 2,842,451
7) Payables due to suppliers	€. 107,499,172	€. 114,439,240
9) Payables due to subsidiaries	€. 143,918	€. 258,527
10) Payables due to associated companies	€. 1,022,647	€. 104,506
12) Tax payables	€. 10,455,970	€. 15,564,830
13) Payables due to social security agencies	€. 2,284,344	€. 2,075,856
14) Other payables	€. 11,219,504	€. 9,217,606
TOTAL PAYABLES (D)	**€. 185,834,674**	**€. 187,053,529**
E) ACCRUED EXPENSES AND DEFERRED INCOME	**€. 29,465**	**€. 142,310**
TOTAL LIABILITIES	**€. 326,252,388**	**€. 300,147,544**

CONSOLIDATED INCOME STATEMENT	31.12.2018	31.12.2017
A) VALUE OF PRODUCTION		
1) Revenues from sales and services	€. 312,315,187	€. 306,738,181
2) Changes to works in progress, semi-finished and finished goods	€. 1,791,429	€. 1,052,301
3) Changes in contract work in progress	(€. 9,253,244)	€. 13,442,757
4) Increases of fixed assets for internal work	€. 12,756,998	€. 8,511,498
5) Other income and revenues	€. 1,429,637	€. 3,280,100
TOTAL VALUE OF PRODUCTION (A)	**€. 319,040,007**	**€. 333,024,837**
B) COSTS OF PRODUCTION		
6) for raw, ancillary and consumable materials and goods	€. 57,070,034	€. 72,701,968
7) for services	€. 135,355,556	€. 147,111,074
8) for leases and rentals	€. 8,545,588	€. 10,076,291
9) Labour costs:		
a) wages and salaries	*€. 37,088,930*	*€. 35,114,452*
b) social security costs	*€. 12,665,340*	*€. 11,642,367*
c) severance pay	*€. 1,945,157*	*€. 1,755,146*
d) other costs	*€. 89,869*	*€. 526,566*
Total labour costs	€. 51,789,296	€. 49,038,531
10) Amortization, depreciation and write-downs:		
a) amortization of intangible fixed assets	*€. 1,051,169*	*€. 1,041,651*
b) depreciation of tangible fixed assets	*€. 10,284,787*	*€. 8,374,671*
d) write-downs of receivables included in current assets and liquid assets	*€. 3,553,700*	*€. 581,723*
Total amortization, depreciation and write-downs	€. 14,889,656	€. 9,998,045
11) Changes to inventories of raw, ancillary and consumable materials & goods	€. 14,739	(€. 197,219)
12) Provisions for risks	€. 495,386	€. -
14) Sundry operating expenses	€. 1,695,741	€. 2,658,742
TOTAL COSTS OF PRODUCTION (B)	**€. 269,855,996**	**€. 291,387,432**
DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION (A - B)	**€. 49,184,011**	**€. 41,637,405**
C) REVENUES AND EXPENSES		
15) Income from equity investments	€. -	€. -
16) Other financial income:		
b) from securities held as fixed assets other than equity investments	*€. 56,882*	*€. -*
d) other income	*€. 201,296*	*€. 180,395*
Total other financial income	€. 258,178	€. 180,395
17) Interest and other financial expenses	(€. 3,369,814)	(€. 1,612,076)
17-bis) Exchange gains (losses)		
- gains	*€. 322,215*	*€. 1,867,215*
- (losses)	*(€. 1,034,672)*	*(€. 1,270,122)*
Total exchange gains (losses)	(€. 712,457)	€. 597,093
TOTAL REVENUES AND EXPENSES (C)	**(€. 3,824,093)**	**(€. 834,588)**
D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES		
18) Write-ups		
d) of derivative financial instruments	*€. 84,310*	*€. 189,977*
Total write-ups	€. 84,310	€. 189,977
19) Write-downs		
a) of equity investments	*(€. 188,624)*	*(€. 8,080)*
b) of financial fixed assets other than equity investments	*(€. 178,192)*	*€. -*
Total write-downs	(€. 366,816)	(€. 8,080)
TOTAL VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES (D)	**(€. 282,506)**	**€. 181,897**
INCOME BEFORE TAXES (A - B +/- C +/- D)	**€. 45,077,412**	**€. 40,984,714**
20) Income tax		
a) Taxes for the period	*€. 16,454,552*	*€. 13,908,398*
b) Prepaid/deferred tax	*(€. 1,461,107)*	*(€. 475,072)*
c) Taxes for previous years	*€. 704,976*	*(€. 723,641)*
Total income tax	€. 15,698,423	€. 12,709,685
21) Profit (Loss) for the period	**€. 29,378,989**	**€. 28,275,029**
b) Profit /(loss) attributable to minority interest	€. -	(€. 12,611)
21) Profit (Loss) for the period of the group	**€. 29,378,989**	**€. 28,287,640**

CASH-FLOW STATEMENT		31.12.2018		31.12.2017
A. CASH FLOWS FROM OPERATING ACTIVITIES				
Profit for the period	€.	29,378,989	€.	28,275,029
Income tax	€.	15,698,423	€.	12,709,685
Interest payables	€.	930,719	€.	890,190
(Capital gain)/Capital loss from selling business	(€.	283,925)	€.	445,599
1. Profit (loss) before income tax, interest, dividends and capital gains/losses on disposals	**€.**	**45,724,206**	**€.**	**42,320,503**
Adjustments for non-monetary items which were not offset in the net current assets				
Provisions to funds	€.	3,784,983	€.	1,755,146
Amortizations of fixed assets	€.	11,335,956	€.	9,416,322
Adjustments to value of financial assets and liabilities from derivative financial instruments	(€.	84,310)	(€.	189,977)
Write-downs for impairment losses	€.	3,920,516	€.	589,803
Other adjustments for non-monetary items	(€.	641,103)	(€.	391,202)
Total adjust. for non-monetary items	*€.*	*18,316,042*	*€.*	*11,180,092*
2. Cash-flow before changes in net current assets	**€.**	**64,040,248**	**€.**	**53,500,595**
Changes in net current assets				
(Increase) Decrease in inventories	€.	7,788,732	(€.	28,311,949)
(Increase) Decrease in current asset receivables	(€.	3,094)	(€.	19,820,347)
Increase (Decrease) in payables owed to suppliers and other payables	(€.	5,251,536)	€.	13,045,433
Other changes in net current assets	€.	3,327,345	(€.	31,856,557)
Total changes in net current assets	*€.*	*5,861,447*	*(€.*	*66,943,420)*
3. Cash-flow after changes in net current assets	**€.**	**69,901,695**	**(€.**	**13,442,825)**
Other adjustments				
Interests cashed/(paid)	(€.	830,568)	(€.	890,190)
(Income tax paid)	(€.	15,590,687)	(€.	2,238,552)
(Amounts used of funds)	(€.	1,154,690)	(€.	868,506)
Total other adjust.	*(€.*	*17,575,945)*	*(€.*	*3,997,248)*
Cash-flow from operating activities (A)	**€.**	**52,325,750**	**(€.**	**17,440,073)**
B. CASH FLOW FROM INVESTING ACTIVITES				
Tangible fixed assets				
(Investments)	(€.	26,359,443)	(€.	14,807,750)
Disinvestments	€.	1,913,937	€.	5,975,705
Exchange rate differences	(€.	30,461)	€.	220,840
Intangible fixed assets				
(Investments)	(€.	2,204,852)	(€.	1,481,404)
Financial fixed assets				
(Investments)	(€.	1,394,660)	(€.	292,179)
Financial assets not held as fixed assets				
(Investments)	€.	-	(€.	450)
Disinvestments	€.	65,675	€.	-
Acquisition/disposal of subsidiaries or business branches net of cash and cash equivalents	€.	-	(€.	8,778,301)
Cash-flow from investing activities (B)	**(€.**	**28,009,804)**	**(€.**	**19,163,539)**
C. CASH-FLOW FROM FINANCING ACTIVITIES				
Borrowed capital				
Increase (decrease) of short-term payables to banks	(€.	204,861)	€.	3,695
Loans received	€.	31,000,000	€.	29,915,000
Repayment of loans	(€.	30,029,936)	(€.	21,471,382)
Equity				
Dividends paid	(€.	4,700,000)	(€.	2,000,000)
Exchange rate differences	€.	1,434,617	(€.	3,484,271)
Cash-flow from financing activities (C)	**(€.**	**2,500,180)**	**€.**	**2,963,042**
Increase (decrease) of cash and cash equivalents (A ± B ± C)	€.	21,815,766	(€.	33,640,570)
Cash and cash equivalents as at 1st January	**€.**	**19,516,412**	**€.**	**53,156,982**
Cash and cash equivalents as at 31st December	**€.**	**41,332,178**	**€.**	**19,516,412**

NOTES TO THE

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

GENERAL INFORMATION

Salcef Group S.p.A. (hereinafter also referred to as "Parent Company"), a joint-stock company with registered office in Rome (Italy), via di Pietralata no. 140, has been operating in the railway construction and maintenance sector for decades.

At its Extraordinary General Meeting on 12 November 2018, the Company changed its name from Salcef Costruzioni Edili e Ferroviarie S.p.A. to Salcef Group S.p.A..

The consolidated financial statements of the Salcef Group have been drawn up in accordance with the provisions of articles 2423 and following articles of the Italian Civil Code and Legislative Decree 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.

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.

If the information required by specific articles of law is not sufficient to provide a truthful, accurate representation, the necessary additional information is provided. More specifically, the Notes to the Financial Statements contain the following information in table form:

- the statement of reconciliation between the net equity and the operating result for the year of the Parent Company and the net equity and the operating result of the consolidated financial statements;
- the statement of the variations in the consolidated net equity.

With regard to the Salcef Group'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 Parent Company's Directors to accompany these consolidated 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.

Scope of Consolidation

The Consolidated Financial Statements of the Salcef Group include the Financial Statements of Salcef Group S.p.A. (hereinafter also referred to as "Parent Company') and those of the other subsidiaries in which the Parent Company has a controlling interest pursuant to art. 26 of Legislative Decree 127/91.

The list of Group companies for which the full consolidation method was adopted is provided below:

- 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 design 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);
- 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;
- H&M Bau GmbH, acquired on 7 October 2018 and wholly owned, operating in the Germany railway market, specialising in construction and railway superstructure works.

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
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
H&M Bau GmbH	Hellental - Germany	Euro	25,000		100%	Full consolidation
Unconsolidated subsidiaries						
Consorzio Stabile Itaca S.c.a.r.l.	Rome - Italy	Euro	40,000	91.26%		Sh. Equity
Salcef Polska Sp.Z.o.o.	Warsaw - Poland	Zloty	1,500,000		100%	Sh. Equity
Salcef Egypt Construction (*)	Cairo - Egypt	Egyptian Pound	500,000		99.98%	Sh. Equity
Associated companies						
Frejus S.c.a.r.l.	Bologna - Italy	Euro	20,000		42.93%	Sh. Equity
Sesto Fiorentino S.car.l.	Rome - Italy	Euro	10,000	47.68%		Sh. Equity
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	Rome - Italy	Euro	50,000	50%		Sh. Equity

NOTES:
(*) = formerly Salcef Siegwart

During FY 2018, the following changes occurred in the consolidation area compared to the previous year.

With regard to the acquisition of H&M Bau GmbH, as part of its project for development and expansion of its business in Western European countries, Salcef Group S.p.A. acquired 100% of the equity of H&M, which had already been operating on the German railway market for decades, at a price of 1.45 mln/Euros. The Company, formerly owned by the two historic partners Mr Hermes and Mr Meinen, mainly works with German railway infrastructure operator DB Netz, and specialises in railway superstructure works. H&M currently has a turnover of about 4 mln/Euros per annum and employs about 20 people; the Salcef Group intends to increase production capacity by contributing entrepreneurial skills and technical and financial resources.

Salcef Polska Sp.Z.o.o. and Salcef Siegwart were not included in the consolidation area because they are of negligible importance with regard to the truthful, accurate representation of the Salcef Group's capital and financial situation and economic result, and the same applies to Consorzio Stabile Itaca S.c.ar.l.

Salcef Polska and Salcef Siegwart are no longer trading, while Consorzio Stabile Itaca S.c.ar.l. 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.

Date of reference of the consolidated financial statements and closing date of the financial statements for consolidation

The date of reference of the consolidated financial statements and the closing date of the financial statements for consolidation coincide with those of the Parent Company and all the companies included in the consolidation.

Consolidation criteria

The consolidated financial statements were drawn up on the basis of the financial statements approved by the general meetings or governing bodies of the consolidated companies.

The accounting standards adopted in preparing the consolidated financial statements are those used by the Parent Company for the preparation of its financial statements.

The asset and liability items with the same or equivalent designation and contents which appear in the financial statements of the Group enterprises and intended for inclusion in the same consolidated financial statement headings are evaluated using uniform criteria.

The consolidated financial statements imply the consolidation of the values of the assets and liabilities, costs, earnings

and cash flows of the direct and indirect subsidiaries of the Parent Company, using the full consolidation method.

The phases of the full consolidation procedure are as follow:

- adjustments to comply with the Group accounting standards and any other adjustments necessary for the purposes of the consolidation, such as reclassifications;
- aggregation of the financial statements or financial reporting for consolidation, regardless of the percentage stake held. The income statements of the companies acquired or sold during the financial year are aggregated for the period for which they were owned by the Group;
- cancellation of the value of entry of the holdings in the consolidated companies, replaced by the corresponding stakes in the subsidiary's net equity held by the Group, as of the date of acquisition.

  Any positive cancellation difference is imputed to each identifiable asset acquired, up to the limit of the current value of that asset, and in all cases for values not exceeding their salvage value, and to each identifiable liability acquired, including the relative fiscal effects. In the case of a positive cancellation difference not entirely allocated to the separately identifiable assets and liabilities acquired, the residue is imputed to the "Goodwill" intangible assets heading, unless it has to be totally or partially imputed to the income statement. The residual cancellation difference is allocated to goodwill provided the requirements for its inclusion in the goodwill, established by the relevant accounting standard, are met.

  Any further residual value which cannot be allocated to the assets, liabilities or goodwill is allocated to the "Miscellaneous operating costs" heading of the income statement.

  Any negative cancellation difference is imputed, where possible, to reduce the assets entered for values in excess of their salvage value and the liabilities entered for a value lower than their settlement value, net of the relative fiscal effect. If not derived from the forecast of poor economic results but to the consequences of a good business deal, any negative surplus is allocated to the specific "Consolidation reserve" net asset reserve.

  If it relates wholly or in part to the forecast of poor economic results, any unallocated additional negative cancellation difference is entered in the "Consolidation Provision for future liabilities and charges", which will be drawn on in subsequent years in order to reflect the assumptions made when it is estimated at the time of acquisition, regardless of whether the expected poor economic results actually materialise.

  The Group's quotas of any undistributed profits and other net asset reserves of the subsidiaries, and any other variations in their net asset headings after the date of acquisition, are imputed to increase the consolidated net assets, normally in the "Profits/(losses) carried forward" heading, except for those deriving from changes in the

exchange rates of foreign companies, dealt with as described below;

- elimination of the balances and transactions between the companies in the consolidation area and the internal or infra-group profits and losses;
- entry of any deferred and/or prepaid taxes;
- elimination of dividends received from consolidated companies and the write-downs of holdings included in the consolidation area, to avoid double counting;
- reclassification of the Parent Company shares held by the consolidated companies in heading A)X "Negative reserve for treasure shares";
- calculation of the part of the consolidated net assets and consolidated operating result due to the minority shareholders of the consolidated holdings, so that they can be separately identified in the consolidated financial statement formats;
- evaluation of unconsolidated controlling interests, holdings in associated companies and holdings in joint ventures using the net equity method;
- analysis and correct representation in the financial statements of the acquisition of additional holdings in companies already consolidated, and the sale of holdings, with or without loss of control, and other variations in the consolidation area;
- preparation of the consolidated financial statement reports.

GENERAL PRINCIPLES FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The values of the financial statement items were assessed in accordance with the general principles of prudence and on the accrual basis, on the assumption that the company will continue to trade; the items' recognition 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. The principles of constancy in the criteria for the evaluation, relevance and comparability of information were also complied with.

In application of the aforesaid principles:

- The constituent parts of the individual asset or liability items were evaluated separately, to ensure that increases in the value of some elements would not compensate for decreases in the value of others. 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.
- The earnings and costs accrued during the financial year were considered irrespective of the collection or

payment date. Accrual is the time criterion used when imputing the positive and negative earnings items to the income statement in order to determine the operating result.

- The Directors made a perspective assessment of the Group's capacity to constitute a functioning economic complex for the production of earnings for a foreseeable future period of time of at least twelve months after the date to which the financial statements refer. The assessment made did not identify any significant uncertainties regarding this capacity.
- Rights, obligations and conditions were identified on the basis of transactions' contractual terms, comparing them with the provisions of the accounting standards to verify the correct entry or cancellation of balance sheet and income statement items.
- Evaluation criteria have not been changed from the previous financial year, in order to ensure the uniform measurement of the Group's results over succeeding financial years.

  No exceptional cases requiring the implementation of the waivers referred to in art. 29 (4) of Law Decree no. 127/91, on the grounds of incompatibility with the truthful, accurate representation of the Group's capital and financial situation and economic 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.
- The relevance of the individual financial statement items was assessed within the context of the financial statements as a whole. Relevance was assessed on the basis of both qualitative and quantitative factors.

  In accordance with the principle of relevance as set forth in art. 29 (3-b) of Legislative Decree 127/91, the Notes to the Financial Statements do not include comments on the financial statement accounting report items, even when specifically envisaged by art. 38 of Legislative Decree 127/91 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 economic result.
- For each Balance Sheet, Income Statement and Cash-Flow Statement item, the corresponding values as at 31 December 2017 are also indicated. 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.

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.

In compliance with 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 economic result 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 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 financial statement date, 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 usage value 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 reinstated 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 Group to hold them for a prolonged period of time are classified as financial fixed 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 unconsolidated subsidiaries and in associated companies are assessed by the shareholders' equity 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 economic results, the shareholding is initially entered at a value equal to the cost incurred, and this difference is entered as a "Provision for future liabilities and charges" (contingency fund). 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 2018 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 economic 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 value reduced to zero 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 whole 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 method, bearing in mind the time factor and the presumable salvage (realizable) value.

The amortised cost 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 discounting (actualisation) of 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.

In accordance with the amortised cost method, the initial entry value is the same as the face value of the receivable, unless discounting 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 discounting 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. In accordance with the amortised cost, 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, discounted 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.

Financial assets not held as fixed assets (Marketable securities)

Investments (shareholdings)

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.

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.

Hedges

Derivative securities can be designated as hedges when:

a) the hedge relationship only consists of permissible hedges and permissible hedged items;

b) at the start of the hedge relationship, there is formal designation and documentation of the hedge relationship, the Company's risk management objectives and the hedge strategy adopted;

c) the hedge relationship meets the qualitative and quantitative requirements for hedge efficacy.

Therefore, if the derivative securities are used from a management point of view for the purposes of hedging only but do not fully meet the set criteria for designation as hedging instruments, they are assessed in accordance with the general rules set out above.

The efficacy of the hedge relationship is documented not only initially but also continually. The Company assesses whether the hedge relationship still meets the efficacy requirements at each financial statement date.

If all the requirements described above are met, hedges may be accounted for in one of the following ways.

Fair value hedges

If a derivative security is designated to hedge the exposure to changes in fair value of a recognised asset or liability or firm commitment, which could affect the operating result in the absence of a hedge, the change in fair value both of the hedging instrument and the part of the hedged item relating to the hedged risk are entered in the specific income statement items, unless the change in fair value of the hedged item is greater than the change in fair value of the hedging instrument, in which case the surplus is entered in the income statement item to which the hedged item refers. In the balance sheet, the hedging instrument is entered at fair value as an asset or liability, while, in contrast with the relevant accounting standards, the book value of the hedged item is adjusted to allow for the fair value evaluation of the component relating to the hedged risk, up to the limits of the realisable value for assets.

Cash flow hedges

If a derivative security is designated to hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, which could affect the operating result if not hedged, the changes in fair value relating to the effective part of the hedging instrument are accounted for in the specific net asset reserve, while those associated to a hedge or part of a hedge which has become ineffective are

entered in the income statement.

The amounts (profits or losses) accumulated in the net asset reserve are reclassified in the income statement in the same financial year, or in the financial years in which the hedged future cash flows affect the operating result. In the event that the firm commitment or highly probably forecast operation subsequently generates non-financial assets or liabilities, the amounts accumulated in the reserves are reclassified in the book value of the asset (within the limits of the realisable value) or the liability at the time of their occurrence.

If circumstances which mean that the operation can no longer be accounted for as a hedge occur, but future cash flows are still forecast from the hedged item, the amounts accumulated in the reserve remain in the net assets until the occurrence of the future cash flows. If no future cash flows are forecast or the planned operation is no longer considered to be highly probable, the amounts accumulated in the reserve are immediately reclassified in the income statement.

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. The amount calculated includes all entitlements accrued, considering all forms of remuneration of a continuous nature, net of the down payments made and the partial advances granted under collective or individual employment contracts or company agreements, for which no repayment is required, net of the amounts transferred to the private pension funds or to the treasury fund managed by the INPS.

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 method, 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 Group took up the option of not applying the amortised cost criterion and the discounting (actualising) 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.

In accordance with the amortised cost method, the initial entry value is the same as the face value of the payable, unless discounting 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 discounting the future cash flows in relation 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 exchange rate 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 economic 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 Group S.p.A. 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	31/12/2018	
		Spot conv.rate	Aver.conv.rate
Zloty (Poland)	PLN	4.3014	4.2615
Egyptian pound (Egypt)	EGP	20.5108	21.0414
New Leu (Romania)	RON	4.6635	4.6540
Kuna (Croatia)	HRK	7.4125	7.4182
Arab Emirates Dirham (Abu Dhabi)	AED	4.2050	4.3371
Saudi Arabian Riyal (Saudi Arabia)	SAR	4.2938	4.4286
Norwegian crowns (Norway)	NOK	9.9483	9.5975

Use of estimates

The drafting of the consolidated financial statements requires estimates which affect the values of the financial statement assets and liabilities and the relative 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.

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 accounting reports; 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 5,278 thous./Euros (4,175 thous./Euros as at 31 December 2017); the table here below provides a break-down of the changes.

amounts in thous./Euros

Intangible fixed assets	Incorporation and expansion costs	Industrial patent & intellectual property rights	Goodwill	Intangible assets in progress and advances	Other intangible assets	TOTAL
31/12/2017 broken down as follows:						
Cost	368	750	3,575	1,476	3,488	9,657
Amortisation Fund	(250)	(502)	(2,064)	-	(2,666)	(5,482)
Initial value 31/12/2017	**118**	**248**	**1,511**	**1,476**	**822**	**4,175**
Increases - cost		198	677	1,134	62	2,071
Decreases - cost						-
Reclassifications - cost		46		88	(142)	(8)
Exchange rate difference - cost						-
Other changes - cost	(2)				11	9
Amortisations	(78)	(150)	(300)		(523)	(1,051)
Other changes – Amort. Fund	2					2
Decreases – Amort. Fund						-
Reclassifications – Amort. Fund					91	91
Exchange rate differences – Amort. Fund					(11)	(11)
30/09/2018 broken down as follows:						
Cost	366	994	4,252	2,698	3,419	11,729
Amortisation Fund	(326)	(652)	(2,364)		(3,109)	(6,451)
Book value at 31/12/2018	**40**	**342**	**1,888**	**2,698**	**310**	**5,278**

The item Incorporation and Expansion Costs amounting to 40 thous./Euros, refers to notary public's expenses and ancillary costs for the acquisition of the corporate division from Tuzi Costruzioni Generali S.p.A. in 2015.

The patent rights and intellectual property rights of use, amounting to 342 thous./Euros, mainly include the amount of 163 thous./Euros paid by SRT for the purchase of industrial patents relating to railway vehicle technologies, 119 thous./Euros for the costs of software user licences purchased by Salcef Group S.p.A., Salcef S.p.A. a Socio Unico and RECO and 60 thous./Euros for patents conferred by Vianini S.p.A. with the company division in 2017.

The goodwill refers to the company division acquired from Tuzi Costruzioni Generali S.p.A. in 2015, the net book value of which is 291 thous./Euros and the acquisition of company division, against payment, by the Parent Company, one of which in 2011, whose net book value is 136 thous./Euros and another one in 2012 for a residual value of 121 thous./Euros relating to the acquisition of RECO S.r.l. working in the design sector. In 2017, the goodwill generated during the transfer of the company division to Vianini Industria S.r.l. by Vianini S.p.A. was accounted for, with a net book

value of 314 thous./Euros, together with the compensation difference generated by the comparison between the cost incurred by Salcef Group S.p.A. 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 acquisition date, with a net book value of 416 thous./Euros. The increase for the financial year, of 677 thous./Euros, refers to the compensation difference generated by the comparison between the cost incurred by Salcef Group S.p.A. for acquisition of the holding in H&M and the value of the corresponding part of the subsidiary's net book assets as of the acquisition date.

Intangible fixed assets under construction and advances include, for the most part, costs internally incurred by SRT S.r.l. a Socio Unico to design new railway machinery (2,642 thous./Euros).

The item Other Intangible Fixed Assets includes, for the most part, the charges incurred for the non-routine renovation works on the property located in Rome, via di Pietralata n. 140, owned by third parties and rented by Salcef Group S.p.A. which has its administration offices there (262 thous./Euros) and the 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 (33 thous./Euros).

TANGIBLE FIXED ASSETS

Net value of tangible fixed assets as at 31 December 31 December 2018 amounts overall to 57,990 thous./Euros (44,366 thous./Euros as at 31 December 2017); the table here below provides a break-down of the changes.

Amounts in thous./Euros

Tangible fixed assets	Land and buildings	Plant and machinery	Industr.&Commer. equipment	Other assets	Tang. fixed assets in progress and advances	TOTAL
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	-	-	-	-	-	-
Initial value at 31/12/2017	**7,674**	**30,655**	**1,999**	**1,335**	**2,703**	**44,366**
Investments – historical cost	389	12,154	1,394	822	11,600	26,359
Disposals – historical cost		(5,278)	(445)	(488)	(909)	(7,120)
Reclassifications – historical cost		778			(727)	51
Other changes - historical cost						-
Exch.rate difference - historical cost	1	29	8			38
Amortisations	(191)	(8,174)	(1,327)	(593)		(10,285)
Disposals – Amortis. Fund		4,052	110	427		4,589
Reclassifications – Amortis. Fund						-
Impairments						-
Other changes – Amortis. Fund						-
Exch.rate difference – Amortis. Fund		(4)	(5)	1		(8)
31/12/2018 broken down as follows:						
Cost	9,716	132,331	10,386	4,630	12,667	169,730
of which write-ups	*1,250*	-	-	-	-	*1.250*
Amortisation Fund	(1,843)	(98,119)	(8,652)	(3,126)	-	(111,740)
Accumulated impairments	-	-	-	-	-	**57,990**
Book value at 31/12/2018	**7,873**	**34,212**	**1,734**	**1,504**	**12,667**	

The increases for year 2018, of 26,359 thous./Euros, relate to the major plan for investment in tangible assets undertaken by the Salcef Group for 2018/2019, which to a large extent benefit from the tax breaks provided by the Italian Industry 4.0 incentive law. Under this scheme, provided certain requirements are met, companies are able to implement "hyper-amortisation", meaning that they can increase the normally deductible fiscal cost by 150%, while continuing to comply with the amortisation plan for the individual asset.

In detail, 2018 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.

With regards to the item "plants and machinery", the increases 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 this item, have increased by 12,154 thous./Euros as a result of the renewing and/or increasing of their useful life following non-routine maintenance work and expenditures for improvements which structurally modified the rolling stock to make it operational on tracks and in respect of certain contracts having different characteristics.

The decreases (7,120 thous./Euros) on the other hand, related to assets no longer considered productive or useful for the Group's operations.

Taking a more detailed look at the composition of the various financial statement headings, the land and building heading represents, for the amount 4,147 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 3,506 thous./Euros, the industrial area of the railway sleeper production plant of Vianini Industria located at Aprilia. During FY 2018 additional plots of land were purchased both by SRT, of about 6,000 square metres from Rete Ferroviaria for a total of 268 thous./Euros, and by Vianini Industria at Aprilia for 95 thous./Euros.

The Other Fixed Assets (1,504 thous./Euros) mainly include, trucks and motor-vehicles for 1,272 thous./Euros and office furniture and furnishings amounting to 213 thous./Euros.

The item Fixed assets under construction and advances (12,667 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 (1,132 thous./Euros). It also includes the costs incurred by SRT (3,481 thous./Euros) and Vianini Industria (8,054 thous./Euros) for the expansion, respectively, of the Fano factory building and the plant for the production of monoblock prestressed reinforced concrete sleepers and for the production of ready-mixed concrete.

FINANCIAL FIXED ASSETS

Financial fixed assets amount to 1,310 thous./Euros, compared to 1,265 thous./Euros as at 31 December 2017.

Equity Investments

Please find here below the changes occurred in 2018 in shareholdings in unconsolidated subsidiaries and associated companies.

(amounts in thous./Euros)

Shareholdings	31/12/2017	Increases	Decreases	31/12/2018
Subsidiaries				
Consorzio Stabile Itaca S.c.a.r.l.	36			36
Salcef Polska Spzoo	-	341	(122)	219
Salcef Egypt Construction (*)	-	67	(67)	0
TOTAL	**36**	**408**	**(189)**	**255**
Associated companies				
FrejusS.c.a.r.l.	8			8
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	25			25
Sesto Fiorentino S.c.a.r.l.	-	5		5
Gestioni Immobiliari - Servizi - Appalti S.r.l.	38		(38)	0
TOTAL	**71**	**5**	**(38)**	**38**
Other companies				
Concise Consorzio Stabile Soc. Cons. a r.l.	1			1
SASSARIOLBIA S.c. a r.l.	1			1
TOTAL	**2**	**0**	**0**	**2**
TOTAL SHAREHOLDINGS	**109**			**295**

NOTES:
(*) = formerly Salcef Siegwart

With regard to the increases, it should be noted that, as previously stated, Salcef Polska and Salcef Egypt Construction were excluded from the consolidation area and thus entered in the Salcef Group's financial statements as holdings. Concerning Salcef Egypt Construction, during 2018 the Salcef Group S.p.A. acquired an additional stake of 24.98% of the stake held by the publicly owned Egyptian company Siegwart for a price of about 6 thous./Euros, thus increasing its holding from 75% to 99.98%. Further to this acquisition, the company name was changed from Salcef Siegwart to Salcef Egypt Construction.

Sesto Fiorentino S.c.ar.l. was incorporated on 23 January 2018 by Salcef S.p.A. a Socio Unico and CIR Ambiente S.p.A., with registered office in Rome and share capital of Euro 10,000.00, with the partners underwriting 47.68% and 52.32% of the capital, respectively. This consortium was awarded the contract of the works, tendered by R.F.I. S.p.A., for the noise emission upgrading in the Municipality of Sesto Fiorentino – Northern Lot – of the down line track of the Florence – Bologna high speed/high capacity line and the track of the Florence – Viareggio line.

With regard to the decreases, Gestioni Immobiliari - Servizi - Appalti S.r.l. (shortened to G.I.S.A. S.r.l.) was sold at face value during the final quarter of 2018, generating a financial loss of 30 thous./Euros. The holdings in Salcef Polska S.p.zoo and Salcef Egypt Construction were written down, by 122 thous./Euros and 67 thous./Euros respectively, in response to the impairment losses estimated on the basis of the expected realisation value of the subsidiaries' assets.

Receivables

The loans receivables entered under financial assets, which overall amounted to 1,014 thous./Euros (1,155 thous./Euros as at 31 December 2017), mainly refer to zero-interest bearing loans granted to the associated companies of the Group;

in particular, 353 thous./Euros to Consorzio I.C.A.V. and 300 thous./Euros to Sesto Fiorentino S.c.ar.l..

As of 31 December 2017, this item included the loan of 330 thous./Euros repayable to Salcef Group by G.I.S.A. S.r.l. which, as previously stated, was sold to third parties during 2018; in the agreement signed for the sale of its entire stake, Salcef Group S.p.A. agreed to totally waive all receivables claimed in relation to the associated company, and therefore a financial loss of 1,525 thous./Euros, equal to the value of the loan at the relevant date, was entered in the 2018 income statement.

The amounts receivable due from others, amounting to 360 thous./Euros (472 thous./Euros as at 31 December 2017), include 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 (174 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).

CURRENT ASSETS

INVENTORY

Inventories as at 31 December 31 December 2018 amounted to 107,787 thous./Euros (108,769 thous./Euros as at 31 December 2017) and consist of "raw, ancillary and consumable materials" for 3,201 thous./Euros, "work in progress" for 4,210 thous./Euros, "contract work in progress" for 100,368 thous./Euros and of "finished products" for 8 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 period-end (252 thous./Euros), to materials in stock necessary for the rolling stock and railway vehicle maintenance business operated by SRT (1,945 thous./Euros) and materials in stock necessary for the sleeper production business of Vianini Industria 1,004 (thous./Euros).

(amounts in thous./Euros)

Inventory	31/12/2018	31/12/2017	Change
Inventories of raw, ancillary and consumable materials	3,201	3,216	(15)
TOTAL	**3,201**	**3,216**	**(15)**

Inventories of raw materials as at 31 December 2018 are broken down by geographical area as follows:

amounts in thous./Euros

Geographical area	**31/12/2018**	**31/12/2017**
Italy	3,201	3,216
TOTAL	**3,201**	**3,216**

Inventories of products in progress and semi-finished products amount to 4,210 thous./Euros and refer, for 3,300 thous./Euros, to processes ongoing at the Fano workshop and, for 910 thous./Euros, to the price paid for purchase of land in the Municipality of Cerveteri on which property units will be built for sale. The changes in this heading and the inventories as at 31 December 2018 by geographical area are set out below:

(Amount in thous./Euros)

Inventories	31/12/2018	31/12/2017	Change
Work in progress and semifinished products	4,210	1,508	2,702
TOTAL	**4,210**	**1,508**	**2,702**

(Amount in thous./Euros)

Geographical area	31/12/2018	31/12/2017
Italy	4,210	1,508
TOTAL	**4,210**	**1,508**

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 2018 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	31/12/2018	31/12/2017	Var
Contract work in progress	100,368	104,044	(3,676)
TOTAL	**100,368**	**104,044**	**(3,676)**

The item refers to the parent company for 581 thous./Euros, to Euro Ferroviaria for 12,881 thous./Euros, to Salcef S.p.A. a Socio Unico for 68,918 thous./Euros, to Vianini Industria for 14,255 thous./Euros and to H&M for3,733 thous./Euros.

Works in progress include an amount of 5,110 thous./Euros of reserves entered in the financial statements for additional payments requested from customers, the granting of which is considered reasonably certain. The amount and nature of these reserves have remained unchanged from the previous financial year, and the amount is lower than the "probable" collection amount estimated.

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

Amounts in thous./Euros)

Geographical area	31/12/2018	31/12/2017	Change
Italy	90,944	91,608	(664)
Germany	3,733	0	3,733
Poland	5,110	5,472	(362)
Saudi Arabia	581	6,964	(6,383)
TOTAL	**100,368**	**104,044**	**(3,676)**

The amount of 7,742 thous./Euros, classified amongst the finished product inventories as at 31 December 2017 and referred to processes relating to the sleeper production business of Vianini Industria, was more appropriately reclassified in the contract works in progress heading.

RECEIVABLES

Receivables due from clients

Receivables due from clients, which by contract become due within 12 months, amounted to 68,039 thous./Euros net of the provision for bad debts set aside up to 31 December 2018 and amounting to 4,115 thous./Euros (Salcef S.p.A. a Socio Unico for 1,049 thous./Euros, Salcef Group S.p.A. for 2,708 thous./Euros, Euro Ferroviaria for 290 thous./Euros, RECO for 9 thous./Euros and Vianini Industria for 59 thous./Euros).

amounts in thous./ Euros)

Receivables due from clients	31/12/2018	31/12/2017	Changes
Receiv. due from custom. - *within 12 months*	72,154	66,513	5,641
Receiv. due from custom. - *beyond 12 months*	11,827	7,830	3,997
Provision for bad debts	(4,115)	(2,051)	(2,064)
TOTAL	**79,866**	**72,292**	**7,574**

The table here below shows the changes of the provision for bad debts as occurring in the year 2018:

(Amounts in thous./Euros)

Provision for bad debts	31/12/2017	Drawings/Issues	Amounts allocated	31/12/2018
Provision for bad debts	(2,051)	1,490	(3,554)	(4,115)
TOTAL	**(2,051)**	**1,490**	**(3,554)**	**(4,115)**

The allocation as at 31 December 2018, of 3,554 thous./Euros, relates basically to receivables already included in the financial statements, in relation to major customers which, as at the date of preparation of these financial statements, have filed for receivership or bankruptcy protection, or have shown clear signs of financial difficulties, which has made the write-down of the relative receivables necessary.

Receivables due from clients payable beyond 12 months and amounting to 11,827 thous./Euros (7,830 thous./Euros as at 31 December 2017), 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.

The breakdown of the receivables from customers by geographical area is provided below:

(Amount in thous./Euros)

Receivables due from clients	31/12/2018	%	31/12/2017	%	Change	%
Italy	55,148	69.1%	45,187	62.5%	9,961	22%
Europe (Italy excluded)	3,987	5.0%	4,645	6.4%	(658)	-14%
Egypt	201	0.3%	271	0.4%	(70)	-26%
United Arab Emirates	1,258	1.6%	998	1.4%	260	26%
Saudi Arabia	19,272	24.1%	21,191	29%	(1,919)	-9%
TOTAL	**79,866**	**100%**	**72,292**	**100%**	**7,574**	

Receivables due from subsidiaries

The receivables from subsidiaries, amounting to 4,524 thous./Euros (13,944 thous./Euros as at 31 December 2017) refer to trade receivables held with Consorzio Stabile Itaca S.c.a.r.l..

Receivables due from associated companies

Receivables due from associated companies amounted to 372 thous./Euros (282 thous./Euros as at 31 December 2017) and refer to trade receivables due from Frejus S.c.ar.l. for 281 thous./Euros, from Consorzio I.C.A.V. for 1 thous./Euros and from Sesto Fiorentino S.c.ar.l. for 90 thous./Euros.

Tax receivables

(Amounts in thous./Euros)

Tax receivables	31/12/2018	31/12/2017	Change
Indirect taxes	9,428	11,969	(2,541)
Direct taxes	718	155	563
Receivable amount for IRES/IRAP	843	948	(105)
Taxes levied abroad	2,120	4,415	(2,295)
Other tax receivables	10	6	4
TOTAL	**13,119**	**17,493**	**(4,374)**

As shown in the table above, the tax receivables item, which amounted to 13,119 thous./Euros (17,493thous./Euros as at 31 December 2017), mainly consists of:

- receivables for indirect taxes from the revenue agency (mainly VAT) levied in Italy and abroad, amounting to 9,428 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 (843 thous./Euros referable to the parent company, while the

receivable of 45 thous./Euros relating to Euro Ferroviaria S.r.l. a Socio Unico was collected in its entirety during year 2018);

- receivable amount on the income tax of 2,120 thous./Euros levied abroad;
- IRAP 2018 tax receivable of 718 thous./Euros, of which 25 thous./Euros referable to SRT and 693 thous./Euros referable to Salcef Group S.p.A..

Prepaid tax assets

Prepaid tax assets, totalling 2,368 thous./Euros (1,244 thous./Euros as at 31 December 2017), 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	31/12/2017	Provisions set aside	Drawings	Other changes	31/12/2018
Amortization of goodwill	325	59			384
Depreciation on revalued buildings	127				127
Contingency funds	45	1,023			1,068
Exchange rate differences	15	133	(15)		133
Others	732	122	(107)	(91)	656
TOTAL	**1,244**	**1,337**	**(122)**	**(91)**	**2,368**

Receivables due from others

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

Amounts in thous./Euros

Receivables due from others	31/12/2018	31/12/2017	Change
Advance on non-recourse receivables	2,664	6,119	(3,455)
Advances to suppliers	1,643	769	874
Receivables from staff and worksites	832	1,113	(281)
Receiv. on hold on behalf of th.parties (A.T.I.)	630	5,086	(4,456)
Receiv. due from social security/welfare agencies	283	94	189
Other receivables	1,013	1,196	(183)
TOTAL	**7,065**	**14,377**	**(7,312)**

The transfers without recourse were made by Salcef S.p.A. a Socio Unico, Euro Ferroviaria and Vianini Industria, ahead of the closure of the 2018 financial year, with regard to receivables from customers, while the balance of 2,664 thous./Euros refers to the quota not yet collected, of 2,057 thous./Euros, 448 thous./Euros and 159 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	72,292	7,574	79,866	68,039	11,827	0
Receivables due from subsidiaries	13,944	(9,420)	4,524	4,524	0	0
Receivables due from ass. comp.	282	90	372	372	0	0
Tax receivables	17,493	(4,374)	13,119	13,119	0	0
Prepaid tax receivables	1,244	1,124	2,368	2,368	0	0
Receivables due from others	14,377	(7,312)	7,065	7,065	0	0
TOTAL	**119,632**	**-12,318**	**107,314**	**95,487**	**11,827**	**0**

FINANCIAL ASSETS NOT HELD AS FIXED ASSETS (Marketable Securities)

Other investments

This item includes the value, of 450 Euros, of the stake in the Sirti Alliance for Infrastructures S.c.ar.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 which was sold to the majority shareholder Sirti S.p.A. at its nominal value in April 2018.

Other Securities

The other securities, amounting to 65 thous./Euros as at 31 December 2017 refer to investment trust holdings of Salcef Group S.p.A. and which were entirely sold in 2018, generating income of about 57 thous./Euros.

CASH AND CASH EQUIVALENTS (LIQUID ASSETS)

Cash and cash equivalents amounted to 41,332 thous./Euros compared to 19,516 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	31/12/2018	31/12/2017	Change
Bank and post office deposits	41,284	19,282	22,002
Cash and other valuables at hand	48	234	(186)
TOTAL	**41,332**	**19,516**	**21,816**

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 23,539 thous./Euros, Euro Ferroviaria for 4,643 thous./Euros, the Parent Company for 7,606 thous./Euros, SRT for 945 thous./Euros and Vianini Industria for 4,220 thous./Euros.

ACCRUED INCOME AND PREPAID EXPENSES

Accrued income and prepaid expenses and amounted to 5,241 thous./Euros (2,359 thous./Euros as at 31 December 2017) and, for the most part, they were accrued income amounts referring to the following:

- insurance premiums relating to worksites (1,600 thous./Euros);
- large initial instalments and normal instalments paid to financial leasing companies (2,982 thous./Euros);

- commissions on bank guarantees (352 thous./Euros);
- rents (167 thous./Euros).

The balance is for the most part referable to Salcef S.p.A. a Socio Unico for 1,202 thous./Euros, to the Parent Company for 538 thous./Euros, to Euro Ferroviaria for 3,303 thous./Euros and to Vianini Industria for 176 thous./Euros.

The increase of 2,882 thous./Euros compared to the previous financial year is mainly due to the signing of four financial leasing contracts by Euro Ferroviaria in 2018, for the purchase of machinery including a ballast cleaning machine and three ballast levelling machines. The relative large initial instalment, totalling 2,860 thous./Euros, was paid on all the above contracts, while the first two leasing instalments were also paid for the ballast cleaning machine, further to delivery of the machinery in December 2018.

LIABILITIES

SHAREHOLDERS' EQUITY

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

Amounts in thous./Euros

Shareholders'	Share Capital	Legal reserve	Revaluation reserve	Other reserves	Reserve for hedging operations	Ret. earnings & losses carried forward	Profit (loss) for the period	Group's SE	SE + profit attributable to third party
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**
Allocation of previous year's profit						28,288	(28,288)	-	
Distribution of dividends						(4,700)		(4,700)	
Change in the translation reserves				1,434				1,434	
Other variations /Reclassifications				(975)	(25)	975		(25)	(17)
Profit (Loss) for the period							29,379	29,379	-
Balance at 31/12/2018	**200**	**111**	**28,060**	**47,149**	**(25)**	**32,620**	**29,379**	**137,494**	**-**

The share capital underwritten and fully paid in at 31 December 2018 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 profit 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 for1,029 thous./Euros set up by Salcef Group S.p.A. upon approval of

the financial statements at 31 December 2017 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 5,223 thous./Euros).

Here below is the reconciliation table recording amounts referable to the shareholders equity and net result for the period at 31 December 2018 shown in the Financial Statements of Salcef Group S.p.A. and those reported in the Consolidated Financial Statements:

Amounts in thous./Euros

Description	Profit 2017	Shareholders' Equity at 31/12/2017
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**

Description	Profit 2018	Shareholders' Equity at 31/12/2018
Salcef Group S.p.A. (*)	5,399	84,455
Contributions of subsidiaries	40,125	53,174
Dividends	(16,000)	-
Elimination of intra-group margins	(41)	(1,365)
Goodwill	(104)	1,230
Total Consolidated Shareholders' equity	**29,379**	**137,494**

(*) formerly Salcef Costruzioni Edili e Ferroviarie S.p.A.

PROVISION FOR LIABILITIES AND CHARGES

The provisions for liabilities and charges (contingency funds) include the taxes fund (750 thous./Euros), the value of the payable financial derivatives undersigned by Salcef S.p.A. a Socio Unico (33 thous./Euros) and other contingency funds (1,163 thous./Euros).

The transactions which took place in the heading in question during the 2018 financial year are set out below:

Amounts in thous./Euros

Provision for liabilities and charges	31/12/2017	Drawings/Issues	Allocations	Other changes	31/12/2018
Provision for deferred tax	247	(247)			-
Tax fund	-		750		750
Payable financial derivatives	228	(228)	33		33
Tax claim risk fund	8	(8)	1,090	73	1,163
TOTAL	**483**	**(483)**	**1,873**	**73**	**1,946**

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 Group S.p.A.

The taxes fund as at 31 December 2018, amounting to 750 thous./Euros, comprises a prudent estimate of any tax charges the Salcef Group could be required to meet in case of visits, inspections or audits.

With regard to derivative securities, Salcef Group S.p.A. had an Interest Rate Swap contract signed in 2015 with Unicredit S.p.A., expiring in 2021, with a notional capital of 11,590,909.11 Euros, which was terminated in advance in October 2018. Salcef S.p.A. a Socio Unico, on the other hand, had an Interest Rate Swap contract signed with Unicredit S.p.A. in 2014 , which expired in December 2018, and then in June 2018 it signed a new Interest Rate Swap contract with Unicredit S.p.A, expiring in 2021, with a notional capital of 4,170,026.27 Euros. While the value adjustments of the first derivative security, and the fair value of the contract which has expired, were accounted for in the income statement of these financial statements, the second derivative instrument was assigned to hedge the cash flows produced by repayment of the interest paid on the variable-interest loan of 5,000,000 Euros granted by the same Bank, with a duration of 36 months. Therefore, since this derivative security has been designated to hedge forecast cash flows, the change in fair value at the end of each financial period is entirely imputed to item A) VII "Reserve for forecast cash flow hedges", without calculating what proportion of the hedge is ineffective, and is thus accounted for in Section D) of the income statement. The reserve created by the changes in fair value of the hedged item is reclassified in the income statement in the financial years and to the extent to which the case flows produced by the hedged item affect the profit (or loss) for the year.

With regard to other contingency funds, as at 31 December 2018, 1,090 thous./Euros had been allocated as an estimate of the probable charges to be met by the Salcef Group arising from ongoing legal disputes or in relation to claims still open and under appraisal, for which it could be required to compensate the damages incurred by the counterparty.

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	31/12/2017	Provisions	Drawings/Payments to pension funds	Other changes	31/12/2018
Employee severance fund	1,047	1,945	(1,147)	(897)	948
TOTAL	**1,047**	**1,945**	**(1,147)**	**(897)**	**948**

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 43,559 thous./Euros (42,551 thous./Euros at 31 December 2017) and includes the debt at 31 December 2018 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	31/12/2018	31/12/2017	Change
c/a overdrafts	1	7	(6)
Advances	16	21	(5)
Bank loans	43,542	42,523	1,019
TOTAL	**43,559**	**42,551**	**1,008**

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 2018 by due date:

amounts in thous./Euros

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

Advances

The item advances (down-payments) amounting to 9,650 thous./Euros (2,842 thous./Euros as at 31 December 2017), consists of advances by clients on contracts awarded. The said amounts consist of advances by principals in connection with future work which will be invoiced on a work progress basis (SAL) by sending reports that are then approved by the said principals.

As at 31 December 2018 the heading under consideration breaks down as follows:

- 719 thous./Euros representing the down payment received by the Customer NAT – National Authority for Tunnel, relating to the construction of a railway depot at Kozzyka (Egypt);
- 968 thous./Euros representing the contract down payment received from ATAC S.p.A. for the start of works on the "Anagnina-Ottaviano" section and at the Osteria del Curato depot;
- 2,154 thous./Euros representing the down payment received from R.F.I. S.p.A. for the start of works for the construction of the new station, on a new site, at Olbia;
- 397 thous./Euros representing the down payment received from R.F.I. S.p.A. for the start of the noise prevention

upgrading works in the Municipality of Sesto Fiorentino;

- 1,824 thous./Euros representing the down payment received from SRT for the construction of a machine to order from Integra Construction KZ Limited.

Finally, this heading includes the down payment of 3,581 thous./Euros received by H&M from the customer DB Netz.

Payables due to suppliers

The item payables due to suppliers amounts to 107,499 thous./Euros (114,439 thous./Euros as at 31 December 2017), 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 (72,074 thous./Euros), to the parent company (4,188 thous./Euros), to Euro Ferroviaria (11,592 thous./Euros), to Vianini Industria (14,282 thous./Euros) and to SRT (5,149 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	31/12/2018	%	31/12/2017	%	Change	%
Italy	103,763	96.5%	110,874	96.9%	(7,111)	-6%
Europe (Italy excluded)	1,398	1.3%	1,214	1.1%	184	15%
Egypt	45	0.0%	122	0.1%	(77)	-63%
United Arab Emirates	14	0.0%	6	0.0%	8	133%
Saudi Arabia	2,279	2.1%	2,223	1.9%	56	3%
TOTAL	**107,499**	**100%**	**114,439**	**100%**	**(6,940)**	

Payables to subsidiaries

The payables to subsidiaries amount to 144 thous./Euros and mainly 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 1,023 thous./Euros (105 thous./Euros as at 31 December 2017), mainly consist of trade payables for costs re-charged by pooled companies and consortia and referable to Salcef Group S.p.A. (63 thous./Euros), to Salcef S.p.A. a Socio Unico (936 thous./Euros) and to Euro Ferroviaria (24 thous./Euros).

Tax payables

Tax payables, amounting to 10,456 thous./Euros (15,565 thous./Euros as at 31 December 2017), for the most part consist of the debt owed to the revenue agency in relation to withholding taxes calculated on self-employment income and other forms of freelance work, employees' work for the month of December 2018 (1,523 thous./Euros), of the VAT debt payable to the revenue agency (363 thous./Euros), of the current IRES and IRAP debt (7,613 thous./Euros) and of the current foreign tax debts (518 thous./Euros).

amounts in thous./Euros

Tax payables	31/12/2018	31/12/2017	Change
Payables due to Rev. Ag. for withhold. tax	1,523	1,310	213
Payables due to Rev. Ag. for VAT	363	23	340
Payable for IRES	6,545	9,491	(2,946)
Payable for IRAP	1,068	1,374	(306)
Tax payables for taxes assessed	0	283	(283)
Foreign tax payables	518	2,454	(1,936)
Other tax payables	439	630	(191)
TOTAL	**10,456**	**15,565**	**(5,109)**

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. (436 thous./Euros) in 2017.

Payables due to welfare and social security agencies

Payables due to social security agencies amounted to 2,284 thous./Euros (2,076 thous./Euros as at 31 December 2017) and refer almost in their entirety to sums owed at December 2018 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 item "other payables", amounting to 11,220 thous./Euros (9,217 thous./Euros as at 31 December 2017), include for the most part salaries and wages owing in connection with the December 2018 monthly payments (2,049 thous./Euros), debts for leave accrued and not taken holidays at the close date (1,414 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 (6,489 thous./Euros). As at 31 December 2017 this item included 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), both terminated in this financial year.

amounts in thous./Euros

Other payables	31/12/2018	31/12/2017	Change
Payables to employees	3,463	3,496	(33)
Third-party payables held (temp. consortia)	6,489	2,626	3,863
Payables to shareholders	0	880	(880)
Payables for purchase of company division	0	1,446	(1,446)
Sundry payables	1,268	770	498
TOTAL	**11,220**	**9,218**	**2,002**

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	Value 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	42,551	1,008	43,559	20,113	2,446	0
Advances	2,842	6,808	9,650	9,650	0	0
Payables due to suppliers	114,439	(6,940)	107,499	107,499	0	0
Payables due to subsidiaries	259	(115)	144	144	0	0
Payables due to associated companies	105	918	1,023	1,023	0	0
Tax payables	15,565	(5,109)	10,456	10,456	0	0
Payables due to Welfare and Social Security Agencies	2,076	208	2,284	2,284	0	0
Other payables	9,217	2,003	11,220	11,220	0	0
TOTAL	**187,054**	**(1,219)**	**185,835**	**162,389**	**23,446**	**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	2018	2017	Change
Revenues from sales and services	312,315	306,738	5,577
Revenues from invent. of fin./semi-finished products	1,791	1,052	739
Revenues from changes in contract work in progress	(9,253)	13,443	(22,696)
TOTAL	**304,853**	**321,233**	**(16,380)**

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 semi-finished and finished products refer to processes performed by SRT at Fano workshop.

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	2018	%	2017	%	Change
Italy	283,572	90.80%	247,446	80.67%	36,126
Europe (Italy excluded)	5,668	1.81%	1,583	0.52%	4,085
Egypt	444	0.14%	1,444	0.47%	(1,000)
India	310	0.10%	635	0.21%	(325)
Arab Emirates	0	0.00%	27	0.01%	(27)
Saudi Arabia	22,321	7.15%	55,603	18.13%	(33,282)
TOTAL	**312,315**	**100%**	**306,738**	**100%**	**5,577**

Increases in value of investments in internal works

The item, amounting to 12,757 thous./Euros (8,511 thous./Euros in 2017 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 to1,430 thous./Euros (3,280 thous./Euros in 2017), mainly refers to the re-charging of costs and/or the refund for expenses incurred on behalf of third parties (1,246 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 (355

thous./Euros).

amounts in thous./Euros

Other income and revenues	2018	2017	Change
Amounts charged back to third parties	1,246	694	552
Compensation from insurance claims and misc.	9	683	(674)
Gains from disposal of assets	355	1,308	(953)
Others	(180)	595	(775)
TOTAL	**1,430**	**3,280**	**(1,850)**

The "others" heading in the above table is negative by 180 thous./Euros since it includes the adjustments of earnings from previous years for the amount of 329 thous./Euros.

COSTS OF PRODUCTION

Costs of production decreased from 291,387 thous./Euros in 2017 to 269,856 thous./Euros in 2018, further to the decrease in production (-5%); however, this decrease was more than proportional to the reduction in output.

Costs of raw, ancillary and consumable materials

Costs of raw, ancillary and consumable materials, net of the variation in inventories, amounted overall to 57,085 thous./Euros.

amounts in thous./Euros

Costs of raw, ancillary materials and goods	2018	2017	Change
Purchases for raw, ancillary materials and goods	57,070	72,702	(15,632)
Variation in inventory	15	(197)	212
TOTAL	**57,085**	**72,505**	**(15,420)**

Costs for services

Costs for services amount to 135,356 thous./Euros (147,111 thous./Euros in 2017); their detailed composition is provided in the table below:

amounts in thous./Euros

Costs for services	2018	2017	Change
Maintenance carried out by third parties	2,312	2,151	161
Third parties contracted to perform work, consult.&outsour.work	90,976	104,005	(13,029)
Board and lodging for employees on assignment	8,434	7,599	835
Costs for seconded personnel	1,604	2,302	(698)
Insurances and sureties	3,924	3,285	639
Costs re-charged by third parties	2,968	5,352	(2,384)
Compensation to collaborators and temporary staff	5,076	4,313	763
Utilities	883	898	(15)
Compensation to Directors	268	170	98
Compensation to Auditors	60	81	(21)
Commercial expenses	573	509	64
Commercial expenses	563	547	16
Costs for tender procedures	116	47	69
Transport	13,847	12,147	1,700
Cars and motor-vehicles	1,121	1,083	38
Penalties and claims	540	351	189
Other costs for services	2,091	2,269	(178)
TOTAL	**135,356**	**147,111**	**(11,755)**

Costs for assets leased from third parties

Costs for assets leased from third parties amount to 8,545 thous./Euros (10,076 thous./Euros in 2017) and are made up as follows:

amounts in thous./Euros

Costs on Leased Assets	2018	2017	Change
Hire	6,055	6,338	(283)
Lease costs	837	2,180	(1,343)
Rent expenses	1,653	1,558	95
TOTAL	**8,545**	**10,076**	**(1,531)**

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

Personnel Costs	2018	2017	Change
Wages and salaries	37,089	35,114	1,975
Welfare and social security costs	12,665	11,642	1,023
Severance amounts, pensions and equivalent	1,945	1,755	190
Other costs	90	527	(437)
TOTAL	**51,789**	**49,038**	**2,751**

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

Workforce	2018	2017	Average
Salcef Group S.p.A.	96	122	109
Euro Ferroviaria S.r.l. a Socio Unico	98	88	93
Salcef Polska Sp.Z.o.o.	0	2	n.a.
RECO S.r.l. a Socio Unico	20	22	21
Salcef S.p.A. a Socio Unico	561	514	537
Vianini Industria S.r.l. a Socio Unico	36	36	36
SRT S.r.l. a Socio Unico	47	42	44
H&M Bau GmbH	20	0	n.a.
TOTAL	**878**	**826**	**840**

Workforce 2018	Italy	Abroad	Total
Managers and executives	21	-	21
White-collar workers	167	36	203
Blue-collar workers	556	98	654
TOTAL	**744**	**134**	**878**

Sundry operating expenses

Sundry operating expenses are shown in the table here below:

amounts in thous./Euros

Sundry operating expenses	2018	2017	Change
Losses on disposals of assets	71	1,628	(1,557)
Indirect taxes and levies	314	343	(29)
Fines and penalties	127	141	(14)
Other operating expenses	1,184	547	637
TOTAL	**1,696**	**2,659**	**(963)**

The capital losses arose from the sale of assets as part of the Group's normal operations (71 thous./Euros).

REVENUES AND EXPENSES

Financial operations yielded a negative result and are down by 3,824 thous./Euros (negative for 835 thous./Euros in 2017); they are shown in the table here below:

amounts in thous./Euros

Net Result from Financial Operations	2018	2017	Change
Revenues			
Interest earned	178	56	122
Other financial income	80	124	(44)
TOTAL	***258***	***180***	***78***
Financial expenses			
Interest expense	(1,041)	(955)	(86)
Financial expenses	(439)	(543)	104
Loss on financial loans	(1,890)	(114)	(1,776)
TOTAL	***(3,370)***	***(1,612)***	***(1,758)***
Gains (Losses) on exchange			
Gains on exchange	322	1,867	(1,545)
Loss on exchange	(1,034)	(1,270)	236
TOTAL	***(712)***	***597***	***(1,309)***
TOTAL	**(3,824)**	**(835)**	**(2,989)**

Losses on financial receivables include the loss on the receivable with G.I.S.A. S.r.l., waived by Salcef Group S.p.A., with a value of 1,525 thous./Euros, as already explained.

VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES

Adjustments to the value of financial assets and liabilities were negative by 283 thous./Euros (positive by 182 thous./Euros in 2017).

In particular, the write-ups (84 thous./Euros) refer to the increase in the fair value of the derivatives included in the contingency funds, while the write-downs refer, for 186 thous./Euros, to the holdings in Salcef Polska Spzoo and in Salcef Egypt Construction, as already explained, and for 178 thous./Euros to the loan to Salcef Egypt Construction, completely written off for an amount equal to the value of the holding, on the basis of the expected realisation value of the subsidiary's assets.

Income tax for the period

Here is a breakdown of the income tax:

amounts in thous./Euros

Taxes	2018
IRES	13,309
IRAP	3,146
Current tax	**16,455**
Deferred tax assets variation	(1,215)
Deferred tax liabilities variation	(247)
Deferred tax	**(1,462)**
Taxes for previous fin. years	**705**
TOTAL	**15,698**

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

amounts in thous./Euros	2018	
IRES	**Tax base**	**Tax**
Profit before tax	45,077	
Theoretical tax expense	*24%*	10,818
Permanent differences increasing tax base	3,326	
Temporary differences increasing tax base	1,496	
Other variations	8,397	
Permanent differences decreasing tax base	(1,909)	
Temporary differences decreasing tax base	(69)	
Deductible taxes (IRAP)	(864)	
Tax base	55,454	
Actual tax expense	*30%*	13,309

amounts in thous./Euros	2018	
IRAP	**Tax base**	**Tax**
IRAP tax base	103,110	
Theoretical tax expense	*4.56%*	4,702
Labour costs (in costs for services)	11,232	
Other non-deductible costs	2,188	
Misc. temp. differences increasing tax base	0	
Misc. temp. differences decreasing tax base	0	
Other variations	(10,119)	
IRAP deductions (wedge)	(36,386)	
Tax base	70,025	
Actual tax expense	*4.49%*	3,146

SURETY, GUARANTEES AND POTENTIAL LIABILITIES

Bonds and guarantees amount to 86,872 thous./Euros (116,731 thous./Euros as at 31 December 2017) and refer to the amount still outstanding at the end of the year with regard to the leasing contracts taken out by Euro Ferroviaria (5,488 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 (74,862 thous./Euros) and the bank guarantee issued in favour of Banks with regard to loans taken out by Salcef Group companies (6,562 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 2018 is provided below. The payable for leasing agreements with due date beyond 12 months amounts to 3,852 thous./Euros; there are no payables with residual duration in excess of five years.

amounts in thous./Euros

Description	2018
A) CURRENT CONTRACTS	
Assets held under financial leasing contracts at the end of the previous financial year, net of total amortisations	0
Assets acquired under financial leasing contracts during the financial year	6,200
Assets held under financial leasing contracts redeemed during the financial year, net of total amortisations	0
Amortisations for the financial year	(38)
Prepaid expenses	0
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	**6,162**
B) ASSETS REDEEMED	**0**
C) LIABILITIES	
Implicit indebtedness for financial leasing contracts at the end of the previous financial year	0
Payables arising during the financial year	5,580
Capital repayments and redemptions during financial year	(132)
Implicit indebtedness for financial leasing contracts at the end of the financial year	**5,448**
D) GROSS TOTAL EFFECT AT THE END OF THE FINANCIAL YEAR (A+B-C)	**714**
E) FISCAL EFFECT	**(171)**
F) EFFECT ON NET SHAREHOLDERS' EQUITY AT END OF FINANCIAL YEAR (D-E)	**543**
Effect on income statement:	
Reversal of financial leasing operation instalments	137
Reversal of deferrals of initial maxi-instalment	15
Entry of financial charges on financial leasing operations	(5)
Entry of:	
Amortisation allocations	(38)
Adjustments/revaluations on assets held under financial leasing agreements	0
Effect on pre-tax result	**109**
Entry of tax effect	**(30)**
Effect on result for the financial year on entry of financial leasing operations using the financial method	**79**

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 75 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 AL 31/12/2018	Financial assets	Trade receivables	Trade payables	Financial payables
Unconsolidated subsidiaries				
Consorzio Stabile Itaca S.c.a.r.l.		4,524	(134)	
Salcef Polska S.p.zoo			(10)	
TOTAL	**0**	**4,524**	**(144)**	**0**
Associated companies				
FrejusS.c.a.r.l.		281	(63)	
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	353	1	(49)	
Sesto Fiorentino S.c.a.r.l.	300	90	(911)	
TOTAL	**653**	**372**	**(1,023)**	**0**

amounts in thous./Euros.

OPERATING RELATIONS 2018	Revenues	Costs
Unconsolidated subsidiaries		
Consorzio Stabile Itaca S.c.a.r.l.	7,162	(78)
Salcef Polska S.p.zoo		(110)
TOTAL	**7,162**	**(188)**
Associated companies		
FrejusS.c.a.r.l.		(5)
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità		(1)
Sesto Fiorentino S.c.a.r.l.	287	(1,332)
TOTAL	**287**	**(1,338)**

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 Group 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 Group's equity, economic and financial situation as of 31 December 2018.

signed

The Chief Executive Officer

(Valeriano Salciccia)