Annual Financial Report 2014

Investor Relator
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Tesmec S.p.A.
Registered Office: Piazza Sant'Ambrogio, 16 – 20123 Milan
Fully paid up share capital as at 31 December 2014 Euro 10,708,400
Milan Register of Companies no. 314026
Tax and VAT code 10227100152

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NOTICE OF CALL

TESMEC S.P.A.

Registered office

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Share capital Euro 10,708,400

Website: "www.tesmec.com"

CALL OF THE ORDINARY SHAREHOLDERS' MEETING

The shareholders are convened to the ordinary meeting at Tesmec S.p.A. ("**Tesmec**" o "**Company**") in Grassobbio (BG), Via Zanica 17/O, 24050, on 30 April 2015 at 10.30 a.m. in single call to discuss and deliberate on the following:

AGENDA

1. **Approval of the financial statements as at 31 December 2014 and relevant reports; allocation of result for the period. Related and consequent resolutions.**
2. **Consultation on the first section of report on remuneration pursuant to Article 123-*ter* paragraph 6 of Italian Legislative Decree no. 58/1998.**
3. **Proposal of authorisation to purchase and dispose of treasury shares, subject to the withdrawal of the resolution passed by the Shareholder's Meeting of 30 April 2014. Related and consequent resolutions.**
4. **Reduction of the number of Directors from 10 to 9 and appointment of missing Director.**

Attending the Shareholders' Meeting

Pursuant to the law, those who have the right to vote may attend the Shareholder's Meeting. The right to attend and vote at the Shareholders' Meeting is certified by a notification to the Company, made by the intermediary, in favour of the person who has the right to vote, on the basis of evidences existing at the end of the accounting day of the seventh day of open market before the date scheduled for the Shareholders' Meeting in single call (record date), coincident with 21 April 2015. Therefore, those who will be the holders of the shares only after the record date mentioned above will be not entitled to attend and vote at the Shareholders' Meeting.

Share capital

The share capital of TESMEC totals Euro 10,708,400.00 constituted by 107,084,000 ordinary shares with a nominal value of Euro 0.10 each. The shares are nominative, indivisible, and freely transferable. Pursuant to Article 9 of the Articles of Association, each share gives right to one vote in the ordinary and extraordinary shareholders' meetings of the Company. Information on share capital is available on the website of the Company, in the section Governance - Meetings. At the time of this call, the Company holds 2,596,321 treasury shares.

Representation

Each person who is entitled to intervene in the Shareholders' Meeting may be represented by written proxy, in accordance with applicable law provisions, with the right to sign the proxy form available on the website of the Company: www.tesmec.com, under page "Shareholders' meetings". The proxy may be granted through electronic document signed in electronic form pursuant to law. The proxy can be notified to the Company by means of registered letter sent to the headquarter in Grassobbio, Via Zanica 17/O or by e-mail to: ir@tesmec.it. Any eventual notification of the proxy made in advance does not exonerate the representative, when the credentials to access the meeting are verified, from the obligation to certify the conformity of the notified copy with its original and the identity of the shareholder represented.

The Company, pursuant to Article 135-undecies of Italian Legislative Decree no. 58/1998 ("**TUF**"), appointed Patrizia Pellegrinelli as the representative to whom holders of voting rights may grant a written proxy, free of charge for them and accompanied with voting instructions for all or part of the draft resolutions on the agenda, provided that she receives it no later than the end of the second day of open market before the date scheduled for the Shareholders' meeting in single call (i.e. no later than 28 April 2015), in accordance with the modalities specified and by means of the specific proxy form, with relevant voting instructions, available on the website of the Company www.tesmec.com and at the administrative office of the Company. The proxy granted thereby is effective only for those draft resolutions in relation to which voting instructions are given. The proxy and voting instructions can be revoked within the same deadlines as specified above (i.e. not later than 28 April 2014). There are no procedures for postal votes or by electronic means.

Right to ask questions

Pursuant to Article 127-ter of the TUF, those who have the right to intervene and vote in the Shareholders' Meeting are allowed to ask questions on the points on the agenda even before the meeting, by sending such questions, accompanied by the certification released by the intermediary proving their capacity as shareholders, by registered mail to the registered office or by e-mail to ir@tesmec.it. Questions received before the Shareholder's Meeting are answered at the latest during the meeting. The Company can provide a unified response to questions with the same content.

In order to facilitate the proper course of the Shareholder' Meeting and its preparation, the Shareholders are invited to submit the questions not later than the third day before the date scheduled for the Shareholders' meeting in single call (i.e. not later than 27 April 2015).

Additions to the agenda and submission of new draft resolutions

Pursuant to Article 126-*bis* of the TUF, the Shareholders who, individually or jointly, represent at least one fortieth of the share capital with voting rights can request, within ten days from the publication of this notice (i.e. not later than April 9, 2015), additions to the agenda or submit new draft resolutions, specifying in the request the further arguments or the new draft resolutions proposed on points already on the agenda. The request must be submitted in writing by the proposing Shareholders by registered mail to the registered office of the Company for the attention of the President or by e-mail to the address ir@tesmec.it, accompanied by the relevant certification released by the intermediary proving the ownership of the above mentioned fraction of share capital. Within the above-mentioned term and through the same modalities, any proposing Shareholder must deliver to the Board of Directors a report on the points they propose to treat or the reasons underlying the further draft resolutions submitted on points already on the agenda. No addition to the agenda is allowed for those arguments on which the Shareholders' meeting deliberates, in accordance with the law, upon proposals made by the directors or on the basis of a project or report prepared by them, other than those indicated under Article 125-ter, paragraph 1, of the TUF.

For any addition to the agenda and submission of new draft resolutions, a notice is given through the same modalities used for the publication of this notice, at least fifteen days before the date scheduled for the Shareholders' meeting.

Documents

The documents relating to the points on the agenda of the Shareholders' Meeting will be made available to the public within the terms set by law at the registered office of the Company and on the website of Borsa Italiana S.p.A., with the system NIS-Storage, at www.emarketstorage.com and also on the website of the Company www.tesmec.com, under section "Shareholders' Meetings".

Experts, financial analysts and journalists can attend the Shareholders' meeting; to this end, they are invited to submit a request to attend the meeting at least two days before the meeting to the following number: fax +39 035 3844606.

The Articles of Association is available on the website of the Company www.tesmec.com.

Grassobbio, March 30, 2015

Tesmec S.p.A.

COMPOSITION OF THE CORPORATE BODIES

Board of Directors (in office until the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2015)

Chairman and Chief Executive Officer	Ambrogio Caccia Dominioni
Vice Chairman	Alfredo Brignoli Gianluca Bolelli (2)
Directors	Sergio Arnoldi (1) (2) (3) (4) Gioacchino Attanzio (1) (2) (3) (4) (5) Caterina Caccia Dominioni (3) Guido Giuseppe Maria Corbetta (1) Lucia Caccia Dominioni Leonardo Giuseppe Marseglia (1)

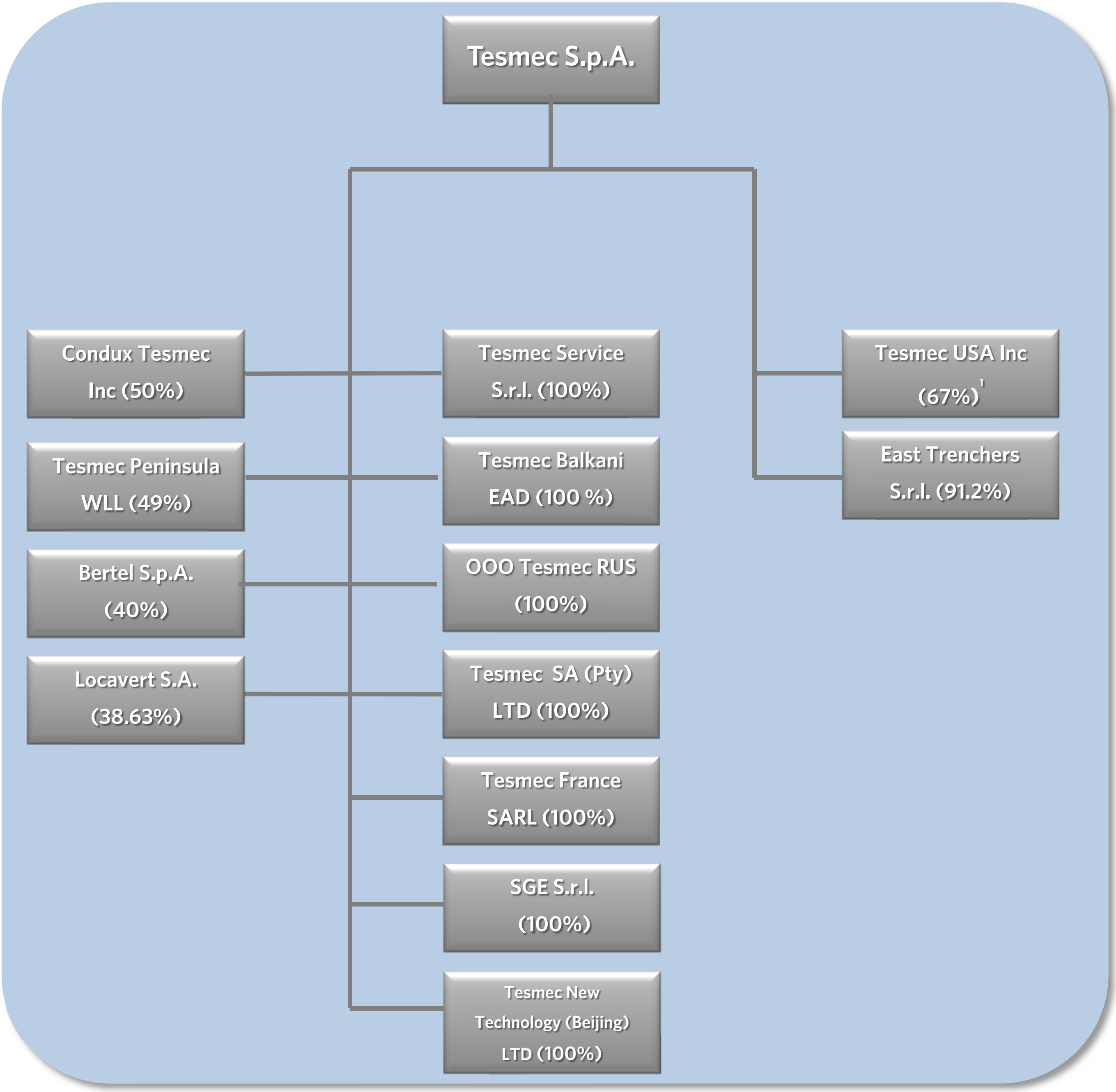
(1) Independent Directors
(2) Members of the Control and Risk Committee
(3) Members of the Remuneration Committee
(4) Members of the Appointments Committee
(5) Lead Independent Director

Manager responsible for preparing the Company's financial statements	Andrea Bramani

Board of Statutory Auditors

Chairman	Simone Cavalli
Statutory auditors	Stefano Chirico Alessandra De Beni
Alternate Auditors	Attilio Marcozzi Stefania Rusconi
Independent Auditors	Reconta Ernst & Young S.p.A.

GROUP STRUCTURE



(1) The remaining 33% is held by Simest S.p.A. Since Tesmec has an obligation to buy it back from Simest S.p.A., from an accounting point of view the shareholding of the Parent Company in Tesmec USA, Inc. is fully consolidated on a 100% basis.

REPORT ON OPERATIONS

1.Introduction

The Parent Company Tesmec S.p.A. (hereinafter "Parent Company" or "Tesmec") is a legal entity organised in accordance with the legal system of the Italian Republic. The ordinary shares of Tesmec are listed on the MTA (screen-based share market) STAR Segment of the Milan Stock Exchange. The registered office of the Tesmec Group (hereinafter "Group" or "Tesmec Group") is in Milan, Piazza S. Ambrogio 16.

The Tesmec Group is a leader in the design, production and marketing of special products and integrated solutions for the construction, maintenance and streamlining of infrastructures relating to the transmission of electrical power and data and material transport.
Founded in Italy in 1951 and managed by the Chairman and Chief Executive Officer Ambrogio Caccia Dominioni, the Group has more than 490 employees and five production plants, four in Italy, Grassobbio (Bergamo), Endine Gaiano (Bergamo), Sirone (Lecco) and Monopoli (Bari), and one in the USA, in Alvarado (Texas).
As a result of its listing on the Stock Exchange on 1 July 2010, the Parent Company has pursued the stated objective of diversification of the types of products in order to offer a complete range of integrated solutions, which up until the financial statements for the year ending 31 December 2013, have been grouped into two main areas of business: Stringing equipment and Trencher. From the first 2014 interim quarterly report on operations, in line with the strategy to expand the new Rail segment, the relative business activities constituted a separate segment disclosure. To achieve a like-for-like comparison with the figures from the previous year, they have been reclassified in the same manner.

Through the different types of product, the Group is able to offer:

Stringing equipment segment

- machines and integrated systems for overhead and underground stringing of power lines and fibre optic cables; integrated solutions for the efficiency, management and monitoring of low, medium and high voltage power lines (smart grid solutions).

Trencher segment

- high-efficiency crawler trenching machines for excavation with a set section for the construction of infrastructures for the transmission of data, raw materials and gaseous and liquid products in the various segments: energy, farming, chemical and public utilities;
- crawler trenching machines for working in the mines, surface works and earth moving works (RockHawg);
- specialised consultancy and excavation services on customer request;
- multipurpose site machinery (Gallmac).

Rail segment

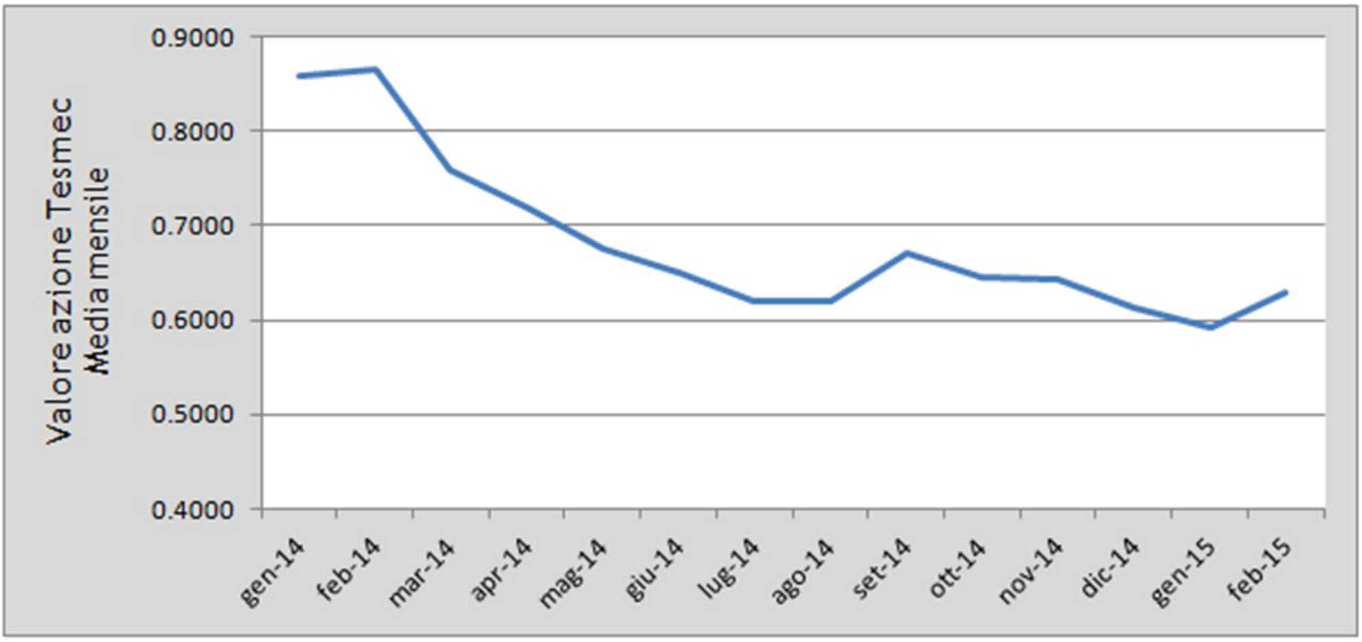
- machines and integrated systems for the installation, maintenance and diagnostics of the railway catenary wire system, plus customised machines for special operations on the line.

All types of product are developed according to the ISEQ approach (Innovation, Safety, Efficiency and Quality), in observance of environmental sustainability and energy saving.

The know-how acquired in developing specific technologies and innovative solutions and the presence of a team of highly specialised engineers and technicians allows the Tesmec Group to directly manage the entire production chain: from the design, production and marketing of machinery, to the supply of know-how relating to the use of systems and optimisation of work, to all pre- and post-sales services related to machinery and the increase in site efficiency. A combination of leading edge products and in-depth knowledge on the use of innovative technologies, for tackling the new requirements of the market, therefore allows the Group to offer a successful mix with the objective of ensuring high work performances.
Today, the Group not only sells cutting edge machines, but genuine integrated electrification and excavation systems, which provide advanced solutions during the work performance phase. This is a result of the constant pursuit of innovation, safety, efficiency and quality, and of the development of software for making machines safer, more reliable and high-performance.
The Group also has a global commercial presence throughout the majority of foreign countries, with a direct presence on different continents, thanks to foreign companies and sales offices in the USA, South Africa, Russia, France, Qatar, Bulgaria and China.

2. Tesmec on the Stock Exchange Market

As at 31 December 2014, the reference price of the Tesmec share is equal to Euro 0.583 per share. Market capitalisation as at 31 December 2014 amounts to Euro 62.4 million (around Euro 70.0 million at the date of this report). The following chart shows the listing price trend from 1 January 2014 to February 2015:



Reference price as at 31 December 2014	0.5830
Reference price as at 12 Mach 2015	0.6540
Maximum price (21 January 2014) (1)	0.9270
Minimum price (23 December 2014) (1)	0.5780

(1) Intended as minimum and maximum prices recorded during the negotiations of the day, hence not coinciding with the official and reference prices at the same date

3. Significant events occurred during the period and development of the company structure

In 2014, the strategy of the Group continued on the traditional lines of technological product innovation, integration with external situations and internationalisation. Some of the most significant events of the year are mentioned below:

- on 25 February 2014, the rental of the "SGE" business unit was launched. SGE manufactures meters to measure energy efficiency. On the same date, SGE-T S.r.l., part of the Tesmec Group, changed its name to SGE S.r.l. Seven workers were transferred on signature of the contract; this operation is also part of the Group's expansion plan in the sector of efficient power network management, which already included the purchase of the "I-Light" business unit and the purchase of 40% of the share capital of Bertel in July 2011 and January 2012, respectively;

- on 8 April 2014, the "Tesmec S.p.A. 6% 2014-2021" bond issue was admitted to trading on the Extra MOT PRO market, for an amount of Euro 15 million, with a seven year term and a fixed gross interest rate of 6% and an annual delayed coupon. The issue was subscribed and placed by Banca Popolare di Vicenza S.c.p.a. and by KNG Securities LLP with leading European institutional investors; this operation has enabled the Group to relocate the debt over the medium term through to 85.0% of Net Debt total against 78.5% at 31 December 2013;

- on 30 April 2014, with the approval of the 2013 financial statements, the Shareholders' Meeting of Tesmec S.p.A. decided to allocate the profit of the Parent Company of Euro 3,879 thousand, as follows:
  - Euro 194 thousand to the Legal Reserve;
  - assign a dividend of Euro 0.016 to each outstanding ordinary share;
  - assign to the Extraordinary Reserve the amount of profit remaining after the allocation to the Legal reserve and dividend;

- on 1 August 2014 the independent non-executive Director, Luca Poggi, drawn from the minority list, resigned from the office held within the Company for reasons of professional character. The Director, Luca Poggi, was appointed by the Shareholders' meeting of 30 April 2013, on the occasion of the renewal of the corporate offices;

- on 18 September 2014, the decree of approval of the arrangement of AMC2 S.r.l. in liquidation was issued - decree pending with subsequent transfer of the company in favour of Tesmec Service s.r.l.;

- on 30 September 2014, the company Tesmec New Technology (Beijing) Ltd. was set up with registered office in Beijing (China). The company will be operational in the all businesses of the Group and represents a natural development of the Group's activities in the Country where until now the presence consisted in a representative office;

- in the first few days of November, Tesmec S.p.A. finalised a contract amounting to approximately Euro 37 million related to the supply to Abencor Suministros Sa, company of the Spanish Group of Abengoa, international leader in the construction of transmission and distribution infrastructures, of packages for power lines stringing works as part of one of the main projects for the construction of 500kV lines in Brazil.
  In detail, the project in which the integrated solutions of the Tesmec Group will be used consists in the construction of more than 5,000 km of 500kV lines in the eastern part of Brazil, to be delivered no later than the first half of 2015.

4. Overview of the financial results

The consolidated financial statements of Tesmec have been prepared in accordance with International Financial Reporting Standards – hereinafter the "IFRS" or the "International Accounting Standards"), which were endorsed by the European Commission, in effect as at 31 December 2014. The following table shows a summary of the main profit and loss indicators in 2013 and in 2014 and the main financial indicators as at 31 December 2014 and as at 31 December 2013:

2013*	OVERVIEW OF THE FINANCIAL RESULTS (consolidated figures)	2014
	Key income statement data (Euro in millions)	
113.5	Operating Revenues	114.9
19.5	EBITDA	18.3
17.2%	EBITDA %	15.9%
4.4	Group Net Profit	4.9
	Tesmec S.p.A. (Euro in millions)	
3.9	Net income	6.3
	Key financial position data (Euro in millions)	
110.6	Net Invested Capital	121.5
41.8	Shareholders' Equity	48.2
68.8	Net Financial Indebtedness (**)	73.4
13.6	Net investments in tangible and intangible fixed assets	12.9
447	Annual average employees	496

(*) To better represent the financial statement contents, the Group, as from the 2014 financial period, reclassified "Work in progress contracts" and "Advances from contractors" into specific items of the Balance Sheet, the effects of construction contracts that was classified in "Inventory and advances from customers" in the Financial Statement 2013 specific items of the Balance Sheet of "Work in progress contracts" and "Advances from contractors". For a better comparison of the financial statement figures, data referred to the previous year (2013) have been reclassified in this Financial Report.
(**) This amount includes the notional debt related to the building of Grassobbio.

5. Group performance

Macroeconomic framework

The macroeconomic framework of 2014 was characterised by the performance of the American economy that reported:

- a process of growth in contrast to that of most of the world economies;
- a very careful and prudent monetary policy accompanying economic growth;
- an energy policy with investments in Shale Oil that has upset barrel prices.

The context described above showed the limits of Europe unable to solve the problems of growth, unemployment and deflation stagnating for over 3 years.
China's economy is always on the up albeit with growth rates much lower than in previous years.
The framework shown reports the more general performance of the economic indicators for which the following may be noted:

- major stock exchanges recorded a positive performance with a more pronounced trend in the first nine months and more reflective in the last quarter;
- the Euro weakened against the US dollar closing as at 31 December 2014 with 1.21, down by 11.1% compared to 31 December 2013;
- the barrel price, stable until June 2014, started to fall gradually closing as at 31 December 2014 with 59 US dollars, down by 45%;
- the interests rates of the Euro area further decreased compared to the already low levels of 2013;
- the prices of major commodities were declining for copper and tin whereas aluminium, nickel and zinc are on the up;
- the prices of sound investments (gold and silver) further decreased in 2014.

General performance

The Group realised in 2014 revenues of Euro 114,895 thousand against a figure of Euro 113,549 thousand in 2013 with a 1.2% increase that was mainly supported by the figures of the fourth quarter up by 19% if compared with the same period of the previous year. This increase in revenues corresponds to a cumulative decline of EBITDAthat falls from Euro 19,474 thousand to Euro 18,323 thousand. The figure achieved in 2014 represents a percentage on revenues of 15.9% against 17.2% in 2013.

Performance by segment

- Stringing equipment
  The machines and integrated systems for the construction, maintenance and streamlining of underground and aerial power lines recorded a decrease in revenues by 3.8% compared to the previous year. Revenues as at 31 December 2014 amount to Euro 50,130 thousand, down compared to Euro 52,125 thousand in the previous financial year. The annual figure is positively affected by the revenues of the fourth quarter that recorded a 50.0% increase compared to the same period the previous year recovering the decrease of the situation accumulated in September that showed a 21.4% decrease. Initiatives to diversify the range of products both in the production of vehicles for the construction and maintenance of railway lines in the field of automation of power lines have already begun to support the traditional line of production of machines and equipment for the laying of power lines also with the aim of mitigating the cyclical nature of the investments in this segment. It should be noted, however, a recovery in investments even in the traditional Stringing equipment segment in specific geographic areas as evidenced, among other things, also by the important acquisition of orders made in South America in the last quarter of the year.

- Trencher
  High-powered truck trenchers and systems for the construction of underground infrastructures such as gas pipelines, oil pipelines, water systems, trenches for laying cables and for earth moving works recorded a decrease in revenues of Euro 2,868 thousand (+5.2%) from Euro 55,662 thousand as at 31 December 2013 to Euro 52,794 thousand as at 31 December 2014. This performance is the combined effect of the positive trend of sales in the North American market and a low volume of sales in the Middle Eastern area . In the last quarter of the year, the trend was reversed with lower performance on the North American market due to the crisis of the operators in the shale industry and a recovery in sales in the Middle Eastern area where the tests for using the technology of trenchers by important consortia of construction companies as part of the construction of the underground railway of Riyadh were started.
  The introduction of Trenchers in new geographic markets or in new application areas is often accompanied by lease businesses through which the customer becomes familiar with the technology.
  Margins measured by EBITDA in absolute terms decreased compared to the previous financial year from Euro 7,198 thousand in 2013 to Euro 6,068 thousand in 2014 despite a recovery in the last part of the year.

- Rail
  Machines and integrated systems for the installation, maintenance and diagnostics of the railway catenary wire system, plus customised machines for special operations on the line recorded an increase in revenues by 107.8% compared to the previous year. Revenues as at 31 December 2014 amounted to Euro 11,971 thousand compared to Euro 5,762 thousand of the previous year confirming the validity of the diversifying strategy in this business where growth rates greater than traditional segments in which the Group operates are expected also for future years. Revenues in 2014 and 2013 include the effect of the stage of completion of the order in progress at the end of the year for a total amount of respectively Euro 6,176 thousand and Euro 946 thousand.

Management performance of the main subsidiaries and associated companies

With regard to the performance of the subsidiaries and associated companies included in the consolidation area and the development of their activities, we note that:

- Tesmec USA Inc., a company that is 67% owned by Tesmec S.p.A. and 33% by Simest S.p.A. (with an option of Tesmec S.p.A. to repurchase the Simest's shareholding interest), is based in Alvarado (Texas) and operates in the Trencher segment and in the stringing equipment/rail sector (as from 2012). During 2014, the company increased its revenues by 30.9%. Revenues amounted to Euro 28,932 thousand and were achieved through increase in rental activities and direct sales to third-party final customers instead of the traditional channel of distributors almost exclusively used in the past.
  The company resolved on 25 February 2014 to distribute a dividend of USD 1,000 thousand.

- Tesmec Balkani EAD, company 100% owned by Tesmec S.p.A. with registered office in Plovdiv (Bulgaria). In the current financial period, the operations of the subsidiary were low.

- Tesmec Service S.r.l., company 100% owned by Tesmec S.p.A. with registered office in Grassobbio (BG) and operating unit in Monopoli (BA) where it carries out its activity of design and construction of machinery for the maintenance of railway rolling stock as a result of the execution of the purchase contract of the business unit of the company AMC2 Progetti e Prototipi S.r.l occurred in 2012. As mentioned in the Introduction, the decree of transfer is under registration. During the 2014 financial period, the company continued to develop the product range and the revenues in 2014 amounted to Euro 4.5 million.

- Tesmec SA (Pty) Ltd, with registered office in Johannesburg (South Africa), 100% owned by Tesmec S.p.A., was set up in August 2011. During the current financial year, the company generated revenues of Euro 2.0 million in rental activity and sales and continued developing new opportunities in a market that is recording interesting growth rates.

- OOO Tesmec Rus, with registered office in Moscow (Russia), 100% owned by Tesmec S.p.A., was set up in November 2011. The company mainly works in the segments of stringing equipment and streamlining of Power Networks and on 31 December 2014 completed the expected development plan generating revenues of Euro 1.0 million. In the last part of the year, it was affected by the crisis in the Russian market, which generated a reduction in investments in the energy sector that we believe has a contingent nature.

- Condux Tesmec Inc, a joint venture that is 50% owned by Tesmec S.p.A. and 50% by US shareholder Condux and consolidated using the equity method, which is based in Mankato (USA), has been active since June 2009 in selling products for the North American stringing equipment market. The company generated revenues from sale that amounted to Euro 11.0 million during the financial period. The profits added Euro 550 thousand to the Group's net result.
  Also thanks to this positive performance, the company resolved on 25 February 2014 to distribute a dividend of USD 600 thousand.

- Tesmec Peninsula WLL, a Joint Venture with registered office in Doha (Qatar) 49% owned by Tesmec S.p.A. and consolidated using the equity method, is the hub through which the Tesmec Group is present on the Arabian peninsula. The activity of Tesmec Peninsula started in the second quarter of 2011 and generated revenues of Euro 10,978 thousand in the current financial period. The profits added Euro 366 thousand to the Group's net result.

- Locavert SA, an associated company 38.63% owned by Tesmec S.p.A. and consolidated using the equity method based in Bouillargues, France, leases trenchers in the French market and carries out excavation works. During the financial period, this company posted Euro 699 thousand in revenues.

- East Trenchers S.r.l.: the subsidiary is specialised in the hire/service of Trencher machines with the inclusion of pre/post-sales services that traditionally are coupled with this kind of activity. During the 2014 financial period, the operations were not particularly significant and revenues amounted to Euro 127 thousand.

- Bertel S.p.A., an associated company 40% owned by Tesmec S.p.A. and consolidated using the equity method based in Fidenza (PC) is active in the sector of efficiency of high voltage power lines and completed the development of communication and telecontrol products profolio posting Euro 299 thousand in revenues and Euro 409 thousand in losses.

- SGE S.r.l., controlled company specialized in the design and sales of sensors and fault detectors and measurement devices for medium voltage powerlines. During the 2014 financial period, revenues amounted to Euro 420 thousand and net losses amounted to Euro 377 thousand due to start-up phase.

6. Income statement and balance sheet situation as at 31 December 2014

Consolidated Income statement

The Group closed the financial period as at 31 December 2014 with a net income of Euro 4,909 thousand compared to a net income of Euro 4,384 thousand as at 31 December 2013. The following table shows the trend of major economic indicators of the Group as at 31 December 2014 compared to 31 December 2013.

	Financial period ended 31 December			
(Euro in thousands)	2014	% of revenues	2013	% of revenues
Revenues from sales and services	**114,895**	**100.0%**	**113,549**	**100.0%**
Cost of raw materials and consumables	(55,536)	-48.3%	(54,765)	-48.2%
Cost of services	(19,005)	-16.5%	(19,897)	-17.5%
Payroll costs	(26,053)	-22.7%	(22,698)	-20.0%
Other operating (costs)/ revenues, net	(2,527)	-2.2%	(1,989)	-1.8%
Depreciation and amortisation	(7,876)	-6.9%	(6,979)	-6.1%
Development costs capitalised	5,633	4.9%	4,900	4.3%
Portion of gains/(losses) from the valuation of equity investments using the equity method	916	0.8%	374	0.3%
Total operating costs	**(104,448)**	**-90.9%**	**(101,054)**	**-89.0%**
Operating income	**10,447**	**9.1%**	**12,495**	**11.0%**
Financial expenses	(6,662)	-5.8%	(6,643)	-5.9%
Financial income	4,570	4.0%	2,002	1.8%
Portion of gains/(losses) from the valuation of equity investments using the equity method	(34)	-0.0%	(10)	-0.0%
Pre-tax profit	**8,321**	**7.2%**	**7,844**	**6.9%**
Income tax	(3,416)	-3.0%	(3,472)	-3.1%
Net profit for the period	**4,905**	**4.3%**	**4,372**	**3.9%**
Profit / (loss) attributable to non-controlling interests	(4)	0.0%	(12)	-0.0%
Group profit (loss)	**4,909**	**4.3%**	**4,384**	**3.9%**

A restatement of the income statement figures representing the performance of EBITDA is provided below:

	Financial period ended 31 December				
(Euro in thousands)	2014	% of revenues	2013	% of revenues	2014 vs. 2013
Operating income	10,447	9.1%	12,495	11.0%	(2,048)
+ Depreciation and amortisation	7,876	6.9%	6,979	6.1%	897
EBITDA (1)	**18,323**	**15.9%**	**19,474**	**17.2%**	**(1,151)**

(*) The EBITDA is represented by the operating income gross of amortisation/depreciation. The EBITDA thus defined represents a measurement used by Company management to monitor and assess the company's operating performance. EBITDA is not recognised as a measure of performance by the IFRS and therefore is not to be considered an alternative measurement for assessing the performance of the Group's operating income. As the composition of EBITDA is not governed by the reference accounting standards, the criterion for determination applied by the Group may not be in line with the criterion adopted by others and is therefore not comparable.

Total revenues as at 31 December 2014 increased by 1.2% deriving from the combined effect of a 107.8% growth in the rail segment, a 3.8% decrease in the stringing equipment segment and a 5.2% decrease in the trencher segment.
In all segments, market demand was concentrated mainly in Europe and North and Central America.

	Financial period ended 31 December				
(Euro in thousands)	2014	% of revenues	2013	% of revenues	2014 vs. 2013
Sales of products	104,491	90.9%	108,134	95.2%	(3,642)
Services rendered	4,228	3.7%	4,469	3.9%	(241)
	108,719	**94.6%**	**112,603**	**99.2%**	**(3,883)**
Changes in work in progress	6,176	5.4%	946	0.8%	5,229
Total revenues from sales and services	114,895	100.0%	113,549	100.0%	1,346

Services rendered mainly concern the trencher segment and are represented by the machine rental business carried out in the United States and in South Africa.

Revenues by segment

	Financial period ended 31 December				
(Euro in thousands)	2014	% of revenues	2013	% of revenues	2014 vs. 2013
Stringing equipment	50,130	43.6%	52,125	45.9%	(1,995)
Trencher	52,794	45.9%	55,662	49.0%	(2,868)
Rail	11,971	10.4%	5,762	5.1%	6,209
Total revenues	114,895	100.0%	113,549	100.0%	1,346

Total revenues as at 31 December 2014 increased by 1.2% deriving from the combined effect of a 107.8% growth in the rail segment, a 3.8% decrease in the stringing equipment segment and a 5.2% decrease in the trencher segment.

The Rail segment recorded a sustained growth of revenues compared to the same period of the previous year and with a good level of geographic diversification; this shows the positive effects of the integration of the offer of the recent acquisition of the two business units. Due to this trend, the contribution to total revenues of the Rail segment increased from 5.1% as at 31 December 2013 to 10.4% as at 31 December 2014.

Revenues in 2014 and 2013 include the effect of the stage of completion of the order in progress at the end of the year for a total amount of respectively Euro 6,176 thousand and Euro 946 thousand.In the Trencher segment, the results were positively sustained by the uptrend of sales in the US market whereas the contribution of sales of other markets (Middle East) was affected by the policies to reduce the warehouse stock applied by the distributors of the area.

In the Stringing equipment segment, the temporary slowdown of projects to lay new power lines in so-called Emerging countries, which had already influenced results in the second half of the previous year, is still visible. The contingent nature of these circumstances and the simultaneous development of the range of products for efficient energy management should lead to the positive contribution to the segment's revenues in the following year. However, Tesmec has been awarded a contract of Euron 37 million by the Abengoa Group in the last quarter of the year, generating revenues in the first half of 2015.

Revenues by geographic area

(Euro in thousands)	Financial period ended 31 December	
	2014	2013
Italy	13,966	6,504
Europe	20,781	16,975
Middle East	18,520	23,301
Africa	6,474	9,976
North and Central America	35,875	29,086
BRIC and Others	19,279	27,707
Total revenues	114,895	113,549

The geographic distribution of sales shows a strong growth in the Italian market and a growth consolidation in the North and Central America markets. The sales on the American market include sales in the trencher segment of Euro 27,317 thousand, accounting for 51.7% of Group segment revenues, with a 35.6% increase in this area compared to the previous financial year, confirming the improvement trend already seen in 2013. The increase on the Italian market refers to the sales in the Rail segment.
Note that segmentation by geographic area is determined by the Country in which the purchaser is based regardless of where the project activities are organised.

Operating costs

(Euro in thousands)	Financial period ended 31 December				
	2014	% of revenues	2013	% of revenues	2014 vs. 2013
Stringing equipment	43,071	37.5%	42,248	37.2%	823
Trencher	51,078	44.4%	52,821	46.5%	(1,743)
Rail	10,299	9.0%	5,985	5.3%	4,314
Total operating costs	104,448	90.9%	101,054	89.0%	3,394

Operating costs were up 3.4% compared to the prior period in a more than proportional way compared to the sales trend (+1.2%). The increase is mainly due to the start-up phase of the Rail segment where the sales volumes are not proportional to the costs of the structure required for the development of the activities in the start-up phase.

EBITDA

(Euro in thousands)	Financial period ended 31 December				
	2014	% of sector revenues	2013	% of sector revenues	2014 vs. 2013
Stringing equipment	9,538	19.0%	11,984	23.0%	(2,446)
Trencher	6,068	11.5%	7,198	12.9%	(1,130)
Rail	2,717	5.1%	292	5.1%	2,425
EBITDA (*)	18,323	15.9%	19,474	17.2%	(1,151)

(*) The EBITDA is represented by the operating income gross of amortisation/depreciation. The EBITDA thus defined represents a measurement used by Company management to monitor and assess the company's operating performance. EBITDA is not recognised as a measure of performance by the IFRS and therefore is not to be considered an alternative measurement for assessing the performance of the Group's operating income. As the composition of EBITDA is not governed by the reference accounting standards, the criterion for determination applied by the Group may not be in line with the criterion adopted by others and is therefore not comparable.

The EBITDA decreased both in absolute terms, from Euro 19,474 thousand in the 2013 financial year to Euro 18,323 thousand in the 2014 financial year and with regard to revenues with a 17.2% effect in the 2013 financial year and 15.9% in the 2014 financial year.

This performance is affected by the trend in the first nine months of the year with low sales volumes of the two Stringing equipment and Trenchers segments whereas the fourth quarter records a 61.0% increase in EBITDA compared to the same period the previous year thanks to higher volumes of the Stringing equipment and Trenchers segments and to the exchange rate effect.

Operating Income

	Financial period ended 31 December				
(Euro in thousands)	2014	% of revenues	2013	% of revenues	2014 vs. 2013
Stringing equipment	7,059	6.1%	9,877	8.7%	(2,818)
Trencher	1,716	1.5%	2,841	2.5%	(1,125)
Rail	1,672	1.5%	(223)	-0.2%	1,895
Total operating result	10,447	9.1%	12,495	11.0%	(2,048)

As a result of the above, the operating income as at 31 December 2014 stood at Euro 10,447 thousand (9.1% of revenues) compared to Euro 12,495 thousand (11.0% of revenues) achieved as at 31 December 2013.

Net income

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Net profit	4,905	4,372
% Effect on revenues	4.3%	3.9%
Profit / (loss) attributable to non-controlling interests	(4)	(12)
Group net income for the period	4,909	4,384
% Effect on revenues	4.3%	3.9%

Results for the period amounted to Euro 4,909 thousand (Euro 4,384 thousand in 2013) after deducting taxes totalling Euro 3,416 thousand (Euro 3,472 thousand in 2013). This result was positively affected by the results from exchange management of Euro 2,796 thousand that comprises net earnings realised of Euro 188 thousand and adjustment of currency equity items at the exchange rate applicable at year-end of Euro 2,608 thousand.
This profit is compared with a loss of Euro 1,299 thousand recorded in 2013.

Profitability ratios

		Financial period ended 31 December	
Index	*Composition*	2014	2013
Return on sales (R.O.S.)	Operating income / Net revenues	9.1%	11.0%
Return on investment (R.O.I.)	Operating income / Invested capital	8.6%	11.3%
Return on equity (R.O.E.)	Net income / Shareholders' equity	10.2%	10.5%
Invested capital turnover	Net revenues / Net invested capital	0.94	1.02
Working capital turnover	Net revenues / Net working capital	2.00	2.15
Debt ratio	Net financial indebtedness/Shareholders' equity	1.5	1.6

(*) The Net financial indebtedness includes notional payables related to the new lease contract of Grassobbio.

The table above shows concisely the main trends that characterised the financial statements of the Group as at 31 December 2014 compared to 31 December 2013. The ratios reflect the trends relating to the increase in Invested Capital compared to revenues.

Balance sheet and financial profile

The financial position of the company as at 31 December 2014 compared to 31 December 2013 is briefly shown in the table below.

(Euro in thousands)	Financial period ended 31 December	
	2014	2013
USES		
Net working capital (1)	57,991	52,723
Fixed assets	65,283	57,479
Other long-term assets and liabilities	(1,737)	413
Net invested capital (2)	**121,537**	**110,615**
SOURCES		
Net financial indebtedness (3)	73,364	68,820
Shareholders' equity	48,173	41,795
Total sources of funding	**121,537**	**110,615**

(1) The net working capital is calculated as current assets net of current liabilities excluding financial assets and financial liabilities. Net working capital is not recognised as a measure of performance by the IFRS. The valuation criteria applied by the Company may not necessarily be the same as those adopted by other groups and therefore the balance obtained by the Company may not necessarily be comparable therewith.
(2) The net invested capital is calculated as net working capital plus fixed assets and other non-current assets less non-current liabilities. The net invested capital is not recognised as a measure of performance under IFRS. The valuation criteria applied by the Company may not necessarily be the same as those adopted by other groups and therefore the balance obtained by the Company may not necessarily be comparable therewith.
(3) The net financial indebtedness is calculated as the sum of cash and cash equivalents, current financial assets including available–for–sale securities, non-current financial liabilities, fair value of hedging instruments and other non-current financial assets.

Net working capital

(Euro in thousands)	Financial period ended 31 December	
	2014	2013 restated *
Trade receivables	41,297	43,190
Work in progress contracts	5,249	-
Inventories	55,390	46,614
Trade payables	(34,179)	(25,529)
Other current assets/(liabilities)	(9,766)	(11,552)
Net working capital (**)	**57,991**	**52,723**

(*) To better represent the financial statement contents, the Group, as from the 2014 financial period, reclassified "Work in progress contracts" and "Advances from contractors" into specific items of the Balance Sheet, the effects of construction contracts that was classified in "Inventory and advances from customers" in the Financial Statement 2013 specific items of the Balance Sheet of "Work in progress contracts" and "Advances from contractors".
For a better comparison of the financial statement figures, data referred to the previous year (2013) have been reclassified in this Financial Report.
(**) The net working capital is calculated as current assets net of current liabilities excluding financial assets and financial liabilities. Net working capital is not recognised as a measure of performance by the IFRS. The valuation criteria applied by the Company may not necessarily be the same as those adopted by other groups and therefore the balance obtained by the Company may not necessarily be comparable therewith.

Net working capital to net revenues amounted to 50,5% against 46.4% recorded in 2013. This result was affected by the increase in the value of works in progress at the end of the year and the value of inventories partially offset by the increase in the supplier balance. This trend is mainly due to prospects for increased sales in the last quarter on the North American market, not occurred due to the fall in oil prices that postponed to 2015 investments in new machines of important customers, and to supplies related to the Abencor contract.

Net fixed assets

(Euro in thousands)	Financial period ended 31 December	
	2014	2013
Intangible assets	12,372	10,214
Property, plant and equipment	48,116	43,163
Equity investments in associates	4,792	4,099
Other equity investments	3	3
Fixed assets	65,283	57,479

The change in Net fixed assets amounting to Euro 7,804 thousand mainly reflects the effort of the Group to develop the activities related to the rail sector and streamlining of power networks.
The net increase is the sum of the investments totalling Euro 18,791 thousand and amortisation/depreciation of Euro 7,876 thousand.
The intangible assets contain expenses related to development activities totalling Euro 5,912 thousand that were focused on the projects relating to new machines of the rail sector for the US market, to the application of the new Trenchtronic technology to the range of trenchers marketed today and to the new stringing equipment machines.
The property, plant and equipement incldes the net value of machines in fleet that amount to Euro 10,177 thousand in 2014 and to Euro 4,877 thousand in 2013. During the 2014 financial year there are investments connected to the start-up of the new rental activities for a total amount of Euro 10,689 thoudsand and disinvestment connected to the sales of previously rented machines for Euro 5,819 thousand.
Investments in associated companies further increased by Euro 693 thousand in relation to the adjustment of the value of investments by using the equity method.

Medium to long-term assets and liabilities

(Euro in thousands)	Financial period ended 31 December	
	2014	2013
Financial receivables and other non-current financial assets	290	19
Non-current trade receivables	546	844
Deferred tax assets	3,374	4,110
Employee benefit liability	(3,016)	(2,705)
Provisions for risks and charges	(39)	(25)
Deferred tax liabilities	(2,892)	(1,830)
Other long-term assets and liabilities	(1,737)	413

Medium to long-term assets and liabilities decreased from Euro 413 thousand as at 31 December 2013 to a negative Euro 1,737 thousand. The decrease of Euro 2,150 thousand is due to the increase in deferred tax liabilities of Euro 1,062 thousand recorded in Tesmec S.p.A. and Tesmec USA explained in detail in the Explanatory Notes.

Indebtedness

(Euro in thousands)	Financial period ended 31 December			
	2014	*of which with related parties and group*	2013	*of which with related parties and group*
Cash and cash equivalents	(18,665)		(13,778)	
Current financial assets [(1)]	(6,798)	*(6,552)*	(9,532)	*(8,447)*
Current financial liabilities	36,506	*1,100*	38,082	*995*
Current portion of derivative financial instruments	-		-	
Current financial indebtedness [(2)]	11,043	*(5,452)*	14,772	*(7,452)*
Non-current financial liabilities	61,861	*15,954*	53,505	*17,054*
Non-current portion of derivative financial instruments	460		543	
Non-current financial indebtedness [(2)]	62,321	*15,954*	54,048	*17,054*
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	73,364	*10,502*	68,820	*9,602*

(1) Current financial assets as at 31 December 2014 and 31 December 2013 include the market value of shares and warrants, which are therefore considered cash and cash equivalents.
(2) Current and non-current financial indebtedness is not identified as an accounting element by the IFRS. The valuation criteria applied by the Group may not necessarily be the same as those adopted by other groups and therefore the balances obtained by the Group may not be comparable therewith.

Net indebtedness as at 31 December 2014 stood at Euro 73,364 thousand (Euro 68,820 thousand as at 31 December 2013) and reflects the expense of important investing activities carried out in the last two years to expand the rail sector and the streamlining of power networks.
Medium to long-term indebtedness represents as at 31 December 2014 85.0% of the total, up compared to 78.5% as at 31 December 2013. The table below shows the breakdown of the following changes:

- increase in current financial assets and cash and cash equivalents from Euro 23,310 thousand to Euro 25,463 thousand; this change of Euro 2,153 thousand includes the collections received at the end of the year;
- decrease in current financial liabilities from Euro 38,082 thousand to Euro 36,506 thousand also due to the reclassification of the current portion of medium/long-term loans pursuant to the paragraph below;
- increase in non-current financial liabilities from Euro 53,505 thousand to Euro 61,861 thousand mainly due to: (i) reclassification under the current financial indebtedness of Euro 12,611 thousand relating to the short-term portion of medium/long-term loans (ii) decrease in financial leases (Euro 18,724 thousand as at 31 December 2014 compared to Euro 20,835 thousand as at 31 December 2013) net of (iii) the drawing-up of new medium/long-term loan agreements amounting to Euro 20,967 thousand;
- increase of the non-current financial indebtedness is attributable for Euro 15 million to the bond issue admitted to trading on the Extra MOT PRO market on 8 April 2014, with a seven year term and a fixed gross interest rate of 6% and an annual delayed coupon.

Shareholders' Equity

(Euro in thousands)	Financial period ended 31 December	
	2014	2013
Share capital	10,708	10,708
Reserves	32,547	26,695
Profit for the period	4,909	4,384
Non-controlling interests	9	8
Shareholders' equity	48,173	41,795

The share capital amounts to Euro 10,708 thousand, fully paid in, and is comprised of 107,084,000 shares with a par value of Euro 0.1 each.
In the 2014 financial period, the major changes are due to the distribution of a dividend of Euro 1,682 thousand (Euro 0.016 per share), to the profit for the period of Euro 4,909 thousand and to the increase in the translation reserve of Euro 3,569 thousand.

Reconcilement between the shareholders' equity values and the result for the period of the Parent Company with the corresponding consolidated values.

	Financial period ended 31 December	
(Euro in thousands)	Shareholders' Equity	Net profit
Amounts resulting from the financial statements of Tesmec S.p.A.	43,179	6,278
Consolidation adjustments		
a) Equity investments evaluated using the equity method	1,673	882
b) Difference between book value and assets of consolidated equity investments	4,739	-
c) Results from consolidated equity investments	(1,873)	(1,873)
d) Translation reserve	2,114	-
e) Elimination of dividends distributed by Companies of the Group	-	-
f) Elimination of intercompany items	(1,668)	(378)
Net effect of consolidation adjustments	*4,985*	*(1,369)*
Amounts attributable to the Group	48,164	4,909

Investments

Investments include capitalisations relevant to development projects (Euro 5,912 thousand) that refer to strategic activities as a result of which Tesmec manages to maintain its technological leadership position on traditional markets and increase the range of offered products and services (railway market, new generation trenchers, management of the electric system) plucking up the high level of internationalisation of its sales network.
Net investments in property, plant and equipment (Euro 6,443 thousand) where mainly represented by Euro 4,870 thousand for the investment of new machines for the fleet, net of disinvesment, mainly in the United States. ,.

7. Regulatory framework of reference

The Group, producer and distributor of machinery and integrated systems for stringing equipment and Trencher, is subject, in the various countries where it operates, to several law and regulatory provisions, as well as national or international technical standards, applicable to companies operating in the same segment. The provisions on the protection of the environment take on particular importance.
The enactment of further regulatory provisions applicable to the Group or to its products or rather changes to the laws and regulations currently in force in areas where the Group operates, even internationally, could force the Tesmec Group to adopt stricter standards or influence its freedom of action in its areas of activity.

These factors could result in adjustment costs of production structures or of product characteristics, or even limit the operations of the Group with a subsequent negative effect on its activity and on its economic and financial situation.
Therefore, any change to the standards or regulatory criteria currently in force, as well as the occurrence of exceptional or unforeseeable circumstances, could force the Group to incur extraordinary expenses in environmental matters. These expenses could be significant and thus have adverse effects on the activity and the economic and financial situation of the Group. For more details on the subject of safety, environment and work, reference is made to the relevant paragraph.

8. Main risks and uncertainties to which the Tesmec Group is exposed

In this paragraph, we outline the risk factors and uncertainties that may significantly affect the activity of the Tesmec Group. In particular, some information tending to illustrate the aims and policies of the Group on price, financial risk management, as well as tending to indicate the degree of exposure to credit risk, liquidity risk and cash-flow variation risks are set out below.
This description is valid for the Tesmec Group, even if the risk management policy is decided by the Parent Company.
Tesmec has implemented a mechanism for constantly monitoring these risks in order to prevent their potential negative effects and take the actions necessary to contain them.

Management and types of risk

Within its scope of operations, the Group is exposed, to a greater or lesser extent, to certain types of risk that are managed as follows.
The Group does not hold derivatives or similar products for purely speculative purposes.

Type of risks and hedging instruments used

Exchange rate risk

A significant portion of the Group's revenues is generated by sales in foreign countries, including developing countries.

The main transaction currencies used for the Group's sales are the Euro and the US Dollar. The Group believes that if the exchange rate fluctuations of these two currencies are low, there is no risk to operating margins, insofar as the sale price could be adapted on each occasion to the exchange rate. However, if the US dollar were to depreciate significantly against the Euro, we cannot exclude negative effects on margins to the extent that a good portion of sales in US dollars concerns the productions of Italian factories that operate with costs in the Eurozone.

With regard to net exposure that is mainly represented by loans in US Dollars of Tesmec S.p.A., the forward buying of the American currency is adopted as the only hedging instrument. However, these hedges are carried out only for one part of the total exposure in that the timing of the inflow of the receipts in dollars is difficult to predict at the level of each sales invoice. Besides, for a good part of the sales in dollars, the Group uses the production of the American factory with costs in US dollars by creating in this way a sort of natural hedging of the currency exposure.

Forward sale instruments for fixing the exchange rate at the moment of the order are mainly used for covering the risk of the dollar exposure deriving from:

i) selling trenchers produced in Italy in Middle-East Countries;
ii) selling stringing machines produced in Italy in the USA where purchases are in Euro, and sales in US dollars.

Despite the adoption of the above strategies aimed at reducing the risks arising from fluctuation of exchange rates, the Group cannot exclude that future changes thereof might affect the results of the Group. Fluctuations in exchange rates could also significantly affect the comparability of the results of each financial period.

Tesmec S.p.A. concluded during 2014 three forward cover contracts of the Euro/USD exchange rate (flexible/spot). All transactions were concluded by 31 December 2014.

Credit risk

For the Group, credit risk is closely linked to the sale of products on the market. In particular, the extent of the risk depends on both technical and commercial factors and the purchaser's solvency.
From a commercial viewpoint, the Group is not exposed to a high credit risk insofar as it has been operating for years in markets where payment on delivery or letter of credit issued by a prime international bank are usually used as payment methods. For customers located in the European region, the Group mainly uses factoring without recourse. The provisions for doubtful accounts are considered to be a good indication of the extent of the overall credit risk.

Price risk

In general, price risk is linked to the fluctuation of commodity prices.
Specifically, the price risk of the Group is mitigated by the presence of many suppliers of raw materials as well as by the need to be sure on the supply volumes, in order not to affect the warehouse stock.
In reality, this risk seems remote for two fundamental reasons:

1. the existence and use of alternative suppliers;
2. the heterogeneity of raw materials and components used in the production of the Tesmec machinery: it is unlikely for all of them to be affected by increasing price tensions at the same time.

In particular, in the current market situation, this risk seems particularly weakened by the situation of oversupply in many markets.

Liquidity/cash flow variation risks

The management of financial requirements and related risks (mainly interest rate risks, liquidity and exchange rate risks) is carried out by the Group on the basis of guidelines defined by the Group General Management and approved by the Chief Executive Officer of the Parent Company.
The main purpose of these guidelines is to guarantee the presence of a liability structure always in equilibrium with the structure of the balance sheet assets, in order to keep a very sound balance sheet structure.
Forms of financing most commonly used are represented by:

- medium-long term loans with multiyear redemption plan, to cover the investments in fixed assets and to finance expenses related to several development projects;
- short-term financial payables, advances on export, transfers of trade receivables, to finance the working capital.

The average cost of indebtedness is benchmarked to the trend of the 1/3-month Euribor rates for short-term loans and of the 3/6-month Euribor rates for medium to long-term loans. Some interest rate hedges have been set in place for floating interest-rate bearing financial payables. Existing loans contemplate the observance of financial covenants, commented below.

Risks related to transactions with suppliers

The Tesmec Group adopts a supply policy aimed at diversifying the suppliers of components that are characterised by purchased volumes or by high added value. However, the termination for any reason of these supply relations could imply for the Group supply problems of such raw materials, semi-finished and finished goods as for quantity and time suitable for ensuring the continuity of production, or the provisioning could lead to time issues for achieving quality standards already acquired with the old supplier.

9. Training Human Resources and Industrial relations

Employees

The management policies of Human Resources of the Tesmec Group have always been characterised by the pursuit of excellence. In this regard, the Group is different from smaller Competitors and enjoys important results nationally and internationally in order to meet the challenges offered by the development of international markets.
As at 31 December 2014, the Tesmec Group has an average workforce of 496 persons increasing by 10.96% compared to 2013.

The average workforce employed by the Group in 2014 reports the following changes compared to 2013:

	Financial period ended 31 December			
(average no. of employees)	2014	2013	2014 vs. 2013	%
Tesmec S.p.A.	310	312	(2)	-0.64%
Tesmec Service S.r.l.	34	29	5	100.00%
Tesmec USA, Inc.	126	92	34	36.96%
Tesmec SA (Pty) LTD	8	6	2	33.33%
OOO Tesmec RUS	7	7	-	0.00%
Tesmec Balkani EAD	-	1	(1)	-100.00%
SGE S.r.l.	6	-	6	100.00%
Tesmec New Technology Beijing LTD	5	-	5	100.00%
Total	496	447	49	10.96%

In 2014, a total of 49 resources were employed, including 37 outside the national borders, particularly in America, the area most affected by new technological developments in the Rail segment.
The placements of 2014 mainly aimed at completing the expansion of the Research and Development, Service and Engineering department, which strengthened its skills in the R&D area by increasing its workforce from 22% to 28% of total workforce and in the service area from 17% to 18%.
60% of the 49 placements of 2014 were employed with fixed-term contracts or training contracts and during the year, approximately 80% of these training contracts were transformed in permanent recruitment.

The figure of "retention" of human resources, with a stabilisation of the Group turnover percentage compared to the previous year and a further reduction of the figure related to Italy from 16.19% to 14.20% is one of the most significant figures. By analysing more thoroughly the retention figures, we can check the following trends:

1) survival rate of new employees equal to 80% as Group average and to 90% as an average figure for Italy;
2) stability rate within two years equal to 88.12% as Group average and to 89.84% as an average figure for Italy;
3) stability rate within five years equal to 82.01% as Group average and to 75.08% as an average figure for Italy;
4) stability rate within ten years equal to 109.09% as Group average and to 104.07% as an average figure for Italy.

2014 was a year characterised by the consolidation of some start-ups such as the Rail segment in Monopoli that increased its workforce also for the support to the American office on the goodwill of the activities in the segment. Moreover, extraordinary activities aimed at product diversification and strengthening of the Automation department include the execution of the contract for the lease of the business unit of the company SGE S.r.l. with registered office in Padua. The transaction is part of the process of acquisition of skills in the monitoring and troubleshooting systems for medium-voltage lines, industrial control systems.

Level of education and seniority

The average age of the employees of the Group is 38 years. The figure ranks the Group slightly below the average age of 39.64 years of Italian companies (workers 41 years, employees 39 including 38 for women) and above the average age of 36.24 years of foreign companies (workers 24.72, employees 41.40 including 37.77 for women).

25% of employees have a degree, with a predominance of engineers, whereas 50% has a high school leaving diploma, mostly technical.

Management and development

For Tesmec, the development system of human resources focused in 2014 on a programme known as "People Management & Development Program" that allowed to map all the evaluation and placement processes of human resources. In this context, the evaluation process was implemented during recruitment with an array of expertise that took account of some skills previously set for the supporting key functions in the growth of the group.

The second phase concerns the placement of resources in the organisational structure of Tesmec and stresses the importance of the following functions:

- Welcome and integrate in the team the new employees through vocational programmes and personal tutors.
- Support the new employees in understanding the meaning of their work for achieving the results of the organisation.
- Ensure transparency, consistency and access to information essential to carry out one's work.
- Stimulate and guide the collaborators so that they contribute to the organisational targets, beyond the mere scope of their work.

The aim of this phase is to guide the new resource in the in-depth knowledge of the tasks directly related to the function in which the resource is placed as well as of the special characteristics of all the other functions with which the resource will enter into relations and will interconnect day by day. The involvement and sharing of goals and expectations between the HR Dept, New Employee and the Managers of reference of the different departments involved in the project are essential for the success of this experience.
The second phase contains a quality process in the recruitment and selection of a Potential Talent.
This procedure is at the end of the talent recruitment and selection process, and therefore applies only to the shortlist of candidates deemed suitable to be placed in the company.

The third phase deals with the process of resource evaluation.
The purpose of this procedure is to define the parameters and evaluation criteria of a defined area of human resources, in order to:

- enhance the talents and skills of Tesmec's human resources;
- define appropriate levels of human resource training and development;
- assume and prepare career plans for high potential resources;
- provide evaluation elements in order to propose internal and external job rotation plans.

Tesmec's human resources are evaluated with different purposes and in different ways, through:

- Evaluation of Skills;
- Evaluation of the Potential.

Evaluation of Skills

The evaluated resources: all the resources for whom the following criteria jointly apply:

Professional family:

- Executive -> Top manager within the business organisation, with functions having a medium/long term strategic decision-making impact
- Front-line managers -> Managerial position with the responsibility for a department, business unit and/or geographic budget
- Middle Manager -> Managerial position in charge of supervising/coordinating a single work team/project without managing a budget

The mapping of the performance is included in the second-level agreement and also applies to workers and employees not evaluated with the methods described above. It is a process for evaluating the technical, relational, and flexibility skills and for transmitting skills - decisive factor in the technological continuity of Italian and foreign resources.

Diversity: equal opportunities and innovation

The Tesmec Group considers diversity as a key element for the success of the company. Aware of this, it undertakes to promote a working environment in which the employees feel respected, valued and involved, and attract not only highly motivated people, but also bearers of innovation and differentiation.
The diversity of culture, race and sex and multiple experiences help to increase the sense of belonging, motivation, competitiveness by favouring alignment with customer expectations.
Tesmec values the diversity of human resources, useful to express novelty, creativity, innovation to change, adaptation to market opportunities.
Tesmec, inside its factories, collects suggestions for improving processes or cohabitation inside the factories by means of a box of ideas.

In the context of internationalisation, exchanges of labour and continuous transmission of skills within the Italian and foreign factories of the Tesmec Group, the use of secondment of resources in manufacturing, engineering and strategic environment became consolidated also in 2014.
Over the past 12 months, approximately 25% of the Italian personnel moved to Tesmec Usa to follow the implementation and completion of the rail product range in the production process of Tesmec Usa.
This year engineers, technicians, maintenance workers, mechanics, Italian and American testers have worked together to standardise the assembly and supply processes within Tesmec. Some of the resources of the area of Trencher product technology are regularly engaged in the Middle East to follow the sites and investment projects in the area, to support the commercial area in the sale of machines and customer service.
Inside the Italian factories, the migration of skills continued both in the stringing equipment and rail segment, through training on machines.

Female leadership

Tesmec places a strong focus in providing equal opportunities of growth and development to all the employees of the Group through diversified training. For this reason, Tesmec wants to promote the empowerment of women in order to facilitate their career and their possibility of accessing leadership positions. The Tesmec Group has a percentage of women compared to the total workforce of the Group in the world that continued to grow, reaching 25%. Tesmec intends to continue to enhance and increase in the coming years the female quotas - today 15% - in strategic positions in the achievement of important challenges for the future.

Resource training and update

In line with the training and development programmes of human resources implemented last year, 2014 was characterised by activities enhancing personal talents and defining learning paths, aimed at strengthening the technical, professional and managerial skills of the persons involved. Further importance was given to the development and implementation of specific applications, the aim being both to facilitate the coordination of regular management processes and the exchange of information among different business areas, and to facilitate the collection of information directly from the labour market.

The already wide training offer of the Group extended further during the year coming up with new initiatives to strengthen individual skills and improve performance by cultivating the diversity of experiences, cultures and contributions.

The new initiatives of 2014 include a two-day Managerial Course organised with La SDA BOCCONI, open to the top and Middle Management of Tesmec, with the participation of some key Talent figures. The course called "Changing successfully: strategic and organisational implications" was designed to ensure that employees are able to operate effectively in different cultural contexts.

- theme: successful methods and instruments to implement and deal with change through strategy and organisation;
- involved personnel: area, segment or department Tesmec managers - both senior and junior - who are the key to changes in the company;
- expectations of the company with regard to the course: everyone must be aware of and share the need to continuous and sudden change by applying the methods learned, through new actions, intentions and solutions;
- participants: they must be the drive and vehicle of change both inside the company and by getting hold of the needs of the market and of customers by using the methods and tools learned during the course;
- company's goal with regard to the participant: alignment with the corporate vision.

Partnerships of some Italian Universities both for research projects and for the training of young talents, but in particular for the enhancement of management and middle management continued to increase and strengthen also in 2014.
A partnership that in 2014 was characterised by different dealing and relating methods, giving a different approach to the standard training methods of human resources with innovative solutions that take into account several drivers such as

internationalisation, cross competence, product and process innovation, creating a cultural enrichment within the different professional figures. We point out among the most significant:

- University of Bergamo: cultural exchange with the university students of the master in international Marketing;
- Bocconi University of Milan: for a seminar with foreign entrepreneurs and managers to increase and activate a cultural exchange of market/product approaches.

Industrial relations and social dialogue

During 2014, the dialogue and discussion with the trade-union organisations and workers' representatives continued with the aim of finding shared solutions to meet the different market situations and manage the impact on workers of the measures taken to deal with the difficult situation of the European market, which remains particularly critical in Italy.
Company and trade-union organisations shared also slight drops in production, always finding solutions that would allow to limit the decrease in employment, ensuring the purchasing power of human resources, also through temporary secondment within the Italian factories of Tesmec.

Tesmec, with the expiry of the previous integration platform that implied important results within the rationalisation of production processes, streamlining of productions and, in particular, through an evaluation process of individual performances, undertook at the end of 2014 new industrial relations thanks to which the trade-union organisations will be directed at the end towards the strategic choices of Tesmec.
The Tesmec group, thanks to the stimulus from the management, will ensure any form of investment on the product and on human resources, with the common goal of developing a system of industrial relations that creates conditions of competitiveness and productivity such as to strengthen the Tesmec system in the world.
During the acceleration of the review processes of the integration platform, Tesmec will deal with a different industrial relation model that allows to strengthen and develop the overall industrial capacity of the Italian Sites of TESMEC SPA, ensuring a consolidation and, at the same time, an expansion of the missions and excellences of individual Factories and business areas.

The policy of Tesmec intends to define methods and tools for pursuing and achieving objectives of improvement of productivity, efficiency and company well-being, by reconciling the reasons of the companies and of the persons who work for them, through the Flexible Benefit project (flexible welfare solutions, from health to well-being, leisure time, education) which must limit the fixed costs by keeping the purchasing power of the employees of Tesmec high and competitive.

Company welfare and reconciling life and work

Tesmec has a consolidated tradition aimed at the well-being of its employees. This focus was even more developed over the last few years and, as a result, the Group became aware of the social responsibility function related to the presence on the territory as well as its importance as a factor complementary to the retention and loyalty developing policies of human resources, and of those most qualified, in particular.
In the course of time, the welfare policies applied developed and are aimed at achieving the following objectives:

- increase motivation and sense of belonging;
- improve labour productivity;
- introduce, in a more and more extended manner, alternative and more effective forms of remuneration, which also enable to benefit from tax reliefs provided by law.

Then, as a result of the macro-economic situation recorded in recent years, the Tesmec Group wanted to be close to its employees, by further developing the specific benefits related to private life and the real benefits related to household economy.

- The Group contemplates household support with ad hoc agreements in terms of banking and with soft loans for training requirements, education for family members.
- In 2014, Tesmec supported the investments of its families in terms of education to the children of employees, by offering scholarships in the form of financial rewards from Euro 300 to Euro 1500, based on an internal selection competition that rewards excellence at high school up to university.

Health, safety and environment

Tesmec S.p.A. considers the protection of the workers' health and safety and the protection of the environment of fundamental importance and pursues these goals in compliance with all current specific regulations, as well as with the structuring of a service inside each factory that manages and controls the subjects at issue.
The involvement of all employees, increased awareness and the dissemination of the “safety culture” are considered decisive aspects for the achievement of the objectives of protection of the workers. Training is considered an important instrument and it is planned according to a precise timetable, based on strict technical standards and in compliance with the Italian State-Region Conference of 21/12/2011 implementing Article 37 of Italian Legislative Decree 81/2008.

During 2014, the resources of the Environment and Safety division were further enhanced. This allowed to increase the efficiency and timeliness of the operational control on issues of specific skills (set according to a specific procedure) and an improved scheduling and implementation of upgrading projects.
The search for the solutions to be implemented to eliminate or reduce risks is shared with the business functions that must implement these specific measures to ensure their acceptance by the workers and the efficiency in their application.
During 2014, the significant indicators of occupational safety and health were monitored with statistical trend analyses, by showing the substantial and important consolidation of results achieved in the previous year.
A precise system of proxies on environment and safety was adopted and assigned to the operating managers of the locations, who were informed through specific courses relating to Italian Legislative Decree 81/2008 for ASPPs or for managers.
In doing so, a greater involvement was achieved by the persons appointed to work organisation, with a priority consideration of the aspects of environmental protection and occupational safety and health compared to the aspects of production.
There remains a great deal of attention in assessing beforehand all possible sources of risk to the health and safety of workers, also by monitoring at regular intervals inside the working environments, whose results show the compliance with regulatory standards.
With regard to issues relating to social and local responsibility, the company is committed to maintaining a high level of safety and environmental protection.
The current Organisational Model (Italian Legislative Decree 231/2001), complete with the part relating to offences in violation of accident-prevention regulations, is implemented also with regard to environmental crimes and is kept updated.

10. Related party transactions

The Tesmec Group maintains related party transactions especially with respect to entities controlled by persons who in Tesmec S.p.A. mainly carry out management functions for what concerns real-estate transactions (rental of premises serving as means to production) and to a lesser extent for commercial activities. Commercial relations were mainly exercised with regard to the two companies in JV (Condux Tesmec and Tesmec Peninsula) with which transactions are regulated by special supply contracts at market conditions and agreed with the partner.

Significant related-party transactions.

During the 2014 financial period, no significant related-party transaction was carried out. For the supplemental information requested by CONSOB Communication No. 6064293 of 28 July 2006 on related-party transactions, refer to note 38 of the consolidated financial statements of the Tesmec Group and to note 34 of the financial statements of the Parent Company.

11. Parent company management performance

The management performance of the Parent Company substantially reflects the performance previously commented at the consolidated level considering its weight on the total consolidated financial statements of the Group. For these reasons, the most important quantities relating to the financial statements of the Parent Company are stated below, referring to the comments on management carried out at the consolidated financial statement level.

Income statement

The income statement of the Parent Company in 2014 compared with that of the prior financial period is summarised below:

	Financial period ended 31 December			
(Euro in thousands)	2014	% of revenues	2013	% of revenues
Revenues from sales and services	88,225	100.0%	94,734	100.0%
Cost of raw materials and consumables	(44,376)	-50.3%	(48,225)	-50.9%
Cost of services	(14,936)	-16.9%	(16,923)	-17.9%
Payroll costs	(16,687)	-18.9%	(16,142)	-17.0%
Other operating (costs)/ revenues, net	(252)	-0.3%	(404)	-0.4%
Depreciation and amortisation	(5,047)	-5.7%	(5,192)	-5.5%
Development costs capitalised	2,992	3.4%	2,648	2.8%
Total operating costs	(78,306)	-88.8%	(84,238)	-88.9%
Operating income	9,919	11.2%	10,496	11.1%
Financial expenses	(5,935)	-6.7%	(5,975)	-6.3%
Financial income	5,637	6.4%	2,391	2.5%
Pre-tax profit	9,621	10.9%	6,912	7.3%
Income tax	(3,343)	-3.8%	(3,033)	-3.2%
Net profit for the period	6,278	7.1%	3,879	4.1%

Revenues from *product sales* refer to income deriving from the transfer of stringing machines and equipment and trenchers. These revenues decreased by 6.9% and mainly reflect the performance of the Stringing equipment segment already commented previously.

The table below illustrates the performance of EBITDA that decreased by 4.6% compared to that of the previous financial year mainly as a result of lower volumes of sales but also due to the different sales mix that reflect a proportionally greater weight of the Trenchers segment with lower margins.

	Financial period ended 31 December				
(Euro in thousands)	2014	% of revenues	2013	% of revenues	2014 vs. 2013
Operating income	9,919	11.2%	10,496	11.1%	(577)
+ Depreciation and amortisation	5,047	5.7%	5,192	5.5%	(145)
EBITDA	14,966	17.0%	15,688	16.6%	(722)

(*) The EBITDA is represented by the operating income gross of amortisation/depreciation. The EBITDA thus defined represents a measurement used by Company management to monitor and assess the company's operating performance. EBITDA is not recognised as a measure of performance by the IFRS and therefore is not to be considered an alternative measurement for assessing the performance of the Group's operating income. As the composition of EBITDA is not governed by the reference accounting standards, the criterion for determination applied by the Group may not be in line with the criterion adopted by others and is therefore not comparable.

Operating profit

Operating Profit equal to Euro 9,919 thousand in 2014, decreased by 5.5% compared to 2013 as a result of the trends already described in the comment on Ebitda and of additional amortisation related to investments in research and development of the current year.

Net income

Results for the period amounted to Euro 6,278 thousand (Euro 3,879 thousand in 2013) after deducting taxes totalling Euro 3,343 thousand (Euro 3,033 thousand in 2013).
The decrease in the percentage weight of income taxes when comparing with the previous year is mainly attributable to the exemption from IRES (by 95%) of increased dividends collected during the year of Euro 943 thousand (Euro 1 thousand in 2013) and to the relevant increase in financial income, which are not subject to IRAP.

Balance sheet and financial profile

The financial position of the Company as at 31 December 2014 compared to 31 December 2013 is briefly shown below.

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
USES		
Net working capital (1)	25,881	32,424
Fixed assets	65,675	65,067
Other long-term assets and liabilities	(1,838)	(738)
Net invested capital (2)	89,718	96,753
SOURCES		
Net financial indebtedness (3)	46,539	57,789
Shareholders' equity	43,179	38,964
Total sources of funding	89,718	96,753

(1) The net working capital is calculated as current assets net of current liabilities excluding financial assets and financial liabilities. Net working capital is not recognised as a measure of performance by the IFRS. The valuation criteria applied by the Company may not necessarily be the same as those adopted by other groups and therefore the balance obtained by the Company may not necessarily be comparable therewith.
(2) The net invested capital is calculated as net working capital plus fixed assets and other non-current assets less non-current liabilities. The net invested capital is not recognised as a measure of performance under IFRS. The valuation criteria applied by the Company may not necessarily be the same as those adopted by other groups and therefore the balance obtained by the Company may not necessarily be comparable therewith.
(3) The net financial indebtedness is calculated as the sum of cash and cash equivalents, current financial assets including available–for–sale securities, non-current financial liabilities, fair value of hedging instruments and other non-current financial assets.

Working capital

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Trade receivables	31,045	32,722
Inventories	29,840	28,364
Trade payables	(26,471)	(22,609)
Other current assets/(liabilities)	(8,533)	(6,053)
Net working capital (1)	25,881	32,424

(1) The net working capital is calculated as current assets net of current liabilities excluding financial assets and financial liabilities. Net working capital is not recognised as a measure of performance by the IFRS. The valuation criteria applied by the Company may not necessarily be the same as those adopted by other groups and therefore the balance obtained by the Company may not necessarily be comparable therewith.

The Working capital compared to net revenues decreased from 34.2% reported in 2013 to 29.4% in 2014. This result was affected by the reduction in revenues in the presence of an increase in inventory of approximately Euro 1 million. The increase in trade receivables that decreased by Euro 1,677 thousand is offset by the increase in trade payables of Euro 3,862 thousand.

Net fixed assets

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Intangible assets	5,859	5,787
Property, plant and equipment	32,140	32,750
Equity investments in subsidiaries	24,235	23,090
Equity investments in associates	3,438	3,437
Other equity investments	3	3
Fixed assets	65,675	65,067

The increase in equity investments in subsidiaries is due to conversion of the total sum of Euro 1,145 thousand of financial receivables increasing the equity investment (East Trenchers S.r.l. and Tesmec Service S.r.l.) in that considered non-repayable amounts following the start-up.

Indebtedness

	31 December			
(Euro in thousands)	2014	*of which with related parties and group*	2013	*of which with related parties and group*
Cash and cash equivalents	(14,316)		(9,618)	
Current financial assets (1)	(28,543)	*(28,312)*	(20,046)	*(19,825)*
Current financial liabilities	30,922	*1,100*	37,146	*1,628*
Current portion of derivative financial instruments	-		-	
Current financial indebtedness (2)	**(11,937)**	***(27,212)***	**7,482**	***(18,197)***
Non-current financial liabilities	58,016	*15,954*	49,764	*17,054*
Non-current portion of derivative financial instruments	460		543	
Non-current financial indebtedness (2)	**58,476**	***15,954***	**50,307**	***17,054***
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	***46,539***	***(2,086)***	***57,789***	***(1,143)***

(1) Current financial assets as at 31 December 2014 and 31 December 2013 include the market value of shares and warrants, which are therefore considered cash and cash equivalents.
(2) Current and non-current financial indebtedness is not identified as an accounting element by the IFRS. The valuation criteria applied by the Group may not necessarily be the same as those adopted by other groups and therefore not necessarily comparable therewith.

Indebtedness stood at Euro 46,539 thousand as at 31 December 2014 compared to Euro 57,789 thousand as at 31 December 2013 in line with the trend of working capital and of cash flow generated by the current management.
Medium to long-term sources represent as at 31 December 2014 125.6% of total net indebtedness, up compared to 87.1% of 31 December 2013; the increase is attributable for Euro 15 million to the bond issue admitted to trading on the Extra MOT PRO market on 8 April 2014, with a seven year term and a fixed gross interest rate of 6% and an annual delayed coupon.

Shareholders' Equity

For comments regarding Shareholders' equity, refer to what is already described at consolidated level.

12. Corporate governance and self-regulatory code of conduct

The Tesmec Group conforms to the self-regulatory code of conduct of listed companies approved in March 2006 (amended in March 2010, December 2011 and July 2014) by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., with additions and adjustments resulting from the characteristics of the Group.
The "Report on corporate governance and ownership structures" contains a general description of the corporate governance system adopted by the Group and shows the information on ownership structure and compliance to the self-regulatory code of conduct, including the main governance practices applied and the characteristics of the system of risk management and internal audit in relation to the process of financial reporting. The aforesaid Report is enclosed with the financial statements and subject to the same advertising terms provided for the financial statements, and it is available on the following website www.tesmec.com, in the Investors/Governance section.
For the information relating to corporate offices covered by the directors of the Company, we make reference to what is reported in the Corporate Governance Manual. For the Board of the Statutory Auditors, the complete and updated list of the corporate offices is published by CONSOB on its website, pursuant to Article 144- quinquiesdecies of the Issuer Regulation.

13. Places where the Company operates

The places in which Tesmec S.p.A. carries on its activity are listed below:

- Milano (MI): Piazza Sant'Ambrogio 16 (Registered office)
- Grassobbio (BG): Via Zanica 17/O (administrative offices and factory)
- Endine Gaiano (BG): Via Pertegalli 2 (factory)
- Sirone (LC): Via Don Brambilla 26/28 (factory)

14. Significant events occurred after the close of the financial period

On the date of this report, the Company holds a total of 2,596,321 treasury shares, equal to 2,42% of the Share Capital.

The Board of Director evaluated and authorized the prosecution of the negotiation for the acquisition of a French Group, operating in the field of trenching services, that has an integrated and complemantary activity to the one of Tesmec.

15. Business outlook

The macroeconomic framework for the Eurozone with:

- strengthening of the US dollar and all major currencies of emerging countries on the wake of the positive trend in the American economy;
- low interest rates for the start of the expansionary monetary policies of the ECB;
- low production costs favoured by the lower cost of energy

is more favourable than ever for a Group that as Tesmec invested in the strengthening of its product range and in the raising of its technological contents.
The forecast for 2015 is to increase revenues and to improve margins and cash flow thanks also to external variables already commented.
The rise in average values of ongoing negotiations could affect significantly the performance reported on a quarterly basis.

16. Other information

Management and co-ordination activities

Tesmec S.p.A. is controlled pursuant to Article 93 of the Consolidated Law on Finance (T.U.F.) by TTC S.r.l., holding company.
TTC S.r.l. does not carry out the management and coordination activity on the Company pursuant to Article 2497-*sexies* Italian Civil Code. TTC S.r.l. is a holding that performs the mere management function of the equity investments without carrying out management and co-ordination activities towards the subsidiaries.

Management and co-ordination activities by Tesmec S.p.A.

Tesmec S.p.A. carries out management and co-ordination activities, pursuant to Articles 2497 et seq of the Italian Civil Code, towards Tesmec Service S.r.l., East Trenchers S.r.l. and SGE S.r.l.; this management and co-ordination activity consists in the preparation of directives, procedures and guidelines of the Group.

Treasury shares and shares of parent companies

On 30 April 2014, the Shareholders' Meeting authorised the treasury share buy-back plan; the authorisation was granted for a period of 18 months; the authorisation of 30 April 2014 replaces the last authorisation resolved by the Shareholders' Meeting on 30 April 2013 and expiring in October 2014.
The plan set the maximum quantity as 10% of Share Capital; from the launch of the buy-back plan resolved on 10 January 2012 (and renewed on 30 April 2014) to the date of the period covered by this report, 31 December 2014, a total of 2,361,454 shares (2.21% of Share Capital) have been purchased at an average price of Euro 0.4767 (net of commission) for a total equivalent value of Euro 1,126 thousand.

Equity investments held by directors and statutory auditors

Pursuant to the 11971/99 CONSOB Regulation, equity investments held by directors and statutory auditors in Tesmec and in its subsidiaries are recorded, according to diagram 3) provided in enclosure 3C) of the regulation above:

Tesmec Shares held by directors and statutory auditors

Board of Directors

Name	Shareholding	Role	Number of shares held at the beginning of the 2014 financial period	Number of shares purchased	Number of shares sold	Number of shares held at the end of the 2014 financial period
Alfredo Brignoli	Direct	Vice Chairman	50,000	-	-	50,000
Ambrogio Caccia Dominioni	Direct	Chairman and Managing Director	125,800	-	-	125,800
Gianluca Bolelli	Direct	Vice Chairman	109,000	15,000	-	124,000
Leonardo Giuseppe Marseglia	Indirect (*)	Board member	5,714,000	-	-	5,714,000

(*) Shares are held by Italiana Alimenti S.p.A., Italian company.

Italian Legislative Decree 231/01

The Company adopted an Organisational Model aimed at ensuring fair and transparent conditions in running the company business, to protect all holders of interest of the Company, tailored on the specificness of Tesmec S.p.A.
The Supervisory Body consists of Lorenzo G. Pascali, as Chairman, Maurizio Brigatti and Stefano Chirico, Statutory auditor of the Company.
On 21 February 2014, the Board of Directors of the Company approved the Organisational, Management and Control Model updated in accordance with the measure related to Article 25 duodecies of Italian Legislative Decree 231/2001, concerning the employment of third-country nationals with unlawful residence permit, and with the regulations on private bribery (Article 25- ter of Italian Legislative Decree 231/2001).

Information on Significant Companies outside the EU

Tesmec S.p.A., parent company, controls a single company (Tesmec USA, Inc.)that can be considered "Significant Company outside the EU" as defined by Consob Resolution no. 16191/2007, as amended.
With reference to these companies, it should be noted that:

- all the companies draw up an accounting statement for the purposes of preparing the financial statements; the balance sheet and the income statement of the said companies are made available to the shareholders of Tesmec S.p.A. within the terms provided for by the regulations on the matter;
- Tesmec S.p.A. acquired the articles of association as well as the composition and powers of the corporate bodies;
- the Significant Companies outside the EU: i) provide the accounting auditor of the parent company with the information required for carrying out the auditing of annual and interim accounts of the parent company; ii) they have an administrative and accounting system fit for submitting on a regular basis the economic and financial data required for preparing the consolidated financial statements to the management, supervisory body and the accounting auditor of the parent company.

The Control and Risk Committee of Tesmec S.p.A., in order to fulfil its regulatory obligations, checked the adequacy of the administrative and accounting system for submitting on a regular basis the economic and financial data required for preparing the consolidated financial statements to the management and to the accounting auditor of Tesmec S.p.A., and the effectiveness of the information flow through meetings both with the accounting auditor and with the Manager responsible for preparing the financial statements.

DRAFT RESOLUTION OF ALLOCATION OF PROFIT OR LOSS FOR THE PERIOD

Report of the Board of Directors of TESMEC S.p.A., drawn up pursuant to Articles 125-*ter* of Italian Legislative Decree no. 58 of 24 February 1998 ("TUF"), and 84-*ter* of the Regulation adopted with Consob Resolution no. 11971 of 14 May 1999, as subsequently amended and supplemented ("Issuers' Regulation").

Dear Shareholders,

This report shows the draft resolutions that the Board of Directors of TESMEC S.p.A. (hereinafter referred to as "**TESMEC**" or the "**Company**") intends to submit for your approval in relation to the points on the agenda of the ordinary shareholders' meeting that will be held on 30 April 2015, 10.30 am, in single call at TESMEC headquarters in Via Zanica 17/O, Grassobbio (BG).

1. **Approval of the financial statements as at 31 December 2014 and relevant reports; allocation of result for the period. Related and consequent resolutions.**

Dear Shareholders,

The Company, within the term established by Article 154-ter of the TUF, must publish the annual financial statements comprising the draft financial statements, the consolidated financial statements, the directors' report and the certification set forth in Article 154-*bis*, paragraph 5 of the TUF. The audit reports prepared by the independent auditors as well as the reports indicated in Article 153 of the TUF are made fully available to the public together with the annual financial statements.

The draft financial statements were approved by the Board of Directors of the Company on 12 March 2015.

The directors' report will be made available to the public, together with the draft financial statements of TESMEC as at 31 December 2014, the consolidated financial statements of the TESMEC Group as at 31 December 2014, the certification of the Manager responsible for preparing the Company's financial reports, the report of the Board of Statutory Auditors and the Independent Auditors' Report, at the registered office and Borsa Italiana S.p.A., as well as on the website of the Company: www.tesmec.com and in accordance with to the other modalities prescribed by Consob within the terms provided by the regulations in force (i.e. at least 21 days before the date of the Shareholders' Meeting in first call).

For a complete information on the subject in hand, reference is made to the Directors' Report and to the additional documents made available to the public, within the timeframe prescribed by the law, at the registered office and Borsa Italiana S.p.A., as well as on the website www.tesmec.com (Investors) and in accordance with to the other modalities prescribed by Consob.

You are invited to approve the financial statements as at 31 December 2014 of TESMEC that ended with a profit of Euro 6,277,766.

With reference to the results achieved, the Board of Directors proposes that you resolve:

- the allocation of the profit for the year of Euro 6,277,766 as follows:

  - Euro 137,137 to legal reserve, pursuant to Article 2430 of the Italian Civil Code;

  the remaining import of Euro 6.140.629 as follow:

  - allocate a dividend of Euro 0.023 to each outstanding ordinary share on the ex-dividend date;
  - assign to the extraordinary reserve the amount of profit remaining after the allocation to the legal reserve and of the dividend;

- the payment of the dividend on 27 May 2015 (with ex-dividend date 25 May 2015, in compliance with the Borsa Italiana calendar, with record date 26 May 2015).

Grassobbio, March 30, 2015

TESMEC S.p.A.
The Chairman of the Board of Directors
Ambrogio Caccia Dominioni

CONSOLIDATED FINANCIAL STATEMENTS OF THE TESMEC GROUP

Consolidated statement of financial position

(Euro in thousands)	Notes	31 December 2014	2013 restated*
NON-CURRENT ASSETS			
Intangible assets	5	12,372	10,214
Property, plant and equipment	6	48,116	43,163
Equity investments valued using the equity method	7	4,792	4,099
Other equity investments	8	3	3
Financial receivables and other non-current financial assets	9	274	19
Derivative financial instruments	20	16	-
Deferred tax assets	27	3,374	4,110
Non-current trade receivables		546	844
TOTAL NON-CURRENT ASSETS		69,493	62,452
CURRENT ASSETS			
Work in progress contracts	10	5,249	-
Inventories	11	55,390	46,614
Trade receivables	12	41,297	43,190
of which with related parties:		*6,570*	*7,394*
Tax receivables	13	489	423
Other available-for-sale securities	14	125	125
Financial receivables and other current financial assets	15	6,673	9,407
of which with related parties:		*6,552*	*8,447*
Other current assets	16	2,491	1,437
Cash and cash equivalents	17	18,665	13,778
TOTAL CURRENT ASSETS		130,379	114,974
TOTAL ASSETS		199,872	177,426
SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS			
Share capital	18	10,708	10,708
Reserves	18	32,547	26,695
Group net profit / (loss)	18	4,909	4,384
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS		48,164	41,787
Minority interest in capital and reserves		13	20
Net profit / (loss) for the period attributable to non-controlling interests		(4)	(12)
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		9	8
TOTAL SHAREHOLDERS' EQUITY		48,173	41,795
NON-CURRENT LIABILITIES			
Medium-long term loans	19	61,861	53,505
of which with related parties:		*15,954*	*17,054*
Derivative financial instruments	20	460	543
Employee benefit liability	21	3,016	2,705
Provisions for risks and charges		39	25
Deferred tax liabilities	27	2,892	1,830
TOTAL NON-CURRENT LIABILITIES		68,268	58,608
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	22	36,506	38,082
of which with related parties:		*1,100*	*995*
Trade payables	23	34,179	25,529
of which with related parties:		*8*	*905*
Advances from contractors	10	-	3,569
Advances from customers		5,705	5,058
Income taxes payable	24	1,003	2,160
Provisions for risks and charges	25	1,040	2,222
Other current liabilities	26	4,998	4,343
TOTAL CURRENT LIABILITIES		83,431	77,023
TOTAL LIABILITIES		151,699	135,631
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		199,872	177,426

(*) Some amounts shown in this column do not correspond to those shown in the 2013 financial statements, in that they reflect the adjustments carried out as specified in Note 2.2.

Consolidated Income statement

(Euro in thousands)	Notes	Financial period ended 31 December 2014	2013
Revenues from sales and services	28	114,895	113,549
of which with related parties:		*9,192*	*14,925*
Cost of raw materials and consumables	29	(55,536)	(54,765)
of which with related parties:		*(1,045)*	*(1,192)*
Cost of services	30	(19,005)	(19,897)
of which with related parties:		*(5)*	*(404)*
Payroll costs	31	(26,053)	(22,698)
Other operating (costs)/ revenues, net	32	(2,527)	(1,989)
of which with related parties:		*24*	*(587)*
Depreciation and amortisation	33	(7,876)	(6,979)
Development costs capitalised	34	5,633	4,900
Portion of gains/(losses) from the valuation of Joint Ventures using the equity method		916	374
Total operating costs		(104,448)	(101,054)
Operating income		10,447	12,495
Financial expenses	35	(6,662)	(6,643)
of which with related parties:		*(1,291)*	*(1,215)*
Financial income	36	4,570	2,002
of which with related parties:		*152*	*107*
Portion of gains/(losses) from associated companies evaluated using the equity method		(34)	(10)
Pre-tax profit		8,321	7,844
Income tax	27	(3,416)	(3,472)
Net profit for the period		4,905	4,372
Profit / (loss) attributable to non-controlling interests		(4)	(12)
Group profit (loss)		4,909	4,384
Basic and diluted earnings per share		0.045	0.040

Consolidated statement of comprehensive income

		Financial period ended 31 December	
(Euro in thousands)	Notes	2014	2013
NET PROFIT FOR THE PERIOD		4,905	4,372
Other components of comprehensive income:			
Other components of comprehensive income that will be subsequently reclassified to net income/(loss) for the year:			
Exchange differences on conversion of foreign financial statements	6	3,569	(1,121)
Other components of comprehensive income that will not be subsequently reclassified to net income/(loss) for the year:			
Actuarial profit (loss) on defined benefit plans		(238)	(5)
Income tax		67	3
	6	(171)	(2)
Total other income/(losses) after tax		3,398	(1,123)
Total comprehensive income (loss) after tax		8,303	3,249
Attributable to:			
Shareholders of the Parent Company		8,307	3,261
Minority interests		(4)	(12)

Statement of consolidated cash flows

		Financial period ended 31 December	
(Euro in thousands)	Notes	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		4,905	4,372
Adjustments to reconcile net income for the period with the cash flows generated by (used in) operating activities:			
Depreciation and amortisation	33	7,876	6,979
Provisions for employee benefit liability	21	154	141
Provisions for risks and charges / inventory obsolescence / doubtful accounts		1,142	1,977
Employee benefit payments	21	(78)	(107)
Payments of provisions for risks and charges		(1,216)	(286)
Net change in deferred tax assets and liabilities	27	1,354	(509)
Change in fair value of financial instruments	20	(99)	(270)
Change in current assets and liabilities:			
Trade receivables	12	2,259	2,512
Inventories	11	(10,122)	(4,895)
Trade payables	23	8,086	(6,131)
Other current assets and liabilities		(1,408)	1,246
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		12,853	5,029
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	7	(12,297)	(11,464)
Investments in intangible assets	6	(6,494)	(6,490)
(Investments) / disposal of financial assets		2,194	(4,718)
Proceeds from sale of property, plant and equipment and intangible assets	6-7	5,856	4,395
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		(10,741)	(18,277)
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	19	20,967	19,296
Repayment of medium/long- term loans	19	(14,020)	(13,316)
Net change in short-term financial debt	19	(2,532)	8,251
Purchase of treasury shares		(248)	(384)
Dividend distribution	18	(1,682)	(3,690)
Change in the consolidation area		5	(32)
NET CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES (C)		2,490	10,125
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		4,602	(3,123)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		285	(243)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	17	13,778	17,144
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		18,665	13,778
Additional information:			
Interest paid		3,860	2,936
Income tax paid		2,330	2,738

Statement of changes in consolidated shareholders' equity

(Euro in thousands)	Share capital	Legal reserve	Share premium reserve	Reserve of Treasury Shares	Translation reserve	Other reserves	Profit for the period	Total Shareholders' Equity Attributable to Parent Company Shareholders	Total Shareholders' Equity Attributable to Non-Controlling Interests	Total Shareholders' Equity
Balance as at 1 January 2013	10,708	1,502	10,915	(466)	(334)	12,313	8,307	42,945	-	42,945
Profit for the period	-	-	-	-	-	-	4,384	4,384	(12)	4,372
Other profits / (losses)	-	-	-	-	(1,121)	(2)	-	(1,123)	-	(1,123)
Total comprehensive income / (loss)								3,261	(12)	3,249
Allocation of profit for the period	-	308	-	57	-	3,951	(4,316)	-	-	-
Dividend distribution	-	-	-		-	-	(3,690)	(3,690)	-	(3,690)
Increase in share capital and share premium reserve	-	-	-	(384)	-	-	-	(384)	-	(384)
Change in the consolidation area	-	-	-	-	-	(44)	-	(44)	20	(24)
Distribution for Network Reserve	-	-	-	-	-	-	(301)	(301)	-	(301)
Balance as at 31 December 2013	10,708	1,810	10,915	(793)	(1,455)	16,218	4,384	41,787	8	41,795
Profit for the period	-	-	-	-	-	-	4,909	4,909	(4)	4,905
Other profits / (losses)	-	-	-	-	3,569	(171)	-	3,398	-	3,398
Total comprehensive income / (loss)								8,307	(4)	8,303
Allocation of profit for the period	-	194	-	31	-	2,477	(2,702)	-	-	-
Dividend distribution	-	-	-		-	-	(1,682)	(1,682)	-	(1,682)
Purchase of treasury shares	-	-	-	(248)	-	-	-	(248)	-	(248)
Change in the consolidation area	-	-	-	-	-	-	-	-	5	5
Balance as at 31 December 2014	10,708	2,004	10,915	(1,010)	2,114	18,524	4,909	48,164	9	48,173

Explanatory notes

Accounting policies adopted in preparing the consolidated financial statements as at 31 December 2014

1. Company information

The Parent Company Tesmec S.p.A. (hereinafter "Parent Company" or "Tesmec") is a legal entity organised in accordance with the legal system of the Italian Republic. The ordinary shares of Tesmec are listed on the MTA STAR Segment of the Milan Stock Exchange since 1 July 2010. The registered office of the Tesmec Group (hereinafter "Group" or "Tesmec Group") is in Milan, Piazza S. Ambrogio 16.

The publication of Tesmec's consolidated financial statements for the period ended as at 31 December 2014 was authorised by means of the resolution of the Board of Directors on 12 March 2015.

2. Reporting standards

The consolidated financial statements of the Tesmec Group as at 31 December 2014 comprise the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated cash-flow statement, statement of changes in consolidated shareholders' equity and the related explanatory notes. These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and approved by the European Union according to the text published on the Official Journal of the European Communities (OJEC) and in effect as at 31 December 2014 and on the basis of the provisions issued in implementation of Article 9 of Italian Legislative Decree no. 38/2005. These IFRS principles also include all revised international accounting standards (called "IAS") and all interpretations of the *International Financial Reporting Interpretation Committee ("IFRIC"), previously called Standing Interpretations Committee* ("SIC").

The reference accounting standards adopted in the current yearly consolidated financial statements are consistent with those used for preparing the yearly consolidated financial statements of the Group for the period ended as at 31 December 2013, also prepared according to the international accounting standards, with the exception of the principles and interpretations of new application, explained in note 3.2.

The financial statements and relevant explanatory notes are presented in Euro and all values are rounded to the nearest thousand, unless otherwise indicated.

Business continuity

The Company considered that there are no significant uncertainties on the principle of going-concern, even in the light of the economic and financial soundness of the Parent Company and of the Group.

2.1 Adopted financial statement reporting formats

In compliance with the provisions of Consob resolution no. 15519 of 27 July 2006, information on the adopted financial statement reporting format compared to what is stated in IAS 1 are indicated below for the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated shareholders' equity as well as the method used for representing the financial flows in the statement of consolidated cash-flows compared to those specified in IAS 7:

- in the consolidated income statement, it was decided to present a cost analysis by using a classification based on their nature;
- the statement of comprehensive income includes the result for the period and, by homogenous categories, the income and expenses that, under IFRS, are recognised directly in shareholders' equity;
- In the consolidated statement of financial position, it was decided to represent current and non-current assets and current and non-current liabilities classified separately, in accordance with IAS 1;
- the statement of changes in consolidated shareholders' equity occurred during the period are represented through a table that reconciles the opening and closing balances of each item of the Group shareholders' equity;
- the statement of consolidated cash flows represents the financial flows by dividing them into operating, investing and financing activities. In particular, financial flows from operating activities are represented, in accordance with IAS 7, using the indirect method, whereby net profit or loss for the year is adjusted by the effects of non-monetary transactions, by any deferral or provision of prior or future operating receipts or payments, and by revenue or cost elements connected with financial flows from investing or financing activities.

It should be noted that, in accordance with the above-mentioned resolution, the amounts of the positions or transactions with related parties and (positive and/or negative) income components resulting from non-current events or operations, i.e. from operations or facts that do not recur with frequency in the usual course of business were not reported under specific sub-items, in case of significant amounts, in the consolidated statement of financial position, consolidated income statement and statement of consolidated cash flows.

2.2 Restatement of the figures of the previous financial year

To better represent the financial statement contents, the Group, as from the 2014 financial period, reclassified the effects of construction contracts in the specific items of the Balance Sheet of "Work in progress contracts" and "Advances from contractors".
For a better comparison of the financial statement figures, the aforementioned classification was also applied with reference to the previous year (2013).

The table below summarises the effects on the consolidated statement of financial position:

	31 December	
(Euro in thousands)	2014	2013
Work in progress (Gross)	8,211	-
Advances from contractors	(2,962)	-
Work in progress contracts	5,249	-
Advances from contractors (Gross)	-	2,607
Work in progress (Gross)	-	(1,489)
Advances from contractors	-	1,118

As in 2014 the value of work in progress contracts in excess of the related advances paid by contractors, the net balance is included under work in progress contracts, while in 2013 in the presence of advance payments exceed the value of work in progress contracts, the net balance has been reclassified to Advances from contractors.

2.3 Consolidation methods and area

The consolidated financial statements are prepared on the basis of the draft financial statements approved by the Boards of Directors. The financial statements of subsidiaries are prepared using the same accounting policies of the parent company. Subsidiaries are fully consolidated from the date of acquisition, i.e. from the date on which the Group acquires the control, and they are no longer consolidated on the date on which the control is transferred outside the Group.
All balances and intragroup transactions, including any unrealised gains and losses arising from relations between companies of the Tesmec Group are completely written off.
Acquisitions of subsidiaries are recorded in accordance with the purchase method that involves the allocation of costs of the business combination at fair values of assets, liabilities and contingent liabilities acquired at the date of acquisition and the entry of the results of the acquired Company from the date of acquisition until the close of the financial period.
Non-controlling interests represent the portion of the profit or loss and equity related to net assets not held by the Group and are shown in a separate item of the consolidated income statement, of the consolidated statement of comprehensive income and of the consolidated statement of financial position, separately from profit and equity attributable to Group shareholders.
Associated companies are those in which the Group holds at least 20% of the voting rights or exercises a significant influence, but not control or joint control, on financial and operating policies. Equity investments in associated companies are evaluated using the equity method. Profit or loss attributable to parent company shareholders is recognised in the consolidated financial statements from the date on which the significant influence began and until the date on which it ceases.
Joint ventures are defined in accordance with IAS 31 as a contractual agreement whereby two or more parties undertake an economic activity subject to joint control. The equity investments acquired or sold during the financial period are consolidated for the period in which the joint control was exercised.

On 31 December 2014, the consolidated area changed with respect to that as at 31 December 2013:

On 30 September 2014, the company Tesmec New Technology (Beijing) Ltd. was set up with registered office in Beijing (China). The company will be operational in the all businesses of the Group, and represents a natural development of the Group's activities in the Country where until now the presence consisted in a representative office;

SUBSIDIARIES (full consolidation method, by making clear the portion of non-controlling interests)					
				Percentage held	
Name	Registered office	Currency	Share capital Currency unit	Directly	Indirectly
TESMEC USA	Alvarado (Texas)	US Dollar	31,200,000	100.0%	-
TESMEC Service	Zanica (BG) - Italy	Euro	100,000	100.0%	-
TESMEC Balkani	Plovdiv (Bulgaria)	Bulgarian Lev	50,000	100.0%	-
TESMEC SA	Edenvale (South Africa)	South African Rand	510	100.0%	-
SGE	Zanica (BG) - Italy	Euro	10,000	100.0%	-
East Trenchers	Pordenone - Italy	Euro	100,000	91.2%	-
TESMEC FRANCE	Lyon (France)	Euro	300,000	100.0%	-
OOO TESMEC RUS	Moscow (Russia)	Russian Rouble	450,000	100.0%	-
Tesmec New Technology Beijing	Beijing	Euro	200,000	100.0%	-

ASSOCIATED COMPANIES (consolidated with the equity method)					
				Percentage held	
Name	Registered office	Currency	Share capital Currency unit	Directly	Indirectly
Locavert SA	Bouillargues (France)	Euro	403,735	39.0%	-
Bertel	Milan - Italy	Euro	500,000	40.0%	-

JOINT VENTURES (consolidated with the equity method)					
				Percentage held	
Name	Registered office	Currency	Share capital Currency unit	Directly	Indirectly
Condux Tesmec Inc	Mankato (Minnesota)	US Dollar	2,500,000	50.0%	-
Tesmec Peninsula	Doha (Qatar)	Qatar Riyal	7,300,000	49.0%	-

The associated company, Locavert SA, closes its company financial period as at 30 June of each year. Financial statements used for evaluating the equity investment in accordance with the equity method refer to the most recent available interim closing of accounts.

The financial statements were modified, if necessary, in order to make them consistent with the accounting policies of the Group, which are in accordance with the IFRS adopted by the European Union.

Translation of foreign currency financial statements and of foreign currency items

The consolidated financial statements are presented in Euro, which is the functional and presentation currency adopted by the Company. Each company of the Group defines its functional currency, which is used to evaluate the items included in each financial statement. Foreign currency transactions are initially recognised using the exchange rate (referring to the functional currency) which is applicable on the transaction date. Monetary assets and liabilities in foreign currency are reconverted in the functional currency at the exchange rate in force at the end of the reporting period.
All exchange-rate differences are recognised in the income statement.
Non-monetary items, measured at their historical cost in foreign currency, are translated by using the exchange rates in force on the date of initial recognition of the transaction.
The conversion into Euro of the financial statements of the foreign companies being consolidated is carried out according to the current exchange-rate method, which contemplates using the exchange rate in force at the end of the reporting period for the translation of the financial items and the average exchange-rate of the year for the income statement items.

Exchange-rate differences deriving from translation are directly posted to equity and separately recorded in a special fair-value reserve. On disposal of a foreign company, accumulated exchange-rate differences posted to equity with regard to that particular foreign company are recognised in the income statement.
The exchange rates used to determine the value in Euros of the financial statements of subsidiary companies expressed in foreign currency (exchange rate to 1 Euro) are shown below:

	Average exchange rate for the period ended as at 31 December		End-of-period exchange rate as at 31 December	
	2014	2013	2014	2013
US Dollar	1.329	1.328	1.214	1.379
Bulgarian Lev	1.956	1.956	1.956	1.956
Russian Rouble	50.952	42.337	72.337	45.325
South African Rand	14.404	12.833	14.035	14.566
Renmimbi	8.186	8.165	7.536	8.349
Qatar Riyal	4.837	4.836	4.422	5.022

3. Accounting standards

3.1 General Notes

The consolidated financial statements have been prepared in accordance with the historical cost principle, with the exception of the derivative financial instruments and financial assets held for sale stated at fair value.
There are no financial assets held to maturity. Financial transactions are accounted for as of the date they are traded.
The accounting policies adopted in the consolidated Financial Statements as at 31 December 2014 were applied in the same way also to all the periods of comparison.
The consolidated financial statements are presented in Euro; all values are rounded to the nearest thousand, unless otherwise indicated.

Business combinations and goodwill

Business combinations are recorded by using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred at fair value at the date of acquisition and the amount of any minority interest in the acquired company. For each business combination, the purchaser must consider any minority interest in the acquired company at fair value or in proportion to the share of the minority interest in the identifiable net assets of the acquired company. Acquisition costs are paid and classified among administrative expenses.
When the Group acquires a business, it must classify or designate the acquired financial assets or the liabilities assumed in accordance with the contract terms, the economic conditions and other relevant conditions existing at the date of acquisition. This includes the verification to establish whether an embedded derivative must be separated from the host contract. If the business combination is carried out in several stages, the purchaser must recalculate the fair value of the previously held equity investment measured at equity and recognise any resulting profit or loss in the income statement.
Each contingent consideration must be recognised by the purchaser at fair value at the date of acquisition. The fair value change in the contingent consideration classified as asset or liability will be recognised in accordance with IAS 39, in the income statement or in the statement of the other components of comprehensive income. If the contingent consideration is classified in the shareholders' equity, its value must not be recalculated until its discharge is recorded as opposed to shareholders' equity.
The goodwill is initially measured at cost that arises as surplus between the sum of the paid consideration and the amount recognised for the minority shares compared to identifiable net assets acquired and liabilities undertaken by the Group. If the consideration is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognised in the income statement.
After initial recognition, goodwill is measured at cost, net of any accumulated impairment loss. For impairment loss verification, the goodwill acquired in a business combination must be allocated, from the date of acquisition, to each cash-flow generating unit of the Group that is expected to benefit from the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to such units.
If the goodwill has been allocated to the financial-flow generating unit and the entity disposes of part of the assets of such unit, the goodwill associated to the asset disposed of must be included in the book value of the asset when the profit or loss deriving from the divestment is determined. The goodwill associated with the asset disposed of must be determined on the basis of the values related to the asset disposed of and of the retained part of the financial-flow generating unit.

Intangible assets with definite lives

Intangible assets are recorded in the assets at purchase cost when it is likely that the use of the asset will generate future economic benefits and when the cost of the asset can be measured reliably. Intangible assets acquired by means of business combinations are recorded at fair value at the date of acquisition, if this value can be measured reliably. Intangible assets with definite lives are amortised on a straight-line basis over their estimated useful life and submitted to impairment test whenever there is a possible impairment loss. The residual useful life is reviewed at the end of each financial period or more frequently, if necessary. Changes in the expected estimated useful life or in the ways in which future economic benefits related to the intangible asset are achieved by the Group are recognised by changing the period and/or the method of amortisation and treated as changes in accounting estimates. Amortisation charges of intangible assets with definite lives are recognised in the income statement in the category of cost consistent with the function of the intangible asset.

Intangible assets with indefinite lives are tested annually for impairment losses on an individual basis or in terms of cash-generating unit.

Profits or losses deriving from the disposal of an intangible asset are measured as the difference between the net income and the book value of the asset and are recognised in the income statement upon disposal.

The estimate of the useful life of intangible assets with definite lives is set below:

	Years
Industrial rights and patents	5
Development costs	5
Trademarks	5
Other intangible assets	3 - 5

Research and Development costs

Research costs are posted to the income statement when they are borne.

Development costs borne with regard to a particular project concerning the development of new excavating machines, stringing equipment and/or railway machines, of their significant individual components and/or of significant customisations that materialise in new models included in the catalogue, are capitalised only when the Group can show the ability to complete the technical work in order to make it available for use or for sale, its intention to complete the said asset in order to use it or transfer it to third parties, the ways in which it will generate probable future economic benefits, the availability of technical, financial or other type of resources to complete the development, its ability to reliably consider the cost attributable to the asset during its development and the existence of a market for the products and services deriving from the asset or usefulness for internal purposes. Capitalised development costs include only expenses borne that can be directly charged to the development process.

During the period of development, the asset is annually reviewed in order to recognise any impairment loss. After the initial recognition, development costs are measured at cost decreased by any accumulated amortisation or loss. The amortisation of the asset starts when the development is complete and the asset is available for use. It is amortised with reference to the period in which the connected project is expected to generate revenues for the Group, estimated on average over five years. If the projects to which such assets refer are abandoned or the related machines are no longer included in the catalogue, specific impairment indicators are recognised, and therefore the asset is tested for impairment and written down for any impairment loss recognised as previously described for intangible assets with definite lives.

Rights and trademarks

This item refers to the purchase of know-how for the production of Gallmac excavating machines and to the Gallmac trademark and to costs related to the acquisition of the I-light business unit by the Tesmec Service S.r.l. occurred in July 2011. The purchase costs of the rights and trademarks are amortised over a period of time during the useful life of the acquired asset, which was determined in five years.

Property, plant and equipment

Property, plant and equipment acquired separately, with the exception of the land and buildings item, are recorded at historical cost, including directly imputable additional costs necessary for putting the asset into operation for the use for which it was acquired. This cost includes the charges for replacing part of the machines and plants when they are borne, if complying with the recognition criteria.

Property, plant and equipment acquired by means of business combinations are recorded at fair value on the date of acquisition.

Maintenance and repair costs, which are not likely to enhance and/or extend the residual life of the assets, are paid during the financial period in which they are borne, otherwise they are capitalised.

Property, plant and equipment are stated net of the related accumulated depreciation and any impairment loss determined as described below. The depreciation is calculated on a straight-line basis according to the estimated useful life of the asset for the company, which is reviewed every year and any change, if necessary, is applied prospectively.
The estimate of the useful life of the main classes of property, plant and equipment is set below:

	Years
Buildings	40
Plant and machinery	10
Fixtures and fittings, tools and equipment	4
Leasehold Trenchers	5
Other assets	4 – 5

If significant parts of property, plant and equipment have different useful lives, these components are recorded separately. Lands, both without construction and belonging to buildings, are recorded separately and are not depreciated since they have an unlimited useful life.
The Group, based on the considerations made, established that the Trencher machines can be depreciated on a pro-rata basis according to actual use. In particular, they are depreciated at an annual 20% rate during the lease period. In the event that these trenchers are not leased temporarily during the reporting period, the depreciation process is suspended.
The book value of property, plant and equipment is subject to an impairment test when events or changed circumstances indicate that the book value cannot be recovered. If there is an indication of this type and, in the event that the book value exceeds the estimated realisable value, assets are written down so as to reflect their realisable value. The realisable value of property, plant and equipment is represented by the net sales price and the usage value, whichever is higher.
When defining the usage value, the expected future financial flows are discounted back using a pre-tax discount rate that reflects the current market estimate of the cost of money placed in relation to the timescale and specific risks of the asset. In relation to assets that do not generate fully independent financial flows, the realisable value is determined in relation to the financial-flow generating unit to which the asset belongs. Impairment losses are recorded in the income statement among costs for amortisation, depreciation and write-downs. These impairment losses are reversed if the reasons that generated them no longer exist.

At the time of sale or when there are no future economic benefits, expected from the use of an asset, it is written off from the financial statements and any loss or profit (calculated as the difference between the transfer value and the book value) is posted to the income statement in the year of the aforesaid writing off.

Leases

Contracts with the Group as lessee
Financial lease contracts, which substantially transfer to the Group all the risks and benefits deriving from the ownership of the leased asset, are capitalised on the starting date of the lease at fair value of the leased asset or at present value of the lease payments, if lower. Lease payments are prorated between principal and interests in order to obtain the application of a constant interest rate on the residual balance of the debt. Financial expenses are posted directly to the income statement. Capitalised leased assets are amortised during the period of time of the estimated useful life of the asset or the period of validity of the lease contract, whichever is shorter, if the reasonable certainty that the Group will obtain the ownership of the asset at the end of the contract does not exist.
The leases in which the lessor retains substantially all the risks and benefits related to the ownership of the assets are classified as operating leases and the related costs are recorded in the income statement over the period of validity of the contract.

Contracts with the Group as lessor
If the Group signs lease contracts that substantially transfer to the customers all the risks and benefits deriving from the ownership of the leased asset, the revenues concerning the transfer of the asset are recorded in the financial statements and are capitalised, on the starting date of the lease at the fair value of the leased asset or at the present value of the lease payments, if lower. Moreover, a borrowing that corresponds to the present value of the lease payments still due is recorded in the balance sheet. Financial expenses are posted directly to the income statement.

Impairment of assets

At the end of each reporting period, the Group considers the possible existence of impairment loss indicators of intangible assets with definite lives, of property, plant and equipment and of financial lease assets. If these indicators exist, an impairment test is carried out.
The recoverable value is determined as the fair value of an asset or financial-flow generating unit net of sales costs and its usage value, whichever is higher, and is determined by single asset, with the exception of the case in which this asset

generates financial flows that are not widely independent from those generated by other assets or groups of assets, in which case the Group estimates the recoverable value of the clash-flow generating unit to which the asset belongs.
When determining the usage value, the Group discounts back the present value of future estimated financial flows, by using a pre-tax discount rate that reflects the market evaluations on the time value of money and specific risks of the asset.
In order to estimate the usage value, the future financial flows are derived from the business plans approved by the Board of Directors, which represent the best estimate made by the Group on the economic conditions laid down in the plan period. The projections of the plan cover normally a period of three financial periods; the long-term growth rate used in order to estimate the terminal value of the asset or of the unit is normally lower than the average long-term growth rate of the segment, country or market of reference. Future financial flows are estimated by referring to the current conditions: therefore, estimates do not consider benefits deriving from future restructuring for which the Group has not yet committed itself or future investments for improving or optimising the asset or the unit.
If the book value of an asset or financial-flow generating unit is greater than its recoverable value, this asset was impaired and consequently amortised until its recoverable value is reached.
Impairment losses incurred by operating assets are recognised in the income statement in the categories of cost consistent with the function of the asset that showed the impairment loss. At the end of each reporting period, the Group also considers the possible existence of elements indicating a decrease in impairment losses previously recognised and, if these indicators exist, it estimates the recoverable value again. The value of an asset previously written down can be restored only if there were changes in the estimates used for determining the recoverable value of the asset after the last recognition of an impairment loss. In this case, the book value of the asset is set to the recoverable value, however without the possibility for the value thus increased to exceed the book value that would have been determined, net of amortisation, if no impairment had been recognised in previous years. Each reversal of impairment loss is recognised as an income in the income statement; after recognising a reversal of impairment loss, the amortisation rate of the asset is adjusted in future periods, in order to distribute the changed book value, net of any residual value, on a straight-line basis over the remaining useful life.

Equity investments in joint ventures

The Group holds investments in two jointly controlled companies classified as joint ventures. A joint venture is a contractual agreement whereby two or more parties undertake an economic activity subject to joint control; a jointly-controlled company is a joint venture that involves the establishment of a separate company in which each shareholder has an equity investment. The Group consolidates the equity investment in the joint venture with the equity method. After applying the equity method, the Group determines whether it is necessary to record any additional impairment loss with reference to the net equity investment.
The joint venture draws up the financial statements of the same financial period of the parent company and applies homogeneous accounting policies. Any lack of homogeneity in the applied accounting policies are corrected by adjustments.
When the Group brings or sells assets to the joint venture, the recognition of profit or loss shares deriving from the operation reflects the contents of the operation itself. When the Group purchases goods or services from the joint venture, it does not recognise its own profit share deriving from the operation until it sells such asset or service to an independent third party. The result of the income statement of the joint ventures that offer an operational contribution was included in the Group’s Operating Income.

Equity investments in associates

An associate is a company over which the Group exercises a significant influence and is not classifiable as subsidiary or joint venture. The Group consolidates its equity investments in associates with the equity method.
The application of the equity method implies the entry in the balance sheet of the cost increased by the changes following the acquisition of the net asset of the associate in the portion attributable to the Group. After applying the equity method, the Group determines whether it is necessary to record any additional impairment loss with reference to the net equity investment. The income statement reflects the Group's share of the Company's operating result. If a company recognises adjustments directly posted to the shareholders' equity, the Group recognises its share and shows it in the statement of changes in shareholders' equity, if applicable. Any unrealised profit and loss deriving from transactions between the Group and the subsidiary is written off in proportion to the equity investment.
In case the draw-up date of the balance sheet of some associated company is not in line with that of the Group, for the purposes of the Group's consolidated financial statements, the companies will prepare interim closing accounts on dates next to the end of the reporting period of the Group. The accounting policies used comply with those used by the Group, for transactions and events of the same nature and in similar circumstances.

Financial assets and other non-current assets

These assets are measured according to the amortised cost approach by using the effective discount rate method net of any provision for impairment.
The amortised cost is calculated taking into consideration any discount or purchase premium and includes the commissions that are part and parcel of the effective interest rate and of the transaction costs.
Receivables falling due after one year, interest bearing or paying interests lower than the market, are discounted by using interest rates in line with market references.

Inventories

Inventories are measured at the purchase and/or production cost, whichever lower, calculated by using the weighted average cost method, and the net realisable value. The purchase cost is inclusive of additional expenses; the cost of production includes directly attributable costs and a share of indirect costs, reasonably attributable to the products. The net estimated realisable value consists of the estimated sales prices less the estimated completion costs and the costs estimated to make the sale.
Write-down allowances are allocated for materials, finished products, spare parts and other supplies considered obsolete or slow-moving, taking into account their future expected usefulness or their realisable value.

Works on order

A work order is a contract specifically negotiated for the construction of an asset according to the instructions of the company commissioning the work, which defines in advance the design and specifications.
Work order revenues include the considerations initially agreed with the company commissioning the work, in addition to variations in the commissioned work and to price changes provided for in the contract that can be measured reliably.
When the work order result can be measured reliably, work order revenues and costs are recognised as sales and as costs on the basis of the percentage of completion; the work in progress is calculated by referring to the costs of the work order borne until the end of the reporting period as a percentage of total costs estimated for each work order.
The costs borne in relation to future activities of the work order are excluded from the work order costs when calculating the work in progress and are recorded as inventories.
When the costs of the work order are expected to be greater than its total revenues, the expected loss is recognised immediately as a cost.

Trade receivables and other current assets

Trade receivables and other current assets are initially recorded at fair value, which generally corresponds to the nominal value and subsequently measured at amortised cost and reduced in case of impairment losses. Moreover, trade receivables are adjusted to their estimated realisable value by entering a special adjustment provision.
Receivables in foreign currency other than the reporting currency are recorded at the exchange rate of the date of operation and subsequently converted to the exchange rate at the end of the financial period. The profit or loss resulting from the conversion is attributed to the income statement.
If the maturity of the trade receivables and of the other current assets does not fall within the normal commercial terms and do not bear interests, a detailed discounting process is applied based on assumptions and estimates.
The Tesmec Group assigns part of its trade receivables through factoring without recourse. Receivables assigned following factoring operations can be written off from the assets of the balance sheet only if the risks and benefits related to their legal ownership were substantially transferred to the assignee.

Other receivables and other financial assets

They are recorded initially at fair value and subsequently measured according to the amortised cost.
A financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) is written off from the financial statements when:

- the rights to receive financial flows from the asset terminated;
- the Group retains the right to receive financial flows from the asset, but has undertaken the contractual obligation to pay them in full and without delay to a third party;
- the Group transferred the right to receive financial flows from the asset and (a) transferred substantially all the risks and benefits of the ownership of the financial asset or (b) did not transfer substantially all the risks and benefits of the asset, but transferred their control.

If the Group has transferred the rights to receive financial flows from an asset and has not transferred or retained substantially all the risks and benefits or has not lost control over it, the asset is recognised in the financial statements of the Group to the extent of its residual involvement in the asset itself. The residual involvement that takes the form of a guarantee on the transferred asset is measured at the initial book value of the asset or the maximum value of the consideration that the Group could be obliged to pay, whichever lower.
If the residual involvement takes the form of an option issued and/or purchased on the transferred asset (including the cash-settled options or the like), the measure of the involvement of the Group corresponds to the amount of the transferred asset that the Group may repurchase; however, in case of a put option issued on an asset measured at fair value (including the cash-settled options or with similar provisions), the measure of the residual involvement of the Group is limited to the fair value of the transferred asset or the exercise price of the option, whichever lower.

Cash and cash equivalents

Cash and short-term deposits include cash on hand as well as on-demand and short-term bank deposits; in this last case, with original maturity of no more than three months. Cash and cash equivalents are booked at nominal value and at the spot exchange rate at the end of the financial period, if in currency, corresponding to the fair value.

Loans

Loans are initially stated at fair value of the amount received, net of any related loan acquisition costs.
After initial statement, loans are valued using the amortised cost approach, applying the effective interest rate method.
Any profit or loss is recorded in the income statement when the liability is discharged, in addition to using the amortisation process.

Treasury shares

The repurchased treasury shares are recognised at cost and deducted from shareholders' equity. The purchase, sale or cancellation of treasury shares does not give rise to any profit or loss in the income statement. The difference between the acquisition value and the consideration, in case of transfer, is recognised in share premium reserve. The voting rights related to the treasury shares are cancelled as well as the right to receive dividends. In case of exercise of share options during the period, these are met with treasury shares.

Trade payables and other payables

Payables are measured at nominal value.
Given the granted terms of payment, when a financial operation is configured, payables measured with the amortised cost approach are submitted to the discounting back of the nominal value to be paid, recording the discount as a financial charge.
Payables in foreign currency are aligned with the exchange rate at the end of the financial period and profits or losses deriving from the adjustment are posted to the income statement in unrealised exchange profits/losses.

Provisions for risks and charges

Provisions for risks and charges are made when the Group must face up a current liability (legal or implicit) that is the result of a past event; an outflow of resources is likely to meet this obligation and it is possible to make a reliable estimate of its amount.
When the Group believes that a provision for risks and charges will be partially or totally reimbursed, for example in the case of risks covered by insurance policies, the compensation is recognised separately in the assets only if it is practically certain. In this case, the cost of any provision is stated in the income statement net of the amount recognised for the compensation.
If the discounting back effect of the value of money is significant, provisions are discounted back using a pre-tax discount rate that reflects, if appropriate, the specific risks of the liabilities. When discounting back is carried out, the increase in the provision due to the passage of time is recognised as a financial expense.
The Group makes provisions for product guarantees in relation to the guarantee contractually granted to its customers on the sold machines. These provisions are calculated on the basis of the historical incidence of costs for product guarantee borne in past financial periods, of the period of validity of the granted guarantees and benchmarked again in relation to the amount of revenues of the period to which they refer.

Employee benefit liability

Post employment benefits are defined on the basis of plans, even though not yet formalised, which are classified as "defined contribution" and "defined benefit" in relation to their characteristics.
The Italian legislation (Article 2120 of the Italian Civil Code) establishes that, at the date on which each employee rescinds the employment contract with the company, he/she receives an allowance called TFR (severance indemnity). The calculation of this allowance is based on some items forming the yearly pay of the employee for each year of work (properly revalued) and on the length of the employer-employee relationship. According to the Italian civil law, this allowance is reflected in the financial statements according to a calculation method based on the allowance accrued by each employee at the reporting date, if all employees rescind the employment contract on that date.
The IFRIC of the IASB dealt with the TFR matter, as defined by the Italian legislation, and concluded that, in accordance with IAS 19, it must be calculated according to a method called Projected Unit Credit Method (the so-called PUCM) in which the amount of the liability for the acquired benefits must reflect the expected resignation date and must be discounted back.
The Group's net liability deriving from defined benefit plans is calculated separately for each plan by estimating the amount of the future benefit that the employees acquired in exchange for the work carried out in the current financial period and in prior financial periods; this benefit is discounted back to calculate the present value. As provided by the revised version of IAS 19, actuarial gains and losses are recorded in full in the comprehensive income statement in the period in which they arise. The evaluation of liabilities is made by an independent actuary.
The Group has no other defined benefit pension plan.
The Group's liability deriving from defined-contribution plans is limited to the payment of contributions to the State or to an asset or legally separate entity (so-called fund), and is determined on the basis of the contributions due.

Government grants

Government grants are recognised in the financial statements when there exists a reasonable certainty that the company will meet all the conditions for receiving the contributions and that the contributions will be received. When the contributions are related to cost components, they are recognised as revenues, but are allocated systematically across the financial periods in order to be proportionate to the costs that they intend to compensate. If a contribution is related to an asset, the asset and the contribution are recognised for their nominal values and they are gradually discharged to the income statement, on a straight-line basis, along the expected useful life of the asset of reference.
If the Group receives a non-monetary contribution, the asset and contribution are recognised at their nominal value and discharged to the income statement, on a straight-line basis, along the expected useful life of the asset of reference. In case of loans or similar forms of assistance supplied by government entities or similar institutions that have an interest rate lower than the current market rate, the effect related to the favourable interest rate is considered as an additional government grant.

Financial instruments

The financial instruments are initially recognised at fair value and, after initial recognition, measured in relation to the classification, as required by IAS 39.
For financial assets, this treatment is differentiated among the following categories:

- financial assets at fair value through profit or loss;
- investments held to maturity;
- loans and receivables;
- available-for-sale financial assets.

With reference to financial liabilities, only two categories are established:

- financial liabilities at fair value through profit or loss;
- liabilities at amortised cost.

The methods for determining the fair value with reference to such financial instruments, with accounting or information purposes, are summarised below with reference to the main categories of financial instruments, to which they have been applied:

- derivative instruments: the appropriate pricing models based on market interest rates and on currency exchange ratios;
- receivables and payables and unlisted financial assets: the discount cash flow method was applied for financial instruments falling due after one year, i.e. the discounting back of expected cash flows in consideration of current interest rates and credit rating;
- listed financial instruments: the market value at the date of reference is used.

Derivative financial instruments

Derivative financial instruments are used solely with the intent to hedge financial risks relating to exchange-rate changes on commercial transactions in foreign currency and interest rate risks on interest-bearing loans and borrowings.
In accordance with IAS 39, hedging derivative financial instruments can be recorded according to the methods established for hedge accounting only when:

- at the beginning of the hedge, there is formal designation and documents of the hedging arrangement;
- the hedging is expected to be highly effective;
- the effectiveness can be reliably measured; and the hedging itself is highly effective during different accounting periods for which it is designated.

All derivative financial instruments are measured at fair value. When financial instruments have the characteristics to be recorded in hedge accounting, the following accounting treatments are applied:

Fair value hedge – if a financial derivative is designated as a hedge of the exposure to changes in the present value of a balance-sheet asset or liability that may affect the income statement, the profit or loss arising from the future evaluation of the present value of the hedging instrument is recognised in the income statement, as well as the profit or loss on the item being hedged.
Cash flow hedge – if a financial derivative is designated as a hedge of the exposure to changes in cash flows of a balance-sheet asset or liability or of a highly probable expected transaction and that may affect the income statement, the effective portion of profits or losses on the financial instrument is recognised in equity; the accumulated profit or loss is reversed from equity and recorded in the income statement in the same period in which the transaction to be hedged is recognised; the profit or loss associated with a hedging, or with an ineffective hedging, are recorded in the income statement when the ineffectiveness is recognised;
If the conditions for the application of hedge accounting do not apply, the effects deriving from the fair value measurement of the derivative financial instrument are booked directly to the income statement.

Revenues and costs

Revenues and costs are stated on an accrual basis. Revenues and income, presented net of returns, discounts, allowances and premiums, are recorded at fair value insofar as it is possible to reliably determine such value and its economic benefits are likely to be enjoyed.
Revenues from the sale of goods are recognised when all the following conditions are met:

- significant risks and benefits related to the ownership of the goods were transferred to the purchaser;
- the usual ongoing activities associated with the ownership of the goods are no longer carried out, and the actual control of the sold goods is no longer exercised;
- the amount of revenues can be reliably determined;
- the future economic benefits are likely to be enjoyed;
- the costs borne, or to be borne, can be reliably estimated.

More specifically, with reference to sales with CIF condition, risks and benefits related to the ownership of the asset are transferred to the end customer, and therefore the revenues are recognised, when the asset is handed over at the broadside of the ship.

With regard to any machine completed and not yet shipped to the customer (bill and hold) for reasons that do not depend on the Group, revenues are recognised if the following conditions established by Appendix 1 of IAS 18 have been complied with:

- the machine has been completed and is available to be shipped to the customer;
- the customer indicated in writing, at a date before the date of invoicing, its own irrevocable intent to purchase the asset; moreover, this condition implies that the customer shall bear the insurance cost for the periods during which it is still available at the warehouse of the company and relevant transport; therefore, it is reasonable for the sale to be carried out;
- the customer gave clear and precise indications on the delivery of the machine;
- standard payment terms are applied to the customer.

With reference to the sales to the Joint ventures, if the risks and benefits related to the ownership of the asset are transferred to them, the revenue is recorded in the income statement. If, at the reporting date, the Joint venture has not transferred the ownership of the asset to the end customer, the margin achieved with it, following the application of the equity method by the Tesmec Group in the consolidated financial statements, is reversed in relation to the amount of shares held in the capital of the company.

If the trade agreements related to the sales of machines contemplate their on-site testing at the premises of the purchaser as a binding condition for the acceptance of the machine, risks and benefits are transferred, and therefore the revenues are recognised, when the machine has been tested and the purchaser has accepted.
Revenues from services rendered are recognised when all the following conditions are met:

- the amount of the revenue can be measured reliably;
- it is likely that the economic benefits deriving from the operation will flow to the company;
- the completion stage of the operation at the end of the reporting period may be reliably measured;
- costs incurred for the operation and costs to be borne in order to complete it may be reliably calculated.

In particular, the Tesmec Group provides services that contemplate an excavation activity carried out by using machines belonging to the company and specialised workers employed by third-party companies. The provision of these services is contractually regulated by agreements with the counterpart that indicate, among other things, the timing for carrying out the excavation and contemplate a price per excavated metre that changes according to different hardness of the soil. Revenues are recognised on the basis of the progress of the excavation to date, as resulting from the states of the work-in-progress recognised and agreed with the counterpart.
Moreover, the Tesmec Group provides after-sales services concerning the machines sold. If these services are requested after the expiry of the guarantee period, the service is contractually regulated by agreements with the counterpart. Revenues are recognised based on the time and components used by the technicians during repair operations.

Financial income and expenses

Financial income and expenses are recognised on an accrual basis on the basis of interests accrued on the net value of the related financial assets and liabilities, by using the effective interest rate.

Determining the fair value of financial instruments

The fair value of the financial instruments listed on an active market is based on market prices at the end of the reporting period. The fair value of financial instruments that are not listed on an active market is determined by using measurement techniques based on a series of methods and assumptions related to market conditions at the end of the reporting period.

Dividends

Dividends are recorded when the right of the shareholders to receive the payment arises, coinciding with the time in which they are decided.

Income tax

Current taxation

Taxes reflect an estimate of the tax burden, determined by applying the laws and regulations in force in the Countries where the Tesmec Group carries on its activity. Taxable income for tax purposes differs from the pre-tax profit or loss indicated in the income statement, because it excludes positive and negative components that will be taxable or deductible in other financial periods and excludes items that will never be taxable or deductible. Current tax liabilities are calculated by using the rates in force or substantially approved at the end of the reporting period.
Current tax liabilities are recorded in the current liabilities net of any paid tax advances.

Deferred taxes

Deferred taxes are calculated on the temporary differences resulting at the end of the reporting period among the tax values used as a reference for assets and liabilities and the values indicated in the financial statements.
Deferred tax assets are recognised for all the temporary deductible differences and for retained tax assets and liabilities, insofar as the existence of appropriate future tax profits that can apply the use of the temporary deductible differences and of the retained tax assets and liabilities is likely.
The value to be stated in the financial statements for deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient income for tax purposes will be available in the future for this tax credit to be used totally or partially. Deferred tax assets not recognised are reviewed every year at the end of the reporting period and are recognised to the extent that the pre-tax profit is probably sufficient to allow the recovery of these deferred tax assets.
Deferred tax assets and liabilities are measured based on tax rates that are expected to be applied to the financial period in which such assets are sold or such liabilities are discharged, considering the rates in force and those already issued or substantially issued at the end of the reporting period.
Deferred tax assets and liabilities are recognised directly in the income statement, with the exception of those relating to items recognised directly in equity, in which case the related deferred taxes are also accounted for consistently without booking to the income statement.
Deferred tax assets and liabilities are offset, if there is a legal right to offset current tax assets against current tax liabilities, and the deferred taxes refer to the same tax entity and to the same tax authority.
Assets for deferred tax assets and liabilities for deferred tax liabilities are classified as non-current assets and liabilities.

Value added tax

Revenues, costs and assets are recognised net of value added tax with the exception of the case in which:

- such tax applied to the purchase of goods and services is not deductible, in which case it is recognised as part of the purchase cost of the asset or part of the cost item recognised in the income statement;
- they refer to trade receivables and payables for which the invoice has already been issued or received and they are stated by including the value of the tax.

The net amount of indirect taxes on sales and purchases that can be recovered from or paid to the tax authorities is recorded in the financial statements item other receivables and payables depending on the sign of the balance. VAT related to invoicing to public bodies is paid to the Tax authority when the receivable is collected during suspended VAT, pursuant to Italian Presidential Decree no. 633/72 and subsequent amendments.

Earnings per share

The basic earnings per share are calculated by dividing the Group's economic result by the weighted average of the outstanding shares during the period. For the purposes of the calculation of the diluted earnings per share, the weighted average of the outstanding shares is modified by assuming the conversion of all the potential dilutive shares. The net result is also adjusted to take account of the effects, net of tax, of the conversion.
The diluted earnings per share coincide with the basic earnings, since there are no outstanding shares or options other than ordinary shares.

3.2 Changes and new principles and interpretations

The accounting standards adopted for the preparation of the consolidated financial statements as at 31 December 2014 are the same as those adopted for the preparation of the consolidated financial statements for the year ended 31 December 2013, with the exception of the adoption as of 1 January 2014 of the new standards, amendments and interpretations.
Several other new standards and amendments came into force for the first time in 2014. However, these have no impact on the consolidated financial statements of the Tesmec Group.

The nature and impact of each new standard/amendment is listed below:

- Investment entities - Amendments to IFRS 10, IFRS 12 and to IAS 27

  These amendments envisage an exception to the consolidation for entities that are classified as investment entities pursuant to IFRS 10 – Consolidated financial statements. This exception to consolidation requires that investment entities measure the subsidiaries at fair value recognised in the income statement. These changes had no impact on the Group, as none of the entities belonging to the group qualifies as an investment pursuant to IFRS 10.

- IFRS 10 Consolidated financial statements, IAS 27 (2011) Separate financial statements

  IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 supersedes the part of IAS 27 Consolidated and Separate Financial Statements that addressed the accounting for consolidated financial statements and SIC-12 Consolidation - Special Purpose Entities. The IFRS 10 standard changes the definition of control and determines that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and is also able to use its power over the investee to affect these returns. An investor controls an investee if and only if it has simultaneously: (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of the returns. The IFRS 10 standard had no impact on the consolidation of equity investments owned by the Group.

- IFRS 11 Joint Arrangements and IAS 28 (2011) Investments in Associates and Joint Ventures

  The IFRS 11 standard supersedes IAS 31 Investments in Joint Ventures and SIC-13 Joint Controlled Entities - Non-Monetary Contributions by Venturers and, according to this standard, the use of the proportionate consolidation method to account for joint ventures is not permitted. Jointly controlled companies that can be defined as a joint venture must be accounted for using the equity method. These amendments did not impact the financial statements of the Tesmec Group.

- IFRS 12 – Disclosure of Interests in Other Entities

  The IFRS 12 standard sets forth the disclosure requirements for equity investments held by a company on subsidiaries, joint ventures, associated companies and unconsolidated structured entities. This information is reported in note 8.

- Offsetting of financial assets and financial liabilities – Amendments to IAS 32

  These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and of the offsetting criteria in case of settlement systems (such as central clearing house systems), which apply gross settlement mechanisms that are not simultaneous. These amendments did not impact the financial statements of the Tesmec Group.

- Disclosures on the recoverable amount of non-financial assets – Amendment to IAS 36

  These amendments remove the consequences introduced unintentionally by IFRS 13 on the information disclosed by IAS 36. Moreover, these amendments require disclosure on the recoverable amount of the assets or CGU for which an impairment loss was recognised or "reclassified" during the financial year. These amendments did not impact the financial statements of the Tesmec Group.

- Novation of derivatives and continuation of hedge accounting – Amendment to IAS 39

  These amendments allow to continue the hedge accounting when the novation of a hedging derivative meets certain criteria. These amendments had no impact because the Tesmec Group did not replace its derivatives in the current financial year or in previous financial years.

- IFRIC 21 Levies

  IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and applies retrospectively. It is applicable to all payments imposed by law by the Government other than those already dealt with in other principles (for example, IAS 12 Income taxes) and those for fines or other penalties for violations of the law. The interpretation explains that an entity recognises a liability not before the obligating event occurs, in accordance with the relevant legislation. The interpretation also explains that the liability is recognised progressively if the obligating event occurs over a period of time provided by law. If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached. The same recognition principles are applied in interim financial reports, however, these amendments did not impact on the Tesmec Group.

- 2011-2013 annual improvement project

  As part of the 2011-2013 annual improvement project, IASB issued four amendments to four accounting standards, including IFRS 1 First-time adoption of IFRS. The amendment to IFRS 1, which is in force since 1 January 2014, clarifies in the Basis for Conclusions that an entity may choose to apply an existing accounting standard or a new accounting standard not yet mandatory but for which an early adoption is allowed, as long as this principle is applied consistently in all reportable periods in the first IFRS financial statements of the entity. This amendment to IFRS 1 did not have any impact on the Group, as the Group is not a first-time adopter.

3.3 Discretionary assessment and significant accounting estimates

The preparation of the financial statements requires the directors to carry out discretionary assessments, estimates and assumptions that affect the values of revenues, costs, assets and liabilities and the indication of contingent liabilities at the end of the reporting period. The final results may differ from said estimates. Estimates are used for recognising:
Deferred tax assets
Deferred tax assets are recognised for all the temporary differences and all retained tax losses, in so far as the existence of adequate taxable future profits for which such losses may be used is likely. Directors are requested a significant discretionary assessment to determine the amount of deferred tax assets that can be recorded. They must estimate the probable time in which it will reveal itself and the amount of taxable future profits as well as a future tax planning strategy.

Employee benefits - Severance Indemnity
Provision for severance indemnity is determined by using actuarial evaluations. The actuarial evaluation requires assumptions on discount rates, future increases in salary, turnover and death rates. Since these are long-term plans, such estimates are subject to a significant level of uncertainty.

Development costs
Development costs are capitalised on the basis of the accounting standard explained below. The directors must make assumptions on future cash flows expected from fixed assets, discount rates to be applied and the periods during which the expected benefits reveal themselves in order to determine the values to be capitalised.

Moreover, estimates are used for recognising provisions for bad debts, product guarantees, provisions for risks and charges, inventory obsolescence, amortisation, depreciation and write-downs of assets, fair value of derivative financial instruments.

Estimates and assumptions are periodically revised and the effects of each change are immediately reflected in the income statement.

4. Financial risk management policy

The Tesmec Group is exposed in varying degrees to financial risks related to the core business. In particular, the Group is exposed at the same time to the market risk (interest-rate risk and exchange-rate risk), liquidity risk and credit risk.
The management of financial risks (mainly interest-rate risks) is carried out by the Group on the basis of guidelines defined by the Board of Directors. The purpose is to guarantee a liability structure always in equilibrium with the structure of the balance sheet assets, in order to keep a very sound balance sheet structure.
Forms of financing most commonly used are represented by:

- interest bearing financial payables with multiyear redemption plan, to cover the investments in fixed assets;
- short-term financial payables and bank overdrafts to finance the working capital.

The average cost of indebtedness is benchmarked to the trend of the three-month EURIBOR rates plus a spread that depends on the financial instrument used and on the rating Group share.
The Group uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The Group does not apply the Cash Flow Hedge Accounting with reference to such positions, in that they do not meet the requirements provided in this regard by the IFRS.
The trading of derivative instruments with speculative purposes is not contemplated.

Management of the exchange-rate risk

The Group's exposure to interest rate risk is managed by taking overall exposure into consideration: as part of the general policy to optimise financial resources, the Group seeks equilibrium, by using less expensive forms of financing.

With regard to the market risk due to changes in the interest rate, the Group's policy is to hedge the exposure related to the portion of medium to long-term indebtedness. Derivative instruments such as Swaps, Collars and Caps are used to manage this risk.

As at 31 December 2014, there were five positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 23.4 million, with a negative equivalent value of around Euro 444 thousand.

As at 31 December 2013, there were five positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 23.3 million, with a negative equivalent value of around Euro 543 thousand.

The short-term portion of interest bearing financial payables (current portion), which is mainly used to finance working capital requirements, is not subject to interest-rate risk hedging.
The cost of bank borrowing is benchmarked to the EURIBOR/LIBOR rate plus a spread that depends on the type of credit line used and is the same by type of line. The applied margins can be compared to the best market standards. The interest rate risk to which the Group is exposed is mainly originated from existing financial payables.

The main sources of exposure of the Group to the interest-rate risk refer to existing interest bearing financial payables (current portion) and interest bearing financial payables and to the existing derivative instruments. In particular, the potential impacts on the Income Statement of the 2015 financial period (compared to 2014) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 2014 financial period;
- potential change in fair value of existing derivative instruments.

The Group estimated the potential impacts on the Income Statement and on Shareholders' Equity of the 2015 financial period (compared to 2014, calculated with reference to the situation existing at the end of the 2013 reporting period, respectively) produced by a simulation of the change in the term structure of the interest rates, by using internal measurement models, based on the general acceptance approach. In particular:

- for loans, these impacts were estimated by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates, applied only to the cash flows to be settled during the 2015 financial period (compared to 2014);
- for derivative instruments, by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates.

With reference to the situation as at 31 December 2014, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2015 financial period of Euro 233 thousand, offset by an increase of Euro 91 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 73 thousand, offset by a decrease of Euro 24 thousand in the collected spread for the existing derivatives.

With reference to the situation as at 31 December 2013, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2013 financial period of Euro 245 thousand, offset by an increase of Euro 165 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 60 thousand, offset by a decrease of Euro 73 thousand in the collected spread for the existing derivatives.

(Euro in thousands)	Interests					
	31 December 2014			31 December 2013		
	Residual debt	Impact on the IS +100 bps	Impact on the IS -30 bps	Residual debt	Impact on the IS +100 bps	Impact on the IS -30 bps
Borrowings	(99,173)	(233)	39	(91,857)	(245)	73
Total Loans	**(99,173)**	**(233)**	**39**	**(91,857)**	**(245)**	**73**
(Euro in thousands)	Notional	Impact on the IS +100 bps	Impact on the IS -30 bps	Notional	Impact on the IS +100 bps	Impact on the IS -30 bps
Derivative instruments hedging cash flows	23,418	91	(24)	23,333	165	(50)
Total Derivative instruments	**23,418**	**91**	**(24)**	**23,333**	**165**	**(50)**
Total		**(142)**	**15**		**(80)**	**23**

(Euro in thousands)	Fair value sensitivity of derivatives									
	Financial period ended 31 December 2014									
	Notional value	Net FV	Net FV +100 bps	Net FV +100 bps	Impact on IS +100 bps	Impact on SE +100 bps	Net FV -30 bps	Net FV -30 bps	Impact on IS -30 bps	Impact on SE -30 bps
Derivative instruments hedging cash flows	23,418	(444)	(109)	335	335	-	(473)	(29)	(29)	-
Total	**23,418**	**(444)**	**(109)**	**335**	**335**	**-**	**(473)**	**(29)**	**(29)**	**-**
	Financial period ended 31 December 2013									
(Euro in thousands)	Notional value	Net FV	Net FV +100 bps	Net FV +100 bps	Impact on IS +100 bps	Impact on SE +100 bps	Net FV -30 bps	Net FV -30 bps	Impact on IS -30 bps	Impact on SE -30 bps
Derivative instruments hedging cash flows	23,333	(543)	(39)	504	504	-	(581)	(38)	(38)	-
Total	**23,333**	**(543)**	**(39)**	**504**	**504**	**-**	**(581)**	**(38)**	**(38)**	**-**

With reference to the situation as at 31 December 2014, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 335 thousand, with an impact on the Income statement of the 2015 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 29 thousand, with an impact only on the Income statement of the 2015 financial period.

With reference to the situation as at 31 December 2013, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 504 thousand, with an impact on the Income statement of the 2014 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 38 thousand, with an impact only on the Income statement of the 2014 financial period.

The assumptions concerning the extent of changes in market parameters used for the simulation of shocks were formulated on the basis of an analysis of the historical development of such parameters with reference to a time scale of 12 months.

Credit risk management

The Group has a much parcelled out customer structure being mostly end-consumers. Moreover, most of the contemplated forms of collection include advance payments of the supply or a deposit not less than 30% of the sale.
This structure zeroes the credit risk; the validity of this approach is endorsed by the low amount of receivables at the end of the financial period compared to the amount of annual sales.

There are no significant concentrations of credit risk exposure in relation to individual debtors to be reported.

Management of liquidity risk

The Group manages the liquidity risk by controlling strictly the elements forming the working capital and in particular trade receivables and payables.
The Company tends to obtain upstream a good cash generation in relation to sales and then use it for paying the suppliers without compromising the short-term balance of the treasury and avoid problems and tensions in current liquidity.

The stratification of existing Liabilities with reference to 2014 and to 2013 financial periods, with regard to financial instruments, by residual maturity, is set out below.

	31 December 2014				
	Financial payables		Trade payables	Financial instruments	Total
Maturity	Capital	Interests			
(Euro in thousands)	a	b	c	d	a+b+c+d
Within 12 months	36,460	3,642	34,179	172	**74,453**
Between one and two years	11,751	3,189	-	114	**15,054**
Between two and three years	7,013	2,874	-	50	**9,937**
Between three and five years	15,022	4,675	-	12	**19,709**
Between five and seven years	19,516	3,587	-	(5)	**23,098**
After more than 7 years	9,411	1,945	-	-	**11,356**
Total	**99,173**	**19,912**	**34,179**	**343**	**153,607**

	31 December 2013				
	Financial payables		Trade payables	Financial instruments	Total
Maturity	Capital	Interests			
(Euro in thousands)	a	b	c	d	a+b+c+d
Within 12 months	38,203	3,006	25,529	281	**67,019**
Between one and two years	11,514	2,686	-	206	**14,406**
Between two and three years	10,052	2,334	-	63	**12,449**
Between three and five years	19,509	3,740	-	1	**23,250**
Between five and seven years	5,247	1,575	-	-	**6,822**
After more than 7 years	7,332	2,034	-	-	**9,366**
Total	**91,857**	**15,375**	**25,529**	**551**	**133,312**

The estimate of expected future expenses implicit in loans and of expected future differentials implicit in derivative instruments was determined on the basis of the term structure of interest rates in Euro existing at the reporting dates (31 December 2014 and 31 December 2013).

Management of the exchange-rate risk

The Group is exposed to exchange-rate fluctuations of the currencies in which the sales to foreign customers are paid (US Dollars). This risk is expressed if the equivalent value in Euro of revenues decreases following negative exchange-rate fluctuations, thereby preventing the Company from achieving the desired margin. This risk is increased due to the relevant time interval between the moment in which the prices of a shipment are fixed and the moment in which the costs are converted in Euro.

The potential impacts on the Income Statement of the 2015 financial period (compared to 2014) referable to the exchange-rate risk are determined by the revaluation/write-down of asset and liability items in foreign currency.

The Group estimated the potential impacts on the income statement of the 2015 financial period (compared to 2014, calculated with reference to the situation existing at the end of the 2013 reporting period, respectively) produced by a shock of the exchange-rate market, by using internal measurement models, based on the general acceptance approach.

	Exposure in foreign currency (USD) 2014			Sensitivity 2014	
Exposure with regard to equity items	Assets (USD/000)	Liabilities (USD/000)	Equity (USD/000)	Income Statem. EUR/USD Exchange Rate +5%	Income statement EUR/USD exchange rate -5%
Trade receivables	9,337	-	9,337	(385)	385
Trade payables	-	42	42	(2)	2
Total net exposure with regard to equity items	**9,337**	**42**	**9,379**	**(387)**	**387**
Derivative instruments	-	-	-	-	-
Total net exposure with regard to equity items	**9,337**	**42**	**9,379**	**(387)**	**387**

	Exposure in foreign currency (USD) 2013			Sensitivity 2013	
Exposure with regard to equity items	Assets (USD/000)	Liabilities (USD/000)	Equity (USD/000)	Income Statem. EUR/USD Exchange Rate +5%	Income statement EUR/USD exchange rate -5%
Trade receivables	15,508	-	15,508	(562)	562
Trade payables	-	400	400	(15)	15
Total net exposure with regard to equity items	**15,508**	**400**	**15,908**	**(577)**	**577**
Derivative instruments	-	-	-	-	-
Total net exposure with regard to equity items	**15,508**	**400**	**15,908**	**(577)**	**577**

The assumptions concerning the extent of changes in market parameters used for the simulation of shocks were formulated on the basis of an analysis of the historical development of such parameters with reference to a time scale of 30-60-90 days, consistent with the expected duration of exposures.

Disclosures - categories of financial assets and liabilities

The following table shows the book values for each class of financial assets and liabilities identified by IAS 39:

(Euro in thousands)	Loans and receivables/payables	Guarantee deposits	Cash and cash equivalents	Available-for-sale financial assets	Fair value recognised in the income statement
Financial assets:					
Financial receivables	274	-	-	-	-
Derivative financial instruments	-	-	-	-	16
Trade receivables	546	-	-	-	-
Total non-current	**820**	**-**	**-**	**-**	**16**
Trade receivables	41,297	-	-	-	-
Financial receivables due from related parties	6,552	-	-	-	-
Financial receivables from third parties	121	-	-	-	-
Other available-for-sale securities	-	-	-	125	-
Cash and cash equivalents	-	-	18,665	-	-
Total current	**47,970**	**-**	**18,665**	**125**	**-**
Total	**48,790**	**-**	**18665**	**125**	**16**
Financial liabilities:					
Loans	43,137	-	-	-	-
Non-current portion of finance leases, net	18,724	-	-	-	-
Derivative financial instruments	-	-	-	-	460
Total non-current	**61,861**	**-**	**-**	**-**	**460**
Loans	13,180	-	-	-	-
Other financial payables (short-term leases)	2,474	-	-	-	-
Other short-term payables	20,852	-	-	-	-
Trade payables	34,179	-	-	-	-
Total current	**70,685**	**-**	**-**	**-**	**-**
Total	**132,546**	**-**	**-**	**-**	**460**

Disclosures: hierarchy levels of fair value measurement

In relation to financial instruments measured at fair value, the following table shows the classification of such instruments on the basis of the hierarchy of levels required by IFRS 13, which reflects the significance of the inputs used in measuring the fair value. The levels are broken down as follows:

- level 1 - quoted prices without adjustment recorded in an active market for measured assets or liabilities;
- level 2 - are inputs other than quoted prices included within Level 1, that are observable in the market, either directly (as in the case of prices) or indirectly (i.e. when derived from the prices);
- level 3 - inputs that are not based on observable market data.

The following table shows the assets and liabilities that are measured at fair value as at 31 December 2013, divided into the three levels defined above:

(Euro in thousands)	Book value as at 31 December 2014	Level 1	Level 2	Level 3
Financial assets:				
Derivative financial instruments	16	-	16	-
Other available-for-sale securities	125	-	-	125
Total current	125	-	-	125
Total	125	-	-	125
Financial liabilities:				
Derivative financial instruments	460	-	460	-
Total non-current	460	-	460	-
Total	460	-	460	-

5. Significant events occurred during the period

In 2014, the strategy of the Group continued on the traditional lines of technological product innovation, integration with external situations and internationalisation. Some of the most significant events of the year are mentioned below:

- on 25 February 2014, the rental of the "SGE" business unit was launched. SGE manufactures meters to measure energy efficiency. On the same date, SGE-T S.r.l., part of the Tesmec Group, changed its name to SGE S.r.l. Seven workers were transferred on signature of the contract; this operation is also part of the Group's expansion plan in the sector of efficient power network management, which includes the purchase of the "I-Light" business unit and the purchase of 40% of the share capital of Bertel in July 2011 and January 2012 respectively.
- on 8 April 2014, the "Tesmec S.p.A. 6% 2014-2021" bond issue was admitted to trading on the Extra MOT PRO market, for an amount of Euro 15 million, with a seven year term and a fixed gross interest rate of 6% and an annual delayed coupon. The issue was subscribed and placed by Banca Popolare di Vicenza S.c.p.a. and by KNG Securities LLP with leading European institutional investors; this operation has enabled the Group to relocate the debt over the medium term through to 90.1% of Net Debt total against 78.5% at December 31, 2013.
- on 30 April 2014, with the approval of the 2013 financial statements, the Shareholders' Meeting of Tesmec S.p.A. decided to allocate the profit of the Parent Company of Euro 3,879 thousand, as follows:
  - Euro 194 thousand to the Legal Reserve;
  - assign a dividend of Euro 0.016 to each outstanding ordinary share;
  - assign to the Extraordinary Reserve the amount of profit remaining after the allocation to the Legal reserve and dividend.
- on 1 August 2014 the independent non-executive Director, Luca Poggi, drawn from the minority list, resigned from the office held within the Company for reasons of professional character. The Director, Luca Poggi, was appointed by the Shareholders' meeting of 30 April 2013, on the occasion of the renewal of the corporate offices.
- on 18 September 2014, the decree of approval of the arrangement of AMC2 S.r.l. in liquidation was issued - decree pending with subsequent transfer of the company in favour of Tesmec Service s.r.l..
- on 30 September 2014, the company Tesmec New Technology (Beijing) Ltd. was set up with registered office in Beijing (China). The company will be operational in the all businesses of the Group and represents a natural development of the Group's activities in the Country where until now the presence consisted in a representative office.
- in the first few days of November, Tesmec S.p.A. finalised a contract amounting to approximately Euro 37 million related to the supply to Abencor Suministros Sa, company of the Spanish Group of Abengoa, international leader in the construction of transmission and distribution infrastructures, of packages for power lines stringing works as part of one of the main projects for the construction of 500kV lines in Brazil. In detail, the project in which the integrated solutions of the Tesmec Group will be used consists in the construction of more than 5,000 km of 500kV lines in the eastern part of Brazil, to be delivered no later than the first half of 2015.

COMMENTS ON THE MAIN ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

Non-current assets

6. Intangible assets

The breakdown of *Intangible assets* as at 31 December 2014 and as at 31 December 2013 is indicated in the table below:

	31 December					
	2014			2013		
(Euro in thousands)	Historical cost	Accum. amort.	Net value	Historical cost	Accum. amort.	Net value
Development costs	32,995	(22,630)	10,365	26,358	(17,823)	8,535
Rights and trademarks	2,656	(2,270)	386	2,584	(2,083)	501
Assets in progress and advance payments to suppliers	1,621	-	1,621	1,178	-	1,178
Total intangible assets	37,272	(24,900)	12,372	30,120	(19,906)	10,214

The following table shows the changes in intangible assets for the period ended 31 December 2014:

(Euro in thousands)	01/01/2014	Increases due to purchases	Decreases	Reclassifications	Amortisation	Exchange rate differences	31/12/2014
Development costs	8,535	5,912	(2)	69	(4,444)	295	10,365
Rights and trademarks	501	61	-	9	(184)	(1)	386
Assets in progress and advance payments to suppliers	1,178	521	-	(78)	-	-	1,621
Total intangible assets	10,214	6,494	(2)	-	(4,628)	294	12,372

As at 31 December 2014, intangible assets net of amortisation totalled Euro 12,372 thousand, up Euro 2,158 thousand on the previous year due to the new development activities started in the rail segment, stringing equipment and in streamlining systems..
Increases for the period totalled Euro 6,494 thousand mainly consisting in development costs capitalised of Euro 5,912 thousand, which were partially offset by the amortisation of the period (Euro 4,444 thousand). This amount refers to designs of Euro 1,578 thousand in the trencher segment, of Euro 2,247 in the rail segment related to the production of a new generation rail in the US and Euro 2,087 thousand in the stringing equipment segment.

These costs are related to projects for the development of new products and equipment that are expected to generate positive cash flows in future years.

Assets in progress and advance payments to suppliers amounted to Euro 1,621 thousand and are composed of Euro 1,550 thousand to costs incurred in relation to the acquisition of the company AMC2 operating in the segment of design and production of machines for the maintenance of railway lines.
On 26 February 2015, the final decree of approval relating to the transfer in favour of Tesmec Service S.r.l. was received.

The following table shows the changes in intangible assets for the period ended 31 December 2013:

(Euro in thousands)	01/01/2013	Increases due to purchases	Decreases	Reclassifications	Amortisation	Change in the consolidation area	Exchange rate differences	31/12/2013
Development costs	6,932	5,312	-	26	(3,674)	-	(61)	8,535
Rights and trademarks	688	78	(6)	(26)	(235)	-	2	501
Assets in progress and advance payments to suppliers	-	1,100	-	-	-	78	-	1,178
Total intangible assets	7,620	6,490	(6)	-	(3,909)	78	(59)	10,214

7. Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2014 and as at 31 December 2013 is indicated in the table below:

	31 December					
	2014			2013		
(Euro in thousands)	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Land	5,457	-	5,457	5,435	-	5,435
Buildings	29,004	(4,408)	24,596	28,045	(3,337)	24,708
Plant and machinery	14,131	(8,124)	6,007	13,437	(6,867)	6,570
Equipment	3,201	(2,698)	503	2,976	(2,426)	550
Other assets	14,210	(3,379)	10,831	8,325	(3,018)	5,307
Assets in progress and advance payments to suppliers	722	-	722	593	-	593
Total property, plant and equipment	**66,725**	**(18,609)**	**48,116**	**58,811**	**(15,648)**	**43,163**

Including leased property, plant and equipment:

	31 December					
	2014			2013		
(Euro in thousands)	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Land	5,266	-	5,266	5,266	-	5,266
Buildings	21,542	(2,345)	19,197	21,542	(1,676)	19,866
Plant and machinery	4,465	(1,697)	2,768	4,720	(1,503)	3,217
Equipment	181	(103)	78	180	(71)	109
Other assets	1,993	(673)	1,320	971	(487)	484
Assets in progress and advance payments to suppliers	-	-	-	-	-	-
Total property, plant and equipment	**33,447**	**(4,818)**	**28,629**	**32,679**	**(3,737)**	**28,942**

The following table shows the changes in property, plant and equipment for the period ended 31 December 2014:

(Euro in thousands)	01/01/2014	Increases due to purchases	Decreases	Reclassifications	Depreciations	Change in the consolidation area	Exchange rate differences	31/12/2014
Land	5,435	-	-	-	-	-	22	5,457
Buildings	24,708	69	-	-	(830)	-	649	24,596
Plant and machinery	6,570	251	(18)	78	(1,072)	-	198	6,007
Equipment	550	223	-	5	(275)	-	-	503
Other assets	5,307	11,557	(5,833)	-	(1,071)	-	871	10,831
Assets in progress and advance payments to suppliers	593	197	(3)	(83)	-	-	18	722
Total property, plant and equipment	**43,163**	**12,297**	**(5,854)**	**-**	**(3,248)**	**-**	**1,758**	**48,116**

In 2014, the Tesmec Group invested in property, plant and equipment, net of disinvestments, an overall amount of Euro 6,443 thousand.

The description of the investment by individual items is indicated below:

- *plant and machinery* overall net investment of Euro 233 thousand of which Euro 178 thousand related to the acquisition of new plants by the subsidiary Tesmec USA;

- the item *equipment* shows a net increase of Euro 223 thousand in connection with investments made in the factories of the Group, in Tesmec S.p.A. and Tesmec Service S.r.l., in particular;

- the item *other assets* increased by a net amount of Euro 5,724 thousand, which is mainly attributable to changes in the machines of the fleet for a net amount of Euro 4,870 thousand due to: (i) decrease for sale of trencher machines previously booked in the fleet with net value of Euro 5,819 thousand and (ii) increase for entry in the trencher fleet of new machines for a total of Euro 10,689 thousand in relation to the start of new rental businesses.

The following table shows the changes in property, plant and equipment for the period ended 31 December 2013:

(Euro in thousands)	01/01/2013	Increases due to purchases	Decreases	Reclassifications	Depreciations	Change in the consolidation area	Exchange rate differences	31/12/2013
Land	4,192	1,250	-	-	-	-	(7)	5,435
Buildings	22,402	3,265	-	-	(738)	-	(221)	24,708
Plant and machinery	6,132	1,540	(44)	56	(1,053)	-	(61)	6,570
Equipment	475	339	(2)	-	(262)	-	-	550
Other assets	6,033	4,921	(4,343)	39	(1,017)	6	(332)	5,307
Assets in progress and advance payments to suppliers	542	149	-	(95)	-	-	(3)	593
Total property, plant and equipment	39,776	11,464	(4,389)	-	(3,070)	6	(624)	43,163

8. Investments in associated companies measured at equity method

The breakdown of investments in associated company measured at equity method as at 31 December 2014 and 2013 is indicated in the table below:

	31 December	
(Euro in thousands)	2014	2013
Associated companies:		
Locavert SA	431	301
Bertel S.p.A.	1,481	1,646
Subtotal	1,912	1,947
Joint Ventures:		
Condux Tesmec Inc	2,880	2,152
Tesmec Peninsula WLL	-	-
Subtotal	2,880	2,152
Total Equity investments measured using the equity method	4,792	4,099

Following the application of the equity method to investments - accounting standard adopted by the Group on the Joint Ventures - the margin achieved by Tesmec S.p.A. on the machines sold to them and not yet transferred to third-party customers as at 31 December 2014 was reversed against the value of the investment (if not sufficient, by creating a relevant covering provision).

The main financial statements items of associates and Joint Venture are summarised below:

	31 December 2014							
(Euro in thousands)	% held	Revenues	Net income	Assets	Liabilities	Shareholders' Equity	Equity investment value in the Consolidated Financial Statements	Value of provision for risks due to losses
Associated companies:								
Locavert SA	38.63%	270	83	691	260	431	431	-
Bertel	40.00%	120	(164)	1,488	920	568	1,481	-
Joint Ventures:								
Condux Tesmec Inc.	50.00%	5,503	550	4,148	1,241	2,907	2,880	-
Tesmec Peninsula	49.00%	5,379	366	5,614	5,323	291	-	608

9. Financial receivables and other non-current assets

The following table sets forth the breakdown of financial receivables and other non-current assets as at 31 December 2014 and 2013:

	31 December	
(Euro in thousands)	2014	2013
Guarantee deposits	274	18
Financial receivables from third parties	-	1
Total financial receivables and other non-current financial assets	274	19

The item *Financial receivables and other non-current financial assets* compared to the previous financial year increased by Euro 256 thousand as a result of deposits paid by the subsidiary Tesmec USA, Inc.

Current assets

10. Work in progress contracts

To better represent the financial statement contents, the Group, as from the 2014 financial period, reclassified the effects of construction contracts in the specific items of the Balance Sheet of "Work in progress contracts" and "Advances from contractors".
For a better comparison of the financial statement figures, the aforementioned classification was also applied with reference to the previous year (2013).

	31 December	
(Euro in thousands)	2014	2013
Work in progress (Gross)	8,211	-
Advances from contractors	(2,962)	-
Work in progress contracts	**5,249**	**-**
Advances from contractors (Gross)	-	2,607
Work in progress (Gross)	-	(1,489)
Advances from contractors	**-**	**1,118**

"Work in progress" is recognised as an asset if, on the basis of an analysis carried out for each contract, the gross value of work in progress is greater than advances from customers: it is recognised as a liability if the advances are greater than the related work in progress.
If the advances are not collected at the reporting date, the corresponding amount is recognised as trade receivables.

11. Inventories

The following table sets forth the breakdown of *Inventories* as at 31 December 2014 and 2013:

	31 December	
(Euro in thousands)	2014	2013
Raw materials and consumables	27,768	24,277
Work in progress	13,001	9,884
Finished products and goods for resale	14,469	11,934
Advances to suppliers for assets	152	519
Total Inventories	**55,390**	**46,614**

The measurement bases of inventories for what concerns raw materials and consumables, work in progress, finished goods and merchandise remained unchanged compared to the prior financial period.
In total, inventories increased by 18.8% amounting to Euro 8,776 thousand mainly due to the item raw materials and the item work in progress related to a lower sales volume in the fourth quarter of the period compared to the previous year especially of the subsidiary Tesmec USA.

The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2014 and 2013 are indicated in the table below:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Value as at 1 January	2,636	2,003
Provisions	581	670
Uses	-	(9)
Exchange rate differences	(84)	(28)
Total provisions for inventory obsolescence	**3,133**	**2,636**

The value of the provisions for inventory obsolescence increased by Euro 497 thousand compared to the prior financial period as consequence to effect of slow moving material and spare parts.
The evaluation of adequacy of the provision is carried out on a regular basis to constantly monitor the actual level of inventory recoverableness through sales.

12. Trade receivables

The table below shows the breakdown of trade receivables as at 31 December 2014 and 2013:

	31 December	
(Euro in thousands)	2014	2013
Trade receivables from third-party customers	38,716	35,796
Trade receivables from related parties	2,581	7,394
Total trade receivables	**41,297**	**43,190**

For terms and conditions relating to receivables from related parties, refer to paragraph 39.

Trade receivables from customers as at 31 December 2014 amounted to Euro 41,297 thousand down by Euro 1,893 thousand compared to the 2013 financial period for a decrease of trade receivables from related parties.
The balance of trade receivables due from related parties fell by Euro 4,813 thousand as a result of a volume of collections received greater than the sales for the period from Tesmec Peninsula and Condux Tesmec Inc...
The balance of trade receivables is shown net of provisions for doubtful accounts. This provision was calculated in an analytical manner by dividing the receivables in classes depending on the level of customer and Country risk and by applying to each class an expected percentage of loss derived from historical experience.
The changes in the provisions for doubtful accounts for the financial periods ended 31 December 2014 and 2013 are indicated in the table below:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Value as at 1 January	1,554	1,296
Provisions	532	551
Uses	(3)	(258)
Exchange rate differences	55	(35)
Total provisions for doubtful accounts	**2,138**	**1,554**

Provisions and uses related to the provisions for doubtful accounts are included in "other operating (costs)/revenues, net" of the income statement.

13. Tax receivables

The following table sets forth the breakdown of tax receivables as at 31 December 2014 and 2013:

	31 December	
(Euro in thousands)	2014	2013
IRAP receivables	5	28
IRES refunds	395	395
Other direct income taxes	89	-
Total tax receivables	**489**	**423**

Tax receivables as at 31 December 2014 mainly refers to receivables from tax authorities of Euro 395 thousand following the request for refund of the additional IRES paid for not having deducted the IRAP related to personnel costs in relation to the tax years from 2007 to 2011 in accordance with Italian Law Decree 16/2012.

14. Other available-for-sale securities

The following table sets forth the breakdown of other available-for-sale securities as at 31 December 2014 and 31 December 2013:

	31 December	
(Euro in thousands)	2014	2013
Shares of Banco Popolare Italiano	8	20
Shares of Banca Popolare di Vicenza	117	105
Total other available-for-sale securities	125	125

Other available-for-sale securities as at 31 December 2014 consists of 805 shares of Banco Popolare Italiano for a unit value of Euro 10.06 and of 1,793 and 4,750 shares of Banca Popolare di Vicenza for a unit value of Euro 62.5 and Euro 1.113, respectively.

15. Financial receivables and other current financial assets

The following table sets forth the breakdown of financial receivables and other current financial assets as at 31 December 2014 and as at 31 December 2013:

	31 December	
(Euro in thousands)	2014	2013
Financial receivables due from related parties	6,552	8,447
Financial receivables from third parties	-	891
Other current financial assets	121	69
Total financial receivables and other current financial assets	6,673	9,407

The decrease in *financial receivables and other current financial assets* of Euro 2,734 thousand is due for Euro 891 thousand to the collection of financial receivables from third parties generated by the associate Tesmec USA and for Euro 1,895 thousand to the collection of financial receivables from Tesmec Peninsula.

Here are the details of Financial receivables due from related parties and related interest rates:

- Condux Tesmec, Inc of Euro 156 thousand 1-month Libor rate + spread of 3%;
- Tesmec Peninsula WLL of Euro 4,729 thousand with annual interest rate of 1.5% and 3.5% on the portion disbursed as loan by both shareholders of USD 1,500 thousand;
- Bertel S.p.A. of Euro 563 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3%.

16. Other current assets

The following table sets forth the breakdown of other current assets as at 31 December 2014 and as at 31 December 2013:

	31 December	
(Euro in thousands)	2014	2013
Accrued income	-	33
Prepaid expenses	592	405
VAT credit	968	344
Other receivables	781	524
Advance to suppliers for services	150	131
Total Other current assets	2,491	1,437

Other current assets is considered receivable and therefore was not subject to value adjustment.
VAT credit, which amounted to Euro 968 thousand as at 31 December 2014, increased by Euro 624 thousand compared to 31 December 2013.

17. Cash and cash equivalents

The following table sets forth the breakdown of the item as at 31 December 2014 and 2013:

	31 December	
(Euro in thousands)	2014	2013
Bank and post office deposits	18,525	12,863
Cash on hand	49	67
Other cash	91	848
Total cash and cash equivalents	**18,665**	**13,778**

Cash and cash equivalents are deposited in current deposits and they are remunerated at a floating rate related to the Euribor trend. The balance as at 31 December amounts to Euro 18,665 thousand and increased by Euro 4,887.
Cash and cash equivalents are recorded in Tesmec S.p.A. for Euro 14,316 thousand, Tesmec USA, Inc. for Euro 2,210 thousand, Tesmec Service S.r.l. for Euro 1,618 thousand and the other companies of the Group for total amount of Euro 521 thousand.
The stated values can be readily converted into cash and are subject to a non-significant risk of change in value. The book value of cash and cash equivalents is deemed to be aligned to their fair value at the end of the reporting period.
The Group believes that the credit risk related to cash and cash equivalents is limited since it mainly represents deposits divided across domestic and international banking institutions.

18. Shareholders' Equity

Equity

The share capital amounts to Euro 10,708 thousand, fully paid up, and comprises 107,084,000 shares with a par value of Euro 0.1 per share.

The following table sets forth the breakdown of *Other reserves* as at 31 December 2014 and 2013:

	31 December	
(Euro in thousands)	2014	2013
Revaluation reserve	86	86
Extraordinary reserve	16,881	14,939
Change in the consolidation area	(43)	(44)
Severance indemnity valuation reserve	(317)	(146)
Network Reserve	794	794
Retained earnings/(losses brought forward)	5,171	4,637
Bills charged directly to shareholders' equity on operations with entities *under common control*	(4,048)	(4,048)
Total other reserves	**18,524**	**16,218**

The *revaluation reserve* is a reserve in respect of which tax has been deferred, set up in accordance with Italian Law No. 72/1983.

The value of translation differences has a positive impact on Shareholders' Equity of Euro 3,569 on 31 December 2014.
Following the resolution of 30 April 2014, the Shareholders' Meeting approved the allocation of 2013 profits of Euro 3,879 thousand as follows:

- allocate Euro 194 thousand to the legal reserve;
- assign a dividend of Euro 0.016 to each outstanding ordinary share;
- assign to the Extraordinary Reserve the amount of profit remaining after the allocation to the Legal reserve and dividend.

Non-current liabilities

19. Medium-long term loans

Medium-long term loans include medium-long term loans from banks, payables towards other providers of finance and payables towards leasing companies for tangible fixed assets recorded in the consolidated financial statements in accordance with the financial leasing accounting method. The following table shows the breakdown thereof as at 31 December 2014 and as at 31 December 2013, with separate disclosure of the current portion:

	31 December			
(Euro in thousands)	2014	of which current portion	2013	of which current portion
Iccrea Banca – Istituto Centrale del Credito Cooperativo – unsecured pool loan 70% backed by Sace guarantee; original value Euro 2 million; drawn down on 6 August 2009 with maturity date 30 September 2014; floating interest rate equivalent to 3-month Euribor rate + spread of 1.70%	-	-	310	310
Banca Popolare dell'Emilia Romagna – unsecured loan 70% backed by Sace guarantee; original value Euro 2 million; drawn down on 20 October 2009 with maturity date 31 December 2014; fixed annual interest rate of 4.2%	-	-	434	434
Banca Nazionale del Lavoro – loan at floating interest rate with a 2-year pre-amortisation; original value Euro 6 million; drawn down on 1 July 2010 with maturity date 31 May 2018; floating interest rate equivalent to 6-month Euribor rate + spread of 2.25%	3,692	923	4,615	923
BNL-BNP Paribas Group - loan in pool; original value Euro 21 million, drawn down on 11 march 2011 Euro 8 million with maturity date 4 march 2016, floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25). On 4 and 5 August 2011, Euro 4 million, on 9 November 2011, Euro 2 million, on 9 February 2012, Euro 2 million, on 31 May 2012, Euro 2 million and on 23 October 2012, another Euro 3 million with maturity date 4 march 2013, floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25) with option to extend repayment in 54 months (in 9 deferred half-yearly instalments) last instalment expiring on 4 September 2017, 6-month Euribor rate + spread of 1.90% (+/- 0.25).	11,210	5,117	16,882	5,672
Credito Valtellinese - unsecured loan of Euro 2 million 50% backed by Sace guarantee, drawn down on 23 December 2011 with maturity date 31 December 2014, floating interest rate equivalent to 3-month Euribor rate + spread of 3%.	-	-	693	693
Credito Valtellinese - unsecured loan of Euro 1 million, drawn down on 11 January 2012 with maturity date 31 March 2015, floating interest rate equivalent to 3-month Euribor rate + spread of 5%	90	90	438	347
Credito Valtellinese - unsecured loan of Euro 2 million backed by Sace guarantee, drawn down on 1 June 2012 with maturity date 30 June 2015, floating interest rate equivalent to 3-month Euribor rate + spread of 3%	345	345	1,017	671
Simest UGF - loan for a total of Euro 1.9 thousand and drawn down the first tranche of Euro 580 thousand on 28 March 2013 with maturity date 14 February 2020, special annual interest rate of 0.4994%.	977	97	580	-
Cariparma - loan of Euro 1.5 million, drawn down on 21 October 2013 with maturity date 21 October 2017, floating interest rate equivalent to 6-month Euribor rate + spread of 3%.	1,134	365	1,487	354
Banca Popolare dell'Emilia Romagna – unsecured loan; original value Euro 3 million; drawn down on 20 November 2013 with maturity date 7 November 2016; floating interest rate equivalent to 3-month Euribor rate + spread of 3.73%	2,023	992	2,979	956

Banco di Desio - unsecured loan of Euro 1.5 million, drawn down on 10 December 2013 with maturity date 10 December 2016, floating interest rate equivalent to 3-month Euribor rate + spread of 4%.	1,014	496	1,489	475
Veneto Banca - unsecured loan of Euro 2.5 million, drawn down on 23 December 2013 with maturity date 31 December 2018, floating interest rate equivalent to 6-month Euribor rate + spread of 3.9%.	2,021	474	2,475	454
ICCREA/BCC Chiro - loan of Euro 3.5 million 70% backed by Sace guarantee, drawn down on 27 March 2014 with maturity date 27 March 2022, floating interest rate equivalent to 6-month Euribor rate + spread of 3.95%.	3,244	209	-	-
Banca Popolare di Vicenza S.c.p.a. and KNG Securities LLP - bond issue Euro 15 million, drawn down on 10 April 2014 with maturity date 10 April 2021, fixed gross interest rate of 6% and an annual delayed coupon.	14,609	(62)	-	-
Sondrio - loan of Euro 1 million, drawn down on 4 August 2014 with maturity date 31 August 2017, averaged floating interest rate equivalent to 1-month Euribor rate + spread of 3.5%.	893	325	-	-
Banca popolare di Bergamo - loan of Euro 1.5 million, drawn down on 9 October 2014 with maturity date 9 October 2016, floating interest rate equivalent to 3-months Euribor rate + spread of 2.25%.	1,377	744	-	-
Comerica - unsecured loan received by TESMEC USA and guaranteed by a building owned by this company; amounting to USD 4.7 million, drawn down on 3 July 2013 with maturity date 3 July 2018, monthly repayment with constant principal and floating interest rate equivalent to 1-month LIBOR + spread 3.25%.	3,473	256	3,312	158
Total Interest-bearing financial payables	**46,102**	**10,371**	**36,711**	**11,447**
Less current portion	(10,371)		(11,447)	
Non-current portion of interest-bearing financial payables	**35,731**		**25,264**	
Loan due to Simest	7,406		7,406	
Total medium-long term loans	**43,137**		**32,670**	
Non-current portion of finance leases	21,198	2,474	23,112	2,277
Less current portion	(2,474)		(2,277)	
Non-current portion of finance leases, net	**18,724**		**20,835**	
Total current portion		**12,845**		**13,724**
Medium-long term loans	**61,861**		**53,505**	

Loan contracts signed with ICCREA-BCC, BNL and Comerica contain certain financial covenant clauses. In particular, they require that certain parameters, calculated on the basis of the financial statements of the Group and of the financial statements of Tesmec USA, have to be met; they are verified on a semi-annual and annual basis.

In general, covenants are based on the observance of the following relations:

- Net financial indebtedness/EBITDA
- Net financial indebtedness/Shareholders' equity
- EBITDA/Financial expenses
- Effective Net Worth
- Debt-to-Tangible Effective Net Worth Ratio
- Debt Service Coverage Ratio

Based on the results of the financial statements of the Company and of the Tesmec Group, all expected covenants on medium to long-term loans have been observed.

Note that during 2014 new medium to long term loans were opened for a value of Euro 20,967 thousand against a total value of the same lines repaid of Euro 14,020 thousand.
The average cost of indebtedness is benchmarked to the trend of the three-month Euribor rates plus a *spread* applied depending also on the type of the financial instrument used.

The table below shows the figures relevant to the outstanding loans of the Company as at 31 December 2014, by indicating the portion due within one year, within 5 years and after more than 5 years:

Description	Maturity	Interest rate	Residual value as at 31 December 2014	Portion within 12 months	Portion within 5 years	Portion after more than 5 years
Banca Nazionale del Lavoro	31-May-18	floating interest rate equivalent to 6-month Euribor rate + spread of 2.25%	3,692	923	2,769	-
Banca Nazionale del Lavoro	04-Mar-16	floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25)	11,210	5,117	6,093	-
	04-Sep-17	floating interest rate equivalent to 6-month Euribor rate + spread of 1.90% (+/- 0.25)	-	-		
Credito Valtellinese	31-Mar-15	floating interest rate equivalent to 3-month Euribor rate + spread of 5%	90	90	-	-
Credito Valtellinese	30-Jun-15	floating interest rate equivalent to 3-month Euribor rate + spread of 3%	345	345	-	-
Simest UGF	04-Feb-20	special annual interest rate of 0.4994%	977	97	783	97
Cariparma	21-Oct-17	floating interest rate equivalent to 6-month Euribor rate + spread of 3%	1,134	365	769	-
Banca Popolare dell'Emilia Romagna	07-Nov-16	floating interest rate equivalent to 3-month Euribor rate + spread of 3.73%	2,023	992	1,031	-
Banco di desio	10-Dec-16	floating interest rate equivalent to 3-month Euribor rate + spread of 4%	1,014	496	518	-
Veneto Banca	31-Dec-18	floating interest rate equivalent to 6-month Euribor rate + spread of 3.9%.	2,021	474	1,547	-
ICCREA/BCC Chiro	27-Mar-22	floating interest rate equivalent to 6-month Euribor rate + spread of 3.95%	3,244	209	1,862	1,173
Banca Popolare di Vicenza S.c.p.a. e da KNG Securities LLP	10-Apr-21	fixed gross interest rate of 6%	14,609	(62)	(250)	14,921
Sondrio	31-Aug-17	averaged floating interest rate equivalent to 1-month Euribor rate + spread 3.5%	893	325	568	-
Banca popolare di Bergamo	09-Oct-16	floating interest rate equivalent to 3-months Euribor rate + spread 2.25%	1,377	744	633	-
Comerica	03-Jul-18	floating interest rate equivalent to 1-month LIBOR + spread 3.25%	3,473	256	1,001	2,216
Total			**46,102**	**10,371**	**17,324**	**18,407**

Net financial indebtedness

As required by CONSOB Communication of 28 July 2006 and in compliance with CESR Recommendation of 10 February 2005 "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses", the Group's net financial indebtedness is as follows:

(Euro in thousands)	31 December			
	2014	*of which with related parties and group*	2013	*of which with related parties and group*
Cash and cash equivalents	(18,665)		(13,778)	
Current financial assets [1]	(6,798)	*(6,552)*	(9,532)	*(8,447)*
Current financial liabilities	36,506	*1,100*	38,082	*995*
Current portion of derivative financial instruments	-		-	
Current financial indebtedness [2]	11,043	(5,452)	14,772	(7,452)
Non-current financial liabilities	61,861	*15,954*	53,505	*17,054*
Non-current portion of derivative financial instruments	460		543	
Non-current financial indebtedness [2]	62,321	15,954	54,048	17,054
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	73,364	10,502	68,820	9,602

(1) Current financial assets as at 31 December 2014 and 31 December 2013 include the market value of shares and warrants, which are therefore considered cash and cash equivalents.
(2) Current and non-current financial indebtedness is not identified as an accounting element by the IFRS. The valuation criteria applied by the Group may not necessarily be the same as those adopted by other groups and therefore the balances obtained by the Group may not be comparable therewith.

During the 2014 financial period, the Group's *net financial indebtedness* increased compared to 2013 by Euro 4,544 thousand, due to the combined effect of the following changes:

- increase in current financial assets and cash and cash equivalents from Euro 23,310 thousand to Euro 25,463 thousand; this change of Euro 2,153 thousand includes the collections received at the end of the year;
- decrease in current financial liabilities from Euro 38,082 thousand to Euro 36,506 thousand also due to the reclassification of the current portion of medium/long-term loans pursuant to the paragraph below;
- increase in non-current financial liabilities from Euro 53,505 thousand to Euro 61,861 thousand mainly due to: (i) reclassification under the current financial indebtedness of Euro 12,611 thousand relating to the short-term portion of medium/long-term loans (ii) decrease in financial leases (Euro 18,724 thousand as at 31 December 2014 compared to Euro 20,835 thousand as at 31 December 2013) net of (iii) the drawing-up of new medium/ long-term loan agreements amounting to Euro 20,967 thousand;
- increase of the non-current financial is attributable for Euro 15 million to the bond issue admitted to trading on the Extra MOT PRO market on 8 April 2014, with a seven year term and a fixed gross interest rate of 6% and an annual delayed coupon.

This table shows the comparison between the book value and the fair value of the financial instruments as at 31 December 2014:

(Euro in thousands)	Book value as at 31 December 2014	Fair value
Financial liabilities:		
Loans [1]	56,317	64,804
Non-current portion of finance leases, net	21,198	24,605
Total	77,515	89,409

(1) The item includes the value of loans short-term loans to third parties of Euro 2,809 thousand classified in item "Interest-bearing financial payables (current portion)".

20. Derivative financial instruments

The Group signed some contracts related to derivative financial instruments whose contractual characteristics and related fair value as at 31 December 2014 and 2013 are shown in the table below:

Counterparts	Type	Debt interest rate (fixed)	Credit interest rate (variable)	Start date	Maturity date	Notional principal (Euro)	Fair Value (Euro/000) as at 31 December 2014	2013
BNL	IRS	1.15% 1st year; 1.65% 2nd year; 2% 3rd year; 2.60% five following years	3-month Euribor	01/09/2010	31/05/2018	3,692,308	(199)	(228)
BNL	IRS	Fixed interest rate 2.57%	3-month Euribor	07/07/2011	04/03/2016	3,051,429	(75)	(160)
BNL	IRS	Fixed interest rate 1.49%	3-month Euribor	07/03/2012	04/09/2017	4,520,533	(103)	(120)
BNL	IRS	Fixed interest rate 0.8%	3-month Euribor	16/11/2012	04/09/2017	4,146,133	(44)	(24)
Veneto Banca	IRS	Fixed interest rate 1.09%	6-month Euribor	23/12/2013	31/12/2018	2,041,881	(39)	(11)
Icrea	CAP	Interest rate for the period 0.75%	6-month Euribor	17/04/2014	27/09/2020	2,785,714	14	-
Emilia Romagna	CAP	Interest rate for the period 0.50%	3-month Euribor	07/05/2014	07/11/2016	2,036,889	1	-
Cariparma	CAP	Interest rate for the period 0.75%	3-month Euribor	21/01/2014	23/10/2017	1,143,043	1	-
Assets for derivative instruments							16	-
Liabilities for derivative instruments within the financial period							-	-
Liabilities for derivative instruments beyond the financial period							(460)	(543)

The Group uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The transactions for interest-rate risk hedging are limited to medium to long term loans. These hedging transactions are mainly related to medium-term loans. The Group does not account for these financial instruments according to the methods established for hedge accounting since they do not meet all the requirements provided on this matter by the international accounting standards. Therefore, the changes in fair value of the financial instruments are attributed to the income statement during the financial period under review.
The financial management of the Group does not envisage the trading of derivative instruments with speculative purposes.

21. Employee benefit liability

The Group has no defined benefit pension plans in the strict sense. However, the severance indemnity fund allocated by the Parent Company required by Article 2120 of the Italian Civil Code, in terms of recognition in the financial statements, falls under this type and as such was accounted for, as shown in the applied accounting policies.
The following table shows the changes for the period ended 31 December 2014 and 31 December 2013 of employee benefits:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Present value of the liability at the beginning of the period	2,705	2,666
Financial expense	84	80
Benefits accrued	70	61
Benefits paid	(78)	(107)
Actuarial profit / loss recognised	-	-
Financial loss (profit)	(29)	(26)
Demographic loss (profit)	264	31
Present value of the liability at the end of the period	3,016	2,705

With the adoption of the IFRS, the severance indemnity is considered a defined-benefit liability to be accounted for in accordance with IAS 19 and, as a result, the relevant liability is measured based on actuarial techniques.
The main assumptions used in determining the present value of the severance indemnity are shown below:

Economic and financial technical bases

(Euro in thousands)	Financial period ended 31 December 2014	2013
Annual discount rate	1.60%	3.10%
Inflation rate	1.50%	2.00%
Expected turnover rate of employees	3.00%	3.00%
Advance rate	2.00%	3.00%

The sensitivity analyses are shown below by using an annual discount rate of +0.5% and -0.5% compared to the annual discount rate used on the valuation date.

(Euro in thousands)	Discount rate 0.50%	-0.50%
Effect on the aggregate current cost of the service and of the financial expenses	(4)	5
Reported value for liabilities with respect to defined benefit plans	(137)	109

Technical and demographic bases

(Euro in thousands)	Financial period ended 31 December 2014	2013
Mortality	2004 ISTAT tables	IPS55 tables
Disability	INPS tables	INPS-2000 tables
Retirement age	Monti-Fornero law	64.96

Frequency of turnover and advances on severance indemnity

(Euro in thousands)	Financial period ended 31 December 2014	2013
Advance frequency %	0.33%	0.64%
Turnover frequency %	34.25%	33.73%

Workforce

The average number of employees by company, expressed in terms of full-time employees is shown in the following table:

	Financial period ended 31 December			
(average no. of employees)	2014	2013	2014 vs. 2013	%
Tesmec S.p.A.	310	312	(2)	-0.64%
Tesmec Service S.r.l.	34	29	5	17.24%
Tesmec USA, Inc.	126	92	34	36.96%
Tesmec SA (Pty) LTD	8	6	2	33.33%
OOO Tesmec RUS	7	7	-	0.00%
Tesmec Balkani EAD	-	1	(1)	-100.00%
SGE S.r.l.	6	-	6	100.00%
Tesmec New Technology Beijing LTD	5	-	5	100.00%
Total	496	447	49	10.96%

The average number of employees as at 31 December 2014 shows the growing trend of the Group in 2013 related to the expansion of foreign branches.

Current liabilities

22. Interest-bearing financial payables (current portion)

The following table sets forth the breakdown of *Medium-long term loans (current portion)* for the 2014 and 2013 financial periods:

	31 December	
(Euro in thousands)	2014	2013
Advances from banks against invoices and bills receivables	18,786	19,275
Other financial payables (short-term leases)	2,474	2,277
Payables due to factoring companies	2,066	1,483
Guarantee deposits	-	117
Current account overdrafts	-	505
Short-term loans to third parties	2,809	2,978
Current portion of medium/long-term loans	10,371	11,447
Total interest-bearing financial payables (current portion)	**36,506**	**38,082**

The current portion of medium/long-term loans decreased by Euro 1,076 thousand following the drawing-up and reclassifications of loans during 2014 described in paragraph 19.

23. Trade payables

The breakdown of *Trade payables* as at 31 December 2014 and as at 31 December 2013, respectively, is indicated in the table below:

	31 December	
(Euro in thousands)	2014	2013
Trade payables due to third-parties	34,171	24,624
Trade payables due to related parties	8	905
Total trade payables	**34,179**	**25,529**

Trade payables as at 31 December 2014 increased by Euro 8,650 thousand, 33.9% compared to the previous financial period as a result of a greater volume of purchases made in the last part of the year.
This figure includes payables related to the normal course of business by the Group, in particular the purchase of raw materials and outsourced works.
Note also that there are no payables with maturity exceeding five years at the above dates.

24. Income taxes payable

The balance of Euro 1,003 thousand as at 31 December 2014, Euro 2,160 thousand as at 31 December 2013, represents the amount payable for current income taxes for the period.

	31 December	
(Euro in thousands)	2014	2013
Current IRES tax liabilities	542	943
Current IRAP tax liabilities	452	456
Other current taxes	9	761
Total income taxes payable	**1,003**	**2,160**

IRES and IRAP taxes payable as at 31 December 2014 includes the net payable due by the Group for the payment of direct income taxes. Other current taxes includes tax receivables accrued by the American associate.

25. Provisions for risks and charges

Provisions for risks and charges mainly refers to the product guarantee fund and partially to the adjustment of the value of consolidated investments by using the equity method. With reference to the guarantee fund, the calculation is based on a historical, statistical and technical analysis of the interventions under guarantee carried out on sales in prior financial periods and includes both the cost of labour and that for spare parts used.
Changes in the *provisions for risks and charges* as at 31 December 2014 and as at 31 December 2013 are indicated below:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Value as at 1 January	2,222	1,773
Provisions	15	756
Uses	(1,219)	(300)
Exchange-rate differences	22	(7)
Value as at 31 December	1,040	2,222

26. Other current liabilities

The following table sets forth the breakdown of *other current liabilities* as at 31 December 2014 and 2013:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Due to social security	836	846
Due to INAIL (National Insurance Institute for Industrial Accidents)	125	88
Due to trade funds	152	141
Due to employees and collaborators	2,257	2,126
Due to others	696	903
Accrued expenses and liabilities	932	239
Total other current liabilities	4,998	4,343

Other current liabilities increased compared to the prior financial period of Euro 655 thousand; this change is mainly related to increases in the item accrued expenses and liabilities in the subsidiary Tesmec USA.

27. Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2014 and 2013:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Deferred tax assets	3,374	4,110
Deferred tax liabilities	2,892	1,830

The breakdown of net deferred taxes as at 31 December 2014 and 2013 is shown in the following table by type by listing the items that present underlying temporary differences:

	31 December		31 December		Financial period ended 31 December	
	Statement of financial position		Shareholders' equity		Income statement	
(Euro in thousands)	2014	2013	2014	2013	2014	2013
Deferred tax assets						
Reversals of intangible assets	69	151	-	-	(82)	(85)
Obsolescence fund	734	634	-	-	100	210
Unrealised exchange-rate losses	374	558	-	-	(184)	355
Tax effect on UCC gain reversals	392	465	-	-	(73)	(98)
Tax effect on intercompany margin adjustments	785	919	-	167	(134)	379
Deferred tax assets TESMEC USA	600	755	(155)	(152)	-	(40)
Listing expenses	-	306	-	-	(306)	(306)
Other temporary differences	420	322	60	(55)	38	(26)
Total deferred tax assets	**3,374**	**4,110**	**(95)**	**(40)**	**(641)**	**389**
Deferred tax liabilities						
Unrealised exchange-rate gains	(780)	(329)	-	-	(451)	(70)
Difference of value - USA building	(280)	(255)	(32)	11	7	8
Capitalisation of Development costs TESMEC USA	(1,006)	(470)	(118)	17	(418)	(487)
Deferred tax liabilities TESMEC USA	(226)	(380)	(34)	21	188	520
Profits allocated to network reserve	(250)	(250)	-	(250)	-	-
Tax effect on intercompany margin adjustments	(58)	-	21	-	(79)	-
Other temporary differences	(292)	(146)	293	5	(439)	100
Total deferred tax liabilities	**(2,892)**	**(1,830)**	**130**	**(196)**	**(1,192)**	**71**
Effect on Shareholders' Equity						
Net balance deferred wealth taxes	482					
Represented in the income statement as follows:						
Deferred tax assets	(641)					
Deferred tax liabilities	(1,192)					
Deferred tax liabilities, net	(1,833)					

Current taxation

Profit before taxes and the allocation for income taxes for the financial periods as at 31 December 2014 and 2013 are summarised below:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Consolidated pre-tax profits	8,321	7,844
Current taxation:		
Italy	(1,991)	(2,724)
USA	408	(1,068)
Rest of the World	-	(140)
Deferred tax liabilities/assets		
Italy	(1,401)	296
USA	(398)	57
Rest of the World	(34)	107
Total Income taxes	(3,416)	(3,472)

The reconciliation between the nominal tax rate established by the Italian legislation and the effective tax rate resulting from the consolidated financial statements is set below:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Profit before tax	8,321	7,844
Ires tax rate in force during the period	27.50%	27.50%
Theoretical tax charge	(2,288)	(2,157)
Irap	(795)	(837)
Permanent tax differences	(709)	(591)
Effect of different tax rate for foreign companies	376	113
Total difference	(333)	(478)
Total tax charge as per income statement	(3,416)	(3,472)

Comments to the main items in the income statement

28. Revenues from sales and services

In the 2014 and 2013 financial periods, revenues from sales and services amounted to Euro 114,895 thousand and Euro 113,549 thousand, respectively. The breakdown is set below:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Sales of products	104,491	108,134
Services rendered	4,228	4,469
	108,719	112,603
Changes in work in progress	6,176	946
Total revenues from sales and services	114,895	113,549

The breakdown of *revenues from sales and services* shows an increase of Euro 1,346 thousand (1.2%) deriving from the combined effect of a 107.8% growth in the rail segment and a decrease in the stringing equipment and trencher segment of 3.8% and 5.2%, respectively.

The Rail segment recorded a sustained growth of revenues compared to the same period of the previous year and with a good level of geographic diversification; this shows the positive effects of the integration of the offer of the recent acquisition of the rail business unit. Due to this trend, the contribution to total revenues of the Rail segment increased from 5.1% as at 31 December 2013 to 10.4% as at 31 December 2014.
It should be noted that revenues in 2014 and 2013 include the effects of the state completion of contracts in progress at the end year for a total amount equal to Euro 6,176 thousand and Eur 946 thousand.

In the Trencher segment, the results were positively sustained by the uptrend of sales in the US market whereas the contribution of sales of other markets (Middle East) was affected by the policies to reduce the warehouse stock applied by the distributors of the area.

In the Stringing equipment segment, the temporary slowdown of projects to lay new power lines in so-called Emerging countries, which had already influenced results in the second half of the previous year, is still visible.
It should be noted, however, that in the lastquarter of the year was acquired an order for Euro 37.0 million from the Group Abengoa, which will generate revenues in the first half of 2015.

29. Cost of raw materials and consumables

For the financial periods as at 31 December 2014 and 31 December 2013, cost of raw materials and consumables amount to Euro 55,536 thousand and Euro 54,766 thousand, respectively.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Cost for the purchase of raw materials and consumables	61,692	58,074
Change in inventories	(6,156)	(3,309)
Total cost of raw materials and consumables	55,536	54,765

Cost of raw materials and consumables increased by Euro 771 thousand (+1.4%) slightly more than proportionally than the increase in sales volumes (+1.2%).

30. Costs for services

The table below shows the breakdown of *recurring and non-recurring costs for services* that amounted in 2014 and in 2013 to Euro 19,005 thousand and Euro 19,897 thousand, respectively.

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Transport, customs and incidental expenses	2,922	2,538
Outsourced work service	2,977	2,789
External production services	979	1,152
Services for legal, tax, technical and other consultancy	3,159	3,963
Banking services	867	854
Insurance	390	331
Energy, water, gas, telephone expenses and postage	1,124	1,156
Board and lodging expenses and travelling allowance	1,440	1,166
Directors' and Auditors' fees	907	1,408
Advertising and other selling expenses	870	829
Maintenance services	541	444
Commissions and additional expenses	2,050	2,433
Other general expenses	779	834
Total costs for services	19,005	19,897

The inversely proportional decrease of costs for services (-4.5%) compared to the increase in revenues (-1.2%) is due to the following changes:

- *legal, tax, technical and other consultancy costs* of Euro 3,159 thousand in the 2014 financial period compared to Euro 3,963 thousand in the 2013 financial period. This item included costs related to new commercial initiatives on foreign markets for which the Company made use of the experience of external consultants;
- *Directors' and Auditors' fees* decreased by Euro 501 thousand compared to the 2013 financial year as the targets expected for the variable component of remuneration of the Chief Executive Officer could not be reached;
- *commissions and additional expenses* decreased by 15.7% both due to the reduction in revenues of the Stringing equipment segment where the structure most commonly used is indirect sales.

31. Payroll costs

During the financial periods ended 31 December 2014 and 31 December 2013, payroll costs amounted to Euro 26,053 thousand and Euro 22,698 thousand, respectively, up by 14.8%.

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Wages and salaries	19,544	16,859
Social security charges	4,450	4,295
Employee severance indemnity	872	825
Other personnel costs	1,187	719
Total payroll costs	26,053	22,698

The 14.8% increase of this item is mainly related to the increase of activities and resources also following the recent acquisition for the diversification of the offer of the Group both in the rail sector and to a lower extent in Network.

32. Other operating (costs)/revenues, net

During the financial periods ended 31 December 2014 and 31 December 2013, other net operating (costs)/revenues amounted to Euro 2,527 thousand and Euro 1,989 thousand, respectively.

The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Provisions for risks and other provisions	638	458
Rents	839	1,162
Hiring	588	488
Other lease and rental expenses	712	16
Sundry taxes	433	381
Other revenues	(1,396)	(892)
Other	713	376
Total other operating (costs)/revenues, net	2,527	1,989

Other operating (costs)/revenues increased by Euro 538 thousand compared to the previous financial year, in particular, *rents* decreased by Euro 323 thousand thanks to the new lease contract of the industrial complex of Sirone occurred in December 2013 that enabled the rental cost savings of Euro 488 thousand per year.
Other lease and rental expenses refer to lease costs of machines that were re-rented to third-party customers.

33. Amortisation and depreciation

During the financial periods ended 31 December 2014 and 31 December 2013, depreciation and amortisation amounted to Euro 7,876 thousand and Euro 6,979 thousand, respectively, with a 12.9% increase.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Amortisation of intangible assets	4,628	3,909
Depreciation of property, plant and equipment	3,248	3,070
Total amortisation and depreciation	7,876	6,979

The change of Euro 897 thousand is related to investments and divestments in the period.

34. Development costs capitalised

Development costs capitalised for the financial periods ended 31 December 2014 and 31 December 2013 amounted to Euro 5,633 and Euro 4,900 thousand, respectively.
During the financial period, the item did not increase by Euro 733 thousand related to the project development for the launch of new models and new functions requested by the markets in which the company operates, maintaining the leadership position in the segment.

35. Financial expenses

During the financial periods ended 31 December 2014 and 31 December 2013, financial expenses amounted to Euro 6,662 thousand and Euro 6,643 thousand, in line with the previous year.

The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Bank interests expense	456	224
Interests payable for factoring and billing discounts	369	293
Interests payable on interest-bearing loans and borrowings	2,024	1,100
Interests payable on advance loans on exports	514	469
Interests payable on derivative instruments	282	295
Other sundry financial expenses	361	106
Financial expenses on lease contracts	1,437	1,323
Realised foreign exchange losses	516	843
Unrealised foreign exchange losses	656	1,980
Fair value adjustment of derivative instruments	47	10
Total financial expenses	6,662	6,643

Financial expenses is in line with the previous year thanks to the combined effect of:

- decrease in *foreign exchange losses (realised and unrealised)* of Euro 1,651 thousand due to the exchange rate used on the date of collection compared to the one used on the invoice date and to the adjustment to the exchange rate in effect as at 31 December 2014 of the currency items;
- increase in *interest rates payable on interest-bearing loans and borrowings* of Euro 924 thousand following the drawing-up of new medium/long-term loans.

36. Financial income

During the financial periods ended 31 December 2014 and 31 December 2013, financial income amounted to Euro 4,570 thousand and Euro 2,002 thousand, respectively.

The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Interests from banks	57	15
Realised foreign exchange gains	704	733
Unrealised foreign exchange gains	3,264	791
Fair value adjustment of derivative instruments	146	281
Sundry income	399	182
Total financial income	4,570	2,002

Financial income increased by Euro 2,568 thousand due to the exchange rate used on the date of collection compared to the one used on the invoice date and to the adjustment to the exchange rate in effect as at 31 December 2014 of the currency items. This result benefited from the exchange rate of Dollar-Eur especially in the last quarter of the year.

37. Segment Reporting

For management purposes, the Tesmec Group is organised into strategic business units on the basis of the nature of the goods and services supplied, and presents three operating segments for disclosure purposes:

Stringing equipment segment

- machines and integrated systems for overhead and underground stringing of power lines and fibre optic cables; integrated solutions for the streamlining, management and monitoring of low, medium and high voltage power lines (smart grid solutions).

Trencher segment

- high-efficiency crawler trenching machines for excavation with a set section for the construction of infrastructures for the transmission of data, raw materials and gaseous and liquid products in the various segments): energy, farming, chemical and public utilities, crawler machines for working in the mines, surface works and earth moving works (RockHawg);
- specialised consultancy and excavation services on customer request;
- multipurpose site machinery (Gallmac).

Rail segment

- machines and integrated systems for the installation, maintenance and diagnostics of the railway catenary wire system, plus customised machines for special operations on the line.

No operating segment has been aggregated in order to determine the indicated operating segments subject-matter of the reporting.

	31 December									
	2014					2013 (*)				
(Euro in thousands)	Stringing equipment	Trencher	Rail	Not allocated	Consolidated	Stringing equipment	Trencher	Rail	Not allocated	Consolidated
Intangible assets	3,206	3,387	5,779	-	12,372	2,824	3,527	3,863	-	10,214
Property, plant and equipment	11,885	36,131	100	-	48,116	12,367	30,720	76	-	43,163
Financial assets	4,364	432	-	289	5,085	3,585	318	-	218	4,121
Other non-current assets	36	696	63	3,577	4,372	-	-	29	4,925	4,954
Total non-current assets	19,491	40,646	5,942	3,866	69,945	18,776	34,565	3,968	5,143	62,452
Work in progress contracts	-	-	5,249	-	5,249	-	-	-	-	-
Inventories	13,753	41,470	167	-	55,390	12,142	33,883	589	-	46,614
Trade receivables	12,084	26,187	1,143	1,883	41,297	10,897	30,245	2,048	-	43,190
Other current assets	307	122	498	8,762	9,689	1,602	9,482	526	(218)	11,392
Cash and cash equivalents	-	-	18,665	-	18,665	-	-	-	13,778	13,778
Total current assets	26,144	67,779	25,722	10,645	130,290	24,641	73,610	3,163	13,560	114,974
Total assets	45,635	108,425	31,664	14,511	200,235	43,417	108,175	7,131	18,703	177,426
Shareholders' equity attributable to Parent Company Shareholders	-	-	-	48,164	48,164	-	-	-	41,787	41,787
Shareholders' equity attributable to non-controlling interests	-	-	-	9	9	-	-	-	8	8
Non-current liabilities	13	-	622	67,633	68,268	-	-	317	58,291	58,608
Current financial liabilities	-	-	-	36,506	36,506	-	-	38,082	-	38,082
Trade payables	11,939	20,287	1,953	-	34,179	12,097	12,915	517	-	25,529
Other current liabilities	5,567	1,273	262	6,007	13,109	5,006	7,066	1,340	-	13,412
Total current liabilities	17,506	21,560	2,215	42,513	83,794	17,103	19,981	39,939	-	77,023
Total liabilities	17,519	21,560	2,837	110,146	152,062	17,103	19,981	40,256	58,291	135,631
Total shareholders' equity and liabilities	17,519	21,560	2,837	158,319	200,235	17,103	19,981	40,256	100,086	177,426

(*) Some amounts shown in this column do not correspond to those shown in the 2013 financial statements, in that they reflect the adjustments carried out as specified in Note 2.2.

(Euro in thousands)	2014 Stringing equipment	2014 Trencher	2014 Rail	2014 Consolidated	2013 Stringing equipment	2013 Trencher	2013 Rail	2013 Consolidated
	Financial period ended 31 December							
Revenues from sales and services	50,130	52,794	11,971	114,895	52,125	55,662	5,762	113,549
Operating costs net of depreciation and amortisation	(40,592)	(46,726)	(9,254)	(96,572)	(40,141)	(48,464)	(5,470)	(94,075)
EBITDA	9,538	6,068	2,717	18,323	11,984	7,198	292	19,474
Depreciation and amortisation	(2,479)	(4,352)	(1,045)	(7,876)	(2,107)	(4,357)	(515)	(6,979)
Total operating costs	**(43,071)**	**(51,078)**	**(10,299)**	**(104,448)**	**(42,248)**	**(52,821)**	**(5,985)**	**(101,054)**
Operating income	**7,059**	**1,716**	**1,672**	**10,447**	**9,877**	**2,841**	**(223)**	**12,495**
Net financial income/(expenses)				(2,126)				(4,651)
Pre-tax profit				**8,321**				**7,844**
Income tax				(3,416)				(3,472)
Net profit for the period				**4,905**				**4,372**
Profit / (loss) attributable to non-controlling interests				(4)				(12)
Group profit (loss)				**4,909**				**4,384**

Management monitors the operating income of its business units separately for the purpose of making decisions on resource allocation and performance assessment. Segment performance is assessed on the basis of operating income. Group financial management (including financial income and charges) and income tax is managed at Group level and are not allocated to the individual operating segments.

38. Related party transactions

The following table gives details of economic and equity transactions with related parties. The companies listed below have been identified as related parties as they are linked directly or indirectly to the current shareholders.
In particular, for the financial period ended 31 December 2014, the breakdown of each related party is indicated below:

	Financial period ended 31 December					31 December						
	2014					2014						
(Euro in thousands)	Revenues	Cost of raw materials	Cost of services	Other operating (costs)/ revenues, net	Financial income and expenses	Trade receivables	Current financial receivables	Other current assets	Trade payables	Current financial payables	Non-current financial payables	Other current liabilities
Associates:												
Locavert S.A.	(274)	-	-	-	-	21	-	-	-	-	-	-
Bertel S.p.A.	130	(1)	-	2	5	129	563	-	1	-	-	-
Subtotal	**(144)**	**(1)**	**-**	**2**	**5**	**150**	**563**	**-**	**1**	**-**	**-**	**-**
Joint Ventures:												
Condux Tesmec Inc.	3,880	-	10	151	2	1,084	156	-	-	-	-	-
Tesmec Peninsula	2,806	(1,018)	(13)	94	145	2,755	4,729	-	1	-	-	-
Subtotal	**6,686**	**(1,018)**	**(3)**	**245**	**147**	**3,839**	**4,885**	**-**	**1**	**-**	**-**	**-**
Related parties:												
Ambrosio S.r.l.	-	-	-	(15)	-	-	-	-	4	-	-	-
CBF S.r.l.	-	-	-	-	-	-	-	-	-	-	-	-
Ceresio Tours S.r.l.	-	-	(10)	-	-	-	-	-	2	-	-	-
Dream Immobiliare S.r.l.	-	-	1	(234)	(1,291)	-	1,102	-	-	1,100	15,954	-
Studio Bolelli	-	-	(106)	-	-	-	-	-	-	-	-	-
Eurofidi S.p.A.	-	-	-	-	-	-	2	-	-	-	-	-
FI.IND. S.p.A.	-	-	-	-	-	-	-	-	-	-	-	-
Lame Nautica S.r.l.	5	-	-	-	-	4	-	-	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	2,446	-	5	13	-	2,440	-	-	-	-	-	-
Reggiani Macchine S.p.A.	199	(26)	108	13	-	137	-	-	-	-	-	-
Subtotal	**2,650**	**(26)**	**(2)**	**(223)**	**(1,291)**	**2,581**	**1,104**	**-**	**6**	**1,100**	**15,954**	**-**
Total	**9,192**	**(1,045)**	**(5)**	**24**	**(1,139)**	**6,570**	**6,552**	**-**	**8**	**1,100**	**15,954**	**-**

- Locavert S.A.: the French associate purchases normally trenchers/spare parts for rental business and carrying-out of excavation works at market prices and terms of payment;
- Bertel S.p.A: this associated company is a start-up, operating in a market with a high technical profile such as that of streamlining systems of High-Voltage Power Networks and offers highly innovative technological solutions that are increasingly requested by the international customers already served by Tesmec S.p.A. today. The revenues refer to the sale of goods in relation to projects in the field of improving the efficiency of energy transfer;
- Condux Tesmec, Inc.: the JV purchases stringing machines and equipment for sale on the American market booming in the 2014 financial period at market prices and terms of payment;
- Tesmec Peninsula WLL: the JV operates on the Saudi Arabian market supplying trencher machinery produced by the Group as well as on-site and after-sale support services. The income and cost items relate to the normal marketing activities of trenching machines;
- Ambrosio S.r.l.: costs for services refer to the rental for the registered office of Milan;
- Dream Immobiliare S.r.l.: financial income and expenses includes interests payable deriving from the recognition in accordance with IAS 17 of the Building of Grassobbio of Euro 1,291;
- M.T.S. Officine meccaniche S.p.A.: revenues refer to sales of semi-finished products made by the Tesmec Workshop of Sirone;
- Reggiani Macchine S.p.A.: costs for services mainly refers to costs related to users for a total amount of Euro 108 thousand.

The following table summarises related party transactions of the prior financial period:

	Financial period ended 31 December					31 December						
	2013					2013						
(Euro in thousands)	Revenues	Cost of raw materials	Cost of services	Other operating (costs)/ revenues, net	Financial income and expenses	Trade receivables	Current financial receivables	Other current assets	Trade payables	Current financial payables	Non-current financial payables	Other current liabilities
Associates:												
Locavert S.A.	650	-	(5)	-	-	527	-	-	-	-	-	-
Bertel S.p.A.	-	-	(408)	-	-	-	250	-	355			
Subtotal	**650**	**-**	**(413)**	**-**	**-**	**527**	**250**	**-**	**355**	**-**	**-**	**-**
Joint Ventures:												
Condux Tesmec Inc.	5,169	-	-	(20)	2	1,165	164	-	-	-	-	-
Tesmec Peninsula	7,385	(1,172)	(117)	119	88	3,533	6,962	-	145	-	-	-
Subtotal	**12,554**	**(1,172)**	**(117)**	**99**	**90**	**4,698**	**7,126**	**-**	**145**	**-**	**-**	**-**
Related parties:												
Ambrosio S.r.l.	-	-	-	(15)	-	-	-	-	5	-	-	-
CBF S.r.l.	-	-	-	(382)	-	38	-	-	400	-	-	-
Ceresio Tours S.r.l.	-	-	(18)	(1)	-	-	-	-	-	-	-	-
Dream Immobiliare S.r.l.	-	-	-	(388)	(1,215)	4	1,069	-	-	995	17,054	-
Eurofidi S.p.A.	-	-	-	-	-	-	2	-	-	-	-	-
FI.IND. S.p.A.	-	-	9	-	-	8	-	-	-	-	-	-
Lame Nautica S.r.l.	2	-	-	-	-	-	-	-	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	1,719	-	8	1	-	1,947	-	-	-	-	-	-
Reggiani Macchine S.p.A.	-	(20)	127	99	17	172	-	-	-	-	-	-
Subtotal	**1,721**	**(20)**	**126**	**(686)**	**(1,198)**	**2,169**	**1,071**	**-**	**405**	**995**	**17,054**	**-**
Total	**14,925**	**(1,192)**	**(404)**	**(587)**	**(1,108)**	**7,394**	**8,447**	**-**	**905**	**995**	**17,054**	**-**

39. Fees paid to Directors, Auditors, Operating Manager and executives with strategic responsibilities

Year 2014:

Board of directors				
Name and Surname	Role	Fees (in Euro)	Bonus and other fees (in Euro)	Total fees
Ambrogio Caccia Dominioni	Chairman and Managing Director	480,000	-	480,000
Alfredo Brignoli	Vice Chairman	55,000	-	55,000
Gianluca Bolelli	Vice Chairman	62,400	-	62,400
Sergio Arnoldi	Director	20,800	-	20,800
Gioacchino Attanzio	Director	30,000	-	30,000
Caterina Caccia Dominioni	Director and Secretary	41,600	-	41,600
Guido Giuseppe Maria Corbetta	Director	15,000	-	15,000
Lucia Caccia Dominioni	Director	20,000	-	20,000
Leonardo Giuseppe Marseglia	Director	15,000	-	15,000
Luca Poggi	Director	9,100	-	9,100

Board of Statutory Auditors				
Name and Surname	Role	Fees (in Euro)	Bonus and other fees (in Euro)	Total fees
Simone Cavalli	Chairman	38,718	-	38,718
Stefano Chirico	Statutory Auditor	26,468	-	26,468
Alessandra De Beni	Statutory Auditor	25,000	-	25,000

Fees paid to executives with strategic responsibilities in the 2014 financial period amounted to Euro 514 thousand (Euro 519 thousand in the 2013 financial year).

40. Legal disputes

Tesmec S.p.A. is a party to a litigation brought against it by the previous French distributor of the Trencher segment because of the allegedly unjustified termination of the distribution agreement and alleged violation of territorial exclusivity. Tesmec S.p.A. appeared before the court challenging the validity of the plaintiff's claims and using a counter-claim because the distributor failed to perform several times its duty to promote the products of Tesmec S.p.A. on the French market and hence claiming damages for loss of market and image with French customers. In support of its arguments, Tesmec S.p.A. filed an accounting report that, on the one hand, shows that the amounts requested by the former distributor are not supported by sufficient evidence and, on the other hand, bears out the requests in support of the counter-claim. The court, in acceptance of claim of Tesmec S.p.A., entrusted a third-party expert with the task of checking the accounting data and the amount of goodwill at the basis of the claims for damages of the adverse party.

The survey, prepared as a result of audits carried out by the French expert both at the registered office of the former distributor and at the registered office of Grassobbio, will be filed most likely between April and May.

Tesmec S.p.A. started at the Court of Bergamo an action for investigation of breach of contract against the former Chinese agent of Tesmec S.p.A. for the Stringing equipment segment, there being reasonable grounds for believing that the delays in debt collection with regard to a Chinese customer are due to problems caused by the former Chinese agent in the management of relations with the customer.

Tesmec was summoned to appear before the Court of Alabama for a claim for damages following a death claim occurred in August 2013 (and of which Tesmec became aware recently) along the Tennessee River. Tesmec is involved as a provider of a rope to the federal body TVA that was supposed to guard the river during a fishing competition. There appears to be no causal link between the alleged responsibility of Tesmec and the death of the subject. In any case Tesmec, in agreement with the insurance company that is constantly informed of the facts and confirmed that it will also bear the legal costs, assigned an American lawyer who is following the case.

41. Positions or transactions resulting from atypical and/or unusual operations

Note that, pursuant to CONSOB Communication no. DEM/6064293 of 28 July 2006, in 2014 the Company did not carry out any atypical and/or unusual operation, as defined by the Communication itself.

42. Commitments and risks

They include sureties, guarantees and third-party assets with the Group. For the financial periods as at 31 December 2014 and 2013, they are summarised as follows:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Sureties	23,602	17,070
Total commitments and risks	23,602	17,070

The recorded value concerns sureties provided by Tesmec S.p.A. through primary banking institutions in favour of customers. The increase is mainly due to the orders of the newly set up rail sector.
On the basis of the specific characteristics of the segments in which the Company works, Tesmec did not make any provision for contingent liabilities in the memorandum accounts. Risks and future expenses are reasonably hedged by funds specifically accounted for in the financial statements.

43. Reporting pursuant to Article 149 duodecies of Consob Issuer Regulation

The following table shows the fees charged for the 2014 and 2013 financial period for auditing services and for services other than audit rendered by the Independent Auditors.

	Independent Auditors that supplied the service	Receiver	Accrued amount	
(Euro in thousands)			2014	2013
Audit of the financial statements and consolidated financial statements	Reconta Ernst & Young S.p.A.	Tesmec S.p.A. Parent Company	80	76
	Reconta Ernst & Young S.p.A. network	Subsidiaries and joint ventures	24	20
Limited half-year auditing	Reconta Ernst & Young S.p.A.	Tesmec S.p.A. Parent Company	24	24
Certification services (1)	Reconta Ernst & Young S.p.A.	Tesmec S.p.A. Parent Company	5	5
Total			133	125

(1) This item refers to activities aimed at the signing of tax returns and periodic inspections pursuant to art. 155 paragraph 1 lett. a) T.U.

44. Significant events occurred after the close of the financial period

On the date of this report, the Company holds a total of 2,596,321 treasury shares, equal to 2,42% of the Share Capital.

The Board of Director evaluated and authorized the prosecution of the negotiation for the acquisition of a French Group, operating in the field of trenching services, that has an integrated and complemantary activity to the one of Tesmec.

Certificate of the Consolidated financial statements pursuant to Article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 with further supplements and amendments

1. The undersigned Ambrogio Caccia Dominioni and Andrea Bramani, as the Chief Executive Officer and the Manager responsible for preparing the Company's financial statements of Tesmec S.p.A., respectively, hereby certify, also taking into consideration the provisions of Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998:

   - the adequacy in relation to the characteristics of the business and
   - the actual application

   of the administrative and accounting procedures for preparing the consolidated financial statements during the 2014 financial period.

2. We also certify that:

2.1 the consolidated financial statements as at 31 December 2014:

   - have been prepared in accordance with IFRS as endorsed by the European Union, as provided by the Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002.
   - correspond to the amounts shown in the Company's accounts, books and records;
   - provide a true and fair view of the equity, income and cash flow situation of the issuer and of its consolidated companies.

2.2 the directors' report includes a reliable analysis of the business trend and operating result as well as of the situation of the issuer and of the consolidated companies, together with a description of the main risks and uncertainties they incur.

Milan, 12 March 2015

Ambrogio Caccia Dominioni
Chief Executive Officer

Andrea Bramani
Manager responsible for preparing
the Company's financial statements

INDEPENDENT AUDITOR'S REPORT

Building a better working world

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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of
Tesmec S.p.A.

1. We have audited the consolidated financial statements of Tesmec S.p.A. and its subsidiaries, (the "Tesmec Group") as of 31 December 2014 and for the year then ended, comprising the statement of financial position, income, comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Tesmec S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   The consolidated financial statements of the prior year are presented for comparative purposes. As described in the explanatory notes, Directors have restated certain comparative data related to the prior year with respect to the data previously presented, on which we issued our auditors' report dated 27 March 2014. We have examined the method used to restate the comparative financial data and the information presented in the explanatory notes in this respect, for the purpose of expressing our opinion on the consolidated financial statements as of 31 December 2014 and for the year then ended.
3. In our opinion, the consolidated financial statements of the Tesmec Group at 31 December 2014 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Tesmec Group for the year then ended.
4. The Directors of Tesmec S.p.A. are responsible for the preparation of the Report on Operations and the Report on Corporate Governance and Ownership Structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and

of the informations presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and Ownership Structure, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and Ownership Structure, are consistent with the consolidated financial statements of Tesmec S.p.A. at 31 December 2014.

Milan, 27 March 2015

Reconta Ernst & Young S.p.A.
Signed by: Paolo Zocchi, Partner

This report has been translated into the English language solely for the convenience of international readers.

FINANCIAL STATEMENTS OF TESMEC S.P.A.

Statement of financial position

(in Euro)	Notes	31 December 2014	31 December 2013
NON-CURRENT ASSETS			
Intangible assets	5	5,858,644	5,786,836
Property, plant and equipment	6	32,139,703	32,749,558
Equity investments in subsidiaries		24,234,922	23,089,922
Equity investments in associates	7	3,437,511	3,437,511
Other equity investments	8	2,808	2,808
Financial receivables and other non-current financial assets		-	2,000
Derivative financial instruments		16,021	-
Deferred tax assets	25	1,889,661	2,395,989
TOTAL NON-CURRENT ASSETS		**67,579,270**	**67,464,624**
CURRENT ASSETS			
Inventories	8	29,839,846	28,364,427
Trade receivables	9	31,044,695	32,721,512
of which with related parties:		*6,947,193*	*9,392,367*
Tax receivables	10	395,248	395,248
Other available-for-sale securities	11	125,448	124,880
Financial receivables and other current financial assets	12	28,417,769	19,920,620
of which with related parties:		*28,312,278*	*19,825,424*
Other current assets	13	1,597,630	859,898
of which with related parties:		*1,740*	*1,040*
Cash and cash equivalents	14	14,315,989	9,617,745
TOTAL CURRENT ASSETS		**105,736,625**	**92,004,330**
TOTAL ASSETS		**173,315,895**	**159,468,954**
SHAREHOLDERS' EQUITY			
Share capital	15	10,708,400	10,708,400
Reserves	15	26,192,772	24,376,202
Net income (loss) for the period	15	6,277,766	3,879,073
TOTAL SHAREHOLDERS' EQUITY		**43,178,938**	**38,963,675**
NON-CURRENT LIABILITIES			
Medium-long term loans	16	58,015,746	49,764,128
of which with related parties:		*15,954,021*	*17,053,729*
Derivative financial instruments	17	460,380	543,036
Employee benefit liability	19	2,707,100	2,517,104
Deferred tax liabilities	25	1,035,155	618,334
TOTAL NON-CURRENT LIABILITIES		**62,218,381**	**53,442,602**
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	20	30,922,170	37,145,716
of which with related parties:		*1,099,709*	*1,628,466*
Derivative financial instruments	17	-	-
Trade payables	21	26,470,654	22,609,442
of which with related parties:		*331,938*	*1,318,123*
Advances from customers		5,406,372	2,078,962
Income taxes payable	22	993,386	1,398,898
Provisions for risks and charges	23	250,000	300,000
Other current liabilities	24	3,875,994	3,529,659
of which with related parties:		*382,446*	*325,469*
TOTAL CURRENT LIABILITIES		**67,918,576**	**67,062,677**
TOTAL LIABILITIES		**130,136,957**	**120,505,279**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		173,315,895	159,468,954

Income statement

(in Euro)	Notes	Financial period ended 31 December 2014	2013
Revenues from sales and services	26	88,225,059	94,734,272
of which with related parties:		*18,410,295*	*21,918,219*
Cost of raw materials and consumables	27	(44,375,991)	(48,225,478)
of which with related parties:		*(1,166,640)*	*(2,836,537)*
Cost of services	28	(14,936,384)	(16,922,729)
of which with related parties:		*(66,534)*	*(371,402)*
Payroll costs	29	(16,686,649)	(16,142,452)
Other operating (costs)/ revenues, net	30	(252,470)	(404,311)
of which with related parties:		*839,128*	*367,415*
Depreciation and amortisation	31	(5,047,015)	(5,192,142)
Development costs capitalised	32	2,992,073	2,648,115
Total operating costs		(78,306,436)	(84,238,997)
Operating income		9,918,623	10,495,275
Financial expenses	33	(5,935,309)	(5,974,539)
of which with related parties:		*(1,294,450)*	*(1,214,631)*
Financial income	34	5,637,643	2,391,097
of which with related parties:		*1,387,987*	*577,582*
Pre-tax profit		9,620,957	6,911,833
Income tax	25	(3,343,191)	(3,032,760)
Net profit for the period		6,277,766	3,879,073

Comprehensive income statement

		Financial period ended 31 December	
(in Euro)	Notes	2014	2013
NET PROFIT FOR THE PERIOD		6,277,766	3,879,073
Other components of comprehensive income:			
Other components of comprehensive income that will not be subsequently reclassified to net income/(loss) for the year:			
Actuarial profit (loss) on defined benefit plans		(181,940)	(3,760)
Income tax		50,034	1,034
		(131,906)	(2,726)
Total other income/(losses) after tax		(131,906)	(2,726)
Total comprehensive income (loss) after tax		6,145,860	3,876,347

Cash flow statement

(in Euro)	Notes	Financial period ended 31 December 2014	2013
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		6,277,766	3,879,073
Adjustments to reconcile net income for the period with the cash flows generated by (used in) operating activities:			
Depreciation and amortisation	31	5,047,015	5,192,142
Provisions for employee benefit liability	19	78,030	76,330
Provisions for risks and charges / inventory obsolescence / doubtful accounts		670,000	1,120,000
Employee benefit payments	19	(69,975)	(107,310)
Payments/use of provisions for risks and charges		(50,000)	(300,000)
Net change in deferred tax assets and liabilities	25	973,182	(33,112)
Change in fair value of financial instruments	18	(98,677)	(269,962)
Change in current assets and liabilities:			
Trade receivables	10	4,654,227	6,704,009
Inventories	9	(1,795,418)	(1,683,818)
Trade payables	32	3,861,211	(6,527,449)
Other current assets and liabilities		(796,908)	608,558
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		18,750,453	8,658,461
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	6	(1,983,491)	(6,076,122)
Investments in intangible assets	5	(3,141,855)	(2,791,173)
(Investments) / disposal of financial assets		(9,640,717)	(10,441,963)
Proceeds from sale of property, plant and equipment and intangible assets	5-6	616,377	998,125
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		(14,149,686)	(18,311,132)
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	17	20,674,796	14,843,491
Repayment of medium/long-term loans	17	(13,431,468)	(12,983,102)
Net change in short-term financial debt	17	(5,215,256)	8,440,987
Dividend distribution	16	(1,682,203)	(3,690,039)
Purchase of treasury shares	16	(248,393)	(385,128)
NET CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES (C)		97,477	6,226,210
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		4,698,244	(3,426,461)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	15	9,617,745	13,044,206
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		14,315,989	9,617,745
Additional information:			
Interest paid		3,327,991	2,936,435
Income tax paid		2,330,126	2,318,268

Statement of changes in shareholders' equity

(in Euro)	Share capital	Legal reserve	Share premium reserve	Reserve of Treasury Shares	Other reserves	Profit for the period	Total Shareholders' Equity
Balance as at 1 January 2013	**10,708,400**	**1,502,173**	**10,915,101**	**(466,412)**	**10,436,213**	**6,342,020**	**39,437,495**
Net profit for the period	-	-	-	-	-	3,879,073	3,879,073
Allocation of profit for the period	-	308,417	-	57,902	2,010,662	(2,376,981)	-
Dividend distribution	-	-	-	-	-	(3,690,039)	(3,690,039)
Purchase of treasury shares	-	-	-	(385,128)	-	-	(385,128)
Distribution for Network Reserve	-	-	-	-		(275,000)	(275,000)
Other changes	-	-	-	-	(2,726)	-	(2,726)
Balance as at 31 December 2013	**10,708,400**	**1,810,590**	**10,915,101**	**(793,638)**	**12,444,149**	**3,879,073**	**38,963,675**
							-
Net profit for the period	-	-	-	-	-	6,277,766	6,277,766
Allocation of profit for the period	-	193,953	-	31,141	1,971,776	(2,196,870)	-
Dividend distribution	-	-	-	-	-	(1,682,203)	(1,682,203)
Purchase of treasury shares	-	-	-	(248,394)	-	-	(248,394)
Other changes	-	-	-	-	(131,906)	-	(131,906)
Balance as at 31 December 2014	**10,708,400**	**2,004,543**	**10,915,101**	**(1,010,891)**	**14,284,019**	**6,277,766**	**43,178,938**

Explanatory notes

Accounting policies adopted in preparing the financial statements as at 31 December 2014

1. Company information

The Tesmec S.p.A. parent company (hereinafter "Parent Company", "Tesmec" or "Company") is a legal entity organised in accordance with the legal system of the Italian Republic. The ordinary shares of Tesmec are listed on the MTA STAR Segment of the Milan Stock Exchange as from 1 July 2010. The registered office of the Company is in Milan in Piazza S. Ambrogio no. 16.

The publication of Tesmec's financial statements for the period ended 31 December 2014 was authorised by means of the resolution of the Board of Directors on 12 March 2015.

2. Reporting standards

The financial statements of Tesmec S.p.A. as at 31 December 2014 comprise the statement of financial position, income statement, statement of comprehensive income, cash-flow statement, statement of changes in shareholders' equity and the related explanatory notes. These financial statements are prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and approved by the European Union according to the text published in the Official Journal of the European Communities (OJEC) and in effect as at 31 December 2014. These IFRS principles also include all revised international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretation Committee ("IFRIC"), previously called Standing Interpretations Committee ("SIC").

The reference accounting standards adopted in the current yearly financial statements are consistent with those used for preparing the yearly financial statements of the Company for the period ended as at 31 December 2013, also prepared according to the international accounting standards, with the exception of the principles and interpretations of new application, explained in note 2.3.

The financial statements and relevant explanatory notes are presented in Euro and all values are rounded to the nearest thousand, unless otherwise indicated.

Business continuity

The Company considered that there are no significant uncertainties on the principle of going-concern, in the light of its economic and financial soundness.

2.1 Adopted financial statement reporting formats

In compliance with the provisions of Consob resolution no. 15519 of 27 July 2006, information on the adopted financial statement reporting format compared to what is stated in IAS 1 are indicated below for the statement of financial position, income statement, comprehensive income statement, statement of changes in shareholders' equity as well as the method used for representing the financial flows in the statement of cash-flows compared to those specified in IAS 7.

- In the income statement, it was decided to present a cost analysis by using a classification based on their nature.
- The statement of comprehensive income includes the result for the period and, by homogenous categories, the income and expenses that, under IFRS, are recognised directly in shareholders' equity.
- In the statement of financial position, it was decided to represent current and non-current assets and current and non-current liabilities classified separately, in accordance with IAS 1.
- The statement of changes in shareholders' equity occurred during the period are represented through a table that reconciles the opening and closing balances of each item of the shareholders' equity of the Company.
- The statement of cash flows represents the financial flows by dividing them into operating, investing and financing activities. In particular, financial flows from operating activities are represented, in accordance with IAS 7, using the indirect method, whereby net profit or loss for the year is adjusted by the effects of non-monetary transactions, by any deferral or provision of prior or future operating receipts or payments, and by revenue or cost elements connected with financial flows from investing or financing activities.

It should be noted that, in accordance with the above-mentioned resolution, the amounts of the positions or transactions with related parties and (positive and/or negative) income components resulting from non-current events or operations, i.e. from operations or facts that do not recur with frequency in the usual course of business were not reported under specific sub-items, in case of significant amounts, in the statement of financial position, income statement and statement of cash flows.

2.3 Accounting policies

General Notes

The financial statements have been prepared in accordance with the historical cost principle, with the exception of the derivative financial instruments and financial assets held for sale stated at fair value.
There are no financial assets held to maturity. Financial transactions are accounted for as of the date they are traded.
The accounting policies adopted in the Financial Statements as at 31 December 2014 were applied in the same way also to all the periods of comparison.
The financial statements are presented in Euro; all values are rounded to the nearest thousand, unless otherwise indicated.

Business combinations and goodwill

Business combinations are recorded by using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred at fair value at the date of acquisition and the amount of any minority interest in the acquired company. For each business combination, the purchaser must consider any minority interest in the acquired company at fair value or in proportion to the share of the minority interest in the identifiable net assets of the acquired company. Acquisition costs are paid and classified among administrative expenses.
When the Company acquires a business, it must classify or designate the acquired financial assets or the liabilities assumed in accordance with the contract terms, the economic conditions and other relevant conditions existing at the date of acquisition. This includes the verification to establish whether an embedded derivative must be separated from the host contract. If the business combination is carried out in several stages, the purchaser must recalculate the fair value of the previously held equity investment measured at equity and recognise any resulting profit or loss in the income statement.
Each contingent consideration must be recognised by the purchaser at fair value at the date of acquisition. The fair value change in the contingent consideration classified as asset or liability will be recognised in accordance with IAS 39, in the income statement or in the statement of the other components of comprehensive income. If the contingent consideration is classified in the shareholders' equity, its value must not be recalculated until its discharge is recorded as opposed to shareholders' equity.
The goodwill is initially measured at cost that arises as surplus between the sum of the paid consideration and the amount recognised for the minority shares compared to identifiable net assets acquired and liabilities undertaken by the Group. If the consideration is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognised in the income statement.
After initial recognition, goodwill is measured at cost, net of any accumulated impairment loss. For impairment loss verification, the goodwill acquired in a business combination must be allocated, from the date of acquisition, to each cash-flow generating unit of the Group that is expected to benefit from the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to such units.
If the goodwill has been allocated to the financial-flow generating unit and the entity disposes of part of the assets of such unit, the goodwill associated to the asset disposed of must be included in the book value of the asset when the profit or loss deriving from the divestment is determined. The goodwill associated with the asset disposed of must be determined on the basis of the values related to the asset disposed of and of the retained part of the financial-flow generating unit.

Intangible assets with definite lives

Intangible assets are recorded in the assets at purchase cost when it is likely that the use of the asset will generate future economic benefits and when the cost of the asset can be measured reliably. Intangible assets acquired by means of business combinations are recorded at fair value at the date of acquisition, if this value can be measured reliably. Intangible assets with definite lives are amortised on a straight-line basis over their estimated useful life and submitted to impairment test whenever there is a possible impairment loss. The residual useful life is reviewed at the end of each financial period or more frequently, if necessary. Changes in the expected estimated useful life or in the ways in which future economic benefits related to the intangible asset are achieved by the Company are recognised by changing the period and/or the method of amortisation and treated as changes in accounting estimates. Amortisation charges of intangible assets with definite lives are recognised in the income statement in the category of cost consistent with the function of the intangible asset.
Intangible assets with indefinite lives are tested annually for impairment losses on an individual basis or in terms of cash-generating unit.
Profits or losses deriving from the disposal of an intangible asset are measured as the difference between the net income and the book value of the asset and are recognised in the income statement upon disposal.
The estimate of the useful life of intangible assets with definite lives is set below:

	Years
Industrial rights and patents	5
Development costs	5
Trademarks	5
Other intangible assets	3 - 5

Research and Development costs
Research costs are posted to the income statement when they are borne.
Development costs borne with regard to a particular project concerning the development of new excavating machines, stringing equipment and/or railway machines, of their significant individual components and/or of significant customisations that materialise in new models included in the catalogue, are capitalised only when the Company can show the ability to complete the technical work in order to make it available for use or for sale, its intention to complete the said asset in order to use it or transfer it to third parties, the ways in which it will generate probable future economic benefits, the availability of technical, financial or other type of resources to complete the development, its ability to reliably consider the cost attributable to the asset during its development and the existence of a market for the products and services deriving from the asset or usefulness for internal purposes. Capitalised development costs include only expenses borne that can be directly charged to the development process.
During the period of development, the asset is annually reviewed in order to recognise any impairment loss. After the initial recognition, development costs are measured at cost decreased by any accumulated amortisation or loss. The amortisation of the asset starts when the development is complete and the asset is available for use. It is amortised with reference to the period in which the connected project is expected to generate revenues for the Company, estimated on average over five years. If the projects to which such assets refer are abandoned or the related machines are no longer included in the catalogue, specific impairment indicators are recognised, and therefore the asset is tested for impairment and written down for any impairment loss recognised as previously described for intangible assets with definite lives.

Rights and trademarks
This item refers to the purchase of know-how for the production of Gallmac excavating machines and to the Gallmac trademark. The purchase costs of the rights and trademarks are amortised over a period of time during the useful life of the acquired asset, which was determined in five years.

Property, plant and equipment

Property, plant and equipment acquired separately, with the exception of the land and buildings item, are recorded at historical cost, including directly imputable additional costs necessary for putting the asset into operation for the use for which it was acquired. This cost includes the charges for replacing part of the machines and plants when they are borne, if complying with the recognition criteria.
Property, plant and equipment acquired by means of business combinations are recorded at fair value on the date of acquisition.
Maintenance and repair costs, which are not likely to enhance and/or extend the residual life of the assets, are paid during the financial period in which they are borne, otherwise they are capitalised.
Property, plant and equipment are stated net of the related accumulated depreciation and any impairment loss determined as described below. The depreciation is calculated on a straight-line basis according to the estimated useful life of the asset for the company, which is reviewed every year and any change, if necessary, is applied prospectively.
The estimate of the useful life of the main classes of property, plant and equipment is set below:

	Years
Buildings	40
Plant and machinery	10
Fixtures and fittings, tools and equipment	4
Leasehold Trenchers	5
Other assets	4 – 5

If significant parts of property, plant and equipment have different useful lives, these components are recorded separately. Lands, both without construction and belonging to buildings, are recorded separately and are not depreciated since they have an unlimited useful life.
The Company, based on the considerations made, established that the trencher machines can be depreciated on a pro-rata basis according to actual use. In particular, they are depreciated at an annual 20% rate during the lease period. In the event that these trenchers are not leased temporarily during the reporting period, the depreciation process is suspended.
The book value of property, plant and equipment is subject to an impairment test when events or changed circumstances indicate that the book value cannot be recovered. If there is an indication of this type and, in the event that the book value exceeds the estimated realisable value, assets are written down so as to reflect their realisable value. The realisable value of property, plant and equipment is represented by the net sales price and the usage value, whichever is higher.
When defining the usage value, the expected future financial flows are discounted back using a pre-tax discount rate that reflects the current market estimate of the cost of money placed in relation to the timescale and specific risks of the asset. In relation to assets that do not generate fully independent financial flows, the realisable value is determined in relation to the financial-flow generating unit to which the asset belongs. Impairment losses are recorded in the income statement

among costs for amortisation, depreciation and write-downs. These impairment losses are reversed if the reasons that generated them no longer exist.

At the time of sale or when there are no future economic benefits, expected from the use of an asset, it is written off from the financial statements and any loss or profit (calculated as the difference between the transfer value and the book value) is posted to the income statement in the year of the aforesaid writing off.

Leases

Contracts with the Company as lessee
Financial lease contracts, which substantially transfer to the Group all the risks and benefits deriving from the ownership of the leased asset, are capitalised on the starting date of the lease at fair value of the leased asset or at present value of the lease payments, if lower. Lease payments are prorated between principal and interests in order to obtain the application of a constant interest rate on the residual balance of the debt. Financial expenses are posted directly to the income statement. Capitalised leased assets are amortised during the period of time of the estimated useful life of the asset or the period of validity of the lease contract, whichever is shorter, if the reasonable certainty that the Company will obtain the ownership of the asset at the end of the contract does not exist.
The leases in which the lessor retains substantially all the risks and benefits related to the ownership of the assets are classified as operating leases and the related costs are recorded in the income statement over the period of validity of the contract.

Contracts with the Company as lessor
If the Company signs lease contracts that substantially transfer to the customers all the risks and benefits deriving from the ownership of the leased asset, the revenues concerning the transfer of the asset are recognised in the financial statements and are recorded on the starting date of the lease at the fair value of the leased asset or at the present value of the lease payments, if lower. Moreover, a borrowing that corresponds to the present value of the lease payments still due is recorded in the balance sheet. Financial expenses are posted directly to the income statement.

Impairment of assets

At the end of each reporting period, the Company considers the possible existence of impairment loss indicators of intangible assets with definite lives, of property, plant and equipment and of financial lease assets. If these indicators exist, an impairment test is carried out.
The recoverable value is determined as the fair value of an asset or financial-flow generating unit net of sales costs and its usage value, whichever is higher, and is determined by single asset, with the exception of the case in which this asset generates financial flows that are not widely independent from those generated by other assets or groups of assets, in which case the Company estimates the recoverable value of the cash-flow generating unit to which the asset belongs.
When determining the usage value, the Company discounts back the present value of future estimated financial flows, by using a pre-tax discount rate that reflects the market evaluations on the time value of money and specific risks of the asset.
In order to estimate the usage value, the future financial flows are derived from the business plans approved by the Board of Directors, which represent the best estimate made by the Group on the economic conditions laid down in the plan period. The projections of the plan cover normally a period of three financial periods; the long-term growth rate used in order to estimate the terminal value of the asset or of the unit is normally lower than the average long-term growth rate of the segment, country or market of reference. Future financial flows are estimated by referring to the current conditions: therefore, estimates do not consider benefits deriving from future restructuring for which the Company has not yet committed itself or future investments for improving or optimising the asset or the unit.
If the book value of an asset or financial-flow generating unit is greater than its recoverable value, this asset was impaired and consequently amortised until its recoverable value is reached.
Impairment losses incurred by operating assets are recognised in the income statement in the categories of cost consistent with the function of the asset that showed the impairment loss. At the end of each reporting period, the Company also considers the possible existence of elements indicating a decrease in impairment losses previously recognised and, if these indicators exist, it estimates the recoverable value again. The value of an asset previously written down can be restored only if there were changes in the estimates used for determining the recoverable value of the asset after the last recognition of an impairment loss. In this case, the book value of the asset is set to the recoverable value, however without the possibility for the value thus increased to exceed the book value that would have been determined, net of amortisation, if no impairment had been recognised in previous years. Each reversal of impairment loss is recognised as an income in the income statement; after recognising a reversal of impairment loss, the amortisation rate of the asset is adjusted in future periods, in order to distribute the changed book value, net of any residual value, on a straight-line basis over the remaining useful life.

Equity investments in subsidiaries, associates and in joint ventures

Equity investments in subsidiaries, associates and companies subject to joint control (not classified as held for sale) are recorded in accordance with the method of cost, converted in Euro at historical exchange rates if referring to equity investments in foreign companies whose financial statements are drawn up in a currency other than Euro, in accordance

with IAS 27. The initial cost is equal to the costs incurred for the purchase or constitution or it is defined by experts in case of acquisitions through contributions.
When there is an indication that the equity investment may have suffered an impairment, its recoverable value is estimated, in accordance with the method specified in IAS 36 "Impairment of Assets", in order to determine the eventual loss to be posted to the income statement.

Financial assets and other non-current assets

These assets are measured according to the amortised cost approach by using the effective discount rate method net of any provision for impairment.
The amortised cost is calculated taking into consideration any discount or purchase premium and includes the commissions that are part and parcel of the effective interest rate and of the transaction costs.
Receivables falling due after one year, interest bearing or paying interests lower than the market, are discounted by using interest rates in line with market references.

Inventories

Inventories are measured at the purchase and/or production cost, whichever lower, calculated by using the weighted average cost method, and the net realisable value. The purchase cost is inclusive of additional expenses; the cost of production includes directly attributable costs and a share of indirect costs, reasonably attributable to the products. The net estimated realisable value consists of the estimated sales prices less the estimated completion costs and the costs estimated to make the sale.
Write-down allowances are allocated for materials, finished products, spare parts and other supplies considered obsolete or slow-moving, taking into account their future expected usefulness or their realisable value.

Construction contracts

A work order is a contract specifically negotiated for the construction of an asset according to the instructions of the company commissioning the work, which defines in advance the design and specifications.
Work order revenues include the considerations initially agreed with the company commissioning the work, in addition to variations in the commissioned work and to price changes provided for in the contract that can be measured reliably.
When the work order result can be measured reliably, work order revenues and costs are recognised as sales and as costs on the basis of the percentage of completion; the work in progress is calculated by referring to the costs of the work order borne until the end of the reporting period as a percentage of total costs estimated for each work order.
The costs borne in relation to future activities of the work order are excluded from the work order costs when calculating the work in progress and are recorded as inventories.
When the costs of the work order are expected to be greater than its total revenues, the expected loss is recognised immediately as a cost.

Trade receivables and other current assets

Trade receivables and other current assets are initially recorded at fair value, which generally corresponds to the nominal value and subsequently measured at amortised cost and reduced in case of impairment losses. Moreover, trade receivables are adjusted to their estimated realisable value by entering a special adjustment provision.
Receivables in foreign currency other than the reporting currency are recorded at the exchange rate of the date of operation and subsequently converted to the exchange rate at the end of the financial period. The profit or loss resulting from the conversion is attributed to the income statement.
If the maturity of the trade receivables and of the other current assets does not fall within the normal commercial terms and do not bear interests, a detailed discounting process is applied based on assumptions and estimates.
The Tesmec Company sells a portion of its trade receivables through factoring without recourse. Receivables assigned following factoring operations can be written off from the assets of the balance sheet only if the risks and benefits related to their legal ownership were substantially transferred to the assignee.

Other receivables and other financial assets

They are recorded initially at fair value and subsequently measured according to the amortised cost.
A financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) is written off from the financial statements when:

- the rights to receive financial flows from the asset terminated;
- the Company retains the right to receive cash flows from the asset, but has taken on the contractual obligation to pay them fully and without delay to a third party;
- the Company transferred the right to receive financial flows from the asset and (a) transferred substantially all the risks and benefits of the ownership of the financial asset or (b) did not transfer substantially all the risks and benefits of the asset, but transferred their control.

If the Company has transferred the rights to receive financial flows from an asset and has not transferred or retained substantially all the risks and benefits or has not lost control over it, the asset is recognised in the financial statements of the Group to the extent of its residual involvement in the asset itself. The residual involvement that takes the form of a guarantee on the transferred asset is measured at the initial book value of the asset or the maximum value of the consideration that the Company could be obliged to pay, whichever lower.
If the residual involvement takes the form of an option issued and/or purchased on the transferred asset (including the cash-settled options or the like), the measure of the involvement of the Group corresponds to the amount of the transferred asset that the Company may repurchase; however, in case of a put option issued on an asset measured at fair value (including the cash-settled options or with similar provisions), the measure of the residual involvement of the Group is limited to the fair value of the transferred asset or the exercise price of the option, whichever lower.

Cash and cash equivalents

Cash and short-term deposits include cash on hand as well as on-demand and short-term bank deposits; in this last case, with original maturity of no more than three months. Cash and cash equivalents are booked at nominal value and at the spot exchange rate at the end of the financial period, if in currency, corresponding to the fair value.

Loans

Loans are initially stated at fair value of the amount received, net of any related loan acquisition costs.
After initial statement, loans are valued using the amortised cost approach, applying the effective interest rate method.
Any profit or loss is recorded in the income statement when the liability is discharged, in addition to using the amortisation process.

Treasury shares

The repurchased treasury shares are recognised at cost and deducted from shareholders' equity. The purchase, sale or cancellation of treasury shares does not give rise to any profit or loss in the income statement. The difference between the acquisition value and the consideration, in case of transfer, is recognised in share premium reserve. The voting rights related to the treasury shares are cancelled as well as the right to receive dividends. In case of exercise of share options during the period, these are met with treasury shares.

Trade payables and other payables

Payables are measured at nominal value.
Given the granted terms of payment, when a financial operation is configured, payables measured with the amortised cost approach are submitted to the discounting back of the nominal value to be paid, recording the discount as a financial charge.
Payables in foreign currency are aligned with the exchange rate at the end of the financial period and profits or losses deriving from the adjustment are posted to the income statement in unrealised exchange profits/losses.

Provisions for risks and charges

Provisions for risks and charges are made when the Company must face up a current liability (legal or implicit) that is the result of a past event; an outflow of resources is likely to meet this obligation and it is possible to make a reliable estimate of its amount.
When the Company believes that a provision for risks and charges will be partially or totally reimbursed, for example in the case of risks covered by insurance policies, the compensation is recognised separately in the assets only if it is practically certain. In this case, the cost of any provision is stated in the income statement net of the amount recognised for the compensation.
If the discounting back effect of the value of money is significant, provisions are discounted back using a pre-tax discount rate that reflects, if appropriate, the specific risks of the liabilities. When discounting back is carried out, the increase in the provision due to the passage of time is recognised as a financial expense.
The Company makes provisions for product guarantees in relation to the guarantee contractually granted to its customers on the sold machines. These provisions are calculated on the basis of the historical incidence of costs for product guarantee borne in past financial periods, of the period of validity of the granted guarantees and benchmarked again in relation to the amount of revenues of the period to which they refer.

Employee benefit liability

Post employment benefits are defined on the basis of plans, even though not yet formalised, which are classified as "defined contribution" and "defined benefit" in relation to their characteristics.
The Italian legislation (Article 2120 of the Italian Civil Code) establishes that, at the date on which each employee rescinds the employment contract with the company, he/she receives an allowance called TFR (severance indemnity). The calculation of this allowance is based on some items forming the yearly pay of the employee for each year of work (properly revalued) and on the length of the employer-employee relationship. According to the Italian civil law, this

allowance is reflected in the financial statements according to a calculation method based on the allowance accrued by each employee at the reporting date, if all employees rescind the employment contract on that date.
The IFRIC of the IASB dealt with the TFR matter, as defined by the Italian legislation, and concluded that, in accordance with IAS 19, it must be calculated according to a method called Projected Unit Credit Method (the so-called PUCM) in which the amount of the liability for the acquired benefits must reflect the expected resignation date and must be discounted back.
The Company's net liability deriving from defined benefit plans is calculated separately for each plan by estimating the amount of the future benefit that the employees acquired in exchange for the work carried out in the current financial period and in prior financial periods; this benefit is discounted back to calculate the present value. As provided by the revised version of IAS 19, actuarial gains and losses are recorded in full in the comprehensive income statement in the period in which they arise. The evaluation of liabilities is made by an independent actuary. The Company has no other defined benefit pension plan.
The Company's liability deriving from defined-contribution plans is limited to the payment of contributions to the State or to an asset or legally separate entity (so-called fund), and is determined on the basis of the contributions due.

Government grants

Government grants are recognised in the financial statements when there exists a reasonable certainty that the company will meet all the conditions for receiving the contributions and that the contributions will be received. When the contributions are related to cost components, they are recognised as revenues, but are allocated systematically across the financial periods in order to be proportionate to the costs that they intend to compensate. If a contribution is related to an asset, the asset and the contribution are recognised for their nominal values and they are gradually discharged to the income statement, on a straight-line basis, along the expected useful life of the asset of reference.
If the Company receives a non-monetary contribution, the asset and contribution are recognised at their nominal value and discharged to the income statement, on a straight-line basis, along the expected useful life of the asset of reference. In case of loans or similar forms of assistance supplied by government entities or similar institutions that have an interest rate lower than the current market rate, the effect related to the favourable interest rate is considered as an additional government grant.

Financial instruments

The financial instruments are initially recognised at fair value and, after initial recognition, measured in relation to the classification, as required by IAS 39.
For financial assets, this treatment is differentiated among the following categories:

- financial assets at fair value through profit or loss;
- investments held to maturity;
- loans and receivables;
- available-for-sale financial assets.

With reference to financial liabilities, only two categories are established:

- financial liabilities at fair value through profit or loss;
- liabilities at amortised cost.

The methods for determining the fair value with reference to such financial instruments, with accounting or information purposes, are summarised below with reference to the main categories of financial instruments, to which they have been applied:

- derivative instruments: the appropriate pricing models based on market interest rates and on currency exchange ratios;
- receivables and payables and unlisted financial assets: the discount cash flow method was applied for financial instruments falling due after one year, i.e. the discounting back of expected cash flows in consideration of current interest rates and credit rating;
- listed financial instruments: the market value at the date of reference is used.

Derivative financial instruments

Derivative financial instruments are used solely with the intent to hedge financial risks relating to exchange-rate changes on commercial transactions in foreign currency and interest rate risks.
In accordance with IAS 39, hedging derivative financial instruments can be recorded according to the methods established for hedge Accounting only when:

- at the beginning of the hedge, there is formal designation and documents of the hedging arrangement;
- the hedging is expected to be highly effective;
- the effectiveness can be reliably measured; and the hedging itself is highly effective during different accounting periods for which it is designated.

All derivative financial instruments are measured at fair value. When financial instruments have the characteristics to be recorded in hedge accounting, the following accounting treatments are applied:
Fair value hedge – if a financial derivative is designated as a hedge of the exposure to changes in the present value of a balance-sheet asset or liability that may affect the income statement, the profit or loss arising from the future evaluation of the present value of the hedging instrument is recognised in the income statement, as well as the profit or loss on the item being hedged.
Cash flow hedge – if a financial derivative is designated as a hedge of the exposure to changes in cash flows of a balance-sheet asset or liability or of a highly probable expected transaction and that may affect the income statement, the effective portion of profits or losses on the financial instrument is recognised in equity; the accumulated profit or loss is reversed from equity and recorded in the income statement in the same period in which the transaction to be hedged is recognised; the profit or loss associated with a hedging, or with an ineffective hedging, are recorded in the income statement when the ineffectiveness is recognised.
If the conditions for the application of hedge accounting do not apply, the effects deriving from the fair value measurement of the derivative financial instrument are booked directly to the income statement.

Revenues and costs

Revenues and costs are stated on an accrual basis. Revenues and income, presented net of returns, discounts, allowances and premiums, are recorded at fair value insofar as it is possible to reliably determine such value and its economic benefits are likely to be enjoyed.
Revenues from the sale of goods are recognised when all the following conditions are met:

- significant risks and benefits related to the ownership of the goods were transferred to the purchaser;
- the usual ongoing activities associated with the ownership of the goods are no longer carried out, and the actual control of the sold goods is no longer exercised;
- the amount of revenues can be reliably determined;
- the future economic benefits are likely to be enjoyed;
- the costs borne, or to be borne, can be reliably estimated.

More specifically, with reference to sales with CIF condition, risks and benefits related to the ownership of the asset are transferred to the end customer, and therefore the revenues are recognised, when the asset is handed over at the broadside of the ship.
With regard to any machine completed and not yet shipped to the customer (bill and hold) for reasons that do not depend on the Group, revenues are recognised if the following conditions established by Appendix 1 of IAS 18 have been complied with:

- the machine has been completed and is available to be shipped to the customer;
- the customer indicated in writing, at a date before the date of invoicing, its own irrevocable intent to purchase the asset; moreover, this condition implies that the customer shall bear the insurance cost for the periods during which it is still available at the warehouse of the company and relevant transport; therefore, it is reasonable for the sale to be carried out;
- the customer gave clear and precise indications on the delivery of the machine;
- standard payment terms are applied to the customer.

With reference to the sales to the Joint ventures, if the risks and benefits related to the ownership of the asset are transferred to them, the revenue is recorded in the income statement. If, at the reporting date, the Joint venture has not transferred the ownership of the asset to the end customer, the margin achieved with it, following the application of the equity method by the Tesmec Group in the consolidated financial statements, is reversed in relation to the amount of shares held in the capital of the company.
If the trade agreements related to the sales of machines contemplate their on-site testing at the premises of the purchaser as a binding condition for the acceptance of the machine, risks and benefits are transferred, and therefore the revenues are recognised, when the machine has been tested and the purchaser has accepted.
Revenues from services rendered are recognised when all the following conditions are met:

- the amount of the revenue can be measured reliably.
- it is likely that the economic benefits deriving from the operation will flow to the company;
- the completion stage of the operation at the end of the reporting period may be reliably measured;
- costs incurred for the operation and costs to be borne in order to complete it may be reliably calculated.

In particular, the Tesmec Company provides services that contemplate an excavation activity carried out by using machines belonging to the company and specialised workers employed by third-party companies. The provision of these services is contractually regulated by agreements with the counterpart that indicate, among other things, the timing for carrying out the excavation and contemplate a price per excavated metre that changes according to different hardness of the soil. Revenues are recognised on the basis of the progress of the excavation to date, as resulting from the states of the work-in-progress recognised and agreed with the counterpart.
Moreover, the Tesmec Company provides after-sales services concerning the machines sold. If these services are requested after the expiry of the guarantee period, the service is contractually regulated by agreements with the counterpart. Revenues are recognised based on the time and components used by the technicians during repair operations.

Financial income and expenses

Financial income and expenses are recognised on an accrual basis on the basis of interests accrued on the net value of the related financial assets and liabilities, by using the effective interest rate.

Determining the fair value of financial instruments

The fair value of the financial instruments listed on an active market is based on market prices at the end of the reporting period. The fair value of financial instruments that are not listed on an active market is determined by using measurement techniques based on a series of methods and assumptions related to market conditions at the end of the reporting period.

Dividends

Dividends are recorded when the right of the shareholders to receive the payment arises, coinciding with the time in which they are decided.

Income tax

Current taxation

Taxes reflect an estimate of the tax burden, determined by applying the laws and regulations in force in the countries where the Tesmec Company carries on its activity. Taxable income for tax purposes differs from the pre-tax profit or loss indicated in the income statement, because it excludes positive and negative components that will be taxable or deductible in other financial periods and excludes items that will never be taxable or deductible. Current tax liabilities are calculated by using the rates in force or substantially approved at the end of the reporting period.
Current tax liabilities are recorded in the current liabilities net of any paid tax advances.

Deferred taxes

Deferred taxes are calculated on the temporary differences resulting at the end of the reporting period among the tax values used as a reference for assets and liabilities and the values indicated in the financial statements.
Deferred tax assets are recognised for all the temporary deductible differences and for retained tax assets and liabilities, insofar as the existence of appropriate future tax profits that can apply the use of the temporary deductible differences and of the retained tax assets and liabilities is likely.
The value to be stated in the financial statements for deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient income for tax purposes will be available in the future for this tax credit to be used totally or partially. Deferred tax assets not recognised are reviewed every year at the end of the reporting period and are recognised to the extent that the pre-tax profit is probably sufficient to allow the recovery of these deferred tax assets.
Deferred tax assets and liabilities are measured based on tax rates that are expected to be applied to the financial period in which such assets are sold or such liabilities are discharged, considering the rates in force and those already issued or substantially issued at the end of the reporting period.
Deferred tax assets and liabilities are recognised directly in the income statement, with the exception of those relating to items recognised directly in equity, in which case the related deferred taxes are also accounted for consistently without booking to the income statement.
Deferred tax assets and liabilities are offset, if there is a legal right to offset current tax assets against current tax liabilities, and the deferred taxes refer to the same tax entity and to the same tax authority.
Assets for deferred tax assets and liabilities for deferred tax liabilities are classified as non-current assets and liabilities.

Value added tax

Revenues, costs and assets are recognised net of value added tax with the exception of the case in which:

- such tax applied to the purchase of goods and services is not deductible, in which case it is recognised as part of the purchase cost of the asset or part of the cost item recognised in the income statement;
- they refer to trade receivables and payables for which the invoice has already been issued or received and they are stated by including the value of the tax.

The net amount of indirect taxes on sales and purchases that can be recovered from or paid to the tax authorities is recorded in the financial statements item other receivables and payables depending on the sign of the balance. VAT related to invoicing to public bodies is paid to the Tax authority when the receivable is collected during suspended VAT, pursuant to Italian Presidential Decree no. 633/72 and subsequent amendments.

Earnings per share

The basic earnings per share are calculated by dividing the Group's economic result by the weighted average of the outstanding shares during the period. For the purposes of the calculation of the diluted earnings per share, the weighted average of the outstanding shares is modified by assuming the conversion of all the potential dilutive shares. The net result is also adjusted to take account of the effects, net of tax, of the conversion.
The diluted earnings per share coincide with the basic earnings, since there are no outstanding shares or options other than ordinary shares.

2.4 Changes and new principles and interpretations

The accounting standards adopted for the preparation of the consolidated financial statements as at 31 December 2014 are the same as those adopted for the preparation of the consolidated financial statements for the year ended 31 December 2013, with the exception of the adoption as of 1 January 2014 of the new standards, amendments and interpretations.
Several other new standards and amendments came into force for the first time in 2014. However, these have no impact on the consolidated financial statements of the Tesmec Group.

The nature and impact of each new standard/amendment is listed below:

- Investment entities - Amendments to IFRS 10, IFRS 12 and to IAS 27

  These amendments envisage an exception to the consolidation for entities that are classified as investment entities pursuant to IFRS 10 – Consolidated financial statements. This exception to consolidation requires that investment entities measure the subsidiaries at fair value recognised in the income statement. These changes had no impact on the Company, as none of the entities belonging to the group qualifies as an investment pursuant to IFRS 10.

- IFRS 10 Consolidated financial statements, IAS 27 (2011) Separate financial statements

  IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 supersedes the part of IAS 27 Consolidated and Separate Financial Statements that addressed the accounting for consolidated financial statements and SIC-12 Consolidation - Special Purpose Entities. The IFRS 10 standard changes the definition of control and determines that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and is also able to use its power over the investee to affect these returns. An investor controls an investee if and only if it has simultaneously: a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of the returns. The IFRS 10 standard had no impact on the consolidation of equity investments owned by the Company.

- IFRS 11 Joint Arrangements and IAS 28 (2011) Investments in Associates and Joint Ventures

  The IFRS 11 standard supersedes IAS 31 Investments in Joint Ventures and SIC-13 Joint Controlled Entities - Non-Monetary Contributions by Venturers and, according to this standard, the use of the proportionate consolidation method to account for joint ventures is not permitted. Jointly controlled companies that can be defined as a joint venture must be accounted for using the equity method. These amendments did not impact the financial statements of the Company.

- Offsetting of financial assets and financial liabilities – Amendments to IAS 32

  These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and of the offsetting criteria in case of settlement systems (such as central clearing house systems), which apply gross settlement mechanisms that are not simultaneous. These amendments did not impact the financial statements of the Company.

- Disclosures on the recoverable amount of non-financial assets – Amendment to IAS 36

  These amendments remove the consequences introduced unintentionally by IFRS 13 on the information disclosed by IAS 36. Moreover, these amendments require disclosure on the recoverable amount of the assets or CGU for which an impairment loss was recognised or “reclassified” during the financial year. These amendments did not impact the financial statements of the Company.

- Novation of derivatives and continuation of hedge accounting – Amendment to IAS 39

  These amendments allow to continue the hedge accounting when the novation of a hedging derivative meets certain criteria. These amendments had no impact because the Company did not replace its derivatives in the current financial year or in previous financial years.

- IFRIC 21 Levies

  IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and applies retrospectively. It is applicable to all payments imposed by law by the Government other than those already dealt with in other principles (for example, IAS 12 Income taxes) and those for fines or other penalties for violations of the law. The interpretation explains that an entity recognises a liability not before the obligating event occurs, in accordance with the relevant legislation. The interpretation also explains that the liability is recognised progressively if the obligating event occurs over a period of time provided by law. If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached. The same recognition principles are applied in interim financial reports, however, these amendments did not impact on the Company.

- 2011-2013 annual improvement project

  As part of the 2011-2013 annual improvement project, IASB issued four amendments to four accounting standards, including IFRS 1 First-time adoption of IFRS. The amendment to IFRS 1, which is in force since 1 January 2014, clarifies in the Basis for Conclusions that an entity may choose to apply an existing accounting standard or a new accounting standard not yet mandatory but for which an early adoption is allowed, as long as this principle is applied consistently in all reportable periods in the first IFRS financial statements of the entity. This amendment to IFRS 1 did not have any impact on the Company, as the Company is not a first-time adopter.

2.5 Discretionary assessment and significant accounting estimates

The preparation of the financial statements requires the directors to carry out discretionary assessments, estimates and assumptions that affect the values of revenues, costs, assets and liabilities and the indication of contingent liabilities at the end of the reporting period. The final results may differ from said estimates. Estimates are used for recognising:

Deferred tax assets
Deferred tax assets are recognised for all the temporary differences and all retained tax losses, in so far as the existence of adequate taxable future profits for which such losses may be used is likely. Directors are requested a significant discretionary assessment to determine the amount of deferred tax assets that can be recorded. They must estimate the probable time in which it will reveal itself and the amount of taxable future profits as well as a future tax planning strategy.

Employee benefits - Severance Indemnity
Provision for severance indemnity is determined by using actuarial evaluations. The actuarial evaluation requires assumptions on discount rates, future increases in salary, turnover and death rates. Since these are long-term plans, such estimates are subject to a significant level of uncertainty.

Development costs
Development costs are capitalised on the basis of the accounting standard explained below. The directors must make assumptions on future cash flows expected from fixed assets, discount rates to be applied and the periods during which the expected benefits reveal themselves in order to determine the values to be capitalised.

Moreover, estimates are used for recognising provisions for bad debts, product guarantees, provisions for risks and charges, inventory obsolescence, amortisation, depreciation and write-downs of assets, fair value of derivative financial instruments.

Estimates and assumptions are periodically revised and the effects of each change are immediately reflected in the income statement.

3. Management of financial risks

Tesmec S.p.A. is exposed in varying degrees to financial risks related to the core business. In particular, the Company is exposed at the same time to the market risk (interest-rate risk and exchange-rate risk), liquidity risk and credit risk.
The management of financial risks (mainly interest-rate risks) is carried out by the Company on the basis of guidelines defined by the Board of Directors. The purpose is to guarantee a liability structure always in equilibrium with the structure of the balance sheet assets, in order to keep a very sound balance sheet structure.
Forms of financing most commonly used are represented by:

- interest bearing financial payables with multiyear redemption plan, to cover the investments in fixed assets;
- short-term financial payables and bank overdrafts to finance the working capital.

The average cost of indebtedness is benchmarked to the trend of the three-month EURIBOR rate plus a spread that depends on the financial instrument used and on the rating of the Company.
Tesmec S.p.A. uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The Company does not apply the Cash Flow Hedge Accounting with reference to such positions, in that they do not meet the requirements provided in this regard by the IFRS standards.
The trading of derivative instruments with speculative purposes is not contemplated.

Management of the exchange-rate risk

Exchange-rate risk sensitivity of Tesmec S.p.A. is managed appropriately taking into consideration the overall exposure: within the general optimisation policy of financial resources, the Company pursues an equilibrium resorting to less expensive forms of financing.

With regard to the market risk for changes in the interest rate, the company's policy is to hedge the exposure related to the portion of medium to long-term indebtedness. Derivative instruments such as Swaps, Collars and Caps are used to manage this risk.

As at 31 December 2014, there were five positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 23.4million, with a negative equivalent value of Euro 444 thousand.

As at 31 December 2013, there were five positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 23.3 million, with a negative equivalent value of Euro 543 thousand.

The short-term portion of interest bearing financial payables (current portion), which is mainly used to finance working capital requirements, is not subject to interest-rate risk hedging.
The cost of bank borrowing is benchmarked to the EURIBOR/LIBOR rate plus a spread that depends on the type of credit line used and is the same by type of line. The applied margins can be compared to the best market standards. The interest rate risk to which the Company is exposed is mainly originated from existing financial payables.

The main sources of exposure of the Company to the interest-rate risk refer to existing interest bearing financial payables (current portion) and interest bearing financial payables and to the existing derivative instruments. In particular, the potential impacts on the Income Statement of the 2015 financial period (compared to 2014) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 2014 financial period;
- potential change in fair value of existing derivative instruments.

The Company estimated the potential impacts on the Income Statement and on Shareholders' Equity of the 2015 financial period (compared to 2014, calculated with reference to the situation existing at the end of the 2013 reporting period, respectively) produced by a simulation of the change in the term structure of the interest rates, by using internal measurement models, based on the general acceptance approach. In particular:

- for loans, these impacts were estimated by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates, applied only to the cash flows to be settled during the 2015 financial period (compared to 2014);
- for derivative instruments, by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates.

With reference to the situation as at 31 December 2014, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2015 financial period of Euro 233 thousand, offset by an increase of Euro 91thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 39 thousand, offset by a decrease of Euro 24 thousand in the collected spread for the existing derivatives.

With reference to the situation as at 31 December 2013, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2014 financial period of Euro 245 thousand, offset by an increase of Euro 165 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 73 thousand, offset by a decrease of Euro 50 thousand in the collected spread for the existing derivatives.

(Euro in thousands)	Interests					
	31 December 2014			31 December 2013		
	Residual debt	Impact on the IS +100 bps	Impact on the IS -30 bps	Residual debt	Impact on the IS +100 bps	Impact on the IS -30 bps
Borrowings	(89,739)	(233)	39	(97,180)	(245)	73
Total Loans	**(89,739)**	**(233)**	**39**	**(97,180)**	**(245)**	**73**
(Euro in thousands)	Notional	Impact on the IS +100 bps	Impact on the IS -30 bps	Notional	Impact on the IS +100 bps	Impact on the IS -30 bps
Derivative instruments hedging cash flows	23,418	91	(24)	23,333	165	50
Total Derivative instruments	**23,418**	**91**	**(24)**	**23,333**	**165**	**50**
Total		**(142)**	**15**		**(80)**	**123**

(Euro in thousands)	Fair value sensitivity of derivatives									
	Financial period ended 31 December 2014									
	Notional value	Net FV	Net FV +100 bps	Net FV +100 bps	Impact on IS +100 bps	Impact on SE +100 bps	Net FV - 30 bps	Net FV - 30 bps	Impact on IS - 30 bps	Impact on SE - 30 bps
Derivative instruments hedging cash flows	23,418	(44)	(109)	335	335	-	(473)	(29)	(29)	-
Total	**23,418**	**(444)**	**(109)**	**335**	**335**	**-**	**(473)**	**(29)**	**(29)**	**-**
	Financial period ended 31 December 2013									
(Euro in thousands)	Notional value	Net FV	Net FV +100 bps	Net FV +100 bps	Impact on IS +100 bps	Impact on SE +100 bps	Net FV - 30 bps	Net FV - 30 bps	Impact on IS - 30 bps	Impact on SE - 30 bps
Derivative instruments hedging cash flows	23,333	(543)	(39)	504	504	-	(581)	(38)	(38)	-
Total	**23,333**	**(543)**	**(39)**	**504**	**504**	**-**	**(581)**	**(38)**	**(38)**	**-**

With reference to the situation as at 31 December 2014, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 334 thousand, with an impact on the Income statement of the 2015 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 29 thousand, with an impact only on the Income statement of the 2015 financial period.

With reference to the situation as at 31 December 2013, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 504 thousand, with an impact on the Income statement of the 2014 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 38 thousand, with an impact only on the Income statement of the 2014 financial period.

The assumptions concerning the extent of changes in market parameters used for the simulation of shocks were formulated on the basis of an analysis of the historical development of such parameters with reference to a time scale of 12 months.

Credit risk management

The company has a much parcelled out customer structure being mostly end-consumers. Moreover, most of the contemplated forms of collection include advance payments of the supply or a deposit not less than 30% of the sale.
This structure zeroes the credit risk; the validity of this approach is endorsed by the low amount of receivables at the end of the financial period compared to the amount of annual sales.
There are no significant concentrations of credit risk exposure in relation to individual debtors to be reported. All positions relating to trade receivables, both with reference to the end of the 2014 and 2013 reporting periods, expire before 12 months.

Management of liquidity risk

The Company manages the liquidity risk by controlling strictly the elements forming the working capital and in particular trade receivables and payables.
The Company tends to obtain upstream a good cash generation in relation to sales and then use it for paying the suppliers without compromising the short-term balance of the treasury and avoid problems and tensions in current liquidity.

The stratification of existing Liabilities with reference to 2014 and to 2013 financial periods, with regard to financial instruments, by residual maturity, is set out below.

	31 December 2014				
	Financial payables		Trade payables	Financial instruments	Total
Maturity	Capital	Interests			
(Euro in thousands)	a	b	c	d	a+b+c+d
Within 12 months	30,875	3,398	26,471	172	**60,916**
Between one and two years	11,219	2,972	-	114	**14,305**
Between two and three years	6,571	2,680	-	50	**9,301**
Between three and five years	14,364	4,346	-	12	**18,722**
Between five and seven years	18,987	3,315	-	(5)	**22,297**
After more than 7 years	7,723	1,410	-	-	**9,133**
Total	**89,739**	**18,121**	**26,471**	**343**	**134,674**

	31 December 2013				
	Financial payables		Trade payables	Financial instruments	Total
Maturity	Capital	Interests			
(Euro in thousands)	a	b	c	d	a+b+c+d
Within 12 months	37,266	2,602	22,609	281	**62,758**
Between one and two years	11,108	2,302	-	206	**13,616**
Between two and three years	9,688	1,990	-	63	**11,741**
Between three and five years	16,539	3,285	-	1	**19,825**
Between five and seven years	5,247	1,575	-	-	**6,822**
After more than 7 years	7,332	2,034	-	-	**9,366**
Total	**87,180**	**13,788**	**22,609**	**551**	**124,128**

The estimate of expected future expenses implicit in loans and of expected future differentials implicit in derivative instruments was determined on the basis of the term structure of interest rates in Euro existing at the reporting dates (31 December 2014 and 31 December 2013).

Management of the exchange-rate risk

The Company is exposed to exchange-rate fluctuations of the currencies in which the sales to foreign customers are paid (US Dollars). This risk is expressed if the equivalent value in Euro of revenues decreases following negative exchange-rate fluctuations, thereby preventing the Company from achieving the desired margin. This risk is increased due to the relevant time interval between the moment in which the prices of a shipment are fixed and the moment in which the costs are converted in Euro.

The potential impacts on the Income Statement of the 2015 financial period (compared to 2014) referable to the exchange-rate risk are determined by the revaluation/write-down of asset and liability items in foreign currency.

The Company estimated the potential impacts on the income statement of the 2015 financial period (compared to 2014, calculated with reference to the situation existing at the end of the 2013 reporting period, respectively) produced by a shock of the exchange-rate market, by using internal measurement models, based on the general acceptance approach.

Exposure with regard to equity items	Exposure in foreign currency (USD) 2014			Sensitivity 2014	
	Assets (USD/000)	Liabilities (USD/000)	Equity (USD/000)	Income Statem. EUR/USD Exchange Rate +5%	Income statement EUR/USD exchange rate -5%
Trade receivables	9,103	-	9,103	(375)	375
Trade payables	-	42	42	(2)	2
Total net exposure with regard to equity items	**9,103**	**42**	**9,145**	**(377)**	**377**
Derivative instruments	-	-	-	-	-
Total net exposure with regard to equity items	**9,103**	**42**	**9,145**	**(377)**	**377**

Exposure with regard to equity items	Exposure in foreign currency (USD) 2013			Sensitivity 2013	
	Assets (USD/000)	Liabilities (USD/000)	Equity (USD/000)	Income Statem. EUR/USD Exchange Rate +5%	Income statement EUR/USD exchange rate -5%
Trade receivables	15,508	-	15,508	(562)	562
Trade payables	-	400	400	(15)	15
Total net exposure with regard to equity items	**15,508**	**400**	**15,908**	**(577)**	**577**
Derivative instruments	-	-	-	-	-
Total net exposure with regard to equity items	**15,508**	**400**	**15,908**	**(577)**	**577**

Disclosures: categories of financial assets and financial liabilities

The following table shows the book values for each class of financial assets and liabilities identified by IAS 39:

(Euro in thousands)	Loans and receivables/payables	Guarantee deposits	Cash and cash equivalents	Available-for-sale financial assets	Fair value recognised in the income statement
Financial assets:					
Derivative financial instruments	-	-	-	-	16
Total non-current	**-**	**-**	**-**	**-**	**16**
Trade receivables	31,045	-	-	-	-
Financial receivables due from related parties	28,312	-	-	-	-
Financial receivables from third parties	106	-	-	-	-
Other available-for-sale securities	-	-	-	125	-
Cash and cash equivalents	-	-	14,316	-	-
Total current	**59,462**	**-**	**14,316**	**125**	**-**
Total	**59,462**	**-**	**14,316**	**125**	**16**
Financial liabilities:					
Loans	39,920	-	-	-	-
Non-current portion of finance leases, net	18,096	-	-	-	-
Derivative financial instruments	-	-	-	-	460
Total non-current	**58,016**	**-**	**-**	**-**	**460**
Loans	12,917	-	-	-	-
Other financial payables (short-term leases)	2,152	-	-	-	-
Other short-term payables	15,853	-	-	-	-
Trade payables	26,471	-	-	-	-
Total current	**57,393**	**-**	**-**	**-**	**-**
Total	**115,409**	**-**	**-**	**-**	**460**

Disclosures: hierarchy levels of fair value measurement

In relation to financial instruments measured at fair value, the following table shows the classification of such instruments on the basis of the hierarchy of levels required by IFRS 13, which reflects the significance of the inputs used in measuring the fair value. The levels are broken down as follows:

- level 1 - quoted prices without adjustment recorded in an active market for measured assets or liabilities;
- level 2 - are inputs other than quoted prices included within Level 1, that are observable in the market, either directly (as in the case of prices) or indirectly (i.e. when derived from the prices);
- level 3 - inputs that are not based on observable market data.

The following table shows the assets and liabilities that are measured at fair value as at 31 December 2013, divided into the three levels defined above:

(Euro in thousands)	Book value as at 31 December 2014	Level 1	Level 2	Level 3
Financial assets:				
Derivative financial instruments	16	-	16	-
Other available-for-sale securities	125	-	-	125
Total current	125	-	-	125
Total	125	-	-	125
Financial liabilities:				
Derivative financial instruments	460	-	460	-
Total non-current	460	-	460	-
Total	460	-	460	-

4. Significant events occurred during the period

Among the operations occurred during the 2014 financial period, the following is reported:

- on 8 April 2014, the "Tesmec S.p.A. 6% 2014-2021" bond issue was admitted to trading on the Extra MOT PRO market, for an amount of Euro 15 million, with a seven year term and a fixed gross interest rate of 6% and an annual delayed coupon. The issue was subscribed and placed by Banca Popolare di Vicenza S.c.p.a. and by KNG Securities LLP with leading European institutional investors; this operation has enabled the Group to relocate the debt over the medium term through to 85.0% of Net Debt total against 78.5% as at 31 December 2013;

- on 30 April 2014, with the approval of the 2013 financial statements, the Shareholders' Meeting of Tesmec S.p.A. decided to allocate the profit of the Parent Company of Euro 3,879 thousand, as follows:
  - Euro 194 thousand to the legal reserve;
  - assign a dividend of Euro 0.016 to each outstanding ordinary share;
  - assign to the Extraordinary Reserve the amount of profit remaining after the allocation to the Legal reserve and dividend;

- on 1 August 2014 the independent non-executive Director, Luca Poggi, drawn from the minority list, resigned from the office held within the Company for reasons of professional character. The Director, Luca Poggi, was appointed by the Shareholders' meeting of 30 April 2013, on the occasion of the renewal of the corporate offices;

- on 30 September 2014, the company Tesmec New Technology (Beijing) Ltd. was set up with registered office in Beijing (China). The company will be operational in the all businesses of the Group and represents a natural development of the Group's activities in the Country where until now the presence consisted in a representative office;

- in the first few days of November, Tesmec S.p.A. finalised a contract amounting to approximately Euro 37 million related to the supply to Abencor Suministros Sa, company of the Spanish Group of Abengoa, international leader in the construction of transmission and distribution infrastructures, of packages for power lines stringing works as part of one of the main projects for the construction of 500kV lines in Brazil.

  In detail, the project in which the integrated solutions of the Tesmec Group will be used consists in the construction of more than 5,000 km of 500kV lines in the eastern part of Brazil, to be delivered no later than the first half of 2015.

COMMENTS ON THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

Non-current assets

5. Intangible assets

The breakdown of *Intangible assets* as at 31 December 2014 and as at 31 December 2013 is indicated in the table below:

	31 December					
	2014			2013		
(Euro in thousands)	Historical cost	Accum. amort.	Net value	Historical cost	Accum. amort.	Net value
Development costs	23,503	(17,898)	5,605	20,458	(14,926)	5,532
Rights and trademarks	2,179	(1,995)	184	2,155	(1,900)	255
Assets in progress and advance payments to suppliers	70	-	70	-	-	-
Total intangible assets	**25,752**	**(19,893)**	**5,859**	**22,613**	**(16,826)**	**5,787**

The following table shows the changes in intangible assets for the period ended 31 December 2014:

(Euro in thousands)	01/01/2014	Increases	Decreases	Reclassifications	Amortisation	31/12/2014
Development costs	5,532	3,048	(2)	-	(2,973)	5,605
Rights and trademarks	255	24	-	-	(95)	184
Assets in progress and advance payments to suppliers	-	70	-	-	-	70
Total intangible assets	**5,787**	**3,142**	**(2)**	**-**	**(3,068)**	**5,859**

As at 31 December 2014, intangible assets net of amortisation totalled Euro 5,859 thousand, down Euro 72 thousand on the previous year.
Increases for the period totalled Euro 3,142 thousand mainly consisting in development costs capitalised (Euro 3,048 thousand) related to the development of new products and equipment that are expected to generate positive cash flows in future financial periods. This amount is related for Euro 1,222 thousand to Trencher and for Euro 1,770 thousand to Stringing Equipment.

The following table shows the changes in intangible assets for the period ended 31 December 2013:

(Euro in thousands)	01/01/2013	Increases	Decreases	Reclassifications	Amortisation	31/12/2013
Development costs	5,706	2,713	-	-	(2,887)	5,532
Rights and trademarks	327	78	-	-	(150)	255
Assets in progress and advance payments to suppliers	-	-	-	-	-	-
Total intangible assets	**6,033**	**2,791**	**-**	**-**	**(3,037)**	**5,787**

6. Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2014 and as at 31 December 2013 is indicated in the table below:

	31 December					
	2014			2013		
(Euro in thousands)	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Land	5,266	-	5,266	5,266	-	5,266
Buildings	21,542	(2,345)	19,197	21,542	(1,676)	19,866
Plant and machinery	10,471	(6,135)	4,336	10,430	(5,314)	5,116
Equipment	3,073	(2,645)	428	2,884	(2,404)	480
Other assets	4,247	(1,854)	2,393	3,572	(2,067)	1,505
Assets in progress and advance payments to suppliers	520	-	520	517	-	517
Total property, plant and equipment	45,119	(12,979)	32,140	44,211	(11,461)	32,750

Including leased property, plant and equipment:

	31 December					
	2014			2013		
(Euro in thousands)	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Land	5,266	-	5,266	5,266	-	5,266
Buildings	21,542	(2,335)	19,207	21,542	(1,676)	19,866
Plant and machinery	3,467	(1,450)	2,017	3,467	(1,103)	2,364
Equipment	181	(103)	78	180	(71)	109
Other assets	1,403	(507)	896	710	(426)	284
Total property, plant and equipment	31,859	(4,395)	27,464	31,165	(3,276)	27,889

The following table shows the changes in property, plant and equipment for the period ended 31 December 2014:

(Euro in thousands)	01/01/2014	Increases	Decreases	Reclassifications	Depreciations	31/12/2014
Land	5,266	-	-	-	-	5,266
Buildings	19,866	-	-	-	(669)	19,197
Plant and machinery	5,116	41	-	-	(821)	4,336
Equipment	480	187	-	5	(244)	428
Other assets	1,505	1,744	(611)	-	(245)	2,393
Assets in progress and advance payments to suppliers	517	12	(4)	(5)	-	520
Total property, plant and equipment	32,750	1,984	(615)	-	(1,979)	32,140

In 2014, Tesmec S.p.A. invested in property, plant and equipment, net of disinvestments, an overall amount of Euro 1,369 thousand. This amount mainly concerns *other assets* increased for a net amount of Euro 1,133 thousand as a result of: (i) the sale of three trenchers from the fleet and (ii) entry in the trencher fleet of four machines for a total of Euro 1,736 thousand rented during the 2014 financial period.

The following table shows the changes in property, plant and equipment for the period ended 31 December 2013:

(Euro in thousands)	01/01/2013	Increases	Decreases	Reclassifications	Depreciations	31/12/2013
Land	4,016	1,250	-	-	-	5,266
Buildings	17,201	3,245	-	-	(580)	19,866
Plant and machinery	5,255	751	(45)	-	(845)	5,116
Equipment	454	271	-	-	(245)	480
Other assets	2,455	488	(953)	-	(485)	1,505
Assets in progress and advance payments to suppliers	446	71	-	-	-	517
Total property, plant and equipment	**29,827**	**6,076**	**(998)**	**-**	**(2,155)**	**32,750**

7. Equity investments in subsidiaries, associates and joint ventures.

The breakdown of *Equity investments in subsidiaries, associates and joint ventures* as at 31 December 2014 and 2013 is indicated in the table below:

	31 December	
(Euro in thousands)	2014	2013
Subsidiaries:		
Tesmec USA, Inc.	21,261	21,261
Tesmec France EURL	30	30
Tesmec Balkani EAD	-	-
Tesmec Service S.p.A.	1,826	1,326
Tesmec SA	361	361
East Trenchers S.r.l.	136	91
SGE S.r.l.	410	10
OOO Tesmec RUS	11	11
Tesmec New Technology (Beijing) LTD.	200	-
Total equity investments in subsidiaries	**24,235**	**23,090**

Equity investments in subsidiaries increased all in all of Euro 1,145 thousand as a result of the following operations:

- Tesmec Balkani EAD: on 31 December 2014, the Company converted a sum amounting to Euro 100 thousand - paid with respect to a short-term loan to Tesmec Balkani EAD - in capital reserve by considering this sum as a non-repayable subsidy. The value of the investment was subsequently written down to align it to the cash value of its net equity;

- Tesmec Service S.r.l.: on 31 December 2014, the Company converted a sum amounting to Euro 500 thousand from the borrowing in capital reserve by considering this sum as a non-repayable subsidy; The losses realised in 2014 refer to start-up costs of activities in the production segment of machines for railway network maintenance;

- East Trenchers S.r.l.: on 31 December 2014, the Company converted a sum amounting to Euro 45 thousand from the borrowing in capital reserve by considering this sum as a non-repayable subsidy;

- *SGE S.r.l.*: on 31 December 2014, the Company converted a sum amounting to Euro 400 thousand from the borrowing in capital reserve by considering this sum as a non-repayable subsidy; the losses realised in 2014 refer to start-up costs of design, construction, installation and marketing of electronic and electromechanical systems and equipment for civil and industrial use and for special applications;

- *Tesmec New Technology (Beijing) LTD.*: on 30 September 2014, the company Tesmec New Technology (Beijing) Ltd. was set up with registered office in Beijing (China) with share capital of Euro 200 thousand. The company will be operational in the all businesses of the Group and represents a natural development of the Group's activities in the Country where until now the presence consisted in a representative office.

The following table shows the main financial statements items of subsidiaries:

(Euro in thousands)	31 December						
	2014						
	% held	Revenues	Net income	Assets	Liabilities	Shareholders' Equity	Book value
Subsidiaries:							
Tesmec USA, Inc.	100.00%	28,932	(1,375)	62,393	35,072	27,321	21,261
Tesmec France EURL	100.00%	-	(5)	6	13	(7)	30
Tesmec Balkani EAD	100.00%	1	(73)	47	22	25	-
Tesmec Service SpA	100.00%	4,467	(400)	9,787	9,043	744	1,826
Tesmec SA	100.00%	1,950	(158)	2,524	2,721	(197)	361
East Trenchers Srl	91.20%	127	(41)	165	61	104	136
SGE Srl	100.00%	421	(295)	1,132	1,017	115	410
OOO Tesmec RUS	100.00%	1,041	69	364	137	227	11
Tesmec New Technology (Beijing) LTD	100.00%	-	(30)	181	13	168	200

It should be noted that the value of shareholders' equity of the subsidiaries Tesmec Service S.r.l. and Tesmec SA (Pty) Ltd was strongly influenced by the current start-up phase of the related assets. In fact, it is noted that the most important part of research and development and production of the Group in the Rail segment is organised in Tesmec Service S.r.l. and that in Tesmec SA the phase of commercial introduction has required more time due to the innovative contents of the offer of trenchers compared to the more traditional machines widely used in the Country.

At December 31, 2014 the values of the investments were tested for impairment. The key assumptions used by Management are estimates of future business plans. The expected earnings flows cover a period of three years subsequent to those of reference of the impairment test and reference the current business plan approved by the Board of Directors on December 19, 2014. The discount rate used (WACC), defined as the weighted average cost of capital, net of taxes, was differentiated according to the country of reference, the values of which are positioned in a range between 8% and 12%. Cash flows beyond the three years were extrapolated using a growth rate of 1,25%. The results of the impairment test showed that 31 December 2014, the recoverable amount of the CGU exceeds the carrying amount.

The breakdown of equity investments in associates and joint ventures as at 31 December 2014 and 2013 is indicated in the table below:

(Euro in thousands)	31 December	
	2014	2013
Associated companies:		
Locavert SA	52	52
Bertel	1,700	1,700
Subtotal	**1,752**	**1,752**
Joint Ventures:		
Condux Tesmec Inc	956	956
Tesmec Peninsula	730	730
Subtotal	**1,686**	**1,686**
Total equity investments in associates	**3,438**	**3,438**

The following table shows the main financial statements items of associated companies and joint ventures:

(Euro in thousands)	31 December 2014						
	% held	Revenues	Net income	Assets	Liabilities	Shareholders' Equity	Book value
Associated companies:							
Locavert SA	38.63%	270	83	691	260	431	52
Bertel S.p.A.	40.00%	120	(164)	1,488	920	568	1,700
Joint Ventures:							
Condux Tesmec Inc.	50.00%	5,503	550	4,148	1,241	2,907	956
Tesmec Peninsula	49.00%	5,379	366	5,614	5,323	291	730

No steps were taken to reduce the value of equity investments compared to shareholders' equity in cases where activities of the investees are impacted by the effects of the start-up phase in that the recovery in value of the difference can be expected in a short period of time.

Current assets

8. Inventories

The following table sets forth the breakdown of *Inventories* as at 31 December 2014 and 2013:

(Euro in thousands)	31 December 2014	31 December 2013
Raw materials and consumables	16,178	15,872
Work in progress	4,220	3,190
Finished products and goods for resale	9,442	9,302
Total Inventories	29,840	28,364

The measurement bases of inventories remained unchanged compared to the prior financial period. The item as a whole increased by 5.7% due to lower sales in the fourth quarter of the period compared to the previous year.
The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2014 and 2013 are indicated in the table below:

(Euro in thousands)	Financial period ended 31 December 2014	Financial period ended 31 December 2013
Value as at 1 January	2,020	1,350
Provisions	320	670
Uses	-	-
Total provisions for inventory obsolescence	2,340	2,020

The value of the provisions for inventory obsolescence increased by Euro 320 thousand compared to the prior financial period as consequence to effect of slow moving material and spare parts.
The evaluation of adequacy of the provision is carried out on a regular basis to constantly monitor the actual level of inventory recoverableness through sales.

9. Trade receivables

The table below shows the breakdown of trade receivables as at 31 December 2014 and 2013:

	31 December	
(Euro in thousands)	2014	2013
Trade receivables from third-party customers	24,098	23,330
Trade receivables from related parties	6,947	9,392
Total trade receivables	31,045	32,722

For terms and conditions relating to receivables from related parties, refer to note 34.

Trade receivables from customers as at 31 December 2014 amounted to Euro 31,045 thousand, down by Euro 1,677 thousand compared to the 2013 financial period.
The decrease in trade receivables due from related parties of Euro 2,445 thousand was due to collections received from said parties (the main collections concern Tesmec Peninsula WLL and Condux Tesmec Inc.).
The balance of trade receivables is shown net of provisions for doubtful accounts. This provision was calculated in an analytical manner by dividing the receivables in classes depending on the level of risk, by Country and customer, and by applying to each class an expected percentage of loss derived from historical experience.

The changes in the provisions for doubtful accounts for the financial periods ended 31 December 2014 and 2013 are indicated in the table below:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Value as at 1 January	1,217	1,007
Provisions	350	450
Uses	(3)	(240)
Total provisions for doubtful accounts	1,564	1,217

Uses and provisions related to the provisions for doubtful accounts are included in “other operating (costs)/revenues, net” of the income statement.

10. Tax Receivables

The following table sets forth the breakdown of tax receivables as at 31 December 2014 and 2013:

	31 December	
(Euro in thousands)	2014	2013
IRAP receivables	-	-
IRES refunds	395	395
Total tax receivables	395	395

Tax receivables as at 31 December 2014 refers to receivables from tax authorities of Euro 395 thousand following the request for refund of the additional IRES paid for not having deducted the IRAP related to the personnel costs in relation to the tax years from 2007 to 2011 in accordance with Italian Law Decree 16/2012.

11. Other available-for-sale securities

The following table sets forth the breakdown of *Other available-for-sale securities* as at 31 December 2014 and 31 December 2013:

	31 December	
(Euro in thousands)	2014	2013
Shares of Banco Popolare Italiano	8	20
Shares of Banca Popolare di Vicenza	117	105
Total other available-for-sale securities	125	125

Other available-for-sale securities as at 31 December 2014 consists of 805 shares of Banco Popolare Italiano for a unit value of Euro 10.06 and of 1,793 and 4,750 shares of Banca Popolare di Vicenza for a unit value of Euro 62.5 and Euro 1.113, respectively.

12. Financial receivables and other current financial assets

The following table sets forth the breakdown of *financial receivables and other current financial assets* as at 31 December 2014 and as at 31 December 2013:

	31 December	
(Euro in thousands)	2014	2013
Financial receivables due from related parties	28,312	19,825
Other current financial assets	106	96
Total financial receivables and other current financial assets	28,418	19,921

The increase in *financial receivables and current financial assets* Euro 8,497 thousand) is due to the increase in credit positions relating to specific contracts signed with the counterparties on which an interest rate is applied and repayable within 12 months.

The main financial receivables and related interest rate applied are set below:

- Tesmec USA, Inc of Euro 14,600 with annual interest rate of 3.75% or 6-month Euribor rate + spread of 2% applicable depending on the nature of the transaction;
- Tesmec Service S.r.l. of Euro 4,152 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3.5%;
- Tesmec SA (Pty) Ltd. of Euro 2,605 thousand with interest rate equivalent to 8.5%;
- SGE S.r.l. of Euro 355 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3.5%;
- Bertel S.p.A. of Euro 563 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3%;
- Condux Tesmec, Inc of Euro 156 thousand 1-month Libor rate + spread of 3%;
- Tesmec Peninsula WLL of Euro 4,729 thousand with annual interest rate of 1.5% and 3.5% on the portion disbursed as loan by both shareholders of USD 1,500 thousand.

For terms and conditions relating to receivables from related parties, refer to note 34.

13. Other current assets

The following table sets forth the breakdown of *other current assets* as at 31 December 2014 and as at 31 December 2013:

	31 December	
(Euro in thousands)	2014	2013
Prepaid expenses	442	231
Other income from affiliated companies	2	1
VAT credit	334	54
Other tax receivables	114	14
Other receivables	566	437
Advance to suppliers for services	140	123
Total Other current assets	1,598	860

Other current assets is considered receivable and therefore was not subject to value adjustment.
VAT credit, which amounted to Euro 334 thousand as at 31 December 2014, increased by Euro 290 thousand compared to 31 December 2013.

14. Cash and cash equivalents

The following table sets forth the breakdown of the item as at 31 December 2014 and 2013:

	31 December	
(Euro in thousands)	2014	2013
Bank and post office deposits	14,311	9,605
Cash on hand	2	3
Other cash	3	10
Total cash and cash equivalents	14,316	9,618

Cash and cash equivalents are invested in short-term bank deposits and they are remunerated at a floating rate related to the Euribor trend. The balance as at 31 December amounts to Euro 14,316 thousand and increased of Euro 4,698 thousand.
The stated values can be readily converted into cash and are subject to a non-significant risk of change in value. The book value of cash and cash equivalents is deemed to be aligned to their fair value at the end of the reporting period.
The Company believes that the credit risk related to cash and cash equivalents is limited since it mainly represents deposits divided across domestic and international banking institutions.

15. Shareholders' Equity

Equity

The share capital amounts to Euro 10,708 thousand, fully paid up, and comprises 107,084,000 shares with a par value of Euro 0.1 per share. The following table sets forth the breakdown of *Other reserves* as at 31 December 2014 and 2013:

	31 December	
(Euro in thousands)	2014	2013
Revaluation reserve	86	86
Extraordinary reserve	16,881	14,939
Severance indemnity valuation reserve	(279)	(147)
Network Reserve	725	725
Retained earnings/(losses brought forward)	2,490	2,460
Bills charged directly to shareholders' equity		
on operations with entities *under common control*	(5,619)	(5,619)
Total other reserves	14,284	12,444

The revaluation reserve is a reserve in respect of which tax has been deferred, set up in accordance with Italian Law No. 72/1983.
As at 31 December 2014, *Extraordinary reserve* increased by a total of Euro 1,942 thousand as a result of the decision for the allocation of the 2013 net income.
The Reserve for First Time Adoption is mainly related to the application of the principle of continuity of values within extraordinary operations concluded among companies *"under common control"* with a subsequent write-off of the higher values recognised in the transaction with the Shareholders' Equity as a balancing entry.
The Shareholders' Equity is therefore divided according to the origin, the possibility of usage, the related distributability and the actual usage in the 3 previous financial periods

Nature / description	Amount (Euro/000)	Possibility of usage	Amount available	Summary of uses in the last 3 periods	
				To cover losses	for other reasons
Share capital	10,708	B			
Equity's reserves:					
Share premium reserve	10,915	A, B, C (*)	10,915	-	-
Reserve of Treasury Shares	(1,011)				
Earnings reserves:					
Legal reserve	2,005	B			
Revaluation reserve	86	A, B, C	86	-	-
Extraordinary reserve	16,881	A, B, C	14,939	-	-
Reserve for First Time Adoption	(5,619)				
Severance indemnity valuation reserve	(279)				
Network Reserve	725				
Retained earnings/(losses brought forward)	2,490	B			
Profit for the period	6,278				
Total	43,179		25,940	-	-

(*) As stated in the Italian Civil Code, Article 2431, the whole amount is distributable only under the condition that the legal reserve should have reached the limit indicated in Article 2430.

Legend:
A: To increase shareholders' equity
B: To cover losses
C: To distribute to shareholders

Following the resolution of 30 April 2014, the Shareholders' Meeting approved the allocation of 2013 profits of Euro 3,879 thousand as follows:

- allocate Euro 194 thousand to the legal reserve;
- assign a dividend of Euro 0.016 to each outstanding ordinary share;
- assign to the Extraordinary Reserve the amount of profit remaining after the allocation to the Legal reserve and dividend.

Non-current liabilities

16. Medium-long term loans

Medium-long term loans include medium-long term loans from banks, payables towards other providers of finance and payables towards leasing companies for tangible fixed assets recorded in the consolidated financial statements in accordance with the financial leasing accounting method.
The following table shows the breakdown thereof as at 31 December 2014 and as at 31 December 2013, with separate disclosure of the current portion :

	31 December			
(Euro in thousands)	2014	of which current portion	2013	of which current portion
Iccrea Banca – Istituto Centrale del Credito Cooperativo – unsecured pool loan 70% backed by Sace guarantee; original value Euro 2 million; drawn down on 6 August 2009 with maturity date 30 September 2014; floating interest rate equivalent to 3-month Euribor rate + spread of 1.70%	-	-	310	310
Banca Popolare dell'Emilia Romagna – unsecured loan 70% backed by Sace guarantee; original value Euro 2 million; drawn down on 20 October 2009 with maturity date 31 December 2014; fixed annual interest rate of 4.2%	-	-	434	434
Banca Nazionale del Lavoro – loan at floating interest rate with a 2-year pre-amortisation; original value Euro 6 million; drawn down on 1 July 2010 with maturity date 31 May 2018; floating interest rate equivalent to 6-month Euribor rate + spread of 2.25%	3,692	923	4,615	923
BNL-BNP Paribas Group - loan in pool; original value Euro 21 million, drawn down on 11 march 2011 Euro 8 million with maturity date 4 march 2016, floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25). On 4 and 5 August 2011, Euro 4 million, on 9 November 2011, Euro 2 million, on 9 February 2012, Euro 2 million, on 31 May 2012, Euro 2 million and on 23 October 2012, another Euro 3 million with maturity date 4 march 2013, floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25) with option to extend repayment in 54 months (in 9 deferred half-yearly instalments) last instalment expiring on 4 September 2017, 6-month Euribor rate + spread of 1.90% (+/- 0.25).	11,210	5,117	16,882	5,672
Credito Valtellinese - unsecured loan of Euro 2 million 50% backed by Sace guarantee, drawn down on 23 December 2011 with maturity date 31 December 2014, floating interest rate equivalent to 3-month Euribor rate + spread of 3%.	-	-	693	693
Credito Valtellinese - unsecured loan of Euro 1 million, drawn down on 11 January 2012 with maturity date 31 March 2015, floating interest rate equivalent to 3-month Euribor rate + spread of 5%	90	90	438	347
Credito Valtellinese - unsecured loan of Euro 2 million backed by Sace guarantee, drawn down on 1 June 2012 with maturity date 30 June 2015, floating interest rate equivalent to 3-month Euribor rate + spread of 3%	345	345	1,017	671
Simest UGF - loan for a total of Euro 1.9 thousand and drawn down the first tranche of Euro 580 thousand on 28 March 2013 with maturity date 14 February 2020, special annual interest rate of 0.4994%.	977	97	580	-

Cariparma - loan of Euro 1.5 million, drawn down on 21 October 2013 with maturity date 21 October 2017, floating interest rate equivalent to 6-month Euribor rate + spread of 3%.	1,134	365	1,487	354
Banca Popolare dell'Emilia Romagna – unsecured loan; original value Euro 3 million; drawn down on 20 November 2013 with maturity date 7 November 2016; floating interest rate equivalent to 3-month Euribor rate + spread of 3.73%	2,023	992	2,979	956
Banco di Desio - unsecured loan of Euro 1.5 million, drawn down on 10 December 2013 with maturity date 10 December 2016, floating interest rate equivalent to 3-month Euribor rate + spread of 4%.	1,014	496	1,489	475
Veneto Banca - unsecured loan of Euro 2.5 million, drawn down on 23 December 2013 with maturity date 31 December 2018, floating interest rate equivalent to 6-month Euribor rate + spread of 3.9%.	2,021	474	2,475	454
ICCREA/BCC Chiro - loan of Euro 3.5 million 70% backed by Sace guarantee, drawn down on 27 March 2014 with maturity date 27 March 2022, floating interest rate equivalent to 6-month Euribor rate + spread of 3.95%.	3,244	209	-	-
Banca Popolare di Vicenza S.c.p.a. and KNG Securities LLP - bond issue Euro 15 million, drawn down on 10 April 2014 with maturity date 10 April 2021, fixed gross interest rate of 6% and an annual delayed coupon.	14,609	(62)	-	-
Sondrio - loan of Euro 1 million, drawn down on 4 August 2014 with maturity date 31 August 2017, averaged floating interest rate equivalent to 1-month Euribor rate + spread of 3.5%.	893	325	-	-
Banca popolare di Bergamo - loan of Euro 1.5 million, drawn down on 9 October 2014 with maturity date 9 October 2016, floating interest rate equivalent to 3-months Euribor rate + spread of 2.25%.	1,377	744	-	-
Total Interest-bearing financial payables	**42,629**	**10,115**	**33,399**	**11,289**
Less current portion	(10,115)		(11,289)	
Non-current portion of interest-bearing financial payables	**32,514**		**22,110**	
Loan due to Simest	7,406		7,406	
Total medium-long term loans	**39,920**		**29,516**	
Non-current portion of finance leases	20,248	2,152	22,233	1,985
Less current portion	(2,152)		(1,985)	
Non-current portion of finance leases, net	**18,096**		**20,248**	
Total current portion		**12,267**		**13,274**
Medium-long term loans	**58,016**		**49,764**	

ICCREA-BCC and BNL loan contracts contain certain financial covenant clauses. In particular, they require that certain parameters, calculated on the basis of the financial statements of the Group, have to be met; they are verified on a semi-annual and annual basis.

In general, covenants are based on the observance of the following relations:

- Net financial indebtedness/EBITDA
- Net financial indebtedness/Shareholders' equity

Based on the results of the financial statements of the Company and of the Tesmec Group, all expected covenants on medium to long-term loans have been observed.

Note that during 2014 new medium to long term loans were opened for a value of Euro 20,675 thousand against a total value of the same lines repaid of Euro 13,431 thousand.

The average cost of indebtedness is benchmarked to the trend of the three-month Euribor rates plus a spread applied depending also on the type of the financial instrument used.
The table below shows the figures relevant to the outstanding loans of the Company as at 31 December 2014, by indicating the portion due within one year, within 5 years and after more than 5 years:

Description	Maturity	Interest rate	Residual value as at 31 December 2014	Portion within 12 months	Portion within 5 years	Portion after more than 5 years
Banca Nazionale del Lavoro	31-May-18	floating interest rate equivalent to 6-month Euribor rate + spread of 2.25%	3,692	923	2,769	-
Banca Nazionale del Lavoro	04-Mar-16	floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25)	11,210	5,117	6,093	-
	04-Sep-17	floating interest rate equivalent to 6-month Euribor rate + spread of 1.90% (+/- 0.25)				
Credito Valtellinese	31-Mar-15	floating interest rate equivalent to 3-month Euribor rate + spread of 5%	90	90	-	-
Credito Valtellinese	30-Jun-15	floating interest rate equivalent to 3-month Euribor rate + spread of 3%	345	345	-	-
Simest UGF	04-Feb-20	special annual interest rate of 0.4994%	977	97	783	97
Cariparma	21-Oct-17	floating interest rate equivalent to 6-month Euribor rate + spread of 3%	1,134	365	769	-
Banca Popolare dell'Emilia Romagna	07-Nov-16	floating interest rate equivalent to 3-month Euribor rate + spread of 3.73%	2,023	992	1,031	-
Banco di desio	10-Dec-16	floating interest rate equivalent to 3-month Euribor rate + spread of 4%	1,014	496	518	-
Veneto Banca	31-Dec-18	floating interest rate equivalent to 6-month Euribor rate + spread of 3.9%.	2,021	474	1,547	-
ICCREA/BCC Chiro	27-Mar-22	floating interest rate equivalent to 6-month Euribor rate + spread of 3.95%	3,244	209	1,862	1,173
Banca Popolare di Vicenza S.c.p.a. e da KNG Securities LLP	10-Apr-21	fixed gross interest rate of 6%	14,609	(62)	(250)	14,921
Sondrio	31-Aug-17	averaged floating interest rate equivalent to 1-month Euribor rate + spread 3.5%	893	325	568	-
Banca popolare di Bergamo	09-Oct-16	floating interest rate equivalent to 3-months Euribor rate + spread 2.25%	1,377	744	633	-
Total			**42,629**	**10,115**	**16,323**	**16,191**

Net financial indebtedness

As required by CONSOB Communication of 28 July 2006 and in compliance with CESR Recommendation of 10 February 2005 "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses", the Company's net financial indebtedness is as follows:

(Euro in thousands)	31 December 2014	*of which with related parties and group*	2013	*of which with related parties and group*
Cash and cash equivalents	(14,316)		(9,618)	
Current financial assets [1]	(28,543)	*(28,312)*	(20,046)	*(19,825)*
Current financial liabilities	30,922	*1,100*	37,146	*382*
Current portion of derivative financial instruments	-		-	
Current financial indebtedness [2]	**(11,937)**	***(27,212)***	**7,482**	***(19,443)***
Non-current financial liabilities	58,016	*15,954*	49,764	*17,054*
Non-current portion of derivative financial instruments	460		543	
Non-current financial indebtedness [2]	**58,476**	***15,954***	**50,307**	***17,054***
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	***46,539***	***(11,258)***	***57,789***	***(2,389)***

(1) Current financial assets as at 31 December 2014 and 31 December 2013 include the market value of shares and warrants, which are therefore considered cash and cash equivalents.
(2) Current and non-current financial indebtedness is not identified as an accounting element by the IFRS. The valuation criteria applied by the Company may not necessarily be the same as those adopted by other groups and therefore the balance obtained by the Company may not necessarily be comparable therewith.

During the 2014 financial period, the Company's net financial Indebtedness decreased compared to 2013 by Euro 11,250 thousand, due to the combined effect of the following changes:

- for the short-term portion, we point out a total increase of Euro 19,419 thousand that reflects an increase in *current financial assets* of Euro 8,497 thousand, an increase in cash balances of Euro 4,698 thousand related to contingent phenomena and an decrease of Euro 6,224 thousand of *Current financial liabilities*;

  We point out that the increase in *current financial assets* refers to balances related to contracts signed with the counterparties on which an interest rate is applied and repayable within 12 months;

- increase in *non-current financial liabilities* from Euro 49,764 thousand to Euro 58,016 thousand mainly due to: i) signing of six new loans totalling Euro 20,675 thousand (ii) reclassification under the current financial indebtedness of Euro 12,423 thousand relating to the short-term portion of medium/long-term loans. The new loans include the bond issue of Euro 15 million admitted to trading on the Extra MOT PRO market on 8 April 2014, with a seven year term and a fixed gross interest rate of 6% and an annual delayed coupon.

This table shows the comparison between the book value and the fair value of the financial instruments as at 31 December 2014:

(Euro in thousands)	Book value	Fair value
Financial liabilities:		
Loans [1]	52,837	63,342
Non-current portion of finance leases, net	20,248	24,528
Total	73,085	87,869

(1) The item includes the value of loans short-term loans to third parties of Euro 2,802 thousand classified in item "Interest-bearing financial payables (current portion)".

17. Derivative financial instruments

The Company signed some contracts related to derivative financial instruments whose contractual characteristics and related fair value as at 31 December 2014 and 2012 are shown in the table below:

Counterparts	Type	Debt interest rate (fixed)	Credit interest rate (variable)	Start date	Maturity date	Notional principal (Euro)	Fair Value (Euro/000) as at 31 December 2014	2013
BNL	IRS	1.15% 1st year; 1.65% 2nd year; 2% 3rd year; 2.60% five following years	3-month Euribor	01/09/2010	31/05/2018	3,692,308	(199)	(228)
BNL	IRS	Fixed interest rate 2.57%	3-month Euribor	07/07/2011	04/03/2016	3,051,429	(75)	(160)
BNL	IRS	Fixed interest rate 1.49%	3-month Euribor	07/03/2012	04/09/2017	4,520,533	(103)	(120)
BNL	IRS	Fixed interest rate 0.8%	3-month Euribor	16/11/2012	04/09/2017	4,146,133	(44)	(24)
Veneto Banca	IRS	Fixed interest rate 1.09%	6-month Euribor	23/12/2013	31/12/2018	2,041,881	(39)	(11)
Icrea	CAP	Interest rate for the period 0.75%	6-month Euribor	17/04/2014	27/09/2020	2,785,714	14	-
Emilia Romagna	CAP	Interest rate for the period 0.50%	3-month Euribor	07/05/2014	07/11/2016	2,036,889	1	-
Cariparma	CAP	Interest rate for the period 0.75%	3-month Euribor	21/01/2014	23/10/2017	1,143,043	1	-
Assets for derivative instruments							16	-
Liabilities for derivative instruments within the financial period							-	-
Liabilities for derivative instruments beyond the financial period							(460)	(543)

Tesmec S.p.A. uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The transactions for interest-rate risk hedging are mainly related to medium-term loans. The Company does not account for these financial instruments according to the methods established for hedge accounting since they do not meet all the requirements provided on this matter by the international accounting standards. Therefore, the changes in fair value of the financial instruments are attributed to the income statement during the financial period under review.

The financial management of the Company does not envisage the trading of derivative instruments with speculative purposes.

18. Employee benefit liability

The Company has no defined benefit pension plans in the strict sense. However, the severance indemnity fund required by Article 2120 of the Italian Civil Code, in terms of recognition in the financial statements, falls under this type and as such was accounted for, as shown in the applied accounting policies.
The following table shows the changes for the period ended 31 December 2014 and 31 December 2013 of employee benefits:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Present value of the liability at the beginning of the period	2,517	2,544
Financial expense	78	76
Benefits paid	(69)	(107)
Actuarial profit / loss recognised		-
Financial loss (profit)	210	(24)
Demographic loss (profit)	(29)	28
Present value of the liability at the end of the period	**2,707**	**2,517**

With the adoption of the IFRS, the severance indemnity is considered a defined-benefit liability to be accounted for in accordance with IAS 19 and, as a result, the relevant liability is measured based on actuarial techniques.

The main assumptions used in determining the present value of the severance indemnity are shown below:

Economic and financial technical bases

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Annual discount rate	1.60%	3.10%
Inflation rate	1.50%	2.00%
Expected turnover rate of employees	3.00%	3.00%
Advance rate	2.00%	2.00%

The sensitivity analyses are shown below by using an annual discount rate of +0.5% and -0.5% compared to the annual discount rate used on the valuation date.

	Discount rate	
(Euro in thousands)	0.50%	-0.50%
Effect on the aggregate current cost of the service and of the financial expenses	-	-
Reported value for liabilities with respect to defined benefit plans	(85)	91

Technical and demographic bases

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Mortality	2004 ISTAT tables	2004 ISTAT tables
Disability	INPS tables	INPS tables
Retirement age	Monti-Fornero law	Monti-Fornero law

Frequency of turnover and advances on severance indemnity

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Advance frequency %	0.33%	0.64%
Turnover frequency %	14.20%	16.19%

Workforce

The average number of employees by category, expressed in terms of full-time employees is shown in the following table:

	Financial period ended 31 December	
(average no. of employees)	2014	2013
Managers	5	5
Executives, employees and equated	147	147
Workers	158	160
Total	310	312

The average number of employees as at 31 December 2014 decreased by 1.0% compared to the previous financial period.

Current liabilities

19. Interest-bearing financial payables (current portion)

The following table sets forth the breakdown of *Medium-long term loans (current portion)* for the 2014 and 2013 financial periods:

	31 December	
(Euro in thousands)	2014	2013
Advances from banks against invoices and bills receivables	13,787	18,781
Other financial payables (short-term leases)	1,052	990
Financial payables due from affiliated companies	1,100	1,628
Payables due to factoring companies	2,066	1,483
Short-term loans to third parties	2,802	2,975
Current portion of medium/long-term loans	10,115	11,289
Total interest-bearing financial payables (current portion)	30,922	37,146

The *advances from banks* amount to Euro 13,787 thousand and decreased by Euro 4,994 thousand as a result of lower requirements generated by operations.

The current portion of interest-bearing loans and borrowings increased of Euro 1,174 thousand following the drawing-up and reclassifications during 2013 described in paragraph 16.

20. Trade payables

The breakdown of *Trade payables* as at 31 December 2014 and as at 31 December 2013, respectively, is indicated in the table below:

	31 December	
(Euro in thousands)	2014	2013
Trade payables due to third-parties	26,139	21,291
Trade payables due to related parties	332	1,318
Total trade payables	26,471	22,609

Trade payables as at 31 December 2014 increased of Euro 4,102 thousand compared to 31 December 2013 for an increased flow of purchases made in the last quarter.
This figure includes payables related to the normal course of business of the Company, in particular the purchase of raw materials and outsourced works.
Note also that there are no payables with maturity exceeding five years at the above dates.

21. Income taxes payable

The balance of Euro 944 thousand as at 31 December 2014 and Euro 1,399 thousand as at 31 December 2013 represents the amount payable for current income taxes for the period, which are broken down as follows:

	31 December	
(Euro in thousands)	2014	2013
Current IRES tax liabilities	542	943
Current IRAP tax liabilities	451	456
Total income taxes payable	993	1,399

The item includes the net payable due by the Company for the payment of direct income taxes.

Domestic tax consolidation

The company, with option sent to the Italian Inland Revenue on 15 June 2012, notified that it opted for the domestic tax consolidation system provided by Article 117 et sequitur of the Consolidated Act on Income Tax for the 2012/2014 three-year period with the subsidiary Tesmec Service S.r.l. The company, with a subsequent option sent to the Italian Inland Revenue on 13 June 2014, notified that it opted for the domestic tax consolidation system with the subsidiaries East Trenchers S.r.l. and SGE S.r.l. for the 2014/2016 three-year period.
Consequently, the investees Tesmec Service S.r.l, East Trenchers S.r.l. and SGE S.r.l. were included in the tax consolidation for the 2014 financial year.
Specific consolidation agreements were signed with each subsidiary opting for the domestic tax consolidation system on 14 May 2012 for Tesmec Service S.r.l and on 9 May 2014 for East Trenchers S.r.l and for SGE S.r.l., respectively, which regulate the timing and the methods for exchanging the information required to carry out the tax consolidation, the timing and methods for transferring resources among companies resulting from group taxation, as well as the methods for recognising the tax benefit to the companies that transferred, as part of the group taxation, tax losses, surpluses of non-deductible interest expenses and excess deduction to aid economic growth (A.C.E.).

These financial statements were affected by this institute in the following items:

- the item “Other liabilities” recorded under “Current liabilities” of the statement of financial position, which includes the payable reported to the subsidiaries in connection with the recognition of the tax benefit deriving from the transfer of the tax losses and non-deductible interest expenses pursuant to Article 96 T.U.I.R. to the tax consolidation:

Tax benefit for the transfer of tax losses Tesmec Service S.r.l	Euro 259,622
Tax benefit for the transfer of interest expenses Tesmec Service S.r.l	Euro 33,845
Tax benefit for the transfer of loss East Trenchers S.r.l.	Euro 14,223
Tax benefit for the transfer of loss SGE S.r.l.	Euro 74,756
	Total Euro 382,446

- the item “Income taxes payable” recorded under “Current liabilities” of the statement of financial position, which includes the IRES payable for taxes of the group of Euro 542 thousand.

The taxable income referring to the tax consolidation consists, in summary, of the following:

		Financial period ended 31 December
(Euro in thousands)		2014
Taxable income of consolidating company Tesmec S.p.A.	A	5,969
Taxable income of consolidating company Tesmec Service s.r.l.	B	(1,067)
Taxable income of consolidating company East Trenchers S.r.l.	C	(52)
Taxable income of consolidating company SGE S.r.l.	D	(272)
Total consolidated taxable income	**E=A+B+C+D**	**4,578**
I.R.E.S. - 27.5 % tax rate	F=E*27.5%	1,259
Previous year IRES surplus	G	(181)
Advances paid	H	(536)
Current IRES tax liabilities	**I=F+G+H**	**542**

22. Provisions for risks and charges

Provisions for risks and charges mainly refers to the product guarantee fund. The calculation is based on a historical, statistical and technical analysis of the interventions under guarantee carried out on sales in prior financial periods and includes both the cost of labour and that for spare parts used.
On the basis of this estimate has not occurred by the need to perform provisions.
Changes in the *Provisions for risks and charges* as at 31 December 2014 and 2013 are indicated below:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Value as at 1 January	300	600
Provisions	-	-
Uses	(50)	(300)
Value as at 31 December	250	300

23. Other current liabilities

The following table sets forth the breakdown of *Other current liabilities* as at 31 December 2014 and 2013:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Due to social security	1,206	713
Due to INAIL (National Insurance Institute for Industrial Accidents)	111	66
Due to trade funds	151	141
Due to employees and collaborators	2,013	1,761
Due to others	9	518
Payables due to related parties	382	325
Accrued expenses and liabilities	4	6
Total other current liabilities	3,876	3,530

The item *other current liabilities* increase respect to previous year in proportion to the increase in labor costs.

24. Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2014 and 2013:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Deferred tax assets	1,890	2,396
Deferred tax liabilities	1,035	618

The breakdown of net deferred taxes as at 31 December 2014 and 2013 is shown in the following table by type by listing the items that present underlying temporary differences.

(Euro in thousands)	31 December Statement of financial position		31 December Shareholders' equity		Financial period ended 31 December Income statement	
	2014	2013	2014	2013	2014	2013
Deferred tax assets						
Reversals of intangible assets	69	151	-	-	(82)	(85)
Obsolescence fund	734	634	-	-	100	210
Unrealised exchange-rate losses	374	558	-	-	(184)	355
Tax effect on UCC gain reversals	392	465	-	-	(73)	(98)
Listing expenses	-	306	-	-	(306)	(306)
Other temporary differences	321	282	-	-	39	(44)
Total deferred tax assets	1,890	2,396	-	-	(506)	32
Deferred tax liabilities						
Unrealised exchange-rate gains	(780)	(329)	-	-	(451)	(70)
Profits allocated to network reserve	(228)	(228)	-	(228)	-	-
Other temporary differences	(27)	(61)	50	1	(16)	24
Total deferred tax liabilities	(1,035)	(618)	50	(227)	(467)	(46)
Effect on Shareholders' Equity						
Net balance deferred wealth taxes	855					
Represented in the income statement as follows:						
Deferred tax assets	(506)					
Deferred tax liabilities	(467)					
Deferred tax liabilities, net	(973)					

Current taxation

Profit before taxes and the allocation for income taxes for the financial periods as at 31 December 2014 and 2013 are summarised below:

(Euro in thousands)	Financial period ended 31 December	
	2014	2013
Pre-tax profits	9,621	6,912
Current taxation	2,370	3,019
Deferred tax liabilities/assets	973	14
Total taxes	3,343	3,033

The reconciliation between the nominal tax rate established by the Italian legislation and the effective tax rate resulting from the financial statements is set below:

		Financial period ended 31 December	
		2014	
(Euro in thousands)		IRES	IRAP
Profit before tax	A	9,621	9,621
Difference in taxable income between IRES and IRAP	B	-	9,604
	C=A+B	9,621	19,225
Nominal rate (%)	D	27.5%	3.9%
Theoretical taxes	E=C*D	2,646	750
Tax effect on permanent differences	F	(36)	53
Tax effect on temporary differences	G	(433)	-
Tax effect on the re-absorption of temporary differences	H	(536)	(15)
Current taxation posted to the income statement	I=E+F+G+H	1,641	788
Deferred tax liabilities	L	467	-
Deferred tax assets	M	504	2
Taxes related to prior financial periods	N	(106)	-
Foreign income taxes	O	47	-
Aggregate tax posted to the income statement	I+L+M+N	2,553	790

Comments to the main items in the income statement

25. Revenues from sales and services

In the 2014 and 2013 financial periods, revenues from sales and services amounted to Euro 88,225 thousand and Euro 94,734 thousand, respectively. The breakdown is set below:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Sales of products	87,059	93,893
Services rendered	1,166	841
Total revenues from sales and services	88,225	94,734

Revenues from *product sales* refer to income deriving from the transfer of stringing machines and equipment, trenchers and rail. These revenues decreased by 6.9% due to lower sales in all segments.

26. Cost of raw materials and consumables

For the financial periods as at 31 December 2014 and 2013, cost of raw materials and consumables amount to Euro 44,376 thousand and Euro 48,225 thousand, respectively. The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Cost for the purchase of raw materials and consumables	45,851	49,239
Change in inventories	(1,475)	(1,014)
Total cost of raw materials and consumables	44,376	48,225

Costs of raw materials and consumables decreased by Euro 3,849 thousand in proportion to the decrease in sales volumes (-8.0%).

27. Costs for services

The table below shows the breakdown of *costs for services* that amounted in 2014 and in 2013 to Euro 14,936 thousand and Euro 16,923 thousand, respectively.

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Transport, customs and incidental expenses	2,485	2,412
Outsourced work service	2,591	2,725
External production services	934	1,152
Services for legal, tax, technical and other consultancy	2,343	2,985
Banking services	784	727
Insurance	266	240
Energy, water, gas, telephone expenses and postage	830	936
Board and lodging expenses and travelling allowance	731	781
Directors' and Auditors' fees	839	1,256
Advertising and other selling expenses	448	591
Maintenance services	299	310
Commissions and additional expenses	1,660	2,031
Other general expenses	726	777
Total costs for services	14,936	16,923

The decrease of costs for services (-11.7) is due to the combined effect of:

- *legal, tax, technical and other consultancy costs* of Euro 2,343 thousand in the 2014 financial period compared to Euro 2,985 thousand in the 2013 financial period. This item included costs related to new commercial initiatives on foreign markets for which the Company made use of the experience of external consultants;
- *commissions and additional expenses* decreased by 18.3% both due to the reduction in revenues of the Stringing equipment segment where the structure most commonly used is indirect sales.

28. Payroll costs

During the financial periods ended 31 December 2014 and 2013, payroll costs amounted to Euro 16,687 thousand and Euro 16,142 thousand, respectively, up by 3.4%. mainly for the adjustment plans of the technical departments in line with the increased complexity of the offer of the Company.

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Wages and salaries	12,256	11,662
Social security charges	3,585	3,619
Employee severance indemnity	747	727
Other personnel costs	99	134
Total payroll costs	16,687	16,142

The average composition of staff is given in Note 18.

29. Other operating (costs)/revenues, net

During the financial periods ended 31 December 2014 and 2013, other net operating (costs)/revenues amounted to Euro 252 thousand and Euro 404 thousand, respectively, with a 37.6% decrease.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Provisions for risks and other net provisions	350	450
Write-down of equity investments	100	239
Rents	390	805
Hiring	513	462
Other lease and rental expenses	1	13
Sundry taxes	124	70
Other revenues	(1,508)	(1,841)
Other	282	206
Total other operating (costs)/revenues, net	252	404

Other operating (costs)/revenues decreased by Euro 152 thousand compared to the previous financial year, in particular, *rents* decreased by Euro 415 thousand thanks to the new lease contract of the industrial complex of Sirone occurred in December 2013 that enabled the rental cost savings of Euro 488 thousand per year.
Other revenues decreased of Euro 333 thousand as a result of lower charges of intragroup services rendered defined by specific contracts.

30. Amortisation and depreciation

During the financial periods ended 31 December 2014 and 2013, depreciation and amortisation amounted to Euro 5,047 thousand and Euro 5,192 thousand, respectively.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Amortisation of intangible assets	3,068	3,037
Depreciation of property, plant and equipment	1,979	2,155
Total amortisation and depreciation	5,047	5,192

The change of Euro 145 thousand is related to investments and divestments in the period.

31. Development costs capitalised

Development costs capitalised for the financial periods ended 31 December 2014 and 31 December 2013 amounted to Euro 2,992 and Euro 2,648 thousand, respectively.
During the financial period, the increase in the item is related to development of projects for the launch of new models and new functions requested by the markets in which the company operates.
The percentage incidence on revenues of development costs capitalised increased from 2.8% for the 2013 financial period to 3.4% for the 2014 financial period.

32. Financial expenses

During the financial periods ended 31 December 2014 and 2013, financial expenses amounted to Euro 5,935 thousand and Euro 5,975 thousand, respectively, with a decrease of Euro 40 thousand.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Bank interests expense	1	1
Interests payable for factoring and billing discounts	323	293
Interests payable on interest-bearing loans and borrowings	2,306	1,395
Interests payable on advance loans on exports	482	462
Other sundry financial expenses	363	101
Financial expenses on lease contracts	1,436	1,323
Realised foreign exchange losses	326	587
Unrealised foreign exchange losses	650	1,803
Fair value adjustment of derivative instruments	48	10
Total financial expenses	5,935	5,975

Financial expenses is in line with the previous year thanks to the combined effect of:

- increase in *interest rates payable on interest-bearing loans and borrowings* of Euro 911 thousand following new loans taken out;
- decrease in *foreign exchange losses (realised and unrealised)* of Euro 1,414 thousand due to the exchange rate used on the date of collection compared to the one used on the invoice date and to the adjustment to the exchange rate in effect as at 31 December 2014 of the currency items.

33. Financial income

During the financial periods ended 31 December 2014 and 2013, financial income amounted to Euro 5,638 thousand and Euro 2,391 thousand, respectively.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	2014	2013
Interests from banks	46	12
Realised foreign exchange gains	685	730
Unrealised foreign exchange gains	2,957	769
Fair value adjustment of derivative instruments	146	281
Dividends	944	-
Sundry income	860	599
Total financial income	5,638	2,391

Financial income increased of Euro 3,247 thousand mainly due to:

- increase in *foreign exchange gain (realised and unrealised)* of Euro 2,143 thousand due to the exchange rate used on the date of collection compared to the one used on the invoice date and to the adjustment to the exchange rate in effect as at 31 December 2014 of the currency items; in particular, the Company has been positively affected by the appreciation of the dollar exchange against the euro in the last quarter of the year;
- dividends received by the subsidiary Tesmec USA of USD 1,000 thousand and by Joint Venture Condux Tesmec of USD 600 thousand.

34. Related party transactions

The following table gives details of economic and equity transactions with related parties. The companies listed below have been identified as related parties as they are linked directly or indirectly to the current shareholders:

In particular, for the financial period ended 31 December 2014, the breakdown of each related party is indicated below:

	Financial period ended 31 December					31 December						
	2014					2014						
(Euro in thousands)	Revenues	Cost of raw materials	Cost of services	Other operating (costs)/ revenues, net	Financial income and expenses	Trade receivables	Current financial receivables	Other current assets	Trade payables	Current financial payables	Non-current financial payables	Other current liabilities
Subsidiaries:												
Tesmec USA, Inc.	7,715	(87)	(17)	1,303	919	891	14,600	-	4	-	-	-
Tesmec Service S.r.l.	76	(3)	-	(507)	150	54	4,152	-	320	-	-	293
Tesmec Balkani E.A.D.	-	-	-	-	1	1	6	-	-	-	-	-
East Trencher S.r.l.	115	-	-	5	3	15	42	-	-	-	-	14
Tesmec SA	1,362	(32)	8	3	150	92	2,605	2	-	-	-	-
Tesmec RUS	702	-	-	-	-	137	-	-	-	-	-	-
SGE S.r.l.	-	-	1	11	10	10	355					75
Subtotal	**9,970**	**(122)**	**(8)**	**815**	**1,233**	**1,200**	**21,760**	**2**	**324**	**-**	**-**	**382**
Associates:												
Locavert S.A.	(274)	-	-	-	-	21	-	-	-	-	-	-
Bertel S.p.A.	130	(1)	-	2	5	129	563	-	1	-	-	-
Subtotal	**(144)**	**(1)**	**-**	**2**	**5**	**150**	**563**	**-**	**1**	**-**	**-**	**-**
Joint Ventures:												
Condux Tesmec Inc.	3,880	-	10	151	2	1,084	156	-	-	-	-	-
Tesmec Peninsula	2,053	(1,018)	(13)	94	145	1,932	4,729	-	1	-	-	-
Subtotal	**5,933**	**(1,018)**	**(3)**	**245**	**147**	**3,016**	**4,885**	**-**	**1**	**-**	**-**	**-**
Related parties:												
Ambrosio S.r.l.	-	-	-	(15)	-	-	-	-	4	-	-	-
TTC S.r.l.	-	-	(54)	-	-	-	-	-	-	-	-	-
CBF S.r.l.	-	-	-	-	-	-	-	-	-	-	-	-
Ceresio Tours S.r.l.	-	-	(10)	-	-	-	-	-	2	-	-	-
Dream Immobiliare S.r.l.	-	-	1	(234)	(1,291)	-	1,102	-	-	1,100	15,954	-
Studio Bolelli	-	-	(106)	-	-	-	-	-	-	-	-	-
Eurofidi S.p.A.	-	-	-	-	-	-	2	-	-	-	-	-
FI.IND. S.p.A.	-	-	-	-	-	-	-	-	-	-	-	-
Lame Nautica S.r.l.	5	-	-	-	-	4	-	-	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	2,446	-	5	13	-	2,440	-	-	-	-	-	-
Reggiani Macchine S.p.A.	200	(26)	108	13	-	137	-	-	-	-	-	-
Subtotal	**2,651**	**(26)**	**(56)**	**(223)**	**(1,291)**	**2,581**	**1,104**	**-**	**6**	**1,100**	**15,954**	**-**
Total	**18,410**	**(1,167)**	**(67)**	**839**	**94**	**6,947**	**28,312**	**2**	**332**	**1,100**	**15,954**	**382**

- Tesmec Service S.r.l.: the subsidiary carries out activity of design and construction of machinery for the maintenance of railway rolling stock as a result of the purchase of the rail business unit.
  The revenues incurred by Tesmec with regard to the subsidiary refer to the recharging of consultancy of the technical office. Financial income refers to the remuneration of a current account balance that reported during the year an indebtedness situation of Tesmec Service S.r.l. towards Tesmec S.p.A.;

- Tesmec USA Inc: Revenues and Costs of materials refer to mutual sales transactions concerning machines and spare parts. Financial income refers to the remuneration of a current account balance that reported during the year an indebtedness situation of Tesmec USA towards Tesmec S.p.A.;
- Tesmec SA (Pty) LTD: the purpose of the subsidiary is participating in important projects in the telecommunications sector and capturing new market shares. Revenues of Euro 1,362 thousand refer to the sale of trencher machines subsequently resold to the South African subsidiary. Financial income refers to the remuneration of a current account balance that reported during the year an indebtedness situation of Tesmec SA towards Tesmec S.p.A.;
- East Trenchers S.r.l.: the purpose of the associated company is the hire/service of trencher machines on the national territory with the inclusion of pre/post sales services that traditionally are coupled with this kind of activity;
- Tesmec RUSS: the Company mainly works in the segments of stringing equipment and streamlining of Power Networks, revenues refer to the same of stringing equipment machines and spare parts;
- Locavert S.A.: the French associate purchases normally trenchers/spare parts for rental business and carrying-out of excavation works at market prices and terms of payment;
- Bertel S.p.A: this associated company is a start-up, operating in a market with a high technical profile such as that of streamlining systems of High-Voltage Power Networks and offers highly innovative technological solutions that are increasingly requested by the international customers already served by Tesmec S.p.A. today. The revenues refer to the sale of goods in relation to projects in the field of improving the efficiency of energy transfer;
- Condux Tesmec, Inc.: the JV purchases stringing machines and equipment for sale on the American market booming in the 2014 financial period at market prices and terms of payment;
- Tesmec Peninsula WLL: the JV operates on the Saudi Arabian market supplying trencher machinery produced by the Group as well as on-site and after-sale support services. The income and cost items relate to the normal marketing activities of trenching machines;
- Ambrosio S.r.l.: costs for services refer to the rental for the registered office of Milan;
- Dream Immobiliare S.r.l.: financial income and expenses includes interests payable deriving from the recognition in accordance with IAS 17 of the Building of Grassobbio of Euro 1,291;
- M.T.S. Officine meccaniche S.p.A.: revenues refer to sales of semi-finished products made by the Tesmec Workshop of Sirone;
- Reggiani Macchine S.p.A.: costs for services mainly refers to costs related to users for a total amount of Euro 108 thousand.

(Euro in thousands)	Financial period ended 31 December					31 December						
	2013					2013						
	Revenues	Cost of raw materials	Cost of services	Other operating (costs)/ revenues, net	Financial income and expenses	Trade receivables	Current financial receivables	Other current assets	Trade payables	Current financial payables	Non-current financial payables	Other current liabilities
Subsidiaries:												
Tesmec USA, Inc.	3,191	(1,012)	(26)	801	331	724	6,803	-	27	633	-	-
Tesmec Service S.r.l.	-	(618)	12	(214)	109	120	3,293	-	383	-	-	290
Tesmec Balkani E.A.D.	-	-	(1)	-	2	-	-	-	-	-	-	-
East Trencher S.r.l.	74	-	-	(1)	5	16	56	-	-	-	-	35
Tesmec SA	1,461	(15)	(5)	1	21	436	1,226	1	3		-	
Tesmec RUS	2,267	-	-	367	3	702	-	-	-	-	-	-
Subtotal	**6,993**	**(1,645)**	**(20)**	**954**	**471**	**1,998**	**11,378**	**1**	**413**	**633**	**-**	**325**
Associates:												
Locavert S.A.	650	-	(6)	-	-	527	-	-	-	-	-	-
Bertel S.p.A.	-	-	(355)	-	-	-	250	-	355			
Subtotal	**650**	**-**	**(361)**	**-**	**-**	**527**	**250**	**-**	**355**	**-**	**-**	**-**
Joint Ventures:												
Condux Tesmec Inc.	5,169	-	-	(20)	2	1,165	164	-	-	-	-	-
Tesmec Peninsula	7,385	(1,172)	(117)	119	88	3,533	6,962	-	145	-	-	-
Subtotal	**12,554**	**(1,172)**	**(117)**	**99**	**90**	**4,698**	**7,126**	**-**	**145**	**-**	**-**	**-**
Related parties:												
Ambrosio S.r.l.	-	-	-	(15)	-	-	-	-	5	-	-	-
CBF S.r.l.	-	-	-	(382)	-	38	-	-	400	-	-	-
Ceresio Tours S.r.l.	-	-	(18)	(1)	-	-	-	-	-	-	-	-
Dream Immobiliare S.r.l.	-	-	-	(388)	(1,215)	4	1,069	-	-	995	17,054	-
Eurofidi S.p.A.	-	-	-	-	-	-	2	-	-	-	-	-
FI.IND. S.p.A.	-	-	10	-	-	8	-	-	-	-	-	-
Lame Nautica S.r.l.	2	-	-	-	-	-	-	-	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	1,719	-	8	1	-	1,947	-	-	-	-	-	-
Reggiani Macchine S.p.A.	-	(20)	127	99	17	172	-	-	-	-	-	-
Subtotal	**1,721**	**(20)**	**127**	**(686)**	**(1,198)**	**2,169**	**1,071**	**-**	**405**	**995**	**17,054**	**-**
Total	**21,918**	**(2,837)**	**(371)**	**367**	**(637)**	**9,392**	**19,825**	**1**	**1,318**	**1,628**	**17,054**	**325**

35. Fees paid to Directors, Auditors, Operating Manager and executives with strategic responsibilities

Year 2014:

Board of directors				
Name and Surname	Role	Fees (in Euro)	Bonus and other fees (in Euro)	Total fees
Ambrogio Caccia Dominioni	Chairman and Managing Director	480,000	-	480,000
Alfredo Brignoli	Vice Chairman	55,000	-	55,000
Gianluca Bolelli	Vice Chairman	62,400	-	62,400
Sergio Arnoldi	Director	20,800	-	20,800
Gioacchino Attanzio	Director	30,000	-	30,000
Caterina Caccia Dominioni	Director and Secretary	41,600	-	41,600
Guido Giuseppe Maria Corbetta	Director	15,000	-	15,000
Lucia Caccia Dominioni	Director	20,000	-	20,000
Leonardo Giuseppe Marseglia	Director	15,000	-	15,000
Luca Poggi	Director	9,100	-	9,100

Board of Statutory Auditors				
Name and Surname	Role	Fees (in Euro)	Bonus and other fees (in Euro)	Total fees
Simone Cavalli	Chairman	38,718	-	38,718
Stefano Chirico	Statutory Auditor	26,468	-	26,468
Alessandra De Beni	Statutory Auditor	25,000	-	25,000

Fees paid to executives with strategic responsibilities in the 2014 financial period amounted to Euro 361 thousand (Euro 361 thousand in the 2013 financial year).

36. Summary statement of considerations to the Independent Auditors and to the entities belonging to its network

Pursuant to Article 149 *duodecies* of the Consob Issuer Regulation (Resolution no. 11971/1999 and subsequent amendments), the following table shows the considerations accrued in the financial statements ended 31 December 2014 and 2013 for audit services and for other services rendered to the Company by Reconta Ernst & Young and by the entities belonging to the Ernst & Young network.

(Euro in thousands)	Independent Auditors that supplied the service	Receiver	Accrued amount 2014	Accrued amount 2013
Audit of the financial statements and consolidated financial statements	Reconta Ernst & Young S.p.A.	Tesmec S.p.A. Parent Company	80	76
Limited half-year auditing	Reconta Ernst & Young S.p.A.	Tesmec S.p.A. Parent Company	24	24
Certification services (1)	Reconta Ernst & Young S.p.A.	Tesmec S.p.A. Parent Company	5	5
Other services (2)	Reconta Ernst & Young S.p.A. network	Subsidiaries	-	-
Total			109	105

(1) This item refers to activities aimed at the signing of tax returns.
(2) The item refers to services carried out for "Business Plan review of possible Joint Venture".

37. Positions or transactions resulting from atypical and/or unusual operations

Note that, pursuant to CONSOB Communication no. DEM/6064293 of 28 July 2006, in 2012 the Company did not carry out any atypical and/or unusual operation, as defined by the Communication itself.

38. Commitments and risks

They include sureties, guarantees and third-party assets with the Company. For the financial periods as at 31 December 2014 and 2013, they are summarised as follows:

	31 December	
(Euro in thousands)	2014	2013
Sureties	22,019	16,319
Total commitments and risks	22,019	16,319

The recorded value concerns sureties provided by Tesmec S.p.A. through primary banking institutions in favour of customers. The increase is mainly due to the orders of the newly set up rail sector.
On the basis of the specific of the segments in which the Company works, Tesmec did not make any provision for contingent liabilities in the memorandum accounts. Risks and future expenses are reasonably hedged by funds specifically accounted for in the financial statements.

39. Significant events occurred characteristics after the close of the financial period

On the date of this report, the Company holds a total of 2,596,321 treasury shares, equal to 2,42% of the Share Capital.

The Board of Director evaluated and authorized the prosecution of the negotiation for the acquisition of a French Group, operating in the field of trenching services, that has an integrated and complemantary activity to the one of Tesmec.

Certificate of the financial statements pursuant to Article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 with further supplements and amendments

1. The undersigned Ambrogio Caccia Dominioni and Andrea Bramani, as the Chief Executive Officer and the Manager responsible for preparing the Company's financial statements of Tesmec S.p.A., respectively, hereby certify, also taking into consideration the provisions of Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998:

   - the adequacy in relation to the characteristics of the business and
   - the actual application

   of the administrative and accounting procedures for preparing the financial statements during the 2014 financial period.

2. We also certify that:

2.1 the financial statements as at 31 December 2014:

   - have been prepared in accordance with IFRS as endorsed by the European Union, as provided by the Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   - correspond to the amounts shown in the Company's accounts, books and records;
   - provide a fair and correct representation of the financial conditions, results of operations and cash-flow of the Company.

2.2 the directors' report includes a reliable analysis of the business trend and operating result as well as of the situation of the issuer and of the Company, together with a description of the main risks and uncertainties they incur.

Milan, 12 March 2015

Ambrogio Caccia Dominioni	*Andrea Bramani*
Chief Executive Officer	Manager responsible for preparing the Company's financial statements

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

TESMEC S.p.A.
Registered office in Milan, Piazza S. Ambrogio no. 16
Subscribed and paid-up share capital Euro 10,708,400
Tax code and registration number at the
Milan Register of Companies no. 10227100152
Economic and Administrative Register (REA) no. 1360673

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF TESMEC S.P.A. PURSUANT TO ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE 58/1998 AND OF ARTICLE 2429 OF THE ITALIAN CIVIL CODE

Dear Shareholders,

During the financial period ended 31 December 2014, the Board of Statutory Auditors of Tesmec S.p.A. carried out the supervision activities required by law in accordance with the principles of conduct of the Board of Statutory Auditors recommended by the Italian Accounting Profession Council (CNDCEC), by attending the meetings of the company's Bodies, carrying out periodic audits and meeting the managers of the Independent Auditors Reconta Ernst & Young S.p.A. (the "Independent Auditors"), the members of the Control and Risk Committee, the members of the Supervisory Body set up pursuant to Italian Legislative Decree 231/2001, the key representatives of the different business functions and the Manager responsible for preparing the Company's financial statements for an exchange of information on activities and programs.

Pursuant to Article 153 of Italian Legislative Decree 58/1998 (the "Consolidated Law on Finance (T.U.F.)") and of Article 2429, paragraph 3 of the Italian Civil Code, taking also into account the instructions given by CONSOB with communication no. DEM/1025564 of 6 April 2001, and subsequent amendments and supplements, we report the following:

- we supervised the observance of the law and of the articles of association;
- we obtained from the Directors, on a regular periodicity, information on management performance and business outlook as well as on the business carried on and on the major economic and financial operations performed during the financial period, also through subsidiaries, verifying that they comply with the law and with the articles of association and that they are not clearly imprudent or reckless, in potential conflict of interest, in contrast with the resolutions passed by the Shareholders' Meeting or such as to compromise the integrity of the company assets;
- we received from the Board of Directors, within the timeframe set by the law, the half-yearly financial report and the quarterly interim reports on operations;
- there are no atypical and/or unusual operations with third parties, companies of the Group or related parties to report, nor have we received information from the Board of Directors, Independent Auditors or Control and Risk Committee on the subject;
- the Directors illustrated, in the accompanying report on operations both to the financial statements of Tesmec S.p.A. and to the consolidated financial statements of the Tesmec Group as well as in the relevant explanatory notes, ordinary operations carried out during the financial period with related parties or companies of the group. We refer to those documents, to the extent of our authority, and in particular for what concerns the description of the characteristics of the operations and relevant economic and financial effects. With reference to such operations, with the help of the Board of Directors and of the Control and Risk Committee we verified the existence and compliance with procedures designed to ensure that they are concluded at market conditions and conforming to the normal management of the company. In this regard, we also supervised the compliance with the principles indicated in the CONSOB Regulation

containing provisions on related party transactions adopted with resolution no. 17221 of 12 March 2010, as subsequently amended (the “OPC Regulation”), of the subsequent Procedure for Related Party Transactions, adopted by the Board of Directors on 11 November 2010 and updated on 14 March 2014, as well as on its application;

- during the financial period, the Company carried out transactions on Treasury shares in thanks also to the shareholders' approval taken in this regard, on 30 April 2014;
- the information concerning the transactions with related parties or intra-group companies, contained in particular in the “Related party transactions” paragraph of the explanatory notes to the IAS/IFRS consolidated financial statements of the Tesmec Group and "Related party transactions" paragraph of the explanatory notes to IAS/IFRS financial statements of Tesmec S.p.A. is adequate, given the size and structure of the Company;
- as a result of contacts with the corresponding bodies of associated companies did not reveal any material aspects of signaling;
- no complaints were received ex Article 2408 of the Italian Civil Code nor statements from third parties;
- we received from the Independent Auditors the information concerning the hours used and the amounts invoiced all-in-all by them for the external audit of the separate and consolidated financial statements of the Company as at 31 December 2014, as well as for the restricted external audit of the half-yearly report and for verifying the regular keeping of the company accounting;
- it results from the information received from the Independent Auditors that, during the financial period, were contributed by Tesmec S.p.A. to it or to its network of offices for the total fees amounted to Euro 19 thousand relating to services performed for analysis of documentation ex art.26 of DL78/2010, in addition to those concerning to the external audit, as reported in the explanatory notes;
- we received notice confirming the independence of the Independent Auditors, in charge of the external audit pursuant to Article 17, paragraph 9, letter a), of Italian Legislative Decree no. 39/2010 and no situations compromising this independence or the occurrence of incompatibility causes were reported; moreover, we discussed with the Independent Auditors the risks for their independence as well as the measures taken to mitigate those risks;
- we received from the Independent Auditors the report set forth in the third paragraph of Article 19 of Italian Legislative Decree 39/2010 of 27 March 2015 from which it appears that on the basis of the work carried out no “basic issues” or “significant failures in the internal audit in relation to the process of financial reporting” were identified, also with regard to subsidiaries outside the European Union;
- we supervised the effectiveness of the external audit process by examining with the Independent Auditors the audit plan and by discussing on the activities carried out;
- the Independent Auditors issued, on 27 March 2015, the Reports on the separate and consolidated financial statements. They do not contain observations or requests for information;
- during the financial period, we issued the opinions required by the Board of Statutory Auditors pursuant to the law;
- we took note of the preparation of the Report on Remuneration ex Articles 123-ter of Consolidated Law on Finance and 84-quarter of the Issuers’ Regulation and we have no special observations to make;
- we verified the correct application of the criteria and procedures adopted by the Board of Directors to ascertain the independence of its members on the basis of the methods provided by law and by the Self-Regulatory Code of Conduct;
- we verified that independence requirements of the Statutory Auditors remain valid, already ascertained before the appointment, on the basis of the methods provided by law and by the Self-Regulatory Code of Conduct; we also comply with the limit on the number of tasks required by the Article of Associations and Art. 144-terdicies of the Consob Issuers Regulation 11971, fulfilling, if required, during the year to its disclosure obligations Consob;

- during the financial period, we attended the Shareholders' meeting for the approving of the balance sheet and 6 meetings of the current Board of Directors. During the same period, the Board of Statutory Auditors met 9 times including 6 in joint session with the Control and Risk Committee;
- we obtained information and supervised, to the extent of our authority, compliance with the principles of correct administration and the adequacy of the organisational structure and of the instructions given by the Company to the subsidiaries pursuant to Article 114, paragraph 2, of the Consolidated Law on Finance, by means of direct observations, collecting information from department heads and meetings with the Independent Auditors, with the manager responsible for preparing the Company's financial statements and with the Head of Internal Control in order to exchange relevant data and information.
- we have tested and evaluated the information and periodic press releases issued by the Company to the public, as well as the obligations to notify Consob;
- we ascertain that the information flows provided by the subsidiaries outside the European Union are adequate to conduct the auditing of annual and interim accounts as provided by Article 36 of the Market Regulation adopted with CONSOB Resolution no. 16191 of 29 October 2007;
- we obtained information and supervised, to the extent of our authority, also pursuant to Article 19 of Italian Legislative Decree 39/2010, the adequacy and effectiveness of the internal control system and risk management, as well as the activity carried out by the relevant manager responsible for preparing the Company's financial statements and the company's administrative-accounting system, the reliability of the latter in correctly representing operating performance, by obtaining information from the persons in charge of their respective functions, examining company documents and the work carried out by the Independent Auditors, the attendance to the meetings of the Control and Risk Committee and meetings with the Manager responsible for preparing the Company's financial statements, and Executive Director in charge of supervising the functionality of the internal control system;
- during the meetings held with the Independent Auditors pursuant to Article 150, paragraph 3, of the Consolidated Law on Finance no relevant issues emerged that would require any particular comments;
- we supervised the concrete methods of implementing corporate governance regulations of the Self-Regulatory Code of Conduct for the Corporate Governance of listed companies, whose adoption was approved by the Board of Directors during the meeting of 23 February 2010. As described in the section of the Report of Board of Directors, the Group adheres to the Code of Conduct for listed companies approved in March 2006 (as amended in March 2010, December 2011 and July 2014) by the Committee for the Corporate Governance Committee and promoted by Borsa Italian S.p.A. with additions and amendments related to the characteristics of the Group. Adherence to the rules laid down by the said code has been verified by us and has been the subject of the Report on Corporate Governance and Ownership Structure attached to the budget and subject to the same terms of advertising planned for the financial statement;
- during the meeting of 14 March 2014, the Board of Directors of Tesmec S.p.A. stated that the subsidiary company Tesmec USA is a "strategically important subsidiary";
- we verified, through direct audits and information received from the Independent Auditors and the Manager responsible for preparing the Company's financial statements, the compliance with the rules of law concerning the preparation and layout of the consolidated financial statements of the Tesmec Group, of the financial statements of Tesmec S.p.A. and of the report on operations. Moreover, nothing to be reported to the supervisory authorities or worth mentioning in this report was revealed by our supervisory activity;
- we took note of the update tasks needed to adapt to the modifications of the Penal Code, dated February 21, 2014 with

the adoption of a new Organisational, Management and Control Model provided by Article 6 of Italian Legislative Decree no. 231/2001 (the "Organisational Model") and of the Code of Ethics. The Supervisory Body reported on the activities carried out without pointing out matters that could be subject to sanction or specific violations of the Model;

- the Directors, in the paragraph called "Main risks and uncertainties to which the Tesmec Group is exposed" on the Report on operations, point out the risk factors or uncertainties that may significantly affect the activity of the Tesmec Group. In particular, some information tending to illustrate the aims and policies of the Group on the management of the exchange-rate, price and financial risk, as well as tending to indicate the degree of exposure to credit risk, liquidity risk and cash-flow variation risks are provided.

Considering all the above, we find no reasons not to approve - to the extent of our authority - the financial statements as at 31 December 2014, or to make observations on the proposal of appropriation of the profit for the year, including the proposal for dividend distribution, contained in the report on management performance prepared by the Board of Directors.

Grassobbio, 30 March 2015

The Board of Statutory Auditors

Simone Cavalli - Chairman

Alessandra De Beni - Statutory Auditor

Stefano Chirico - Statutory Auditor

This report has been translated into the English language solely for the convenience of the international readers.

INDEPENDENT AUDITOR'S REPORT

Building a better
working world

Reconta Ernst & Young S.p.A.
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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of
Tesmec S.p.A.

1. We have audited the financial statements of Tesmec S.p.A. as of 31 December 2014 and for the year then ended, comprising the statement of financial position, the statement of income, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Tesmec S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated 27 March 2014.
3. In our opinion, the financial statements of Tesmec S.p.A. at 31 December 2014 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Tesmec S.p.A. for the year then ended.
4. The Directors of Tesmec S.p.A. are responsible for the preparation of the Report on Operations and the Report on Corporate Governance and Ownership Structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Report on Operations and of the informations presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and the Ownership Structure with the financial statements as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended

by CONSOB. In our opinion, the Report on Operations and the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Tesmec S.p.A. at 31 December 2014.

Milan, 27 March 2015

Reconta Ernst & Young S.p.A.
Signed by: Paolo Zocchi, Partner

This report has been translated into the English language solely for the convenience of international readers.

ENCLOSURES

Enclosure A

List of investments held at 31 December 2014 by Tesmec S.p.A. and statement of changes during the financial period

The following is the list of investments held as at 31 December 2014, which includes, under Article 126 of CONSOB Regulation 11971/99, the investments held in companies with unlisted shares or in limited liability companies, in more than 10% of the capital.

CHANGES IN INVESTMENTS MADE DURING FINANCIAL PERIOD ENDED 31 DECEMBER 2014

	31 December 2013			Increases		Decreases		Other changes	31 December 2014		
Company	Quantity	%	Value	Quantity	Cost	Quantity	Cost	Write-down Revaluation	Quantity	%	Value
Subsidiaries consolidated											
Tesmec USA Inc.	10,450,000	67.00%	21,261,434	-	-	-	-	-	10,450,000	67.00%	21,261,434
Tesmec Service S.r.l.	100,000	100.00%	1,325,882	-	500,000	-	-	-	100,000	100.00%	1,825,882
OOO Tesmec Rus	10,590	100.00%	10,590	-	-	-	-		10,590	100.00%	10,590
Tesmec SA (Pty) Ltd.	100	100.00%	360,816	-	-	-	-	-	100	100.00%	360,816
Tesmec Balkani EAD	5,000	100.00%	-	-	100,000	-	-	(100,000)	5,000	100.00%	-
East Trenchers S.r.l.	91,200	91.20%	91,200	-	45,000	-	-	-	91,200	91.20%	136,200
SGE-T S.r.l.	10,000	100.00%	10,000	-	400,000	-	-	-	10,000	100.00%	410,000
Tesmec France EURL	3,000	100.00%	30,000	-	-	-	-	-	3,000	100.00%	30,000
Tesmec New Technology (Beijing)	-	0.00%	-	200,000	200,000	-	-	-	200,000	100.00%	200,000
Total			**23,089,922**								**24,234,922**
Associates consolidated under the equity method											
Tesmec Peninsula WLL	346,125	49.00%	729,748	-	-	-	-	-	346,125	49.00%	729,748
Bertel S.p.A.	200,000	40.00%	1,700,000	-	-	-	-	-	200,000	40.00%	1,700,000
Locavert S.A.	20,525	38.63%	52,000	-	-	-	-	-	20,525	38.63%	52,000
Condux Tesmec Inc.	250	50.00%	955,763	-	-	-	-	-	250	50.00%	955,763
Total			**3,437,511**								**3,437,511**

www.tesmec.com

Watch the corporate video on your Smartphone

Tesmec S.p.A.
Registered Office
Piazza S. Ambrogio, 16 - 20123 Milano - Italy

Share Capital Euro 10.708.400 fully paid
VAT identification code IT10227100152
Milan Register of companies no. 314026