

Consolidated financial statements at December 31, 2014

7. Contract work in progress

“Contract work in progress” totaled €1,252.8 million, up €95.8 million over December 31, 2013.

The following table shows contract work in progress calculated using the stage of completion method, net of losses realized or estimated at the reporting date and progress billings:

(Amounts in thousands of euros)	December 31, 2014	December 31, 2013	Change
Contract work in progress	18,987,684	14,881,929	4,105,755
Progress payments and advances received (on approved work)	(17,734,915)	(13,724,915)	(4,010,000)
Total	1,252,769	1,157,014	95,755

This item mainly consists of works that refer to railway projects in Venezuela for €242.2 million (with production for the period of €178.5 million), hydroelectric projects in Ethiopia for €94.6 million (with production for the period of €976.1 million), High speed/ High capacity contracts in Italy for €89.7 million (with production for the period of €124.7 million), hydroelectric, road and civil construction projects in Nigeria for €87.6 million (with production for the period of €164.5 million), works related to lots 5 and 6 of the A3 Salerno-Reggio Calabria motorway for €51.0 million (with production for the period of €51.0 million), work on hydroelectric plants in Colombia for €78.3 million (with production for the period of €306.2 million) and the Ingula hydroelectric project in South Africa for €48.9 million (with production for the period of €72.3 million).

The item also includes €48.3 million for the nearly completed contracts of Imprepar S.p.A.

The Salini Impregilo Group has been active in Venezuela through a stable organization that, directly or in association with international partners, carried out several railway and hydroelectric projects, with a presence in the local territory consolidated in the Country over a span of more than 30 years.

In recent years, relationships with clients, all government entities, were generally characterized by delays in payments.

This problem became more pronounced this past year due to a change in the country's

government leadership, at the beginning of 2013, and the resulting heightened social tensions that accompanied this political transition.

In response to the virtual suspension of activity by clients in this context, the Group suffered a significant slowdown in production activities.

With regard to the railway works, particularly for the P.Cabello-La Encrucijada project, two agreements have been drawn up, one in March and the other in May, (called “Puntos de Cuenta”) both signed by the Chairman of IFE (the client) and ratified by the President of the Republic, which provided for the progressive payment of 85% of the receivable accumulated in Bolivares and 47% of the receivable in Euro, accumulated at September 2013. To date we can say that 94% the proceeds due in local currency have been received and 34.6% for the Euro receivable (with reference to the percentages above).

In this context, an Addendum to the contract for the Puerto Cabello-La Encrucijada line and related to electromechanical works was signed at the end of the first half of 2014.

An addendum is currently being negotiated with the Customer, which will set out the claim for the contractual extension of the works and form of payment for these works and for the work to be completed.

The projects that are being developed by the Salini Impregilo Group are priority infrastructures of the

utmost importance, both in economic-industrial and social terms.

With this in mind and based on a constant and careful monitoring of the situation in the country, carried out together with its partners and through meetings with clients and local government authorities with the aim of defending and protecting the positions of the Salini Impregilo Group, there appears to be no particular problems at this stage with regard to the realizable value of the Group's net assets, except for the lengthening of collection time, which was duly taken into account in the measurements performed for Financial statement purposes and for the issues relating to the new exchange rates adopted for the translation of the net assets expressed in local currency, as reflected in the full-life projections of projects under construction.

In view of the delicate and complex situation that developed at the political level, the possibility that events not foreseeable at the date of preparation of this Annual Report may arise in the future requiring an update of the existing measurements cannot be excluded.

As regards the work in progress in relation to the project for the "Strait of Messina bridge and roadway and railway connectors on the Calabria and Sicily sides", the values of the work in progress at December 31, 2014 total €22.7 million.

With reference to this contract, it is noted that Decree Law 187 was issued on 2 November 2012 providing for "Urgent measures for the renegotiation of the contracts with Stretto di Messina S.p.A. (the client) and for local public transport". Further to the enactment of this decree and in light of the potential implications for the contractual position of the Eurolink General Contractor, of which Salini Impregilo is the leader, Eurolink decided to send to the client, pursuant to the contractual provisions in effect, a notice of its intention to withdraw from the contract also to protect the positions of all Italian and foreign partners in the Association. Nevertheless, given the preeminent interest in constructing the project, the General Contractor also

communicated its willingness to review its position, should the client demonstrate a real commitment to pursuing the project.

Despite the efforts made, the negotiations carried out by the parties were unsuccessful. Eurolink commenced various legal proceedings in Italy and at the EU level, on the one hand, arguing that the provisions of the above-mentioned decree are unconstitutional and contrary to EU laws and thus injurious to Eurolink's legally acquired rights under the contract and, on the other hand, asking that Stretto di Messina be ordered to pay the amounts claimed, under various titles by the General Contractor due to the termination of the contract for reasons for which it was not responsible.

With regard to the actions filed at the EU level, it is worth mentioning that, in November 2013, the European Commission communicated its decision to suspend the lawsuit, as no treaties were violated, and confirmed it on January 7, 2014, with a communication dismissing the lawsuit. As regards the civil action in Italy, Salini Impregilo S.p.A. and all the members of Eurolink have jointly and severally asked that Stretto di Messina be ordered to pay the amounts claimed, under various titles, due to the termination of the contract for reasons for which it was not responsible.

Consistent with the developments described above, the order backlog of the Impregilo Group at the end of 2012 was restated to reflect the elimination of the above-mentioned project. Considering the complex nature of the various legal proceedings and although the legal advisors assisting Impregilo and the general contractor are reasonably confident about the outcome of the proceedings and the recoverability of the remaining assets recognized for this contract, it cannot be excluded that events not currently foreseeable may arise in the future which would require the current assessments to be revised.

Lastly, work in progress in Libya amounted to €138.2 million at December 31 2014. For a breakdown of the risks connected to these contracts, refer to the paragraph "Libya" in the previous sections of these Notes.

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A breakdown of contract work in progress by geographical region is as follows:

(Amounts in thousands of euros)	December 31, 2014	December 31, 2013	Change
Italy	355,219	317,102	38,117
EU	80,465	78,470	1,995
Non-EU	16,714	3,698	13,016
Asia	26,184	76,055	(49,871)
Middle East	38,346	35,340	3,006
Africa	378,075	337,158	40,917
North America		477	(477)
Latin America	357,766	308,714	49,052
Total	1,252,769	1,157,014	95,755

With respect to the previous year there was an increase mainly due to the expansion of foreign industrial activities for contracts in Libya, Denmark and South Africa, and to high speed/high capacity contracts in Italy, only partially offset by the decrease related to contracts in Ethiopia, Malaysia, Kazakhstan and Qatar. The change in Latin America is mainly due to the project of the line 6 of the Santiago metro in Chile, which is commented in the Section "Risk areas" section for the segment.

There was a decrease in the item under review following the sale of the subsidiary Fisia Babcock Environment GmbH, which took place during the second quarter of the year.

For further details of a contractual nature and related to the development and progress of major projects under construction, see the information on operations provided in the first part of this Consolidated annual financial report.