Notes to the consolidated financial statements

Foreword

The Condensed consolidated interim financial statements of the Salini Impregilo Group as at June 30, 2014 have been prepared on a going concern basis and in accordance with the international financial reporting standards issued by the International Accounting Standards Board (IASB), approved in the European Union as required by Regulation no. 1606/2002 of the European Parliament and European Council, implemented in Italy by Legislative Decree no. 38/2005, and in accordance with IAS 34 – Interim Financial Reporting in particular.

The presentation and content of these Condensed consolidated interim financial statements comply with the disclosure requirements of Article 154-ter of the Consolidated Finance Act.

The accounting standards and policies used to prepare these Condensed consolidated interim financial statements as at June 30, 2014, are the same as those used to prepare the 2013 consolidated financial statements, which are explicitly cited here by reference, except for the changes summarized in the following section.

Foreign currency translation of the assets and liabilities related to Venezuela

Starting from the end of the period reviewed in this Half-year financial report, it was necessary to update the estimates referring to the Group's set of industrial activities in the Bolivarian Republic of Venezuela. In line with the previous financial reports, made available to the public as required by the current legal provisions, the deterioration of economic conditions in the country since the early months of the year – although they have not shown signs of worsening – were still such that it became necessary to make a more detailed assessment on whether potentially critical issues exist in terms of future development of the industrial activities in progress and in terms of recovering the Group's net assets in this area.

It is reasonable to say that the significant risks related to the Group's activities in Venezuela are of a currency/financial nature, which also stem from the local regulatory system. As things currently stand, there is no evidence of significant risks directly related to anything of an industrial/ operational nature or to relations with public sector customers. Actually, these relations remain extremely positive and focused on cooperation. This is also demonstrated by an important addendum made in June 2014 to the contract for the Puerto Cabello Railway - La Encrucijada', involving the execution of electromechanical works. In this context, and based on the developments described above, the risks associated with the current situation in Venezuela are mainly tied to the current and future timescale and exchange rates for realizing net assets – both existing and expected to exist when industrial activities can be resumed in full.

This overall situation, together with the recent changes to currency laws in the country, has therefore required a full and thorough update of accounting estimates related to the group's activities in Venezuela. Among other things, this has led to the Group's decision to adopt – as of June 30, 2014 – a new exchange rate for the translation of both the current values of working capital denominated in Venezuelan currency and the future values to be paid/realized in the full-life projections for the ongoing railway projects under direct management. The new official exchange rate used, called SICAD 2 and whose first fixing took place during the last few days of the first quarter, is currently believed to be the most representative of the relationship under which future cash flows, expressed in local currency, may be adjusted in the event that they were verified at the valuation date also considering the possibility to access the Venezuelan currency market and the Group's specific needs to obtain currency other than the functional currency.

This new exchange rate expresses a substantial depreciation of the local currency against the US Dollar, compared with the official exchange rate previously used, the so-called COEX, for the purposes of preparing both the Consolidated Financial Statements of the Salini Group as at

December 31, 2013, and the Director's Report of the Salini Impregilo Group as at March 31, 2014.

Therefore, the update of the estimates described below, taking into account the specific assumptions reflected in the full-life projections of the railway projects in relation to "country risk", resulted at June 30, 2014 in a series of impacts for the period, including the overall impairment of net financial assets, denominated in local currency, for a total of approximately € 55 million.

Finally, as regards the impact that this update has had in terms of ongoing railway projects in the area, the credit and liquidity risk management policy adopted by the Group for operations in areas with structural currency weaknesses, such as Venezuela, has always been based on a number of rules, including in particular: (i) entering into contracts for orders expressed partly in 'strong' currencies (e.g. Euro, US Dollar) and partly in 'local' currency; (ii) the preparation of full-life production cost structure, accordingly composed of 'local' currency based on a 'natural hedging' approach; and (iii) covering temporary financial requirements to support the management of working capital through borrowings in the same currency as the working capital. In the specific case of Venezuela, bearing in mind the Group's long-standing presence in this market – which has experienced times of economic and currency uncertainty in the past, albeit shorter in duration but of similar scope in economic/financial terms – this risk management policy has resulted in (i) a surplus of net working capital in local currency against (ii) a more than corresponding expected deficit in the same currency for subsequent periods. As in the past, updating the aforementioned estimates – which is one part of the review of full-life projections of railway works in progress in the area – has resulted in the recognition of mainly positive current and future impacts on profit and loss, even taking into account the conservative assumptions made in connection with the future development of production.

Introductory remarks concerning the comparability of the income statement and statement of financial position data for the first half of 2014 with those for the previous year – continuity with the consolidated financial statements of the Salini Group for 2013

The merger of Salini S.p.A. (parent Company at December 31, 2013) into Impregilo S.p.A. (subsidiary at December 31, 2013) became fully effective as of January 1, 2014, with the Company resulting from the merger changing its name to Salini Impregilo S.p.A.

In accordance with the international financial reporting standards adopted by the Group in continuity with previous years, the merger is not a transaction liable to modify the amounts recognized in the Group's consolidated financial statements, due to the fact that it qualifies as a 'business combination of entities under common control'. With the exception of the information provided above regarding new international financial reporting standards, the mandatory adoption of which is statutorily required as of January 1, 2014, the statement of financial position, income statements and statement of cash flows of the Salini Impregilo Group at June 30, 2014 express similar values to those of the consolidated financial statements of the Salini Group for the year ended December 31, 2013. These financial statements also reflect the restatement of the assets and liabilities of the Impregilo Group based on their respective fair value on the date control was acquired and the subsequent allocation of the difference between the above-mentioned fair value and the total consideration paid in 2013 by the then controlling Company Salini S.p.A. to acquire said control, as part of a process commonly referred to as purchase price allocation (PPA). Lastly, please note that the differential was positive and, consequently, was recognized in the 2013 consolidated income statement as badwill. For more information about these issues, please see the detailed disclosure provided in the notes to the consolidated financial statements of the Salini Group for the year ended December 31, 2013.

Taking into account the developments described above, the figures in the consolidated income statement for the first half of 2013 – provided below for comparative purposes – are those of the Salini Group, as presented in the Half-year consolidated report of the Salini Group as at June 30, 2013 to reflect:

1) the classification of the Todini Costruzioni Generali Group and the company Fisia Babcock Environment GmbH in accordance with IFRS 5 (see column 4) of the income statement reconciliation schedule;

2) the recognition as at April 1, 2013 of the effects of the purchase price allocation described above which, although attributed at that date, were only fully recognized in the annual consolidated financial statements of the Salini Group for 2013 in accordance with the provisions of IFRS 3 (see column 3) of the income statement reconciliation schedule);

3) the harmonization of the financial statements previously used by the Salini Group and the Impregilo Group (see column 2) of the statement of reconciliation of the income statement);

4) the retrospective recognition of the effects of the adoption of the new international financial reporting standards referred to in the section "Changes in standards" (see column 4) of the shareholders' equity reconciliation schedule and column (6) of the income statement reconciliation schedule).

Changes in standards

The following accounting standards, amendments and interpretations have been implemented since January 1, 2014.

On May 29, 2013 the IASB published an amendment to IAS 36 "Impairment of non-financial assets – Recoverable Amount Disclosures for Non-Financial Assets" to provide guidance on the recoverable amount of assets, when this amount is based on fair value less costs of disposals, for impaired assets. The amendments establish that disclosure of the recoverable amount for assets or cash generating units in only required when an impairment or a reversal of a previous impairment have been recognized. The amendment also provides guidance on the disclosure of the impairment of assets, when the recoverable amount has been determined on the basis of fair value less costs to sell.

On May 12, 2011, the IASB issued IFRS 10, IFRS 11 and IFRS 12 and amendments to IAS 27 and IAS 28.

The main changes covered:

- ***IFRS 10 - Consolidated financial statements***
  This standard replaces SIC 12 Consolidation - Special purpose entities and certain parts of IAS 27 - Consolidated and separate financial statements. The new standard identifies a single control model and defines, on a more structured basis, the requirements for determining whether or not control exists. This provision is particularly important for cases that qualify as "de facto control".

- ***IFRS 11 - Joint Arrangements***
  This standard replaces IAS 31 - Interests in joint ventures and SIC 13 - Jointly controlled entities - Non-monetary contributions by venturers. It defines the criteria for the identification of joint arrangements and how they should be accounted for based on the rights and obligations arising from the contract, regardless of its legal form. The new standard provides for different recognition methods, depending on whether the transaction is a joint operation or a joint venture, and eliminates the possibility to apply different accounting treatments to the same types of arrangements and, conversely, defines a single model based on the contractual rights and obligations.

- ***IFRS 12 - Disclosure of interests in other entities***
  The standard sets out the disclosures to be provided about any type of interest in other entities, including joint arrangements, associates, special purpose entities and other entities not included in the financial statements.
  Its aim is to provide information to allow users of financial statements to best understand the nature of risks associated with interests in strategic entities (qualified or not) which the entity intends to hold on to for the medium to long-term.

- ***IAS 27 - Separate financial statements***
  The standard defines how investments in subsidiaries, associates and joint ventures should be treated in the separate financial statements. The new document is a rewording of the old IAS 27 in light of the new provisions introduced with IFRS 10 and IFRS 11.

- ***IAS 28 - Investments in Associates and Joint Ventures***
  This standard defines the accounting treatment of investments in associates and joint venture and is a rewording of the old IAS 28 in light of the new provisions introduced with IFRS 10 and IFRS 11.

IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 were published in the EU Official Journal on December 29, 2012. Their latest application date is the start of the first annual period beginning on or after January 1, 2014.

On December 16, 2011, the IASB published an amendment to IAS 32 - Offsetting Financial Assets and Financial Liabilities to clarify the rules for offsetting financial assets and liabilities. The amendment clarified that:

- the right of set-off shall exist at the reporting date instead of being contingent on a future event;

- this right shall be legally enforceable by the counterparties during the normal course of business or in the event of insolvency or bankruptcy of the entity and all of the counterparties.

The amendment was published in the EU Official Journal on December 29, 2012. It is applicable retrospectively to annual periods beginning on or after January 1, 2014.

Except for IFRS 10 and 11, the application of the above amendments did not have significant effects on the consolidated financial statements. The effects of the application of IFRS 10 and 11 are highlighted in the section "Effects of the application of the new financial reporting standards".

The following standards, amendments and interpretations will be applied after the current reporting period and the group has not adopted them early.
On November 12, 2009, the IASB issued the first part of IFRS 9 - Financial instruments, which will replace IAS 39 - Financial instruments: recognition and measurement. This part covers the classification of financial instruments and is part of a three-phase project. The next parts will cover how to determine impairment of financial assets and application of hedge accounting, respectively. Issue of the new standard, designed to simplify and reduce the complexity of recognizing financial instruments, provides for the classification of financial instruments into three categories which the group will define based on its business model, contractual terms and the related cash flows of the instruments.

On October 28, 2010, the IASB issued new requirements for the recognition of financial liabilities. They will be integrated into IFRS 9 to complete the classification and measurement phase as part of the project to replace IAS 39.

On December 16, 2011, the IASB published the Mandatory effective date and transition disclosures (amendment to IFRS 9 and IFRS 7), which postpones the application date for IFRS 9 from January 1, 2013 to January 1, 2015. However, the standard may still be applied early.

The adoption of the above-mentioned amendments will not have significant effects on the consolidated financial statements.

A list of the accounting standards, amendments and interpretations published by the IASB is provided below. However, at the reporting date, the competent bodies of the European Union have yet to complete the approval process of the amendment:

- Annual Improvements 2010-2012 and Annual Improvements 2011-2013 published on December 12, 2013;

- IFRS 9 Financial Instruments, published on July 24, 2014;

- IFRS 14 Regulatory Deferral accounts, published on January 30, 2014;

- IFRS 15 Revenue from contracts with customers, published on May 28, 2014;

- amendments to IAS 16 and IAS 41: Bearer Plants, published on June 30, 2014;

- amendments to IAS 16 and 38: Clarification of Acceptable Methods of Depreciation and Amortization, published on May 12, 2014;

- amendments to IFRS 11: Accounting for Acquisitions of Interest in Joint Operations, published on May 6, 2014;

- amendments to IAS 19: Defined Benefit Plans: Employee Contributions, published on November 21, 2013.

Effects of the application of the new financial reporting standards

The adoption of the new standards listed above, implemented retrospectively to allow a presentation of results in line with the comparative information for previous periods, did not produce differences in the statement of financial position or the income statement as far as the new IAS 28 and IFRS 10 are concerned. With regard to latter, the entities that qualified as "subsidiaries" in accordance with the requirements of the previous standards continued to qualify as such also as of January 1, 2014.

On the other hand, differences did arise from the application of IFRS 11 with regard to the numerous Italian and foreign Special Purpose Vehicles ("SPVs") in which the Group participates jointly with other partner companies and which are established for the sole purpose of carrying specific construction projects.

More specifically, these difference occurred with the SPVs that, in the 2013 consolidated financial statements, were recognized using the proportional consolidation option provided in the previously applicable IAS 31 and which - in accordance with IFRS 11 and based on currently developed best practices for the interpretation of international standards, could not be found to unequivocally qualify as joint operations. These entities, which in 2013 belonged exclusively to the former Impregilo Group, are essentially identified as SPVs that, in accordance with the laws in effect in the countries where they operate (i.e. the countries where the respective projects are being carried out), have their own autonomous, albeit limited in some instances, legal entity status and do not allow the immediate identification of a right (obligation) of an individual "participant" with respect to the assets (liabilities) held by the SPV. In accordance with established industry practice and pursuant to the requirements of the contracts executed by its partners during the initial phase of the call for tenders, these SPVs operate for the customer administrations in their own name but on behalf of the partners and serve the sole purpose of carrying out individual projects. In the preparation of this Half-year consolidated financial report as at June 30, 2014, they were treated on a preliminary basis as joint ventures, in accordance with IFRS 11 and, consequently, consolidated by the equity method. Moreover, considering that:

- these SPVs cannot engage in any type of activity different from the one strictly dictated by their owners and in their owners exclusive interest;
- their activity is aimed exclusively at fulfilling the obligations arising from the contract with the customer, contract usually deriving from the submission of the winning bid in response to a call for tenders by the partners in their capacity as partners possessing the necessary "technical qualification";
- the partners are the only parties who are jointly and unlimitedly liable towards the customer for the performance of the contract by the SPV;
- the partners are the only parties who are unlimitedly, but not necessarily jointly, liable for the obligations undertaken by the SPV towards third parties within the framework of the activities carried out to perform the contract (e.g. suppliers, employees, local government, etc.);
- at the end of the contract, the customer delivers to the partners the contractually stipulated technical reference, as an attestation that the project was completed.

The title to the revenue generated by the performance of the work is considered directly attributable to the partners, pro-rated based on the interests that the partners declared to hold within the framework of the call for tender procedure and were acknowledged by the customer in the award process.

With regard to the corresponding recognition of the relevant expenses directly attributable thereto (i.e.: the total costs of production necessary for the fulfilment of the contractual obligations towards the customer, to the extent attributable to the partners), however, depending on the different legal structures provided for in individual foreign countries where it operates, it is reasonable to believe that different levels of responsibility of the partners may be introduced in respect of the obligations towards third parties undertaken by the SPVs in which it holds interest. However, by virtue of the provisions consistently laid down in the partner agreements entered into between the companies participating jointly in the tender - provisions which currently reflect market standards, regardless of the nationality of the

participating companies - it is reasonable to assume that in considering their ownership of the contractual rights arising from relationships with customers, there is a similar material obligation to bear, albeit in a non-direct form, the related overall expenses, regardless of the contractual 'form' with which these expenses will be formally transferred by the SPV to its partners. For those entities that are no longer subject to proportional consolidation, and consistent with the assumption that the revenues generated from the customer are recognized directly to the members/companies participating in the tender according to their equity investment, the Group, according to the respective equity investment, also has the direct obligation to sustain the relative overall costs which, from a different standpoint, are substantially equivalent- excluding the ownership of the contractual revenue recognized to the SPV- to the negative change of the shareholders' equity of the SPV between one period and another and according to the portion attributable to the Group.

In view of these circumstances, consistently considered also within the framework of the previously applicable standards, the adoption of IFRS 11 for the treatment of the SPVs in which Salini Impregilo held an interest together with its strategic partners did not produce material differences in terms of the total revenue realized through the SPVs and of the Group's shareholders' equity. However, some limited difference did arise with regard to individual assets (liabilities) that in the proportional consolidation previously applied to them were recognized on a pro rata basis and taking into account the nature of each asset (liability) and, under IFRS 11, are instead recognized in accordance with the equity method. However, it is worth pointing out that, with regard to the above, an interpretative commentary has yet to be developed for the new standards, particularly with regard to the specific sector in which the Group operates.

The Company believes that the information provided represents the best operational interpretation of the substance of the Group's operations, but the possibility cannot be excluded that in the future, possibly even the immediate future, different interpretations may be developed by other parties, including regulatory entities, which could have an impact on several alternative performance indicators adopted by the Group – such as capital expenditures or EBITDA. Finally, because of the very nature of these standards, these potential impacts are not expected to affect the Group's share of net profit and the shareholders' equity.

Economic-financial impacts resulting from the application of new standards and due to the effects of IFRS 3 and 5

The tables below contain the reconciliation of the amounts in the financial statements before and after the application of the new standards, specifically:

(a) reconciliations of the consolidated shareholders' equity at June 30, 2013 and December 31, 2013 and the consolidated net profit for the first half of 2013 and all of 2013;

(b) comparative tables of the Consolidated statement of financial position as at December 31, 2013;

(c) comparative tables of the consolidated income statement and consolidated statement of cash flows of the first half of 2013.

Certain items included in the consolidated financial statements needed to be reviewed and adapted because of the application of the new standards.

Lastly, considering the fact that the Salini Impregilo Group (formerly Salini Group) did not hold controlling interest in joint ventures during the period prior to the acquisition of control over the former Impregilo Group, and that the adoption of the new IFRSs mentioned herein did not generate differences in this area, it was deemed unnecessary to prepare reconciliations for the consolidated statement of financial position as at January 1, 2013.

Reconciliation 2013	Shareholders' equity January 1, 2013	Income statement 2013	Shareholders' equity December 31, 2013
Shareholders' equity and profit (loss) attributable to the Group	559,579	166,944	699,158
Non-controlling interests	28,761	(9,130)	193,125
Total shareholders' equity and income statement prior to the introduction of the new standards	**588,340**	**157,814**	**892,283**
Effects of the adoption of IFRS 11:			
- Deconsolidation of joint ventures	-	(271)	(134)
Total adjustments	**-**	**(271)**	**(134)**
of which attributable to the shareholders of the Parent Company	-	(163)	469
of which attributable to non-controlling interests	-	(108)	(603)
Shareholders' equity and income statement values after the introduction of the new standards			
Shareholders' equity and profit (loss) attributable to the Group	559,579	166,781	699,627
Non-controlling interests	28,761	(9,238)	192,522
Total shareholders' equity and income statement after the introduction of the new standards	**588,340**	**157,543**	**892,149**

Reconciliation first half of 2013	Shareholders' equity January 1, 2013	Income statement first half of 2013	Shareholders' equity June 30, 2013
Shareholders' equity and profit (loss) attributable to the Group	559,579	155,451	711,127
Non-controlling interests	28,761	8,621	209,111
Total shareholders' equity and published profit (loss)	**588,340**	**164,072**	**920,238**
PPA values adjustment	-	12,787	20,951
of which attributable to the shareholders of the Parent Company	-	21,046	20,951
of which attributable to non-controlling interests	-	(8,259)	-
Shareholders' equity and income statement values prior to the introduction of the new standards			
Shareholders' equity and profit (loss) attributable to the Group	559,579	176,497	732,078
Non-controlling interests	28,761	362	209,111
Total shareholders' equity and income statement prior to the introduction of the new standards	**588,340**	**164,072**	**920,238**
Effects of the adoption of IFRS 11:			
- Deconsolidation of joint ventures	-	13	(599)
Total adjustments	**-**	**13**	**(599)**
of which attributable to the shareholders of the Parent Company	-	20	(40)
of which attributable to non-controlling interests	-	(7)	(559)
Shareholders' equity and income statement values after the introduction of the new standards			
Shareholders' equity and profit (loss) attributable to the Group	559,579	176,517	732,038
Non-controlling interests	28,761	355	208,552
Total shareholders' equity and income statement after the introduction of the new standards	**588,340**	**176,872**	**940,590**