SALCEF GROUP

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

ADDITIONAL FINANCIAL INFORMATION AT 30 SEPTEMBER 2020

Registered office in Via di Pietralata 140, 00158 Rome – Italy

Salcef Group holding company

Fully paid-up share capital €62,057,174.80

Company registration number: 08061650589 | REA no.: RM – 640930

Tax code 08061650589 | VAT no. 01951301009

www.salcef.com

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Company officers

Board of directors for the 2019/2021 three-year period

Chairman	Gilberto Salciccia
CEO	Valeriano Salciccia
Director	Alessandro Di Paolo
Director	Giovanni Cavallini
Director	Attilio Francesco Arietti
Director	Germano Maiolini
Director	Bruno Pavesi

Board of statutory auditors for the 2019/2021 three-year period

Chairwoman	Daniela Lambardi
Standing auditor	Giovanni Bacicalupi
Standing auditor	Roberto Schiesari

Supervisory body pursuant to Legislative decree no. 231/2001

Stefano Crociata

Fabrizio De Paolis

Roberto D'Amico

Independent auditors for the 2019/2021 three-year period

KPMG S.p.A.

DIRECTORS' REPORT

General information

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

This additional financial information describes Salcef Group's financial position as at 30 September 2020 and its performance for the nine months then ended, as well as significant events of the period.

It includes the interim financial statements of the parent and its subsidiaries (together, the "Salcef Group" or the "group"). The parent's board of directors approved this information and authorised its publication during its meeting of 19 November 2020. The parent's shares are listed on the AIM Italia - Alternative investment market managed by Borsa Italiana S.p.A.. At the date of preparation of this additional financial information, Finhold S.r.l. (the "ultimate parent"), which has majority control of Salcef Group S.p.A., does not carry out any management and coordination activities in relation to the parent.

Financial figures and key financial indicators

Reclassified income statement

(€'000)

	First nine months of 2020	First nine months of 2019	Variation
Revenue	235,285	219,945	15,340
Production costs	(185,980)	(178,172)	(7,808)
Other operating costs	(5,810)	(5,803)	(7)
Internal work capitalised	13,572	12,560	1,012
EBITDA (Gross operating profit)	**57,067**	**48,530**	**8,537**
Amortisation, depreciation and impairment losses	(15,785)	(11,195)	(4,590)
Impairment losses	(141)	(54)	(87)
EBIT (Operating profit)	**41,141**	**37,281**	**3,860**
Financial income	742	661	81
Adjusted financial expense*	(2,595)	(1,907)	(688)
Adjusted pre-tax profit*	**39,288**	**36,035**	**3,253**
Income taxes	(11,806)	(12,041)	235
***Profit for the period** *	**27,482**	**23,994**	**3,488**
* Fair value gains/(losses) on warrants	(17,652)	0	(17,652)
Profit for the period	**9,830**	**23,994**	**(14,164)**

Key performance indicators for the group

(€'000)

	First nine months of 2020	First nine months of 2019
EBITDA to revenue ratio	24.3%	22.1%
EBIT to revenue ratio	17.5%	17.0%

Key statement of financial position indicators

(€'000)

	30.09.2020	31.12.2019
Adjusted net financial position	13,386	46,991
Adjusted equity	257,865	250,007

Although not provided for in the IFRS, the above alternative performance indicators (EBIT, EBITDA, adjusted pre-tax profit, adjusted profit, the adjusted net financial position and adjusted equity), are based on amounts calculated under such standards.

These indicators are shown at consolidated level in order to present the group's financial performance, net of non-recurring events, events unrelated to the core business and non-recurring transactions, as identified by the group. They reflect the main financial and operating figures net of non-recurring income and expense not directly related to core business activities and operations, thereby enabling an analysis of the group's performance more consistent with that of previous periods.

EBITDA is calculated by adjusting the profit or loss for the period to exclude taxation, net financial expense and amortisation, depreciation and impairment losses. EBIT is calculated by adjusting the profit or loss for the period to exclude taxation and net financial expense.

Adjusted pre-tax profit or loss is calculated by adjusting the profit or loss for the period to exclude taxation and other amounts, such as fair value gains and losses on the warrants issued by Salcef Group S.p.A., related to non-recurring events, events unrelated to the core business and/or non-recurring transactions, as identified by the group.

The adjusted net financial position is calculated by deducting current cash and cash equivalents and current financial assets from current and non-current financial liabilities, excluding the warrants issued by Salcef Group S.p.A at 30 September 2020 recognised at fair value in compliance with the IFRS, as described later on in this report. The following information relates only to the "additional conversion" warrants classified as financial liabilities pursuant to the IFRS; it does not relate to the "new" warrants issued by Salcef Group S.p.A. classified as equity instruments.

The group made an adjusted profit for the period of €27.5 million, compared to €24 million for the corresponding period of 2019.

As shown by the above EBITDA to revenue and EBIT to revenue ratios, the group saw an improvement in the core business profitability in the first nine months of 2020 (+6.9 p.p.) against a less than proportional increase in production cost. The EBITDA to revenue ratio rose by 2.2 p.p. on the corresponding period of the previous year.

Specifically, revenue increased to €235.3 million in the first nine months of 2020 from €219.9 million in the same period of the previous year.

(€'000)

REVENUE	First nine months of 2020	First nine months of 2019	Variation
Revenue from contracts with customers	234,360	216,407	17,953
Other income	925	3,538	(2,613)
Total	**235,285**	**219,945**	**15,340**

Revenue from contracts with customers mainly relates to contract work carried out during the period and accepted by the customers.

Fair value losses on warrants are those recognised in the first nine months of 2020 (€17,652 thousand) in relation to the additional conversion warrants exercised in the period and the fair value losses since 31 December 2019 on such warrants issued and not yet exercised at 30 September 2019.
Moreover, the additional conversion warrants are recognised as a financial liability pursuant to IAS 32, while purely for tax purposes, they may be recognised under equity. Accordingly, considering the objective complexity of this situation from a tax standpoint and that the tax authorities have still not issued rulings or guidance in this regard, in this additional financial information, the fair value gains and losses on warrants have been prudently assumed not to be relevant for tax purposes and therefore generated greater current taxes.

With respect to the group's financial position as at 30 September 2020, both its net financial position and equity were impacted by the own shares repurchase transactions for €3,450 thousand, the distribution of dividends for €16,904 thousand and the acquisition of Delta Railroad Construction Inc. which resulted in outflows of USD36.14 million or approximately €30.5 million (more additional information about this transaction is available in the Delta group acquisition section).

With respect to equity, the fully paid-up share capital at 30 September 2020 amounts to €62,047,426.40 and is comprised of 43,504,796 shares without nominal value, as follows:

a) 41,744,796 ordinary shares;
b) 1,500,000 performance shares;
c) 260,000 special shares.

Furthermore, at 30 September 2020, the following were outstanding:

- 7,312,235 new warrants which, pursuant to the terms and procedures set out in the regulation, give the bearers the right to subscribe conversion shares at the ratio of 1 conversion share for each new warrant exercised at a subscription price of €10.50 per share.
- 8,342,527 additional conversion warrants which, pursuant to the terms and procedures set out in the regulation, give the bearers the right to subscribe conversion shares at a ratio that will be notified monthly and at a subscription price of €0.10 per share.

Specifically, the bearers of the additional conversion warrants can ask to subscribe conversion shares at any time at the subscription price at the following exercise ratio, as long as the average monthly price is higher than the strike price of €9.30:

$$\frac{\text{Average monthly price - Strike price}}{\text{Average monthly price - Share subscription price}}$$

If there is an acceleration, i.e., if the average monthly price is higher than the threshold price of €13.00, the bearers of the warrants can ask to subscribe conversion shares at the share subscription price within and not after 60 (sixty) days from the notice of acceleration at the following exercise ratio:

$$\frac{\text{Threshold price - Strike price}}{\text{Threshold price - Share subscription price}}$$

The following table provides a breakdown of the net financial position (debt) (and adjusted net financial position) at 30 September 2020 and 31 December 2019:

(€'000)

NET FINANCIAL POSITION	30.09.2020	31.12.2019	Variation	%
(A) Cash	24	25	(1)	-4%
(B) Cash equivalents	54,746	82,181	(27,435)	-33%
(C) Securities held for trading	60,719	23,837	36,882	>100%
(D) Liquidity (A + B + C)	**115,489**	**106,043**	**9,446**	**9%**
(E) Current loan assets	**353**	**678**	**(325)**	**-48%**
(F) Current bank loans and borrowings	0	(1)	1	-100%
(G) Current portion of non-current debt	(48,469)	(31,282)	(17,187)	55%
(H) Other current loans and borrowings *	(27,863)	(17,134)	(10,729)	63%
(I) Current financial debt (F+G+H)	**(76,332)**	**(48,417)**	**(27,915)**	**58%**
(J) Net current financial position (D+E+I)	**39,510**	**58,304**	**(18,794)**	**-32%**
(K) Non-current bank loans and borrowings	(41,412)	(17,754)	(23,658)	133%
(L) Bonds issued	-	-	-	-
(M) Other non-current loans and borrowings	(6,820)	(6,087)	(733)	12%
(N) Non-current financial debt (K+L+M)	**(48,232)**	**(23,841)**	**(24,391)**	**102%**
(O) Net financial position (debt) (N+J) **	**(8,722)**	**34,463**	**(43,185)**	**-125%**
(P) Adjustment for other financial liabilities - warrants	22,108	12,528	9,580	76%
(Q) Adjusted net financial position (O+P)	**13,386**	**46,991**	**(33,605)**	**-72%**

(*) includes the financial liability for the warrants referred to in letter (P)

(**) Net financial position calculated as per Consob communication no. 6064293 of 28 July 2006 and in compliance with ESMA recommendation 2013/319

Other current loans and borrowings include the financial liability for warrants amounting to €22,108 thousand which is their fair value at initial recognition at their date of issue (8 November 2019), subsequently adjusted to their fair value at 31 December 2019 and then adjusted for conversions and fair value gains and losses for the first nine months of 2020. The warrants are settled through the issue of ordinary shares of Salcef Group S.p.A. at the time of their conversion, restating the financial liability as an increase in equity. Accordingly, this liability will not generate a future outflow of cash for the group.

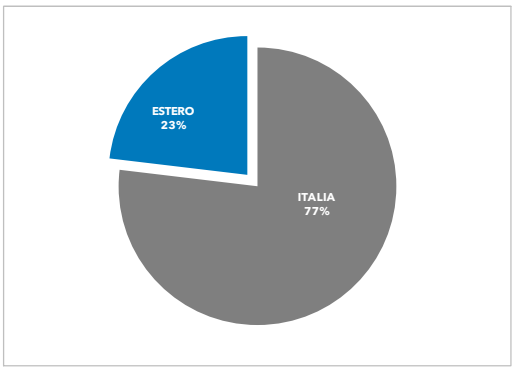
Fair value gains and losses on the financial liability for warrants, recognised in the income statement as a financial expense, came to €17,652 thousand in the first nine months of 2020. As stated above, they are not included in the calculation of the adjusted pre-tax profit and the adjusted profit for the period.

At the reporting date, the group's order backlog includes permanent way systems routine maintenance and upgrading work (71.51%), infrastructure works (1.43%), energy sector works (24.67%), sleepers and prefabricated products production (1.26%) and work on machinery (1.13%), which ensure continuity using the existing operating units active in the relevant geographical areas.

The group's order backlog at 30 September 2020 is analysed below by business unit:

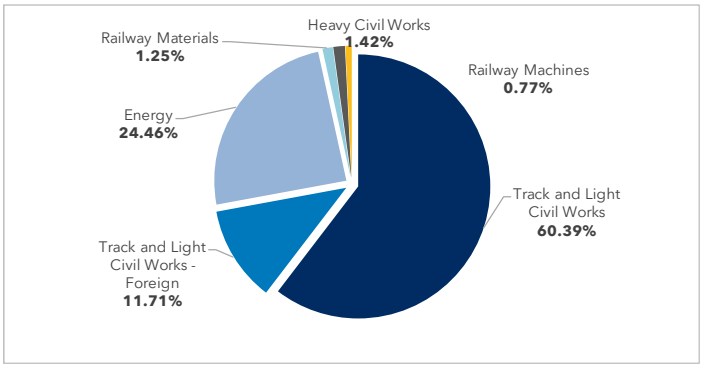
GRUPPO SALCEF - BACKLOG 01.10.2020

Business Unit	*Importo (€x1.000)*	%
Italia	456,497.6	76.89
Estero	**137,183.9**	**23.11**
Totale	593,681.5	100.00



€x1.000

Business Unit	*Importo (€x1.000)*	%
Track and Light Civil Works	**358,516.5**	**60.39**
Track and Light Civil Works - Foreign	**69,506.1**	**11.71**
Energy	**145,228.4**	**24.46**
Railway Materials	**7,442.9**	**1.25**
Heavy Civil Works	**8,414.3**	**1.42**
Railway Machines	**4,573.4**	**0.77**
Totale	593,681.5	100.00



With respect to its workforce, the group carries out its activities in full compliance with the relevant environmental and occupational hygiene regulations as well as applicable foreign legislation. A breakdown follows of the group's workforce at 30 September 2020 compared to 31 December 2019:

Workforce at 31 December 2019	Italy	Abroad	TOTAL
Managers	26	_	26
White collars	198	40	238
Blue collars	641	96	737
Total	**865**	**136**	**1,001**

Workforce at 30 September 2020	Italy	Abroad	TOTAL
Managers	32	6	38
White collars	204	129	333
Blue collars	682	152	834
Total	**918**	**287**	**1,205**

Key events of the period

Spread of the Coronavirus (Covid-19)

The global spread of the Coronavirus (Covid-19) and its impact on the healthcare systems, as well as on people's lifestyles, social relations and business activities is today a source of great concern for the future impact of the pandemic on the global economy.
Following a steadily growing number of countries reporting cases of infection, the World Health Organisation (WHO) declared the Covid-19 virus a pandemic on 11 March 2020.
The public health emergency hit Italy on 21 February 2020, before the other European countries.
In order to contain its spread, the governments of the various countries introduced increasingly restrictive measures aimed at limiting people's movements and contacts. Various production activities in sectors defined as non-essential were also halted, often entirely, only allowing the continuity of essential activities and production, which include those of the sector where the Salcef Group operates.

Italy moved into Stage 2 on 4 May 2020, with a loosening of the restrictions imposed to stop the spread of Covid-19.
The Prime Minister's decree no. 147 published in the Italian Official Journal on 11 June 2020 set out the Stage 3 Coronavirus emergency measures, introducing new rules for movements and the opening up of production and business activities.

After the summer and in early autumn, the number of infections recorded globally rose considerably, urging the governments of the various countries to take increasingly restrictive measures.
In Italy, on 6 November 2020, a new Prime Minister's decree came into force to combat the Coronavirus emergency, dividing the country into three risk categories, each with specific restrictions.

The financial markets are reacting negatively to the great uncertainty about the spread of the virus and its expected impact on the global economy, showing huge volatility since the pandemic's outbreak.
This situation affects all business sectors. The global infrastructure sector is expected to see a drop in revenue of around 4% in 2020.
The Italian construction sector is expected to contract by 0.7% in 2020. It had been expected to grow by 1.5%, but the pandemic shut down most construction sites. However, the sector has proved particularly resilient as infrastructure assets enjoy high profit margins, cash /liquidity generation capacity and available resources to service debt for a period of around six to twelve months.

The parent's priority is, and will continue to be, ensuring its employees' safety and business continuity.
The group immediately and responsibly adopted all the approaches and safety measures indicated by the authorities, introducing a dedicated task force, new protocols, new working practices and safety measures.

After having cut back production from the second half of March and through to the end of April, the group has re-opened all its construction sites and industrial facilities, in compliance with the most stringent safety measures.

All the group's production units returned to full operational status in May 2020 and, therefore, the impact in terms of a reduction in revenue is limited to March and April 2020.

In the first nine months of 2020, production contracted by 10.7%.

A breakdown of the impact in March and April 2020 is provided below:

Covid-19 pandemic emergency donations

In March 2020, the Salcef Group donated about €0.3 million for the Covid-19 emergency to frontline health and social care organisations that had already been battling the spread of the virus and caring for the most vulnerable citizens for many weeks.

Incorporation of a new company

Salcef USA Inc., a US-based wholly-owned subsidiary of Salcef Group S.p.A., was incorporated with registered office in Delaware on 12 March 2020.

Through the new subsidiary, the group will offer many services to the US market: from the construction of new tracks to the upgrading of railway infrastructure through to the supply of rolling stock and equipment.

The US market offers vast development opportunities on several fronts, such as the maintenance of existing infrastructure, the implementation of new technologies, such as high speed railway lines, and the production and installation of urban mobility systems in large cities.

Delta Group acquisition

On 15 September 2020, through its subsidiary Salcef USA Inc., Salcef Group S.p.A. acquired 90% of Delta Railroad Construction Inc., an Ohio-based company operating in the construction and maintenance of railway plant and machinery in the United States and Canada since 1957.
Thanks to this acquisition, the company will pursue its growth strategy externally, by entering the North American market. The USA boasts the largest railway network in the world, with more than 250,000 km of tracks, mainly used for freight transport, with an impressive development programme for the construction of new high-speed lines and the modernisation and upgrading of existing lines.

The basic consideration to acquire 90% of Delta was USD36.14 million (approximately €30.5 million). The related contract provides for the usual price adjustment mechanisms (upwards or downwards) and an earn-out clause in favour of the former shareholders, based on Delta's EBITDA from the date of closing until the end of 2024. The remaining 10% is held by the Laurello family.
70% of the consideration was paid on closing, while the remaining 30%, already fully deposited in an escrow account of a leading US bank, will be transferred to the selling shareholders within 36 months of the closing, when the contractually-defined conditions are met. Ancillary contracts are also part of the acquisition, including a shareholder agreement, which provides for specific put and call options for the non-controlling investors and Salcef USA Inc, respectively.
The acquisition was financed using Salcef USA Inc.'s own funds, including, in part, those provided by the parent to its subsidiary, and partly by transferring €23,910,000, obtained by the parent as an acquisition loan from Unicredit S.p.A. to complete the transaction. The Unicredit loan was 60% guaranteed by SACE S.p.A..

Approval of financial statements and dividend distribution

At their ordinary meeting of 24 April 2020, the parent's shareholders approved the financial statements as at and for the year ended 31 December 2019 and were presented with the consolidated financial statements as at and for the year ended 31 December 2019, both prepared in accordance with the OIC. The latter show a net profit for the year of €38,407,809. The shareholders also approved the distribution of a dividend of €0.40 for each ordinary and performance share, totalling €16,904,403.60. The detachment, record and payment dates were 18, 19 and 20 May 2020, respectively.

Own share repurchase programme

At their ordinary meeting of 24 April 2020, the parent's shareholders authorised the board of directors to repurchase, including in more than one tranche, ordinary shares of the parent up to a maximum which, considering the ordinary shares of the parent held at any time by the parent and its subsidiaries, shall not cumulatively exceed 10% of the parent's share capital, pursuant to article 2357 of the Italian Civil Code, article 25-bis of the AIM Issuers' Regulation, article 132 of the Consolidated Finance Act and article 144-bis of Consob's (the Italian Commission for Listed Companies and the Stock Exchange) Issuers' Regulation.
The authorisation was granted for the purpose, inter alia, of repurchasing own shares to allocate to, incentivise and retain employees and directors of the parent and its subsidiaries as part of the incentive plans currently being drawn up, as well as for transactions to purchase equity investments and/or property and/or finalise agreements with strategic partners. Furthermore, the authorisation also allows the board to set up an inventory of shares or to seize any investment opportunities, in compliance with current provisions and via brokers.

Pursuant to article 2357-ter of the Italian Civil Code, the shareholders also authorised the board of directors to use, in whole or in part and in one or more transactions, the ordinary shares repurchased as part of the above resolution or otherwise held by the parent.
The repurchase can be made in one or more tranches within 18 months of the date of the shareholders' resolution, considering that the price per share may not be more than 15.00% higher or lower than the official share price recorded in the stock exchange session prior to each individual transaction and may not exceed the higher of the price of the last arm's length transaction and the highest arm's length purchase offer price.
Conversely the authorisation to use the ordinary treasury shares is without any time limits.
The parent holds 283,651 treasury shares at the reporting date, equal to 0.6576% of its share capital.
Repurchases of own shares continued after the reporting date and the parent holds 300,000 treasury shares, equal to 0.6953% of the share capital, at 31 October 2020.

Outlook

In the last quarter of 2020, the group will continue to operate in its sectors of interest (permanent way systems, electrical traction and technological works, multidisciplinary railway works, design, maintenance and construction of rolling stock and production of reinforced, vibrated and prestressed concrete sleepers) in Italy and abroad in those countries where it already has a strong base and its specialised plant and personnel have ensured efficient service for many years. Despite the contraction in production in March and April 2020 due to the Covid-19 pandemic, revenue and profitability for 2020 are expected to be substantially in line with those of the last few years.
The order backlog guarantees continuity for the current workforce for at least the next two years, with production and profit margins in line with the average results for the last few years.

In the last quarter of 2020, Salcef S.p.A., Euro Ferroviaria S.r.l. and Overail S.r.l. will continue to operate in line with the national master agreements covering the renewal and maintenance of RFI S.p.A.'s tracks and turnouts for the 2018-2020 three-year period, specifically the lots in central and north-west Italy. Indeed, as a result of the large amounts earmarked by the customer for the maintenance and upgrading of its existing equipment and infrastructure, the three-year investment plan is significantly higher for all the work categories related to maintenance of the railway infrastructure, in line with Ferrovie dello Stato S.p.A.'s new 2019-2023 five-year plan.
Moreover, as part of a joint venture, the Salcef Group was awarded the tender called by Rete Ferroviaria Italiana to double the railway lines on the Telese – San Lorenzo Maggiore – Vitulano section. This relates to around 20 km on the new HS/HC Naples - Bari railway line, reducing travelling times between two of southern Italy's major urban and industrial hubs, increasing both passenger and freight traffic capacity. The tender contract has not yet been signed as a pending claim lodged by another bidder has not yet been decided on by the competent administrative judicial authorities.
As part of another joint venture, in 2019 Salcef had already won the tender to carry out track work to increase the speed of the Frasso Telesino - Telesse section. Together these two works are worth €54 million for the Salcef Group.
Both works fall under the group's core business, i.e., permanent way systems, electrical traction, substations, signalling and systems for electricity transmission. The group's contribution to the joint venture harnesses the expertise of two of its companies, Salcef S.p.A. and Coget Impianti S.p.A.

Overail S.r.l. will complete the supply of segments for an initial amount of roughly €9 million, related to the new tunnel of section T3 of the Rome Metro Line C with the customer Metro C S.c.ar.l.. Works are also underway on concrete slabs again to be supplied for the Rome Metro Line C.

Abroad, the work on Line 3 of the Riyadh Metro in Saudi Arabia will be completed during 2020. The contractual relationship will continue, covering the warranty period.
Furthermore, the construction of a new railway station in Kozzyka for Line 1 to Cairo, Egypt by the National Authority for Tunnels will continue, as will the works in Romania related to contracts for the rehabilitation of two adjacent railway lots on the Frontiera-Curtici-Simeria railway line, part of the European IV Corridor (Sublots 2A and 2B). Because of its complexity, work is expected to take about three years.
The Norwegian branch will continue to lease machinery and specialised personnel for the customer BaneService AS to modernise 150 km of tracks of the Norwegian railway network. The work is expected to be completed in late 2020. Furthermore, works commenced in relation to the new services contract agreed in 2019 with the joint venture set up with Acciona and Ghella S.p.A. for the construction of 40 km of tracks for the Follo Line Project in Norway worth approximately €6.8 million.
The Abu Dhabi branch will continue works for the construction of the track for the new railway line that will link the cities of Ruwais and Ghuweifat, on the border with Saudi Arabia on behalf of the joint venture comprising China State Construction Engineering Corporation and SK Engineering and Construction. Specifically, the Salcef Group will build the track along the main and secondary line. It will also handle the installation of turnouts and the production of long welded rails through the construction of a welding plant. This work is part of the project approved by Etihad Rail, the operator of the United Arab Emirates' national railway network, for the construction of an infrastructure that will extend to the United Arab Emirates' border with Saudi Arabia. Once completed, the railway will stretch for 605 km, from Ghuweifat to the port of Fujairah. Once all the planning stages are complete, a 1,200 km network will be built connecting the main industrial, manufacturing, production, urban and commercial hubs of the United Arab Emirates. It is therefore an important strategic work which will form an integral part of the proposed Gulf Railway system covering 2,177 km to connect all Gulf Cooperation Council-member states in the Persian Gulf.
Finally, again abroad, production in the last quarter of 2020 will benefit from the activities carried out in the US market by Delta Railroad Construction Inc., the most recent addition to the group.

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

Key risks and uncertainties

The main market risks to which the group is exposed are interest rate risk, currency risk, liquidity risk and credit risk.

Interest rate risk

The group uses third party funding which bears floating interest rates indexed to the short and medium to long-term Euribor. The risk arising from fluctuations in interest rates is very low as the group works solely with Italian banks and its high credit standing means that it has been able to negotiate cheap market rates for some years. It neutralises the effect of increases in interest rates by agreeing interest rate swaps for its main loans.

Pursuant to article 2427.22-ter of the Italian Civil Code, the group does not have any agreements not shown in the statement of financial position with risks and/or benefits that are material for the purposes of assessing its financial position and financial performance.

Currency risk

The group carries out nearly all its main transactions using the Euro and only a minimal part using other currencies. Therefore, it does not hedge future cash flows on specific contracts to neutralise or mitigate the effect of fluctuations in exchange rates on foreign currency revenue or costs, which is limited to just a few contracts.

Should this situation change in the future and make the use of hedges necessary given the size of the amounts subject to currency risk, the group will decide whether to change its policy.

Liquidity risk

The group is not exposed to liquidity risk as it has access to both internal and external funds sufficient to meet its expected liquidity requirements both for its current operations and to carry out its medium to long-term contracts and the investments planned in order to complete them.

Risk of changes in contract consideration

The group is not exposed to the risk of changes in the contract consideration for ongoing contracts except for variations which are yet to be approved (a minimal part).

Credit risk

The parent and its subsidiaries monitor credit risk arising from the day-to-day performance of their normal activities. The group has not encountered significant cases of counterparty default.

Related party transactions

Related party transactions do not qualify as either atypical or unusual, as they form part of the group's normal operations. They are carried out in the group's interest on an arm's length basis. Reference should be made to the Related party transactions section of the notes to the interim consolidated financial statements as at and for the nine months ended 30 September 2020 for further information.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT 30 SEPTEMBER 2020 AND NOTES THERETO

Interim consolidated financial statements as at and for the nine months ended 30 September 2020

STATEMENT OF FINANCIAL POSITION

ASSETS	30.09.2020	31.12.2019
Non-current assets		
Intangible assets with finite useful lives	5,762,900	4,070,838
Goodwill	31,666,006	13,806,369
Property, plant and equipment	85,837,437	73,906,826
Right-of-use assets	15,131,986	12,253,072
- of which, with related parties	*92,012*	*368,048*
Equity-accounted investments	1,925,215	39,788
Other non-current assets	13,469,553	13,506,817
Deferred tax assets	5,324,781	4,668,307
Total non-current assets	**159,117,878**	**122,252,017**
Current assets		
Inventories	11,557,226	10,883,119
Contract assets	125,839,418	99,372,764
Trade receivables	57,967,280	70,856,770
- of which, with related parties	*282,145*	*373,805*
Tax assets	3,144,370	4,834,708
Financial assets	61,070,676	24,514,755
- of which, with related parties	*353,465*	*678,465*
Cash and cash equivalents	54,770,752	82,206,698
Other assets	23,492,111	24,162,166
- of which, with related parties	*50,799*	*100,000*
Total current assets	**337,841,833**	**316,830,980**
TOTAL ASSETS	**496,959,711**	**439,082,997**

LIABILITIES	30.09.2020	31.12.2019
Equity attributable to the owners of the parent		
Share capital	62,047,426	60,000,000
Other reserves	163,854,759	149,817,044
Profit for the period/year	9,853,323	27,660,235
Total equity attributable to the owners of the parent	**235,755,508**	**237,477,279**
Share capital and reserves attributable to non-controlling interests	2,399,508	1,744
Profit (loss) for the period/year attributable to non-controlling interests	(23,037)	0
TOTAL EQUITY	**238,131,979**	**237,479,023**
Non-current liabilities		
Financial liabilities	41,412,037	17,769,345
Lease liabilities	6,820,371	6,071,828
Employee benefits	832,995	1,024,492
Provisions for risks and charges	5,528,435	1,301,793
Deferred tax liabilities	2,081,243	867,030
Total non-current liabilities	**56,675,081**	**27,034,488**
Current liabilities		
Bank loans and borrowings	0	120
Financial liabilities	70,576,338	44,894,522
Current portion of lease liabilities	5,754,949	3,522,771
Contract liabilities	8,668,692	6,899,615
Trade payables	87,744,677	93,616,374
- of which, with related parties	*1,570,775*	*2,862,641*
Tax liabilities	8,773,213	1,936,163
Other liabilities	20,634,782	23,699,921
Total current liabilities	**202,152,651**	**174,569,486**
TOTAL LIABILITIES	**258,827,732**	**201,603,974**
TOTAL EQUITY AND LIABILITIES	**496,959,711**	**439,082,997**

INCOME STATEMENT

	First nine months of 2020	First nine months of 2019
Revenue from contracts with customers	234,359,421	216,407,050
Other income	925,369	3,538,112
Total	**235,284,790**	**219,945,162**
Raw materials, supplies and goods	(40,476,258)	(49,169,551)
Services	(96,230,290)	(88,598,432)
- of which, with related parties	*(398,537)*	*(138,479)*
Personnel expense	(49,273,832)	(40,404,217)
Amortisation, depreciation and impairment losses	(15,784,948)	(11,195,009)
Impairment losses	(141,427)	(54,237)
Other operating costs	(5,809,440)	(5,803,062)
Internal work capitalised	13,571,933	12,559,930
Total costs	**(194,144,262)**	**(182,664,578)**
Operating profit	**41,140,528**	**37,280,584**
Financial income	741,699	661,528
Financial expense	(20,246,440)	(1,907,141)
- of which, with related parties	*(6,470)*	*(17,110)*
Pre-tax profit	**21,635,787**	**36,034,971**
Income taxes	(11,805,501)	(12,041,377)
Profit for the period	**9,830,286**	**23,993,594**
Profit/(loss) for the period attributable to:		
Non-controlling interests	(23,037)	0
Owners of the parent	9,853,323	23,993,594

STATEMENT OF COMPREHENSIVE INCOME

	First nine months of 2020	First nine months of 2019
Profit for the period	**9,830,286**	**23,993,594**
Other comprehensive income/(expense) that will not be subsequently reclassified to profit or loss		
Net actuarial gains /(losses)	(28,202)	(134,132)
Income taxes	7,987	37,986
Total	**(20,215)**	**(96,146)**
Other comprehensive income/(expense) that will be subsequently reclassified to profit or loss		
Hedging gains (losses)	(185,001)	9,146
Income taxes	44,400	(2,195)
Translation gains/(losses)	(1,080,038)	2,158,607
Total	**(1,220,639)**	**2,165,558**
Other comprehensive income/(expense), net of the tax effect	**(1,240,854)**	**2,069,412**
Comprehensive income for the period	**8,589,432**	**26,063,006**
attributable to:		
Non-controlling interests	(23,037)	0
Owners of the parent	8,612,469	26,063,006

STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves	Reserve for own shares	Actuarial reserve	Hedging reserve	Translation reserve	Reserve for warrants	Retained earnings	Profit (loss) for the period/year	Equity att. to non-controlling interests	Equity
Balance at 1 January 2020	**60,000,000**	**94,852,284**	**-**	**(228,573)**	**(11,799)**	**(3,707,641)**	**(7,610,105)**	**66,522,878**	**27,660,235**	**1,744**	**237,479,023**
Profit for the period									9,853,323	(23,037)	9,830,286
Other comprehensive expense				(20,215)	(140,601)	(1,080,038)					(1,240,854)
Comprehensive income for the period	**-**	**-**	**-**	**(20,215)**	**(140,601)**	**(1,080,038)**	**-**	**-**	**9,853,323**	**(23,037)**	**8,589,432**
Allocation of 2019 profit		1,246,036						26,414,199	(27,660,235)		-
Exercise of warrants	2,047,426	5,434,796					2,637,959				10,120,181
Repurchase of own shares			(3,449,676)								(3,449,676)
Dividend distribution								(16,904,404)			(16,904,404)
Other variations/reclassifications		(109,229)						8,888		2,397,764	2,297,423
Variation in translation reserve											-
Total owner transactions	**2,047,426**	**6,571,603**	**(3,449,676)**	**-**	**-**	**-**	**2,637,959**	**9,518,683**	**(27,660,235)**	**2,397,764**	**(7,936,476)**
Balance at 30 September 2020	**62,047,426**	**101,423,887**	**(3,449,676)**	**(248,788)**	**(152,400)**	**(4,787,679)**	**(4,972,146)**	**76,041,561**	**9,853,323**	**2,376,471**	**238,131,979**
Balance at 1 January 2019	**200,000**	**80,542,930**	**-**	**(156,584)**	**(24,781)**	**(5,222,794)**	**-**	**36,292,119**	**30,600,620**	**3,870**	**142,235,380**
Profit for the period									23,993,594	-	23,993,594
Other comprehensive income				(96,146)	6,951	2,158,607					2,069,412
Comprehensive income for the period	**-**	**-**	**-**	**(96,146)**	**6,951**	**2,158,607**	**-**	**-**	**23,993,594**	**-**	**26,063,006**
Allocation of 2018 profit								30,600,620	(30,600,620)		-
Exercise of warrants											-
Repurchase of own shares											-
Dividend distribution		(30,000,000)									(30,000,000)
Other variations/reclassifications		(690,644)						(369,862)		(2,126)	(1,062,632)
Variation in translation reserve											-
Total owner transactions	**-**	**(30,690,644)**	**-**	**-**	**-**	**-**	**-**	**30,230,758**	**(30,600,620)**	**(2,126)**	**(31,062,632)**
Balance at 30 September 2019	**200,000**	**49,852,286**	**-**	**(252,730)**	**(17,830)**	**(3,064,187)**	**-**	**66,522,877**	**23,993,594**	**1,744**	**137,235,754**

Notes to the interim consolidated financial statements at 30 September 2020

Reporting standards and compliance with the IFRS

The interim consolidated financial statements have been prepared pursuant to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission. The IFRS also include the International Accounting Standards (IAS) still in force and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standard Interpretations Committee (SIC), in force at the reporting date.

The provisions of IAS 34 (Interim financial reporting) were not applied in the preparation of the additional financial information at 30 September 2020. Indeed, the group applies this standard to its half-year financial reports and not to quarterly reports. Moreover, although this additional financial information does not include all disclosures required for a full set of financial statements, it includes specific notes to explain the events and transactions relevant to understanding the variations in the group's financial position and performance since the last annual financial statements.

The accounting policies applied are described below.

Basis of preparation

The interim consolidated financial statements comprise an income statement, a statement of comprehensive income, a statement of financial position, a statement of changes in equity, a statement of cash flows and these notes.

The group opted to present assets and liabilities as current or non-current,
and to present the income statement items based on their nature. This approach is consistent with the management reporting method adopted by the group and is held to best represent its financial position and performance rather than presenting items by destination.

The income statement and the statement of comprehensive income are presented as two separate statements and, therefore, the group has prepared a statement that presents the profit or loss components (the income statement) and another statement that starts with the profit or loss for the period and adds the other items of other comprehensive income thereto (the statement of comprehensive income). The latter shows changes in equity generated by transactions other than owner transactions.

The statement of changes in equity complies with the presentation requirements of IAS 1.

The group's presentation currency is the Euro, which is also the parent's functional currency. Assets and liabilities are presented separately without offsetting. The figures in the interim consolidated financial statements and the notes thereto are in Euros, unless indicated otherwise. Therefore, the total balances in some tables may be slightly different from the sum of the individual items due to the rounding effect.

Accounting policies

The general principle adopted to prepare this interim consolidated financial statements is that of historical cost, except for those captions that the IFRS require be measured at fair value. The most significant accounting policies applied are described below.

The group has prepared this interim consolidated financial statements on a going concern basis and it gives a true and fair view of the group's financial position and financial performance. Management has made use of estimates as described later.

Consolidation scope and basis of consolidation

The interim consolidated financial statements at 30 September 2020 have been prepared by consolidating the parent's separate interim financial statements at the same date and those of the Italian and foreign companies that it directly or indirectly controls. The group exercises control when it is exposed, or has rights, to variable returns from involvement with the investee or it has the power to directly or indirectly direct an investee's operating, management and administrative decisions and obtain benefits therefrom. Control is generally presumed to exist when the group directly or indirectly holds more than half of an investee's voting rights. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. At the reporting date, the parent did not exercise joint control over any of its investees, by virtue of its investment share or specific contractual arrangements.

The interim financial statements of the consolidated companies prepared for consolidation purposes have been suitably adjusted and reclassified to comply with group accounting policies, as detailed below.

The reporting date of the subsidiaries' interim financial statements is the same as the parent's. The following table shows the companies included in the consolidation scope and the parent's related direct and indirect investment percentages:

	REGISTERED OFFICE	CURRENCY	Share/quota capital	Investment percentage		Method
				Indirect	Direct	
Subsidiaries						
Euro Ferroviaria S.r.l. single-member company	Rome - Italy	Euro	100,000		100%	Consolidation
RECO S.r.l. single-member company	Rome - Italy	Euro	100,000		100%	Consolidation
Salcef S.p.A. single-member company	Rome - Italy	Euro	60,000,000		100%	Consolidation
SRT S.r.l. single-member company	Rome - Italy	Euro	100,000		100%	Consolidation
Overail S.r.l. single-member company	Rome - Italy	Euro	100,000		100%	Consolidation
Salcef Bau GmbH	Hellental - Germany	Euro	25,000		100%	Consolidation
Coget Impianti S.p.A. single-member company	Corteno Golgi (BS) - Italy	Euro	1,000,000		100%	Consolidation
Salcef USA Inc.	Wilmington - Delaware	USD	10,000,000		100%	Consolidation
Delta Railroad Construction Inc.	Ashtabula - Ohio	USD	109,640		90%	Consolidation
Deltarr Holding Company, Corp.	Ashtabula - Ohio	USD	500	100%		Consolidation
Delta Railroad Company of Canada, ULC	Toronto - Canada	CAD	1	100%		Consolidation
Consorzio Stabile Itaca S.c.a.r.l.	Rome - Italy	Euro	40,000	96.06%		Consolidation
Associates						
Frejus S.c.a.r.l.	Bologna - Italy	Euro	20,000		42.93%	Equity
Sesto Fiorentino S.c.a.r.l.	Rome - Italy	Euro	10,000	47.68%		Equity
Consorzio I.C.A.V.	Rome - Italy	Euro	50,000	50.00%		Equity

With respect to changes in the consolidation scope, as mentioned earlier, Salcef USA Inc., wholly-owned by Salcef Group S.p.A., was incorporated in March 2012 and, on 15 September 2020, through its subsidiary Salcef USA Inc., the parent acquired 90% of Delta Railroad Construction Inc., an Ohio-based company operating in the construction and maintenance of railway plant and machinery in the United States and Canada since 1957.

Investments in associates are measured using the equity method.

The consolidation process is as follows:

subsidiaries are consolidated on a line-by-line basis, whereby:

- the carrying amounts of their assets, liabilities, costs and revenue are included in full, regardless of the investment percentage held;
- the carrying amount of the investment is eliminated against the group's share of the investee's equity;
- the effects of intragroup transactions, including dividends distributed among the group companies, are eliminated;
- non-controlling interests are classified in the specific equity caption. Likewise, the profit or loss for the period attributable to non-controlling interests is presented separately in the income statement;

investments in associates are measured using the equity method, whereby their carrying amount is adjusted to consider the following:

- consistency with group accounting policies, where necessary;
- the investor's share of the investee's profit or loss realised after its acquisition;
- changes in the investee's equity that are not recognised in profit or loss under the IFRS;
- dividends distributed by the investee;
- any differences identified upon acquisition (measured using the criteria set out in the *Business combinations* section) and recognised in accordance with the IFRS;
- the group's share of equity-accounted investees' profit or loss is recognised in the income statement.

Dividends, impairment gains and losses and losses on consolidated investments, the gains or losses from intragroup sales of consolidated investments and the related tax are eliminated. Profits or losses from transactions among consolidated companies that have not been directly or indirectly realised with third parties are eliminated. Unrealised intragroup losses are recognised if the underlying transaction shows evidence of impairment of the transferred asset.

Business combinations

The group accounts for business combinations using the acquisition method when control is transferred to the group. The consideration transferred in the acquisition is measured at fair value, which is the sum of the fair values of the assets acquired and the liabilities assumed at the acquisition date. Contingent consideration is considered to be part of the transfer price and is measured at the acquisition-date fair value. Any subsequent fair value gains or loss are recognised immediately in profit or loss. The identifiable net assets acquired are generally measured at fair value. Any goodwill that arises, calculated as the difference between the consideration transferred and the fair value of the net assets acquired, is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.
The consideration transferred does not include amounts related to the settlement of pre-existing relationships, which are generally recognised in profit or loss.

Loss of control

When the group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Translation of foreign currency items and financial statements

Transactions in foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies of group companies at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Exchange differences are generally recognised in profit or loss and presented within net financial income/(expense).
However, exchange differences arising from the translation of the following items are recognised in other comprehensive income:

- an investment in equity securities designated as at fair value through other comprehensive income (FVOCI), except on impairment, in which case exchange differences that have been recognised in other comprehensive income are reclassified to profit or loss;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent

that the hedge is effective;

- qualifying cash flow hedges to the extent that the hedges are effective.

Foreign operations

The assets and liabilities of foreign operations, including any goodwill and fair value adjustments arising on acquisition, are translated into Euros at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Euros at the average exchange rates of the period which approximate the exchange rates ruling at the dates of the transactions. Exchange differences are recognised in other comprehensive income and accumulated in the translation reserve, except for any exchange difference to be allocated to non-controlling interests.

Exchange rates used by the group

CURRENCY	Code	30.09.2020	
		Spot closing rate	Average rate
Polish zloty	PLN	4.5462	4.4220
Egyptian lira	EGP	18.4420	17.8449
Romania leu	RON	4.8725	4.8269
Croatian kuna	HRK	7.5565	7.5312
UAE dirham	AED	4.2998	4.1317
Saudi riyal	SAR	4.3905	4.2189
Norwegian krone	NOK	11.1008	10.7115
US dollar	USD	1.1708	1.1250
Swiss franc	CHF	1.0804	1.0680

Intangible assets with finite useful lives and goodwill

An intangible asset is an identifiable non-monetary asset without physical substance that generates future benefits for the group.

Intangible assets acquired or developed internally are recognised when it is probable that the use of the asset will generate future economic benefits and the cost of the asset can be determined reliably.

They are recognised at acquisition and/or development cost including costs incurred to ready the asset for its intended use less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation begins when the asset that the group has acquired is available for use and is allocated on a systematic basis over its useful life based on its residual use. The group reviews the amortisation criteria, useful lives and residual use of the assets at least at every annual reporting date to consider any significant variations. Specifically, patents, intellectual property rights, concessions, licences and trademarks are amortised over the shorter between the legal or contractual term and their residual use (from 3 to 5 years).

When recognised as part of a business combination, goodwill is calculated as the positive difference between the consideration transferred in the acquisition, the share of the acquiree's equity attributable to non-controlling interests and the acquisition-date fair value of the acquirer's previously held equity interest in the net assets acquired and liabilities assumed. After initial recognition, goodwill is not amortised but is tested for impairment at least annually or more frequently if specific events or changes in circumstances indicate that it may be impaired. Reference should be made to the Impairment of non-financial assets section for information on impairment testing.

For the purposes of preparing this interim consolidated financial statements at 30 September 2020, the acquisitions of Coget Impianti S.p.A. and Delta RR Inc. were accounted for in accordance with IFRS 3, by recognising the provisional amounts of the individual transactions pursuant to paragraph 45 and following paragraphs of this standard. Accordingly, pending the definition of the respective post-acquisition long-term plans by the group and the consequent purchase price allocation, the group deemed it appropriate to provisionally maintain the carrying amounts of the assets and liabilities of both Coget Impianti S.p.A. and Delta, allocating to goodwill the entire difference with respect to the carrying amount of the investment recognised by Salcef Group S.p.A. and Salcef USA Inc., respectively.

Property, plant and equipment

Items of property, plant and equipment are measured at acquisition or production cost, less accumulated depreciation and any accumulated impairment losses. Cost includes costs incurred directly to move the asset and prepare it for its intended use in its final location and any costs of dismantling and removing the asset and restoring the site on which it was located.
Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the group. Costs incurred for regular maintenance are expensed when incurred.

Items of property, plant and equipment are depreciated systematically over their useful life. When the depreciable asset comprises separately identifiable parts, with different useful lives, they are depreciated separately using the component approach.
Land, including appurtenance land, is not depreciated.
The group reviews the depreciation criteria and useful lives at least at each annual reporting date to incorporate any significant changes.
Depreciation starts when the asset is available for use. The estimated useful life of the various asset categories, shown as annual depreciation rate, is the same in all the periods covered, and is shown in the following table:

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

The group tests the carrying amount of items of property, plant and equipment for impairment when events or changes in circumstances indicate that the asset may be impaired. Reference should be made to the Impairment of non-financial assets section for information on impairment testing.

Gains and losses on the sale of assets or groups of assets are calculated by comparing the net disposal proceeds to the assets' carrying amount.

The cost of internally-produced assets is calculated using the same criteria as those applied to purchased assets. If the group regularly produces similar assets for sale, the cost is generally the production cost of the asset produced for sale. Accordingly, any internal profits are deducted from the cost. Similarly, the cost of unusual waste of materials, work or other resources incurred in the internal production of an asset is not included in its cost.

Right-of-use assets and lease liabilities

Right-of-use assets and lease liabilities are recognised in accordance with IFRS 16. The group adopted IFRS 16 on 1 January 2019 using the modified retrospective approach, whereby the prior year corresponding figures are not restated and continue to be presented in accordance with IAS 17 and IFRIC 4. The disclosures required by IAS 17 and IFRIC 4 are presented separately.

At inception of a contract, the group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the group uses the definition of a lease in IFRS 16. At commencement or on modification of a contract that contains a lease component, the group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for the leases of property, the group has elected not to separate non-lease components and to account for the lease and non-lease components as a single lease component. The group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the group by the end of the lease term or the cost of the right-of-use asset reflects that the group will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate. Generally, the group uses its incremental borrowing rate as the discount rate.

The group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following: (i) fixed payments, including in-substance fixed payments; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (iii) amounts expected to be payable under a residual value guarantee; and (iv) the exercise price under a purchase option that the group is reasonably certain to exercise, lease payments in an optional renewal period if the group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the group is reasonably certain not to terminate early.
The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee, if the group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.
In the statement of financial position, right-of-use assets and lease liabilities are presented separately from other assets and other liabilities, respectively.

Impairment of non-financial assets

At each reporting date, the group reviews the carrying amounts of its non-financial assets (other than inventories, contract assets and deferred tax assets) to determine whether there is any indication of

impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.
For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the higher of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.
An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.
An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventories

Inventories are recognised at the lower of cost and fair value which is their net realisable value. The cost of raw materials, consumables and supplies is determined using the weighted average cost method. Cost includes the related costs.

Revenue from contracts with customers and contract assets/liabilities

Revenue from contracts with customers is recognised when (or as) control of a promised good or service is transferred to the customer for an amount reflecting the amount of consideration the group expects to be entitled to receive for such goods and services. Transfer of control of the good or service to the customer may be over time or at a point in time.
For contracts that meet the requirements for recognition over time, revenue is recognised on the basis of the stage of completion (or percentage of completion) of the contract whereby the costs, revenue and contract profit or loss are recognised by reference to the stage of completion of the contract activities. The percentage of completion is measured using the output method. The contract output is measured at the reporting date and reflects the best estimate of the work performed at the reporting date. The underlying assumptions are updated periodically. Any revenue or costs are recognised in the period in which the updates are made.

Conversely, when the requirements for revenue recognition over time are not met, revenue is recognised at a point in time.

The difference between the group's performance and the customer's payments is recognised in the statement of financial position under contract assets or contract liabilities. Specifically:

- net contract assets are the right to consideration for goods or services already transferred to the customer;
- contract liabilities are the group's obligation to transfer goods or services to the customer for which consideration has already been received (or for which the right to consideration has already arisen).

Contract assets are shown net of any allowances.

The transaction price reflects the contract consideration, variations, price adjustments and any additional consideration resulting from claims. With respect to the latter, revenue is recognised when it relates to an enforceable right and it is highly probable that its inclusion will not result in a significant revenue reversal in the future. Furthermore, in determining the transaction price, the group considers the effect of the following elements:

a. variable consideration;
b. the existence of a significant financing component in contracts;
c. non-monetary consideration;
d. consideration payable to the customer.

When, during the progress of contracts, the review of plans reveals that the costs to perform the obligations exceed contract revenue, the portion of costs in excess of the economic benefits generated by the contract is expensed entirely in the period the relevant amount becomes reasonably foreseeable and accrued in a provision for onerous contracts, under the current portion of provisions for risks and charges.

Financial assets and liabilities

Measurement and recognition

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the group becomes a party to the contractual provisions of the instrument.
A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus or minus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets - classification and subsequent measurement

Upon initial recognition, financial assets are classified into the following three categories, depending on their characteristics and the business model used to manage them: (i) at amortised cost; (ii) at fair value through other comprehensive income ("FVOCI"); (iii) at fair value through profit or loss ("FVTPL").
Financial assets are not reclassified subsequent to their initial recognition unless the group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Under the amortised cost method, after initial recognition, the financial asset's carrying amount is adjusted for principal repayments, any loss allowance and the cumulative amortisation of any difference between the maturity amount and the initial carrying amount. Amortisation is calculated using the effective interest rate, which is the rate that discounts the estimated cash flows associated with the financial asset to its carrying amount at initial recognition. Loans, receivables and other financial assets measured at amortised cost are presented net of the related loss allowance in the statement of financial position.
A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual

cash flows and selling financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the group may irrevocably elect to present subsequent changes in the instrument's fair value in OCI. This election is made on an case-by-case basis. Fair value gains or losses on a financial instrument measured at FVOCI are recognised in equity, under other comprehensive income. Any fair value gain or loss accumulated in the equity reserve that includes other comprehensive income is taken to profit or loss when the financial instrument is derecognised. Any interest income measured using the effective interest rate, exchange differences and impairment losses are recognised in profit or loss.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.
This includes all derivative financial assets. On initial recognition, the group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the group considers: (i) contingent events that would change the amount or timing of cash flows; (ii) terms that may adjust the contractual coupon rate, including variable rate features; (iii) prepayment and extension features; and (iv) terms that limit the group's claim to cash flows from specified assets (e.g., non-recourse features).

Financial liabilities – classification and subsequent measurement

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest

expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and exchange differences are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss. For information on financial liabilities designated as hedges, reference should be made to that described below about derivatives.

Financial assets – derecognition

The group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities – derecognition

The group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.
Reference should be made to the Impairment losses section for information on the expected credit losses on financial assets.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Financial instruments, derivatives and hedge accounting

Warrants
The group classifies financial instruments as financial liabilities, financial assets or equity instruments based on the substance of the contractual agreements and their terms. Specifically, the key element for classification of instruments that will or may be settled through an entity's equity instruments (such as the warrants issued by the parent, Salcef Group S.p.A.), is a conversion ratio setting the exchange of a fixed or variable number of shares against a fixed or variable amount of cash or cash equivalents (fixed for fixed or fixed for variable). Fixed for fixed instruments (when there is a fixed conversion ratio and exercise price) are classified as equity instruments; otherwise they are classified as financial assets or liabilities. The additional

conversion warrants issued by Salcef Group S.p.A. are financial instruments that will be settled with a variable number of shares of the issuer (reference should be made to note 16 Equity for further details) as the conversion ratio is not fixed for the term of the instrument. Indeed, although the number of shares that could be issued is limited to within a range, their number may vary depending on the conversion date and, specifically, the share price at that date.

As the additional conversion warrants do not meet the condition to be classified as equity instruments, they are classified as financial liabilities. Their accounting treatment provides for their initial recognition at fair value as a direct decrease in equity, while subsequent fair value gains and losses are recognised in profit or loss as financial expense/income. At the time of their exercise, pursuant to IFRIC 19, the group recognises the settlement of the financial liability remeasured at fair value and recognises the fair value of the equity instruments issued to settle such liability. Conversely, the new warrants issued by Salcef Group S.p.A. are fixed for fixed financial instruments as they provide for a fixed conversion ratio and exercise price and they are, therefore, classified as equity instruments. At the time of exercise of the new warrants, the group recognises an increase in equity equal to the exercise price of the warrants.

Derivatives, including hedge accounting

The group holds derivatives specifically for hedging interest rate risks. At the inception of designated hedging relationships, the group documents the economic relationship between the hedged item and the hedging instrument, the risk management objective and strategy for undertaking the hedge, the identification of the hedging instruments, the hedged item or transaction and the nature of the hedged risk. At the inception of the transaction and subsequently on an ongoing basis, the group also documents whether the hedging instrument meets the effectiveness requirements, i.e., whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Hedging policies are considered on the basis of risk management objectives. The derivatives that do not meet the IFRS 9 requirements for hedge accounting are classified as at FVTPL.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash-in-hand and demand bank deposits. They are recognised at their fair value which is usually their nominal amount.

Impairment losses on financial assets

The group recognises loss allowances for expected credit losses (ECLs) on:

- financial assets measured at amortised cost;
- contract assets;

based on a forward looking expected credit losses (ECL) model. Indeed, irrespective of an identified or latent specific trigger event, the expected losses determined under the ECL model shall be recognised for all financial assets (except for those measured at FVTPL). An impairment model based on the simplified approach permitted by IFRS 9 has been implemented for trade receivables. Specifically, they are divided into similar groupings based on the type of receivable, the customer's credit rating and the related geographical segment. To calculate the lifetime expected credit losses, the reference parameters (PD, LGD and EAD) were subsequently determined for each grouping based on the information obtained. For receivables due from customers with a high credit risk (speculative grade, non-investment grade or high yield) and/or with significant delays in payment, individual impairment losses are recognised in line with the parameters identified from time to time. For the other assets to be impaired, analyses were performed based on the general approach provided for by the standard, whereby a stage allocation was performed for the impaired items estimating the expected losses with the PD, LGD and EAD risk parameters. In this regard, the group uses the low credit risk exemption provided for in the standard whereby low-risk receivables (investment grade) are allocated directly in stage 1.

Equity

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within share premium.

Employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.
The group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Provisions for risks and charges

The group makes provisions for risks and charges in the following circumstances:

- it has a present obligation (legal or constructive) at the reporting date which will require an outflow of financial resources to settle past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation (best possible estimate of the future expenditure).

The amount recognised as a provision represents the best estimate of the expenditure required to settle the obligation existing at the reporting date.

When the effect of the time value of money is material and the payment dates of the obligation can be reliably estimated, the amount of the provision is equal to the pre-tax future cash flows (the expected expenditures) discounted using a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as financial expense in profit or loss.

Financial income and expense

The group's financial income and expense include:

- interest income;
- interest expense;
- the net gain or loss on financial assets at FVTPL;
- the exchange gain or loss on financial assets and financial liabilities;
- impairment losses (and gains) on investments in debt securities carried at amortised cost or FVOCI.

Interest income and expense are recognised using the effective interest method.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Income taxes

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.
Current taxes are calculated on the taxable profit for the period in accordance with the tax laws applicable to each consolidated company at the rates enacted at the reporting date. They are shown net of payments on account, withholdings and tax assets as current tax liabilities if the balance is negative, or as current tax assets if the balance is positive.

As the parent and consolidator, Salcef Group S.p.A. has set up a domestic tax consolidation scheme for IRES purposes with its subsidiaries Salcef S.p.A., Euro Ferroviaria S.r.l., RECO S.r.l., SRT S.r.l. and Overail S.r.l. The agreement has a three-year term from 2020 to 2022.

Deferred taxes are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax assets and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of the individual subsidiaries in the group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.
Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.
Deferred tax liabilities are calculated on all temporary differences between the tax base of an asset and its carrying amount (the liability method). Deferred taxes are calculated using the tax rates expected to be enacted in the years in which the temporary differences will be recovered or settled.
Current and deferred taxes are recognised in profit or loss, except for those related to items recognised directly in equity which are also accounted for directly in equity. Deferred tax assets and liabilities are not discounted.

Earnings per share

Basic and diluted earnings per share are shown at the foot of the income statement. Basic earnings per share are calculated by dividing the Salcef Group's profit or loss for the period by the weighted average of the ordinary shares outstanding in the period, excluding treasury shares. To calculate the diluted earnings per share, the profit or loss and the weighted average of the outstanding shares are adjusted assuming that all potential shares having dilutive effect are converted.

Fair value measurement

The group relies on observable market data to the greatest extent possible in measuring an asset or liability at fair value. Based on the observable significant inputs used in measurement, the assets and liabilities measured at fair value in the interim consolidated financial statements are measured and classified based on the fair value hierarchy established by IFRS 13:

- level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3 inputs: unobservable inputs for the asset or liability.

The classification of the entire fair value of an asset or liability is based on the hierarchy level corresponding to the lowest significant input used for the measurement.

Operating segments

Salcef Group has a single operating segment identified in accordance with IFRS 8 - Operating segments, which requires that segment information be reported consistently with the management approach used to make operating decisions. Consequently, the operating segment was identified based on the internal reporting system used by management to make resource-allocation decisions and to assess performance. Specifically, Salcef Group's operations comprise the supply of specialist integrated products and services in the construction, upgrade and maintenance of railway infrastructure with all-round expertise in the infrastructure and technology aspects.

From a strategic and organisational point of view, the group's chief operating decision maker plans the medium/long-term strategic objectives for the railway sector consistently, takes resource-allocation decisions and monitors the results. In this respect, the group has a single chief operation officer (reporting directly to the CEO) who is responsible for defining the strategic lines, including new investments, the operating activities for the entire production chain and managing the business units. The group also has a single chief commercial officer who is responsible for the commercial management of all group companies and business units and for overseeing the entire commercial and development process both in Italy and abroad.

The group's business units represent the operating divisions which manage the main stages of the production process, which consist of the operational design, production and supply of railway materials (e.g., sleepers and prefabricated systems), the construction of machinery (e.g., track-laying trains and rolling stock) and the construction and maintenance of permanent way systems, related infrastructure works and electrical traction systems. These operating divisions all contribute to the provision of integrated services for the construction and maintenance of railway infrastructure and, therefore, have similar economic characteristics in terms of customer type (mainly national and foreign railway infrastructure operators), the nature of their products and services (integrated solutions for the renewal, maintenance and construction of railway infrastructure), the related production processes, the reference regulatory context and the methods used to develop these products/services. Although the revenue and profit margins of each operating division are calculated and periodically reviewed by group management, these actions are carried out to monitor the performance of the common strategy defined by the entity's chief operating decision maker.

Based on the above and in compliance with the criteria set by IFRS 8, the Salcef Group's business model has a single operating segment, as strategies, processes, resources and technologies are shared across the various business units.

Changes in accounting policies, errors and changes in accounting estimates

The group only changes an accounting policy if the change is required by an IFRS or it results in the financial statements providing more reliable and more relevant information about the effects of transactions on the group's financial position, financial performance and cash flows.
Changes in accounting policies are applied retrospectively and the group adjusts the opening balance of the affected component of equity for the earliest prior period presented. The other comparative amounts disclosed for each prior period presented are adjusted as if the new accounting policy had always been applied.

The prospective approach is only applied when it is impracticable to reconstruct the comparative information.
Application of a new or amended IFRS is recognised as required by the standard. If the standard does not include specific transitional provisions, the change is recognised retrospectively or, if impracticable, prospectively. The group treats material errors in the same manner as changes in accounting policies described above. Immaterial errors are corrected in profit or loss in the year in which the error is identified.
The effect of a change in an accounting estimate is recognised prospectively by including it in profit or loss in the period of the change if the change affects that period only, or the period of the change and future periods, if the change affects both.

Use of estimates

Preparation of this interim consolidated financial statements in accordance with the IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, costs and revenue and disclosures. Estimates are based on the most recent information available to management when preparing the interim consolidated financial statements at 30 September 2020.
The accounting policies and the financial statements captions that required a higher degree of judgement in making estimates are as follows:

- Goodwill: goodwill is tested for impairment annually (or more frequently if there are impairment indicators) in order to determine whether an impairment loss is to be recognised in profit or loss. Specifically, impairment testing involves determining the recoverable amount of the CGUs to which goodwill is allocated by estimating their value in use or fair value less costs to sell. Calculating the recoverable amount of the CGUs involves the use of estimates that depend on factors that may change over time, with potentially significant effects on the valuations made by management.
- Contract assets and contract liabilities: in measuring contract assets and liabilities, the group determines whether revenue is to be recognised over time or at a point in time and estimates the percentage of completion based on the actual progress of the work performed. Furthermore, any

additional consideration for variations, price revisions, incentives and claims above those contractually agreed are estimated, as well as the plans of contracts from which provisions for onerous contracts may arise.

- Purchase price allocation: as part of business combinations, in exchange for the consideration transferred to obtain control of a company, the identifiable assets acquired and liabilities assumed are recognised in the consolidated financial statements at the acquisition-date fair value, based on a purchase price allocation process. During the measurement period, management calculates these fair values based on estimates about the information available about all facts and circumstances that existed as of the acquisition date that would have affected the measurement of the amounts recognised as of that date.
- Impairment of non-current assets: property, plant and equipment and intangible assets with a finite useful life are tested for impairment. Any impairment losses are to be recognised when there are elements indicating that there may be difficulties in recovering the assets' carrying amount through use. Impairment testing requires management to make subjective assessments based on information available within the group and the market and on historical experience. In addition, a potential impairment loss is determined using appropriate valuation techniques. The correct identification of the elements indicating potential impairment and the estimates to calculate it depend on factors that may vary over time influencing management valuations and estimates.
- Fair value measurement: when measuring the fair value of an asset or a liability, the group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as described in the Fair value measurement section.
- Measurement of lease liabilities: this is affected by the lease term, being the non-cancellable contract period, to which both of the following periods should be added: (a) periods covered by extension options, if the lessee is reasonably certain to exercise the options; and (b) periods covered by the option to terminate the lease early, if the lessee is reasonably certain that it will not exercise the option. Assessing the lease term involves the use of estimates that depend on factors that may change over time with potentially significant effects compared to the assessments made by management.
- Measurement of the loss allowances for expected credit losses: in the event of impaired positions (customers with high credit risk or significant past due amounts), the group tests them individually using historical experience in order to estimate the expected losses on these positions. Estimates and assumptions are reviewed periodically and the effects of each change are reflected in profit or loss.
- Measurement of defined benefit plans: actuarial valuations require the development of various scenarios that may differ from actual future developments. The results depend on the technical

parameters adopted including, *inter alia*, the discount rate, the inflation rate, the rate of wage increases and expected turnover. All assumptions are reviewed annually.

Actual results may differ from those reported in this interim consolidated financial statements due to the uncertainty that characterises the assumptions on which the estimates are based. Estimates and assumptions are periodically reviewed and the effects of any changes are reflected in the period of change.

New standards and interpretations

At the date of approval of this interim consolidated financial statements, the IASB has issued reporting standards, interpretations and amendments, some of which are still at the consultation phase, which have not yet been endorsed by the European Union. These include:

- The IASB published IFRS 17 - Insurance Contracts, which replaces IFRS 4, on 18 May 2017. The aim of this new standard is to increase transparency on the sources of income and on the quality of the profits realised and to ensure results are highly comparable, introducing a single revenue recognition principle which reflects the services provided. Moreover, on 25 June 2020, the IASB published Amendments to IFRS 17, which includes some amendments to IFRS 17 and the postponement of the standard's enactment until 1 January 2023. At the reporting date, the endorsement process is still underway.
- On 23 January 2020, the IASB published some amendments to IFRS 1. Presentation of Financial Statements: Classification of Liabilities as Current or Non-current provides that a liability is classified as current or non current based on rights existing at the reporting date. It also establishes that the classification is not impacted by an entity's expectation of whether it will exercise its rights to postpone settlement of the liability. It also clarifies that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments apply to financial statements for annual periods beginning on or after 1 January 2022. Earlier application is permitted and the endorsement process is still underway.
- On 14 May 2020, the IASB published Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements to IFRS Standards 2018–2020 with the aim of making specific narrow-scope amendments to these standards. The amendments apply to financial statements for annual periods beginning on or after 1 January 2022. The endorsement process is still underway.
- On 28 May 2020, the IASB published Covid-19-Related Rent Concessions - Amendment to IFRS 16 Leases. It includes a voluntary practical expedient to simplify the assessment by lessees of the rent concessions obtained following the Covid-19 pandemic. The expedient is not available to lessors. The amendments to IFRS 16 apply to annual periods beginning on or after 1 June 2020 and earlier application is permitted (including in interim financial statements) that have not yet been authorised for publication. The endorsement process is still underway and is expected to be completed in the next few months.
- On 25 June 2020, the IASB published Amendments to IFRS 4 Contracts – deferral of IFRS 9 with the aim of clarifying certain application aspects of IFRS 9 pending the definitive application of IFRS 17. The amendments apply to financial statements for annual periods beginning on or after 1 January 2021. The EU endorsement process is expected to be completed during 2020.

The impacts that reporting standards, amendments and interpretations that will be enacted in the near future could have on the group's financial reporting are being examined and evaluated.

Significant non-recurring events and transactions

The group did not undertake atypical or unusual transactions during the period.
Conversely, non-recurring transactions include the acquisition of Delta Railroad Construction Inc., described above, which had an impact on Salcef Group's financial position and financial performance in terms of higher goodwill of €17,860 thousand, higher identifiable net assets of €17,256 thousand and a group's share of Delta's profit of €213 thousand.

Events after the reporting period

No events have taken place since the date of preparation of this additional financial information that would have a significant impact on the group's financial position at 30 September 2020 or its financial performance and cash flows for the nine months then ended.
On 5 October 2020, at their ordinary and extraordinary meeting, the parent's shareholders approved the application to list the parent's ordinary shares and warrants (the financial instruments) on the STAR segment of the Italian Stock Exchange (MTA) organised and managed by Borsa Italiana S.p.A., and the application to CONSOB for the authorisation to publish the prospectus, approving the consequent request to withdraw the parent's financial instruments from trading on the AIM Italia, subject to the successful completion of the admission procedure on the MTA.
In view of the expected authorisation to trade the parent's financial instruments on the MTA, at their ordinary meeting, the shareholders resolved that should its financial instruments be admitted for trading on the MTA, the number of the parent's directors would be increased by two to nine, thus bringing the number of independent directors to three.
Again for listing purposes, KPMG S.p.A. has been engaged to audit the parent's financial statements for a nine-year period based on the board of statutory auditors' reasoned proposal, after terminating the existing engagement. The effectiveness of this resolution is subject to the condition precedent that trading of the parent's shares and warrants on the MTA would be authorised.
During the extraordinary part of their meeting, the shareholders resolved to give the board of directors the power, pursuant to article 2443 of the Italian Civil Code, to increase the share capital against payment, in one or more tranches, with or without warrants, and also to service the exercise of warrants for a maximum of €50,000,000, including share premium, by and no later than 4 October 2025.
Furthermore, the shareholders resolved to adopt a new text of the by-laws pursuant to the provisions of Legislative decree no. 58/1998 for companies with shares listed on regulated markets subject to the condition precedent that trading of the parent's shares would be authorised.
On 16 October 2020, the Salcef Group signed a €18 million contract for the performance of renovation works on the Cairo - Alexandria line.

Specifically, Salcef S.p.A. will carry out renewal works on Egypt's main freight corridor, the railway line linking the port of Alexandria to the capital, as subcontractor for Rowad Modern Engineering, an Elsewedy Group company.
This project is part of a series of works aimed at modernising the existing rail network, commissioned in 2019 by the Egyptian National Railways.
The contract involves the most important stations in the country (Alexandria, Cairo and Banha), and includes multiple works, with the renewal of 46 km of track and 229 turnouts, and the installation of 33 turnouts and 4,000 glued isolated joints.
Renewal work will be carried out during nighttime track possession. The size and nature of the work makes it particularly complex and it is vital that such a strategically important supply line for the country is reopened to rail traffic promptly
Salcef was awarded the contract due to its expertise in the railway infrastructure sector and previous successful experience in the country, in particular the 290 km track renewal on the Cairo-Aswan railway line, the oldest ever built in Africa.

Finally, in October 2020, 416,434 additional conversion warrants were exercised and, consequently, 97,484 ordinary shares were subscribed for a total of €9,748.40.
At 31 October 2020, there were 8,245,043 outstanding warrants, while the remaining new outstanding warrants numbered 7,312,235.

CEO
(Valeriano Salciccia)

Pursuant to article 154-bis.2 of the Consolidated Finance Act, the manager in charge of financial reporting, Fabio De Masi, states that the accounting disclosure included in this additional financial information is consistent with the supporting documentation, ledgers and accounting records.

CFO
(Fabio De Masi)

SALCEF GROUP