(The accompanying translated consolidated and separate financial statements constitute non-official versions which are not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. These independent auditors' reports have been translated into English solely for the convenience of international readers. Accordingly, only the original Italian versions are authoritative.)

Salcef Group

Consolidated and separate financial statements as at and for the year ended 31 December 2021

(with independent auditors' reports thereon)

KPMG S.p.A.

31 March 2022

SALCEF GROUP

2021 ANNUAL REPORT

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

Salcef Group holding company

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

Tax code 08061650589 | VAT no. 01951301009

www.salcef.com

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01 INTRODUCTION

Letter to the shareholders

Dear shareholders

Our group performed extremely well in 2021, achieving important corporate, commercial and operating milestones despite the continuing social and economic upheaval caused by the Covid-19 pandemic.

Investors showed their confidence in our projects and strategies on many occasions during the year, contributing to Salcef's significant market capitalisation. After the conversion of more than 98% of the roughly 15 million outstanding warrants and the capital increase of 30 September, the company's share capital has increased from €62.1 million at the end of 2020 to €144.5 million at 31 December 2021, an injection of over €79 million to drive the group's future growth. In addition, with the conversion of the performance and special shares, completed on 15 January 2022, we have simplified Salcef's capital structure, as it now only has listed ordinary shares.

Looking to the railway infrastructure sector, our core business, governments rolled out investment plans during the year drawing on the resources made available to recover from the wounds inflicted on the economy by the pandemic. These should pave the way for a radical change in sustainable mobility. The Italian government approved the National Recovery and Resilience Plan in July with an envelope of €28 billion under Mission 3 "Infrastructure for sustainable mobility" to be invested in developing the railway infrastructure before 2026. The Bipartisan Infrastructure Deal brokered by the US government also encompasses sizeable resources of more than USD100 billion for the national and local railway transport sector. Then, in Germany, Deutsche Bahn is already engaged in a ten-year €86 billion plan ending in 2030. Indeed, in May 2021, we completed the acquisition of the Bahnbau Nord GmbH Group active in the construction and maintenance of railway permanent way systems and other railway businesses. Thanks to this transaction, we have strengthened our foothold in the German market and will be in a position to benefit from the grouping of all our operations in this country under the sub-holding company Salcef Deutschland GmbH (which took place in December).

All our key economic and financial indicators improved in 2021. As a result of both organic growth (17.8%) and the contribution of the recently acquired companies, especially Delta Railroad Construction, acquired in September 2020, in particular, the group's revenue grew 29.3% to €440.1 million in 2021. EBITDA increased by more than 23%, equal to 22.11% of revenue, driven by the different geographical mix and the initial effects of rising inflation. Our net financial position was €114.6 million at year end, mostly thanks to the above-mentioned share conversions, while our order backlog reached a record-breaking level of over €1.2 billion. Achievement of these results was assisted by the renewal of the master agreement with Rete Ferroviaria Italiana ("RFI") worth approximately €620 million in June and the signing of a contract with the IRICAV consortium in the last quarter of the year. This contract for roughly €148 million covers infrastructure works and the railway permanent way systems for the HS/HC Verona - Padua railway line.

To reiterate our commitment as a key player in the development of sustainable mobility infrastructure, we invested around €45 million (+36% on 2020) in 2021, including roughly €25 million in maintaining our fleet and the other approximate €20 million (the most ever in our life) in growing our business, by both producing and developing new machinery and products, mainly for the railway materials business. We will continue this journey and to focus on upskilling and reskilling our highly specialised resources as well as searching for potential external growth opportunities at home and abroad to build the Salcef Group of the future, convinced of the positive social and environmental effect our activities have on local communities.

Gilberto Salciccia
(Chairperson of the board of directors)

Salcef Group

Parent details

Salcef Group S.p.A.

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

Fully paid-up share capital €141,544,532.20

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

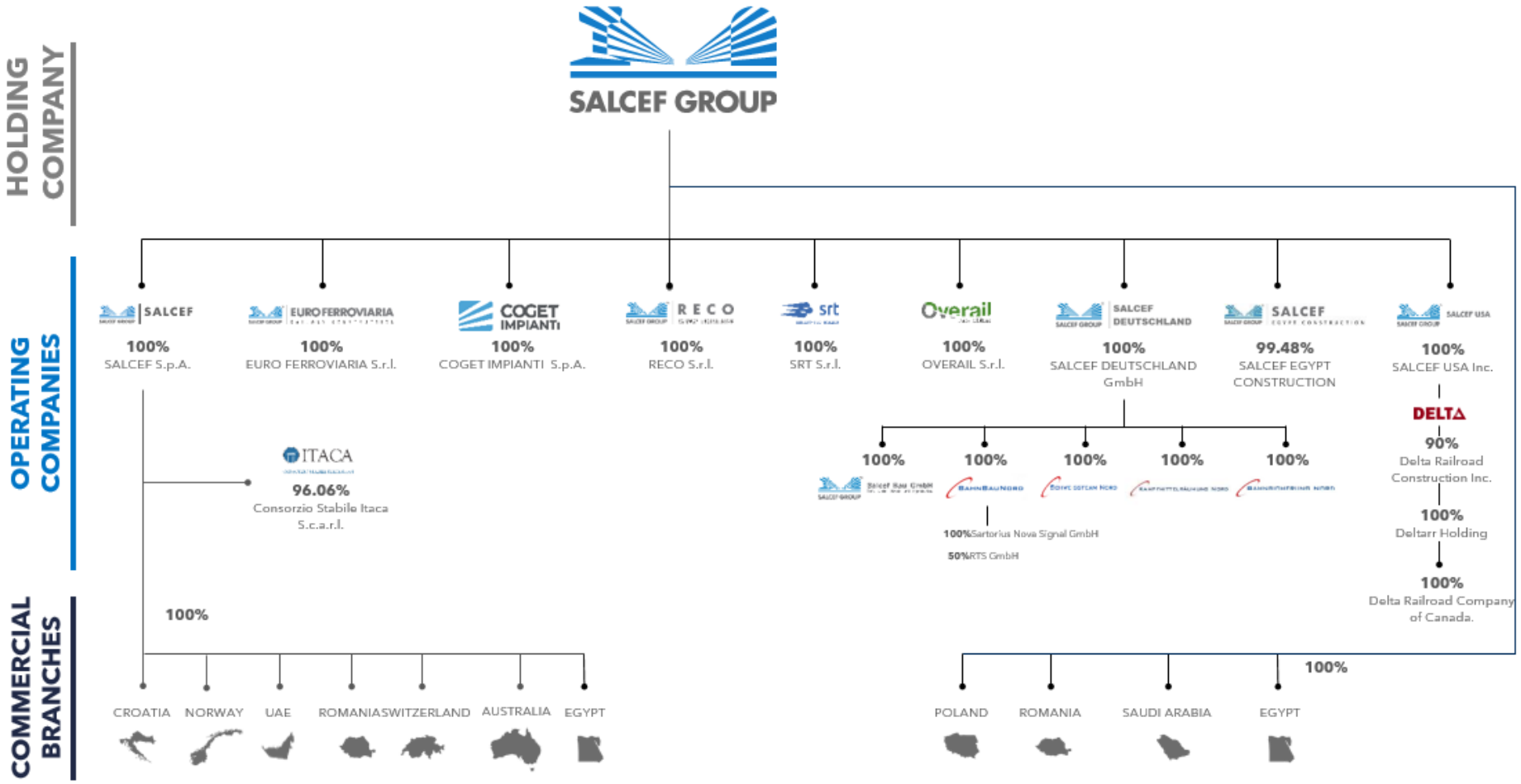
Tax code 08061650589 | VAT no. 01951301009

www.salcef.com

Company officers

Board of directors *appointed by the shareholders on 14 October 2019 and subsequently integrated on 5 October 2020. In office up until the date of the shareholders' meeting called to approve the separate financial statements as at and for the year ended 31 December 2021.*	Chairperson	Gilberto Salciccia
	CEO	Valeriano Salciccia
	Director	Alessandro Di Paolo
	Director	Giovanni Cavallini
	Director	Attilio Francesco Arietti
	Director	Germano Maiolini
	Director (independent)	Bruno Pavesi
	Director (independent)	Valeria Conti
	Director (independent)	Emilia Piselli
Remuneration and appointment committee	Chairperson	Emilia Piselli
	Member	Bruno Pavesi
	Member	Attilio Francesco Arietti
Audit and risk committee	Chairperson	Valeria Conti
	Member	Emilia Piselli
	Member	Bruno Pavesi
Related parties committee	Chairperson	Bruno Pavesi
	Member	Emilia Piselli
	Member	Valeria Conti
Board of statutory auditors *appointed by the shareholders on 5 April 2019 and subsequently integrated on 14 October 2019 and 5 October 2020. In office up until the date of the shareholders' meeting called to approve the separate financial statements as at and for the year ended 31 December 2021.*	Chairperson	Daniela Lambardi
	Standing auditor	Giovanni Bacicalupi
	Standing auditor	Roberto Schiesari
	Alternate auditor	Ivano Pelassa
	Alternate auditor	Federico Ragnini
Manager in charge of financial reporting	Fabio De Masi	
Independent auditors *appointed for the 2020/2028 nine-year period by the shareholders at their ordinary meeting of 5 October 2019.*	KPMG S.p.A.	

Group structure



02 DIRECTORS' REPORT

General information

Sacef Group S.p.A. (the "parent") has prepared this directors' report to accompany both its separate financial statements and the consolidated financial statements of the Salcef Group, both of which are prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission. It provides information on the results and performance updated to 31 December 2021 of the Salcef Group (as defined later) and the parent and significant events in the reporting period.

This report should be read alongside the financial schedules and notes, which constitute the consolidated and separate financial statements as at and for the year ended 31 December 2021.

The consolidated financial statements as at and for the year ended 31 December 2021 include the financial statements of Salcef Group S.p.A. and those of its subsidiaries (collectively, the "Salcef Group" or the "group"). Salcef Group S.p.A.'s board of directors approved these consolidated financial statements and authorised them for publication on 16 March 2022.

Salcef Group S.p.A.'s shares are traded on Euronext STAR Milan, the regulated market organised and managed by Borsa Italiana S.p.A.. It is the parent of a group of specialist companies active in the design, construction and maintenance of systems for railway infrastructure and tram and metro networks in Italy and abroad. The Salcef Group provides specialised and integrated services deploying its cutting-edge expertise in structural, civil and technological components. Its core business is the maintenance of railway systems, electrical traction, signalling systems, high, medium and low voltage electricity supply networks. With over 70 years of experience, the group leads the domestic market.

The group is also active in: (i) the production and supply of machinery for the construction and maintenance of railway infrastructure; (ii) the production and supply of railway materials; and (iii) construction of multidisciplinary railway works (i.e., contracts covering several areas of specialisation, such as the railway tracks, buildings, platforms, underpasses and other railway infrastructure) and engineering services and rolling stock leases.

At the date of preparation of this annual report, Finhold S.r.l. (the "ultimate parent") holds the absolute majority of Salcef Group S.p.A. shares but does not manage or coordinate it.

On 6 October 2020, in accordance with articles 70.8 and 71.1-bis of the Issuers' Regulation, Salcef Group S.p.A.'s board of directors resolved to opt out of publishing the disclosures required by Annex 3B to the Issuers' Regulation for significant mergers, demergers, share capital increases through contribution in kind, acquisitions and sales.

Group operations

The group is active in the design, construction and maintenance of systems for railway infrastructure and tram and metro networks in Italy and abroad. It builds infrastructure to connect geographical areas and facilitate the movement of goods and people drawing on its specific know-how and equipment. The group provides specialist and integrated services deploying its cutting-edge expertise in structural, civil and technological components.

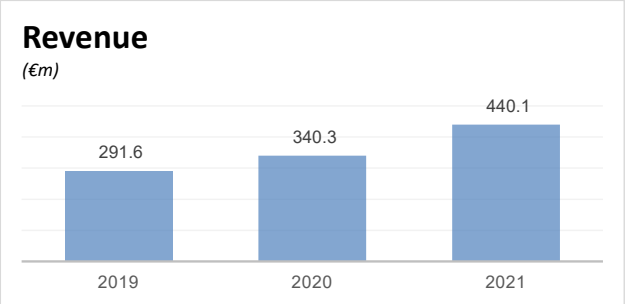
Its core business is the maintenance of railway systems, electrical traction, signalling systems, medium, high and very high voltage electricity supply networks. With over 70 years of experience, the group leads the domestic market.

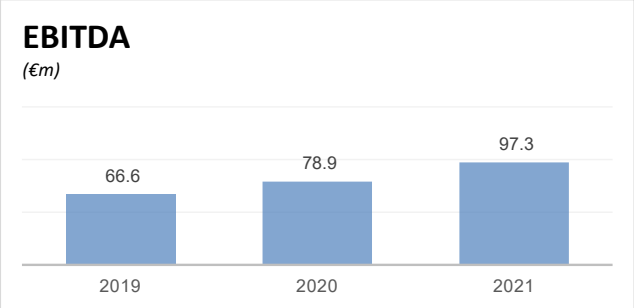
Supporting its core business, the group is also active in:

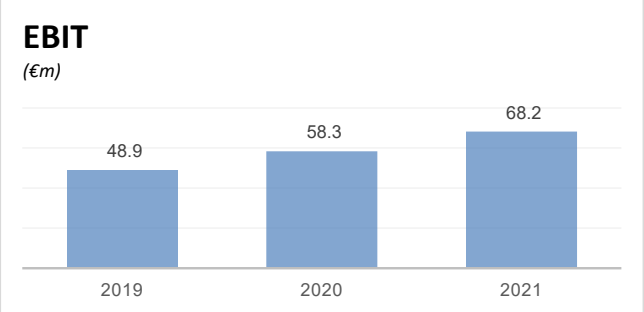
- the production and supply of machinery for the construction and maintenance of railway infrastructure;
- the production and supply of railway materials;
- the construction of multidisciplinary railway works, i.e., contracts covering several areas of specialisation (e.g., railway tracks, buildings, platforms, underpasses and other railway infrastructure); and
- engineering services.

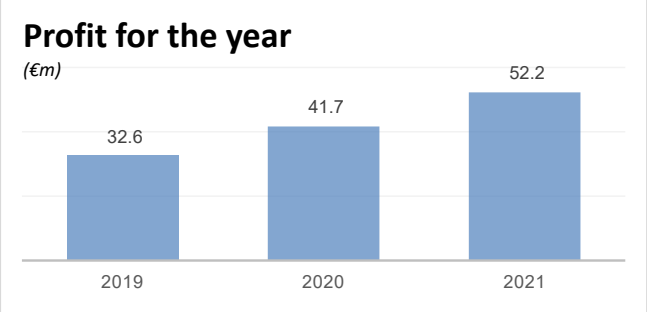
Through its subsidiaries and foreign branches, the group has a footprint in four continents: its main market is Western Europe, led by Italy although the group also has operating units in Germany, Romania, the US, Canada, the Middle East (UAE, Saudi Arabia and India) and Africa (Egypt) as well as other branches in Australia, Switzerland, Poland, Croatia and Norway.

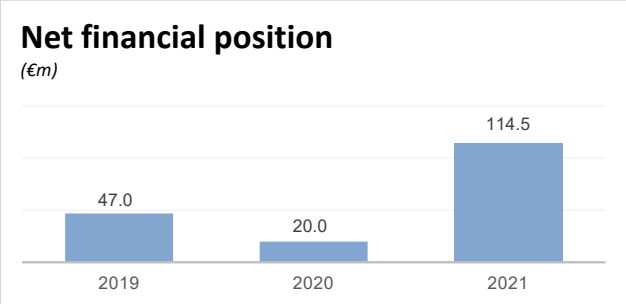
Highlights

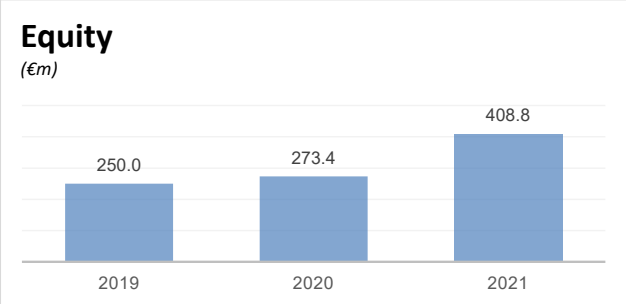

Revenue
(€m)
291.6
340.3
440.1
2019
2020
2021


EBITDA
(€m)
66.6
78.9
97.3
2019
2020
2021


EBIT
(€m)
48.9
58.3
68.2
2019
2020
2021


Profit for the year
(€m)
32.6
41.7
52.2
2019
2020
2021





The profit for 2019, 2020 and 2021 has been adjusted to exclude the effect of the changes in fair value of the additional conversion warrants on financial expense and, solely for 2020 and 2021, the effect on income taxes of the recognition/reversal of deferred tax assets on the fiscally-driven revaluations. Equity at 31 December 2019, 2020 and 2021 has been adjusted to exclude the effects of recognising the additional conversion warrants in 2019 and 2020 and the effect of deferred tax assets on fiscally-driven revaluations in 2020 and 2021. The group's net financial debt at 31 December 2019 and 2020 has been adjusted to exclude the financial liability for the fair value loss on the additional conversion warrants. This financial liability was extinguished at 31 December 2021 after the conversion or expiry of all the warrants.

More information on the construction of the alternative performance indicators presented in the graphs is provided in the next section.

Financial figures and key performance indicators - group

Group results

Salcef Group management assesses the group's performance using certain measures not provided for by the IFRS. Although they are derived from the consolidated financial statements, they cannot be considered as substitutes of the IFRS indicators. Group management constructs the following alternative performance measures using the historical figures and they only relate to the reporting period covered by this report and the previous comparative period. They are not representative of the group's future performance.

Reclassified income statement

(€'000)

	2021	2020	Variation
Revenue	440,141	340,285	99,856
Production costs	(356,626)	(268,704)	(87,922)
Other operating costs	(9,840)	(9,458)	(382)
Internal work capitalised	23,636	16,806	6,830
EBITDA (Gross operating profit)	**97,312**	**78,929**	**18,383**
Amortisation, depreciation and impairment losses	(27,363)	(20,373)	(6,990)
Impairment losses	(1,780)	(230)	(1,550)
EBIT (Operating profit)	**68,168**	**58,326**	**9,842**
Financial income	3,375	1,833	1,542
Adjusted financial expense*	(1,473)	(3,860)	2,387
Adjusted pre-tax profit*	**70,071**	**56,299**	**13,772**
Adjusted income taxes**	(17,843)	(14,630)	(3,213)
Adjusted profit for the year*	**52,227**	**41,669**	**10,558**
* Net fair value losses on warrants	(9,737)	(16,117)	6,380
** Reversal of deferred tax assets on revaluation	(3,148)	15,723	(18,871)
Profit for the year	**39,342**	**41,275**	**(1,933)**

Key performance indicators

(€'000)

	2021	2020
EBITDA margin	22.11%	23.19%
EBIT margin	15.49%	17.14%

EBITDA: Operating profit before depreciation, amortisation and impairment losses
EBIT: Pre-tax profit before net financial income (expense)

Key financial indicators

(€'000)

	31.12.2021	31.12.2020
NFP	114,547	19,955 (*)
Adjusted equity	408,798	273,420

(*) the NFP at 31 December 2020 was adjusted to exclude the financial liability for outstanding warrants at that date. The financial liability was released at 31 December 2021 after the conversion/expiry of all the warrants.

Description of the alternative performance measures

Where applicable, the alternative performance measures are presented in accordance with the ESMA Guidelines (Reference 2015/1415) as acknowledged by Consob (the Italian Commission for listed companies and the stock exchange) communication no. 0092543 of 3 December 2015. In accordance with these documents, the criteria used to construct these measures are presented below:

- EBITDA is calculated by adjusting the profit or loss for the year to exclude taxation, net financial expense and amortisation, depreciation and impairment losses;
- EBIT is calculated by adjusting the profit or loss for the year to exclude taxation and net financial expense;
- adjusted pre-tax profit or loss is calculated by adjusting the profit or loss for the year to exclude taxation and other amounts, such as fair value gains and losses on the additional conversion 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;
- adjusted profit or loss is calculated by adjusting the profit or loss for the year to exclude other amounts, such as fair value gains and losses on the additional conversion 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, and the tax impact of the reversal of deferred tax assets recognised on revaluations, as detailed further on;
- the EBITDA margin is calculated as the ratio of EBITDA (as identified above) to total revenue;
- the EBIT margin is calculated as the ratio of EBIT (as identified above) to total revenue;
- the adjusted net financial position is calculated by deducting 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 year end recognised at fair value in compliance with the IFRS, as described later on in this report. The fair value measurement relates only to the "additional conversion" warrants classified as financial liabilities in accordance with the IFRS; it does not relate to the "new" warrants issued by Salcef Group S.p.A., which are classified as equity instruments. Moreover, both the "new" and "additional conversion" warrants are no longer outstanding at the reporting date since the attached acceleration conditions provided for by their regulations were met, triggering their conversion into the parent's ordinary shares or the expiry of any related rights that remained unexercised within the terms provided for by their respective regulations;
- adjusted equity is calculated by deducting the fair value gains and losses on warrants issued by Salcef Group S.p.A. and the tax impact of the reversal of deferred tax assets recognised on revaluations, as detailed further on, from equity.

These measures reflect the group's financial performance net of non-recurring events and events unrelated to the core business to allow a more consistent analysis of the group's performance with previous periods.

Comments on the group's 2021 performance

In 2021, the group recognised revenue of €440,141 thousand, up €99,846 thousand (+29.3%) on the previous year's figure of €340,285 thousand. This upturn is the result of various factors such as: (i) the revenue of the subsidiary Delta Railroad Construction Inc. ("Delta") for the entire year (as it was acquired in September 2020, it had only contributed to that year's results for a few months); (ii) the acquisition of the Bahnbau Nord Group at the end of May 2021; (iii) the Salcef Group's organic growth.

EBITDA reflects the increase in volumes and came to €97,312 thousand, an €18,383 thousand (+23.3%) increase over the €78,929 thousand of 2020. The EBITDA margin (EBITDA/revenue) was 22.11%, a 1.08 p.p. decrease over the previous year, mainly due to the different revenue mix as a result of the change in the consolidation scope. The EBITDA for the year was also impacted, albeit marginally, by the rise in the cost of certain raw materials used mainly by the subsidiaries Overail and SRT (principally seen in the last quarter of the year after utilisation of stocks) and the accrual for the management incentive plan bonus (€1,263 thousand).

EBIT came to €68,168 thousand, a €9,842 thousand increase (+16.9%) over the €58,326 thousand of 2020. It includes both higher depreciation following the roll-out of new plant and machinery which the group had invested in previously and impairment losses on specific assets recognised in the year and not attributable to recurring events. Consequently, the EBIT margin decreased on 2020 (-1.65 p.p.).

The adjusted profit for the year was €52,227 thousand, compared to €41,669 thousand for 2020. The profit for the year reflects the fair value losses on additional conversion warrants of €9,737 thousand recognised from 1 January 2021 to the warrants' extinguishment. Indeed, as better detailed in the "Key events of the year" section, since the acceleration condition was met, these warrants were either converted or expired for not being exercised before the term provided for by their regulation.

The additional conversion warrants were classified as financial liabilities in accordance with IAS 32. They were considered equity solely for tax purposes. On this basis, the liability recognised as a balancing entry to the equity reserve and the fair value gains and losses on the additional conversion warrants with an impact on profit or loss cannot be recognised for tax purposes. Therefore, not even the extinguishment of the liability when the warrants were converted generated a tax impact for the parent.

The effect of the tax treatment of the additional conversion warrants led to a smaller tax loss for the parent than it would have had if the accounting effects of the additional conversion warrants had been relevant for tax purposes.

The profit for 2021 was also impacted by the tax expense (€3,148 thousand) deriving from the release of the deferred tax assets recognised at 31 December 2020 (€17,550 thousand) to offset the lower taxes recognised by the subsidiaries that revalued assets in their respective financial statements at 31 December 2020.

Specifically, the subsidiaries Salcef S.p.A., Euro Ferroviaria S.r.l. and Overail S.r.l. - which prepare their financial statements in accordance with OIC - revalued their assets in accordance with the "August Decree" in their financial statements at 31 December 2020 and decided to apply the substitute tax scheme, equal to 3% of the net balance of the revaluation, in order to apply the revaluation for tax purposes. This revaluation was reversed for consolidation purposes, but retained full effect for tax purposes.
Accordingly, the tax value of the assets revalued in the subsidiaries' financial statements is higher than their carrying amount in the Salcef Group's consolidated financial statements. This difference led to the recognition of deferred tax assets (IRES - corporate income tax and IRAP - regional productivity tax) in the consolidated financial statements at 31 December 2020 in accordance with IAS 12. The deferred tax assets will reverse starting from 2021 and in subsequent years when the subsidiaries that applied the revaluation fully deduct the greater depreciation arising from the revaluation in the calculation of current taxes (IRES and IRAP), while such greater depreciation is reversed in the Salcef Group's consolidated financial statements (see note 7 to the consolidated financial statements).

In the statement of financial position as at 31 December 2021, both net financial position and equity reflect the following transactions carried out during the year: (i) the treasury share purchases totalling €4,753 thousand, (ii) the warrants exercised which led to a capital increase of €74,638 thousand, (iii) the distribution of dividends of €21,314 thousand and (iv) the capital increase of €32,000 thousand, of which €4,800 thousand to increase share capital and €27,200 thousand as the share premium (less transaction costs of €653 thousand recognised in an equity reserve) reserved for qualified investors and approved by the board of directors on 30 September 2021, in accordance with the powers given thereto by the shareholders during their extraordinary meeting of 5 October 2020.

The share capital at 31 December 2021 amounts to €141,544,532.20 and is fully paid up at the date of approval of this report.
The parent's share capital increased during the year, as a result of: (i) the capital increase approved on 30 September 2021, carried out through an accelerated bookbuild offering, leading to the issue of 2,000,000 ordinary shares with a unit price of €16.00; (ii) the conversion of 7,087,216 "new" warrants, including 2,833,384 by the majority shareholder, Finhold S.r.l., and (iii) the conversion of 7,831,288 additional conversion warrants. This further increased Salcef Group S.p.A.'s equity, as it received additional capital of €79,438,367.70, which it can earmark for growth and development plans in the railway industry in Italy and abroad.
Considering the aforesaid capital increase and conversions of warrants and that:

- on 3 May 2021, in accordance with article 7.4.c.i of the by-laws, the condition for the automatic conversion of 416,667 performance shares into 2,083,335 ordinary shares was met (detailed in the section on key events of the year);

- on 17 May 2021, in accordance with article 7.4.c.ii of the by-laws, the condition for the automatic conversion of 416,667 performance shares into 2,083,335 ordinary shares was met (detailed in the section on key events of the year);
- on 17 May 2021, in accordance with article 7.5.e.i of the by-laws, the condition for the automatic conversion of 100,000 special shares into 700,000 ordinary shares was met (detailed in the section on key events of the year);

the parent's share capital amounts to €141,544,532.20 at 31 December 2021 and is fully paid up. It consists of 58,912,624 shares without a nominal amount, divided into the following categories:

a) 58,117,729 ordinary shares;

b) 641,044 performance shares, all held by Finhold S.r.l.;

c) 153,851 special shares, all held by the promoters of Industrials Stars of Italy 3.

On 15 January 2022 (as described in the section on events after the reporting date), 641,044 performance shares were converted into 3,205,220 ordinary shares and 153,851 special shares were converted into 1,076,957 ordinary shares. These conversions did not affect share capital which comprised 62,399,906 ordinary shares, all without a nominal amount, at the reporting date.

As a result of the above, Finhold S.r.l.'s investment in Salcef Group S.p.A. decreased from 71.95% at 31 December 2020 to 64.77%, with the same percentage of voting rights.

The table below provides a breakdown of the net financial position at 31 December 2021 and 31 December 2020. The group has applied the new presentation method for net financial position following the publication of the ESMA Guidelines dated 4 March 2021 and Consob warning notice no. 5/21 of 29 April 2021, in which it acknowledges the ESMA Guidelines and states that references to the CESR Recommendations on prospectuses contained in previous communications shall be replaced with the ESMA Guidelines, including the references contained in communication no. DEM/6064293 of 28 July 2006 on net financial position.

(€'000)

NET FINANCIAL POSITION	31.12.2021	31.12.2020	Variation
(A) Cash	166,176	63,199	102,977
(B) Cash equivalents	0	0	0
(C) Other current financial assets	101,588	65,362	36,226
(D) Cash and cash equivalents (A + B + C)	**267,764**	**128,561**	**139,203**
(E) Current financial debt *	(5,976)	(25,618)	19,642
(F) Current portion of non-current financial debt	(61,697)	(54,922)	(6,775)
(G) Current financial debt (E + F)	**(67,673)**	**(80,540)**	**12,867**
(H) Net current financial position (G + D)	**200,091**	**48,021**	**152,070**
(I) Non-current financial debt	(85,544)	(47,340)	(38,204)
(J) Debt instruments	0	0	0
(K) Trade payables and other non-current financial liabilities	0	0	0
(L) Non-current financial debt (I + J + K)	**(85,544)**	**(47,340)**	**(38,204)**
(M) Net financial position (H + L) **	**114,547**	**681**	**113,866**
(N) Adjustment for other financial liabilities - warrants	0	19,274	(19,274)
(O) Adjusted net financial position (M + N)	**114,547**	**19,955**	**94,592**

(*) the comparative figure includes the financial liability for the warrants referred to in letter N

(**) net financial position calculated as per Consob communication no. 6064293 of 28 July 2006 and in compliance with ESMA Guidelines of 4 March 2021

The group has a net financial position (i.e., liquidity greater than financial debt) of €114,547 thousand at year end compared to an adjusted €19,955 thousand at 31 December 2020.

It includes a five-year, €30,000 thousand "S-Loan" with Intesa Sanpaolo S.p.A.. The loan is backed by the SACE S.p.A. green guarantee and involves the identification and monitoring of certain ESG performance indicators, improvements in which may decrease the interest rate.

Current financial debt at 31 December 2020 included the additional conversion warrants amounting to €19,274 thousand, calculated on the basis of their fair value at initial recognition at their date of issue (8 November 2019), subsequently adjusted to their fair value at 31 December 2020, considering the conversions carried out in that year. The financial liability for additional conversion warrants changed during 2021, as a result of their conversion and fair value gains and losses. Since the acceleration condition, as better specified later on, was met during the period, they were subsequently fully extinguished or expired. Accordingly, the financial liability for additional conversion warrants is nil at the reporting date.

The additional conversion warrants were settled through the issue of ordinary shares of Salcef Group S.p.A. upon conversion, derecognising the financial liability as an increase in equity, without generating an outflow of cash for the group.

The net fair value losses on warrants recognised in the income statement as a financial expense came to €9,737 thousand in 2021. As stated earlier, they were not included in the calculation of the adjusted pre-tax profit or the adjusted profit for the year.

The net financial position at 31 December 2021, determined considering bank loans and borrowings and loans and borrowings from other financial backers, net of cash and cash equivalents and securities, is €125,370 thousand.

Order backlog

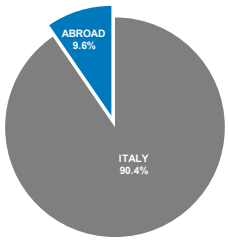
The group's order backlog represents the value of all its contracts with customers leading to obligations for both sides to fulfil their part of the contract, net of the performance obligations that have already been satisfied. As soon as a new contract is signed, it is added to the order backlog which subsequently decreases over time as the group satisfies its performance obligations, recognising the related contract revenue in profit or loss.

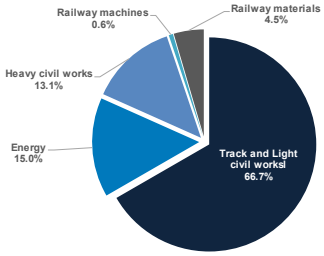
At the reporting date, the Salcef Group's order backlog includes contracts for permanent way systems (66.68%), energy sector works (15.01%), infrastructure works (13.14%), sleepers and prefabricated products production (4.53%) and machinery construction and maintenance contracts (0.64%). The following tables and graphs show the group's order backlog at 31 December 2021 by business unit and geographical segment.

SALCEF GROUP - ORDER BACKLOG AT 31.12.2021

Business unit	*Amount (€'000)*	*%*
Italy	1,085,450.4	90.43
Abroad	114,927.4	9.57
Total [1]	1,200,377.9	100.00

Business unit	*Amount (€'000)*	*%*
Track and light civil works	800,353.9	66.68
of which, Abroad	*101,408.4*	
Energy	180,153.2	15.01
of which, Abroad	*4,006.4*	
Heavy civil works	157,764.8	13.14
of which, Abroad	*9,382.0*	
Railway machines	7,680.7	0.64
of which, Abroad	*130.7*	
Railway materials	54,425.2	4.53
Totale [1]	1,200,377.9	100.00





[1] Excluding intragroup contracts

At year end, the order backlog nearly doubled to over €1.2 billion compared to roughly €603 million at the end of 2020. This achievement is due to both the new contracts acquired in Italy (such as the new three-year master agreements with RFI and contracts for railway infrastructure and permanent way systems as part of the HS/HC Verona - Padua railway section) and Germany (railway infrastructure, mostly for the customer DB Netz, the main German railway network operator) and the US.

The order backlog ensures continuity using the existing operating units already active in the relevant geographical areas.

Financial figures and key performance indicators - parent

The parent's results

The parent's 2021 financial figures and key performance indicators are provided in the next table:

Reclassified income statement

(€'000)

	2021	2020	Variation
Revenue	18,231	14,131	4,100
Production costs	(22,344)	(18,774)	(3,570)
Other operating costs	(1,331)	(2,068)	737
Internal work capitalised	0	1,156	(1,156)
EBITDA (Gross operating loss)	**(5,444)**	**(5,555)**	**111**
Amortisation, depreciation and impairment losses	(837)	(742)	(95)
Impairment losses	(1,311)	(147)	(1,164)
EBIT (Operating loss)	**(7,592)**	**(6,444)**	**(1,148)**
Financial income	51,514	49,457	2,057
Adjusted financial expense*	(719)	(2,952)	2,233
Adjusted pre-tax profit*	**43,203**	**40,061**	**3,142**
Income taxes	(166)	601	(767)
Adjusted profit for the year*	**43,037**	**40,662**	**2,375**
* Net fair value losses on warrants	(9,737)	(16,117)	6,380
Profit for the year	**33,301**	**24,545**	**8,756**

Key financial indicators

(€'000)

	31.12.2021	31.12.2020
NFP	166,034	40,248 (*)
EQUITY	325,890	200,457 (**)

(*) the NFP at 31 December 2020 was adjusted to exclude the financial liability for outstanding warrants at that date. The financial liability was released (?) at 31 December 2021 after the conversion/expiry of all the warrants

(**) equity at 31 December 2020 was adjusted to exclude the effects of the recognition of the warrants on the profit for the year and previous years. The conversion/expiry of all the warrants during the year neutralised these effects on equity at 31 December 2020

The previous section on the group's performance contains a description of the alternative performance measures used by management.

Comments on the parent's 2021 results

The parent made a profit of €33,301 thousand for the year compared to €24,545 thousand for 2020 and an adjusted profit of €43,037 thousand compared to €40,662 thousand. This profit reflects the fair value losses

on additional conversion warrants of €9,737 thousand recognised from 1 January 2021 to the warrants' extinguishment. Indeed, as better detailed in the "Key events of the year" section, since the acceleration condition was met, these warrants were either converted or expired for not being exercised before the term provided for by their regulation.

The additional conversion warrants were classified as financial liabilities in accordance with IAS 32. They were considered equity solely for tax purposes. On this basis, the liability recognised as a balancing entry to the equity reserve and the fair value gains and losses on the additional conversion warrants with an impact on profit or loss cannot be recognised for tax purposes. Therefore, not even the extinguishment of the liability when the warrants were converted generated a tax impact for the parent.

The effect of the tax treatment of the additional conversion warrants led to a smaller tax loss for the parent than it would have had if the accounting effects of the additional conversion warrants had been relevant for tax purposes.

As shown in the above table, revenue for the year came to €18,231 thousand compared to €14,131 thousand for 2020, earned on work performed by the company through its foreign branches in Saudi Arabia and Romania and on services provided to other group companies as well as dividends of €46,000 thousand distributed by the subsidiaries Salcef S.p.A. and Euro Ferroviaria S.r.l..

In the statement of financial position as at 31 December 2021, both net financial position and equity reflect the following transactions carried out during the year: (i) the treasury share repurchases totalling €4,753 thousand, (ii) the warrants exercised which led to a capital increase of €74,638 thousand, (iii) the distribution of dividends of €21,314 thousand and (iv) the capital increase of €32,000 thousand (less transaction costs of €653 thousand recognised in an equity reserve) reserved for qualified investors and approved by the board of directors on 30 September 2021, in accordance with the powers given thereto by the shareholders during their extraordinary meeting of 5 October 2020.

The share capital at 31 December 2021 amounts to €141,544,532.20 and is fully paid up at the date of approval of this report.

The parent's share capital increased during the year, as a result of: (i) the capital increase approved on 30 September 2021, carried out through an accelerated bookbuild offering, leading to the issue of 2,000,000 ordinary shares with a unit price of €16.00; (ii) the conversion of 7,087,216 "new" warrants, including 2,833,384 by the majority shareholder, Finhold S.r.l.; and (iii) the conversion of 7,831,288 additional conversion warrants. This further increased Salcef Group S.p.A.'s equity, as it received additional capital of €79,438,367.70, which it can earmark for growth and development plans in the railway industry in Italy and abroad. More information about the parent's equity is available in note 14 to the separate financial statements at 31 December 2021.

The table below provides a breakdown of the net financial position (and adjusted net financial position) at 31 December 2021 and 2020. The parent has applied the new presentation method for net financial position

following the publication of the ESMA Guidelines dated 4 March 2021 and Consob warning notice no. 5/21 of 29 April 2021, in which it acknowledges the ESMA Guidelines and states that references to the CESR Recommendations on prospectuses contained in previous communications shall be replaced with the ESMA Guidelines, including the references contained in communication no. DEM/6064293 of 28 July 2006 on net financial position.

(€'000)

NET FINANCIAL POSITION	31.12.2021	31.12.2020	Variation
(A) Cash	87,575	12,057	75,518
(B) Cash equivalents	0	0	0
(C) Other current financial assets	191,506	123,415	68,091
(D) Cash and cash equivalents (A + B + C)	**279,081**	**135,471**	**143,610**
(E) Current financial debt *	(362)	(19,595)	19,233
(F) Current portion of non-current financial debt	(45,810)	(61,891)	16,081
(G) Current financial debt (E + F)	**(46,172)**	**(81,486)**	**35,314**
(H) Net current financial position (G + D)	**232,909**	**53,985**	**178,924**
(I) Non-current financial debt	(66,875)	(33,011)	(33,864)
(J) Debt instruments	0	0	0
(K) Trade payables and other non-current financial liabilities	0	0	0
(L) Non-current financial debt (I + J + K)	**(66,875)**	**(33,011)**	**(33,864)**
(M) Net financial position (H + L) **	**166,034**	**20,974**	**145,060**
(N) Adjustment for other financial liabilities - warrants	0	19,274	(19,274)
(O) Adjusted net financial position (M + N)	**166,034**	**40,248**	**125,786**

(*) the comparative figure includes the financial liability for the warrants referred to in letter N

(**) net financial position calculated as per Consob communication no. 6064293 of 28 July 2006 and in compliance with ESMA Guidelines of 4 March 2021

The parent has a net financial position (i.e., liquidity greater than financial debt) of €166,034 thousand at year end compared to an adjusted €40,248 thousand at 31 December 2020.

Current financial debt at 31 December 2020 included the additional conversion warrants amounting to €19,274 thousand, calculated on the basis of their fair value at initial recognition at their date of issue (8 November 2019), subsequently adjusted to their fair value at 31 December 2020, considering the conversions carried out in 2020. The financial liability for additional conversion warrants changed during 2021, as a result of their conversion and fair value gains and losses. Since the acceleration condition, as better specified later on, was met during the year, they were subsequently fully extinguished or expired. Accordingly, the financial liability for additional conversion warrants is nil at the reporting date.

The additional conversion warrants were settled through the issue of the parent's ordinary shares upon conversion, derecognising the financial liability as an increase in equity, without generating an outflow of cash for the parent.

The net fair value losses on warrants recognised in the income statement as a financial expense came to €9,737 thousand in 2021. As stated earlier, they were not included in the calculation of the adjusted pre-tax profit or the adjusted profit for the year.

The net financial position at 31 December 2021, determined considering bank loans and borrowings and loans and borrowings from other financial backers, net of cash and cash equivalents and securities, is €71,906 thousand.

Performance of consolidated companies

Salcef S.p.A.

Salcef S.p.A. is the group's most important company in terms of revenue. Together with Euro Ferroviaria S.r.l., it operates in the Italian railway and metro construction and maintenance sector.
It recognised revenue of €246,879 thousand (€210,573 thousand in 2020) and a profit of €35,090 thousand (€35,738 thousand in 2020). Its profit reflects the higher depreciation expense related to property, plant and equipment revalued in 2020; in fact, EBITDA increased by €10,099 thousand to €67,498 thousand compared to €57,399 thousand in 2020, driven by the higher volumes while the EBITDA margin of its core business remained substantially unchanged at 27.34%.
The contracts for which the most work was carried out in 2021 were those for the renewal and maintenance of railway lines under the three-year plan established by RFI S.p.A. (both to complete the previous 2018-2020 plan and start the new 2021-2023 master agreements). The group company's foreign branch in Abu Dhabi made a significant contribution to revenue thanks to the contract for the construction of tracks for the new Ghweifat - Ruwais railway line.

Euro Ferroviaria S.r.l.

This group company is active in the permanent way systems sector and focuses on the Italian market.
It reported revenue of €64,011 thousand and a profit of €6,374 thousand for the year, compared to €41,994 thousand and €5,473 thousand for the previous year, respectively, despite the higher depreciation expense related to property, plant and equipment revalued in 2020.
EBITDA and EBIT both improved significantly from €8,196 thousand to €11,862 thousand and from €5,623 thousand to €6,988 thousand, respectively. This increase is mostly due to the higher production volumes (+52%).
The contracts for which the most work was carried out in 2021 were those for the renewal and maintenance of railway lines under the three-year plan established by RFI S.p.A. (to complete the previous 2018-2020 plan and start the new 2021-2023 master agreements). As part of Euro Ferroviaria S.r.l.'s plan to invest in plant and equipment in recent years to acquire more equipment to handle the growth in its business volumes, the company signed four finance leases for machinery (a ballast cleaner train and three tamping machines) which were mostly eligible for the tax benefits of the "Industry 4.0" legislation.

RECO S.r.l. single-member company

RECO S.r.l. provides design and engineering services for the construction of railway infrastructure. It also plays a key role in the development of technological and industrial solutions working closely with the other group companies.
Its revenue for 2021 amounts to €1,582 thousand, which is substantially in line with the previous year (€1,497 thousand), and is nearly entirely earned with the other group companies on its engineering and design services.
It has a sound financial position with a pre-tax profit of €43,314 thousand and equity of €1,063 thousand.

SRT S.r.l. single-member company

This company carries out design, construction and maintenance of railway machines for the maintenance of railway infrastructure and freight transport. It has an industrial facility in Fano, which is also a maintenance centre certified by RFI.
It earned revenue of €37,625 thousand in 2021 (€24,422 thousand in 2020) essentially split among three areas:

- routine and extraordinary maintenance on rolling operating machines, which it performs directly at Salcef S.p.A.'s and Euro Ferroviaria S.r.l.'s active work sites;
- extraordinary maintenance on rolling operating machines at the facility in Fano (Pesaro-Urbino), mainly on Salcef S.p.A.'s and Euro Ferroviaria S.r.l.'s vehicles;
- construction of railway vehicles (such as carriages, grinders, etc.) for sale to Salcef Group companies and third parties.

Specifically, it performed 82% of its activities in 2021 for group companies under master agreements for routine and extraordinary maintenance of all their machinery, with the other 18% being carried out for third parties.
This group company made a profit of €4,631 thousand for the year after tax of €1,798 thousand, compared to €1,809 thousand for 2020.

Overail S.r.l. single-member company

This company manages the Aprilia industrial facility and produces railway and precast sleepers (e.g., precast slabs, tunnel segments) for urban transport systems.
It reported a profit for 2021 of €3,884 thousand, compared to €3,333 thousand in the previous year, after taxes of €1,072 thousand, with revenue of €40,429 thousand compared to €32,329 thousand in the previous year. Despite the upturn in volumes, the profit is substantially unchanged from the previous year due to the higher depreciation expense related to property, plant and equipment revalued in 2020. The company saw

a slight increase in its core business profitability in 2021: while revenue grew 25%, EBITDA increased more than proportionally by 27%.

Most of the sleeper production was carried out for its key customer RFI S.p.A. as part of a three-year plan to renew and perform extraordinary maintenance on the permanent way systems on existing lines of the RFI - Lotto Centro network. This work was carried out in the 2021-2023 three-year period.

Furthermore, in order to reinforce and upgrade its production capacity, the company has nearly completed the first phase of its investment plan for the Aprilia production facility.

Consorzio Itaca S.c.a r.l.

This consortium company is not for profit. Its business object is to be of mutual benefit to its members; therefore, all its costs incurred directly and indirectly in carrying out its activities are recharged to its members in line with their investment percentages unless it has been decided otherwise.
Its operations contracted in 2021 for revenue of €108 thousand compared to €425 thousand in the previous year.

Coget Impianti S.p.A.

This company joined the Salcef Group in July 2019 and has operated since 1983 in the design, construction and maintenance of electric distribution lines ("primary lines") and electric contact lines for electrical traction, mainly for railway transport.
In 2021, it reported a profit of €1,075 thousand, compared to €1,225 thousand for the previous year, and revenue of €27,472 thousand against €23,190 thousand for 2020.
The company's core business profitability picked up in 2021 with the EBITDA to revenue ratio going from 11.8% in 2020 to 13.4% in 2021, mostly bolstered by the resolution of the negative organisational difficulties caused by the Covid-19 pandemic in 2020.
Coget Impianti S.p.A. operates in Italy, as well as in Austria through a permanent establishment set up in the country.
On 27 January 2021, it approved the partial proportionate demerger of its electric contact lines for electrical traction business unit to Salcef S.p.A. as part of the group's streamlining and reorganisation project (more details are available in the section on the events after the reporting date). The mandatory period of time for the filing of the shareholders' resolutions with the competent company registrars has not yet ended and therefore the demerger deed will become effective for statutory, accounting and tax purposes from the end of March 2022.

Salcef Deutschland GmbH

This company was acquired in May 2021 and subsequently changed its name from Verwaltund und Beteiligung Nord GmbH ("Verwaltung") to Salcef Deutschland GmbH (more information about this acquisition is provided in the section on the key events of the year). It heads a group of companies based in Henstedt-Ulzburg near Hamburg comprising Bahnbau Nord GmbH, Kampfmittelraumung Nord GmbH, Schweissteam Nord GmbH and Bahnsicherung Nord GmbH, all active in the German permanent way systems sector with the main customer Deutsche Bahn (the German railway infrastructure operator). These group companies are specialised in permanent way systems and infrastructure and mainly work with Deutsche Bahn.
Salcef Deutschland GmbH has become the sub-holding company of the Salcef Group for Germany. Accordingly, at 31 December 2021, control of Salcef Bau GmbH, previously held directly by the parent, has

been transferred to Salcef Deutschland GmbH. The acquisition of Verwaltung and the above-mentioned corporate reorganisation will allow the group to strengthen its foothold in the German market which has significant growth potential characterised by impressive development projects as confirmed by the Deutsche Bahn plan approved by the German government with investments of €86 billion over the next ten years. The German subsidiaries ended the year with revenue (at sub-holding level) of €29,726 thousand compared to €24,303 thousand in 2020 (solely attributable to Salcef Bau GmbH).

Salcef USA Inc.

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.
It owns 90% of Delta Railroad Construction Inc. acquired in September 2020 and will become a sub-holding company to promote the group's further expansion in the North American market.
Salcef USA Inc. made a profit for the year of €3,538 thousand, compared to a loss of €224 thousand for 2020, mostly thanks to the dividends distributed by Delta Railroad Construction Inc..

Delta Railroad Construction Inc.

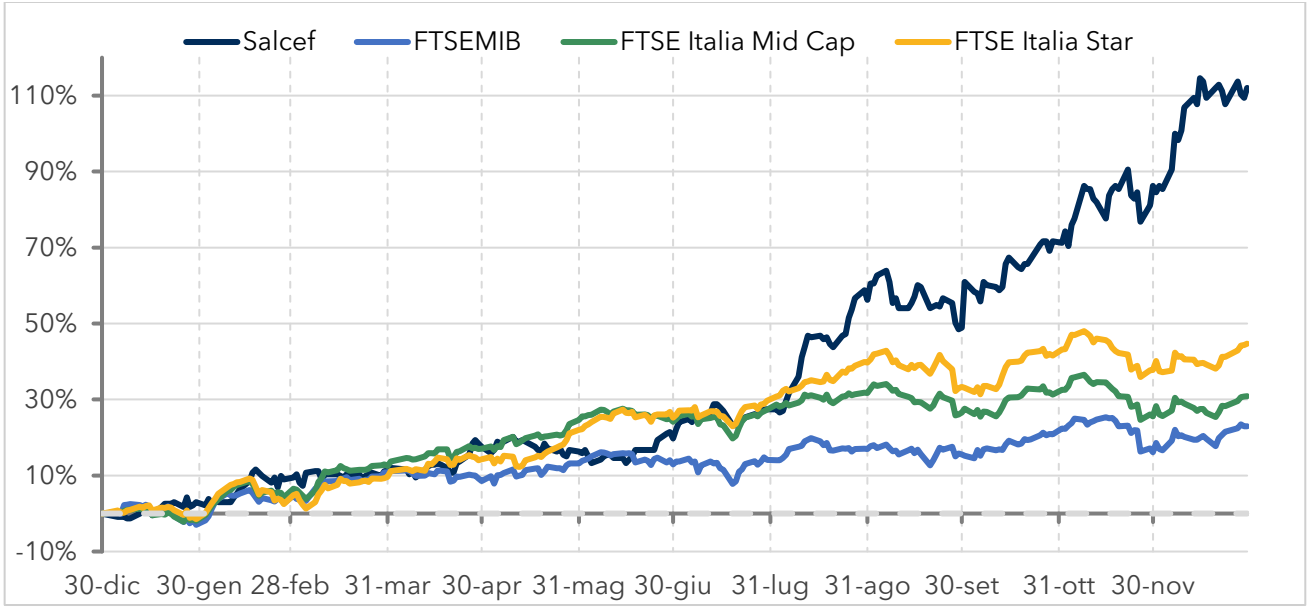
This company, in which Salcef USA Inc. has a 90% investment acquired on 15 September 2020, is based in Ohio and has worked in the permanent way systems construction and maintenance and railway machines maintenance sectors in the US and Canada since 1957.
It reported a profit of USD3,302 thousand for 2021, compared to USD7,194 thousand for 2020 (including USD1,438 thousand in the period following its acquisition by the Salcef Group. Revenue came to USD51,374 thousand in the year compared to USD50,671 thousand in the previous year (USD12,441 thousand of which generated between 15 September and 31 December 2020).

Share performance

The parent's ordinary shares (ISIN: IT0005388266) are quoted on the STAR segment of Euronext Milan managed by Borsa Italiana S.p.A.. Its shares qualified for the STAR segment on 13 October 2021, and trading began on 21 October 2021. Acceptance to the STAR segment represents another milestone of the journey started on 8 November 2019, when the parent initially placed its shares on the AIM Italia (the Alternative Investment Market), after which they moved to the MTA market (now Euronext Milan) on 22 December 2020.

On 30 December 2021 (the last trading day of the year), the share price was €24.70 compared to €11.65 on 30 December 2020, showing an increase of €13.05 per share for an annual performance of 112%. The parent's market capitalisation was €1,435.5 million at 30 December 2021. During the year, its market value almost tripled both as a result of the share's performance and the conversions of the warrants, performance shares and special shares, which increased the number of quoted ordinary shares considerably.

The graph shows the share's performance in 2021 while the second graph provides a comparison with the main indexes of the Italian market.



The new and additional conversion warrants issued by the parent were quoted on the MTA market until their complete extinguishment in July 2021 following their conversion into the parent's ordinary shares or their expiry as described in the section on the key events of the year.

Key events of the year

Spread of the Coronavirus (Covid-19)

The Salcef Group continues to implement a series of projects and safeguards to constantly monitor the evolution of the impact of the pandemic, searching for the best solutions to manage the related issues. In particular, the parent set up a special task force to manage health risks and took all steps to inform employees, suppliers, sub-contractors and others, whatever their relationship with the Salcef Group, of the necessary and/or useful safeguards to limit the risk of infection as much as possible and handle any risk situations or cases of Covid-19.

At the date of preparation of this report, no Salcef Group activity was suspended or slowed as a result of issues due to the pandemic and/or the introduction of a mandatory green pass for access to workplaces, either in Italy or abroad, and all work sites are fully operational.

Considering the extensive reach of the Salcef Group's production activities, the risk of infection at sites could slow work, with potential impacts going forward in 2022 in the event of fresh outbreaks. However, the directors believe that, because of the safety measures taken and the organisation that the group has set up, and taking into account the recent performance of the contagion curve and progress of the vaccination roll-out domestically and internationally, the objectives and targets set for the medium term remain valid and feasible.

In this regard, it should also be noted that the relief measures that the Italian government and the governments of other European and non-European countries where the group operates are considering in response to the economic effects of the public health emergency are based on economic stimulus mainly through extraordinary infrastructure investment plans, which could potentially benefit the group's business in the future.

Approval of financial statements and dividend distribution

At their ordinary meeting of 29 April 2021, the parent's shareholders approved the separate financial statements as at and for the year ended 31 December 2020, which show a profit for the year of €24,545,124, and were presented with the consolidated financial statements as at and for the year ended 31 December 2020, which show a profit for the year attributable to the owners of the parent of €41,149,309.
The shareholders also approved the distribution of a dividend of €0.42 for each ordinary and performance share. The ex-dividend, record and payment dates were 24, 25 and 26 May 2021, respectively. The dividend distributed totalled €21,314,116.32, considering the automatic conversion of the performance shares and special shares as the conditions under article 7.4.c.i/ii and article 7.5.e.i of the by-laws were met, as detailed in the following paragraph, and considering the repurchase transaction which will be discussed further on, involving the use of treasury shares.

The shareholders then approved the 2021-2024 stock grant plan (described in the relevant section).

Finally, the shareholders approved the parent's 2021 remuneration policy for the directors, COOs, key management personnel and members of supervisory bodies as set out in the first section of the Remuneration report. They also approved the second section of such report which provides, inter alia, an account of all types of remuneration paid out for any purpose during the year ended 31 December 2020.

Changes in the share capital

The parent's share capital increased in 2021 from €62,106,164.50 at 31 December 2020 to €141,544,532.20, as a result of the capital increase approved on 30 September 2021 and the conversion of warrants detailed below.

Share capital increase

In accordance with the powers given to it by the shareholders pursuant to article 2443 of the Italian Civil Code during their extraordinary meeting of 5 October 2020, on 30 September 2021, the parent's board of directors resolved to increase the share capital against payment, in one or more tranches, by a maximum amount of €50,000,000.00 and by issuing a maximum of 2,000,000 new ordinary shares, without a nominal amount and excluding the right of first refusal pursuant to article 2441.4, second sentence of the Italian Civil Code. The increase was carried out through an accelerated bookbuild offering reserved for qualified investors (as defined by Regulation (EU) 2017/1129) in the European Economic Area and institutional investors abroad (with the exclusion of the United States of America, Canada, Japan, South Africa and any other country or jurisdiction in which the offer of shares is prohibited by law or in the absence of exemptions). No public offering and listing prospectus was published pursuant to the exemptions provided for by applicable legislation. The newly issued shares were priced upon completion of the accelerated bookbuild offering, on the basis of the criteria established by the board of directors. The independent auditors, KPMG S.p.A., expressed their opinion on the pricing criteria pursuant to article 2441.4, second sentence of the Italian Civil Code.

Through the accelerated bookbuild offering, the parent placed 2,000,000 new ordinary shares without a nominal amount at a unit price of €16.00 for a total of €32,000,000, including the share premium. It recognised the capital increase based on the existing accounting par value by allocating €2.40 per share to the share capital (for a total increase of €4,800,000) and the remainder to the share premium (for a total increase of €27,200,000). As provided for by IAS 32.37, it recognised the transaction costs as a decrease in equity.

The purpose of the transaction is to quickly and efficiently raise risk capital to be used to continue the group's development and expansion plan, including through acquisitions, in accordance with its strategic guidelines. In addition, the transaction aims to widen the shareholding base, thereby boosting Salcef share's float and marketability.

The transaction, together with the additional actions put in place, was also designed to meet the requirements for listing the Salcef share on the STAR segment of the Euronext Milan market. Admission was obtained on 13 October 2021 and trading began on 21 October 2021. Thanks to this, the parent will have the opportunity to become more visible to Italian and foreign investors, given the specific characteristics of this stock exchange segment and the stringent liquidity, transparency and corporate governance requirements for accessing it.

Conversion of the "new" and "additional conversion" warrants

The acceleration conditions of the "Salcef Group S.p.A. additional conversion warrants" and the "Salcef Group S.p.A. new warrants" were met with the closing of the stock market on Friday 30 April 2021 and Monday 3 May 2021, respectively.

In the first case, the average monthly price of April 2021 was higher than the threshold price of €13.00, while, in the second case, the average daily price was at least equal to the threshold price of €13.00 for at least 15 out of 30 consecutive trading days (the "period of stability").

Pursuant to the regulations of the new warrants and the additional conversion warrants, neither type can be exercised during the "restricted periods" (i.e., the period from (and including) the date the parent's board of directors resolves to call the shareholders' meeting to approve (i) the separate financial statements and the proposal to distribute dividends or (ii) the proposal to distribute extraordinary dividends, up to (and including) the date of such shareholders' meeting and, in any case, up to (not including) the ex-dividend date, including extraordinary dividends, resolved by the shareholders).

Accordingly, the bearers of the new warrants could ask to subscribe conversion shares at the share subscription price (€10.50) by and not after 30 June 2021, otherwise they would expire. Meanwhile, the bearers of the additional conversion warrants could ask to subscribe conversion shares at the share subscription price (€0.10) by and not after 22 July 2021, otherwise they would expire.

The conversions of the new warrants and the additional conversion warrants carried out in 2021 led to a capital increase of €74,638,367.70.

At the date of preparation of this report, there are no longer holders of any additional conversion warrants or new warrants, as the term for their subscription has lapsed, as stated above. Accordingly, any unexercised additional conversion warrants and new warrants have ceased to be valid for all purposes.

Moreover, in accordance with article 7.4.c.i of the by-laws, the condition for the automatic conversion of 416,667 performance shares into 2,083,335 ordinary shares was met on 3 May 2021 as the official market price of the parent's ordinary shares was higher than €13.00 for a period of stability. Lastly, the conditions established in article 7.4.c.ii and article 7.5.e.i of the by-laws were met on 17 May 2021, providing for the respective automatic conversion of 416,667 performance shares into 2,083,335 ordinary shares and of 100,000 special shares into 700,000 ordinary shares, as the official market price of Salcef Group S.p.A.'s ordinary shares was at least equal to the threshold price of €13.50 for at least 15 out of 30 consecutive trading days. These conversions do not entail an increase in the parent's share capital.

Bahnbau Nord Group acquisition

On 25 May 2021, Salcef Group S.p.A. acquired the entire share capital of Verwaltung und Beteiligung Nord GmbH ("Verwaltung"), the parent of the German group that includes Bahnbau Nord GmbH, based in Henstedt-Ulzburg (near Hamburg) and active in the construction and maintenance of permanent way systems, as well as a group of companies operating in various businesses within the railway sector. On 21 June 2021, Verwaltung und Beteiligung Nord GmbH changed its name to Salcef Deutschland GmbH and its registered office was transferred to Landsberg Am Lech (near Munich).

The transaction allows the group to keep pursuing its strategy of growth through external lines, boosting the Salcef Group's presence on the German market, which is characterised by impressive development projects as confirmed by the Deutsche Bahn plan approved by the German government, with investments of €86 billion over the next 10 years.

The group, which has around 100 employees, recorded average turnover of approximately €17 million in the 2018-2020 period.

The total consideration paid to acquire Verwaltung's entire share capital was approximately €7.8 million and the contract includes an earn-out clause in favour of the sellers, based on the Verwaltung Group's EBITDA and revenue until the end of 2022.

The consideration is being paid in several tranches:

- €6.4 million on signing the contract, of which approximately €4.4 million in cash and the remainder in Salcef Group S.p.A. treasury shares (153,848);
- €1.4 million in three annual instalments, the last of which is due in 2024.

There are also mechanisms for adjusting the price downwards if certain conditions are met.

Ancillary contracts were also signed for the purpose of the acquisition, including service contracts with the sellers, deeds of amendment to leases on the property housing Verwaltung's registered and operating office, as well as deeds of transfer of assets used in the operations of the operating companies.

The acquisition was financed by the parent's own funds, including treasury shares.

Transfer of the investment in Salcef Bau GmbH to Salcef Deutschland

On 10 December 2021, the parent transferred its 100% investment in Salcef Bau GmbH to its subsidiary Salcef Deutschland GmbH. This transaction is part of the group's plan to have Salcef Deutschland GmbH become the sub-holding company for the German operations. The transfer took place using the carrying amount of the equity investment in the parent's financial statements as the transaction qualifies as a transaction under common control.

Events after the reporting date

Conversion of performance and special shares

Pursuant to article 7.4.c.iii and article 7.5.e.ii of the parent's by-laws and considering the number of new warrants exercised during the year, on 15 January 2022, all the remaining performance and special shares were converted into ordinary shares. Specifically: (i) 641,044 performance shares were converted using the ratio of five ordinary shares to every one performance share for a total of 3,205,220 ordinary shares and (ii) 153,851 special shares were converted using the ratio of seven ordinary shares to every one special share for a total of 1,076,957 ordinary shares. These conversions did not increase the parent's share capital, which comprised 62,399,906 ordinary shares, without a par value, at the reporting date.

Demerger of Coget Impianti S.p.A. to Salcef S.p.A.

On 27 January 2022, the shareholders of Coget Impianti S.p.A. and Salcef S.p.A. approved the demerger proposal for the partial proportionate demerger of the former company (the "demerged company") to the latter company (the "beneficiary"). As a result, the beneficiary will receive the business unit that designs, constructs and maintains electrical contact lines for electrical traction (the "ET business unit").

The objective behind the demerger is to streamline the group's operations and make them more efficient. The ET business unit's specific organisation and competitive edge sets it apart from those of the rest of the operations carried out by the demerged company. Therefore, the demerger will facilitate the centralisation of the design, construction and maintenance of electrical contact lines for electrical traction in one company (the beneficiary, which already works in this area) in order to optimise the deployment of resources and costs for both companies.

The demerger will become effective on 30 March 2022 once the mandatory period for filing the shareholders' resolutions with the competent company registrars ends and the demerger deed is signed. Its statutory, accounting and tax effects will start on 1 April 2022. The accounting effects of the demerger will be recognised using the carrying amounts shown in the parent's financial statements as this is a transaction under common control.

Finally and in order to complete the demerger, concurrently with its approval by the shareholders of Coget Impianti S.p.A., they also approved its transformation into a company limited by quotas (S.r.l.) in accordance with article 2500 of the Italian Civil Code and the transfer of its registered office from Corteno Golgi (Brescia) to Rome.

Acquisition of the railway business unit from the PSC Group

The group company Euro Ferroviaria S.r.l.. acquired the railway business unit from PSC S.p.A. Group with the signing and closing of the transaction on 8 March 2022. The acquisition is not subject to any conditions precedent and will be effective from 1 May 2022.

It is part of the group's mission to strengthen its leadership position in the railway electrical traction sector and to facilitate the development of business segments such as railway signalling, the construction of electricity generating substations and tunnel technological systems. The group expects these segments to grow rapidly and strongly, thanks to the sizeable investments to be made under the Italian National Recovery and Resilience Plan as well as the projects to upgrade the Italian railway network.

The business unit has a workforce of around 100 employees, a good fleet of railway vehicles and an order backlog of more than €100 million. The consideration transferred approximated €26.6 million and is subject to the usual price adjustment mechanisms (upwards or downwards) depending on variations in the business unit's working capital. Payment was made at the closing except for €3.5 million subject to the satisfaction of certain conditions defined in the contract.

The group self-financed the acquisition in full.

Conflict between Russia and Ukraine

Regarding the recent geopolitical events linked to the Russian/Ukrainian conflict and the restrictions imposed on Russia by the European Union, the group has checked that this situation should not potentially impact its financial position or future performance.

The group does not have sales or purchases contracts or other trading relationships with entities resident in Russia, Belarus or Ukraine, nor does it hold assets, liquidity, equity or debt instruments in these countries. Moreover, it does not have receivables due from Russian, Belarusian or Ukrainian entities and is not exposed to currency risk deriving from exposures in Russian rubles or Ukrainian hryvnia as it does not have any positions in these currencies. As a result, it does not expect the conflict to have a significant impact on its commercial activities or supply chain.

As described in the section on the group's outlook, its future profits will be affected by the currently unquantifiable effects of the large and unforeseen increase in the main production factors (especially the cost of labour, raw materials, services and, in particular, subcontracts, as well as the cost of energy and specifically the fuel needed to operate the rolling operating machines) due to the conflict, which has excalated the inflationary trend already seen in 2021.

Though not located in the countries affected by the conflict, the group's financial investments at 31 December 2021 are exposed to the volatility and uncertainty rife on the international financial markets in the last month, which has pushed down the main indexes.

The parent's share price has also been affected by the financial markets' performance, decreasing from €24.70 at 30 December 2021 (the last trading day of the year) to €21.10 on 17 March 2022.

Treasury share repurchase programme

In their ordinary meeting of 29 April 2021, the shareholders of the parent revoked the authorisation given on 24 April 2020 to the board of directors, for the part not exercised, and 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 2357.3 of the Italian Civil Code, article 132 of the Consolidated Finance Act and article 144-bis of Consob's Issuers' Regulation.

The authorisation was granted for the purpose, inter alia, of repurchasing treasury shares to:

- incentivise and retain employees, consultants and directors of the parent and its subsidiaries and/or other categories of individuals chosen at the discretion of the board of directors;
- carry out transactions to sell and/or repurchase treasury shares for direct or indirect acquisitions of equity investments and/or property and/or finalise agreements with strategic partners;
- carry out transactions following the purchase or sale of shares, within the limits set by the relevant

market practice;

- perform, directly or via brokers, transactions to stabilise and/or support the liquidity of the parent's shares in accordance with the relevant market practice;
- set up an inventory of shares to be used for future one-off financing transactions;
- seize any investment opportunities, also bearing in mind the risk and forecast return on alternative investments;
- use excess liquid funds.

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 meeting at which the shareholders took the relevant resolution. Conversely the authorisation to use the ordinary treasury shares is without any time limits.

The parent holds 498,243 treasury shares at the reporting date, equal to 0.8778% of its share capital. This situation is unchanged at the date of preparation of this report.

2021-2024 stock grant plan

At their ordinary meeting of 29 April 2021, the shareholders approved the 2021-2024 stock grant plan for certain executive directors (other than the CEO and the chairperson of the board of directors of the parent) and employees, including key management personnel, of the parent and Salcef group companies, along with other beneficiaries holding managerial positions deemed key within the group (the "stock grant plan"). Under the plan, a maximum total of 40,000 shares are allocated and then delivered to those beneficiaries who meet set performance conditions at the end of the vesting period.
As resolved by the shareholders and following the favourable opinion of the remuneration and appointment committee, the board of directors approved the launch of the stock grant plan, with assignment of the rights on 25 June 2021. The board's resolution identifies 31 beneficiaries who were assigned a total of 25,463 grants to receive a maximum of 25,463 shares.
The stock grant plan has one grant cycle and two vesting periods, of which the first (for 50% of the assigned rights) will end with approval of the separate financial statements at 31 December 2022 and the second (for the remaining 50%) will end with approval of the separate financial statements at 31 December 2023. The granting of shares and their delivery are subject to achievement of performance objectives and continued employment with the group. More information is available in the information document drafted as per article 114-bis of the Consolidated Finance Act and article 84-bis of the Issuers' Regulation. This document is

available at the parent's registered office and on its website www.salcef.com (Investor Relations/Shareholders' Meeting section).

At the assignment date (25 June 2021, the date of the board of directors' meeting when the beneficiaries were decided), the fair value of each share was €13.90.

Outlook

In 2022, 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 prestressed, vibrated reinforced concrete sleepers) in Italy and abroad in those countries where it already has a strong business footprint and its specialised plant and personnel have ensured efficient service for many years. The group also continues to search for opportunities to grow externally in Italy and abroad.

The production volumes expected for 2022 should continue to increase assisted by the sizeable government investments in the main countries where the group operates. Its future profits will be affected by the currently unquantifiable effects of the large and unforeseen increase in the main production factors (especially cost of labour, raw materials, services and, in particular, subcontracts, as well as the cost of energy and specifically the fuel needed to operate the rolling operating machines) due to the Russian-Ukrainian conflict, which has escalated the inflationary trend already seen in 2021.

The group's order backlog amounts to a record amount in excess of €1.2 billion, guaranteeing work for its workforce for at least the next two years with increasing production levels compared to those of the past year.

In 2022, 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 2021-2023 three-year period, specifically the lots in central and north-west Italy awarded in 2021, which is part of the group's core railway permanent way systems business.

On 22 December 2021, the joint venture led by the parent signed a contract with Consorzio IRICAV DUE for the civil works and permanent way systems for the first functional lot of the Verona - Vicenza junction section of the HS/HC Verona - Padua railway line. The contract is worth €194.8 million (the group's share is €147.8 million) financed using the funds made available under the National Recovery and Resilience Plan and has a term from March 2022 to March 2026.

On 2 March 2022, the group signed another contract with Consorzio IRICAV DUE for the same section covering the infrastructure works and permanent way systems along a stretch of roughly 4 km near Verona. It is worth €56.5 million and is again funded by the National Recovery and Resilience Plan. The work is scheduled to take place starting from the second quarter of 2022 until 2025. These two contracts bring the group's involvement in the Verona - Padua railway line works to more than €200 million, with a significant increase in the civil works to be performed.

In addition to the above contract, in 2021, Salcef S.p.A., Euro Ferroviaria S.r.l. and Coget Impianti S.p.A. were awarded contracts for approximately €82.5 million in Italy, again for works that are part of the group's core business: permanent way systems, electrical traction, substations, signalling and energy transmission systems. They guarantee business continuity and work for the permanent way systems and electrical traction

business units and enable the group to increase its footprint in Italy to cover the entire country. Specifically, these contracts include the calls for tender by Atac S.p.A., the Rome public transport body, to renew the permanent way systems on the Anagnina - Ottaviano section of Line A of the Rome Metro, the master agreement for the executive design and extraordinary maintenance of the civil works at Lot 13 of the Cagliari railway project, a type of project that continues those already acquired at the end of 2020 for the Trieste, Pescara, Bologna and Palermo lots and the electrification works for the Cervaro - Rocchetta section of the Foggia - Potenza railway line.

SRT S.r.l. has completed construction of the second grinding train for track and turnouts with 34 wheels, entirely conceived, designed and built at its Fano facility and prevision

In 2022, the group will continue its foreign activities with the work to renew 46 km and 229 turnouts on the Cairo - Alexandria railway line in Egypt, the rehabilitation of two adjacent lots on the Frontiera - Curtici - Simeria railway line in Romania (European IV Corridor, sub-sections 2A and 2B), which are expected to take around two years given the complexity of the works. Construction of the tracks for the new railway line that will link the cities of Ruwais and Ghuweifat on the border with Saudi Arabia, a strategic project which is part of the Gulf Railway, a 2,177 km-long railway network designed to link all the member states of the Gulf Cooperation Council (GCC) in the Persian Gulf, will be completed, while the works for the new contract with the joint venture Larsen&Turbo Limited and Power Construction Corporation of China LTD, started at the end of 2021 will continue in 2022. This contract covers the construction of the railway infrastructure and completion of five new depots on the same section.

In the United States, the group company Delta Railroad Construction was awarded an important contract, worth more than USD44 million, early in 2022 for track and turnout renewal on the Queens Boulevard Line East modernisation project launched by the Metropolitan Transit Authority (MTA) of New York. Work will start in the fourth quarter of 2022 and will take two years. The contract will allow the US company to maintain an order backlog that covers around two years of equivalent production.

Finally, 2022 revenue will benefit from the contribution of the Bahnbau Nord GmbH Group in Germany, acquired in 2021 and controlled, together with Salcef Bau GmbH, by Salcef Deutschland GmbH.

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, as well as operational risk and management risk.

Inflation and production cost risk

Like most of the operators in the public works construction and maintenance sector in Europe, the group is exposed to the risk of increases in the direct costs linked to the significant inflationary phenomena affecting Italy and the majority of the countries in the world. Specifically, the cost of labour, raw materials, semi-finished

products and finished goods has jumped, as have the costs of subcontractors and other service providers. This trend will probably be even more pronounced in 2022 compared to 2021. In addition, the effects of the conflict in Ukraine are already very visible with hikes in many production costs, chiefly fuel and energy in general, and this will have a significant impact on the group's operations given its high use of fossil fuels to operate the railway vehicles. Pursuant to the current regulations, most of the contracts in its order backlog do not have price revision clauses, although many governments and administrations are introducing measures to lessen contractors' immediate difficulties and especially to regulate a price revision system for the future.

These factors and events will have a negative impact on the group's profitability and also risk slowing down production due to shortages of materials, transporters and service providers.

Risk of the loss of qualifications and certifications

Similarly to all the other operators in the public sector construction industry, the group is exposed to the risk that its production activities could be restricted should its qualifications and inclusion in supplier lists, SOA (certification required in Italy to submit tenders for public works contracts) certification and other authorisations necessary for it to carry out its business be lost or limited, including as a result of measures taken by authorities and/or customers following disciplinary proceedings. These events would limit its operations and possible participation in calls for tenders.

Interest rate risk

The group uses third party funding which mostly 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 in the short and medium term thanks to the favourable economic climate created by the low interbank rates and because the group works solely with Italian banks. 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.

Currency risk

The group carries out nearly all its main transactions, except for those in North America, 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.

All the revenue and costs that Delta Railroad Construction Inc. invoices and incurs are in local currency (USD) and, accordingly, there is no currency risk on contract management.

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 currency risk hedging policy.

The group decided to neutralise fluctuations in exchange rates on a specific transaction, i.e., it entered into currency forwards to hedge the cash flows on the loan in US dollars that Salcef Group S.p.A. granted to its subsidiary Salcef USA Inc..

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.

Operational risks

The production and industrial nature of the group's Italian and foreign operations means that the group is exposed to the risk of partial reductions in production capacity of its business lines, which could be caused by several factors, the main ones being: accidents or extraordinary events at work sites and facilities involving the destruction of machinery and/or injuries to employees; customer's application of early termination clauses included in contracts with customers; measures issued by domestic, foreign and supranational bodies curbing the parent's bargaining and operating capacity; the cancellation, suspension or downgrading of the operating companies from state-owned or private customers' supplier databases and/or of authorisations to participate in calls for tender and the performance of public works.
The group mostly operates through mobile work sites located in different areas. Therefore, business interruption issues arising from natural disasters and/or external events are limited to the affected work sites. To the extent technically possible, business continuity is ensured by a risk management policy aimed at minimising the effects of operational risks, including the agreement of relevant insurance policies.

Corporate governance and ownership structure report

Salcef Group S.p.A.'s corporate governance model is consistent with the principles of the "Code of Conduct for Listed Companies" approved by the Corporate Governance Committee and endorsed by Borsa Italiana S.p.A., ABI (Italian banking association), ANIA (National association of insurance companies), Assogestioni

(Italian association of asset management companies), Assonime (Italian association of publicly listed companies) and Confindustria (General confederation of Italian industry).

In accordance with article 123-bis of the Consolidated Finance Act (Legislative decree no. 58 of 24 February 1998 as subsequently amended), the parent prepares an annual corporate governance and ownership structure report which includes the disclosures required by points 1 and 2 of the above article.

The 2021 corporate governance and ownership structure report, approved by the parent's directors on 16 March 2022, has been published on the parent's website in the Governance/Shareholders' meeting section (www.salcef.com).

Consolidated non-financial statement

Pursuant to article 5.3.b of Legislative decree no. 254/2016, the Salcef Group has integrated its corporate reports with the 2021 sustainability report - Consolidated non-financial statement prepared in accordance with the above regulation and approved by the parent's board o directors on 16 March 2022. It is available in the Governance/Shareholders' meeting section of the parent's website (www.salcef.com).

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 consolidated financial statements for further information, including the disclosures required by Consob resolution no. 17221 of 12 March 2010, amended with resolution no. 17389 of 23 June 2010. The "Related party transaction procedure" is available in the Governance/Procedures and regulations section of the parent's website (www.salcef.com).

Human resources

With respect to its workforce in 2021, the group carries out its activities in full compliance with the relevant environmental and occupational hygiene regulations as well as applicable foreign legislation. At year end, the group had 1,431 employees.

A breakdown of the group's workforce at the reporting date compared to the previous year end is as follows:

	Italy	Abroad	TOTAL
Managers	27	10	37
White collars	205	97	302
Blue collars	675	242	917
Workforce at 31 December 2020	**907**	**349**	**1,256**
Managers	30	13	43
White collars	228	143	371
Blue collars	703	292	995
Workforce at 31 December 2021	**961**	**448**	**1,409**

At 31 December 2021, the parent had 92 employees.

A breakdown of the parent's workforce at the reporting date compared to the previous year end is as follows:

	2021	2020
Managers	16	13
White collars	40	47
Blue collars	36	17
Total	**92**	**77**

Other information

Research and development activities

The group is constantly engaged in the development of new technological solutions and new, better performing products to support the development of railway infrastructure to allow its high performance in terms of speed and safety and to contribute to the development of sustainable mobility.

Most of the R&D costs incurred by the group are borne by Overail S.r.l. and SRT S.r.l..

The industrial facility managed by Overail S.r.l. is a research centre for the development of solutions to improve the characteristics of existing products as well as the development of patents for new innovative high performance products to be launched on the market. Thanks to its internal laboratory and equipment to test the products, the group company can study various types of cement, including innovative materials like fiber-reinforced concrete. In addition, Overail S.r.l. has partnerships with universities, research centres and other companies.

SRT S.r.l. designs and develops rolling stock. Its products represent a continuous improvement of the operational capabilities of rolling stock and working conditions, focusing especially on safety. The group company consults its customers when designing new solutions as many ideas are the response to real needs and issues that arise in the group's many work sites in Italy and abroad. It integrates the most innovative technologies into the development processes to provide cutting-edge solutions for the design and construction of rolling stock.

More information about the group's R&D activities is available in its consolidated non-financial statement.

Branches

The group companies have the following branches and local units:

COUNTRY	ADDRESS	TYPE	USE
Abu Dhabi	Abu Dhabi, Mina Road Silverwave Tower Bldg n. 230	Branch	Offices
Saudi Arabia	Riyadh, Olaya District, Al Nemer Center Building 2	Branch	Offices
Australia	Norwood, Beulah Road n. 8	Branch	Offices
Croatia	Zagabria, Uljca Ljudevita Gaja 55	Branch	Offices
Egypt	Cairo Ard El Golf, ELNozha Street n.13	Branch	Offices
Norway	Oslo, Biskop Gunnerus' gate 14 A0185	Branch	Offices
Poland	Warsaw, Ul Lucka 15	Branch	Offices
Romania	Bucarest, Str. Theodor D. Sperantia n. 123	Branch	Offices
Switzerland	Mendrisio, Via Franscini 16-CC 1658 - 6850	Branch	Offices
Italy	Corteno Golgi (BS), 25040 - Via Antonio Schivardi, 221	Offices	Offices
Italy	Fano (PS), 61032 - Via del Bersaglio, 2	Facility	Construction
Italy	Aprilia (LT), 04011 - Via Nettunense, Km 24.20	Facility	Production
Italy	Rovato (BS), 25038 - Via Gavia, 20-26	Warehouse	Production

Shares or quotas of parents

Salcef Group S.p.A. does not hold shares or quotas of its parents either directly or indirectly via trustees or nominees.

Shares or quotas of parents purchased or sold during the year

The group companies did not purchase or sell treasury shares or shares or quotas of parents either directly or indirectly via trustees or nominees.

Management and coordination

The parent is not managed and coordinated by another entity pursuant to article 2497 and following articles of the Italian Civil Code as it has checked that the presumption of management and coordination as per article 2497-sexies of the Italian Civil Code is not applicable.

Disclosure of non-EU significant companies

Salcef Group S.p.A. indirectly controls Delta Railroad Construction Inc. (and its subsidiaries) via Sacef USA Inc.. Delta Railroad Construction Inc. was incorporated under US law and qualifies as a significant subsidiary under article 15.2 of the Market Regulation (adopted by Consob with resolution no. 20249 of 28 December 2017 as subsequently amended), which refers to article 151 of the Issuers' Regulation (adopted by Consob with resolution no. 11971 of 14 May 1999 as subsequently amended).

With respect to this subsidiary: (i) Delta Railroad Construction Inc. prepares financial statements, deposited at its registered office, for inclusion in the group's consolidated financial statements; (ii) the parent has obtained a copy of its by-laws and details of the composition and powers of its corporate bodies; (iii) Delta Railroad Construction Inc. has engaged independent auditors that provide the parent's independent

auditors with the information necessary to allow the latter to perform its audit of the annual consolidated financial statements and the condensed interim consolidated financial statements; and (iv) Delta Railroad Construction Inc. has an administrative and accounting system that is adequate to provide the parent with its financial reporting figures, prepared in accordance with the group's accounting policies and necessary to allow the parent to prepare consolidated financial statements.

Reconciliation of Salcef Group S.p.A.'s equity and profit for the year with those of the group

A reconciliation of the parent's equity at 31 December 2021 and its profit for the year then ended with those of the group is presented below:

(€'000)

	Profit for 2021	Equity at 31.12.2021
Salcef Group S.p.A.	33,301	325,890
Contribution of subsidiaries	59,024	58,934
Dividends	(50,261)	-
Elimination of intragroup profits and losses	(2,993)	(5,246)
Goodwill	-	41,795
Total equity	**39,071**	**421,373**

Proposal for the approval of the separate financial statements and allocation of the profit for the year

Dear shareholders,

We ask you to approve the separate financial statements as at and for the year ended 31 December 2021, comprised of the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, attached hereto, which give a true and fair view of the parent's financial position at 31 December 2020 and financial performance and cash flows as at and for the year then ended and which match the accounting entries.

We propose you approve the allocation of the profit for the year of €33,300,893 as follows:

- €1,665,045 to the legal reserve (5% of the profit);
- €0.46 to each share outstanding at the ex-dividend date, excluding treasury shares held in portfolio at that date;
- the remainder to retained earnings.

Rome, 16 March 2022

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CEO

Valeriano Salciccia

KPMG S.p.A.
Revisione e organizzazione contabile
Via Curtatone, 3
00185 ROMA RM
Telefono +39 06 80961.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(The accompanying translated consolidated financial statements of the Salcef Group constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Salcef Group S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Salcef Group (the "group"), which comprise the statement of financial position as at 31 December 2021, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Salcef Group as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of Salcef Group S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Limited, società di diritto inglese.

Ancona Bari Bergamo
Bologna Bolzano Brescia
Catania Como Firenze Genova
Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
Pescara Roma Torino Treviso
Trieste Varese Verona

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Registro Imprese Milano Monza Brianza Lodi
e Codice Fiscale N. 00709600159
R.E.A. Milano N. 512867
Partita IVA 00709600159
VAT number IT00709600159
Sede legale: Via Vittor Pisani, 25
20124 Milano MI ITALIA

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of goodwill

Notes to the consolidated financial statements: section on "Accounting policies" - paragraphs "Intangible assets with finite useful lives and goodwill", "Impairment of non-financial assets" and "Use of estimates", note 2 "Goodwill" and note 33 "Acquisition of subsidiaries"

Key audit matter	**Audit procedures addressing the key audit matter**
The consolidated financial statements at 31 December 2021 include goodwill of €41,795 thousand. The directors tested goodwill for impairment in order to identify any impairment losses on the cash-generating units (CGUs), to which goodwill is allocated, compared to their recoverable amount. The recoverable amount is based on value in use, calculated using the discounted cash flow model. The model is very complex and entails the use of estimates which, by their very nature, are uncertain and subjective, about: — the expected cash flows, calculated by taking into account the general economic performance and that of the group's sector, the actual cash flows for recent years and the projected growth rates; — the financial parameters used to calculate the discount rate. For the above reasons, we believe that the recoverability of goodwill is a key audit matter.	Our audit procedures included: — updating our understanding of the process adopted for impairment testing approved by the parent's board of directors; — analysing the criteria used to identify the CGUs and trace their carrying amounts to the consolidated financial statements; — updating our understanding of the process adopted to prepare the 2021-2023 business plan approved by the parent's board of directors (the "plan") from which the expected cash flows used for impairment testing have been derived, as well as analysing the reasonableness of the main assumptions used; — analysing the most significant discrepancies between the previous year business plans' figures and actual figures, in order to check the accuracy of the estimation process adopted by the directors; — comparing the cash flows used for impairment testing to the cash flows forecast in the plan and analysing any discrepancies; — involving experts of the KPMG network in the assessment of the reasonableness of the impairment testing model and related assumptions, including by means of a comparison with external data and information; — assessing the appropriateness of the disclosures provided in the notes about goodwill and related impairment tests.

Measurement of contract assets and liabilities and recognition of contract revenue

Notes to the consolidated financial statements: section on "Accounting policies" - paragraphs "Revenue from contracts with customers and contract assets/liabilities", "Use of estimates", note 9 "Contract assets and liabilities" and note 22 "Revenue – Other income"

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2021 include contract assets of €107,701 thousand, contract liabilities of €12,917 thousand and contract revenue of €434,552 thousand recognised using the percentage of completion method based on the output method. Measuring contract assets and liabilities and recognising contract revenue are based on the actual progress of the work performed at the reporting date measured on the basis of the contract consideration. These estimates are affected by many factors, including: — any claims for additional consideration for contract variations, price adjustments, incentives and claims compared to that contractually agreed; — any disputes with customers for fines and damages; — the contract activities' long timeframe, size and engineering and operating complexity. Therefore, we believe that the measurement of contract assets and liabilities and the recognition of contract revenue are a key audit matter.	Our audit procedures included: — updating our understanding of the process for the measurement of contract assets and liabilities and recognition of contract revenue; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls; — For a sample of contracts: – analysing contracts with customers in order to check that the significant factors have been appropriately considered by the group; – visiting work sites; – analysing the reasonableness of the assumptions underlying the measurement of the actual progress of the work performed through discussions with the contracts' project controllers and project managers, examining the correspondence with customers; – analysing the most significant discrepancies between past years' estimates and actual figures, in order to check the accuracy of the estimation process; – discussing any claims for additional consideration, fines and damages relating to contracts with customers with the internal legal experts and contracts' project managers and sending requests for information to the external legal advisors possibly involved; – analysing the events after the reporting date to gather useful information for the measurement of contract assets and liabilities and recognition of contract revenue; – assessing the appropriateness of the disclosures provided in the notes about contract assets, liabilities and revenue.

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit

evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

— obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 5 October 2020, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2020 to 31 December 2028.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion on the compliance with the provisions of Commission Delegated Regulation (EU) 2019/815

The parent's directors are responsible for the application of the provisions of Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (ESEF) to the consolidated financial statements to be included in the annual financial report.

We have performed the procedures required by Standard on Auditing (SA Italia) 700B in order to express an opinion on the compliance of the consolidated financial statements with Commission Delegated Regulation (EU) 2019/815.

In our opinion, the consolidated financial statements have been prepared in XHTML format and have been marked up, in all material respects, in compliance with the provisions of Commission Delegated Regulation (EU) 2019/815.

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The parent's directors are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31 December 2021 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2021 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the group's consolidated financial statements at 31 December 2021 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of Salcef Group S.p.A. are responsible for the preparation of a consolidated non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such consolidated non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the consolidated non-financial statement separately.

Rome, 31 March 2022

KPMG S.p.A.

(signed on the original)

Marco Giordano
Director of Audit

03 CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2021

Consolidated financial statements as at and for the year ended 31 December 2021

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	31.12.2021	31.12.2020
Non-current assets			
Intangible assets with finite useful lives	1	7,584,146	5,659,564
Goodwill	2	41,795,326	33,319,752
Property, plant and equipment	3	123,798,390	97,581,826
Right-of-use assets	4	14,197,300	17,911,806
- of which, with related parties		*1,324,881*	*1,596,427*
Equity-accounted investments	5	40,543	2,009,985
Other non-current assets	6	20,806,786	12,854,811
Deferred tax assets	7	19,984,980	21,502,154
Total non-current assets		**228,207,471**	**190,839,898**
Current assets			
Inventories	8	20,664,592	14,167,625
Contract assets	9	107,701,357	94,006,763
Trade receivables	10	89,108,678	80,070,149
- of which, with related parties		*282,145*	*517,078*
Current tax assets	11	4,121,517	4,366,106
Current financial assets	12	101,588,336	65,362,201
- of which, with related parties		*353,465*	*353,465*
Cash and cash equivalents	13	166,175,877	63,198,962
Other current assets	14	26,806,619	30,948,993
Total current assets		**516,166,976**	**352,120,799**
TOTAL ASSETS		**744,374,447**	**542,960,697**

LIABILITIES	Note	31.12.2021	31.12.2020
Equity attributable to the owners of the parent			
Share capital		141,544,532	62,106,165
Other reserves		238,422,972	164,734,003
Profit for the year		39,070,532	41,149,309
Total equity attributable to the owners of the parent		**419,038,036**	**267,989,477**
Share capital and reserves attributable to non-controlling interests		2,062,943	1,753,716
Profit for the year attributable to non-controlling interests		271,889	125,915
TOTAL EQUITY	**15**	**421,372,868**	**269,869,108**
Non-current liabilities			
Non-current financial liabilities	16	79,849,385	38,702,298
Lease liabilities	4-16	5,694,159	8,637,552
- of which, with related parties		*1,070,223*	*1,326,204*
Employee benefits	17	1,154,868	871,149
Provisions for risks and charges	18	3,818,911	3,855,356
Deferred tax liabilities	7	3,259,382	1,304,394
Other non-current liabilities	21	4,194,843	2,928,160
Total non-current liabilities		**97,971,548**	**56,298,909**
Current liabilities			
Non-current financial liabilities	16	62,544,658	74,705,065
Current portion of lease liabilities	4-16	5,128,669	5,834,881
- of which, with related parties		*329,658*	*30,296*
Current employee benefits	17	971,286	0
Contract liabilities	9	12,916,604	6,418,761
Trade payables	19	117,503,520	96,430,836
- of which, with related parties		*1,182,922*	*2,130,593*
Current tax liabilities	20	5,019,927	2,469,306
Other current liabilities	21	20,945,367	30,933,831
Total current liabilities		**225,030,031**	**216,792,680**
TOTAL LIABILITIES		**323,001,579**	**273,091,589**
TOTAL EQUITY AND LIABILITIES		**744,374,447**	**542,960,697**

INCOME STATEMENT

	Note	2021	2020
Revenue from contracts with customers		434,552,360	338,183,577
- of which, with related parties		-	*630,835*
Other income		5,588,606	2,101,079
Total	**22**	**440,140,966**	**340,284,656**
Raw materials, supplies and goods	23	(91,808,541)	(59,783,856)
Services	24	(171,090,842)	(138,263,147)
- of which, with related parties		*(454,092)*	*(1,163,610)*
Personnel expense	25	(93,726,356)	(70,656,506)
Amortisation, depreciation and impairment losses	26	(27,363,104)	(20,373,396)
Impairment losses	27	(1,780,465)	(230,272)
Other operating costs	28	(9,839,764)	(9,458,066)
Internal work capitalised	29	23,636,079	16,806,332
Total costs		**(371,972,993)**	**(281,958,911)**
Operating profit		**68,167,973**	**58,325,745**
Financial income	30	3,375,252	1,833,235
Financial expense	30	(11,209,203)	(19,977,047)
- of which, with related parties		*(69,838)*	*(71,785)*
Pre-tax profit		**60,334,022**	**40,181,933**
Income taxes	7	(20,991,601)	1,093,291
Profit for the year		**39,342,421**	**41,275,224**
Profit for the year attributable to:			
Non-controlling interests		271,889	125,915
Owners of the parent		39,070,532	41,149,309
Earnings per share:			
Basic earnings per share	34	0.76	1.01
Diluted earnings per share	34	0.68	0.80

STATEMENT OF COMPREHENSIVE INCOME

	Note	2021	2020
Profit for the year		**39,342,421**	**41,275,224**
Other comprehensive income/(expense) that will not be subsequently reclassified to profit or loss			
Net actuarial losses	17	(33,549)	(11,798)
Related tax		9,501	3,341
Total		**(24,048)**	**(8,457)**
Other comprehensive income/(expense) that will be subsequently reclassified to profit or loss			
Net hedging losses	12-16	(1,720,017)	(381,887)
Related tax		412,804	91,652
Net exchange gains/(losses)		2,216,529	(1,256,248)
Total		**909,316**	**(1,546,483)**
Other comprehensive income (expense), net of tax		**885,268**	**(1,554,940)**
Comprehensive income		**40,227,689**	**39,720,284**
Attributable to:			
Non-controlling interests		271,889	125,915
Owners of the parent		39,955,800	39,594,369

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Other reserves	Reserve for treasury shares	Actuarial reserve	Hedging reserve	Translation reserve	Reserve for warrants	Retained earnings	Profit for the 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 year										41,149,309	125,915	41,275,224
Other comprehensive expense					(8,457)	(290,235)	(1,256,248)					(1,554,940)
Comprehensive income		**-**	**-**	**-**	**(8,457)**	**(290,235)**	**(1,256,248)**	**-**	**-**	**41,149,309**	**125,915**	**39,720,284**
Allocation of prior year profit			1,246,036						26,414,199	(27,660,235)		-
Exercise of warrants		2,106,165	6,437,239					2,934,887				11,478,291
Repurchase of treasury shares				(3,612,456)								(3,612,456)
Dividend distribution									(16,904,404)			(16,904,404)
Other variations/reclassifications			(52,490)						8,888		1,751,972	1,708,370
Total owner transactions		**2,106,165**	**7,630,785**	**(3,612,456)**	**-**	**-**	**-**	**2,934,887**	**9,518,683**	**(27,660,235)**	**1,751,972**	**(7,330,199)**
Balance at 31 December 2020	**15**	**62,106,165**	**102,483,069**	**(3,612,456)**	**(237,030)**	**(302,034)**	**(4,963,889)**	**(4,675,218)**	**76,041,561**	**41,149,309**	**1,879,631**	**269,869,108**

	Note	Share capital	Other reserves	Reserve for treasury shares	Actuarial reserve	Hedging reserve	Translation reserve	Reserve for warrants	Retained earnings	Profit for the year	Equity att. to non-controlling interests	Equity
Balance at 1 January 2021	**15**	**62,106,165**	**102,483,069**	**(3,612,456)**	**(237,030)**	**(302,034)**	**(4,963,889)**	**(4,675,218)**	**76,041,561**	**41,149,309**	**1,879,631**	**269,869,108**
Profit for the year										39,070,532	271,889	39,342,421
Other comprehensive income					(24,048)	(1,307,213)	2,216,529					885,268
Comprehensive income		**-**	**-**	**-**	**(24,048)**	**(1,307,213)**	**2,216,529**	-	**-**	**39,070,532**	**271,889**	**40,227,689**
Allocation of prior year profit			1,227,256						39,922,053	(41,149,309)		-
Exercise of warrants		74,638,367	24,416,473					4,675,218				103,730,058
Repurchase of treasury shares				(4,752,702)								(4,752,702)
Use of treasury shares			217,997	1,882,028								2,100,025
Dividend distribution									(21,314,116)			(21,314,116)
Share capital increase		4,800,000	26,547,059									31,347,059
Other variations/reclassifications			(50,935)						33,370		183,312	165,747
Total owner transactions		**79,438,367**	**52,357,850**	**(2,870,674)**	**-**	**-**	**-**	**4,675,218**	**18,641,307**	**(41,149,309)**	**183,312**	**111,276,071**
Balance at 31 December 2021	**15**	**141,544,532**	**154,840,919**	**(6,483,130)**	**(261,078)**	**(1,609,247)**	**(2,747,360)**	**-**	**94,682,868**	**39,070,532**	**2,334,832**	**421,372,868**

STATEMENT OF CASH FLOWS

		2021	2020
	Profit for the year	**39,342,421**	**41,275,224**
	Amortisation and depreciation	27,363,104	20,373,396
	Impairment losses	1,780,465	230,272
	Net financial expense	7,833,951	18,143,812
	Net losses on the disposal of property, plant and equipment		59,851
	Other adjustments for non-monetary items	(457,200)	(892,763)
	Accruals	1,218,559	4,959,915
	Income taxes	20,991,601	(1,093,291)
(A)	**Cash flows from operating activities before changes in working capital**	**98,072,901**	**83,056,416**
	(Increase) / decrease in inventories	(6,165,812)	(1,006,910)
	(Increase) / decrease in contract assets/liabilities	(5,580,081)	5,495,240
	(Increase) / decrease in trade receivables	(7,083,899)	3,180,303
	Increase / (decrease) in trade payables	17,712,234	242,321
	(Increase) / decrease in other current and non-current assets	(4,483,456)	(8,665,588)
	Increase / (decrease) in other current and non-current liabilities	(10,066,487)	(83,621)
(B)	**Changes in working capital**	**(15,667,500)**	**(838,254)**
	Cash flows generated by operating activities (A+B)	**82,405,401**	**82,218,162**
	Interest paid	(985,747)	(1,348,294)
	Income taxes paid	(12,472,093)	(12,157,545)
(C)	**Cash flows generated by operating activities**	**68,947,561**	**68,712,323**
	Investing activities		
	Interest collected	155,153	245,983
	Investments in intangible assets	(3,670,898)	124,983
	Acquisition of property, plant and equipment	(46,028,636)	(32,865,557)
	Investments in right-of-use assets	0	(1,187,208)
	Acquisition of equity investments and non-current securities	0	(209,268)
	Investments in securities and other financial assets	(53,585,918)	(41,284,952)
	Proceeds from the sale of property, plant and equipment	4,968,253	36,504
	Proceeds from the sale of equity investments and non-current securities	20,735,035	750,000
	Acquisition/sale of subsidiaries net of cash acquired	(5,487,152)	(28,801,827)
	Exchange differences	(2,613,772)	(914,424)
(D)	**Cash flows used in investing activities**	**(85,527,935)**	**(104,105,767)**
	Financing activities		
	Disbursement of loans	82,000,000	77,813,500
	Repayment of loans	(44,449,043)	(33,622,344)
	Repayment of lease liabilities	(6,647,425)	(5,018,284)
	Change in other financial liabilities	7,684,135	(4,376,349)
	Proceeds from the issue of company shares	107,036,440	2,106,165
	Repurchase of treasury shares	(4,752,702)	(3,612,456)
	Dividends distributed	(21,314,116)	(16,904,404)
(E)	**Cash flows generated by financing activities**	**119,557,289**	**16,385,828**
(F)	**Net change in cash and cash equivalents (C+D+E)**	**102,976,915**	**(19,007,616)**
(*)	**Opening cash and cash equivalents**	**63,198,962**	**82,206,578**
	Net change in cash and cash equivalents	102,976,915	(19,007,616)
(*)	**Closing cash and cash equivalents**	**166,175,877**	**63,198,962**

(*) Cash and cash equivalents are net of current bank loans and borrowings

Notes to the consolidated financial statements

as at and for the year ended 31 December 2021

General information on the financial statements preparer

Salcef Group S.p.A. (the "parent") is a company limited by shares with registered office in Rome (Italy) in Via di Pietralata 140. It is the parent of a group of specialist companies active in the design, construction and maintenance of systems for railway infrastructure and tram and metro networks in Italy and abroad.

The parent's ordinary shares are listed on the STAR segment of the Euronext Milan market organised and managed by Borsa Italiana S.p.A..

The consolidated financial statements as at and for the year ended 31 December 2021 include the financial statements of the parent and those of its subsidiaries (collectively, the "Salcef Group" or the "group"). Salcef Group S.p.A.'s board of directors approved the consolidated financial statements and authorised them for publication on 16 March 2022.

At the date of preparation of these consolidated financial statements, Finhold S.r.l. (the "ultimate parent") holds the absolute majority of Salcef Group S.p.A. shares but does not manage or coordinate it.

On 6 October 2020, in accordance with articles 70.8 and 71.1-bis of the Issuers' Regulation, Salcef Group S.p.A.'s board of directors resolved to opt out of publishing the disclosures required by Annex 3B to the Issuers' Regulation for significant mergers, demergers, share capital increases through contribution in kind, acquisitions and sales.

Reporting standards and compliance with the IFRS

In accordance with Regulation (EC) no. 1606/2002 of 19 July 2002, the consolidated financial statements at 31 December 2021 have been prepared in accordance with 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), previously named the Standard Interpretations Committee (SIC), in force at the reporting date.

Basis of presentation

These consolidated financial statements at 31 December 2021 consist of the income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and these notes.
Among the various options for the presentation of the statement of financial position, the group has opted to classify assets and liabilities as current or non-current.
The income statement is presented with the classification of the individual captions by nature, which is consistent with the group's internal management reporting model and is therefore deemed more indicative than presenting the captions by use, as it provides more reliable and meaningful information according to the segment to which each caption belongs.

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 year 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 group has prepared the statement of cash flows using the indirect method, classifying cash flows as generated by operating, investing and financing activities.

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

Pursuant to Consob resolution no. 15519 of 28 July 2006, any income and expense on non-recurring transactions are recognised separately in profit or loss. Similarly, the balances of related party transactions are presented separately in the financial statements. Note 32 provides information and details of related party transactions.
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 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 these 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 the consolidated financial statements as at and for the year ended 31 December 2021 on a going concern basis and to give a true and fair view of its financial position, financial performance and cash flows for the year. Management has made use of estimates as described later.

Consolidation scope and basis of consolidation

The consolidated financial statements at 31 December 2021 have been prepared by consolidating the parent's separate financial statements at the same date and the financial statements 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.

The 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' 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:

Consolidation scope at 31 December 2021

	REGISTERED OFFICE	CURRENCY	Share/quota capital/ consortium fund	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	Landsberg Am Lech - Germany	Euro	25,000		100%	Consolidation
Coget Impianti S.r.l. single-member company	Corteno Golgi (BS) - Italy	Euro	1,000,000		100%	Consolidation
Salcef USA Inc.	Wilmington (DE) - USA	USD	10,000,000		100%	Consolidation
Salcef Deutschland GmbH (*)	Landsberg Am Lech - Germany	Euro	162,750		100%	Consolidation
Bahnsicherung Nord GmbH	Henstedt-Ulzburg - Germany	Euro	25,000	100%		Consolidation
Kampfmittelraumung Nord GmbH	Henstedt-Ulzburg - Germany	Euro	25,000	100%		Consolidation
Schweissteam Nord GmbH	Henstedt-Ulzburg - Germany	Euro	25,000	100%		Consolidation
Bauhau Nord GmbH	Henstedt-Ulzburg - Germany	Euro	75,000	100%		Consolidation
Sartorius Nova-Signal GmbH	Henstedt-Ulzburg - Germany	Euro	25,000	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
Delta / Peoples Joint Venture	Ashtabula - Ohio	USD	-	70%		Consolidation
Consorzio Stabile Itaca S.c.a.r.l.	Rome - Italy	Euro	40,000	96.06%		Consolidation
Associates and joint arrangements						
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%		Equiy
RTS GmbH	Seevetal - Germany	Euro	12,500	50%		Equity

(*) formerly Verwaltung und Beteiligung Nord GmbH

As regards the changes in the consolidation scope since 31 December 2020, on 5 May 2021, Salcef Group S.p.A. signed a contract to acquire the entire share capital of Verwaltung und Beteiligung Nord GmbH ("Verwaltung"), the parent of the German group that includes Bahnbau Nord GmbH, Kampfmittelraumung Nord GmbH, Schweissteam Nord GmbH and Bahnsicherung Nord GmbH, based in Henstedt-Ulzburg (near Hamburg) and active in the construction and maintenance of railway equipment, as well as other railway activities. The signing was completed on 5 May 2021 and the closing took place on 25 May 2021.

The total consideration paid to acquire Verwaltung's entire share capital was approximately €7.8 million and the contract includes an earn-out clause in favour of the sellers, based on the Verwaltung Group's gross operating profit and revenue until the end of 2022.

The consideration is being paid in several tranches: €6.4 million before the closing, of which approximately €4.4 million in cash and the remainder in Salcef Group S.p.A. treasury shares (153,848); and €1.3 million in three annual instalments, the last of which is due in 2024.

There are also mechanisms for adjusting the price downwards if certain conditions are met.

The acquisition was financed by the parent's own funds, including treasury shares.

On 21 June 2021, Verwaltung changed its name to Salcef Deutschland GmbH.

Reference should be made to note 33 for additional details on the acquisition, where the information required by IFRS 3 on business combinations is provided.

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 year attributable to non-controlling interests is presented separately in the income statement;

- investments in joint operations are consolidated using the proportionate method whereby:
  - the carrying amounts of their assets, liabilities, costs and revenue are included in full in proportion to 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 transactions among the companies consolidated on a proportionate basis, including dividends distributed among the group companies, are eliminated;

- investments in associates and joint ventures 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 business combination 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, considered part of the transfer price, is measured at its acquisition-date fair value and the obligation to pay contingent consideration is classified as other current or non-current financial liabilities.

Any subsequent fair value gains or losses are recognised in profit or loss. The identifiable net assets acquired are generally measured at fair value at the acquisition date. 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 immediately recognised in profit or loss while 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.
If the fair value of the assets, liabilities and contingent liabilities can only be determined provisionally, the business combination is recognised on the basis of such provisional amounts. Any adjustments arising from the completion of the measurement process are recognised within 12 months of the acquisition date, increasing (decreasing) the provisional amount recognised for an identifiable asset (liability) with a corresponding decrease (increase) in goodwill. These adjustments are recognised as if the business combination had been completed at the acquisition date.

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 year 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 at 31 December 2021

CURRENCY	Code	31.12.2021	
		Spot closing rate	Average rate
Polish zloty	PLN	4.5969	4.5652
Egyptian lira	EGP	17.8012	18.5678
Romanian leu	RON	4.9490	4.9215
Croatian kuna	HRK	7.5156	7.5284
UAE dirham	AED	4.1595	4.3436
US dollar	USD	1.1326	1.1827
Saudi riyal	SAR	4.2473	4.4353
Norwegian krone	NOK	9.9888	10.1633
Swiss franc	CHF	1.0331	1.0811
Australian dollar (Australia)	AUD	1.5615	1.5749

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.

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 following table shows the estimated useful lives of the various asset categories, shown as annual depreciation rates:

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

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 any 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 making 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. When the lease liability is remeasured, the group adjusts the right-of-use asset accordingly.

The group has opted to use the following practical expedients permitted by IFRS 16:

- it applied the same discount rate to leases with similar characteristics in terms of residual term for classes of similar underlying assets in similar locations;
- it excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- it determined the contractual variables (especially the lease term) using hindsight;
- upon initial application of IFRS 16, for contracts previously classified as operating leases, the parent recognised a right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position before the date of initial application;
- upon initial application of IFRS 16, for contracts previously classified as finance leases, the parent deemed the carrying amount of the right-of-use asset and the lease liability to be the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17.

The group also applies the practical expedients for low-value assets and short-term leases. Accordingly, the group has elected not to recognise right-of-use assets and lease liabilities for leases for which the underlying asset, new and considered individually, is worth less than €5,000, and leases with terms of less than 12 months. The group recognises the related lease payments as an expense over the term of the lease.
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 at least 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 amortisation or depreciation, 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 year 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 are 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 year when 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 a 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. These 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 the 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 whether there 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 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.
In accordance with IFRIC 19, when the additional conversion warrants are exercised, 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. When the new warrants are exercised, the group recognises an increase in equity equal to the exercise price. At the reporting date, both the additional conversion warrants and the new warrants issued by Salcef Group S.p.A. had been entirely settled due to their conversion or expiry when the acceleration condition provided for in their regulations materialised.

Derivatives, including hedge accounting

The group holds derivatives specifically for hedging interest rate and currency 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.

This is 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 clusters 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 (probability of default - PD, loss given default - LGD and exposure at default - 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 parent 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 treasury 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.
The costs incurred for issuing equity instruments are recognised as a decrease in equity to the extent they are marginal costs directly attributable to the performance of the transaction, which would have otherwise been avoided.

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.
Contributions to be paid to defined contribution plans are recognised as costs in profit or loss over the period of employee service. Contributions paid in advance are recognised under assets to the extent that the advance payment will decrease the future payments or generate a repayment.

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.

Provisions for risks and charges

The group recognises 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 year 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 (corporate income tax). The tax consolidation agreement governs the income/expense and financial transactions and the mutual responsibilities and obligations between the parent and the consolidated companies. It has a three-year term from 2020 to 2022 and was signed with the subsidiaries Salcef S.p.A., Euro Ferroviaria S.r.l., RECO S.r.l. and SRT S.r.l.. Overail S.r.l. and Coget Impianti S.p.A. joined the scheme in 2019 and 2020, respectively.

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.

Any 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 (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 year 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 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.

Share-based payments

In share-based payment transactions settled with equity instruments of the parent, the grant-date fair value of the incentives granted to employees (rights to receive shares) is recognised under personnel expense, with a corresponding increase in equity. The expense is allocated over the vesting period, during which the satisfaction of the performance conditions is assessed and the beneficiary must continue to satisfy the service condition in order to have the right to the incentives. The vesting period commences at the grant date, i.e., the date on which the group and the employee accept the share-based payment agreement, acknowledging its terms and conditions.

The relevant cost is adjusted to reflect the actual number of incentives for which the service and performance conditions have been met and the non-market results achieved, so that the final cost recognised is based on the number of incentives that meet the above conditions at the vesting date.

Operating segments

The 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, the 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 these 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 these consolidated financial statements.
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 according to the information available on 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 these 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 these consolidated financial statements, the European Union has endorsed certain standards and interpretations that are not yet mandatory and that the parent will adopt in subsequent years, if applicable. These amendments to existing standards or interpretations are not expected to have a significant impact on the group's consolidated financial statements. In addition, other standards and amendments to existing standards issued by the IASB or new interpretations issued by the IFRIC are currently undergoing the EU endorsement process. These new standards, amendments and interpretations are summarised below:

- Onerous contracts - cost of fulfilling a contract (Amendments to IAS 37): the amendments clarify what costs an entity considers in assessing whether a contract is onerous. The amendments are effective for annual periods beginning on or after 1 January 2022 and entities apply the amendments to contracts for which the entity has not yet fulfilled its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. At that date, the cumulative effects of application of the amendments adjust the opening balance of retained earnings or other equity items as the case may be;
- Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12): the amendments narrow the scope of application of the initial recognition exemption of deferred tax to exclude transactions in which equal amounts of deductible and taxable temporary differences arise on initial application. The amendments are effective for annual reporting periods beginning on or after 1 January 2023;
- Annual improvements to IFRS Standards (2018-2020 cycle), which are effective for annual reporting

periods beginning on or after 1 January 2022;

- Proceeds before intended use (Amendments to IAS 16): these amendments are effective for annual reporting periods beginning on or after 1 January 2022;
- Reference to the Conceptual Framework (Amendments to IFRS 3): these amendments are effective for annual reporting periods beginning on or after 1 January 2022;
- Classification of liabilities as current or non-current (Amendments to IAS 1): these amendments are effective for annual reporting periods beginning on or after 1 January 2023;
- IFRS 17 Insurance contracts (and subsequent amendments) which replaces IFRS 4 and is effective for annual reporting periods beginning on or after 1 January 2023;
- Disclosure of accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2): these amendments are effective for annual reporting periods beginning on or after 1 January 2023;
- Definition of accounting estimates (Amendments to IAS 8): these amendments are effective for annual reporting periods beginning on or after 1 January 2023.

At the date of preparation of these consolidated financial statements, the group does not expect the new amendments or standards will have a significant impact on it.

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, as well as operational risk and management risk.

Inflation and production cost risk

Like most of the operators in the public works construction and maintenance sector in Europe, the group is exposed to the risk of increases in the direct costs linked to the significant inflationary phenomena affecting Italy and the majority of the countries in the world. Specifically, the cost of labour, raw materials, semi-finished products and finished goods has jumped, as has the costs of subcontractors and other service providers. This trend will probably be even more pronounced in 2022 compared to 2021. In addition, the effects of the conflict in Ukraine are already very visible with hikes in many production costs, chiefly fuel and energy in general, and this will have a significant impact on the group's operations given its high use of fossil fuels to operate the railway vehicles. Pursuant to the current regulations, most of the contracts in its order backlog do not have price revision clauses, although many governments and administrations are introducing measures to lessen contractors' immediate difficulties and especially to regulate a price revision system for the future.

These factors and events will have a negative impact on the group's profitability and also risk slowing down production due to shortages of materials, transporters and service providers.

Risk of the loss of qualifications and certifications

Similarly to all the other operators in the public sector construction industry, the group is exposed to the risk that its production activities could be restricted should its qualifications and inclusion in supplier lists, SOA certification and other authorisations necessary for it to carry out its business be lost or limited, including as a result of measures taken by authorities and/or customers following disciplinary proceedings. These events would limit its operations and possible participation in calls for tenders.

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.

Currency risk

The group carries out nearly all its main transactions, except for those in North America, 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.
All the revenue and costs that Delta Railroad Construction Inc. invoices and incurs are in local currency (USD) and, accordingly, there is no currency risk on contract management.
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 currency risk hedging policy.
The group decided to neutralise fluctuations in exchange rates on a specific transaction, i.e., it entered into currency forwards to hedge the cash flows on the loan in US dollars that Salcef Group S.p.A. granted to its subsidiary Salcef USA Inc..

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.

Operational risks

The production and industrial nature of the group's Italian and foreign operations means that the group is exposed to the risk of decreased production capacity in more than one business line, which could be caused by several factors, the main ones being: accidents or extraordinary events at work sites and facilities involving the destruction of machinery and/or injuries to employees; customer's application of early termination clauses included in contracts with customers; measures issued by domestic, foreign and supranational bodies curbing the parent's bargaining and operating capacity; the cancellation, suspension or downgrading of the operating companies from state-owned or private customers' supplier databases and/or of authorisations to participate in calls for tender and the performance of public works.

To the extent technically possible, the group applies a risk management policy aimed at minimising operational risks, including the agreement of relevant insurance policies.

Notes to the main statement of financial position captions

ASSETS

NON-CURRENT ASSETS

1 Intangible assets with finite useful lives

Intangible assets with finite useful lives amount to €7,584 thousand, compared to €5,659 thousand at 31 December 2020. This caption and changes in the year are analysed in the table below.

(€'000)

	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Assets under development	Other	TOTAL
Balance at 31 December 2020:					
Cost	1,658	623	3,793	6,728	12,802
Accumulated amortisation	(1,060)	(569)	-	(5,514)	(7,143)
Carrying amount at 31 December 2020	**598**	**54**	**3,793**	**1,214**	**5,659**
Investments - Historical cost	240	5	2,494	142	2,880
Disposals - Historical cost					
Other variations - Historical cost	73				73
Reclassifications - Historical cost	43		(1,038)	995	
Exchange differences - Historical cost	1				1
Amortisation	(280)	(7)		(710)	(997)
Disposals - Acc. amortisation					
Other variations - Acc. amortisation	(33)				(33)
Reclassifications - Acc. amortisation					
Exchange differences - Acc. amortisation	(1)				
Balance at 31 December 2021:					
Cost	2,016	628	5,248	7,865	15,757
Accumulated amortisation	(1,374)	(576)	-	(6,224)	(8,173)
Carrying amount at 31 December 2021	**642**	**52**	**5,248**	**1,641**	**7,584**

Industrial patents and intellectual property rights of €642 thousand mainly consist of the industrial patents acquired by SRT S.r.l. for railway technologies (€283 thousand), intellectual property rights and patents held by Overail S.r.l. (€57 thousand), the software user licences acquired by Salcef Group S.p.A., Salcef S.p.A. and RECO S.r.l. (€96 thousand) and intellectual property rights of Delta Railway Construction Inc. and Salcef Deutschland GmbH (€49 thousand).

Concessions, licences and trademarks are mainly comprised of the costs incurred by the parent to register the Salcef Group trademark (€47 thousand).

Assets under development and payments on account include costs incurred internally by SRT S.r.l. to design new railway machinery (€4,456 thousand) and by Overail S.r.l. to develop railway materials and acquire the related patents (€793 thousand).

Other mainly consists of costs incurred internally by SRT S.r.l. to design new railway machinery (€1,374 thousand) and costs incurred to obtain the certifications and attestations to perform its activities, such as the SOA and occupational safety certifications (€9 thousand), which are amortised over the term of such certifications and attestations.

2 Goodwill

(€'000)

	31.12.2021	31.12.2020	Variation
Carrying amount	41,795	33,320	8,475
Total	**41,795**	**33,320**	**8,475**

At the reporting date, this caption amounts to €41,795 thousand (31 December 2020: €33,320 thousand) and includes goodwill recognised on the acquisition of businesses or business units.
Specifically, it includes:

- €423 thousand on the acquisition of the permanent way systems business unit in 2002;
- €682 thousand on the additional acquisition of a business unit related to the group's core business (construction) in March 2011;
- €831 thousand on the acquisition of the electrical traction business unit in 2008;
- €242 thousand on the acquisition of an investee which generated goodwill on the design business unit in 2012;
- €484 thousand for the 2015 acquisition of a business unit from Tuzi Costruzioni Generali S.p.A., active in the permanent way systems, construction and electrical traction sector;
- €913 thousand arising on the contribution of a business unit by Vianini S.p.A. to Vianini Industria S.r.l. (now named Overail S.r.l.) in 2017 (€392 thousand) and on the difference between the cost incurred by the parent to acquire the investment in Vianini Industria S.r.l. and its share of the investee's equity at the consolidation date (€521 thousand);
- €6,630 thousand arising on the acquisition of the investment in Salcef Bau GmbH (in 2018) and the Salcef Deutschland Group (in May 2021);
- €7,082 thousand arising on the acquisition of the investment in Coget Impianti S.p.A. in 2019;
- €24,508 thousand arising on the difference between the cost incurred by Salcef USA Inc. to acquire the investment in Delta Railroad Construction Inc. and its share of the subsidiary's equity at the consolidation date.

At the reporting date, the group tested the cash-generating units (CGUs) to which goodwill had been allocated for impairment. Specifically, the goodwill was allocated to the following CGUs:

(€'000)

	31.12.2021	31.12.2020	Variation
Permanent way systems	1,589	1,589	0
Salcef Deutschland	6,630	677	5,953
Delta Railroad Construction Inc.	24,508	21,986	2,522
Energy, signalling and telecommunications	7,913	7,913	0
Design	242	242	0
Railway materials	913	913	0
Total	**41,795**	**33,320**	**8,475**

At 31 December 2021, this goodwill was tested for impairment testing by determining the value in use of the aforementioned CGUs applying the discounted cash flow (DCF) method to the estimated cash flows for the current three-year period (2022-2024), based on the CGUs' forward-looking financial figures, to which a WACC of 6.97% was applied for the permanent way systems, energy and signalling, railway materials and design CGUs, a WACC of 5.93% was applied for the Salcef Deutschland CGU and a WACC of 7.32% was applied for the Delta Railroad Construction Inc. CGU.

The operating cash flows considered for the impairment test were taken from the forward-looking financial figures in the 2021-2023 plan approved by Salcef Group S.p.A.'s board of directors.
In addition, estimated cash flows for the third year of the explicit forecast period (2024) were determined on the basis of the performance that can be inferred from the 2021-2023 plan.

The discount rate was estimated as follows:

- the risk free rate was determined to be equal to the average yield on ten-year government securities: 1.0% for Italy (which is the main country for the permanent way systems, energy, signalling and telecommunications, design and railway materials CGUs), 0% for Germany (which is the main country for the Salcef Deutschland CGU) and 1.5% for the United States (which is the main country for the Delta Railroad Construction Inc. CGU);
- the equity risk premium was 5.5%;
- levered beta of 0.9 was determined considering a sample of listed companies operating in the same sector as the group;
- the additional risk premium was 3%.

The cost of debt was estimated to be 2.3% for Italy, 1.4% for Germany and 2.5% for the United States, plus a specific spread (2%) based on an analysis of the credit spreads of a sample of comparable companies.

The terminal value was calculated using the perpetuity formula.

An average nominal growth rate of cash flows available after the explicit period and perpetually (g-rate) of 1.5% was used to determine the terminal value. The value in use thus calculated was compared with the carrying amount of the net invested operating capital of the same CGUs, including goodwill. The results of the impairment test were higher than the CGUs' carrying amount. A sensitivity analysis, with different parameters than those used for the impairment test, was performed considering a reduction in profitability (gross operating profit) in 2022 and 2023.
The analysis showed that impairment losses would not be generated.

The difference in the goodwill allocated to the Salcef Deutschland CGU shown in the table above is due to the acquisition of the Bahnbau Nord Group acquired in May 2021 (see note 33) while that related to the Delta Railroad Construction Inc. CGU is due to the change in the Euro/USD exchange rate (€1,835 thousand), the change in the fair value of the contingent consideration (€1,868 thousand) and completion of the PPA procedure (€1,181 thousand) which identified gains on some assets owned by the acquirees and the related deferred tax liabilities. As a result, this amount was accounted for by increasing the carrying amount of the assets acquired (net of the deferred tax liabilities) and decreasing that of goodwill.

3 Property, plant and equipment

This caption mainly consists of plant and machinery used in production.
The following table shows a breakdown of the caption and changes of the year:

(€'000)

	Land	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction	TOTAL
Balance at 31 December 2021:							
Historical cost	3,419	14,475	201,441	16,917	12,584	13,445	262,281
Accumulated depreciation	(123)	(1,890)	(142,191)	(15,146)	(5,350)		(164,699)
Carrying amount at 31 December 2020	**3,296**	**12,585**	**59,250**	**1,772**	**7,234**	**13,445**	**97,582**
Investments - Historical cost	982	160	21,503	1,312	4,903	17,520	46,379
Disposals - Historical cost		(195)	(4,632)	(1,170)	(3,436)	(562)	(9,995)
Reclassifications - Historical cost			4,744	64	24	(4,831)	
Impairment losses - Historical cost							
Other variations - Historical cost			7,726				7,726
Exchange differences - Historical cost	17	35	1,591	233	313	(247)	1,942
Depreciation	(13)	(439)	(17,024)	(1,057)	(1,435)		(19,969)
Disposals - Acc. depreciation		16	3,265	1,125	620		5,027
Reclassifications - Acc. depreciation							
Impairment losses - Acc. depreciation							
Other variations - Acc. depreciation			(3,404)				(3,404)
Exchange differences - Acc. depreciation	(7)	(22)	(1,216)	(212)	(34)		(1,490)
Balance at 31 December 2021:							
Historical cost	4,418	14,475	232,373	17,356	14,388	25,323	308,334
Accumulated depreciation	(143)	(2,335)	(160,570)	(15,289)	(6,200)		(184,536)
Carrying amount at 31 December 2021	**4,275**	**12,140**	**71,803**	**2,067**	**8,189**	**25,323**	**123,798**

The increases in 2021 are part of the major investment plan in property, plant and equipment implemented by the Salcef Group. Most of the investments are eligible for the tax benefits introduced by the Industry 4.0 legislation.
These investments include the acquisition of Salcef Deutschland GmbH, which joined the group in May 2021, contributiing property, plant and equipment with a carrying amount of €2,670 thousand at the acquisition date, including €5,999 thousand recognised as an increase in historical cost and €3,329 thousand as an increase in accumulated depreciation. These amounts are shown in the "Other variations" line in the table with the gains of €1,727 thousand identified upon completion of the PPA procedure for Delta Railroad Construction Inc. (see note 2) and related accumulated depreciation (€75 thousand).

The decreases of €4,968 thousand relate to assets that are no longer used in production or relevant to the group's activities.
Land and buildings include SRT S.r.l.'s operating offices (€8,331 thousand), and related land (€938 thousand), the industrial site housing Overail S.r.l.'s railway sleeper production plant in Aprilia (€6,640 thousand), the plot of land acquired by the parent in 2021 as part of its project to transfer and expand its administrative offices (€982 thousand) and the land and buildings contributed by Delta Railroad Construction Inc. (€453 thousand).
On the other hand, the Aprilia industrial facility is divided into land of €2,284 thousand and the building of €4,357 thousand.

The increases in plant and machinery mainly refer to the purchase of assets with technical features and performance suitable for the group's operations and significant parts of these assets, including for extraordinary maintenance to improve their efficiency and output.

The other assets (€8,189 thousand) mainly consist of motor vehicles and cars (€3,261 thousand) and office furniture, fittings and equipment (€403 thousand).

Assets under construction and payments on account (€25,324 thousand) include costs incurred for the construction and extraordinary maintenance of machinery and equipment not yet in use, mainly performed by the subsidiary SRT S.r.l. on behalf of Salcef S.p.A. and Euro Ferroviaria S.r.l. (€6,341 thousand). They also include costs incurred by Overail S.r.l. (€11,303 thousand) to expand the Aprilia production plant, related to activities not yet completed and/or pending inspection at the reporting date, and costs incurred by Salcef Group S.p.A. to refurbish the property in Rome where the administrative offices will be located (€4,499 thousand).

4 Right-of-use assets

(€'000)

RIGHT-OF-USE ASSETS	31.12.2021	31.12.2020	Variation
Carrying amount	14,197	17,912	(3,715)
Total	**14,197**	**17,912**	**(3,715)**

These mainly refer to the owner-operated assets (production machinery, vehicles) and buildings used as offices that the group occupies under operating leases. The group discounts the total amount of lease payments due and recognises it in this caption in accordance with IFRS 16. The assistance of an independent expert was used for the discounting.

Changes in the year in right-of-use assets and lease liabilities are summarised below.

(€'000)

RIGHT-OF-USE ASSETS	Land and buildings	Plant and machinery	Other assets	TOTAL
Carrying amount at 31 December 2020	4,085	13,280	547	17,912
Increases	1,946		518	2,464
Change in scope				0
Depreciation	(1,720)	(4,188)	(489)	(6,398)
Exchange differences	200		20	220
Derecognition				0
Carrying amount at 31 December 2021	**4,510**	**9,092**	**596**	**14,197**

(€'000)

LEASE LIABILITIES	
Carrying amount at 31 December 2020	14,472
Payments	(6,647)
Increases	2,464
Exchange difference	248
Interest expense	286
Carrying amount at 31 December 2021	**10,823**
of which, non-current	*5,694*
of which, current	*5,129*

At the reporting date, the parent has signed a finance lease with a major leasing company but the underlying asset (the building to which it will relocate its administrative offices) is not yet available as it is still being restructured. Therefore, the consolidated financial statements do not include the right-of-use asset or lease liability which will not be recognised until the restructuring has been completed (at the date of preparation of these consolidated financial statements, no information about the completion date is available).

5 Equity-accounted investments

Equity-accounted investments amount to €41 thousand at 31 December 2021, compared to €2,010 thousand at 31 December 2020.

(€'000)

	31.12.2021	31.12.2020	Variation
Associates	38	38	(0)
Joint arrangements	0	1,969	(1,969)
Other companies	3	3	(0)
Total	**41**	**2,010**	**(1,969)**

The breakdown and details of the changes in the year are reported below:

(€'000)

	REGISTERED OFFICE	31.12.2021	31.12.2020	Variation
Associates and joint arrangements				
Frejus S.c.a.r.l.	Bologna - Italy	8	8	-
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	Rome - Italy	25	25	-
Sesto Fiorentino S.c.a.r.l.	Rome - Italy	5	5	-
Herzog/Delta A Joint Venture Toronto	Toronto - Canada	0	159	(159)
Herzog/Delta A Joint Venture California	St Joseph - USA	0	35	(35)
Railworks/Delta A Joint Venture Minnesota	New York - USA	0	1,775	(1,775)
Other companies				
Sassariolbia S.c. a r.l.	Rome - Italy	1	1	-
Concise Consorzio Stabile S.c.a r.l.	Pordenone - Italy	1	1	-
Consorzio Telese S.c.a.r.l.	Rome - Italy	1	1	-
Total		**41**	**2,010**	**(1,969)**

(€'000)

	Associates	Joint arrangements	Other companies	Total
Carrying amount at 31 December 2020	38	1,969	3	2,010
Change in scope	-	-	-	-
Increases/Capital increases	-	-	-	-
Decreases	-	(1,969)	-	(1,969)
Exchange differences	-	-	-	-
Impairment losses	-	-	-	-
Carrying amount at 31 December 2021	**38**	**-**	**3**	**41**

The decreases relate to the winding up of the investees Herzog/Delta A Joint Venture Toronto (€159 thousand) and Herzog/Delta A Joint Venture California (€35 thousand). After the renegotiation of certain terms of the agreement between the partners of the Railroads/Delta Joint Venture Minnesota, it now qualifies as a joint operation and has been consolidated using the proportionate method.

The following tables reconciles the key financial data and carrying amounts of investments in associates and joint arrangements.

(€'000)

Frejus S.c.a r.l.	31.12.2021
Interest	42.93%
Assets	1,017
Liabilities	999
Net assets (100%)	**18**
Group's share of net assets	8
Elimination of unrealised gain on intragroup sales	0
Carrying amount of the investment in the associate	**8**
Revenue	96
Costs	(98)
Operating loss (100%)	**(2)**
Net financial income/(expense)	0
Income taxes	0
Loss for the year (100%)	**(2)**
Comprehensive expense (100%)	0
Comprehensive expense (100%)	(2)
Group's share of comprehensive expense	**(1)**

(€'000)

Consorzio I.C.A.V. Imprese Consorziate Alta Velocità	31.12.2021
Interest	50%
Assets	615
Liabilities	565
Net assets (100%)	**50**
Group's share of net assets	25
Elimination of unrealised gain on intragroup sales	0
Carrying amount of the investment in the associate	**25**
Revenue	7
Costs	(7)
Operating profit/(loss) (100%)	**0**
Net financial income/(expense)	0
Income taxes	0
Profit/(loss) for the year (100%)	**0**
Comprehensive income/(expense) (100%)	0
Comprehensive income/(expense) (100%)	0
Group's share of comprehensive income/(expense)	**0**

(€'000)

Sesto Fiorentino S.c.a.r.l.	31.12.2020*
Interest	47.68%
Assets	4,025
Liabilities	4,015
Net assets (100%)	**10**
Group's share of net assets	5
Elimination of unrealised gain on intragroup sales	0
Carrying amount of the investment in the associate	**5**
Revenue	2,842
Costs	(2,841)
Operating profit (100%)	**1**
Net financial income/(expense)	0
Income taxes	(1)
Profit/(loss) for the year (100%)	**0**
Comprehensive income/(expense) (100%)	0
Comprehensive income/(expense) (100%)	0
Group's share of comprehensive income/(expense)	**0**

(*) last available financial statements

6 Other non-current assets

(€'000)

	31.12.2021	31.12.2020	Variation
Guarantee deposits	1,050	918	132
Performance bonds	18,986	11,834	7,152
Other assets	770	103	667
Total	**20,807**	**12,855**	**7,952**

The guarantee deposits include amounts paid by group companies to guarantee the supply of goods and services to be received and for property leases.

The performance bonds are amounts invoiced and/or to be invoiced to customers and will be collected once the inspection of the related assets has been carried out.

7 Deferred tax assets - Deferred tax liabilities - Current and deferred taxes

Income taxes may be analysed as follows:

(€'000)

INCOME TAXES	2021	2020
IRES	(14,429)	(14,339)
IRAP	(3,520)	(2,307)
Foreign income taxes	(71)	(593)
Total current taxes	**(18,020)**	**(17,239)**
Change in deferred tax assets	(1,904)	17,984
Change in deferred tax liabilities	(1,529)	91
Total deferred taxes	**(3,433)**	**18,075**
Prior year taxes	**461**	**257**
Total income taxes	**(20,992)**	**1,093**

(€'000)

TAXES RECOGNISED IN OTHER COMPREHENSIVE INCOME/(EXPENSE)	Pre-tax	Tax benefit (expense)	Post-tax
Other comprehensive income/(expense) that will not be subsequently reclassified to profit or loss			
Net actuarial gains/(losses)	(34)	10	(24)
Total	**(34)**	**10**	**(24)**
Other comprehensive income/(expense) that will be subsequently reclassified to profit or loss			
Net hedging gains/(losses)	(1,720)	413	(1,307)
Total	**(1,720)**	**413**	**(1,307)**
2021	**(1,754)**	**423**	**(1,331)**

At 31 December 2021, deferred tax assets and liabilities amount to €19,985 thousand and €3,259 thousand, respectively. Changes in these two captions compared to 31 December 2020 are analysed below.

(€'000)

DEFERRED TAX ASSETS	01.01.2021	Accruals	Utilisations	Other variations	31.12.2021
Depreciation of revalued buildings	93	-	-	-	93
Provisions for risks	1,199	63	(77)		1,185
Unrealised exchange differences	263	4	(263)		4
IAS 19	25	7		10	42
Fair value of derivatives	95			413	508
Elimination of intragroup profits and losses	919	1,445	(325)		2,039
IFRS 15	139	16	(139)		16
IFRS 9	44	677	(44)		677
Tax loss	244				244
Revaluation of assets	17,550		(3,230)		14,320
Other	930	716	(754)	(36)	856
Total	**21,502**	**2,928**	**(4,832)**	**387**	**19,985**

(€'000)

DEFERRED TAX LIABILITIES	01.01.2021	Accruals	Utilisations	Other variations	31.12.2021
Unrealised exchange differences	65	367	(65)	-	367
Other	1,239	1,441	(214)	426	2,892
Total	**1,304**	**1,808**	**(279)**	**426**	**3,259**

The decrease of €5,251 thousand in deferred tax assets is mostly due to the reversal of such assets recognised at 31 December 2020 to offset the smaller foreign income taxes recognised by subsidiaries due to their revaluation of company assets in their financial statements.

Deferred tax assets are recognised since it is deemed probable, on the basis of business plans, that the group will generate future taxable income sufficient for their recovery.

Furthermore, there are no tax loss carryforwards not recognised under deferred tax assets.

A reconciliation of the theoretical tax rate, calculated in line with the ruling tax laws, and the effective rate is as follows:

(€'000)

Reconciliation of actual tax rate	2021	2021
Pre-tax profit	60,334	
Theoretical IRES	(14,480)	(24%)
Lower taxes:		
- Other	4,415	7.32%
Greater taxes:		
- Other	(4,364)	(7.23%)
Total current income taxes (IRES)	**(14,429)**	**(23.92%)**
IRAP	**(3,520)**	**(5.83%)**
Foreign income taxes	**(71)**	**(0.12%)**
Prior year taxes	**461**	**0.76%**
Total deferred taxes	**(3,433)**	**(5.69%)**
Total income taxes	**(20,992)**	**(34.79%)**

CURRENT ASSETS

8 Inventories

(€'000)

	31.12.2021	31.12.2020	Variation
Raw materials, consumables and supplies	8,240	6,167	2,073
Work in progress and semi-finished products	3,620	6,660	(3,040)
Finished goods	8,804	1,341	7,463
Total	**20,665**	**14,168**	**6,497**

Raw materials, consumables and supplies include consumables and other materials purchased for the construction and permanent way systems works and not yet used at the reporting date, materials for the maintenance of rolling stock and railway equipment by SRT S.r.l. and Delta Railroad Construction Inc. and materials necessary for Overail S.r.l.'s production of railway sleepers.

Work in progress and semi-finished products mainly refer to processing at the Fano facility on railway machinery not covered by sales contracts signed by the reporting date by SRT S.r.l.. The caption also includes the work performed on railway machinery by Delta Railroad Construction Inc..
Finished goods include the railway sleepers produced by Overail S.r.l. and in storage at the Aprilia facility pending the definition of the contract with the customer.

9 Contract assets and liabilities

Contract assets include the contractual consideration for work in progress certified by progress reports issued by the customer's works manager or internal reports prepared by the group and not yet invoiced.

(€'000)

	31.12.2021	31.12.2020	Variation
Contract assets	107,877	94,220	13,657
Impairment losses	(175)	(225)	50
Exchange differences	0	12	(12)
Total	**107,701**	**94,007**	**13,694**

These assets have been impaired by €175 thousand at 31 December 2021 and €225 thousand at 31 December 2020.

At 31 December 2021, the contract assets relate to Salcef S.p.A. (€51,763 thousand), Euro Ferroviaria S.r.l. (€30,750 thousand), Overail S.r.l. (€9,978 thousand), Delta Railroad Construction Inc. (€5,062 thousand), Coget Impianti S.p.A. (€5,809 thousand) and the German group companies (€4,339 thousand).
The following table provides a breakdown of contract assets by geographical segment:

(€'000)

	31.12.2021	31.12.2020	Variation
Italy	93,491	83,941	9,550
Europe (excluding Italy)	4,726	4,034	692
North America	5,062	1,887	3,175
Africa	1,293	716	577
Middle East	3,130	3,429	(299)
Total	**107,701**	**94,007**	**13,694**

The following table provides information on financial assets and contract assets and liabilities:

(€'000)

CONTRACT-RELATED CAPTIONS	31.12.2021	31.12.2020	Variation
Trade receivables	89,109	80,070	9,039
Assets held for sale	-	-	-
Contract assets	107,701	94,007	13,694
Contract liabilities	(12,917)	(6,419)	(6,498)
TOTAL	**183,893**	**167,658**	**16,235**

As mentioned previously, contract assets are mainly comprised of the group's right to receive payment for that portion of work in progress that has been completed but not invoiced at the reporting date as per contracts in place with customers.

Contract liabilities are mainly comprised of advances on contracts awarded to the group, which will be subsequently invoiced on the basis of the progress reports issued and approved by the customer.

(€'000)

	31.12.2021	31.12.2020	Variation
Contract liabilities	12,917	6,419	6,498
Total	**12,917**	**6,419**	**6,498**

At 31 December 2021, this caption is comprised as follows:

- the advance received from RME - Rowad Modern Engineering for the project to update and maintain the Cairo - Alexandria railway line in Egypt (€1,527 thousand);
- the advance received from NAT - National Authority for Tunnels for the construction of a new railway hub in Kozzyka (Egypt) (€211 thousand);
- the advance received from RFI S.p.A. for the construction of the new Naples - Bari railway line (Frasso Telesino - Telese section) (€3,400 thousand);
- the advance received from RFI S.p.A. for the construction of the new Naples - Bari railway line (Telese - San Lorenzo section) (€1,699 thousand);
- the advance received from Consorzio Cancello Frasso Telesino Scarl for the construction of the permanent way systems for the high speed Naples - Bari railway line (€1,201 thousand);
- advances of €880 thousand paid to SRT S.r.l. for the construction of machinery;
- the advance received from the Abu Dhabi branch of Salcef S.p.A. (€629 thousand) for the contract to construct the track for the new Ruwais - Ghuweifat railway line, signed with the joint venture between China State Construction Engineering Corporation and the South Korean SK Engineering and Construction;

- advances received from customers of Delta Railroad Construction Inc. (€3,280 thousand);
- advances of €89 thousand for other smaller contracts.

The contract liabilities at 31 December 2021 will become revenue in 2022, except for the advances received for the high speed Naples - Bari railway line contracts and from Salcef S.p.A.'s Egyptian branch, which will be recovered in proportion to the amount invoiced.

At the reporting date, the Salcef Group's order backlog includes work on permanent way systems (66.68%), energy sector works (15.01%), infrastructure works (€13.14%), sleepers and prefabricated products production (4.53%) and machinery construction and maintenance contracts (0.64%), which ensure continuity using the existing operating units active in the relevant geographical areas

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10 Trade receivables

The table shows the caption at 31 December 2021 with comparative prior year end figures.

(€'000)

	31.12.2021	31.12.2020	Variation
Third parties	92,802	82,148	10,654
Loss allowance	(3,975)	(2,595)	(1,380)
Total third parties	**88,827**	**79,553**	**9,274**
Associates	282	517	(235)
Total associates	**282**	**517**	**(235)**
Total	**89,109**	**80,070**	**9,039**

The following table shows changes in the loss allowance during the year:

(€'000)

Carrying amount at 31 December 2020	(2,595)
Change in scope	(48)
Utilisations/Releases	61
Impairment losses	(1,396)
Exchange differences	3
Carrying amount at 31 December 2021	**(3,975)**

The accruals mostly refer to the parent's recognition of impairment losses of €1,200 thousand on trade receivables due from ARST S.p.A..

Although the group's exposure to credit risk is mainly related to the specific characteristics of each customer, group management also considers variables typical of the group's backlog, including the insolvency risk of the customer's sector and country.

Trade receivables from associates include €282 thousand due from Frejus S.c.a r.l., Consorzio I.C.A.V. and Sesto Fiorentino S.c.a r.l., mostly relating to costs recharged to them by the parent and Salcef S.p.A..
Reference should be made to the note 32 on related party transactions for more information about receivables from related parties.
A breakdown of trade receivables at 31 December 2021 and 2020 by geographical segment is provided below.

(€'000)

	31.12.2021	%	31.12.2020	%	Variation
Italy	68,577	77.2%	68,776	86.5%	(199)
Europe (excluding Italy)	9,325	10.5%	6,191	7.8%	3,134
Africa	699	0.8%	450	0.6%	249
North America	8,479	9.5%	3,690	4.6%	4,789
Middle East	1,746	2.0%	446	0.6%	1,300
Total	**88,827**		**79,553**		**9,273**

11 Current tax assets

Current tax assets of €4,122 thousand (31 December 2020: €4,366 thousand) mostly comprise:

- direct income taxes paid abroad (€2,416 thousand);
- direct income taxes of Delta Railroad Construction Inc. (€1,359 thousand);
- Itaca S.c.a r.l.'s positive 2019 IRES balance of €37 thousand;
- the 2021 IRAP asset of €306 thousand related to Salcef S.p.A..

12 Current financial assets

(€'000)

	31.12.2021	31.12.2020	Variation
Securities	97,826	64,990	32,836
Loan assets with associates	353	353	0
Hedging derivatives	13	0	13
Other current financial assets	3,396	19	3,377
Total	**101,588**	**65,362**	**36,226**

Securities of €97,826 thousand represent the investments existing at the reporting date in mutual property funds, Italian treasury notes ("BTPs"), certificates and policies taken out by Salcef Group S.p.A. to invest the

cash and cash equivalents obtained following the capital increases performed in 2021 and previous years. They are measured at fair value (level 1 according to the IFRS 13 hierarchy) and the related gains and losses are taken to profit or loss.

The following table shows variations in the caption during the year:

(€'000)

	01.01.2021	Purchases	Sales	Fair value gains (losses)	31.12.2021
Unicredit mutual funds	6,867	2,245	(2,235)	148	7,025
Unicredit certificates	1,227	0	0	41	1,268
Intesa Eurizon SGR	10,150		(2,998)	178	7,330
Intesa Eurizon Titolo	0	8,000		(21)	7,979
BPS	6,553	1,000	(955)	(31)	6,567
UBI BAP life policy	8,040		(1)	115	8,154
MPS fiduciary mandate	15,000		(10,018)	(4)	4,978
MPS policy	0	5,000		89	5,089
BTP Deutsche Bank	1,028		(1,028)	0	0
Servizio Italia Cardiff policy	15,119			555	15,674
Fineco mutual funds	1,006	2,978		22	4,006
Banca Aletti	0	7,100		91	7,191
Fineco insurance products	0	9,300		246	9,546
Kairos Partners securities portfolio	0	5,000		(32)	4,968
Deutsche Bank portfolio management	0	3,000		92	3,092
Fondo AZIMUT	0	5,000		(40)	4,960
Total	**64,990**	**48,623**	**(17,234)**	**1,447**	**97,826**

The loan assets with associates refer to the non-interest bearing loan granted to Consorzio I.C.A.V..

Note 16 provides a description of all the group's derivatives, which include the above hedging derivatives of €13 thousand at the reporting date.

13 Cash and cash equivalents

(€'000)

	31.12.2021	31.12.2020	Variation
Bank and postal accounts	166,151	63,161	102,990
Cash-in-hand and cash equivalents	25	38	(13)
Total	**166,176**	**63,199**	**102,977**

The balance of bank and postal accounts at 31 December 2021 mainly refers to the parent (€87,571 thousand), Salcef S.p.A. (€50,173 thousand), Euro Ferroviaria S.r.l. (€13,495 thousand), Coget Impianti S.p.A. (€1,987 thousand), SRT S.r.l. (€681 thousand) and Delta Railroad Construction Inc. (€1,630 thousand).

14 Other current assets

(€'000)

	31.12.2021	31.12.2020	Variation
Other tax assets	6,930	17,390	(10,460)
Other assets	11,582	7,865	3,717
Prepayments and accrued income	8,294	5,694	2,600
Total	**26,807**	**30,949**	**(4,142)**

Other tax assets refer to indirect taxes (mostly VAT due to the application of the split payment regime) paid in Italy and abroad (€4,757 thousand) and tax assets on capital expenditure that Salcef S.p.A., Coget Impianti S.r.l., Euro Ferroviaria S.r.l., Overail S.r.l. and SRT S.r.l. incurred in 2020 for high-tech owner-operated assets as per Annex A of Law no. 232 of 11 December 2016 ("Industry 4.0") (€2,173 thousand). This tax asset may be used to offset their tax obligations.

Other assets are detailed below:

(€'000)

	31.12.2021	31.12.2020	Variation
Personnel and work sites	1,055	906	149
Advances on trade receivables assigned without recourse	4,742	2,635	2,107
Advances to suppliers	1,423	952	471
Social security institutions	133	119	14
Others	4,229	3,253	976
Total	**11,582**	**7,865**	**3,717**

"Others" mainly include the participating financial instruments received from Astaldi S.p.A., since Salcef Group S.p.A. is its non-secured creditor (€1,803 thousand).

Prepayments and accrued income consist exclusively of the portion of costs incurred in the year pertaining to subsequent years. They mainly relate to prepaid insurance premiums for the work sites and bank surety commissions.

The caption also includes the down payment for the lease of the building in Rome which will house the parent's administrative offices once it has been restructured. As the relevant conditions about the lease inception date are not met at the reporting date, the leased building has not been recognised under right-of-use assets (see note 4).

LIABILITIES

TOTAL EQUITY AND LIABILITIES

15 Equity

The main equity captions and changes therein are commented on below.

Share capital

The fully paid-up share capital at 31 December 2021 amounts to €141,544,532 and is comprised of 58,912,624 shares without nominal value, as follows:

a) 58,117,729 ordinary shares;
b) 641,044 performance shares;
c) 153,851 special shares.

In accordance with the by-laws (published on the parent's website www.salcef.com in the Governance/Company documents section), performance shares have the following characteristics: (i) they are freely transferable by law, (ii) they give their holders the right to vote at the company's ordinary and extraordinary shareholders' meetings, (iii) they carry the right to participate in profits approved for distribution and (iv) they automatically convert into ordinary shares at a ratio of five ordinary shares for every performance share according to the terms and conditions of the by-laws. Special shares have the following characteristics: (i) they are freely transferable by law, (ii) they do not give their holders the right to vote at the company's ordinary and extraordinary shareholders' meetings, (iii) they do not carry the right to participate in profits if the company approves distribution until the 36th month after the effective date of the Merger, (iv) if the company undergoes winding up they give their holders the right to receive their respective share subordinated to the rights of the ordinary shareholders and (v) they automatically convert into ordinary shares at a ratio of seven ordinary shares for every special share according to the terms and conditions of the by-laws.

The main characteristics of the new and additional conversion warrants extinguished during the year after their conversion or expiry (described later) are as follows:

- the new warrants gave their bearers the right, pursuant to the terms and procedures set out in the regulation, 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;
- the additional conversion warrants gave their holders the right, pursuant to the terms and procedures set out in the regulation, to subscribe conversion shares at a ratio notified monthly and at a subscription price of €0.10 per share. Specifically, the exercise ratio was calculated using the following formula, as long as the average monthly price was higher than the strike price of €9.30:

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

Both the new warrants and the additional conversion warrants were listed on the Italian Stock Exchange organised and managed by Borsa Italiana S.p.A. up until their conversion or expiry.

Reserves

At 31 December 2021, reserves mainly comprise:

- Legal reserve: this reserve of €2,454 thousand includes prior year profits allocated in accordance with Italian law;
- Extraordinary reserve: totalling €13,678 thousand, it includes prior year profits allocated thereto by the shareholders;
- Revaluation reserves: these reserves of €28,060 thousand were set up for the revaluations of property, plant and equipment made in accordance with Laws no. 342/2000, no. 266/2005 and no. 2/2009;
- Translation reserve: with a negative balance of €2,747 thousand;
- Goodwill arising on merger: amounting to €45,000 thousand, this reserve arose on the recognition of the merger of Salcef Group S.p.A. and Indstars 3 that took place on 8 November 2019;
- Actuarial reserve: this reserve contains the actuarial gains and losses on the remeasurement of post-employment benefit liabilities in accordance with IAS 19 and shows a negative balance of €261 thousand;
- Hedging reserve: with a negative balance of €1,609 thousand, this reserve reflects the fair value gains and losses on the interest rate swaps entered into by Salcef S.p.A. and Salcef Group S.p.A. to hedge cash flow risk on the payment of interest on borrowings and the fair value gains and losses on the currency forwards entered into by Salcef Group S.p.A. to hedge currency risk on the loan in US dollars granted to Salcef USA Inc.. The reserve will be taken to the income statement over the years as the cash flows generated by the hedged item affect profit or loss;
- Reserve for repurchase of treasury shares: with a negative balance of €6,483 thousand, this reserve includes the value of the parent's treasury shares purchased on the market and held in accordance with the resolutions passed during the ordinary shareholders' meeting;
- Share premium: recognised in 2021 for €27,200 thousand after the capital increase achieved through the accelerated bookbuild offering described later in these notes;
- Reserve for capital increase costs: this reserve with a negative balance of €653 thousand includes the costs directly attributable to the issue or repurchase of treasury shares.

Equity increased by €151,504 thousand from €269,869 thousand at 31 December 2020 to €421,373 thousand at the reporting date. The main transactions for this increase are described below:

(i) Conversion of the additional conversion and new warrants issued by the parent: the acceleration conditions of these warrants provided for in their regulations were met with the closing of the stock market on Friday 30 April 2021 and Monday 3 May 2021, respectively. Specifically, the average monthly price of April 2021 was higher than the threshold price of €13.00 for the additional conversion warrants while the average daily price for the new warrants was at least equal to the threshold price of €13.00 for at least 15 out of 30 consecutive trading dates (the "period of stability"). Accordingly, as the accelerated condition was met, the bearers of the new warrants could ask to subscribe conversion shares at the share subscription price (€10.50) by and not after 30 June 2021, otherwise they would expire. Meanwhile, the bearers of the additional conversion warrants could ask to subscribe conversion shares at the share subscription price (€0.10) by and not after 22 July 2021, otherwise they would expire. The conversions of the new warrants and the additional conversion warrants carried out in 2021 led to an increase in share capital and reserves of €74,638 thousand and €29,092 thousand, respectively. Any unexercised additional conversion warrants and new warrants have ceased to be valid for all purposes.

(ii) The parent's capital increase of 30 September performed with the issue of 2,000,000 new ordinary shares at a unit price of €16.00: these new shares were offered through an accelerated bookbuild procedure reserved for qualified investors (as defined by Regulation (EU) 2017/1129) in the European Economic Area and institutional investors abroad (with the exclusion of the United States of America, Canada, Japan, South Africa and any other country or jurisdiction in which the offer of shares is prohibited by law or in the absence of exemptions). No public offering and listing prospectus was published pursuant to the exemptions provided for by applicable legislation.

As the parent's ordinary shares do not have a par value, it recognised the capital increase based on the existing accounting par value by allocating €2.40 per share to the share capital (for a total increase of €4,800 thousand) and the remainder to the share premium (for a total increase of €27,200 thousand). The transaction costs of €653 thousand were recognised in the reserve for capital increase costs as a decrease in equity.

(iii) The parent's distribution of a dividend: its shareholders approved this distribution in their ordinary meeting held on 29 April 2021 to approve the separate financial statements at 31 December 2020 (showing a profit of €24,545,124) and acknowledge the consolidated financial statements at the same date (including a profit attributable to the owners of the parent of €41,149,309), both prepared under the IFRS. The shareholders also approved the distribution of a dividend of €0.42 for each ordinary and performance share. The ex-dividend, record and payment dates were 24, 25 and 26 May 2021, respectively. The entire amount distributed was €21,314,116.

(iv) The repurchase of treasury shares for €4,753 thousand.

More information about changes in equity is provided in the statement of changes in equity.

Capital management

The group's capital management policies entail maintaining a high level of capital to keep its stakeholders' trust and also lay the foundation for the group's future.
Additionally, management monitors return on capital and the amount of dividends to distribute to ordinary shareholders.
The board of directors strives to balance the achievement of higher returns through greater leverage with the advantages and security of a sound financial position.

16 Current and non-current financial liabilities – Lease liabilities

Lease liabilities and bank loans and borrowings may be analysed as follows:

(€'000)

	31.12.2021	31.12.2020	Variation
Bank loans - non-current portion	77,719	38,305	39,414
Hedging derivatives	2,130	397	1,733
Total	**79,849**	**38,702**	**41,147**
Lease liabilities as per IFRS 16	5,694	8,638	(2,944)
Total	**5,694**	**8,638**	**(2,944)**
TOTAL NON-CURRENT	**85,544**	**47,340**	**38,204**
Bank loans and borrowings	0	0	0
Total	**0**	**0**	**0**
Other loans and borrowings	114	491	(377)
Bank advances	0	18	(18)
Bank loans and borrowings - current portion	62,431	54,922	7,509
Other current financial liabilities	0	0	-
Warrants	0	19,274	(19,274)
Total	**62,545**	**74,705**	**(12,160)**
Lease liabilities as per IFRS 16	5,129	5,835	(706)
Total	**5,129**	**5,835**	**(706)**
TOTAL CURRENT	**67,673**	**80,540**	**(12,867)**
TOTAL FINANCIAL LIABILITIES	**153,217**	**127,880**	**25,337**

The bank loans are medium/long-term loans from banks to the parent, Salcef S.p.A., Euro Ferroviaria S.r.l., Overail S.r.l., Coget Impianti S.r.l., Delta Railroad Construction Inc. and Salcef Deutschland GmbH.
Their terms are detailed below:

(€'000)

	Interest rate	Year of maturity	31.12.2021	
			Nominal amount	Carrying amount
UBI Banca - unsecured loan	1% + 3-month Euribor with a floor of 0	2022	422	422
Banco BPM - unsecured loan	0.85%	2022	1,541	1,540
Intesa Sanpaolo - unsecured loan	1% + 3-month Euribor	2023	2,083	2,079
Deutsche Bank - unsecured loan	1% + 3-month Euribor	2023	4,167	4,159
BPER - unsecured loan	0.70% + 6-month Euribor with a floor of 0	2022	1,257	1,256
MPS - unsecured loan	0.60% + 6-month Euribor with a floor of 0	2023	2,500	2,499
Unicredit - loan	1.54% + 3-month Euribor	2025	17,933	17,930
UBI Banca - unsecured loan	0.80%	2023	3,347	3,345
UBI Banca - unsecured loan	0.80%	2023	3,208	3,207
MPS - unsecured loan	0.60% + 6-month Euribor with a floor of 0	2023	3,333	3,331
Credit Agricole - unsecured loan	0.55% + 3-month Euribor with a floor of 0	2024	5,000	4,995
MPS - unsecured loan	0.70% + 6-month Euribor with a floor of 0	2025	3,829	3,824
MPS - unsecured loan	0.90% + 6-month Euribor with a floor of 0	2022	1,313	1,313
Credem - unsecured loan	0.70%	2022	252	252
BPER - unsecured loan	0.75% + 3-month Euribor with a floor of 0	2022	168	168
Credem - unsecured loan	0.63%	2022	755	755
Banca Popolare di Sondrio - unsecured loan	1%	2022	1,124	1,124
Credem - unsecured loan	0.50%	2024	3,243	3,242
Intesa Sanpaolo - unsecured loan	1.69% + 1-month Euribor with a floor of 0	2023	625	623
MPS - unsecured loan	0.60% + 6-month Euribor	2025	4,079	4,072
Banca Popolare di Sondrio - unsecured loan	0.90% + 3-month Euribor	2025	3,716	3,713
Unicredit - unsecured loan	0.95% + 3-month Euribor	2024	3,750	3,746
Y Finance - BNP Paribas Lease Group S.A.	-	2025	40	40
Intesa Sanpaolo - unsecured loan	1.54% + 3-month Euribor	2026	27,000	27,000
CDP loan	1% + 6-month Euribor with a floor of 0	2026	25,000	25,000
Credem - unsecured loan	0.45%	2025	3,000	2,998
BNL loan	0.25%	2023	8,750	8,742
Various loans to acquire assets (Salcef Deutschland)			3,032	3,032
Key Equipment Finance - schedule 1 PQ-35450	2.591%	2026	423	390
Key Equipment Finance - schedule 2 PQ-35457	2.592%	2026	2,312	2,130

SACE S.p.A. guaranteed 60% of the parent's loan (remaining unpaid amount of €17,930 thousand) from Unicredit S.p.A. to acquire the Delta Group (as described earlier). In addition, at 30 June 2021, the parent took out a five-year, €30,000 thousand "S-Loan" with Intesa Sanpaolo S.p.A.. This loan is backed by the SACE S.p.A. green guarantee and involves the identification and monitoring of certain ESG performance indicators, improvements in which may decrease the interest rate.

Furthermore, Salcef Group S.p.A. is required to comply with certain covenants.

The covenants in place at 31 December 2021 relate to the loan granted by Unicredit S.p.A. in September 2020, maturing in September 2025, the loan granted by Intesa Sanpaolo on 30 June 2021 (described above), maturing in June 2026, and the loan granted by Cassa Depositi e Prestiti (CDP) in two instalments in July 2021 and December 2021, maturing in June 2026.

The Unicredit S.p.A. loan provides for the following covenants:

- consolidated net financial position/gross operating profit (loss) ratio lower than or equal to 3 for the entire term of the loan, monitored on the basis of the Salcef Group's consolidated financial statements;

- separate net financial position/equity ratio lower than or equal to 1 for the entire term of the loan, monitored on the basis of Salcef Group S.p.A.'s separate financial statements.

The Intesa Sanpaolo S.p.A. loan provides for the following covenants:

- consolidated net financial position/gross operating profit (loss) ratio lower than or equal to 3 for the entire term of the loan, monitored on the basis of the Salcef Group's consolidated financial statements;
- consolidated net financial position/equity ratio lower than or equal to 0.9 for the entire term of the loan, monitored on the basis of the Salcef Group's consolidated financial statements.

The CDP loan provides for the following covenants:

- consolidated net financial position/gross operating profit (loss) ratio lower than or equal to 3 for the entire term of the loan, monitored on the basis of the Salcef Group's consolidated financial statements;
- consolidated net financial position/equity ratio lower than or equal to 1 for the entire term of the loan, monitored on the basis of the Salcef Group's consolidated financial statements.

Warrants of €19,274 thousand at 31 December 2020 reflected the fair value of the additional conversion warrants issued by the parent which were recognised as financial liabilities since they provide for the exchange of a variable number of shares for a fixed exercise price (i.e., fixed for variable). The financial liability for warrants was fully extinguished in 2021 as the subscription period for the additional conversion warrants lapsed on 22 July 2021 after the acceleration condition, provided for in the warrants' regulation, was met as described in note 15. Given that extinguishment took place with the issue of the parent's ordinary shares upon conversion, it did not generate cash outflows for the group but did generate a balancing entry as an increase in equity.
The fair value losses on the warrants of €9,737 thousand were recognised as financial expense upon until their complete extinguishment.

For hedging purposes, Salcef S.p.A. entered into an interest rate swap with Unicredit S.p.A. in March 2021, maturing in 2024 and with a notional amount of €3,750 thousand at 31 December 2021. This swap hedges cash flow risk on interest paid on the variable-rate loan with an outstanding balance of €3,750 thousand at the reporting date disbursed by the bank on the same date as the swap and with the same term. Accordingly, the swap has been designated as a cash flow hedge and the fair value gains and losses at each reporting date are taken in full to the hedging reserve.
The previous interest rate swap between Salcef S.p.A. and Unicredit S.p.A. expired in June 2021.

The parent has the following interest rate swaps:

- an interest rate swap with Unicredit S.p.A. entered into in September 2020, maturing in 2025 and with a notional amount of €17,933 thousand at 31 December 2021. This swap hedges cash flow risk on interest paid on the variable-rate loan with an outstanding balance of €17,933 thousand at the reporting date disbursed by the bank on the same date as the swap and with the same term. Accordingly, the swap has been designated as a cash flow hedge and the fair value gains and losses at each reporting date are taken in full to the hedging reserve;
- an interest rate swap with Banca Popolare di Sondrio entered into in January 2021, maturing in 2025 and with a notional amount of €3,716 thousand at 31 December 2021. This swap hedges cash flow risk on interest paid on the variable-rate loan with an outstanding balance of €3,716 thousand at the reporting date disbursed by the bank on the same date as the swap and with the same term. Accordingly, the swap has been designated as a cash flow hedge and the fair value gains and losses at each reporting date are taken in full to the hedging reserve;
- an interest rate swap with Unicredit S.p.A., entered into in June 2021, maturing in 2026 and with a notional amount of €27,000 thousand at 31 December 2021. This swap hedges cash flow risk on interest paid on the variable-rate loan with an outstanding balance of €27,000 thousand at the reporting date disbursed by the bank on the same date as the swap and with the same term. Accordingly, the swap has been designated as a cash flow hedge and the fair value gains and losses at each reporting date are taken in full to the hedging reserve;
- an interest rate swap with Unicredit S.p.A., entered into in August 2021, maturing in 2026 and with a notional amount of €5,000 thousand at 31 December 2021. This swap hedges cash flow risk on interest paid on the first instalment of the variable-rate loan of €5,000 thousand disbursed by CDP with the same term. Accordingly, the swap has been designated as a cash flow hedge and the fair value gains and losses at each reporting date are taken in full to the hedging reserve. As it has a positive fair value at 31 December 2021, this swap has not been included under current financial liabilities but is recognised under current financial assets (see note 12).

In December 2020, Salcef Group S.p.A. entered into five currency forwards with Unicredit S.p.A. maturing on 31 December 2025 to hedge cash flow risk on the loan in US dollars to the subsidiary Salcef USA Inc.. The cash flows consist of the interest (USD706 thousand) due each year and the repayment of principal on 31 December 2025 (USD28,240 thousand). Since these derivative contracts have been designated as cash flow hedges, the fair value gains and losses at each reporting date are taken in full to the hedging reserve.
The hedging reserve for the hedged item will be released to the income statement over the years as the cash flows generated by the hedged item affect profit or loss.

The table below provides a breakdown of the net financial position at 31 December 2021 and 31 December 2020. The group has applied the new presentation method for net financial position following the publication of the ESMA Guidelines dated 4 March 2021 and Consob warning notice no. 5/21 of 29 April

2021, in which it acknowledges the ESMA Guidelines and states that references to the CESR Recommendations on prospectuses contained in previous communications shall be replaced with the ESMA Guidelines, including the references contained in communication no. DEM/6064293 of 28 July 2006 on net financial position.

(€'000)

NET FINANCIAL POSITION	31.12.2021	31.12.2020	Variation
(A) Cash	166,176	63,199	102,977
(B) Cash equivalents	0	0	0
(C) Other current financial assets	101,588	65,362	36,226
(D) Cash and cash equivalents (A + B + C)	**267,764**	**128,561**	**139,203**
(E) Current financial debt *	(5,976)	(25,618)	19,642
(F) Current portion of non-current financial debt	(61,697)	(54,922)	(6,775)
(G) Current financial debt (E + F)	**(67,673)**	**(80,540)**	**12,867**
(H) Net current financial position (G + D)	**200,091**	**48,021**	**152,070**
(I) Non-current financial debt	(85,544)	(47,340)	(38,204)
(J) Debt instruments	0	0	0
(K) Trade payables and other non-current financial liabilities	0	0	0
(L) Non-current financial debt (I + J + K)	**(85,544)**	**(47,340)**	**(38,204)**
(M) Net financial position (H + L) **	**114,547**	**681**	**113,866**
(N) Adjustment for other financial liabilities - warrants	0	19,274	(19,274)
(O) Adjusted net financial position (M + N)	**114,547**	**19,955**	**94,592**

(*) the comparative figure includes the financial liability for the warrants referred to in letter N

(**) net financial position calculated as per Consob communication no. 6064293 of 28 July 2006 and in compliance with ESMA Guidelines of 4 March 2021

The group's net financial position at the reporting date amounts to €114,547 thousand compared to €19,955 thousand at 31 December 2020 (adjusted as it included the fair value of the additional conversion warrants outstanding at that date).

The following table shows the group's financial liabilities by maturity bracket at 31 December 2021 and 31 December 2020 and changes therein:

(€'000)

	Due within one year	Due after one year and within five years	Due after five years	TOTAL
Bank loans	54,922	38,305	-	93,227
Bank advances	18		-	18
Other loans and borrowings	491	-	-	491
Bank loans and borrowings		-	-	0
Lease liabilities	5,835	8,232	406	14,473
Warrants	19,274		-	19,274
Hedging derivatives	-	397	-	397
Carrying amount at 31 December 2020	**80,540**	**46,934**	**406**	**127,880**
Bank loans	62,431	77,719	-	140,150
Bank advances	0			0
Other loans and borrowings	114		-	114
Bank loans and borrowings			-	0
Lease liabilities	5,129	5,602	92	10,823
Warrants	0		-	0
Hedging derivatives	-	2,130	-	2,130
Carrying amount at 31 December 2021	**67,673**	**85,452**	**92**	**153,217**

(€'000)

FINANCIAL LIABILITIES - CHANGES	
Loans and borrowings at 1 January 2020	72,258
Change in advances	(2)
Net fair value gains on warrants	382
Increase in liabilities following acquisitions	3,227
Proceeds from new loans	77,814
Repayment of loans	(33,622)
Change in other loans and borrowings - current	(573)
Recognition of leases as per IFRS 16	6,770
Repayment of lease liabilities	(5,019)
Exchange differences	(101)
Change in warrants	6,746
Total at 31 December 2020	**127,880**
Change in advances	
Net fair value gains on warrants	1,733
Proceeds from new loans	82,000
Repayment of loans	(44,447)
Change in other loans and borrowings - current	6,554
Increase in liabilities following acquisitions	2,707
Recognition of leases as per IFRS 16	2,462
Repayment of lease liabilities	(6,647)
Exchange differences	249
Change in warrants	(19,274)
Total at 31 December 2021	**153,217**

17 Current and non-current employee benefits

This caption includes the group's estimated liability, calculated using actuarial techniques, for the post-employment benefits due to employees when their employment relationship ends, as the benefits are defined benefit plans under IAS 19. The liability is calculated by an independent expert using the following actuarial assumptions:

	31.12.2021	31.12.2020
Annual discount rate	0.98%	0.34%
Annual inflation rate	1.8%	0.8%
Annual post-employment benefits growth rate	2.8%	2.1%

This caption includes the accrual for the portion vested at 31 December 2021 of the management incentive plan (€1,181 thousand), which will be disbursed in 2022 (€971 thousand) and 2024 (€210 thousand).
Changes in this caption are shown in the following table:

(€'000)

Carrying amount at 31 December 2020	871
Current service cost	1,356
Utilisations/Transfers	(139)
Interest cost	5
Net actuarial gains	34
Carrying amount at 31 December 2021	**2,126**
of which, non-current	*1,155*
of which, current	*971*

The current service cost mostly relates to the management incentive plan (MBO) introduced by the parent to formally and clearly communicate the strategic objectives defined each year to all the beneficiary managers so that they can steer the entire workforce towards achieving them. Should the parent achieve the defined milestones, the plan beneficiaries may receive a variable remuneration pegged to their gross annual remuneration and their achievement of the individual objectives assigned to them.
The MBO plan is the first phase of the performance management model the group intends to gradually introduce, based on the specific objectives assigned and the degree of compliance of the manager's conduct with the group's values.

These values and the conduct indicators will be the basis for the group's leadership model. Assessment of the objectives achieved (What) with the conduct applied (How) will be fundamental to safeguard the group's organisational culture along its growth journey and to provide department heads with a structured tool to provide employees with feedback useful for the ongoing improvement of their performances.

18 Provisions for risks and charges (non-current portion)

The following table presents changes in this caption during the year:

(€'000)

	Provision for litigation
Carrying amount at 31 December 2020	3,855
Accruals	402
Utilisations/Releases	(438)
Other variations	-
Carrying amount at 31 December 2021	**3,819**

The provision for litigation represents an estimate of the probable charges the Salcef Group will incur in respect of the disputes underway or the claims currently pending and being assessed in which the group may be asked to pay for the damage suffered by the counterparty.

The parent and other group companies are involved in certain civil proceedings related to their normal business operations.

The main civil case against the group involves the subsidiary Salcef S.p.A., which appeared in proceedings concerning an operated equipment rental agreement in which the counterparty claimed payment of roughly €3.7 million. In turn, Salcef S.p.A. claimed compensation for damage of €3 million, plus reputational damage to be quantified on the basis of fairness. Accordingly, the group has accrued, with sufficient reasonableness, a fair amount considering the probability that it will lose the case.

19 Trade payables

(€'000)

	31.12.2021	31.12.2020	Variation
Third parties	116,321	94,300	22,021
Associates	1,183	2,131	(948)
Total	**117,504**	**96,431**	**21,073**

Trade payables to third parties (€116,291 thousand) mostly refer to Salcef S.p.A. (€68,874 thousand), the parent (€2,540 thousand), Euro Ferroviaria S.r.l. (€17,218 thousand), Overail S.r.l. (€10,702 thousand), SRT S.r.l. (€7,534 thousand), Coget Impianti S.r.l. (€4,504 thousand) and Delta Railroad Construction Inc. (€1,974 thousand).

Trade payables to associates mainly include costs recharged by the consortium companies and consortia to the parent, Salcef S.p.A. and Euro Ferroviaria S.r.l..

The following table provides a breakdown of trade payables by geographical segment:

(€'000)

	31.12.2021	%	31.12.2020	%	Variation
Italy	110,288	94.8%	87,939	93.3%	22,349
Europe (excluding Italy)	3,045	2.6%	3,972	4.2%	(927)
Africa	277	0.2%	142	0.2%	135
North America	2,031	1.7%	898	1.0%	1,133
Middle East	629	0.5%	1,349	1.4%	(720)
Asia	6	0.0%	0	0.0%	6
Australia	15	0.0%	0	0.0%	15
Total	**116,291**		**94,300**		**21,991**

20 Current tax liabilities

(€'000)

	31.12.2021	31.12.2020	Variation
Direct taxes	3,419	452	2,967
Foreign current taxes	683	1,112	(429)
Tax provision	919	905	14
Total	**5,020**	**2,469**	**2,551**

The tax provision includes €750 thousand for a prudent estimate of the tax liabilities the Salcef Group may be required to cover in the event of tax audits, inspections or assessments, while €155 thousand has been accrued for a tax assessment underway at Salcef Group S.p.A.'s Egyptian branch.

21 Other current and non-current liabilities

(€'000)

	31.12.2021	31.12.2020	Variation
Other	4,195	2,928	1,267
Total non-current	**4,195**	**2,928**	**1,267**
Social security institutions	5,010	2,493	2,517
Employees	6,149	4,629	1,520
Third parties (joint ventures)	1,146	2,770	(1,624)
Other	5,722	12,857	(7,135)
Accrued expenses and deferred income	2,094	3,444	(1,350)
Other tax liabilities	824	4,741	(3,917)
Total current	**20,945**	**30,934**	**(9,989)**
TOTAL	**25,140**	**33,862**	**(8,722)**

Amounts due to employees refer to unpaid remuneration and untaken holidays at the reporting date.

The amounts due to third parties (joint venture partners) relate to the collection by Salcef S.p.A. and Euro Ferroviaria S.r.l., as lead contractors, of invoices issued by them to the customers for contract work performed by the companies in the joint venture.

The increase in deferred income is due to the recognition of the portion of the grant for property, plant and equipment relating to the year, as mentioned in the notes to other current assets, with a balancing entry in other income, and the portion of deferred income related to subsequent years, calculated based on the useful life of the assets for which the grant was received.

"Other" includes the €1,572 thousand and €200 thousand not yet paid by Salcef Group S.p.A. for the acquisitions of the investments in Coget Impianti S.p.A. and Salcef Deutschland GmbH, respectively, and the €1,355 thousand not yet paid by Salcef USA Inc. for the acquisition of the investment in Delta Railroad Construction Inc.. This caption also includes €1,265 thousand to be refunded following the incorrect assignment of the participating financial instruments.

Other tax liabilities mostly consist of withholdings on the December remuneration of consultants and employees and the substitute tax on the revaluation of €635 thousand that Salcef S.p.A., Euro Ferroviaria S.r.l., Overail S.r.l. and Coget Impianti S.p.A. must pay following their revaluation of assets pursuant to the "August Decree" described earlier.

"Other" includes €1,120 thousand to be paid after one year by Salcef Group S.p.A. for its acquisition of the investment in Salcef Deutschland GmbH, €2,440 thousand due after one year by Salcef USA Inc. for its acquisition of the investment in Delta Railroad Construction Inc. and the non-current part of the substitute tax of €635 thousand on the revaluation.

Apart from that described in the note on commitments and risks, the group's liabilities are not secured by collateral.

Notes to the main income statement captions

22 Revenue – Other income

(€'000)

	2021	2020	Variation
Revenue from contracts with customers	434,552	338,184	96,368
Other income	5,589	2,101	3,488
Total	**440,141**	**340,285**	**99,856**

Revenue from contracts with customers mainly relates to the contract work carried out during the year.

Revenue from contracts with customers is broken down by the timing of revenue recognition, the main product/services lines and by the main geographical segments:

(€'000)

	2021	2020	Variation
Timing of revenue recognition			
Products transferred at a point in time	36,118	25,577	10,541
Products and services transferred over time	398,434	312,607	85,827
Total	**434,552**	**338,184**	**96,368**
Main products/services			
Permanent way systems	310,086	239,343	70,743
Infrastructure	21,432	18,932	2,500
Energy, signalling and telecommunications	56,499	43,786	12,713
Railway materials	36,118	25,577	10,541
Railway machines	10,418	10,546	(128)
Total	**434,552**	**338,184**	**96,368**
Main geographical segments			
Italy	319,353	271,900	47,453
Europe (excluding Italy)	38,881	46,046	(7,165)
Africa	4,383	2,861	1,522
North America	43,046	10,681	32,365
Middle East	28,890	6,696	22,194
Total	**434,552**	**338,184**	**96,368**

Revenue is measured considering the consideration specified in the contract with the customer. The group recognises revenue when it transfers control of the goods or services.

Specifically, revenue is recognised over time on a percentage of completion basis. Costs are recognised in profit or loss when incurred.

Advances are recognised under contract liabilities.

The performance obligation for the sale of railway materials is satisfied at a point in time. Revenue is recognised when the goods leave the warehouse.

Other income comprises:

(€'000)

	2021	2020	Variation
Recharges to third parties	244	513	(269)
Insurance and other compensation	339	41	298
Gains on sale of assets and other income	4,017	628	3,389
Other sundry income	988	919	69
Total	**5,589**	**2,101**	**3,488**

Recharges to third parties refer to the recovery of costs and/or reimbursement of costs incurred on behalf of third parties.

Gains refer to the sale of group assets as part of their normal replacement process.

23 Raw materials, supplies and goods

This caption amounts to €91,809 thousand net of changes in inventories (2020: €59,784 thousand).

(€'000)

	2021	2020	Variation
Raw materials, supplies and goods	93,356	59,257	34,099
Change in inventories	(1,548)	527	(2,075)
Total	**91,809**	**59,784**	**32,025**

The increase in costs was nearly proportional to the trend in production.

24 Services

This caption amounts to €171,091 thousand, compared to €138,263 thousand in 2020, and is detailed below.

(€'000)

	2021	2020	Variation
Maintenance	4,327	3,480	847
Subcontracting, consultancy and third party services	119,254	90,562	28,692
Insurance and sureties	5,853	5,123	730
Costs recharged by third parties	3,023	1,834	1,189
Consultants' and temporary workers' fees	4,735	3,707	1,028
Costs of employees on secondment	553	687	(134)
Utilities	970	904	66
Directors' fees	1,175	1,177	(2)
Statutory auditors' fees	257	143	114
Committee members' fees	62	0	62
Food and accommodation for employees on business trips	12,598	10,010	2,588
Commercial costs	915	492	423
General and administrative costs	992	786	206
Tender costs	12	36	(24)
Transport	13,523	11,805	1,718
Motor vehicles and cars	2,036	1,539	497
Fines and compensation	346	356	(10)
Other services	462	5,622	(5,160)
Total	**171,091**	**138,263**	**32,828**

25 Personnel expense

This caption includes all direct and indirect expenses related to the group's employees as follows:

(€'000)

	2021	2020	Variation
Wages and salaries	65,742	49,323	16,419
Social security contributions	21,559	16,913	4,646
Post-employment benefits, pensions and other benefits	3,795	2,282	1,513
Other costs	2,631	2,139	492
Total	**93,726**	**70,657**	**23,069**

The following tables provide a breakdown of the workforce by group company and category:

	Italy	Abroad	TOTAL
Managers	27	10	37
White collars	205	97	302
Blue collars	675	242	917
Workforce at 31 December 2020	**907**	**349**	**1,256**
Managers	30	13	43
White collars	228	143	371
Blue collars	703	292	995
Workforce at 31 December 2021	**961**	**448**	**1,409**

26 Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses are detailed in the table below:

(€'000)

	2021	2020	Variation
Amortisation of intangible assets	996	672	324
Depreciation of property, plant and equipment	19,969	14,265	5,704
Depreciation of right-of-use assets as per IFRS 16	6,398	5,436	962
Total	**27,363**	**20,373**	**6,990**

For additional information on the amortisation and depreciation methods and impairment losses, reference should be made to the notes to intangible assets (note 1), property, plant and equipment (note 3) and right-of-use assets (note 4).

27 Impairment losses

The table below shows impairment losses determined by applying the expected credit loss model of IFRS 9 to the group's asset categories:

(€'000)

	2021	2020	Variation
Trade receivables	1,396	68	1,328
Contract assets	0	115	(115)
Other current assets	7	22	(15)
Other non-current assets	2	13	(11)
Current tax assets	0	11	(11)
Cash and cash equivalents	20	7	13
Securities	354	(6)	360
Total	**1,780**	**230**	**1,550**

28 Other operating costs

This caption may be analysed as follows:

(€'000)

	2021	2020	Variation
Loss on sale of assets	395	499	(104)
Rent and leases	7,538	5,691	1,847
Indirect taxes and duties	1,058	703	355
Fines and penalties	204	258	(54)
Other costs	645	2,307	(1,662)
Total	**9,840**	**9,458**	**382**

Rent and leases include leases of less than 12 months or with underlying assets of a low value for which the group availed to the simplifications allowed by IFRS 16. The standard allows the recognition of the lease payments as a cost over the lease term instead of the recognition of a right-of-use asset and lease liability.
The loss on the sale of assets refers to the group's normal operations.

29 Internal work capitalised

(€'000)

	2021	2020	Variation
Internal work capitalised	23,636	16,806	6,830
Total	**23,636**	**16,806**	**6,830**

This caption mainly includes the direct cost (materials, labour and other direct costs) of work performed internally on items of property, plant and equipment, principally rolling operating machines, owned by the group companies. This work consists of extraordinary maintenance performed by SRT S.r.l. personnel and subcontractors at the Fano (Pesaro-Urbino) facility where the warehouse holding the raw materials,

consumables and spare parts is also located. The maintenance work increases the value and useful life of the assets and the related cost is capitalised under property, plant and equipment with a balancing entry under this caption adjusting the related costs recognised in profit or loss.
In 2021, this caption also includes the direct costs (materials and other costs) incurred for work to restructure the building that will house the parent's offices, as described earlier.

30 Net financial expense

Net financial expense is shown below:

(€'000)

	2021	2020	Variation
Financial income			
From equity investments and securities	7	857	(850)
Other financial income	1,317	188	1,129
Gain on sale of securities	238	0	238
Interest income	156	246	(90)
Exchange gains	1,658	542	1,116
Total	**3,375**	**1,833**	**1,542**
Financial expense			
Loss on sale of securities	(1)	(93)	92
Interest expense	(1,340)	(1,089)	(251)
Fair value losses on warrants	(9,737)	(16,117)	6,380
Lease costs	(283)	(307)	24
Financial expense	(342)	(592)	250
Exchange losses	493	(1,779)	2,272
Total	**(11,209)**	**(19,977)**	**8,768**
Net financial expense	**(7,834)**	**(18,144)**	**10,310**

Fair value losses on warrants of €9,737 thousand show the losses recognised from 1 January 2021 to the warrants' extinguishment on 22 July 2021 due to their conversion or expiry for not being exercised before the term set in their regulation since the acceleration condition was met (more information is available in the "Key events of the year" section).
The additional conversion warrants were classified as a financial liability in accordance with IAS 32. They were considered equity solely for tax purposes. On this basis, the liability recognised as a balancing entry to the equity reserve and the fair value gains and losses on the additional conversion warrants with an impact on profit or loss cannot be recognised for tax purposes. Therefore, not even the extinguishment of the liability when the warrants were converted generated a tax impact for the parent. The effect of the tax treatment of the additional conversion warrants led to a smaller tax loss for the parent than it would have had if all the accounting effects of the additional conversion warrants had been relevant for tax purposes.

31 Commitments and risks

These amount to €71,819 thousand at 31 December 2021, compared to €75,120 thousand at 31 December 2020.

They include sureties given by banks to the group companies on behalf of third parties to guarantee the correct performance of ongoing commercial relationships (€70,937 thousand at 31 December 2021 and €72,057 thousand at 31 December 2020) and the surety given to banks for the group companies' loans (€882 thousand at 31 December 2021 and €3,062 thousand at 31 December 2020).

32 Related party transactions

As required by IAS 24, details of financial and trading transactions with related parties are presented at the end of the notes.

In accordance with article 2427.22-bis of the Italian Civil Code, the group did not carry out significant transactions at other than market conditions during the period, either in terms of the prices applied or the reasons underlying them.

The Salcef Group's corporate governance rules, which have been published on the company's website (www.salcef.com), establish conditions ensuring that related party transactions are carried out transparently and properly in terms of procedure and substance.

During the year, the group provided and received services to/from related parties and recharged costs for mutually-shared services and other services. These transactions took place at normal market conditions and/or on the basis of the actual costs incurred. Their effects on the group's consolidated financial statements are described in the notes to the individual captions.

Other than that described herein, there were no other transactions with related parties not included in the consolidation scope during the year.

(€'000)

ASSETS AND LIABILITIES	Right-of-use assets	Trade receivables	Current financial assets	Lease liabilities	Trade payables
Associates					
Frejus S.c.ar.l.		281			(115)
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità		1	353		(30)
Sesto Fiorentino S.c.ar.l.					(1,038)
Other related parties					
Talia Gestioni S.r.l.	1,325			(1,400)	
31 December 2021	**1,325**	**282**	**353**	**(1,400)**	**(1,183)**

(€'000)

REVENUE AND COSTS	Revenue	Services	Other operating costs	Financial income	Financial expense
Associates					
Frejus S.c.ar.l.		(35)			
Consorzio I.C.A.V. Imprese Consorziate Alta Velocità		(419)			
Other related parties					
Talia Gestioni S.r.l.					(70)
2021	**0**	**(454)**	**0**	**0**	**(70)**

33 Acquisition of subsidiaries

Bahnbau Nord Group acquisition

On 25 May 2021, Salcef Group S.p.A. acquired the entire share capital of Verwaltung und Beteiligung Nord GmbH ("Verwaltung"), the parent of the German group that includes Bahnbau Nord GmbH, based in Henstedt-Ulzburg (near Hamburg) and active in the construction and maintenance of permanent way systems, as well as a group of companies operating in various businesses within the railway sector.

The transaction allows the parent to keep pursuing its strategy of growth through external lines, boosting the Salcef Group's presence on the German market, which is characterised by impressive development projects as confirmed by the Deutsche Bahn plan approved by the German government, with investments of €86 billion over the next 10 years. The group, which has around 100 employees, recorded average turnover of approximately €17 million in the 2018-2020 period.

The table below summarises the acquisition-date fair value of the main components of the consideration transferred:

(€'000)

	2021
Cash and cash equivalents	5,720
Use of treasury shares	2,100
Contingent consideration	
Total	**7,820**

The consideration is being paid in several tranches:

- €6.5 million on signing the contract, of which approximately €4.4 million in cash and the remainder in Salcef Group S.p.A. treasury shares (153,848);
- €1.3 million in three annual instalments, the last of which is due in 2024.

There are also mechanisms for adjusting the price downwards if certain conditions are met.

Acquired assets and assumed liabilities at the acquisition date are summarised below. The data are based on the statement of financial position prepared by the acquired company, adjusted and translated into Euros

for consistency with the IFRS endorsed by the European Commission and the presentation currency and format adopted by the Salcef Group.

(€'000)

	2021
Property, plant and equipment	3,291
Right-of-use assets	
Intangible assets	41
Equity investments	100
Inventories	331
Trade receivables	3,268
Contract assets	1,617
Other assets	400
Cash and cash equivalents	233
Equity att. to non-controlling interests	
Financial liabilities	(2,707)
Tax liabilities	(72)
Trade payables	(3,360)
Other liabilities	(1,273)
Total net identifiable assets	**1,867**

Goodwill arising on the acquisition was recognised as follows:

(€'000)

	2021
Total fair value of transferred consideration	7,820
Total net identifiable assets	(1,867)
Total	**5,953**

On 21 June 2021, Verwaltung und Beteiligung Nord GmbH changed its name to Salcef Deutschland GmbH and its registered office was transferred to Landsberg Am Lech (near Munich).

For the preparation of these consolidated financial statements as at and for the year ended 31 December 2021, the acquisition of Salcef Deutschland GmbH was recognised, in accordance with IFRS 3, by allocating the provisional amounts of the transaction pursuant to paragraph 45 and following paragraphs of this standard. To this end, pending the group's definition of the long-term post-acquisition plan and the consequent purchase price allocation, the carrying amounts of the acquiree's assets and liabilities were maintained, allocating the entire difference with respect to the carrying amount of the equity investment recognised by the parent to goodwill.

34 Earnings per share

Basic earnings per share

Earnings per share are calculated by dividing the group's profit for the year by the weighted average number of ordinary shares outstanding in the same year, considering the repurchases of treasury shares and the cancellation of shares.

Basic earnings per share in 2021 are shown in the table below:

	2021	2020
Numerator (€)		
Profit attributable to the ordinary shareholders of the parent (A)	*39,070,532*	*41,149,309*
Denominator (unit)		
(+) Weighted average of the ordinary shares	51,789,865	40,926,160
(-) Weighted average of the ordinary treasury shares	(437,790)	(144,520)
(=) Weighted average of the ordinary shares outstanding in the year (B)	*51,352,075*	*40,781,640*
Basic earnings per share (€) (A/B)	**0.76**	**1.01**

Diluted earnings per share

Diluted earnings per share are calculated considering the group's profit for the year and the weighted average number of ordinary shares outstanding in the year, adjusted to reflect the effects of all potential ordinary shares with a dilution effect. Diluted earnings per share in 2021 are shown in the table below:

	2021	2020
Numerator (€)		
(+) Profit attributable to the ordinary shareholders of the parent	*39,070,532*	*41,149,309*
(+/-) Changes in income/expense arising from the conversion of potential ordinary shares with a dilution effect	-	-
= Adjusted profit attributable to the ordinary shareholders of the parent (A)	*39,070,532*	*41,149,309*
Denominator (unit)		
(+) Weighted average of the ordinary shares	51,789,865	40,926,160
(-) Weighted average of the ordinary treasury shares	(437,790)	(144,520)
(+) Weighted average of potential ordinary shares with a dilution effect	6,027,875	10,366,653
(=) Weighted average of the ordinary shares outstanding in the year (B)	*57,379,951*	*51,148,293*
Diluted earnings per share (€) (A/B)	**0.68**	**0.80**

At 31 December 2021, there are outstanding instruments that could dilute basic earnings per share, such as special shares and performance shares, as described in note 15 to which reference should be made. The new and additional conversion warrants were completely converted during the year.

35 Contingent liabilities

Certain group companies are involved in civil, criminal, labour law and tax proceedings in connection with the ordinary course of business.

Management does not believe that any of these proceedings present a probable risk of financial expenditure or that they could give rise to significant liabilities. Consequently, no specific provisions are recognised in the consolidated financial statements at 31 December 2021. Any adverse developments, which are not

currently foreseeable or determinable based on internal analyses or judicial investigations in progress, will be adequately assessed for the purposes of calculating any accruals.

36 Independent auditors' fees

Pursuant to article 149-duodecies of the Issuers' Regulation, the table below sets out the fees for audit, attestation and other services provided by the independent auditors and members of its network in 2021. The fees are governed by contracts and include any indexing, out-of-pocket expenses and supervisory contributions.

(€'000)

Type of service	Service provider	Beneficiary	2021 fee
A) Audit services	KPMG S.p.A.	Parent Salcef Group S.p.A.	254
		Subsidiaries	131
B) Attestation services	KPMG S.p.A.	Parent Salcef Group S.p.A.	80
C) Other services	KPMG S.p.A.	Parent Salcef Group S.p.A.	90
Total			**556**

Significant non-recurring events and transactions

The group's financial position, financial performance and cash flows were not affected by significant non-recurring events and transactions during the year. Moreover, the group did not undertake atypical or unusual transactions during the year.

Events after the reporting date

Conversion of performance and special shares

Pursuant to article 7.4.c.iii and article 7.5.e.ii of the parent's by-laws and considering the number of new warrants exercised during the year, on 15 January 2022, all the remaining performance and special shares were converted into ordinary shares. Specifically: (i) 641,044 performance shares were converted using the ratio of five ordinary shares to every one performance share for a total of 3,205,220 ordinary shares and (ii) 153,851 special shares were converted using the ratio of seven ordinary shares to every one special share for a total of 1,076,957 ordinary shares. These conversions did not increase the parent's share capital, which comprised 62,399,906 ordinary shares, without a par value, at the reporting date.

Demerger of Coget Impianti S.p.A. to Salcef S.p.A.

On 27 January 2022, the shareholders of Coget Impianti S.p.A. and Salcef S.p.A. approved the demerger proposal for the partial proportionate demerger of the former company (the "demerged company") to the latter company (the "beneficiary"). As a result, the beneficiary will receive the business unit that designs, constructs and maintains electrical contact lines for electrical traction (the "ET business unit").

The objective behind the demerger is to streamline the group's operations and make them more efficient. The ET business unit's specific organisation and competitive edge sets it apart from those of the rest of the operations carried out by the demerged company. Therefore, the demerger will facilitate the centralisation of the design, construction and maintenance of electrical contact lines for electrical traction in one company (the beneficiary, which already works in this area) in order to optimise the deployment of resources and costs for both companies.

The demerger will become effective on 30 March 2022 once the mandatory period for filing the shareholders' resolutions with the competent company registrars ends and the demerger deed is signed. Its statutory, accounting and tax effects will start on 1 April 2022. The accounting effects of the demerger will be recognised using the carrying amounts shown in the parent's financial statements as this is a transaction under common control.

Finally and in order to complete the demerger, concurrently with its approval by the shareholders of Coget Impianti S.p.A., they also approved its transformation into a company limited by quotas (S.r.l.) in accordance with article 2500 of the Italian Civil Code and the transfer of its registered office from Corteno Golgi (Brescia) to Rome.

Acquisition of the railway business unit from the PSC Group

The group company Euro Ferroviaria S.r.l. acquired the railway business unit of the PSC S.p.A. Group. The signing and closing were completed on 8 March 2022. The acquisition is not subject to any conditions precedent. The transaction will become effective on 1 May 2022.

It is part of the group's mission to strengthen its leadership position in the railway electrical traction sector and to facilitate the development of business segments such as railway signalling, the construction of electricity generating substations and tunnel technological systems. The group expects these segments to grow rapidly and strongly, thanks to the sizeable investments to be made under the Italian National Recovery and Resilience Plan as well as the projects to upgrade the Italian railway network.

The business unit has a workforce of around 100 employees, a good fleet of railway vehicles and an order backlog of more than €100 million. The consideration transferred approximated €26.6 million and is subject to the usual price adjustment mechanisms (upwards or downwards) depending on variations in the business unit's working capital. Payment was made at the closing except for €3.5 million subject to the satisfaction of certain conditions defined in the contract.

The group self-financed the acquisition in full.

Conflict between Russia and Ukraine

Regarding the recent geopolitical events linked to the Russian/Ukrainian conflict and the restrictions imposed on Russia by the European Union, the group has checked that this situation should not potentially impact its financial position or future performance.

The group does not have sales or purchases contracts or other trading relationships with entities resident in Russia, Belarus or Ukraine, nor does it hold assets, liquidity, equity or debt instruments in these countries. Moreover, it does not have receivables due from Russian, Belarusian or Ukrainian entities and is not exposed to currency risk deriving from exposures in Russian rubles or Ukrainian hryvnia as it does not have any positions in these currencies. As a result, it does not expect the conflict to have a significant impact on its commercial activities or supply chain.

As described in the section on the group's outlook, its future profits will be affected by the currently unquantifiable effects of large and unforeseen increase in the main production factors (especially the cost of labour, raw materials, services and, in particular, subcontracts, as well as the cost of energy and specifically the fuel needed to operate the rolling operating machines) due to the conflict, which has escalated the inflationary trend already seen in 2021.

Though not located in the countries affected by the conflict, the group's financial investments at 31 December 2021 are exposed to the volatility and uncertainty rife on the international financial markets in the last month, which has pushed down the main indexes.

The parent's share price has also been affected by the financial markets' performance, decreasing from €24.70 at 30 December 2021 (the last trading day of the year) to €21.10 on 17 March 2022.

CEO

(Valeriano Salciccia)

Attestation on the consolidated financial statements pursuant to article 81-ter of Consob Regulation no. 11971 of 14 May 1999, as amended and supplemented

1. In accordance with the provisions of article 154-bis.3/4 of Legislative decree no. 58 of 24 February 1998, the undersigned Valeriano Salciccia, CEO, and Fabio de Masi, the manager in charge of financial reporting of Salcef Group S.p.A. attest to:
   - the adequacy with respect to the group's characteristics (taking into account any changes in the year) and
   - the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements in 2021.

2. The activities were carried out considering the organisational structure and execution, control and monitoring processes of company activities for the preparation of the consolidated financial statements.
No material aspects arose in this respect.

3. Furthermore:

3.1 The consolidated financial statements:

a) have been prepared in accordance with the IFRS endorsed by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
b) match the accounting ledgers and entries;
c) give a true and fair view of the financial position, financial performance and cash flows of the issuer and the companies in the consolidation scope.

3.2 The directors' report comprises a reliable analysis of the performance and results of operations, as well as the financial position of the issuer and the companies in the consolidation scope, along with a description of the key risks and uncertainties to which they are exposed.

Rome, 16 March 2022

CEO
Valeriano Salciccia

Manager in charge of financial reporting
Fabio De Masi

KPMG S.p.A.
Revisione e organizzazione contabile
Via Curtatone, 3
00185 ROMA RM
Telefono +39 06 80961.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(The accompanying translated separate financial statements of Salcef Group S.p.A. constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditors' report has been translated into English solely for the convenience of international readers. Accordingly, only the original Italian version is authoritative.)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Salcef Group S.p.A.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Salcef Group S.p.A. (the "company"), which comprise the statement of financial position as at 31 December 2021, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Salcef Group S.p.A. as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of the company in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Limited, società di diritto inglese.

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Bologna Bolzano Brescia
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Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
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Società per azioni
Capitale sociale
Euro 10.415.500,00 i.v.
Registro Imprese Milano Monza Brianza Lodi
e Codice Fiscale N. 00709600159
R.E.A. Milano N. 512867
Partita IVA 00709600159
VAT number IT00709600159
Sede legale: Via Vittor Pisani, 25
20124 Milano MI ITALIA

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of the carrying amount of equity investments measured at cost

Notes to the separate financial statements: section on "Accounting policies" – paragraphs "Equity investments measured at cost", "Impairment of non-financial assets" and "Use of estimates" and note 4 "Equity investments measured at cost"

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2021 include investments measured at cost of €123,467 thousand. When there are indicators of impairment, they are tested for impairment, by discounting the cash flows that are expected to be generated by the investees using the discounted cash flow model to calculate their recoverable amount. The model is very complex and entails the use of estimates which, by their very nature, are uncertain and subjective, about: — the expected cash flows, calculated by taking into account the general economic performance and that of the investees' sector, the cash flows generated in recent years and the projected growth rates; — the financial parameters used to calculate the discount rate. For the above reasons, we believe that the recoverability of the equity investments measured at cost is a key audit matter	Our audit procedures included: — updating our understanding of the process adopted for impairment testing approved by the company's board of directors; — updating our understanding of the process adopted to prepare the 2021-2023 business plan approved by the company's board of directors (the "plan") from which the expected cash flows used for impairment testing have been derived, as well as analysing the reasonableness of the main assumptions used; — analysing the most significant discrepancies between the previous year business plans' figures and actual figures, in order to check the accuracy of the estimation process adopted by the directors; — comparing the cash flows used for impairment testing to the cash flows forecast in the plan and analysing any discrepancies; — involving experts of the KPMG network in the assessment of the reasonableness of the impairment testing model and related assumptions, including by means of a comparison with external data and information; — assessing the appropriateness of the disclosures provided in the notes about equity investments measured at cost and related impairment tests.

Responsibilities of the company's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the company's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

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

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit

evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern;

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

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

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 5 October 2020, the company's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2020 to 31 December 2028.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion on the compliance with the provisions of Commission Delegated Regulation (EU) 2019/815

The company's directors are responsible for the application of the provisions of Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (ESEF) to the separate financial statements to be included in the annual financial report.

We have performed the procedures required by Standard on Auditing (SA Italia) 700B in order to express an opinion on the compliance of the separate financial statements with Commission Delegated Regulation (EU) 2019/815.

In our opinion, the separate financial statements have been prepared in XHTML format in compliance with the provisions of Commission Delegated Regulation (EU) 2019/815.

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The company's directors are responsible for the preparation of a directors' report and a report on corporate governance and ownership structure at 31 December 2021 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the company's separate financial statements at 31 December 2021 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the company's separate financial statements at 31 December 2021 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Rome, 31 March 2022

KPMG S.p.A.

(signed on the original)

Marco Giordano
Director of Audit

04 SEPARATE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2021

Separate financial statements as at and for the year ended 31 December 2021

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	31.12.2021	31.12.2020
Non-current assets			
Intangible assets with finite useful lives	1	140,060	283,956
Property, plant and equipment	2	6,610,213	1,988,683
Right-of-use assets	3	1,369,883	1,648,547
- of which, with related parties		*1,324,881*	*1,596,427*
Equity investments measured at cost	4	123,467,102	117,096,813
Equity-accounted investments	5	7,900	7,900
Other non-current assets	6	11,600,753	10,595,601
Deferred tax assets	7	2,085,952	1,591,536
Total non-current assets		**145,281,864**	**133,213,036**
Current assets			
Inventories	8	3,169,192	0
Contract assets	8	0	667,292
Trade receivables	9	9,178,511	9,266,850
- of which, with related parties		*4,917,963*	*5,276,648*
Current tax assets	10	2,228,095	3,921,300
Current financial assets	11	191,505,975	123,414,596
- of which, with related parties		*93,714,654*	*58,445,507*
Cash and cash equivalents	12	87,575,046	12,056,712
Other current assets	13	23,809,838	31,366,124
- of which, with related parties		*14,304,105*	*14,376,632*
Total current assets		**317,466,657**	**180,692,874**
TOTAL ASSETS		**462,748,521**	**313,905,910**

LIABILITIES	Note	31.12.2021	31.12.2020
Equity			
Share capital		141,544,532	62,106,165
Other reserves		134,161,763	80,573,520
Retained earnings		16,882,720	13,957,947
Profit for the year		33,300,893	24,545,124
TOTAL EQUITY	**14**	**325,889,909**	**181,182,756**
Non-current liabilities			
Non-current financial liabilities	15	65,789,721	31,651,922
Lease liabilities	3-15	1,084,882	1,359,175
- of which, with related parties		*1,070,223*	*1,326,204*
Employee benefits	16	242,350	588
Provisions for risks and charges	17	515,386	515,386
Deferred tax liabilities	7	798,125	187,946
Other non-current liabilities		1,120,264	0
Total non-current liabilities		**69,550,729**	**33,715,017**
Current liabilities			
Current financial liabilities	15	45,810,123	81,165,921
- of which, with related parties		*256,640*	*22,516,015*
Current portion of lease liabilities	3-15	361,881	321,224
- of which, with related parties		*329,658*	*30,296*
Current employee benefits	16	971,286	0
Contract liabilities	8	214,614	242,341
Trade payables	18	11,927,026	9,556,255
- of which, with related parties		*7,064,685*	*4,218,139*
Current tax liabilities	19	3,449,354	705,305
Other current liabilities	20	4,573,598	7,017,091
- of which, with related parties		*0*	*572,079*
Total current liabilities		**67,307,883**	**99,008,137**
TOTAL LIABILITIES		**136,858,612**	**132,723,154**
TOTAL EQUITY AND LIABILITIES		**462,748,521**	**313,905,910**

INCOME STATEMENT

	Note	2021	2020
Revenue from contracts with customers		17,680,883	12,828,511
- of which, with related parties		*11,297,289*	*8,795,147*
Other income		550,160	1,302,486
- of which, with related parties		*259,828*	*1,042,716*
Total	**21**	**18,231,043**	**14,130,997**
Raw materials, supplies and goods	22	(4,510,350)	(2,026,535)
- of which, with related parties		*(10,183)*	*(26,003)*
Services	23	(9,706,482)	(11,896,575)
- of which, with related parties		*(3,220,208)*	*(810,642)*
Personnel expense	24	(8,127,291)	(4,850,141)
Amortisation, depreciation and impairment losses	25	(837,481)	(742,247)
Impairment losses	26	(1,310,525)	(146,683)
Other operating costs	27	(1,331,278)	(2,068,221)
- of which, with related parties		*0*	*(38,500)*
Internal work capitalised	28	0	1,155,712
Total costs		**(25,823,406)**	**(20,574,690)**
Operating profit		**(7,592,363)**	**(6,443,693)**
Financial income	29	51,514,473	49,456,871
- of which, with related parties		*47,165,026*	*48,266,493*
Financial expense	29	(10,455,453)	(19,068,764)
- of which, with related parties		*(341,736)*	*(504,009)*
Pre-tax profit		**33,466,657**	**23,944,414**
Income taxes	7	(165,764)	600,710
Profit for the year		**33,300,893**	**24,545,124**

STATEMENT OF COMPREHENSIVE INCOME

	Note	2021	2020
Profit for the year		**33,300,893**	**24,545,124**
Other comprehensive income/(expense) that will not be subsequently reclassified to profit or loss			
Net actuarial losses	16	(4,035)	(9,596)
Related tax		1,143	2,070
Total		**(2,893)**	**(7,526)**
Other comprehensive income/(expense) that will be subsequently reclassified to profit or loss			
Net hedging losses	12-16	(1,715,899)	(394,719)
Related tax		411,816	94,732
Net exchange gains/(losses)		1,602,912	(331,746)
Total		**298,829**	**(631,733)**
Other comprehensive income (expense), net of tax		**295,936**	**(639,259)**
Comprehensive income		**33,596,829**	**23,905,865**

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Other reserves	Reserve for treasury shares	Actuarial reserve	Hedging reserve	Translation reserve	Reserve for warrants	Retained earnings	Profit for the year	Equity
Balance at 1 January 2020		**60,000,000**	**86,226,986**	**-**	**(3,860)**	**-**	**(4,003,931)**	**(7,610,105)**	**17,489,901**	**14,619,664**	**166,718,655**
Profit for the year										24,545,124	24,545,124
Other comprehensive expense					(7,526)	(299,987)	(331,746)				(639,259)
Comprehensive income		**-**	**-**	**-**	**(7,526)**	**(299,987)**	**(331,746)**	**-**	**-**	**24,545,124**	**23,905,865**
Allocation of 2019 profit			1,246,036						13,373,628	(14,619,664)	-
Exercise of warrants		2,106,165	6,437,239					2,934,887			11,478,291
Repurchase of treasury shares				(3,612,456)							(3,612,456)
Dividend distribution									(16,904,404)		(16,904,404)
Other variations/reclassifications			(402,017)						(1,178)		(403,195)
Total owner transactions		**2,106,165**	**7,281,258**	**(3,612,456)**	**-**	**-**	**-**	**2,934,887**	**(3,531,954)**	**(14,619,664)**	**(9,441,764)**
Balance at 31 December 2020		**62,106,165**	**93,508,244**	**(3,612,456)**	**(11,386)**	**(299,987)**	**(4,335,677)**	**(4,675,218)**	**13,957,947**	**24,545,124**	**181,182,756**
Profit for the year										33,300,893	33,300,893
Other comprehensive income					(2,893)	(1,304,084)	1,602,912				295,936
Comprehensive income		**-**	**-**	**-**	**(2,893)**	**(1,304,084)**	**1,602,912**	**-**	**-**	**33,300,893**	**33,596,829**
Allocation of prior year profit			1,227,256						23,317,868	(24,545,124)	-
Exercise of warrants		74,638,367	24,416,473					4,675,218			103,730,058
Repurchase of treasury shares				(4,752,702)							(4,752,702)
Use of treasury shares			217,997	1,882,028							2,100,025
Dividend distribution									(21,314,116)		(21,314,116)
Share capital increase		4,800,000	26,547,059								31,347,059
Other variations/reclassifications			308,657						(308,657)		-
Total owner transactions		**79,438,367**	**52,717,442**	**(2,870,674)**	**-**	**-**	**-**	**4,675,218**	**1,695,095**	**(24,545,124)**	**111,110,324**
Balance at 31 December 2021	**14**	**141,544,532**	**146,225,686**	**(6,483,131)**	**(14,278)**	**(1,604,071)**	**(2,732,764)**	**-**	**15,653,042**	**33,300,893**	**325,889,909**

STATEMENT OF CASH FLOWS

		Note	2021	2020
	Profit for the year		**33,300,893**	**24,545,124**
	Amortisation and depreciation		837,481	742,247
	Impairment losses		1,310,525	146,683
	Net financial income		(41,059,020)	(30,388,107)
	Losses on the disposal of property, plant and equipment			11,662
	Other adjustments for non-monetary items		(165,321)	2,670,736
	Accruals		1,370,271	196,755
	Income taxes		166,179	(600,710)
(A)	**Cash flows from operating activities before changes in working capital**		**(4,238,992)**	**(2,675,610)**
	(Increase) / decrease in contract assets/liabilities		(2,519,878)	1,584,013
	(Increase) / decrease in trade receivables		(1,141,333)	282,406
	Increase / (decrease) in trade payables		2,370,771	553,156
	(Increase) / decrease in other current and non-current assets		20,144,639	6,040,648
	Increase / (decrease) in other current and non-current liabilities		(2,643,493)	(2,215,706)
(B)	**Changes in working capital**		**16,210,708**	**6,244,517**
	Cash flows generated by operating activities (A+B)		**11,971,716**	**3,568,907**
	Interest paid		(771,160)	(508,929)
	Income taxes paid		(8,849,674)	(9,911,184)
(C)	**Net cash flows generated by (used in) operating activities**		**2,350,881**	**(6,851,206)**
	Investing activities			
	Interest collected		154,214	228,973
	Investments in intangible assets		(78,065)	(227,072)
	Acquisition of property, plant and equipment		(5,003,532)	(1,467,491)
	Acquisition of equity investments and non-current securities		(4,400,000)	(8,485,404)
	Investments in securities and other financial assets		(41,506,474)	(79,024,787)
	Proceeds from the sale of property, plant and equipment		179,058	60,441
	Exchange differences		(26,470)	29,525
(D)	**Cash flows used in investing activities**		**(50,681,269)**	**(88,885,815)**
	Financing activities			
	Change in other financial liabilities		6,112,565	19,585,042
	Disbursement of loans		69,000,000	68,827,500
	Repayment of loans		(30,651,694)	(15,773,871)
	Repayment of lease liabilities		(413,277)	(29,532)
	Proceeds from the issue of company shares		105,867,947	2,106,165
	Repurchase of treasury shares		(4,752,702)	(3,612,456)
	Dividends distributed		(21,314,116)	(16,904,404)
(E)	**Cash flows generated by financing activities**		**123,848,722**	**54,198,444**
(F)	**Net change in cash and cash equivalents (C+D+E)**		**75,518,334**	**(41,538,577)**
(*)	**Opening cash and cash equivalents**		**53,595,290**	**53,595,290**
	Net change in cash and cash equivalents		75,518,334	(41,538,577)
(*)	**Closing cash and cash equivalents**	**12**	**129,113,624**	**12,056,713**

(*) Cash and cash equivalents are net of current bank loans and borrowings

Notes to the separate financial statements

as at and for the year ended 31 December 2021

General information on the financial statements preparer

Salcef Group S.p.A. (the "company") is a company limited by shares with registered office in Rome (Italy) in Via di Pietralata 140. It is the parent of a group of specialist companies active in the design, construction and maintenance of systems for railway infrastructure and tram and metro networks in Italy and abroad.

The company's ordinary shares are listed on the STAR segment of the Euronext Milan market organised and managed by Borsa Italiana S.p.A..

At the preparation date of these separate financial statements, Finhold S.r.l. holds the absolute majority of Salcef Group S.p.A. shares but does not manage or coordinate it.

As the company holds significant controlling investments in other companies, it also prepares the group's consolidated financial statements, which are published together with these separate financial statements.

Salcef Group S.p.A.'s board of directors approved these separate financial statements as at and for the year ended 31 December 2021 and authorised them for publication on 16 March 2022.

On 6 October 2020, in accordance with articles 70.8 and 71.1-bis of the Issuers' Regulation, Salcef Group S.p.A.'s board of directors resolved to opt out of publishing the disclosures required by Annex 3B to the Issuers' Regulation for significant mergers, demergers, share capital increases through contribution in kind, acquisitions and sales.

Reporting standards and compliance with the IFRS

In accordance with Regulation (EC) no. 1606/2002 of 19 July 2002, the separate financial statements at 31 December 2021 have been prepared in accordance with 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), previously named the Standard Interpretations Committee (SIC), in force at the reporting date.

Basis of presentation

These separate financial statements at 31 December 2021 consist of the income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and these notes.

Among the various options for the presentation of the statement of financial position, Salcef Group S.p.A. has opted to classify assets and liabilities as current or non-current.
The income statement is presented with the classification of the individual captions by nature, which is consistent with the company's internal management reporting model and is therefore deemed more indicative than presenting the captions by use, as it provides more reliable and meaningful information according to the segment to which each caption belongs.

The income statement and the statement of comprehensive income are presented as two separate statements and, therefore, the company 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 year 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 company has prepared the statement of cash flows using the indirect method, classifying cash flows as generated by operating, investing and financing activities.

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

Pursuant to Consob resolution no. 15519 of 28 July 2006, any income and expense on non-recurring transactions are recognised separately in profit or loss. Similarly, the balances of related party transactions are presented separately in the financial statements. Note 31 provides information and details of related party transactions.
The company's presentation currency is the Euro, which is also its functional currency. Assets and liabilities are presented separately without offsetting. The figures in the separate 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 these separate 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 company has prepared the separate financial statements on a going concern basis and to give a true and fair view of its financial position, financial performance and cash flows in the years presented. Management has made use of estimates as described later.

Translation of transactions in foreign currencies

Transactions in foreign currencies

Transactions in foreign currencies are translated into the company's functional currency 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 year 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 company at 31 December 2021

CURRENCY	Code	31.12.2021	
		Spot closing rate	Average rate
Polish zloty	PLN	4.5969	4.5652
Egyptian lira	EGP	17.8012	18.5678
Romanian leu	RON	4.9490	4.9215
UAE dirham	AED	4.1595	4.3436
Saudi riyal	SAR	4.2473	4.4353
US dollar	USD	1.1326	1.1827

Intangible assets with finite useful lives

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

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 company has acquired is available for use and is allocated on a systematic basis over its useful life based on its residual use. The company 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).

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 company. 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 company 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 following table shows the estimated useful lives of the various asset categories, shown as annual depreciation rates:

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

The company 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

At inception of a contract, the company assesses whether it 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 company uses the definition of a lease in IFRS 16. At commencement or on modification of a contract that contains a lease component, the company 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 company has elected not to separate non-lease components and to account for the lease and non-lease components as a single lease component.

The company 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 company by the end of the lease term or the cost of the right-of-use asset reflects that the company 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 company's incremental borrowing rate. Generally, the company uses its incremental borrowing rate as the discount rate.
The company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and making 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 company is reasonably certain to exercise, lease payments in an optional renewal period if the company is reasonably

certain to exercise an extension option, and penalties for early termination of a lease unless the company 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 company's estimate of the amount expected to be payable under a residual value guarantee, if the company 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. When the lease liability is remeasured, the company adjusts the right-of-use asset accordingly.
The company has opted to use the following practical expedients permitted by IFRS 16:

- it applied the same discount rate to leases with similar characteristics in terms of residual term for classes of similar underlying assets in similar locations;
- it excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- it determined the contractual variables (especially the lease term) using hindsight;
- upon initial application of IFRS 16, for contracts previously classified as operating leases, the company recognised a right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position before the date of initial application;
- upon initial application of IFRS 16, for contracts previously classified as finance leases, the company deemed the carrying amount of the right-of-use asset and the lease liability to be the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17.

The company also applies the practical expedients for low-value assets and short-term leases. Accordingly, the company has elected not to recognise right-of-use assets and lease liabilities for leases for which the underlying asset, new and considered individually, is worth less than €5,000, and leases with terms of less than 12 months. The company recognises the related lease payments as an expense over the term of the lease.
In the statement of financial position, right-of-use assets and lease liabilities are presented separately from other assets and other liabilities, respectively.

Equity investments measured at cost

Investments in subsidiaries are classified as equity investments and measured at cost.
Subsidiaries are companies that Salcef Group S.p.A. controls, i.e., when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

If there is objective evidence of impairment, recoverability is tested by comparing the carrying amount of the investment with its recoverable amount, which is the higher of fair value less costs to sell and value in use.

Contingent consideration for the acquisition of equity investments is recognised at the acquisition-date fair value of contingent consideration as an increase in the equity investment. The obligation to pay contingent consideration is classified as other current or non-current financial liabilities. Subsequent changes in the fair value of contingent consideration due to changes in estimates or the capitalisation of present value are recognised as increases or decreases in the equity investment.

Equity-accounted investments

Investments in associates are measured using the equity method.

Associates are entities over which the company has significant influence over the financial and operating policy decisions but does not have control.

Under the equity method, associates are initially recognised at cost, allocating the fair value of acquired assets and assumed liabilities to their carrying amount. Cost is adjusted thereafter for the post-acquisition change in the investor's share of net assets of the associate. Dividends received from associates are recognised as adjustments to the carrying amount of the equity investment.

Impairment of non-financial assets

At each reporting date, the company 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, the asset's recoverable amount is estimated.

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).

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 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 amortisation or depreciation, if no impairment loss had been recognised.

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 company 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 year 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 company'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 company'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 company considers the effect of the following elements:

e. variable consideration;
f. the existence of a significant financing component in contracts;
g. non-monetary consideration;
h. 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 year when 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 company 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 company 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 company may irrevocably elect to present subsequent changes in the instrument's fair value in OCI. This election is made on a 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. These includes all types of derivatives.

On initial recognition, the company 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 company 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 company 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 company 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 company'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 company 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 company 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 company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The company 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 company 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 company 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 the classification of instruments that will or may be settled through an entity's equity instruments (such as the warrants issued by Salcef Group S.p.A.), is whether there 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 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. In accordance with IFRIC 19, when the additional conversion warrants are exercised, the company 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. When the new warrants are exercised, the company recognises an increase in equity equal to the exercise price. At the reporting date,

both the additional conversion warrants and the new warrants issued by Salcef Group S.p.A. had been entirely settled due to their conversion or expiry when the acceleration condition provided for in their regulations materialised.

Derivatives, including hedge accounting

The company holds derivatives specifically for hedging interest rate and currency risks. At the inception of designated hedging relationships, the company 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 company 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 company recognises loss allowances for expected credit losses (ECLs) on:

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

This is 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 clusters 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 (probability of default - PD, loss given default - LGD and exposure at default - 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 company 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 treasury 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.
The costs incurred for issuing equity instruments are recognised as a decrease in equity to the extent they are marginal costs directly attributable to the performance of the transaction, which would have otherwise been avoided.

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 company 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 company'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 company, 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 company 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 year to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the year 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.

Provisions for risks and charges

Salcef Group S.p.A. recognises 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 company's financial income and expense include:

- interest income;
- interest expense;
- dividends received;
- 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. Income from dividends is recognised when the company has the right to receive payment.
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 or tax loss for the year in accordance with the applicable tax laws and at the rates enacted at year end. 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 (corporate income tax). The tax consolidation agreement governs the income/expense and financial transactions and the mutual responsibilities and obligations between the company and the consolidated companies. It has a three-year term from 2020 to 2022 and was signed with the subsidiaries Salcef S.p.A., Euro Ferroviaria S.r.l., RECO S.r.l. and SRT S.r.l.. Overail S.r.l. and Coget Impianti S.p.A. joined the agreement in 2019 and 2020, respectively.
Consequently, in these separate financial statements, the company has presented the amount due from/to the tax authorities for IRES under the tax consolidation scheme as current tax assets/liabilities and the amounts due from/to the companies participating in the tax consolidation scheme in respect of the tax assets/liabilities that they have transferred to such scheme as other current assets/liabilities.

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 company 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.

Any 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 (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.

Fair value measurement

The company 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 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.

Share-based payments
In share-based payment transactions settled with equity instruments of the company, the grant-date fair value of the incentives granted to employees (rights to receive shares) is recognised under personnel expense, with a corresponding increase in equity. The expense is allocated over the vesting period, during which the satisfaction of the performance conditions is assessed and the beneficiary must continue to satisfy the service condition in order to have the right to the incentives. The vesting period commences at the grant

date, i.e., the date on which the company and the employee accept the share-based payment agreement, acknowledging its terms and conditions.

The relevant cost is adjusted to reflect the actual number of incentives for which the service and performance conditions have been met and the non-market results achieved, so that the final cost recognised is based on the number of incentives that meet the above conditions at the vesting date.

Changes in accounting policies, errors and changes in accounting estimates

The company 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 company's financial position, financial performance and cash flows.

Changes in accounting policies are applied retrospectively and the company 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 company 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 these separate 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 these separate financial statements.

The accounting policies and the financial statements captions that required a higher degree of judgement in making estimates are as follows:

- Equity investments measured at cost: if their carrying amount is greater than the company's share of equity, they are tested annually for impairment, and any impairment losses are taken to profit or loss. Specifically, impairment testing involves determining the recoverable amount of the equity investments by estimating their value in use or fair value less costs to sell. If their recoverable amount is lower than their carrying amount, they are impaired. Calculating the recoverable amount of equity investments 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 company 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.

- 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 company 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 company 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 company 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 these separate 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 these separate financial statements, the European Union has endorsed certain standards and interpretations that are not yet mandatory and that the company will adopt in subsequent years, if applicable. These amendments to existing standards or interpretations are not expected to have a significant impact on the company's separate financial statements.

In addition, other standards and amendments to existing standards issued by the IASB or new interpretations issued by the IFRIC are currently undergoing the EU endorsement process. These new standards, amendments and interpretations are summarised below:

- Onerous contracts - cost of fulfilling a contract (Amendments to IAS 37): the amendments clarify what costs an entity considers in assessing whether a contract is onerous. The amendments are effective for annual periods beginning on or after 1 January 2022 and entities apply the amendments to contracts for which the entity has not yet fulfilled its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. At that date, the cumulative effects of application of the amendments adjust the opening balance of retained earnings or other equity items as the case may be;
- Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12): the amendments narrow the scope of application of the initial recognition exemption of deferred tax to exclude transactions in which equal amounts of deductible and taxable temporary differences arise on initial application. The amendments are effective for annual reporting periods beginning on or after 1 January 2023;
- Annual improvements to IFRS Standards (2018-2020 cycle), which are effective for annual reporting periods beginning on or after 1 January 2022;
- Proceeds before intended use (Amendments to IAS 16): these amendments are effective for annual reporting periods beginning on or after 1 January 2022;
- Reference to the Conceptual Framework (Amendments to IFRS 3): these amendments are effective for annual reporting periods beginning on or after 1 January 2022;
- Classification of liabilities as current or non-current (Amendments to IAS 1): these amendments are effective for annual reporting periods beginning on or after 1 January 2023;
- IFRS 17 Insurance contracts (and subsequent amendments) which replaces IFRS 4 and is effective for annual reporting periods beginning on or after 1 January 2023;
- Disclosure of accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2): these amendments are effective for annual reporting periods beginning on or after 1 January 2023;
- Definition of accounting estimates (Amendments to IAS 8): these amendments are effective for annual reporting periods beginning on or after 1 January 2023.

At the date of preparation of these separate financial statements, the company does not expect the new

amendments or standards will have a significant impact on it.

Notes to the main statement of financial position captions

ASSETS

NON-CURRENT ASSETS

1 Intangible assets with finite useful lives

Intangible assets with finite useful lives amount to €140 thousand and €284 thousand at 31 December 2021 and 2020, respectively. They are broken down in the table below with changes in both years considered.

(€'000)

	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Assets under development	Other	TOTAL
Balance at 31 December 2020:					
Cost	882	56	25	3,125	4,088
Accumulated amortisation	(803)	(5)		(2,996)	(3,804)
Carrying amount at 31 December 2020	**79**	**51**	**25**	**129**	**284**
Investments - Historical cost	59		19		78
Disposals - Historical cost					
Other variations - Historical cost					
Reclassifications - Historical cost	43		(43)		-
Exchange differences - Historical cost					
Amortisation	(130)	(3)		(90)	(222)
Disposals - Acc. amortisation					
Other variations - Acc. amortisation					
Reclassifications - Acc. amortisation					-
Exchange differences - Acc. amortisation					-
Balance at 31 December 2021:					
Cost	985	56		3,125	4,166
Accumulated amortisation	(933)	(8)		(3,085)	(4,026)
Carrying amount at 31 December 2021	**52**	**48**		**40**	**140**

At 31 December 2021, industrial patents and intellectual property rights amount to €52 thousand and include the cost of software licences acquired by the company. Concessions, licences and trademarks refer to costs incurred to register the Salcef Group trademark.

2 Property, plant and equipment

This caption mainly consists of plant and machinery used in production.

The following table shows a breakdown of the caption and changes of the year:

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction	TOTAL
Balance at 31 December 2020:						
Cost	197	716	195	888	1,156	3,151
Accumulated depreciation	(15)	(348)	(168)	(632)	-	(1,162)
Carrying amount at 31 December 2020	**182**	**367**	**27**	**256**	**1,156**	**1,989**
Investments - Historical cost	983	661	13	3	3,344	5,004
Disposals - Historical cost	(195)			(51)		(246)
Reclassifications - Historical cost						
Impairment losses - Historical cost						
Other variations - Historical cost						
Exchange differences - Historical cost	(2)	54	12	5		70
Depreciation	(1)	(123)	(12)	(93)		(229)
Disposals - Acc. depreciation	16			51		67
Reclassifications - Acc. depreciation						
Impairment losses - Acc. depreciation						
Other variations - Acc. depreciation						
Exchange differences - Acc. depreciation		(29)	(10)	(6)		(44)
Balance at 31 December 2021:						
Cost	983	1,431	221	846	4,500	7,979
Accumulated depreciation	0	(500)	(190)	(680)	-	(1,369)
Carrying amount at 31 December 2021	**983**	**931**	**31**	**166**	**4,500**	**6,610**

The increases in 2021 refer to purchases by Salcef Group S.p.A.'s Egyptian branch after it won the sub-contract for work to upgrade the tracks and turnouts on the Cairo - Alexandria line.

On the other hand, assets under construction of €4,500 thousand consist of costs incurred by Salcef Group S.p.A. to restructure the property in Rome where the administrative offices will be located.

The decreases of €246 thousand relate to assets that are no longer used in production or relevant to the company's activities.

3 Right-of-use assets

(€'000)

RIGHT-OF-USE ASSETS	31.12.2021	31.12.2020
Carrying amount	1,370	1,649
Total	**1,370**	**1,649**

These refer to the buildings used as offices that Salcef Group S.p.A. occupies under operating leases. The company discounts the total amount of lease payments due and recognises it in this caption in accordance with IFRS 16. The assistance of an independent expert was used for the discounting.

Changes in the year in right-of-use assets and lease liabilities are summarised below.

(€'000)

RIGHT-OF-USE ASSETS	Land and buildings	TOTAL
Carrying amount at 31 December 2020	**1,649**	**1,649**
Depreciation	(386)	(386)
Increases	107	107
Derecognition	-	-
Carrying amount at 31 December 2021	**1,370**	**1,370**

(€'000)

LEASE LIABILITIES		TOTAL
Carrying amount at 31 December 2020	**1,680**	**1,680**
Payments	(413)	(413)
Increases	107	107
Interest expense	73	73
Carrying amount at 31 December 2021	**1,447**	**1,447**
of which, current	*362*	
of which, non-current	*1,085*	

At the reporting date, the company has signed a finance lease with a major leasing company but the underlying asset (the building to which it will relocate its administrative offices) is not yet available as it is still being restructured. Therefore, the separate financial statements do not include the right-of-use asset or lease liability which will not be recognised until the restructuring has been completed (at the date of preparation of these separate financial statements, no information about the completion date is available).

4 Equity investments measured at cost

At 31 December 2021, equity investments measured at cost amount to €123,467 thousand compared to €117,097 thousand at 31 December 2020 as follows:

(€'000)

	REGISTERED OFFICE	31.12.2021	31.12.2020	Variation
Subsidiaries				
Euro Ferroviaria S.r.l. single-member company	Rome - Italy	457	457	0
RECO S.r.l. single-member company	Rome - Italy	659	659	0
Salcef S.p.A. single-member company	Rome - Italy	76,536	76,536	0
SRT S.r.l. single-member company	Rome - Italy	5,044	5,044	0
Overail S.r.l. single-member company	Rome - Italy	8,839	8,839	0
Salcef Bau GmbH	Landsberg Am Lech - Germany	0	1,450	(1,450)
Coget Impianti S.p.A.	Corteno Golgi (BS) - Italy	15,626	15,626	0
Salcef USA Inc.	New York - USA	8,485	8,485	0
Salcef Deutschland GmbH	Landsberg Am Lech - Germany	7,820	0	7,820
Total		**123,467**	**117,097**	**6,370**

Changes in the year are summarised below:

(€'000)

	% of investment 31.12.2020	Carrying amount 31.12.2020	Increases	Decreases	Carrying amount 31.12.2021	% of investment 31.12.2021
Euro Ferroviaria S.r.l. single-member company	100%	457			457	100%
RECO S.r.l. single-member company	100%	659			659	100%
Salcef S.p.A. single-member company	100%	76,536			76,536	100%
SRT S.r.l. single-member company	100%	5,044			5,044	100%
Overail S.r.l. single-member company	100%	8,839			8,839	100%
Salcef Bau GmbH	100%	1,450		(1,450)	0	0%
Coget Impianti S.p.A.	100%	15,626			15,626	100%
Salcef USA Inc.	100%	8,485			8,485	100%
Salcef Deutschland GmbH	0%	0	7,820		7,820	100%
Carrying amount		**117,097**	**7,820**	**(1,450)**	**123,467**	

On 25 May 2021, Salcef Group S.p.A. acquired the entire share capital of Verwaltung und Beteiligung Nord GmbH ("Verwaltung"), the parent of the German group that includes Bahnbau Nord GmbH, based in Henstedt-Ulzburg (near Hamburg) and active in the construction and maintenance of permanent way systems, as well as a group of companies operating in various businesses within the railway sector.

The transaction allows the company to keep pursuing its strategy of growth through external lines, boosting the Salcef Group's presence on the German market, which is characterised by impressive development projects as confirmed by the Deutsche Bahn plan approved by the German government, with investments of €86 billion over the next 10 years. The group, which has around 100 employees, recorded average consolidated turnover of approximately €17 million in the 2018-2020 period.

The consideration is being paid in several tranches:

- €6.5 million on signing the contract, of which approximately €4.4 million in cash and the remainder in Salcef Group S.p.A. treasury shares (153,848);
- €1.3 million in three annual instalments, the last of which is due in 2024.

There are also mechanisms for adjusting the price downwards if certain conditions are met.

On 21 June 2021, Verwaltung und Beteiligung Nord GmbH changed its name to Salcef Deutschland GmbH and its registered office was transferred to Landsberg Am Lech.

The table below summarises key information on investees at 31 December 2021:

(€'000)

	REGISTERED OFFICE	Currency	Share/quota capital	% of investment	Carrying amount 31.12.2021	Equity	Profit/(loss) for the year	Equity-accounted investments
Euro Ferroviaria S.r.l. single-member company	Rome - Italy	Euro	100,000	100%	457	27,513	6,374	27,513
RECO S.r.l. single-member company	Rome - Italy	Euro	100,000	100%	659	1,063	10	1,305
Salcef S.p.A. single-member company	Rome - Italy	Euro	60,000,000	100%	76,536	150,954	35,090	150,954
SRT S.r.l. single-member company	Rome - Italy	Euro	100,000	100%	5,044	13,809	4,631	8,563
Overail S.r.l. single-member company	Rome - Italy	Euro	100,000	100%	8,839	29,017	3,844	29,538
Coget Impianti S.r.l.	Corteno Golgi (BS) - Italy	Euro	1,000,000	100%	15,626	12,622	1,076	19,704
Salcef USA Inc.	Wilmington - Delaware	USD	10,000,000	100%	8,485	12,299	3,538	12,299
Salcef Deutschland GmbH	Landsberg Am Lech - Germany	Euro	162,750	100%	7,820	784	(1,424)	6,737
Total					**123,467**			**256,612**

At 31 December 2021, the company performed an impairment test on the equity investments whose carrying amount at that date was higher than the company's share of equity. This involved calculating the equity investments' value in use applying the discounted cash flow (DCF) method to the estimated cash flows for the current three-year period (2022-2024), based on the equity investments' forward-looking financial figures, to which a WACC of 6.97% was applied for Coget Impianti S.r.l., 5.93% for Salcef Deutschland GmbH and 7.32% for Delta Railroad Construction Inc. (held indirectly through Salcef USA Inc.).

The operating cash flows considered for the impairment test were taken from the forward-looking financial figures in the 2021-2023 plan approved by Salcef Group S.p.A.'s board of directors.
In addition, estimated cash flows for the third year of the explicit forecast period (2024) were determined on the basis of the performance that can be inferred from the 2021-2023 plan.

The discount rate was estimated as follows:

- the risk free rate was determined to be equal to the average yield on ten-year government securities: 1.0% for Italy (which is the main country for Coget Impianti S.r.l.), 0% for Germany (which is the main country for Salcef Deutschland GmbH) and 1.5% for the United States (which is the main country for Delta Railroad Construction Inc.);
- the equity risk premium was 5.5%;
- levered beta of 0.9 was determined considering a sample of listed companies operating in the same sector as the subsidiaries;
- the additional risk premium was 3%.

The terminal value was calculated using the perpetuity formula in which an average nominal growth rate of cash flows available after the explicit period and perpetually (g-rate) of 1.5% was used to determine the terminal value.
The recoverable amounts were compared with the equity investments' carrying amounts at 31 December 2021.
The recoverable amounts resulting from the impairment test were higher than the equity investments' carrying amounts.

5 Equity-accounted investments

(€'000)

	31.12.2021	31.12.2020	Variation
Associates	8	8	0
Total	**8**	**8**	**0**

The breakdown and details of the changes in the year are reported below:

(€'000)

	REGISTERED OFFICE	31.12.2021	31.12.2020	Variation
Associates and other companies				
Frejus S.c.a.r.l.	Bologna - Italy	8	8	(0)
Total		**8**	**8**	**(0)**

(€'000)

	Associates	Total
Carrying amount at 31 December 2020	**8**	**8**
Increases/Capital increases	0	0
Decreases	0	0
Impairment losses	0	0
Carrying amount at 31 December 2021	**8**	**8**

The following table reconciles the key financial data and carrying amounts of investments in associates:

(€'000)

Frejus S.c.a r.l.	31.12.2021
Interest	42.93%
Assets	1,017
Liabilities	999
Net assets (100%)	**18**
Group's share of net assets	8
Elimination of unrealised gain on intragroup sales	0
Carrying amount of the investment in the associate	**8**
Revenue	96
Costs	(98)
Operating loss (100%)	**(2)**
Net financial income/(expense)	0
Income taxes	0
Loss for the year (100%)	**(2)**
Comprehensive expense (100%)	0
Comprehensive expense (100%)	(2)
Group's share of comprehensive expense	**(1)**

6 Other non-current assets

The table below shows other non-current assets at 31 December 2021 and 2020:

(€'000)

	31.12.2021	31.12.2020	Variation
Guarantee deposits	226	270	(44)
Performance bonds	11,203	10,326	877
Other assets	172	0	172
Total	**11,601**	**10,596**	**1,005**

The guarantee deposits include amounts paid by the company to guarantee the supply of goods and services to be received and for property leases.

The performance bonds are amounts invoiced and/or to be invoiced to customers and will be collected once the inspection of the related assets has been carried out.

7 Deferred tax assets - Deferred tax liabilities - Current and deferred taxes

Income taxes may be analysed as follows:

(€'000)

INCOME TAXES	2021	2020
IRES	*384*	*1,737*
IRAP	-	-
Total current taxes	**384**	**1,737**
Change in deferred tax assets	81	(867)
Change in deferred tax liabilities	*(610)*	*(163)*
Total deferred taxes	**(529)**	**(1,030)**
Prior year taxes	**(21)**	**(106)**
Total income taxes	**(166)**	**601**

(€'000)

TAXES RECOGNISED IN OTHER COMPREHENSIVE INCOME/(EXPENSE)	Pre-tax	Tax benefit (expense)	Post-tax
Other comprehensive income/(expense) that will not be subsequently reclassified to profit or loss			
Net actuarial gains/(losses)	(10)	2	(8)
Total	**(10)**	**2**	**(8)**
Other comprehensive income/(expense) that will be subsequently reclassified to profit or loss			
Net hedging gains/(losses)	(395)	95	(300)
Total	**(395)**	**95**	**(300)**
2020	**(405)**	**97**	**(308)**
Other comprehensive income/(expense) that will not be subsequently reclassified to profit or loss			
Net actuarial gains/(losses)	(4)	1	(3)
Total	**(4)**	**1**	**(3)**
Other comprehensive income/(expense) that will be subsequently reclassified to profit or loss			
Net hedging gains/(losses)	(1,716)	412	(1,304)
Total	**(1,716)**	**412**	**(1,304)**
2021	**(1,720)**	**413**	**(1,307)**

At 31 December 2021, deferred tax assets and liabilities amount to €2,086 thousand and €798 thousand, respectively. Changes in these two captions compared to 31 December 2020 are analysed below.

(€'000)

DEFERRED TAX ASSETS	01.01.2021	Accruals	Utilisations	Other variations	31.12.2021
Unrealised exchange differences	238	3	(238)		3
Tax loss	244				244
Stock grants	0	20			20
MBO	0	283			283
Loss allowance	1				1
Provision for litigation	124				124
Derivative financial instruments	95			412	507
IAS 19	4			1	5
Impairment losses - IFRS 9	17	319	(17)		319
Listing costs	869		(289)		580
Total	**1,592**	**625**	**(544)**	**413**	**2,086**

(€'000)

DEFERRED TAX LIABILITIES	01.01.2021	Accruals	Utilisations	Other variations	31.12.2021
Unrealised exchange differences	36	352	(36)	-	352
Fair value gains on securities	152	446	(152)		446
Total	**188**	**798**	**(188)**	**0**	**798**

The temporary differences that generated deferred taxes are detailed below with indication of the rates used:

(€'000)

DEFERRED TAX ASSETS	Temporary differences	Rate	31.12.2021
Loss allowance	7	24%	1
Tax loss	1,019	24%	244
Stock grants	82	24%	20
MBO	1,181	24%	283
Provision for litigation	515	24%	124
Unrealised exchange differences	14	24%	3
Derivative financial instruments	2,117	24%	508
IAS 19	19	24%	5
Impairment losses - IFRS 9	1,326	24%	318
Listing costs	2,417	24%	580
Total			**2,086**

(€'000)

DEFERRED TAX LIABILITIES	Temporary differences	Rate	31.12.2021
Unrealised exchange differences	1,465	24%	352
Fair value gains on securities	1,860	24%	446
Total			**798**

Deferred tax assets are recognised since it is deemed probable, on the basis of business plans, that the company will generate future taxable income sufficient for their recovery.
Furthermore, there are no tax loss carryforwards not recognised under deferred tax assets.

A reconciliation of the theoretical tax rate, calculated in line with the ruling tax laws, and the effective rate is as follows:

(€'000)

Reconciliation of actual tax rate	2021	2021
Pre-tax profit	33,467	
Theoretical IRES	(8,032)	(24%)
Lower taxes:		
- Non-taxable income	10,488	31.34%
- Other	636	1.90%
Greater taxes:		
- Other	(2,708)	(8.09%)
Total current income taxes (IRES)	**384**	**1.15%**
IRAP	-	-
Prior year taxes	**(21)**	**(0.06%)**
Total deferred taxes	**(529)**	**(1.58%)**
Total income taxes	**(166)**	**(0.50%)**

CURRENT ASSETS

8 Contract assets and liabilities

Contract assets include the contractual consideration for work in progress certified by progress reports issued by the customer's works manager or internal reports prepared by the company and not yet invoiced.

(€'000)

	31.12.2021	31.12.2020	Variation
Contract assets	0	677	(677)
Impairment losses	0	(10)	10
Total	**0**	**667**	**(667)**

The following table provides a breakdown of contract assets by geographical segment:

(€'000)

	31.12.2021	31.12.2020	Variation
Africa	0	667	(667)
Total	**0**	**667**	**(667)**

The following table provides information on financial assets and contract assets and liabilities:

(€'000)

CONTRACT-RELATED CAPTIONS	31.12.2021	31.12.2020	Variation
Trade receivables	9,179	9,267	(88)
Contract assets	0	667	(667)
Contract liabilities	(215)	(242)	28
TOTAL	**8,964**	**9,692**	**(728)**

As mentioned previously, contract assets are mainly comprised of the company's right to receive payment for that portion of work in progress that has been completed but not invoiced at the reporting date as per contracts in place with customers.

Contract liabilities are mainly comprised of advances on contracts awarded to the company, which will be subsequently invoiced on the basis of the progress reports issued and approved by the customer.

(€'000)

	31.12.2021	31.12.2020	Variation
Contract liabilities	215	242	(28)
Total	**215**	**242**	**(28)**

At 31 December 2021, this caption mainly relates to the advance from NAT – National Authority for Tunnel for the construction of a railway hub in Kozzyka (Egypt).

Contract liabilities at 31 December 2021 will become revenue in 2022.

9 Trade receivables

The table shows the caption at 31 December 2021 with comparative prior year end figures:

(€'000)

	31.12.2021	31.12.2020	Variation
Third parties	5,598	4,097	1,502
Loss allowance	(1,338)	(106)	(1,232)
Total third parties	**4,261**	**3,991**	**270**
Subsidiaries	4,637	4,995	(358)
Associates	281	281	-
Total related parties	**4,918**	**5,276**	**(358)**
Total	**9,179**	**9,267**	**(88)**

The following table shows changes in the loss allowance during the year:

(€'000)

Carrying amount at 31 December 2020	**(106)**
Utilisations/Releases	0
Impairment losses	(1,241)
Other variations	9
Carrying amount at 31 December 2021	**(1,338)**

Although Salcef Group S.p.A.'s exposure to credit risk is mainly related to the specific characteristics of each customer, company management also considers variables typical of the company's backlog, including the insolvency risk of the customer's sector and country.

The increase in the loss allowance is mostly due to the impairment of a specific receivable considered to be in level 3 of the fair value hierarchy established by IFRS 9.

Trade receivables from subsidiaries of €4,637 thousand (31 December 2020: €4,995 thousand) mainly refer to the amounts due from Salcef S.p.A., Euro Ferroviaria S.r.l., SRT S.r.l., RECO S.r.l., Overail S.r.l. and Coget Impianti S.p.A. for the balance of services not yet invoiced that Salcef Group S.p.A. provided to group companies in 2021 under a master agreement.

Trade receivables from associates refer to those from Frejus S.c.a r.l. for invoices issued for work performed.

The following table provides a breakdown of trade receivables by geographical segment:

(€'000)

	31.12.2021	%	31.12.2020	%
Italy	1,749	41%	2,712	68%
Europe (excluding Italy)	67	2%	321	8%
Egypt	699	16%	450	11%
Saudi Arabia	1,746	41%	508	13%
Total	**4,261**		**3,991**	

10 Current tax assets

Current tax assets amount to €2,228 thousand compared to €3,291 thousand at 31 December 2020.

The year-end balance mostly consists of the asset or direct income taxes paid in advance abroad.

11 Current financial assets

A breakdown of current financial assets at 31 December 2021 and 2020 is as follows:

(€'000)

	31.12.2021	31.12.2020	Variation
Securities	97,826	64,990	32,836
Loan assets with subsidiaries	93,715	58,446	35,269
Hedging derivatives	13	0	13
Impairment loss	(47)	(21)	(26)
Total	**191,506**	**123,415**	**68,091**

The 31 December 2021 balance refers to loans that Salcef Group S.p.A. granted to subsidiaries, specifically: €11,164 thousand to SRT S.r.l., €18,213 thousand to Overail S.r.l., €19,237 thousand to Salcef Deutschland GmbH, €9,705 thousand to Salcef S.p.A., €8,033 thousand to Euro Ferroviaria S.r.l. and €27,064 thousand to Salcef USA Inc..

Securities of €97,826 thousand represent the investments existing at the reporting date in mutual property funds, Italian treasury notes ("BTPs"), certificates and policies taken out by Salcef Group S.p.A. to invest the cash and cash equivalents obtained following the capital increases performed in 2021 and previous years. They are measured at fair value (level 1 according to the IFRS 13 hierarchy) and the related gains and losses are taken to profit or loss.

The following table shows variations in the caption during the year:

(€'000)

	31.12.2020	Purchases	Sales	Fair value gains/(losses)	31.12.2021
Unicredit mutual funds	6,867	2,245	(2,235)	149	7,026
Unicredit certificates	1,227			42	1,269
Intesa Eurizon SGR	10,150		(2,998)	179	7,331
Intesa San Paolo Eurizon		8,000		(20)	7,980
BPS	6,553		(955)	(30)	5,568
UBI BAP lire policy	8,040	1,000	(3)	116	9,153
Mps fiduciary mandate	15,000		(10,018)	(3)	4,979
MPS Unit Private Suite policy		5,000		90	5,090
BTP Deutsche Bank	1,028		(1,028)		0
Servizio Italia Cardiff policy	15,119			546	15,665
Fineco mutual funds	1,006	2,978		23	4,007
Banca Aletti		7,100		92	7,192
Fineco Aviva insurance products		9,300		247	9,547
Kairos Partners SGR		5,000		(32)	4,968
Deutsche Bank		3,000		92	3,092
Fondo Azimut		5,000		(40)	4,960
Total	**64,990**	**48,623**	**(17,236)**	**1,449**	**97,826**

Note 15 provides a description of all the company's derivatives, which include the above hedging derivatives of €13 thousand at the reporting date.

12 Cash and cash equivalents

(€'000)

	31.12.2021	31.12.2020	Variation
Bank and postal accounts	87,571	12,050	75,521
Cash-in-hand and cash equivalents	5	7	(2)
Total	**87,575**	**12,057**	**75,518**

These amount to €87,575 thousand, compared to €12,057 thousand at the previous year end, and include bank deposits of €87,571 thousand and cash and cash equivalents of €5 thousand at 31 December 2021.

13 Other current assets

The table below shows other current assets at 31 December 2021 and 2020:

(€'000)

	31.12.2021	31.12.2020	Variation
Other tax assets	4,389	11,866	(7,477)
Other assets with subsidiaries	14,304	14,377	(73)
Other assets	2,463	2,550	(87)
Prepayments and accrued income	2,654	2,573	81
Total	**23,810**	**31,366**	**(7,556)**

Other tax assets consist of the assets from the tax authorities for indirect taxes (VAT) paid in Italy and abroad.

Other assets with subsidiaries refer to the IRES liability that they respectively transferred to Salcef Group S.p.A. under the domestic tax consolidation scheme, specifically Salcef S.p.A. (€11,742 thousand), Overail S.r.l. (€618 thousand), SRT S.r.l. (€1,427 thousand), Coget Impianti S.r.l. (€240 thousand) and Euro Ferroviaria S.r.l. (€114 thousand).

Prepayments amount to €2,654 thousand (31 December 2020: €2,573 thousand) and refer to the portion of costs incurred in the year pertaining to subsequent years.
They are mostly insurance premiums for the headquarters and work sites and bank surety commissions. The increase on the previous year end is due to the down payment for the lease signed by Salcef Group S.p.A. for a building in Rome which will house the company's administrative offices once it has been restructured. As the relevant conditions about the lease inception date are not met at the reporting date, the leased building has not been recognised under right-of-use assets (see note 4).

Other assets mainly consist of advances paid to suppliers and employees, including cash advances for the work sites in order to begin day-to-day operations, amounts due to factors for interest accrued on the factoring of the VAT asset without recourse and the value of the financial participating instruments received from Astaldi S.p.A., as Salcef Group S.p.A. is its unsecured creditor (€1,803 thousand).

LIABILITIES

TOTAL EQUITY AND LIABILITIES

14 Equity

The main equity captions and changes therein are commented on below.

Share capital

Share capital

The fully paid-up share capital at 31 December 2021 amounts to €141,544,532 and is comprised of 58,912,624 shares without nominal value, as follows:

a) 58,117,729 ordinary shares;
b) 641,044 performance shares;
c) 153,851 special shares.

In accordance with the by-laws (published on the company's website www.salcef.com in the Governance/Company documents section), performance shares have the following characteristics: (i) they are freely transferable by law, (ii) they give their holders the right to vote at the company's ordinary and extraordinary shareholders' meetings, (iii) they carry the right to participate in profits approved for distribution and (iv) they automatically convert into ordinary shares at a ratio of five ordinary shares for every performance share according to the terms and conditions of the by-laws. Special shares have the following characteristics: (i) they are freely transferable by law, (ii) they do not give their holders the right to vote at the company's ordinary and extraordinary shareholders' meetings, (iii) they do not carry the right to participate in profits if the company approves distribution until the 36th month after the effective date of the Merger, (iv) if the company undergoes winding up they give their holders the right to receive their respective share subordinated to the rights of the ordinary shareholders and (v) they automatically convert into ordinary shares at a ratio of seven ordinary shares for every special share according to the terms and conditions of the by-laws.

The main characteristics of the new and additional conversion warrants extinguished during the year after their conversion or expiry (described later) are as follows:

- the new warrants gave their bearers the right, pursuant to the terms and procedures set out in the regulation, 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;
- the additional conversion warrants gave their holders the right, pursuant to the terms and procedures set out in the regulation, to subscribe conversion shares at a ratio notified monthly and at a subscription price of €0.10 per share. Specifically, the exercise ratio was calculated using the following formula, as long as the average monthly price was higher than the strike price of €9.30:

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

Both the new warrants and the additional conversion warrants were listed on the Italian Stock Exchange organised and managed by Borsa Italiana S.p.A. up until their conversion or expiry.

Reserves

At 31 December 2021, reserves mainly comprise:

- Legal reserve: this reserve of €2,454 thousand includes prior year profits allocated in accordance with Italian law;
- Extraordinary reserve: totalling €13,310 thousand, it includes prior year profits allocated thereto by the shareholders;
- Revaluation reserves: these reserves of €28,060 thousand were set up for the revaluations of property, plant and equipment made in accordance with Laws no. 342/2000, no. 266/2005 and no. 2/2009;
- Translation reserve: with a negative balance of €2,733 thousand;
- Goodwill arising on merger: amounting to €45,000 thousand, this reserve arose on the recognition of the merger of Salcef Group S.p.A. and Indstars 3 that took place on 8 November 2019;
- Actuarial reserve: this reserve contains the actuarial gains and losses on the remeasurement of post-employment benefit liabilities in accordance with IAS 19 and shows a negative balance of €14 thousand;
- Hedging reserve: with a negative balance of €1,604 thousand, this reserve reflects the fair value gains and losses on the interest rate swap hedging cash flow risk on the payment of interest on a loan and the fair value gains and losses on the currency forwards hedging currency risk on the loan in US dollars granted to the subsidiary Salcef USA Inc.. The reserve will be taken to the income statement over the years as the cash flows generated by the hedged item affect profit or loss;
- Reserve for repurchase of treasury shares: with a negative balance of €6,483 thousand, this reserve includes the value of the company's treasury shares repurchased on the market and held in accordance with the resolutions passed during the ordinary shareholders' meeting;
- Share premium: recognised in 2021 for €27,200 thousand after the capital increase achieved through the accelerated bookbuild offering described later in these notes;
- Reserve for capital increase costs: this reserve with a negative balance of €653 thousand includes the costs directly attributable to the issue or repurchase of treasury shares.

The company's equity increased by €144,707 thousand during from year from €181,183 thousand at 31 December 2020 to €329,890 thousand at the reporting date. The main transactions for this increase are described below:

(i) Conversion of the additional conversion and new warrants issued by the company: the acceleration conditions of these warrants provided for in their regulations were met with the closing of the stock market on Friday 30 April 2021 and Monday 3 May 2021, respectively. Specifically, the average monthly price of April 2021 was higher than the threshold price of €13.00 for the additional conversion warrants while the average daily price for the new warrants was at least equal to the threshold price of €13.00 for at least 15 out of 30 consecutive trading dates (the "period of stability"). Accordingly as the acceleration condition was met, the bearers of the new warrants could ask to subscribe conversion shares at the share subscription price (€10.50) by and not after 30 June 2021, otherwise they would expire. Meanwhile, the bearers of the additional conversion warrants could ask to subscribe conversion shares at the share subscription price (€0.10) by and not after 22 July 2021, otherwise they would expire. The conversions of the new warrants and the additional conversion warrants carried out in 2021 led to an increase in share capital and reserves of €74,638 thousand and €29,092 thousand, respectively. Any unexercised additional conversion warrants and new warrants have ceased to be valid for all purposes.

(ii) The company's capital increase of 30 September 2021 performed with the issue of 2,000,000 new ordinary shares at a unit price of €16.00: these new shares were offered through an accelerated bookbuild procedure reserved for qualified investors (as defined by Regulation (EU) 2017/1129) in the European Economic Area and institutional investors abroad (with the exclusion of the United States of America, Canada, Japan, South Africa and any other country or jurisdiction in which the offer of shares is prohibited by law or in the absence of exemptions). No public offering and listing prospectus was published pursuant to the exemptions provided for by applicable legislation.

As the company's ordinary shares do not have a par value, it recognised the capital increase based on the existing accounting par value by allocating €2.40 per share to the share capital (for a total increase of €4,800 thousand) and the remainder to the share premium (for a total increase of €27,200 thousand). The transaction costs of €653 thousand were recognised in the reserve for capital increase costs as a decrease in equity.

(iii) The company's distribution of a dividend: its shareholders approved this distribution in their ordinary meeting held on 29 April 2021 to approve the separate financial statements at 31 December 2020 (showing a profit of €24,545,124) and acknowledge the consolidated financial statements at the same date (including a profit attributable to the owners of the parent of €41,149,309), both prepared under the IFRS. The shareholders also approved the distribution of a dividend of €0.42 for each ordinary and performance share. The ex-dividend, record and payment dates were 24, 25 and 26 May 2021, respectively. The entire amount distributed was €21,314,116.

(iv) The repurchase of treasury shares for €4,753 thousand.

More information about changes in equity is provided in the statement of changes in equity.

Capital management

The company's capital management policies entail maintaining a high level of capital to keep its stakeholders' trust and also lay the foundation for the company's future. Additionally, management monitors return on capital and the amount of dividends to distribute to ordinary shareholders. The board of directors strives to balance the achievement of higher returns through greater leverage with the advantages and security of a sound financial position.

NON-CURRENT LIABILITIES

15 Current and non-current financial liabilities – Lease liabilities

Lease liabilities and bank loans and borrowings may be analysed as follows:

(€'000)

	31.12.2021	31.12.2020	Variation
Bank loans - non-current portion	63,667	31,257	32,410
Hedging derivatives	2,123	395	1,728
Total	**65,790**	**31,652**	**34,138**
Lease liabilities	1,085	1,359	(274)
Total	**1,085**	**1,359**	**(274)**
TOTAL NON-CURRENT	**66,875**	**33,011**	**33,864**
Other loans and borrowings	0	368	(368)
Loans from related parties	0	22,516	(22,516)
Bank loans and borrowings - current portion	0	39,008	(39,008)
Warrants	0	19,274	(19,274)
Total	**0**	**81,166**	**(81,166)**
Lease liabilities	362	321	41
Total	**362**	**321**	**41**
TOTAL CURRENT	**362**	**81,487**	**(81,125)**
TOTAL FINANCIAL LIABILITIES	**67,236**	**114,498**	**(47,262)**

Loans from related parties of €257 thousand refer to the interest-bearing borrowings granted to the Romanian branch. The decrease in the caption is due to repayment of the liabilities outstanding at 31 December 2020, mostly for the interest-bearing loans granted to the company by Salcef S.p.A. (€21,366 thousand), RECO S.r.l. (€208 thousand) and Euro Ferroviaria S.r.l. (€942 thousand).

The bank loans are medium/long-term loans from banks to Salcef Group S.p.A., the terms of which are detailed below at 31 December 2021:

(€'000)

	Interest rate	Year of maturity	31.12.2021	
			Nominal amount	Carrying amount
UBI Banca - unsecured loan	1% + 3-month Euribor with a floor of 0	2022	422	422
Banco BPM - unsecured loan	0.85%	2022	1,541	1,540
Intesa Sanpaolo - unsecured loan	1% + 3-month Euribor	2023	2,083	2,079
Deutsche Bank - unsecured loan	1% + 3-month Euribor	2023	4,167	4,159
BPER - unsecured loan	0.70% + 6-month Euribor with a floor of 0	2022	1,257	1,256
MPS - unsecured loan	0.60% + 6-month Euribor with a floor of 0	2023	2,500	2,499
Unicredit - loan	1.54% + 3-month Euribor	2025	17,933	17,930
UBI Banca - unsecured loan	0.80%	2023	3,347	3,345
UBI Banca - unsecured loan	0.80%	2023	3,208	3,207
MPS - unsecured loan	0.60% + 6-month Euribor with a floor of 0	2023	3,333	3,331
Credit Agricole - unsecured loan	0.55% + 3-month Euribor with a floor of 0	2024	5,000	4,995
Banca Popolare di Sondrio - unsecured loan	0.90% + 3-month Euribor	2025	3,716	3,713
Intesa Sanpaolo - unsecured loan	1.54% + 3-month Euribor	2026	27,000	27,000
CDP loan	1% + 6-month Euribor with a floor of 0	2026	25,000	25,000
BNL loan	0.25%	2023	8,750	8,742
Total			**109,257**	**109,220**

SACE S.p.A. guaranteed 60% of the €17,930 thousand loan from Unicredit S.p.A. to acquire the Delta Group (as described earlier). In addition, on 30 June 2021, Salcef Group S.p.A. took out a five-year, €30,000 thousand "S-Loan" with Intesa Sanpaolo S.p.A.. The loan is backed by the SACE S.p.A. green guarantee and involves the identification and monitoring of certain ESG performance indicators, improvements in which may decrease the interest rate.

Furthermore, Salcef Group S.p.A. is required to comply with certain covenants.
The covenants in place at 31 December 2021 relate to the loan granted by Unicredit S.p.A. in September 2020, maturing in September 2025, a loan granted by Intesa Sanpaolo on 30 June 2021 (described above), maturing in June 2026, and the loan granted by Cassa Depositi e Prestiti (CDP) in two instalments in July 2021 and December 2021, maturing in June 2026.
The Unicredit S.p.A. loan provides for the following covenants:

- consolidated net financial position/gross operating profit (loss) ratio lower than or equal to 3 for the entire term of the loan, monitored on the basis of the Salcef Group's consolidated financial statements;
- separate net financial position/equity ratio lower than or equal to 1 for the entire term of the loan, monitored on the basis of Salcef Group S.p.A.'s separate financial statements.

The Intesa Sanpaolo S.p.A. loan provides for the following covenants:

- consolidated net financial position/gross operating profit (loss) ratio lower than or equal to 3 for the

entire term of the loan, monitored on the basis of the Salcef Group's consolidated financial statements;

- consolidated net financial position/equity ratio lower than or equal to 0.9 for the entire term of the loan, monitored on the basis of the Salcef Group's consolidated financial statements.

The CDP loan provides for the following covenants:

- consolidated net financial position/gross operating profit (loss) ratio lower than or equal to 3 for the entire term of the loan, monitored on the basis of the Salcef Group's consolidated financial statements;
- consolidated net financial position/equity ratio lower than or equal to 1 for the entire term of the loan, monitored on the basis of the Salcef Group's consolidated financial statements.

Warrants of €19,274 thousand at 31 December 2020 reflected the fair value of the additional conversion warrants issued by the company which were recognised as financial liabilities since they provide for the exchange of a variable number of shares for a fixed exercise price (i.e., fixed for variable). The financial liability for warrants was fully extinguished in 2021 as the subscription period for the additional conversion warrants lapsed on 22 July 2021 after the acceleration condition, provided for in the warrants' regulation, was met as described in note 15. Given that extinguishment took place with the issue of the company's ordinary shares upon conversion, it did not generate cash outflows for the group but did generate a balancing entry as an increase in equity.
The fair value losses on the warrants of €9,737 thousand were recognised as financial expense until their complete extinguishment.

For hedging purposes, the company has entered into the following interest rate swaps:

- an interest rate swap with Unicredit S.p.A. entered into in September 2020, maturing in 2025 and with a notional amount of €17,933 thousand at 31 December 2021. This swap hedges cash flow risk on interest paid on the variable-rate loan with an outstanding balance of €17,933 thousand at the reporting date disbursed by the bank on the same date as the swap and with the same term. Accordingly, the swap has been designated as a cash flow hedge and the fair value gains and losses at each reporting date are taken in full to the hedging reserve;
- an interest rate swap with Banca Popolare di Sondrio entered into in January 2021, maturing in 2025 and with a notional amount of €3,716 thousand at 31 December 2021. This swap hedges cash flow risk on interest paid on the variable-rate loan with an outstanding balance of €3,716 thousand at the reporting date disbursed by the bank on the same date as the swap and with the same term. Accordingly, the swap has been designated as a cash flow hedge and the fair value gains and losses at each reporting date are taken in full to the hedging reserve;

- an interest rate swap with Intesa Sanpaolo S.p.A., entered into in June 2021, maturing in 2026 and with a notional amount of €27,000 thousand at 31 December 2021. This swap hedges cash flow risk on interest paid on the variable-rate loan with an outstanding balance of €27,000 thousand at the reporting date disbursed by the bank on the same date as the swap and with the same term. Accordingly, the swap has been designated as a cash flow hedge and the fair value gains and losses at each reporting date are taken in full to the hedging reserve;
- an interest rate swap with Unicredit S.p.A., entered into in August 2021, maturing in 2026 and with a notional amount of €5,000 thousand at 31 December 2021. This swap hedges cash flow risk on interest paid on the first instalment of the variable-rate loan of €5,000 thousand disbursed by CDP with the same term. Accordingly, the swap has been designated as a cash flow hedge and the fair value gains and losses at each reporting date are taken in full to the hedging reserve. As it has a positive fair value at 31 December 2021, this swap has not been included under current financial liabilities but is recognised under current financial assets (see note 11).

In December 2020, Salcef Group S.p.A. entered into five currency forwards with Unicredit S.p.A. maturing on 31 December 2025 to hedge cash flow risk on the loan in US dollars to the subsidiary Salcef USA Inc.. The cash flows consist of the interest (USD706 thousand) due each year and the repayment of principal on 31 December 2025 (USD28,240 thousand). Since these derivative contracts have been designated as cash flow hedges, the fair value gains and losses at each reporting date are taken in full to the hedging reserve.
The hedging reserve for the hedged item will be released to the income statement over the years as the cash flows generated by the hedged item affect profit or loss.
The table below provides a breakdown of the net financial position at 31 December 2021 and 31 December 2020. The company has applied the new presentation method for net financial position following the publication of the ESMA Guidelines dated 4 March 2021 and Consob warning notice no. 5/21 of 29 April 2021, in which it acknowledges the ESMA Guidelines and states that references to the CESR Recommendations on prospectuses contained in previous communications shall be replaced with the ESMA Guidelines, including the references contained in communication no. DEM/6064293 of 28 July 2006 on net financial position.

(€'000)

NET FINANCIAL POSITION	31.12.2021	31.12.2020	Variation
(A) Cash	87,575	12,057	75,518
(B) Cash equivalents	0	0	0
(C) Other current financial assets	191,506	123,415	68,091
(D) Cash and cash equivalents (A + B + C)	**279,081**	**135,471**	**143,610**
(E) Current financial debt *	(362)	(19,595)	19,233
(F) Current portion of non-current financial debt	(45,810)	(61,891)	16,081
(G) Current financial debt (E + F)	**(46,172)**	**(81,486)**	**35,314**
(H) Net current financial position (G + D)	**232,909**	**53,985**	**178,924**
(I) Non-current financial debt	(66,875)	(33,011)	(33,864)
(J) Debt instruments	0	0	0
(K) Trade payables and other non-current financial liabilities	0	0	0
(L) Non-current financial debt (I + J + K)	**(66,875)**	**(33,011)**	**(33,864)**
(M) Net financial position (H + L) **	**166,034**	**20,974**	**145,060**
(N) Adjustment for other financial liabilities - warrants	0	19,274	(19,274)
(O) Adjusted net financial position (M + N)	**166,034**	**40,248**	**125,786**

(*) the comparative figure includes the financial liability for the warrants referred to in letter N

(**) net financial position calculated as per Consob communication no. 6064293 of 28 July 2006 and in compliance with ESMA Guidelines of 4 March 2021

The following table shows the company's financial liabilities by maturity bracket at 31 December 2021 and 31 December 2020 and changes therein:

(€'000)

	Due within one year	Due after one year and within five years	Due after five years	TOTAL
Bank loans	39,008	31,257	-	70,265
Bank advances	-	-	-	
Other loans and borrowings	368	-	-	368
Loans from related parties	22,516	-	-	22,516
Lease liabilities	321	1,359	-	1,680
Warrants	19,274	-	-	19,274
Hedging derivatives	-	395	-	395
Carrying amount at 31 December 2020	**81,487**	**33,011**	**-**	**114,498**
Bank loans	45,553	63,667	-	109,220
Bank advances	-	-	-	
Other loans and borrowings	-	-	-	
Current loans from related parties		-	-	
Lease liabilities	362	1,085	-	1,447
Warrants	-	-	-	
Hedging derivatives	-	2,123	-	2,123
Carrying amount at 31 December 2021	**45,915**	**66,875**	**-**	**112,790**

(€'000)

FINANCIAL LIABILITIES - CHANGES	
Loans and borrowings at 1 January 2020	79,375
Change in advances	(1)
Fair value gains on warrants	395
Proceeds from new loans	68,828
Repayment of loans	(15,774)
Change in other loans and borrowings - current	(26,668)
New lease liabilities	1,528
Repayment of lease liabilities	(405)
Other changes in lease liabilities	474
Change in warrants	6,746
Total at 31 December 2020	**114,498**
Change in advances	0
Fair value gains on warrants	1,728
Proceeds from new loans	69,000
Repayment of loans	(36,277)
Change in other loans and borrowings - current	(16,323)
New lease liabilities	107
Repayment of lease liabilities	(413)
Other changes in lease liabilities	0
Change in warrants	(19,274)
Total at 31 December 2021	**113,047**

16 Employee benefits

This caption includes the company's estimated liability, calculated using actuarial techniques, for the post-employment benefits due to employees when their employment relationship ends, as the benefits are defined benefit plans under IAS 19.

The liability is calculated by an independent expert using the following actuarial assumptions:

	31.12.2021	31.12.2020
Annual discount rate	0.98%	0.34%
Annual inflation rate	1.8%	0.8%
Annual post-employment benefits growth rate	2.8%	2.1%

This caption includes the accrual for the portion vested at 31 December 2021 of the management incentive plan (€1,181 thousand), which will be disbursed in 2022 (€971 thousand) and 2024 (€210 thousand).

Changes in this caption are shown in the following table:

(€'000)

Carrying amount at 31 December 2020	**1**
Current service cost	1,457
Utilisations/Transfers	(248)
Other variations	
Interest cost	0
Net actuarial gains	4
Carrying amount at 31 December 2021	**1,214**
of which, non-current	*243*
of which, current	*971*

The current service cost mostly relates to the management incentive plan (MBO) introduced by the company to formally and clearly communicate the strategic objectives defined each year to all the beneficiary managers so that they can steer the entire workforce towards achieving them. Should the company achieve the defined milestones, the plan beneficiaries may receive a variable remuneration pegged to their gross annual remuneration and their achievement of the individual objectives assigned to them.

The MBO plan is the first phase of the performance management model the group intends to gradually introduce, based on the specific objectives assigned and the degree of compliance of the manager's conduct with the group's values.

These values and the conduct indicators will be the basis for the group's leadership model. Assessment of the objectives achieved (What) with the conduct applied (How) will be fundamental to safeguard the group's

organisational culture along its growth journey and to provide department heads with a structured tool to provide employees with feedback useful for the ongoing improvement of their performances.

17 Provisions for risks and charges (non-current portion)

This caption of €515 thousand is unchanged from 31 December 2021.

The provision for litigation represents an estimate of the probable liabilities that Salcef Group S.p.A. will incur in respect of the disputes underway or the claims currently pending and being assessed in which the company may be asked to pay for the damage suffered by the counterparty.

CURRENT LIABILITIES

18 Trade payables

(€'000)

	31.12.2021	31.12.2020	Variation
Third parties	4,862	5,338	(476)
Subsidiaries	6,949	4,141	2,809
Associates	115	77	38
Total	**11,927**	**9,556**	**2,371**

Trade payables to third parties of €4,862 thousand (31 December 2020: €5,338 thousand) include trade payables to Italian and foreign suppliers for invoices received and to be received.

Trade payables to subsidiaries amount to €6,949 thousand (€4,141 thousand at 31 December 2020) and refer to Salcef S.p.A. for the secondment of personnel and cost recharges (€3,513 thousand) and SRT or the sale of a grinding train to the Saudi Arabian branch (€3,342 thousand).

Trade payables to associates of €115 thousand include costs recharged by the consortium company Frejus S.c.a r.l. to Salcef Group S.p.A..

The following table provides a breakdown of trade payables by geographical segment:

(€'000)

	31.12.2021	%	31.12.2020	%
Italy	3,301	28%	7,371	77%
Europe (excluding Italy)	3,941	33%	864	9%
Egypt	617	5%	697	7%
Saudi Arabia	4,067	34%	624	7%
Total	**11,927**		**9,556**	

19 Current tax liabilities

The table below shows current tax liabilities at 31 December 2021 and 2020:

(€'000)

	31.12.2021	31.12.2020	Variation
Direct taxes	2,731	0	2,731
Tax provision	719	705	13
Total	**3,449**	**705**	**2,744**

The accrual of €719 thousand to the tax provision at 31 December 2021 refers to a prudent estimate of the tax liabilities that the company could be required to cover in the event of tax audits, inspections or assessments.

The direct taxes include the IRES liability for the domestic tax consolidation scheme.

20 Other current liabilities

The table below shows other current liabilities at 31 December 2021 and 2020:

(€'000)

	31.12.2021	31.12.2020	Variation
Social security institutions	289	96	194
Employees	727	396	331
Other liabilities with subsidiaries	0	572	(572)
Other	3,111	5,504	(2,392)
Accrued expenses and deferred income	11	79	(68)
Other tax liabilities	435	370	65
Total	**4,574**	**7,017**	**(2,441)**

Amounts due to employees refer to unpaid remuneration and untaken holidays at the reporting date.

At 31 December 2021, "Other" mainly consists of the €1,572 thousand and €1,320 thousand not yet paid for the acquisitions of the investments in Coget Impianti S.p.A. and Salcef Deutschland, respectively.

Apart from that described in the note on commitments and risks, the company's liabilities are not secured by collateral.

Notes to the main income statement captions

21 Revenue – Other income

(€'000)

	2021	2020	Variation
Revenue from contracts with customers	17,681	12,829	4,852
Other income	550	1,302	(752)
Total	**18,231**	**14,131**	**4,100**

Revenue amounts to €17,681 thousand, compared to €12,829 thousand in 2020, and mainly consists of consideration invoiced for permanent way systems (2021: €9,598 thousand; 2020: €4,299 thousand) and services provided to the group companies (2021: €8,083 thousand; 2020: €8,530 thousand).

(€'000)

	2021	2020	Variation
Timing of revenue recognition			
Products transferred at a point in time	8,083	8,530	(447)
Products and services transferred over time	9,598	4,299	5,299
Total	**17,681**	**12,829**	**4,852**
Main products/services			
Services	8,083	8,530	(447)
Permanent way systems	9,598	4,299	5,299
Total	**17,681**	**12,829**	**4,852**
Main geographical segments			
Italy	8,083	8,530	(447)
Europe (excluding Italy)	2,488	1,457	1,031
Africa	2,290	1,098	1,192
Middle East	4,820	1,744	3,076
Total	**17,681**	**12,829**	**4,852**

A breakdown of other income in 2021 and 2020 is as follows:

(€'000)

	2021	2020	Variation
Recharges to third parties	269	1,072	(803)
Insurance and other compensation	53	0	53
Gains on sale of assets	92	27	66
Other sundry income	136	203	(67)
Total	**550**	**1,302**	**(752)**

Recharges to third parties refer to the recovery of costs and/or reimbursement of costs incurred on behalf of third parties.

Gains refer to the sale of company assets as part of their normal replacement process.

22 Raw materials, supplies and goods

Raw materials, supplies and goods of €4,510 thousand (2020: €2,027 thousand) include raw materials for railway construction (€817 thousand), consumables (€3,384 thousand) and spare parts for company assets used in production and other residual production costs (€267 thousand).

(€'000)

	2021	2020	Variation
Raw materials for railway construction	817	1,540	(723)
Consumables	3,384	380	3,004
Spare parts	267	27	240
Other residual production costs	42	80	(38)
Total	**4,510**	**2,027**	**2,483**

23 Services

Costs for services amount to €9,706 thousand and mainly refer to external services (€3,509 thousand), advisory, legal and notary services (€708 thousand) and sub-contracting (€960 thousand) as follows:

(€'000)

	2021	2020	Variation
Outsourcing work, technical consultancy	960	3,301	(2,341)
Insurance and sureties	741	760	(19)
Advisory, legal and notary services	708	918	(211)
Consultants' and temporary workers' fees	233	71	162
Costs of employees on secondment	93	229	(136)
Other external services	3,059	3,628	(569)
Utilities	243	308	(65)
Directors' fees	891	838	53
Statutory auditors' fees	49	48	1
Committee members' fees	62	0	62
Travel, food and accommodation for employees on business trips	666	419	247
Commercial costs	394	340	54
General and administrative costs	231	231	(0)
Transport	337	263	74
Motor vehicles and cars	86	53	33
Other services	954	490	464
Total	**9,706**	**11,897**	**(2,192)**

24 Personnel expense

This caption includes all direct and indirect expenses related to the company's employees as follows:

(€'000)

	2021	2020	Variation
Wages and salaries	5,174	3,651	1,523
Social security contributions	1,361	800	561
Post-employment benefits, pensions and other benefits	276	197	79
Other costs	1,317	202	1,115
Total	**8,127**	**4,850**	**3,278**

The next table shows the company's workforce by category:

	2021	2020
Managers	16	13
White collars	40	47
Blue collars	36	17
Total	**92**	**77**

25 Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses are detailed in the table below:

(€'000)

	2021	2020	Variation
Amortisation of intangible assets	222	207	15
Depreciation of property, plant and equipment	229	214	15
Depreciation of right-of-use assets as per IFRS 16	386	321	65
Total	**837**	**742**	**96**

For additional information on the amortisation and depreciation methods and impairment losses, reference should be made to the notes to intangible assets (note 1), property, plant and equipment (note 2) and right-of-use assets (note 3).

26 Impairment losses

The table below shows impairment losses determined by applying the expected credit loss model of IFRS 9 to the company's asset categories:

(€'000)

	2021	2020	Variation
Trade receivables	1,241	98	1,143
Contract assets	0	6	(6)
Cash and cash equivalents	8	2	6
Other non-current assets	0	3	(3)
Other current assets	0	12	(12)
Current tax assets	13	11	2
Current financial assets	26	15	11
Securities	22	0	22
Total	**1,310**	**147**	**1,163**

27 Other operating costs

A breakdown of other operating costs in 2021 and 2020 is as follows:

(€'000)

	2021	2020	Variation
Loss on sale of assets	0	38	(38)
Rent and leases	689	543	146
Indirect taxes and duties	358	286	72
Fines and penalties	8	150	(142)
Other costs	277	1,051	(774)
Total	**1,331**	**2,068**	**(736)**

The loss on the sale of assets refers to the company's normal operations.

Rent and leases include leases of less than 12 months or with underlying assets of a low value for which the company availed of the simplifications allowed by IFRS 16. The standard allows the recognition of the lease payments as a cost over the lease term instead of the recognition of a right-of-use asset and lease liability

28 Internal work capitalised

(€'000)

	2021	2020	Variation
Internal work capitalised	0	1,156	(1,156)
Total	**0**	**1,156**	**(1,156)**

This caption includes the direct costs (materials and other costs) incurred for work to restructure the building that will house the company's offices, as described earlier.

29 Net financial income

Net financial income is shown below:

(€'000)

	2021	2020	Variation
Financial income			
From equity investments	46,000	47,700	(1,700)
From securities	1,234	632	602
Other financial income	1,238	0	1,238
Gain on sale of securities	238	0	238
Interest income	1,320	795	524
Exchange gains	1,486	330	1,156
Total financial income	**51,514**	**49,457**	**2,058**
Financial expense			
Losses on sale of securities	(1)	(93)	92
Credit losses	0	0	0
Interest expense	(983)	(856)	(127)
Fair value losses on warrants	(9,737)	(16,117)	6,381
Lease costs	(72)	(107)	35
Financial expense	(202)	(339)	137
Exchange losses	539	(1,557)	2,095
Total financial expense	**(10,455)**	**(19,069)**	**8,613**
Net financial income	**41,059**	**30,388**	**10,671**

Fair value losses on additional conversion warrants of €9,737 thousand show the losses recognised from 1 January 2021 to the warrants' extinguishment due to their conversion or expiry for not being exercised before the term set in their regulation since as the acceleration condition was met (more information is available in the "Key events of the year" section.

The additional conversion warrants were classified as a financial liability in accordance with IAS 32. They were considered equity solely for tax purposes. On this basis, the liability recognised as a balancing entry to the equity reserve and the fair value gains and losses on the additional conversion warrants with an impact on profit or loss cannot be recognised for tax purposes. Therefore, not even the extinguishment of the liability when the warrants were converted generated a tax impact for the company. The effect of the tax treatment of the additional conversion warrants led to a smaller tax loss for the company than it would have had if the accounting effects of the additional conversion warrants had been relevant for tax purposes.

30 Commitments and risks

These amount to €33,189 thousand at 31 December 2021, compared to €43,390 thousand at 31 December 2020.

They include sureties given by banks to Salcef Group S.p.A. on behalf of third parties to guarantee the correct performance of ongoing commercial relationships (€32,306 thousand at 31 December 2021 and €40,327 thousand at 31 December 2020) and sureties given to banks for the group companies' loans (€883 thousand at 31 December 2021 and €3,063 thousand at 31 December 2020).

31 Related party transactions

As required by IAS 24, details of financial and trading transactions with related parties are presented at the end of the notes.

In accordance with article 2427.22-bis of the Italian Civil Code, the company did not carry out significant transactions at other than market conditions during the period, either in terms of the prices applied or the reasons underlying them.

During the year, the company provided and received services to/from related parties and recharged costs for mutually-shared services and other services. These transactions took place at normal market conditions and/or on the basis of the actual costs incurred. Their effects on the separate financial statements are described in the notes to the individual captions.

Other than that described herein, no other transactions with related parties took place during the year.

(€'000)

ASSETS AND LIABILITIES	Right-of-use assets	Trade receivables	Current financial assets	Other current assets	Trade payables	Lease liabilities	Loans and borrowings
Subsidiaries							
Salcef S.p.A.		3,346	9,520	11,743	(3,513)		(257)
Euro Ferroviaria S.r.l.		169	8,033	114	(45)		
Overail S.r.l.		403	18,213	619			
SRT S.r.l.		475	11,164	1,428	(3,342)		
RECO S.r.l.		4	478	6	(50)		
Coget Impianti S.r.l.		239	6	394			
Salcef USA Inc.		0	27,064				
Salcef Deutschland GmbH		0	19,237				
Associates		0					
Frejus S.c.ar.l.		281			(115)		
Other related parties							
Talia Gestioni S.r.l.	1,325					(1,400)	
31 December 2021	**1,325**	**4,918**	**93,715**	**14,304**	**(7,065)**	**(1,400)**	**(257)**

(€'000)

REVENUE AND COSTS	Revenue	Other income	Raw materials	Services	Financial income	Financial expense
Subsidiaries						
Salcef S.p.A.	7,890	111	(10)	(109)	35,926	(257)
Euro Ferroviaria S.r.l.	1,134	106			10,074	(15)
Overail S.r.l.	911	10			174	
SRT S.r.l.	815	0		(3,025)	208	
RECO S.r.l.	85			(46)	3	
Coget Impianti S.r.l.	461	32			6	
Salcef Bau GmbH				(5)	140	
Salcef USA Inc.					631	
Salcef Deutschland GmbH					2	
Associates						
Frejus S.c.ar.l.				(35)		
Other related parties						
Talia Gestioni S.r.l.						(70)
2021	**11,297**	**260**	**(10)**	**(3,220)**	**47,165**	**(342)**

Revenue and trade receivables from SRT S.r.l., RECO S.r.l., Euro Ferroviaria S.r.l., Salcef S.p.A., Overail S.r.l. and Coget Impianti S.p.A. mainly relate to the services that Salcef Group S.p.A. provided in 2021 to the group companies under the master agreement.

Other income refers to the recharging of costs incurred by Salcef Group S.p.A. on behalf of the subsidiaries. Services provided to Salcef S.p.A. include the secondment of personnel and the restructuring of the new property.

Financial income consists of the dividends distributed to Salcef Group S.p.A. by Salcef S.p.A. (€35,926 thousand) and Euro Ferroviaria S.r.l. (€10,074 thousand). Other financial income and expense include interest accrued on intragroup loans.

Reference should be made to the respective notes for additional information on trade receivables and payables.

32 Contingent liabilities

Salcef Group S.p.A. is involved in civil, criminal, labour law and tax proceedings in connection with the ordinary course of business.

Management does not believe that any of these proceedings present a probable risk of financial expenditure or that they could give rise to significant liabilities. Consequently, no specific provisions are recognised in the separate financial statements at 31 December 2021. Any adverse developments, which are not currently foreseeable or determinable based on internal analyses or judicial investigations in progress, will be adequately assessed for the purposes of calculating any accruals.

34 Independent auditors' fees

Pursuant to article 149-duodecies of the Issuers' Regulation, the table below sets out the fees for audit, attestation and other services provided by the independent auditors and members of its network in 2020. The fees are governed by contracts and including any indexing, out-of-pocket expenses and supervisory contributions.

(€'000)

Type of service	Service provider	Beneficiary	2021 fee
A) Audit services	KPMG S.p.A.	Parent Salcef Group S.p.A.	254
B) Attestation services	KPMG S.p.A.	Parent Salcef Group S.p.A.	80
C) Other services	KPMG S.p.A.	Parent Salcef Group S.p.A.	90
Total			**425**

Significant non-recurring events and transactions

Salcef Group S.p.A.'s financial position, financial performance and cash flows were not affected by significant non-recurring events or transactions during the year. Moreover, the company did not undertake atypical or unusual transactions.

Events after the reporting date

No adjusting events took place between the reporting date and the approval of these separate financial statements by the board of directors, i.e., events that would have required the company to adjust the amounts reported in its separate financial statements at 31 December 2021.
The non-adjusting events after the reporting date are described below.

Non-adjusting events after the reporting date

Conversion of performance and special shares

Pursuant to article 7.4.c.iii and article 7.5.e.ii of the company's by-laws and considering the number of new warrants exercised during the year, on 15 January 2022, all the remaining performance and special shares were converted into ordinary shares. Specifically: (i) 641,044 performance shares were converted using the ratio of five ordinary shares to every one performance share for a total of 3,205,220 ordinary shares and (ii) 153,851 special shares were converted using the ratio of seven ordinary shares to every one special share for a total of 1,076,957 ordinary shares. These conversions did not increase the company's share capital, which comprised 62,399,906 ordinary shares, without a par value, at the reporting date.

Acquisition of the railway business unit from the PSC Group

The subsidiary Euro Ferroviaria S.r.l. acquired the railway business unit of the PSC S.p.A. Group. The signing and closing were completed on 8 March 2022. The acquisition is not subject to any conditions precedent. The transaction will become effective on 1 May 2022.
It is part of the group's mission to strengthen its leadership position in the railway electrical traction sector and to facilitate the development of business segments such as railway signalling, the construction of electricity generating substations and tunnel technological systems. The group expects these segments to grow rapidly and strongly, thanks to the sizeable investments to be made under the Italian National Recovery and Resilience Plan as well as the projects to upgrade the Italian railway network.
The business unit has a workforce of around 100 employees, a good fleet of railway vehicles and an order backlog of more than €100 million. The consideration transferred approximated €26.6 million and is subject to the usual price adjustment mechanisms (upwards or downwards) depending on variations in the business unit's working capital. Payment was made at the closing except for €3.5 million subject to the satisfaction of certain conditions defined in the contract.

The group self-financed the acquisition in full.

Conflict between Russia and Ukraine

Regarding the recent geopolitical events linked to the Russian/Ukrainian conflict and the restrictions imposed on Russia by the European Union, the company has checked that this situation should not potentially impact its financial position or future performance, including with respect to its equity investments recognised at 31 December 2021.

The company and its investees do not have sales or purchases contracts or other trading relationships with entities resident in Russia, Belarus or Ukraine, nor do they hold assets, liquidity, equity or debt instruments in these countries. Moreover, they do not have receivables due from Russian, Belarusian or Ukrainian entities and are not exposed to currency risk deriving from exposures in Russian rubles or Ukrainian hryvnia as they do not have any positions in these currencies. As a result, the company does not expect the conflict to have a significant impact on its commercial activities or supply chain.

As described in the section on the company's outlook, its future profits will be affected by the currently unquantifiable effects of the large and unforeseen increase in the main production factors deployed by the company and its subsidiaries (especially the cost of labour, raw materials, services and, in particular, subcontracts, as well as the cost of energy and specifically the fuel needed to operate the rolling operating machines) due to the conflict, which has escalated the inflationary trend already seen in 2021.

Though not located in the countries affected by the conflict, the company's financial investments at 31 December 2021 are exposed to the volatility and uncertainty rife on the international financial markets in the last month, which has pushed down the main indexes.

The company's share price has also been affected by the financial markets' performance, decreasing from €24.70 at 30 December 2021 (the last trading day of the year) to €21.10 on 17 March 2022.

CEO

Valeriano Salciccia

Attestation on the separate financial statements pursuant to article 81-ter of Consob Regulation no. 11971 of 14 May 1999, as amended and supplemented

1. In accordance with the provisions of article 154-bis.3/4 of Legislative decree no. 58 of 24 February 1998, the undersigned Valeriano Salciccia, CEO, and Fabio de Masi, the manager in charge of financial reporting of Salcef Group S.p.A. attest to:

- the adequacy with respect to the company's characteristics (taking into account any changes in the year) and
- the effective application of the administrative and accounting procedures for the preparation of the separate financial statements in 2021.

2. The activities were carried out considering the organisational structure and execution, control and monitoring processes of company activities for the preparation of the separate financial statements.

No material aspects arose in this respect.

3. Furthermore:

3.1 The separate financial statements:

a) have been prepared in accordance with the IFRS endorsed by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) match the accounting ledgers and entries;

c) give a true and fair view of the financial position, financial performance and cash flows of the issuer and the companies in the consolidation scope.

3.2 The directors' report comprises a reliable analysis of the performance and results of operations, as well as the financial position of the issuer and the companies in the consolidation scope, along with a description of the key risks and uncertainties to which they are exposed.

Rome, 16 March 2022

CEO
Valeriano Salciccia

Manager in charge of financial reporting
Fabio De Masi

SALCEF GROUP