Annual Financial Report 2016

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 2016 Euro 10,708,400
Milan Register of Companies no. 314026
Tax and VAT code 10227100152

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NOTICE OF CALL

Registered office

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Website: "www.tesmec.com"

CALL OF THE ORDINARY SHAREHOLDERS' MEETING

The shareholders are convened to the ordinary meeting at Tesmec S.p.A. ("**Tesmec**" or "**Company**") in Grassobbio (BG), Via Zanica 17/O, 24050, on 28 April 2017 at 10:30 a.m. in single call to discuss and deliberate on the following:

AGENDA

1. **Presentation of the Tesmec Group's consolidated financial statements and review and approval of the financial statements as at 31 December 2016 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 29 April 2016; related and consequent resolutions.**

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 19 April 2017. 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. At the time of this notice of call, the Company holds 4.711.879 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 at the administrative office of Tesmec and on the website of the Company www.tesmec.com, under section "*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: tesmecspa@pec.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 Ms. Lucia Caccia Dominioni 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. not later than 26 April 2017), 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 thereby granted is effective only for those proposed draft resolutions in relation to which voting instructions are given. The proxy and voting instructions can be withdrawn within the same deadline specified above (i.e. not later than 26 April 2017). 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 tesmecspa@pec.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 25 April 2017).

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 2017, 8th of April), 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 tesmecspa@pec.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 proposed 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 provided by law at the administrative office in Grassobbio, Via Zanica 17/O of the Company and on the website of Borsa Italiana S.p.A., with the storage mechanism "eMarket-Storage" 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 are available on the website of the Company www.tesmec.com.

Grassobbio, 29 March 2017

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 2018)

Chairman and Chief Executive Officer	Ambrogio Caccia Dominioni
Vice Chairman	Gianluca Bolelli
Directors	Sergio Arnoldi (*) Gioacchino Attanzio (*) Guido Giuseppe Maria Corbetta (*) Caterina Caccia Dominioni Lucia Caccia Dominioni Paola Durante (*)

(*) Independent Directors

Board of Statutory Auditors (in office until the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2018)

Chairman	Simone Cavalli
Statutory Auditors	Stefano Chirico Alessandra De Beni
Alternate Auditors	Attilio Marcozzi Stefania Rusconi

Members of the Control and Risk Committee (in office until the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2018)

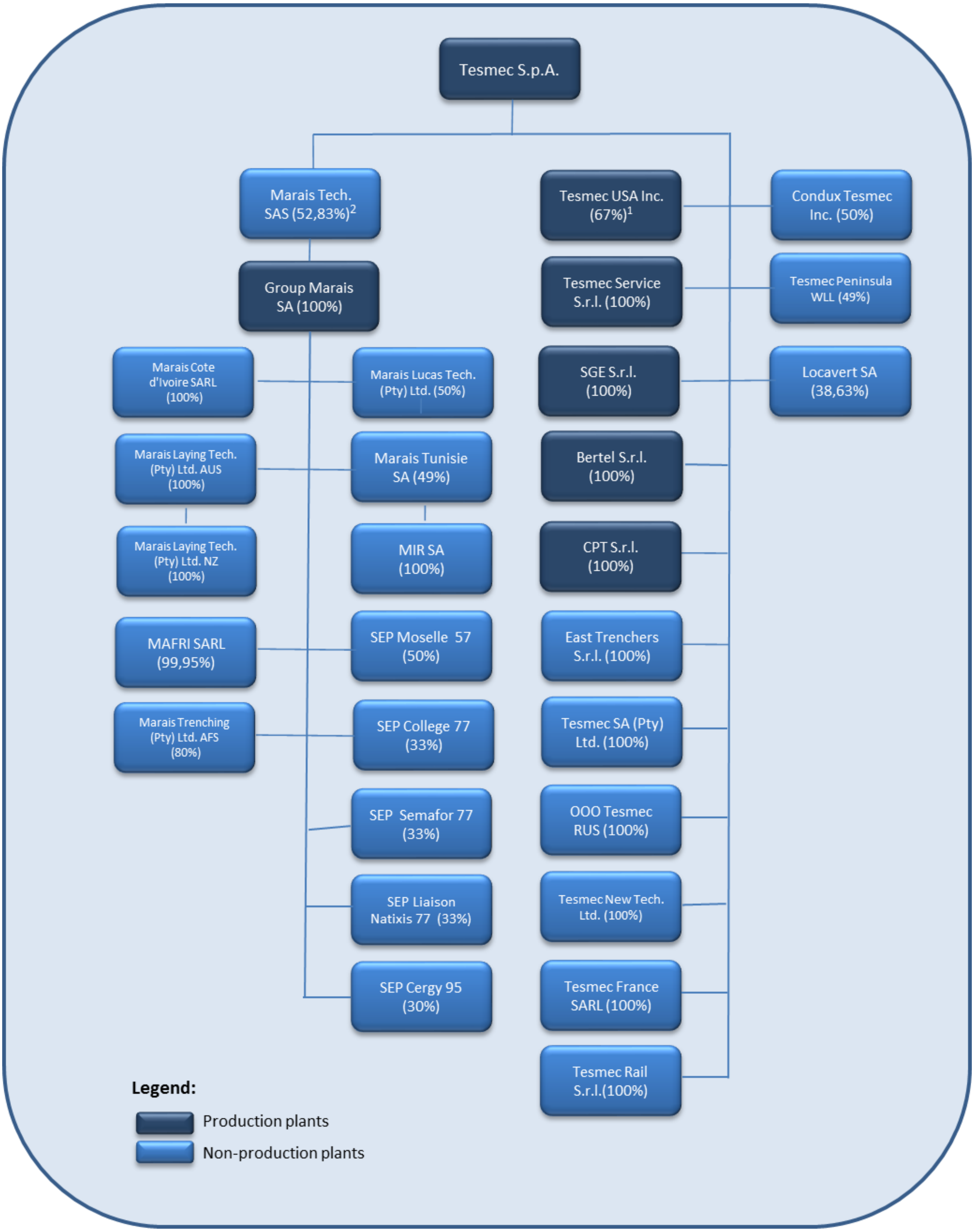
Chairman	Sergio Arnoldi
Members	Gioacchino Attanzio Gianluca Bolelli

Members of the Remuneration and Appointments Committee (in office until the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2018)

Chairman	Gioacchino Attanzio
Members	Sergio Arnoldi Caterina Caccia Dominioni

Lead Independent Director	Gioacchino Attanzio
Director in charge of the internal control and risk management system	Caterina Caccia Dominioni
Manager responsible for preparing the Company's financial statements	Andrea Bramani
Independent Auditors	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.

(2) The remaining 47.17% is held by Simest S.p.A. for 33.96% and by C2D SAS (related party) for 13.21%. 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 Marais Technologies SAS is consolidated on an 86.79% 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 650 employees and production plants located in Grassobbio (Bergamo), Endine Gaiano (Bergamo), Sirone (Lecco) and Monopoli (Bari) in Italy, Alvarado (Texas) in the USA and Durtal in France. Moreover, as a result of the recent acquisitions of the companies Bertel, SGE and CPT, the Tesmec Group has other three production plants in Fidenza (Parma), Padua and Patrica (Frosinone), respectively. The Group also has a global commercial presence, with a direct presence on different continents, through foreign companies and sales offices in the USA, South Africa, Russia, Qatar, China and France.
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 grouped into three main areas of business: Stringing equipment, Trencher and Rail.

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 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 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);
- this segment also includes the excavation services for power lines and fibre optic cables that constitute the core business of the recently acquired Marais Group.

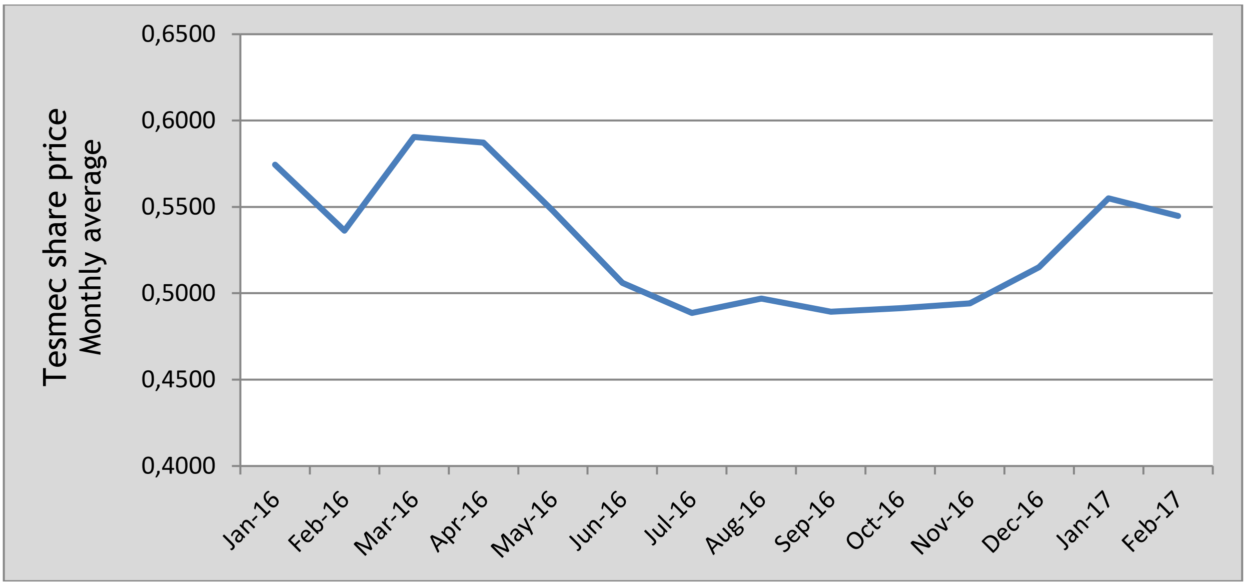
Rail segment

- 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.

The know-how achieved in the development of specific technologies and innovative solutions and the presence of a team of highly-skilled engineers and technicians allow 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.

2.Tesmec on the Stock Exchange Market

As at 31 December 2016, the reference price of the Tesmec share is equal to Euro 0.5445 per share while at the date of this report it is equal to Euro 0.50 per share. Market capitalisation as at 31 December 2016 amounts to Euro 58.3 million (around Euro 56.4 million at the date of this report). The following chart shows the listing price trend of the shares of the Parent Company from 1 January 2016 to February 2017:



Reference price as at 31 December 2016	0.5445
Reference price as at 28 February 2017	0.5270
Maximum price (5 January 2016) (1)	0.6510
Minimum price (24 June 2016) (1)	0.4410

(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

The completion of the diversification strategy in the trencher segment for service activities started with the acquisition of the Marais Group on 8 April 2015 continued with the following investments:

- On 9 February 2016, the subsidiary Group Marais SA purchased the entire shareholding in the French company EAM SRL, with registered office in Carcassone, for Euro 0.45 million; on 30 December 2016, the company EAM SRL was merged in the parent company Group Marais SA.

- On 1 August 2016, the company Marais Cote d'Ivoire, 100% owned by Group Marais SA, was set up. The company is based in Abidjan (Ivory Coast) and its purpose is the construction of energy telecommunications networks, sale and rental of Trencher machines.

Moreover, the completion of the range in the new automation segment of power lines continued with the following investments:

- On 3 March 2016, the parent company Tesmec S.p.A. purchased for Euro 0.3 million the remaining 60% of the share capital of Bertel S.r.l., company characterised as a highly innovative start-up in that operating in a market with a high technical profile such as that of streamlining systems of Transmission Power Lines. As a result of this operation, Tesmec holds the entire share capital of the company. The effects of the acquisition were described in the next paragraph *3.1 Effects of the acquisition of the remaining 60% of Bertel*.

- On 20 April 2016, the parent company Tesmec S.p.A. acquired 100% of CPT Engineering S.r.l., company specialised in the design and implementation of monitoring, protection and industrial automation solutions, which offers cutting-edge systems within the technologies of power lines. In detail, the transaction involved the purchase of the entire share capital of CPT against a price of Euro 0.3 million to which an earn-out up to a maximum of Euro 0.8 million is expected to be added related to the achievement of certain turnover results by the CPT and its economic balance. The payment of the price by Tesmec will be made by using own resources.
  The effects of the acquisition were described in the next paragraph *3.2 Effects of the acquisition of CPT.*

- On 28 April 2016, the subsidiary SGE S.r.l. finalised with effective date as from 1 July 2016 the acquisition by R&S Laboratorio S.r.l. of the business unit, already rented since 2014, active in technology research, design, manufacture and sale of sensors and fault and basic electrical quantity detectors in substations and medium voltage power lines.

  The transaction is part of the more general development strategy of the offer in Energy Automation, in which the Group has recently completed the acquisition of Bertel and CPT described above.

  The value of the transaction is Euro 1.4 million: Euro 0.9 million was already paid upon acquisition and the remaining part will be paid in subsequent instalments. The effects of the acquisition were described in the next paragraph *3.3 Effects of the acquisition of the SGE business unit.*

- On 1 August 2016, Tesmec S.p.A. finalised the acquisition of Ampere S.r.l. in liquidation, of the business unit, including the Ampere trademark, involved in the sale of measuring and monitoring instruments and after-sales services for the production, transmission and distribution of electrical power for a price amounting to Euro 0.1 million.

  This acquisition allows the Tesmec Group to expand the potential customer base of the Energy sector in Italy by benefiting from the strong relations that Ampere S.r.l. has with important customers.

These acquisitions represent a significant step in the growth process of Tesmec in the world of energy, allowing the Group to complete the portfolio of solutions offered at the level of different voltage classes (high, medium, low) to meet the new technological challenges related to renewable energy sources and to distributed generation. In fact, the combination of the excellent skills in the development of sensors with the excellent skills in electronic devices will allow the Tesmec Group to offer a wide range of integrated systems to manage efficiently and in a sustainable manner the requests of a market characterised by the increase in energy consumption.

Other significant events during the period include:

- on 29 April 2016, upon approval of the financial statements for 2015, the Shareholders' Meeting of Tesmec S.p.A. resolved to:
  - allocate the profit of the Parent Company, amounting to Euro 7,412 thousand, as follows:
    - assign a dividend of Euro 0.025 to each outstanding ordinary share;
    - assign to the extraordinary reserve the amount of profit remaining after the allocation to dividend.
  - appoint the new Board of Directors that will remain in office until the shareholders' meeting that will be called to approve the financial statements for the year ended 31 December 2018, composed of Gianluca Bolelli, Sergio Arnoldi, Gioacchino Attanzio, Guido Giuseppe Maria Corbetta, Caterina Caccia Dominioni, Lucia Caccia Dominioni and Paola Durante as well as Ambrogio Caccia Dominioni who was confirmed as Chairman of the Board of Directors;
  - appoint the new Board of Statutory Auditors that will also remain in office until the shareholders' meeting called to approve the 2018 financial statements, composed of Statutory Auditors Simone Cavalli (Chairman), Alessandra De Beni and Stefano Chirico and Alternate Auditors Attilio Marcozzi and Stefania Rusconi;

- on 29 April 2016, the Board of Directors confirmed Ambrogio Caccia Dominioni as the Chief Executive Officer and Gianluca Bolelli as Vice Chairman.

  The Board of Directors decided to:
  - change the name of the current Remuneration Committee in "Remuneration and Appointments Committee" and to merge the function previously carried out by the Appointments Committee in the new Remuneration and Appointments Committee;

- appoint the directors Gioacchino Attanzio (Chairman), Sergio Arnoldi and Caterina Caccia Dominioni as members of the new Remuneration and Appointments Committee;
- appoint the directors Sergio Arnoldi (Chairman), Gianluca Bolelli and Gioacchino Attanzio as members of the Control and Risk Committee;
- appoint Caterina Caccia Dominioni as director in charge of the internal control and risk management system;
- appoint the Independent Director Gioacchino Attanzio as lead independent director;
- appoint Lorenzo Pascali (Chairman), Maurizio Brigatti and Stefano Chirico as members of the Supervisory Body that will remain in office until the shareholders' meeting that will be called to approve the financial statements for the year ended 31 December 2018;

- on 22 May 2016, the subsidiary Marais Group signed a protocol for the sale of the 49% share held in Marais Algerie SARL at the price of Euro 40 thousand to the majority shareholder, in that this investment was no longer of strategic importance;

- On 16 September 2016, the subsidiary Tesmec Service S.r.l. ranked first in the tender by negotiated procedure called by RFI - Rete Ferroviaria Italiana S.p.A., company of the Ferrovie dello Stato Italiane Group responsible for the overall management of the national rail network, for the supply of 88 multipurpose ladder trucks for the maintenance of the Italian railway network.

  The result was declared by the Commission during the public session held at the RFI Purchasing Department in Rome. The definitivly award was made in the month of December 2016.

  The total value of the tender amounts to around Euro 91.8 million and, in the event of final awarding, the supply, to be completed within 4 years and also including a 6-year period of full maintenance service (FMS), is broken down as follows:

  - Lot 1: no. 26 multipurpose ladder trucks with axes;
  - Lot 2: no. 42 multipurpose boogie ladder trucks;
  - Lot 3: no. 20 multipurpose boogie ladder trucks.

  This result is due to the high technological content of the railway systems of the Tesmec Group that has been the key to the positive assessment.

- In November 2016, the Tesmec Group was awarded a new contract in the Stringing equipment segment of around Euro 14 million for the supply of 25 complete packages (machines and equipment) for stringing aerial lines for the transmission of high voltage electrical power at PT PLN (Persero), State Electricity Company of Indonesia that manages, as a monopoly, the distribution and transmission of electricity in the Country. The supply will be carried out during the 2017 financial year.

- On 21 December 2016, the Board of Directors of Tesmec S.p.A. approved certain transactions with the related party Dream Immobiliare S.r.l. ("Dream") concerning the properties located in Grassobbio (Bergamo) ("Grassobbio Property Complex"), Padua ("Padua Property") and Patrica (Frosinone) ("Frosinone Property") where the factories of Tesmec and of the subsidiaries SGE S.r.l. ("SGE") and CPT Engineering S.r.l. ("CPT") are based. The considerations of the Board of Directors with regard to the economic and financial reasons as well as to the advisability of these transactions were carried out, first of all, taking into account the Group's strategy focusing on the operations, leaving aside all the activities pertaining to property companies, management companies and property development companies. The effects of this transaction were described in detail in the next paragraph *3.3 Effects of the New lease contract with related parties.*

3.1 Impact of the acquisition of the remaining 60% of Bertel

As described above, on 3 March 2016, the parent company Tesmec S.p.A. purchased the remaining 60% of the share capital of Bertel S.r.l. (of which Tesmec already owned 40% of the share capital).
The value of the transaction amounted to Euro 300 thousand corresponding to the nominal value and will be paid in two tranches: the first one of Euro 150 thousand within 12 months and the second one of Euro 150 thousand within 24 months. Moreover, following the acquisition of Bertel S.r.l., it repaid the loan of Euro 260 thousand to the old shareholder.
The differential arising from this acquisition amounted to Euro 1,147 thousand and has been provisionally allocated among Assets in progress and advance payments to suppliers in that, as provided by IFRS 3, within 12 months after the transaction (i.e. March 2017), the recording of the acquisition will be completed through the final allocation of the arising differential.

Assets and liabilities at fair value are broken down below:

Book values of the acquired company *(Euro in thousands)*	**Company acquisition** **BERTEL**
Assets	
Intangible assets	2,539
Property, plant and equipment	162
Other non-current assets	598
Inventories	668
Trade receivables	285
Other current assets	757
Cash and cash equivalents	79
Total assets	**5,088**
Liabilities	
Medium/long-term loans	146
Employee benefit liability	133
Interest-bearing financial payables (current portion)	4,069
Other current liabilities	587
Total liabilities	**4,935**
Fair value of net assets acquired	**153**

3.2 Effects of the acquisition of CPT

As described above, on 20 April 2016, the parent company Tesmec S.p.A. purchased 100% of the share capital of *CPT Engineering S.r.l.* The transaction involved the purchase of the entire share capital of CPT against a price of Euro 300 thousand to which an earn-out up to a maximum of Euro 800 thousand is expected to be added related to the achievement of certain turnover results by the CPT and its economic balance. The payment of the price by Tesmec will be made by using own resources.

The differential arising from this acquisition amounted to Euro 100 thousand and has been provisionally allocated among Assets in progress and advance payments to suppliers in that, as provided by IFRS 3, within 12 months after the transaction (i.e. April 2017), the recording of the acquisition will be completed through the final allocation of the arising differential.

Assets and liabilities at fair value are broken down below:

Book values of the acquired company *(Euro in thousands)*	Company acquisition CPT
Assets	
Intangible assets	723
Property, plant and equipment	1,102
Other current assets	597
Total assets	**2,422**
Liabilities	
Medium/long-term loans	479
Employee benefit liability	206
Other current liabilities	1,537
Total liabilities	**2,222**
Fair value of net assets acquired	**200**
Consideration for the acquisition/sale	**(316)**
Difference between consideration paid and net assets acquired	**(116)**

3.3 Effects of the acquisition of the SGE business unit

As described above, on 28 April 2016, the subsidiary SGE S.r.l. finalised with effective date as from 1 July 2016 the acquisition by R&S Laboratorio S.r.l. of the business unit, already rented since 2014, active in technology research, design, manufacture and sale of sensors and fault and basic electrical quantity detectors in substations and medium voltage power lines.

The value of the transaction amounted to Euro 1.2 million and is paid in three tranches: the first Euro 644 thousand on July 1, 2016, the second of Euro 52 thousand on 1 August 2016 and the remaining amount to Euros 470 thousand in installments with maturities up to April 20, 2017

The differential arising from this acquisition amounted to Euro 575 thousand and has been provisionally allocated among Assets in progress and advance payments to suppliers in that, as provided by IFRS 3, within 12 months after the transaction (i.e. July 2017), the recording of the acquisition will be completed through the final allocation of the arising differential.

Assets and liabilities at fair value are broken down below:

Book values of the acquired company	Business unit
(Euro in thousands)	**SGE**
Assets	
Intangible assets	802
Tangible assets	34
Total assets	**836**
Liabilities	
Employee benefit liability	228
Total liabilities	**228**
Fair value of net assets acquired	**608**
Consideration for the acquisition/sale	**(1,183)**
Difference between consideration paid and net assets acquired	**(575)**

3.4 Effects of the transaction with Related Parties

As described above, on 21 december 2016, the Board of Directors of Tesmec S.p.A. approved certain transactions with the related party Dream Immobiliare S.r.l. (“**Dream**”) involving the properties situated in Grassobbio (Bergamo) (“**Grassobbio Property Complex**”), in Padua (“**Padua Building**”) and Patrica (Frosinone) (“**Frosinone Building**”), in which factories of Tesmec and of its subsidiaries SGE S.r.l. (“**SGE**”) and CPT Engineering S.r.l. (“**CPT**”) are located.

- With regard to the Grassobbio Property Complex, where Tesmec's production plant also has its headquarters, the Company's Board of Directors has considered exercising of the option with respect to Dream to no longer be strategic for Tesmec, thereby allowing said option to expire. This option expires on 31 December 2016 and regards a takeover of the lease contract in place between Dream and Unicredit Leasing S.p.A. for said property complex for Euro 3,500 thousand.

  The Board of Directors consequently renegotiated the rent and term of the lease contract with Dream, with respect to the portion of the Grassobbio Property Complex in which Tesmec carries out its activities, agreeing on a reduction in the annual rent of approximately Euro 160 thousand (from about Euro 1,960 thousand to Euro 1,800 thousand) and a new contract term with expiry envisaged for 30 January 2027. Consequently the availability of the property in the production site was also guaranteed.

  As a result of these transactions, the Tesmec Group's Net Financial Position at 31 December 2016 will result in improvement for about Euro 16,579 thousand, primarily concerning the adjustment of the financial debt resulting from the renegotiation of the main clauses of the lease contract.

- With regard to the Padua Building, where SGE currently conducts its production activities in the automation segment, following agreement with Dream Immobiliare, the latter agreed to replace SGE in the preliminary purchase agreement for said property, for the same amount .Dream agreed to lease said property to SGE starting from the purchase (expected in 2017) for an annual amount of Euro 75 thousand, determined based on the annual market rent indicated in the report drawn up by CBRE Valuation S.p.A.

- With regard to the Frosinone Building, where CPT currently conducts its production activities in the automation segment, CPT and Dream reached an agreement involving its purchase by Dream for Euro 1,019 thousand.

  Pursuant to the agreement reached by the parties, the Frosinone Building will therefore be let by Dream to CPT at an annual rent of Euro 63 thousand determined based on the annual market rent indicated in the report drawn up by CBRE Valuation S.p.A.

The transactions described above will involve, for Tesmec Group as at December 31, 2016 an improvement in the net financial position for Euro 17,716 thousand, a reduction of EBITDA for Euro 2,232 thousand and a reduction of net income for Euro 1,527 thousand.

Below a summary table showing the economic, patrimonial and financial effect of the transaction as at December 31, 2016:

Balance sheet effects

(In migliaia di Euro)	**Grassobbio Property Complex**	**Padua Building**	**Frosinone Building**	**Total**
USES				
Net working capital	738	(33)	-	705
Fixed assets	(18,929)	-	(1,019)	(19,948)
Other long-term assets and liabilities	-	-	-	-
Net invested capital	**(18,191)**	**(33)**	**(1,019)**	**(19,243)**
SOURCES				
Net financial indebtedness	(16,579)	(118)	(1,019)	(17,716)
Shareholder's equity	(1,612)	85	-	(1,527)
Total sources of funding	**(18,191)**	**(33)**	**(1,019)**	**(19,243)**

Economic effects

(In migliaia di Euro)	**Grassobbio Property Complex**	**Padua Building**	**Frosinone Building**	**Total**
Loss	(2,350)	-	-	(2,350)
Income	-	118	-	118
EBITDA	**(2,350)**	**118**	**-**	**(2,232)**
Tax	738	(33)	-	705
Effect on net result	**(1,612)**	**85**	**-**	**(1,527)**

The accounting effects of these operations on an annual basis will be the rental costs of Euro 1,895 thousand which will be reflected on EBITDA and a decrease in financial expenses of Euro 754 thousand and amortization of Euro 610 thousand. These effects will produce a positive tax effect of Euro 196 thousand on the Group's taxable income, the net result will therefore suffer a worsening of Euro 335 thousand.

For further information please refer to the Information Document on significant transactions with related parties published on December 22, 2016 in the Investor Relations-Governance section on the website www.tesmec.com

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 2016. The following table shows a summary of the main profit and loss indicators in 2016 and in 2015 and the main financial indicators as at 31 December 2016 and as at 31 December 2015.

2015	OVERVIEW OF THE FINANCIAL RESULTS (consolidated figures)	2016
	Key income statement data (Euro in millions)	
164.4	Operating Revenues	128.5
24.0	EBITDA	8.5
14.6%	EBITDA %	6.6%
22.0	adj EBITDA	11.6
13.4%	adj EBITDA %	9.0%
6.9	Group Net Profit	(3.9)
	Tesmec S.p.A. (Euro in millions)	
7.4	Net income	1.6
	Key financial position data (Euro in millions)	
145.8	Net Invested Capital	146.6
55.9	Shareholders' Equity	49.9
89.9	Net Financial Indebtedness	96.7
13.2	Net investments in tangible and intangible fixed assets	(1.2)
569	Annual average employees	659

5.Group performance

Macroeconomic framework

The macroeconomic framework of 2016 was characterised by:

- a slight recovery of the European economies;
- a development slower than expected in the US economy;
- a stabilisation of the China's growth rate around 7%.

The sense of relative stability of the financial markets and, consequently, the possibility for the productive investments to restart in innovation and in infrastructures is accompanied by the expectation of a slight inflation in consumer prices, which is the sign of a new positiveness recovered by the economic operators after the presidential elections in the US.

World stock markets (Dow Jones, Nasdaq, Tokyo, London, Paris, Frankfurt) after the initial drop in January 2016 continued their development by reaching each time new records. In this context, Milan was an exception, weighed down by the crisis in bank shares.
On the other hand, in political terms, the belligerence conditions in the Middle East and in Africa worsened with the oil price that stood at 55 USD/barrel in the second half of the year.
The prices of major commodities (copper, aluminium, nickel) and of sound investments (gold and silver) slightly improved.
The Euro was weak against major currencies and the dollar.

5.1 General performance

The Group realised in 2016 revenues of Euro 128,513 thousand against a figure of Euro 164,402 thousand in 2015 down by 21.8%. The decrease was mainly in the traditional Trencher segment, whose revenues decreased by 8.9% especially in two

markets significant for the Group such as the US market - further affected until the end of the year by the expectation of the developments related to the presidential elections - and the Middle Eastern market, both strongly affected by the drop in oil prices. There was a contingent decrease by 41.5% in the Stringing equipment segment due primarily to the fact that 2016 was an exceptional year thanks to the success of the Abengoa contract. Whereas there was an increase by 52.2% in the Rail segment.
Moreover, globally, a complex economic situation was accompanied by a gradual change of approach in customer demand, more and more oriented towards service activities rather than towards the purchase of investment assets.
Moreover, revenues of the last quarter of 2016 were penalised by the postponement in the invoicing of some contracts already finalised but the start of the new year is benefiting from it.

5.2 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 Euro 29,934 thousand (-41.5%) from Euro 72,146 thousand as at 31 December 2015 to Euro 42,212 thousand as at 31 December 2016.
  Revenues as at 31 December 2015 benefited from the important project of Abengoa for the construction of more than 5,000 km of 500kV lines in Brazil. However, the awarding of the important Indonesian project acquired at the end of the year was of benefit to the order backlog and will positively affect revenues for the 2017 financial year. Within this segment, growth in revenues continued thanks to the sale of products of the new Automation business (of CPT, SGE and Bertel S.r.l. and of the Ampere business unit), confirming the validity of the strategic choices implemented in the past years that also focused on the market of streamlining of power lines.

- **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 7,919 thousand (-8.9%) from Euro 88,490 thousand as at 31 December 2015 to Euro 80,571 thousand as at 31 December 2016. This performance is attributable to the combined effect of the positive sales trend of service activities (+44.1% mainly carried out by the Marais Group) and the negative sales trend of machinery on the US and Middle Eastern markets.

- **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 52.2% compared to the previous year. Revenues as at 31 December 2016 amounted to Euro 5,730 thousand compared to Euro 3,766 thousand of the previous year; this increase is supported by an important flow of orders that concern multi-year activities confirming the success of the Group's strategy to complete its product range with activities that have higher recurrence in revenues.
  It should be noted that revenues in 2016 include the effects of the state of completion of contracts in progress at the end of the year for a total amount equal to Euro 1,216 thousand and Euro 3,422 thousand in 2015.

5.3 Management performance of the main subsidiary and associated companies

With regard to the performance of the subsidiaries and 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 as at 30 June 2018), is based in Alvarado (Texas) and operates in the Trencher segment and in the Rail segment (as from 2012). During 2016, the company generated revenues of Euro 16,486 thousand. In the period, the decline in demand for capital goods in the traditional oil&gas segment continued partially offset by the first positive results of the sales of machinery in the civil construction industry. The management promptly intervened to contain costs while waiting for the activity to recover.

- 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), carries out its activity of design and construction of machinery for the maintenance of rolling stock. During the financial year of 2016, the company continued to develop the product range for the domestic market and recorded revenues of Euro 5.186 thiusand.

  On 16 September 2016, the subsidiary Tesmec Service S.r.l. ranked first in the tender by negotiated procedure called by RFI - Rete Ferroviaria Italiana S.p.A., company of the Ferrovie dello Stato Italiane Group responsible for the overall management of the national rail network, for the supply of 88 multipurpose ladder trucks for the maintenance of the Italian railway network for a total value of Euro 91.8 million.

- Tesmec SA (Pty) LTD, with registered office in Johannesburg (South Africa) is 100% owned by Tesmec S.p.A. During the financial year, the company generated revenues of Euro 4,445 thousand.

- OOO Tesmec Rus, with registered office in Moscow (Russia), is 100% owned by Tesmec S.p.A. The Company mainly operates in the segment of stringing equipment and streamlining of Power Networks. During 2015, the decline in energy investments on the Russian market continued. The company generated revenues of Euro 666 thousand (Euro 203 thousand in 2015). The management believes that the potentials of the Russian market are still very interesting and is continuing to extend its offer to the energy efficiency sector.

- Condux Tesmec Inc, a joint venture that is 50% owned by Tesmec S.p.A. and 50% by US shareholder Condux International, which is based in Mankato (USA), active in selling products for the North American stringing equipment market. The company has been consolidated using the equity method and generated in 2016 revenues totalling Euro 7,961 thousand up compared to Euro 4,859 thousand in 2015.

- Tesmec Peninsula WLL, a Joint Venture with registered office in Doha (Qatar) 49% owned by Tesmec S.p.A., is the hub through which the Tesmec Group is present on the Arabian peninsula. The company has been consolidated using the equity method and generated in 2016 revenues totalling Euro 697 thousand reflecting the crisis of infrastructure investments in the area.

- Locavert SA, an associated company 38.63% owned by Tesmec S.p.A., based in Bouillargues, France, leases trenchers in the French market and carries out excavation works. The company has been consolidated using the equity method and generated revenues of Euro 1,193 thousand.

- Marais Technologies SAS, with registered office in Durtal (France), company 52.83% owned by Tesmec S.p.A., 33.96% by Simest S.p.A. (with an option of Tesmec S.p.A. to repurchase this shareholding interest as at 30 June 2020) and 13.21% by C2D SAS. The French company, purchased on 8 April 2015, is the holding of an international group leader in rental services and construction of machines for infrastructures in telecommunications, electricity and gas. In the 2016 financial year, the Group generated revenues totalling Euro 33,441 thousand.

The figures relating to the three companies working in the Automation segment within the Stringing equipment and that generated total revenues of Euro 4,592 thousand and for which an integration process is envisaged are shown below.

- Bertel S.p.A., company 100% owned by Tesmec S.p.A., with registered office in Fidenza (PC), is active in the sector of efficiency of high voltage power lines and, in 2016, continued the completion of the range of products and the certification of the existing products in new markets. The company, fully consolidated as from 1 March 2016 (date of acquisition of the remaining 60%), generated revenues of Euro 526 thousand.

- SGE S.r.l., company 100% owned by Tesmec S.p.A., with registered office in Grassobbio (BG) specialised in the design and sales of sensors and fault detectors and measurement devices for medium voltage power lines. During the 2016, revenues amounted to Euro 2,856 thousand.

- CPT S.r.l., company 100% owned by Tesmec S.p.A. with registered office in Patrica (FR), specialised in the design and implementation of monitoring, protection and industrial automation solutions, which offers cutting-edge systems within the technologies of power lines. The company, during the eight months (from the date of acquisition as at 31 December 2016), generated revenues of Euro 1,210 thousand.

5.4 Financial performance analysis

As a consequence of the lower than expected financial results due, as already mentioned, to the postponement of some important already won projects in the last quarter of 2016, year-end working capital level has been higher than expected and has therefore caused a higher level of short term indebtedness.
Following such increase in the indebtedness level and the lower Group Ebitda, as better explained in paragraph 6.1 Group Profit and Loss Statement, the Group failed to comply with certain covenants of a financial nature requested by some medium-long term loans with Italian banks. According to the requirements of International Accounting Standards the relative medium and long-term loans have been fully reclassified as short term, for a total counter value of EUR 12,273 thousand.

The Group has promptly initiated with the relevant credit institutions procedures for obtaining waivers for the year 2016 in relation to the said non-compliance with the covenants. At present, the Group believes that the waiver will be granted in the necessary technical due times. Such a consideration is supported both from the first few positive banks feed-back and from the 2017 budget which forecasts revenues of between 160 and 170 million euro, against which it is reasonable to assume an EBITDA of around 15%, in line with the Group historical data, and a significant improvement in Net Financial Debt.

6.Income statement and balance sheet situation as at 31 December 2016

6.1 Consolidated Income statement

The Group closed the financial period as at 31 December 2016 with a net loss of Euro 3,944 thousand compared to a net income of Euro 6,931 thousand as at 31 December 2015. The following table shows the trend of major economic indicators as at 31 December 2016 compared to 31 December 2015.

	Financial period ended 31 December			
(Euro in thousands)	**2016**	**% of revenues**	**2015**	**% of revenues**
Revenues from sales and services	**128,513**	**100.0%**	**164,402**	**100.0%**
Cost of raw materials and consumables	(49,029)	-38.2%	(82,838)	-50.4%
Cost of services	(28,225)	-22.0%	(27,345)	-16.6%
Payroll costs	(40,000)	-31.1%	(34,530)	-21.0%
Other operating (costs)/revenues, net	(4,613)	-3.6%	(2,718)	-1.7%
Non-recurring costs and revenues	(3,105)	-2.4%	2,069	1.3%
Amortisation and depreciation	(12,830)	-10.0%	(11,230)	-6.8%
Development costs capitalised	5,050	3.9%	5,104	3.1%
Portion of losses/(gains) from the valuation of operational Joint Ventures using the equity method	(71)	-0.1%	(99)	-0.1%
Total operating costs	**(132,823)**	**-103.4%**	**(151,587)**	**-92.2%**
Operating income	**(4,310)**	**-3.4%**	**12,815**	**7.8%**
Financial expenses	(4,763)	-3.7%	(5,465)	-3.3%
Financial income	614	0.5%	502	0.3%
Foreign exchange gains/losses	1,730		1,806	
Portion of losses/(gains) from the valuation of equity investments using the equity method	(141)	-0.1%	(553)	-0.3%
Pre-tax profit	**(6,870)**	**-5.3%**	**9,105**	**5.5%**
Income tax	3,017	2.3%	(1,944)	-1.2%
Net result for the period	**(3,853)**	**-3.0%**	**7,161**	**4.4%**
Profit/(loss) attributable to non-controlling interests	91	0.1%	230	0.1%
Group result	**(3,944)**	**-3.1%**	**6,931**	**4.2%**

Revenues

Total revenues as at 31 December 2016 decreased by 21.8%.

	Financial period ended 31 December				
(Euro in thousands)	**2016**	**% of revenues**	**2015**	**% of revenues**	**2016 vs. 2015**
Sales of products	98,721	76.8%	140,550	85.5%	(41,829)
Services rendered	28,562	22.2%	20,430	12.4%	8,132
	127,283	**99.0%**	**160,980**	**97.9%**	**(33,697)**
Changes in work in progress	1,230	1.0%	3,422	2.1%	(2,192)
Total revenues from sales and services	**128,513**	**100.0%**	**164,402**	**100.0%**	**(35,889)**

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

a) Revenues by geographic area

The turnover of the Group continues to be produced almost exclusively abroad and in non-EU countries, in particular. Also sales made to customers based in Europe are at times intended for use outside the European continent. The revenue analysis by area is indicated below, compared with the 2016 financial period and the 2015 financial period, which indicates the decrease in the European and Middle Eastern markets and in North and Central America. It is emphasised that the segmentation by geographic area is determined by the country where the customer is, regardless of the place where the project activities are organised.

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Italy	15,522	10,992
Europe	38,009	55,760
Middle East	15,081	24,462
Africa	18,143	21,429
North and Central America	15,711	32,918
BRIC and Others	26,047	18,841
Total revenues	**128,513**	**164,402**

Operating costs net of depreciation and amortisation

	Financial period ended 31 December			
(Euro in thousands)	**2016**	**2015**	**2016 vs. 2015**	**% change**
Cost of raw materials and consumables	(49,029)	(82,838)	33,809	-40.8%
Cost of services	(28,225)	(27,345)	(880)	3.2%
Payroll costs	(40,000)	(34,530)	(5,470)	15.8%
Other operating (costs)/revenues, net	(4,613)	(2,718)	(1,895)	69.7%
Non-recurring costs and revenues	(3,105)	2,069	(5,174)	-250.1%
Development costs capitalised	5,050	5,104	(54)	-1.1%
Portion of losses/(gains) from the valuation of operational Joint Ventures using the equity method	(71)	(99)	28	-28.3%
Total operating costs net of depreciation and amortisation	**(119,993)**	**(140,357)**	**20,364**	**-14.5%**

The table shows a decrease in operating costs of Euro 20,364 thousand (-14.5%) in a less than proportional way compared to the decrease in sales (-21.8%). The table shows that the shift of revenues on service activities resulted in a decrease in the cost for the purchase of raw materials and consumables (-40.8%) against an increase in costs of services by 6.4% and payroll costs by 15.8% also resulting from the change in the consolidation area (Bertel S.r.l., CPT S.r.l. and EAM S.r.l. subsequently merged in the company Group Marais SARL).

The item “non-recurring costs and revenues” includes an extraordinary cost component of Euro 2,232 thousand related to the new lease contract described in the paragraph *3.4 Effects of the New lease contract with related parties.*

The 2015 financial year benefited from a positive net value of non-recurring costs and revenues of Euro 2,069 thousand (consisting of non-recurring costs for services of Euro 564 thousand and of Badwill of Euro 2,633 thousand) deriving from the acquisition of the Marais Group on 8 April 2015. Net of this item, the reduction would have been 15.8%.

EBITDA

In terms of margins, EBITDA amounts to Euro 8,520 thousand, which represents 6.6% of the sales for the period, compared to 14.6% recorded in 2016.

The 2016 financial period includes an extraordinary cost component of Euro 2,232 thousand related to the new lease contract described in paragraph *3.4 Effects of the New lease contract with related parties,*in addition to Euro 873 thousand for non-recurring costs. Conversely, in the 2015 financial period, the income statement included non-recurring costs for services of Euro 564 thousand and non-recurring revenues for Badwill of Euro 2,633 thousand deriving from the acquisition of the Marais Group. Without considering these effects, the EBITDA would have been 13.4%.
They were separately shown when calculating the EBITDA.

	Financial period ended 31 December				
(Euro in thousands)	2016	% of revenues	2015	% of revenues	2016 vs. 2015
Operating income	(4,310)	-3.4%	12,815	7.8%	(17,125)
+ Depreciation and amortisation	12,830	10.0%	11,230	6.8%	1,600
EBITDA (*)	**8,520**	**6.6%**	**24,045**	**14.6%**	**(15,525)**
+ Non-recurring costs and revenues	3,105	2.4%	(2,069)	-1.3%	5,174
adj EBITDA (**)	**11,625**	**9.0%**	**21,976**	**13.4%**	**(10,351)**

(*) 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.
(**) Adj EBITDA refers to EBITDA net from non-recurring factors.

Operating Income

	Financial period ended 31 December				
(Euro in thousands)	2016	% of revenues	2015	% of revenues	2016 vs. 2015
Stringing equipment	765	0.6%	8,517	5.2%	(7,752)
Trencher	(4,055)	-3.2%	6,102	3.7%	(10,157)
Rail	(1,020)	-0.8%	(1,804)	-1.1%	784
Total operating income	**(4,310)**	**-3.4%**	**12,815**	**7.8%**	**(17,125)**

As a result of the above, the operating income as at 31 December 2016 stood at Euro -4,310 thousand (-3.4% of revenues) compared to Euro 12,815 thousand (7.8% of revenues) achieved as at 31 December 2015.

Financial Management

	Financial period ended 31 December	
(Euro in thousands)	2016	2015
Net Financial Income/Expenses	(4,188)	(5,056)
Foreign exchange gains/losses	1,730	1,806
Fair value adjustment of derivative instruments	39	93
Portion of losses/(gains) from the valuation of equity investments using the equity method	(141)	(553)
Total net financial income/expenses	**(2,560)**	**(3,710)**

The net financial management increased compared to the same period in 2015 by Euro 1,150 thousand, mainly due to:

- Euro 868 thousand related to the decrease in net cost of borrowing thanks to the benefits on the reduction of cost of short-term funding;
- Euro 412 thousand related to the portion of losses/(gains) from the valuation of equity investments using the equity method.

offset by:

- Euro 76 thousand related to the effects of the different USD/EUR exchange rate trend in the two periods of reference that resulted in the recording of net profits totalling Euro 1,730 thousand in 2016 (Euro 190 thousand realised and Euro 1,540 thousand unrealised) against a net profit of Euro 1,806 thousand in 2015.

Net income

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Net result	**(3,853)**	**7,161**
% Effect on revenues	-3.00%	4.36%
Profit/(loss) attributable to non-controlling interests	91	230
Group net result	**(3,944)**	**6,931**
% Effect on revenues	-3.07%	4.22%

Results for the period amounted to Euro -3,853 thousand (Euro 7,161 thousand in 2015) after deducting positive taxes totalling Euro 3,017 thousand (Euro 1,944 thousand in 2015).
Net of the portion pertaining to minority interests, the net result is 3,944 thousand.

Profitability ratios

		Financial period ended 31 December	
Ratio	*Composition*	**2016**	**2015**
Return on sales (R.O.S.)	Operating income / Net revenues	-3.4%	7.8%
Return on investment (R.O.I.)	Operating income / Invested capital	-2.9%	8.9%
Return on equity (R.O.E.)	Net income / Shareholders' equity	-7.9%	12.4%
Invested capital turnover	Net revenues / Net invested capital	0.88	1.13
Working capital turnover	Net revenues / Net working capital	1.69	2.59
Debt ratio	Net financial indebtedness / Shareholders' equity	1.94	1.61

(*) The Net financial indebtedness included as at 31 December 2015 debts 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 2016 compared to 31 December 2015. The ratios reflect the worsening of margins and efficiency of working capital caused by lower sales volumes.

6.2 Income Statement by segment

Revenues by segment

The tables below show the income statement figures as at 31 December 2016 compared to those as at 31 December 2015, broken down into three operating segments.

	Financial period ended 31 December				
(Euro in thousands)	**2016**	**% of revenues**	**2015**	**% of revenues**	**2016 vs. 2015**
Stringing equipment	42,212	32.8%	72,146	43.9%	(29,934)
Trencher	80,571	62.7%	88,490	53.8%	(7,919)
Rail	5,730	4.5%	3,766	2.3%	1,964
Total revenues	**128,513**	**100.0%**	**164,402**	**100.0%**	**(35,889)**

For a detailed breakdown of revenues by segment, reference is made to what is described in paragraph *5.2 Performance by segments*.

Operating costs by segment

	Financial period ended 31 December				
(Euro in thousands)	**2016**	**% of revenues**	**2015**	**% of revenues**	**2016 vs. 2015**
Stringing equipment	41,447	32.3%	63,629	38.7%	(22,182)
Trencher	84,626	65.9%	82,388	50.1%	2,238
Rail	6,750	5.3%	5,570	3.4%	1,180
Total operating costs	**132,823**	**103.4%**	**151,587**	**92.2%**	**(18,764)**

Operating costs, depreciation and amortisation including, were down 12.3% compared to the prior period in a less than proportional way compared to the sales trend (-21.8%). The shift of revenues on service activities for the Trencher segment is the basis of the trend in operating costs that, despite the fall in revenues of 9.7%, show a 2.7% increase in that the personnel costs and costs for external services increased more than the decrease in cost of goods sold for the sale of machines.

The table below show the adj EBITDA as at 31 December 2016 compared to that as at 31 December 2015, broken down into three operating segments:

	Financial period ended 31 December				
(Euro in thousands)	**2016**	**% of revenues**	**2015**	**% of revenues**	**2016 vs. 2015**
Stringing equipment	6,041	14.3%	11,367	15.8%	(5,326)
Trencher	4,482	5.6%	10,955	12.4%	(6,473)
Rail	1,102	19.2%	(346)	-9.2%	1,448
adj EBITDA (**)	**11,625**	**9.0%**	**21,976**	**13.4%**	**(10,351)**

(*) 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.
(**) Adj EBITDA refers to EBITDA net from non-recurring factors.

Margins decreased in absolute terms by Euro 15,525 thousand (to Euro 8,520 thousand in 2016 from Euro 24,045 thousand in 2015) and in percentage terms to 6.6% in 2016 from 14.6% in 2015. This result is the combined effect of trends that can be explained better segment by segment:

- Stringing equipment: the margin, as a percentage of revenue, fell to 14.3% in 2016, compared to 15.8% recorded in 2015 mainly due to lower sales volumes, which led to a worse absorption of fixed costs offset by increased sales margins. The acquisition of the entire share capital of Bertel and its consequent consolidation and the acquisition of CPT has also worsened the indicator of margins since these activities are still in the start-up phase.
- Trencher: the margin, in percentage terms on revenues fell to 5.6% in 2016, compared to 14.7% recorded in 2015. This result is mainly related to lesser sales of machinery on the American and Middle Eastern markets caused by the drop in oil prices that have failed to support the coverage of fixed costs.
- Rail: advanced revenues in the period generated a positive absorption of overhead costs, generating a positive adj EBITDA of Euro 1,102 thousand against the negative figure of Euro 346 thousand of the same period last year.

6.3 Balance sheet and financial profile

The financial position of the company as at 31 December 2016 compared to 31 December 2015 is briefly shown in the table below.

(Euro in thousands)	Financial period ended 31 December	
	2016	2015
USES		
Net working capital (1)	76,038	63,505
Fixed assets	70,056	83,945
Other long-term assets and liabilities	517	(1,697)
Net invested capital (2)	**146,611**	**145,753**
SOURCES		
Net financial indebtedness (3)	96,691	89,876
Shareholders' equity	49,920	55,877
Total sources of funding	**146,611**	**145,753**

(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 long-term assets less long-term 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.

A) Net working capital

(Euro in thousands)	Financial period ended 31 December	
	2016	2015
Trade receivables	49,433	50,882
Work in progress contracts	1,291	3,864
Inventories	69,227	58,891
Trade payables	(31,197)	(39,049)
Other current assets/(liabilities)	(12,716)	(11,083)
Net working capital (1)	**76,038**	**63,505**

(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.

Net working capital amounted to Euro 76,038 thousand, marking an increase of Euro 12,533 thousand (equal to 19.7%) compared to 31 December 2015. This trend was mainly attributable to the increase in the item Inventories as a result of the decrease in revenues in the last quarter of 2016, also as a result of slippage of some orders

B) Fixed assets

(Euro in thousands)	Financial period ended 31 December	
	2016	2015
Intangible assets	18,891	13,827
Property, plant and equipment	47,289	65,352
Equity investments in associates	3,869	4,763
Other equity investments	7	3
Fixed assets	**70,056**	**83,945**

Total *fixed assets* recorded a decrease of Euro 13,889 thousand attributable to the decrease in property, plant and equipment of Euro 18,063 thousand, which is due for Euro 19,948 thousand to the new lease contract described in paragraph *3.4 Effects of the New lease contract with related parties.*

The increase in intangible assets of Euro 5,064 is mainly due to the change in the consolidation area for a total value of Euro 4,537 thousand related for Euro 839 thousand to the company acquired C.P.T. Engineering S.r.l. and for Euro 3,698 thousand to the line-by-line consolidation of the subsidiary Bertel S.r.l. as from 1 March 2016.
This amount includes as assets in progress and advance payments to suppliers the temporary differential of Euro 1,158 thousand generated by the acquisition of the remaining 60% of the equity investment in the company Bertel S.r.l. in March. As provided by IFRS 3, within 12 months after the transaction (i.e. March 2017), the recording of the acquisition will be completed through the final allocation of the emerging differential.

C) Other medium to long-term assets and liabilities

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Financial receivables and other non-current financial assets	327	484
Non-current trade receivables	373	80
Deferred tax assets	11,520	8,844
Employee benefit liability	(3,680)	(2,847)
Deferred tax liabilities	(7,870)	(8,255)
Other non-current liabilities	(153)	(3)
Other long-term assets and liabilities	**517**	**(1,697)**

Medium to long-term assets and liabilities increased by Euro 2,214 thousand from a negative balance of Euro -1,697 thousand as at 31 December 2015 to a positive balance of Euro 517 thousand as at 31 December 2016 mainly due to the recognition of tax receivables related to the tax losses of the subsidiaries Tesmec Usa and Bertel.

D) Net financial indebtedness

	Financial period ended 31 December			
(Euro in thousands)	**2016**	***of which with related parties and group***	**2015**	***of which with related parties and group***
Cash and cash equivalents	(18,501)		(21,204)	
Current financial assets (1)	(9,053)	*(7,608)*	(11,871)	*(11,499)*
Current financial liabilities	70,010	*33*	45,178	*1,241*
Current portion of derivative financial instruments	110		14	
Current financial indebtedness (2)	**42,566**	***(7,575)***	**12,117**	***(10,258)***
Non-current financial liabilities	53,916	-	77,409	*14,743*
Non-current portion of derivative financial instruments	209		350	
Non-current financial indebtedness (2)	**54,125**	**-**	**77,759**	**14,743**
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	**96,691**	***(7,575)***	**89,876**	***4,485***

(1) Current financial assets as at 31 December 2016 and 31 December 2015 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 2016 stood at Euro 96,691 thousand (Euro 89,876 thousand as at 31 December 2015) increasing by Euro 6,815 thousand.
The change is related to the postponement of revenues especially in the last quarter of 2016 that determined the increase in warehouse values as at 31 December generating a level of working capital higher than expected offset by the benefits of the effects of the new lease contract described in paragraph *3.4 Effects of the New lease contract with related parties* of Euro 17,717 thousand.

The table below shows the breakdown of the following changes:

- increase in current financial indebtedness of Euro 30,449 thousand due to the:
  - increase in current financial liabilities of Euro 24,832 thousand related for Euro 12,273 thousand to the reclassification in current financial indebtedness of portions of medium/long-term loans due after one year because of failure to comply with contractual obligations related to financial covenants;
  - decrease in current financial assets and cash and cash equivalents of Euro 5,521 thousand;
- decrease in non-current financial indebtedness of Euro 23,767 thousand deriving from the activation of new loans of Euro 26,577 thousand offset by the reclassification in the current financial indebtedness described in the previous paragraph, and the benefit of the real effects of the transaction described in section *3.4 Effects of the transaction with Related Parties* for Euro 13,413 thousand.

E) Shareholders' Equity

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Share capital	10,708	10,708
Reserves	41,457	36,623
Result for the period	(3,944)	6,931
Non-controlling interests	1,699	1,615
Shareholders' equity	**49,920**	**55,877**

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 each.
In the 2016 financial period, the major changes are due to the distribution of a dividend of Euro 2,566 thousand (Euro 0.025 per share), to the Group loss of Euro 3,944 thousand (net of the relevant share of minority interests) and to the increase in the translation reserve of Euro 829 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 income**
Amounts resulting from the financial statements of Tesmec S.p.A.	**45,711**	**1,648**
Consolidation adjustments		
a) Equity investments evaluated using the equity method	2,021	(212)
b) Difference between book value and assets of consolidated equity investments	1,776	
c) Results from consolidated equity investments	(5,073)	(5,073)
d) Translation reserve	6,560	
e) Elimination of dividends distributed by Companies of the Group	-	-
f) Elimination of intercompany items	(2,774)	(307)
Net effect of consolidation adjustments	*2,510*	*(5,592)*
Amounts attributable to the Group	**48,221**	**(3,944)**

F) Investments

Investments include capitalisations relevant to development projects (Euro 5,050 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.
Among the main year 2016 projects are mentioned in the stringing commissioning laying underground high-voltage lines and the executive system design of stringing RFI, while in the field trencher the realization of new models or new important components of pre-existing models.

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 in the USA stringing machines produced in Italy, 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 the year nine forward cover contracts of the Euro/IDR exchange rate (flexible/spot) still opened as at 31 December 2016.

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:

- interest bearing financial payables with multiyear redemption plan, to cover the investments in fixed assets and to finance expenses related to several development projects;
- short-term loans, 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 medium-long term loans.
The loans require compliance with certain covenants of both income nature that asset. Some of these financial parameters, as previously mentioned, have not been respected resulting in a reclassification of the short-term debt

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.Human Resources, Training and Industrial Relations

Employees

Even in the complex macroeconomic scenario in recent years, Tesmec continued to pay constant attention to the management of personnel policies indispensable for keeping the role and greater strategic weight that the knowledge and expertise of human resources has in the management of the company. The most truthful and accurate measurement of the contribution of human resources to the creation of value within the company continues to be the primary objective, by identifying as and when the possible methods of performance appraisal in the light of medium to long term strategies of the company's business. The philosophy of the Tesmec Group aims to achieve excellent performance in a context where the satisfaction and welfare of the individual are of key importance as it is believed that a high rate of retention is critical to the achievement of business objectives.

The 2016 figures show a strengthening of Italian level indicators and a trend reversal at group level due to the company reorganisation for the premises of Tesmec Usa:

1) turnover rate of new hires from 10.42% in 2015 to 12.96% in 2016 as Group average (9% as an average figure in Italy);
2) stability rate within two years from 86% in 2015 to 87.94% in 2016 as Group average (91% as an average figure in Italy);
3) stability rate within five years from 85.38% in 2015 to 78.37% in 2016 as Group average (78% as an average figure in Italy);

Given the strategy of the Tesmec group to propose itself to customers not as a simple provider of advanced and innovative equipment but as a “solution provider” proposing itself as a technology and service provider, human resources play a central and increasingly strategic role because of the knowledge and experiences they incorporate in an invisible manner in determining the value generated by companies and in attributing them a sustainable competitive advantage in the long run.

The aim of Tesmec is to continue to grow, both through new acquisitions - as in 2016 for Ampere and CPT Engineering - and through an internal growth with the new activities in the Rail and Automation segments.

The following changes occurred in the average workforce employed by the Group in 2016 compared to 2015:

	Financial period ended 31 December			
(average no. of employees)	**2016**	**2015**	**2016 vs. 2015**	**%**
Tesmec S.p.A.	315	307	8	2.6%
Tesmec Service S.r.l.	37	37	-	0.0%
Tesmec USA, Inc.	81	114	(33)	-28.9%
Tesmec SA (Pty) LTD	14	11	3	27.3%
OOO Tesmec RUS	8	7	1	14.3%
Bertel S.r.l.	15	-	15	100.0%
SGE S.r.l.	13	11	2	18.2%
CPT S.r.l.	17	-	17	100.0%
Tesmec New Technology Beijing LTD	3	4	(1)	-25.0%
Marais Group	156	78	78	100.0%
Total	**659**	**569**	**90**	**15.8%**

There was an overall increase of 14% in human resources in 2016, with an average of 90 people, in relation to the pursuit of the company strategy in the search for new technology business (automation), and in international growth: Marais acquisition with the strengthening in all markets in which Marais is the leader (Africa, Australia, New Zealand, etc.)

Level of education and seniority

The average age of the employees of the Group is 39 years. The figure breaks down into Italian companies with an average age of 39.50 years (workers 41 years, employees 40 of which 38 for women) and foreign companies with an average age of 38 years (workers 24.72, employees 41.40 of which 37.77 for women).

With Tesmec strengthening the Automation and Rail segments and with the purchase of Marais, the percentage of staff with University technical skills strengthened further to 30% and there was an increase in staff with high school diplomas to 52%.

Projections of employee age profiles for 2016 showed an increased percentage of younger profiles and a reduction in the older ones:

AGE	2016	2015
< 25	7%	6%
25-34	29%	25%
35-44	30%	30%
45-54	22%	26%
> 55	12%	13%

Payroll costs

Payroll costs for 2016 amounted to Euro 39.9 million compared to Euro 34.5 million for the previous year with a percentage incidence on revenues of 31% and an absolute increase of 16%.

The factors that contributed most to growth during the year compared to 2015 are the consolidation of the scope of the Automation activities with the acquisition of 100% of Bertel, the acquisition of CPT Engineering and of the business unit from the Ampere company. Moreover, the contribution compared to 2015 of all the Marais company in line with the development of service business must be considered.

The restructuring started at the end of 2015 and mid 2016 in Tesmec Usa with the reduction in staff by 28% and the reorganisation of the management to face a negative economic stage of the market must be emphasised.

Management and development and bonuses for Human Resources

The improvement and development system of the value of human resources resulted in 2016 in a specific management programme for hiring and on board training with the following activities:

- Welcoming and introducing onto the team through orientation programmes and personal tutors;
- Achieving and sharing the results of the organisation;
- Ensuring transparency, consistency and access to information which is necessary to perform the job;
- Stimulating and guiding the collaborators so that they contribute to the organisational targets, beyond the mere scope of their work.

During 2016, Tesmec launched an initiative known as “Employer Branding” among all its collaborators worldwide (Suggestion Box) by focusing on the following areas to meet the needs of human capital growth with the change of the business model:

- organisation: ensuring the effectiveness of an organisation and giving human resources a sense of responsibility;
- communication: ensuring everyone’s involvement and more information.

This phase was supported by a thorough analysis and mapping of requirements both as an expression of our resources and as management choice, redesigning an organisation that is more efficient and more responsive to market requirements with the following guidelines:

- organisation in four business units (Trencher, Stringing, Rail, Automation) for a greater coordination of objectives at the group level and to better implement the guidelines of the corporate strategy. Remember that the Automation business unit is grouped with the unit Stringing Stringing business within the sector;
- incentive scheme: complete a new mapping of market requirements to enhance and speed up the Performance evaluation system of the sales network;
- career plan: the Matrix skill was redesigned and implemented for each position, identifying the skills and the expected behaviour by dividing the professional career plan into specialist and managerial.

The growth process of Tesmec also consists of the enhancement of skills and development of a business culture that allows to get used to the pursuit of excellence, in a continuously developing organisation to adapt to continuous changes, through versatile and flexible structures in order to stimulate the change.
This is why a change management process was consolidated in a program carried out during the year - already started in previous years - to support the management of change in terms of company vision and business culture.
The main project in this area concerned the launch of a new terminology that would group five behavioural skills common to all positions, and would create a new business culture shared by all, through a "speed" model focused on three main areas of interest:

- the need to increase the capacity and flexibility of our resources to meet new challenges;
- increase the focus on the orientation of performance, communication, coaching and feedback;
- implement a competency model based on the need for greater awareness of customer requirements and external orientation.

Tesmec placed the employees at the centre of their strategies for growth and development, favouring the increase of their well-being and of an ideal work-life balance.
In this perspective, our Company decided to introduce for the 2016 financial period, a new company incentive plan (in addition to and separately from the traditional forms of variable remuneration), called “Management Incentive Welfare”. The Welfare Plan is intended for the Management and envisages using a set of different types of services aimed at increasing personal well-being, support to family life as well as social security and health coverage.
The “Welfare plan” is subject to the achievement of specific objectives of company and individual performance tailored according to the results achieved.

Resource training and professional development

The aim of the Tesmec Group is to increase human capital in accordance with corporate strategy. The training and education activities involved around 60% of personnel, favouring active methods to support the processes of fitting into the company or into highly professional roles.

The extensive training offered by the Group extended further through the year, with new initiatives to strengthen individual skills and improve performance by cultivating the diversity of experiences, cultures and contributions.

Industrial relations and social dialogue

The dialogue and relationship with trade union organisations and worker representatives has a fundamental importance in the management of companies of the Group and is governed by a system of relations structured in ongoing, regular meetings, both linked to the supplementary labour contracts and the prospects for development and growth of the Group.

During 2016, in order to initiate the new organisational process, the definition of new roles and a system of valuation of human resources, the renewal of the internal integration platform slowed down in agreement with trade union organisations to reactivate it over the next year with increased sharing of efficiency goals through new forms of sustainability to payroll costs.
During the year, Tesmec continued to pursue, thanks to the support of trade unions, a system of incentives for corporate profitability that encourages competitiveness and productivity to strengthen the global Tesmec system, achieve improvements in productivity, efficiency and company well-being by reconciling the demands of the companies and the persons who work for them, through a new pilot system of Flexible Benefit (flexible welfare solutions, from health to well-being, leisure time and training) that was able to limit fixed costs for the year by keeping the purchasing power of Tesmec employees high and competitive.

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, in addition to establishing services in each factory to manage and control the issues in question. The service is coordinated by the head of environment/security.
The involvement of all employees, increased awareness and dissemination of the "safety culture" are considered to be decisive aspects for the achievement of the objectives of protection of the workers. Training is considered to be an important instrument, and 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 2016, the internal service activities in order to prevent and protect against risks continued, through frequent inspections of all production site departments, checking that the improvement actions had been started. All this within the system of procedures for managing aspects impacting on safety and the environment, now widespread in all the functions involved.

The search for solutions to implement in order to eliminate or reduce risks is shared with the business departments that must implement these specific measures to ensure their acceptance by the workers and efficient application.
During 2016, the significant indicators of occupational safety and health were monitored with statistical trend analyses, by showing the consolidation of the excellent results achieved in previous years.
A precise system of environmental and safety authorisation was set up, assigned to the operating managers of the factories; they were trained through specific courses relating to Italian Legislative Decree 81/2008 for ASPPs or managers.
This led to greater involvement by the persons appointed to organise the work, with equal consideration for the aspects relating to environmental protection and workplace health and safety with respect to the production aspects.
There is still a great deal of attention paid to the prior assessment of all possible sources of risk to the health and safety of workers, including through the regularly monitoring of the working environments; the results show compliance with regulatory standards.
With regard to social responsibility and local territory matters, the company is committed to maintaining a high level of safety and environmental protection.
The current Organisational Model (Italian Legislative Decree 231/2001) is complete with the part relating to offences in violation of accident-prevention regulations and with regard to environmental crimes. It 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 with regard to 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.

In addition to what was reported in paragraph *3.3 Effects of the New lease contract with related parties* of this Report for related-party transactions with Dream Immobiliare S.r.l., during the 2016 financial period, no additional significant related-party transactions were 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 35 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 2016 compared with that of the prior financial period is summarised below:

	Financial period ended 31 December			
(Euro in thousands)	**2016**	**% of revenues**	**2015**	**% of revenues**
Revenues from sales and services	**78,810**	**100.0%**	**115,071**	**100.0%**
Cost of raw materials and consumables	(35,688)	-45.3%	(64,164)	-55.8%
Cost of services	(17,719)	-22.5%	(17,764)	-15.4%
Payroll costs	(18,291)	-23.2%	(17,335)	-15.1%
Other operating (costs)/revenues, net	(2,249)	-2.9%	(775)	-0.7%
Amortisation and depreciation	(4,859)	-6.2%	(4,881)	-4.2%
Development costs capitalised	2,751	3.5%	3,000	2.6%
Total operating costs	**(76,055)**	**-96.5%**	**(101,919)**	**-88.6%**
Operating income	**2,755**	**3.5%**	**13,152**	**11.4%**
Financial expenses	(5,926)	-7.5%	(7,468)	-6.5%
Financial income	5,252	6.7%	5,541	4.8%

Pre-tax profit	**2,081**	**2.6%**	**11,225**	**9.8%**
Income tax	(433)	-0.5%	(3,813)	-3.3%
Net profit for the period	**1,648**	**2.1%**	**7,412**	**6.4%**

Revenues from product sales refer to income deriving from the transfer of stringing machines and equipment and trenchers, these revenues decreased by 31.5%.
The table below illustrates the performance of EBITDA that decreased by 25.4% compared to that of the previous financial year mainly due to lower sales volumes.

	Financial period ended 31 December				
(Euro in thousands)	**2016**	**% of revenues**	**2015**	**% of revenues**	**2016 vs. 2015**
Operating income	2,755	3.5%	13,152	11.4%	(10,397)
+ Depreciation and amortisation	4,859	6.2%	4,881	4.2%	(22)
EBITDA	**7,614**	**9.7%**	**18,033**	**15.7%**	**(10,419)**

(*) 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 2,755 thousand in 2016, decreased by 79.1% compared to 2015 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 1,648 thousand (Euro 7,412 thousand in 2015) after deducting taxes totalling Euro 433 thousand (Euro 3,813 thousand in 2015).

Balance sheet and financial profile

The financial position of the Company as at 31 December 2016 compared to 31 December 2015 is briefly shown below.

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
USES		
Net working capital (1)	38,814	24,743
Fixed assets	57,255	73,775
Other long-term assets and liabilities	(2,319)	(1,610)
Net invested capital (2)	**93,750**	**96,908**
SOURCES		
Net financial indebtedness (3)	48,039	49,868
Shareholders' equity	45,711	47,040
Total sources of funding	**93,750**	**96,908**

(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 long-term assets less long-term 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.

The table below illustrates the details for a better understanding of changes in the two items:

Working capital

(Euro in thousands)	Financial period ended 31 December	
	2016	**2015**
Trade receivables	34,578	31,164
Work in progress contracts	-	1,883
Inventories	35,983	28,713
Trade payables	(25,192)	(30,395)
Other current assets/(liabilities)	(6,555)	(6,622)
Net working capital (1)	**38,814**	**24,743**

(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 increased from 21.5% reported in 2015 to 49.3% in 2016. This result was affected by the decrease in trade payables of Euro 5,203 thousand and by the increase in inventories of Euro 7,270 thousand partially offset by the decrease in work in progress contracts of Euro 1,883 thousand and the increase in trade receivables of Euro 3,414 thousand.

Fixed assets

(Euro in thousands)	Financial period ended 31 December	
	2016	**2015**
Intangible assets	6,543	6,716
Property, plant and equipment	10,563	30,571
Equity investments in subsidiaries	38,408	33,047
Equity investments in associates	1,738	3,438
Other equity investments	3	3
Fixed assets	**57,255**	**73,775**

The decrease in property, plant and equipment is related to the new lease contract described in paragraph *3.4 Effects of the New lease contract with related parties* of Euro 18,929 thousand.
The increase in equity investments in subsidiaries is due to conversion of the total sum of Euro 3,000 thousand of financial receivables increasing the equity investment (Tesmec Service S.r.l. and Bertel S.r.l.) in that considered non repayable. The recapitalisation was necessary with regard to the start-up processes of the activities of these companies.

Net financial indebtedness

(Euro in thousands)	31 December 2016	of which with related parties and group	2015	of which with related parties and group
Cash and cash equivalents	(14,526)		(15,451)	
Current financial assets [1]	(41,384)	*(41,352)*	(42,529)	*(42,464)*
Current financial liabilities	61,015	*10*	38,918	*1,211*
Current portion of derivative financial instruments	108		14	
Current financial indebtedness [2]	**5,213**	*(41,342)*	**(19,048)**	*(41,253)*
Non-current financial liabilities	42,654	-	68,628	*14,743*
Non-current portion of derivative financial instruments	171		288	
Non-current financial indebtedness [2]	**42,825**	-	**68,916**	*14,743*
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	***48,038***	***(41,342)***	***49,868***	***(11,258)***

(1) Current financial assets as at 31 December 2016 and 31 December 2015 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 necessarily comparable therewith.

Net indebtedness stood at Euro 48,038 thousand as at 31 December 2016 from Euro 49,868 thousand as at 31 December 2015. The decrease in non-current financial indebtedness includes Euro 13,413 thousand related to the operation described in paragraph *3.4 Effects of the transaction with Related Parties.* The current financial indebtedness is impacted by the reclassification as short-term loans for the loans were certain covenants haven't been respected

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 and subsequently amended and updated in July 2015 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 *Report on corporate governance and ownership structures*. For the members of 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:

- Milan (MI): Piazza Sant'Ambrogio 16 (Registered office)
- Milan (MI): Ferrante Apporti 26 (operating unit)
- 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 4,711,879 treasury shares, equal to 4.40% of the Share Capital.

The significant events occurred after the close of the financial period include:

- On 28 February 2017, the Tesmec Group received the Notice of effectiveness of the final awarding by the subsidiary Tesmec Service S.r.l. (the final awarding was already notified on 16 December 2016) related to the tender by negotiated procedure called by RFI - Rete Ferroviaria Italiana S.p.A., company of the Ferrovie dello Stato Italiane Group responsible for the overall management of the national rail network, for the supply of 88 multipurpose ladder trucks for the maintenance of the Italian railway network. The total value of the tender amounts to around Euro 91.9 million and the supply, to be completed within 4 years, also includes a 6-year period of full maintenance service (FMS). This result is due to the high technological content of the railway systems of the Tesmec Group that has been the key to the positive assessment;

15.Business outlook

The confirmation of the validity of the strategic development choices made by the Group, which is well noted in the level of the order backlog achieved at the end of 2016, supports an expected growth in sales volumes for the first quarter of 2017 ranging from 15% to 20%, compared to the first quarter of 2016.

In connection with the above and with the new orders acquired at the beginning of the year, the Group expects revenues at the end of 2017 ranging from Euro 160 to Euro 170 million on the basis of which it is reasonable to assume an EBITDA of approximately 15%, in line with the historical data of the Group, and a significant improvement in the Net financial indebtedness in 2017.

With regard to the procedures that the Group has promptly started with the banks to get the waiver for the year 2016 in relation to failure to comply with certain covenants, the Group believes that there are reasons to believe that the waiver will be granted in the time frame strictly necessary.

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 coordination activities towards the subsidiaries.

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

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

Treasury shares and shares of parent companies

On 29 April 2016, the Shareholders' Meeting authorised the treasury share buy-back plan; the authorisation was granted for a period of 18 months; the authorisation of 29 April 2016 replaces the last authorisation resolved by the Shareholders' Meeting on 30 April 2015 and expiring in October 2016. 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 2016, a total of 4,711,879 shares (4.40% of Share Capital) have been purchased at an average price of Euro 0.5543 (net of commission) for a total equivalent value of Euro 2,612 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 and Auditors

Name	Shareholding	Role	Number of shares held at the beginning of the 2016 financial period	Number of shares purchased	Number of shares sold	Number of shares held at the end of the 2016 financial period
Ambrogio Caccia Dominioni	Direct	Chairman and Chief Executive Officer	125,800	30,000	-	155,800
Gianluca Bolelli	Direct	Vice Chairman	101,000	-	-	101,000
Caterina Caccia Dominioni	Direct	Director	9,500	-	-	9,500
Lucia Caccia Dominioni	Direct	Director	9,500	-	-	9,500
Stefano Chirico	Direct	Statutory Auditor	-	11,492	-	11,492

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 10 March 2017, the Board of Directors of the Company approved the Organisational, Management and Control Model updated in accordance with the measures relating to the offence of self-laundering (Italian Law 186/2014), environmental offences (Italian Law 68/2015) and corporate crimes (Provisions on crimes against public administration, Mafia-like associations and false accounting, Italian Law 69/2015).

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 this company, it should be noted that:

- it draws 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 28 April 2017, 10:30 am, in single call at Tesmec headquarters in Via Zanica 17/O, Grassobbio (BG).

1. Presentation of the Tesmec Group's consolidated financial statements and review and approval of the financial statements as at 31 December 2016 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 10 March 2017.

The directors' report will be made available to the public, together with the draft financial statements of Tesmec as at 31 December 2016, the consolidated financial statements of the Tesmec Group as at 31 December 2016, 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. ("**Borsa Italiana**"), 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.

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, 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 2016 of Tesmec that ended with a profit of Euro 1,647,916.

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

- assign the profit for the year of Euro 1,647,916 to the extraordinary reserve.

Grassobbio, 29 March 2017.

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 2016	31 December 2015
NON-CURRENT ASSETS			
Intangible assets	6	18,891	13,827
Property, plant and equipment	7	47,289	65,352
Equity investments in associates valued using the equity method	8	3,869	4,763
Other equity investments		7	3
Financial receivables and other non-current financial assets	9	324	473
Derivative financial instruments	19	3	11
Deferred tax assets	26	11,520	8,844
Non-current trade receivables		373	80
TOTAL NON-CURRENT ASSETS		**82,276**	**93,353**
CURRENT ASSETS			
Work in progress contracts	10	1,291	3,864
Inventories	11	69,227	58,891
Trade receivables	12	49,433	50,882
of which with related parties:		*753*	*4,050*
Tax receivables	13	1,705	486
Other available-for-sale securities		2	22
Financial receivables and other current financial assets	14	9,049	11,849
of which with related parties:		*8,944*	*11,499*
Other current assets	15	2,816	4,337
Derivative financial instruments	19	2	-
Cash and cash equivalents	16	18,501	21,204
TOTAL CURRENT ASSETS		**152,026**	**151,535**
TOTAL ASSETS		**234,302**	**244,888**
SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS			
Share capital	17	10,708	10,708
Reserves	17	41,457	36,623
Group net profit/(loss)	17	(3,944)	6,931
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS		**48,221**	**54,262**
Minority interest in capital and reserves		1,608	1,385
Net profit/(loss) for the period attributable to non-controlling interests		91	230
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		**1,699**	**1,615**
TOTAL SHAREHOLDERS' EQUITY		**49,920**	**55,877**
NON–CURRENT LIABILITIES			
Medium/long-term loans	18	39,181	62,675
of which with related parties:		*-*	*14,743*
Bond issue	2.3	14,735	14,672
Derivative financial instruments	19	209	350
Employee benefit liability	21	3,680	2,847
Deferred tax liabilities	26	7,870	8,255
Other non-current liabilities		150	-
Non-current trade payables		3	3
TOTAL NON-CURRENT LIABILITIES		**65,828**	**88,802**
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	21	70,010	45,240
of which with related parties:		*33*	*1,241*
Derivative financial instruments	19	110	14
Trade payables	22	31,197	39,049
of which with related parties:		*153*	*199*
Advances from customers		3,463	1,694
Income taxes payable	23	199	2,933
Provisions for risks and charges	24	3,704	3,392
Other current liabilities	25	9,871	7,887
TOTAL CURRENT LIABILITIES		**118,554**	**100,209**
TOTAL LIABILITIES		**184,382**	**189,011**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**234,302**	**244,888**

Consolidated Income statement

(Euro in thousands)	Notes	Financial period ended 31 December 2016	2015
Revenues from sales and services	27	**128,513**	**164,402**
of which with related parties:		*5,325*	*7,697*
Cost of raw materials and consumables	28	(49,029)	(82,838)
of which with related parties:		*(54)*	*(190)*
Cost of services	29	(28,225)	(27,345)
of which with related parties:		*(178)*	*(291)*
Non-recurring costs for services	29	(873)	(564)
Payroll costs	30	(40,000)	(34,530)
Other operating (costs)/revenues, net	31	(4,613)	(2,718)
of which with related parties:		*209*	*139*
Non-recurring other operating (costs)/revenues, net	31	(2,232)	-
Gain on a bargain purchase (badwill)		-	2,633
Amortisation and depreciation	32	(12,830)	(11,230)
Development costs capitalised	33	5,050	5,104
Portion of losses/(gains) from the valuation of operational Joint Ventures using the equity method		(71)	(99)
Total operating costs		**(132,823)**	**(151,587)**
Operating income		**(4,310)**	**12,815**
Financial expenses	34	(6,618)	(7,881)
of which with related parties:		*(873)*	*(1,031)*
Financial income	35	4,199	4,724
of which with related parties:		*126*	*130*
Portion of gains/(losses) from associated companies and non-operational Joint Ventures evaluated using the equity method		(141)	(553)
Pre-tax profit		**(6,870)**	**9,105**
Income tax	26	3,017	(1,944)
Result for the period		**(3,853)**	**7,161**
Profit/(loss) attributable to non-controlling interests		**91**	**230**
Group result		**(3,944)**	**6,931**
Basic and diluted earnings per share		**(0.368)**	**0.647**

Consolidated statement of comprehensive income

		Financial period ended 31 December	
(Euro in thousands)	**Notes**	**2016**	**2015**
NET INCOME FOR THE PERIOD		**(3,853)**	**7,161**
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	17	832	3,617
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	20	(244)	54
Income tax		45	(15)
		(199)	39
Total other income/(losses) after tax		**633**	**3,656**
Total comprehensive income (loss) after tax		**(3,220)**	**10,817**
Attributable to:			
Equity holders of parent		(3,314)	10,587
Minority interests		94	230

Statement of consolidated cash flows

(Euro in thousands)	Notes	Financial period ended 31 December 2016	2015
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		(3,853)	7,161
Adjustments to reconcile net income for the period with the cash flows generated by (used in) operating activities:			
Amortisation and depreciation	32	12,830	11,230
Provisions for employee benefit liability	20	558	155
Provisions for risks and charges / inventory obsolescence / doubtful accounts		1,191	1,910
Employee benefit payments	20	(279)	(270)
Payments/use of provisions for risks and charges		(136)	(479)
Net change in deferred tax assets and liabilities	26	(2,840)	(219)
Change in fair value of financial instruments	19	(39)	(91)
Change in the consolidation area		-	2,714
Change in current assets and liabilities:			
Trade receivables	12	1,366	(14,211)
Inventories	11	(7,085)	(81)
Trade payables	22	(7,980)	4,417
Other current assets and liabilities		42	2,732
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		**(6,225)**	**14,968**
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	7	(13,695)	(11,529)
Investments in intangible assets	6	(7,431)	(6,815)
Change in the consolidation area	6-3	(6,538)	(14,873)
(Investments) / disposal of financial assets		3,916	(5,210)
Proceeds from sale of property, plant and equipment and intangible assets	6-7	9,842	5,295
Grassobbio new lease contract effect	5.4	18,978	-
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		**5,072**	**(33,132)**
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	18	24,339	26,577
Repayment of medium/long-term loans	18	(21,474)	(15,157)
Grassobbio new lease contract effect	5.4	(16,579)	-
Change in the consolidation area		998	5,067
Net change in short-term financial debt	18	13,836	7,229
Purchase of treasury shares		(316)	(1,186)
Dividend distribution	17	(2,566)	(2,403)
Change in the consolidation area		115	476
NET CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES (C)		**(1,647)**	**20,603**
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		**(2,800)**	**2,439**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		97	100
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	16	21,204	18,665
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		**18,501**	**21,204**
Additional information:			
Interest paid		3,789	4,592
Income tax paid		3,756	2,207

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	Result 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 2015	**10,708**	**2,004**	**10,915**	**(1,010)**	**2,114**	**18,524**	**4,909**	**48,164**	**9**	**48,173**
Profit for the period	-	-	-	-	-		6,931	6,931	230	**7,161**
Other profits/(losses)	-	-	-	-	3,617	39	-	3,656	-	**3,656**
Total comprehensive income/(loss)								**10,587**	**230**	**10,817**
Allocation of profit for the period	-	137	-	60	-	2,309	(2,506)	-	-	**-**
Dividend distribution	-	-	-		-	-	(2,403)	(2,403)	-	**(2,403)**
Purchase of treasury shares	-	-	-	(1,186)	-	-	-	(1,186)	-	**(1,186)**
Change in the consolidation area	-	-	-	-	-	(900)	-	(900)	1,376	**476**
Balance as at 31 December 2015	**10,708**	**2,141**	**10,915**	**(2,136)**	**5,731**	**19,972**	**6,931**	**54,262**	**1,615**	**55,877**
Result for the period	-	-	-	-	-	-	(3,944)	(3,944)	91	**(3,853)**
Other profits/(losses)	-	-	-	-	829	(199)	-	630	3	**633**
Total comprehensive income/(loss)								**(3,314)**	**94**	**(3,220)**
Allocation of profit for the period	-	-	-	111	-	4,254	(4,365)	-	-	**-**
Other profits/(losses)	-	-	-	-	-	30	-	30	-	**30**
Dividend distribution	-	-	-		-	-	(2,566)	(2,566)	-	**(2,566)**
Purchase of treasury shares	-	-	-	(316)	-	-	-	(316)	-	**(316)**
Change in the consolidation area	-	-	-	-	-	125	-	125	(10)	**115**
Balance as at 31 December 2016	**10,708**	**2,141**	**10,915**	**(2,341)**	**6,560**	**24,182**	**(3,944)**	**48,221**	**1,699**	**49,920**

Explanatory notes

Accounting policies adopted in preparing the consolidated financial statements as at 31 December 2016

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 as from 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 2016 was authorised by means of the resolution of the Board of Directors on 10 March 2017.

2.Reporting standards

The consolidated financial statements of the Tesmec Group as at 31 December 2016 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 2016 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 of the 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 2015, 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.
As indicated in the Report on Operation, such robustness is confirmed optic perspective from revenue forecasts at the end of 2017, including between 160 and 170 million euro, against which it is reasonable to assume an EBITDA in line with the Group's historical data , and a significant improvement in net debt.

The level of backlog reached at the end of 2016 and the expected path for the first quarter with growth estimated at between 15 and 20% over the previous quarter supports commented expectancy of sales volume growth.

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 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 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 associates 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 using equity method for the period in which the joint control was exercised.

On 31 December 2016, the consolidation area changed with respect to that as at 31 December 2015:

- on 9 February 2016, the subsidiary Group Marais SA purchased the entire shareholding in the French company EAM SRL, with registered office in Carcassone, for Euro 450 thousand;

- on 3 March 2016, the parent company Tesmec S.p.A. purchased the remaining 60% of the share capital of Bertel S.r.l. The subsidiary, previously consolidated with the equity method, as from that date is consolidated on a line-by-line basis;

- on 20 April 2016, the subsidiary Tesmec Balkani EAD was wound-up in that this investment was no longer of strategic importance;

- on 20 April 2016, the parent company Tesmec S.p.A. acquired 100% of CPT Engineering S.r.l., company specialised in the design and implementation of monitoring, protection and industrial automation solutions, which offers cutting-edge systems within the technologies of power lines, consolidated on a line-by-line basis as from that date;

- on 22 May 2016, the subsidiary Group Marais SA sold the 40% share held in JV Marais Algerie SARL at the price of Euro 40 thousand, consolidated in the financial statements using the equity method;

- on 1 August 2016, the company Marais Cote d'Ivoire, 100% owned by Group Marais SA, was set up. The company is based in Abidjan (Ivory Coast) and its purpose is the construction of energy telecommunications networks, sale and rental of Trencher machines.

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, Inc.	Alvarado (Texas)	US Dollar	31,200,000	100.00%	-
TESMEC Service S.r.l.	Grassobbio - BG - (Italy)	Euro	100,000	100.00%	-
TESMEC SA (Pty) Ltd	Johannesburg (South Africa)	South African Rand	510	100.00%	-
SGE S.r.l.	Grassobbio - BG – (Italy)	Euro	10,000	100.00%	-
Bertel S.p.A.	Milan (Italy)	Euro	500,000	100.00%	-
East Trenchers S.r.l.	Milan (Italy)	Euro	100,000	100.00%	-
TESMEC FRANCE SARL	Lyon (France)	Euro	300,000	100.00%	-
OOO TESMEC RUS	Moscow (Russia)	Russian Rouble	450,000	100.00%	-
Tesmec New Technology Beijing Ltd.	Beijing (China)	Euro	200,000	100.00%	-
CPT S.r.l.	Patrica - FR - (Italy)	Euro	78,000	100.00%	-
Tesmec Rail S.r.l.	Monopoli - BA - (Italy)	Euro	10,000	100.00%	-
Marais Technologies SA	Durtal (France)	Euro	3,785,760	86.79%	-
Group Marais SA	Durtal (France)	Euro	3,700,000	-	86.79%
Marais Trenching (Pty) Ltd. AFS	Pretoria (South Africa)	South African Rand	500,000	-	69.43%
MAFRI SARL	Tunis (Tunisia)	Tunisian Dinar	20,000	-	86.75%
Marais Laying Technologies (Pty) Ltd. Australie	Sydney (Australia)	Australian Dollar	100	-	86.79%
Marais Laying Technologies (Pty) Ltd. Nouvelle Zelande	Auckland (New Zealand)	New Zealand Dollar	100	-	86.79%
Marais Cote d'Ivoire	Abidjan (Ivory Coast)	CFA Franc	6,500,000	-	86.79%

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	39.00%	-
SEP Cergy 95	Marne la Vallée (France)	Euro	-	-	26.04%
SEP Moselle 57	Pont à Mousson (France)	Euro	-	-	43.40%
SEP Semafor 77	Marne la Vallée (France)	Euro	-	-	28.64%
SEP Laison Natixis 77	Marne la Vallée (France)	Euro	-	-	28.64%
SEP College 77	Marne la Vallée (France)	Euro	-	-	28.64%
MIR SA	Tunis (Tunisia)	Tunisian Dinar	300,000	-	42.53%

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	50.00%	-
Tesmec Peninsula WLL	Doha (Qatar)	Qatar Riyal	7,300,000	49.00%	-
Marais Tunisie SA	Tunis (Tunisia)	Tunisian Dinar	459,000	-	42.53%
Marais Lucas Technologies (Pty) Ltd.	Macquarie Park NSM (Australia)	Australian Dollar	332,400	-	43.40%

The company Locavert SA e Marais Lucas Technologie (Pty) Ltd. closes its company financial year 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 Headquarter. 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**	
	2016	**2015**	**2015**	**2015**
US Dollar	1.107	1.110	1.054	1.089
Bulgarian Lev	1.956	1.956	1.956	1.956
Russian Rouble	74.145	68.072	64.300	80.674
South African Rand	16.265	14.172	14.457	16.953
Renminbi	7.352	6.973	7.320	7.061
Qatar Riyal	4.029	4.039	3.837	3.963
Algerian Dinar	121.097	111.361	116.379	116.702
Tunisian Dinar	2.376	2.177	2.499	2.210
Australian Dollar	1.488	1.478	1.460	1.490
New Zealand Dollar	1.589	1.593	1.516	1.592
CFA Franc	655.957	655.957	655.957	655.957

2.3 Restatement of the figures of the previous financial year

To better represent the financial statement contents, the bond issue of Euro 15 million and with maturity date 31 December 2021, included in the item "Medium/long-term loans" was reclassified, also for the 2015 financial year, to the item "Bond issue”.

The table below summarises the effect of the reclassification made:

(Euro in thousands)	**31 December 2015 (restated)**	**31 December 2015**
Medium/long-term loan	62,675	77,409
Medium/long-term loan	**62,675**	**77,409**
Bond issue	14,672	-
Total bond issue	**14,672**	**-**
Interest-bearing financial payables (current portion)	45,240	45,178
Interest-bearing financial payables (current portion)	**45,240**	**45,178**

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 2015 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
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. Rights and trademarks includes the purchase of know-how for the production of railways materials related to the acquisistion of the business unit of company AMC2 from the subsidiary Tesmec Service S.r.l..

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 temporarily leased 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. Instead for Trenchers machines totally addressed to lease activity, due to it is necessary a usual replacement of significative parts of these machines, the group depreciate separately the following components, on the base of their useful life:

- frame: 15 years
- motors: 8 years
- caterpillars: 5 years

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
Lease contracts are classified as Financial or Operating Lease at the beginning of the Lease contract.
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.
Lease contracts in which the lessor substantially retains all risks and benefits related to the ownership of the asset are classified as operating leases.

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 jointly controlled companies classified as joint ventures. From 2012 on the base of the operative phase of two distributive joint ventures (Condux Tesmec and Tesmec Peinsula) the results of the same have been classified in the operative components of the operative Income. With the acquisition of Group Marais two new joint ventures (Marais Tunisie SA, Marais Luca Technology Pty Ltd.) entered in the consildated area of the Group. Considering the kind of activity and effective operative phase of them, their result has been registered in the non-operative components of the the income, together with the other results of the other related companies.
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. In this case the Group calculates the amount of the loss as difference between the recoverable value of the joint venture and the inscription value of the same in its proper balance sheet, emerging that difference in “Portion of gains/(losses) from associated companies and operational Joint Ventures evaluated using the equity method”.
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. In this case the Group calculates the amount of the loss as difference between the recoverable value of the associate company and the inscription value of the same in its proper balance sheet, emerging that difference in “Portion of gains/(losses) from associated companies and non-operational Joint Ventures evaluated using the equity method”.
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.

Financial assets derecognized from Group statement of financial position when:

- the rights to receive financial flows from the asset terminated; or
- the Company has transferred to a third Party the right to receive the financial flows from the asset or it has assumed the contractual obligation to correspond them totally and without any dilays and (a) it has transferred substantially all risks and benefits related to the ownership of financial asset or (b) it has not substantially transferred all risks and benefits of financial asset, but it has transferred the control of the same.

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.
Total estimated costs for each work order are reviewed periodically, and 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 Company has transferred to a third Party the right to receive the financial flows from the asset or it has assumed the contractual obligation to correspond them totally and without any dilays and (a) it has transferred substantially all risks and benefits related to the ownership of financial asset or (b) it has not substantially transferred all risks and benefits of financial asset, but it has transferred the control of the same.

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, and revised annually.

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 interim condensed consolidated financial statements are the same as those adopted for the preparation of the consolidated financial statements for the year ended 31 December 2015, with the exception of the adoption as of 1 January 2016 of the new standards, amendments and interpretations. The Group has not adopted in advance any new standard, interpretation or change issued but not yet in force.
The nature and effects of these changes are shown below. Albeit these new standards and amendments were applicable for the first time in 2016, they had no impact on the consolidated financial statements of the Group or on the interim consolidated report on operations of the Group. The nature and impact of each new standard/amendment is listed below:

Amendments to IAS 19 - Defined contribution plans: employee contributions
IAS 19 requires an entity to consider contributions from employees or third parties in the recording of defined benefit plans. When the contributions are related to the provided service, they should be attributed to the periods of service as a negative benefit. This amendment clarifies that, if the amount of contributions does not depend on the number of years of service, the entity is allowed to recognise these contributions as a reduction of the cost of service in the period in which the service is rendered, instead of allocating the contribution to the periods of service. This amendment is effective for annual periods beginning on or after 1 February 2015. This amendment is not relevant to the Group, given that none of the entities that are part of the Group have plans comprising contributions of employees or third parties.

Annual Improvements to IFRSs 2010–2012 Cycle

IFRS 2 Share-based payment

This improvement applies prospectively and clarifies various points related to the definition of performance and service conditions representing vesting conditions, including:

- a performance condition must include a service condition;
- an objective of performance must be achieved while the counterparty provides a service;
- an objective of performance can refer to the operations or activities of an entity, or to those of another entity within the same Group;
- a performance condition can be a market based performance condition or a non-market performance condition;
- if the counterparty, regardless of the reasons, ceases to provide service during the vesting period, the service condition is not met.

Therefore, these improvements did not affect the accounting standards of the Group, since none of the entities forming part of the Group have plans that require share-based remuneration.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). This is consistent with the Group's current accounting policy, and thus this amendment had no impact on the Group's accounting policy.

IFRS 8 Operating segments

The amendment applies prospectively and clarifies that:

- an entity should disclose information on the assessments made by the management in applying the aggregation criteria set forth in paragraph 12 of IFRS 8, including a short description of the operating segments that have been aggregated and of the economic characteristics (for example: sales, gross margin) used for defining whether the segments are "similar”;
- it is necessary to present the reconciliation of the segment assets with the total assets only if the reconciliation is presented by the senior operating decision maker, as required for segment liabilities.

The Group did not apply the aggregation criteria provided by IFRS 8.12. In the previous periods, the Group presented the reconciliation of the segment's assets with total assets and continues to present it in Explanatory Notes, inasmuch as the reconciliation is provided to the highest decision-making level.

IAS 16 Property, plant and equipment and IAS 38 Intangible assets

The amendment applies prospectively and clarifies that in IAS 16 and in IAS 38 an asset can be revalued with reference to observable data both by adjusting the gross book value of the asset to the market value and by determining the market value of the book value and adjusting proportionally the gross book value in such a way that the resulting book value is equal to the market value. Moreover, the accumulated amortisation and depreciation is the difference between the gross book value and the book value of the asset. The Group has not recorded any revaluation adjustment during the interim period of reference.

IAS 24 Related party disclosures

The amendment applies prospectively and clarifies that a management entity (entity providing key management personnel services) is a related party subject to related party disclosures. Moreover, an entity that makes use of a management entity must disclose the costs incurred for management services. This amendment is not relevant for the Group in that it does not receive management services from other entities.

Amendments to IFRS 11 - Accounting for Acquisitions of interests in Joint Operations

The amendments to IFRS 11 require that a joint operator that records the acquisition of a stake in a joint arrangement, whose assets represent a business, must apply the relevant principles of IFRS 3 regarding the accounting of business combinations.
The amendments also clarify that, if joint control is maintained, the interest previously held in a joint operation is not subject to re-measurement at the time of the acquisition of an additional interest in the same joint operation. Moreover, an exclusion from the scope of IFRS 11 was added to clarify that the amendments do not apply when the parties that share control, including the entity that prepares the financial statements, are under the share control of the same last controlling party.
The changes apply both to the acquisition of the initial stake in a joint arrangement and to the acquisition of further stakes in the same joint arrangement. The amendments must be applied from years starting 1 January 2016 or later; early application is permitted. These amendments have no impact on the Group in that during the period there were no acquisitions of interests in a joint operation.

Amendments to IAS 16 and IAS 38 - Clarification of Acceptable methods of depreciation and amortisation
The amendments clarify the principle contained in IAS 16 Property, plant and equipment and IAS 38 Intangible Assets: revenues reflect a model of economic benefits generated by the management of a business (to which the asset belongs), rather than economic benefits that are consumed with the use of the asset. This means that a revenue-based method cannot be used to depreciate property, plant and equipment and could be used only in very limited circumstances for the amortisation of intangible assets. The amendments must be applied from years starting 1 January 2016 or later; early application is permitted. These amendments have no impact on the Group in that the Group does not use methods based on revenues for the amortisation/depreciation of non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
These amendments have no impact on the Group in that the Group has no bearer plants.

Amendments to IAS 27 Equity Method in separate financial statements
The amendments will allow entities to use the net equity method to recognise investments in subsidiaries, joint ventures and associates in its separate financial statements. Entities that are already applying the IFRS and decided to change the accounting criteria by passing to the net equity method in their separate financial statements must apply the change retrospectively. In case of first adoption of the IFRS, the entity that decides to use the equity method in its own separate financial statements must apply it from the date of transition to the IFRSs. The amendments take effect for financial periods starting 1 January 2016 or later; early application is permitted. These amendments have no impact on the consolidated financial statements of the Group.

Annual Improvements to IFRSs - 2012–2014 Cycle
These amendments take effect for financial periods starting 1 January 2016 or later. They include:

IFRS 5 Non-current assets held for sale and discontinued operations
Assets or disposal groups are generally held for sale or for distribution to owners. The amendment states that the change from one to another of these methods of disposal should not be considered a new plan to sell, but rather a continuation of the original plan. Therefore, there is no interruption in the application of the requirements of IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts
The amendment states that a servicing contract that includes a fee can lead to a continuous involvement in a financial asset. An entity must define the nature of the fee and of the agreement on the basis of the guidance in IFRS 7 on continuous involvement to consider whether a disclosure is requested. The definition of which service contract involves continuous involvement must be made retrospectively. However, the disclosure required must not be presented for the financial years preceding the first-time application of this amendment.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements
The amendment clarifies that the disclosure requirements on fees do not apply to condensed interim financial statements, unless this disclosure provides a significant updating of the information presented in the last financial statements. This amendment must be applied retrospectively.

IAS 19 Employee benefits
The amendment clarifies that the active market (market depth) of high-quality company bonds must be defined by reference to the currency of the bond, rather than the country in which the bond is located. When there is no active market for high-quality company bonds in that currency, the rates of the related Italian Government bonds must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting
The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively. These amendments have no impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify rather than amend significantly some of the already existing requirements of IAS 1 . The amendments clarify:

- the materiality requirement in IAS 1;
- the fact that specific lines in the statement of profit/(loss) for the year or of other components of the statement of comprehensive income or in the statement of financial position can be broken down;
- that the entities have flexibility with respect to the order in which they present the notes to the financial statements;
- that the portion of other components of the statement of comprehensive income related to associates and joint ventures accounted for with the equity method must be presented in aggregate on one line, and classified among those items that will not be reclassified subsequently to the income statement.

In addition, the amendments clarify the requirements that apply when sub-totals are presented in the statement of profit/(loss) for the year or of other components of the statement of comprehensive income or in the statement of financial position. These amendments take effect for financial periods starting 1 January 2016 or later; early application is permitted. These amendments have no impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

Accounting standards approved by the European Union but applicable in future years

The following standards have been approved by the European Union but will apply from 2018; therefore, they are not applicable by the company in the financial statements at December 31, 2016.

- IFRS 9 “Financial instruments”: this standard, approved by the European Union on November 29, 2016, entirely replaces IAS 39 “Financial instruments: recognition and measurement” and introduces two new criteria to recognize and measure financial assets and liabilities. The main changes introduced by IFRS 9 may be summarized as follows: financial assets can be measured either at fair value or at their amortized cost. As a result, the categories “loans and receivables”, “available-for-sale financial assets” and “held-to-maturity investments” disappear. Classification within the two categories is carried out on the basis of an entity’s business model and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if both of the following requirements are met: the objective of the entity’s business model is to hold assets to collect contractual cash flows (and therefore in substance not to earn trading profits) and the characteristics of the cash flows of the asset are solely payments of principal and interest. A financial asset is measured at fair value if it is not measured at amortized cost. The rules to account for derivatives have been simplified, as the embedded derivative and the host financial asset are no longer recognized separately.

  All equity instruments - listed or unlisted - must be measured at fair value (IAS 39 established on the other hand that unlisted equity instruments should be valued at cost if fair value could not be reliably measured).

  An entity has the option of presenting changes in the fair value of equity instruments that are not held for trading in equity; that option is not permitted for equity instruments that are held for trading. This designation is permitted on initial recognition, may be adopted for each individual instrument and is irrevocable. If an election is made for this option, changes in the fair value of these instruments may never be reclassified from equity to the income statement. Dividends on the other hand continue to be recognized in the income statement.

  IFRS 9 does not permit reclassifications between the two categories of financial asset except in the rare case of a change in an entity’s business model. In this case, the effects of the reclassification are applied prospectively.

The disclosures required to be made in the notes have been adjusted to the classification and measurements rules introduced by IFRS 9. On November 19, 2013, the IASB issued an amendment to this standard which mainly regards the following:

- the substantial revision of the "Hedge accounting", which will allow entities to better reflect their risk management activities in the financial statements;
- enabling entities to change the accounting of liabilities measure at fair value: in particular, the effects of a worsening of an entity's own credit risk will no longer be recognized in the income statement;
- the effective date of the standard is deferring, originally effective as of January 1, 2015.

A partial amendment to the standard was issued in July 2014 on the subject of the valuation of financial instruments, with the introduction of the expected-loss impairment model for loans which replaces the impairment model based on realized losses. The amendment in question is applicable from January 1, 2018.

- IFRS 15 "Revenues from contracts with customers": the standard, issued by the IASB on May 28, 2014 and approved by the European Union on October 29, 2016, is the result of efforts to achieve convergence between the IASB and the FASB ("Financial Accounting Standard Board", the body responsible for issuing new accounting standards in the United States) in order to achieve a single revenue recognition model applicable both in terms of IFRS and US GAAP. The new standard will apply to all contracts with customers, including contract work in progress, and will thus replace the current IAS 18 - Revenues and IAS 11 - Long-term contracts and all related interpretations. The essential element of IFRS 15 requires the recognition of revenue to be carried out for an amount that reflects the amount that the Group expects to be entitled to receive in respect of the transfer of goods and/or services. A contract with a customer falls within the scope of the standard if all the following conditions are met:
  - the contract has been approved by the parties to the contract, who have undertaken to carry out their respective obligations;
  - each party's rights in relation to the goods and services to be transferred can be identified and the payment terms have been identified;
  - the contract has commercial substance (the risks, the timing or the cash flows may change as the result of the contract);
  - it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

  IFRS 15 also includes the disclosure requirements that are significantly more extensive than the existing standard concerning the nature, amounts, timing and uncertainty of revenues and cash flows arising from contracts with customers.

  The provisions of IFRS 15, following the amendments made with the amendment issued on September 11, 2015, will be effective for years beginning on or after January 1, 2018.

  During 2016, the company started a preliminary assessment of the effects of IFRS 15 still in the process of being completed.

Accounting standards, amendments and interpretations not yet approved by the European Union

The following standards and amendments to existing standards are still pending approval by the European Union and are therefore not applicable by the company. The dates indicated reflect the expected effectiveness date and enacted in the standards; this date is however subject to the actual approval by the competent bodies of the European Union:

- on September 11, 2014, the IASB published an amendment to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Shareholdings in affiliates and joint ventures", in order to resolve the conflict between IAS 28 and IFRS 10. According to the provisions of IAS 28, the gain or loss resulting from the sale or transfer of a non-monetary asset to a joint venture or associate in exchange for a share in the capital of the latter is limited to the shareholding in the joint venture or associate by other investors extraneous to the transaction. In contrast, IFRS 10 requires the recording of the entire gain or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling stake in it, including in this case also the sale or transfer of a subsidiary to a joint venture or associate. The amendments introduced require that for a sale or transfer of an asset or a subsidiary to a joint venture or associate, the measure of the gain or loss to be recognized in the financial statements of the seller (or transferor) depends on whether the asset or subsidiary sold (or transferred) constitute a business, under the meaning of IFRS 3. If the assets or the subsidiary sold represent a business, the entity shall recognize the gain or loss on the entire investment held; otherwise, the portion of the gain or loss related to the share still held by the entity shall be eliminated. For said amendments, a date of first application has not been established yet;

- IFRS 14 "Regulatory deferral accounts": the new transitional standard, issued by the IASB January 30, 2014, allows the entity that adopts for the first time the international accounting standards IAS/IFRS, to continue to apply the previous GAAP accounting policies for the evaluation (including impairment) and elimination of regulatory deferral accounts. This principle does not apply to the Group as it already uses IFRS;

- IFRS 15 "Revenues from contracts with customers": the amendment, issued on April 12, 2016 and applicable from January 1, 2018, aims to clarify the guidelines for the identification of an obligation to sell an asset or provide one or more services, and also intends to provide clarification regarding the accounting of licenses related to intellectual property;

- IFRS 16 "Leasing": this standard, issued by the IASB on January 13, 2016, replaces IAS 17 and sets out the criteria for the recognition, measurement and presentation of leasing contracts. IFRS 16 is applicable from January 1, 2019, but early adoption is permitted for entities that also apply IFRS 15;

- IAS 7 "Additional information in the financial statements on financial instruments": the amendment to the standard, applicable from January 1, 2017, was issued by the IASB on January 29, 2016 and requires that an entity provide information that enables users of the financial statements to evaluate changes in liabilities arising from financial assets;

- IAS 12 "Income taxes": on January 19, 2016, the IASB published some amendments that aim to clarify the accounting method for deferred tax assets related to debt instruments measured at fair value. The amendments are applicable from January 1, 2017;

- IFRS 4 "Insurance contracts": the amendment issued by the IASB on September 12, 2016 disciplines the effects of the application of the standard in question together with those related to the adoption of IFRS 9 "Financial instruments" in the financial statements of insurance contracts issuers. This amendment is applicable from January 1, 2018;

- on December 8, 2016, the IASB issued some amendments to the standards approved in the three-year period 2014-2016 in particular IFRS 1 "First-time adoption of International Accounting Standards", IFRS 12 "Disclosure of shareholdings in other entities" and IAS 28 "Shareholdings in associates":
  - With reference to IFRS 1, some exemptions are eliminated as provided by specific paragraphs of the standard;
  - The amendment to IAS 18 provides that, if the parent is a venture capital company, it has the power to measure its shareholdings in associates and joint ventures at fair value with recognition of any changes in the income statement;
  - The amendment to IFRS 12 establishes that the disclosure requirements also apply in cases where shareholdings in subsidiaries, associates and joint ventures are classified as "Non-current assets held for sale" in accordance with IFRS 5;

- on December 8, 2016, the IASB issued an amendment to IAS 40 "Property Investments", which clarifies when an entity is required to transfer the ownership of properties (including those under construction). It also establishes that the only intention of the management to change the use of a property is not evidence of a change in the use of the property investment. The amendment to the standard in question, despite early adoption is provided, is applicable retrospectively with effect from January 1, 2018;

- IFRIC 22 "Transactions and advances in foreign currency": this interpretation was issued by the IASB on December 8, 2016 and is intended to clarify the accounting for transactions that include the payment or collection of advance payments in currency other than the euro. In particular, this interpretation regulates the exchange rate to be adopted for transactions in foreign currency resulting in non- monetary assets and liabilities related to the collection or payment of advances, before the recognition of the related assets, costs or revenues. The interpretation in question is applicable from January 1, 2018.

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.

Impairment of non-current assets
An impairment loss occurs when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher value between its fair value deducted the selling costs and its value in use. Fair value less selling costs is equal to the amount obtainable from the sale of an asset or cash-generating unit in a free transaction between knowledgeable, willing parties, deducted from writing off costs. The calculation of the value in use is based on a discounted cash flow model. The cash flows are derived from the budget of the next three years and do not include restructuring activities for which the Group has not yet committed to or significant future investments that will increase the results related activity included in the cash generating unit evaluated. The recoverable amount depends significantly on the discount rate used in the discounted cash flow model, as well as the expected cash flows in the future and the growth rate used for extrapolation.

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 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 3-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 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 2016, there were eleven 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 27.4 million, with a negative equivalent value of Euro 235 thousand.

As at 31 December 2015, there were eight 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 27.8 million, with a negative equivalent value of Euro 353 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 2017 financial period (compared to 2016) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 2016 financial period;
- potential change in fair value of existing derivative instruments.

The potential changes in fair value of the effective component of existing hedging derivative instruments affect Shareholders' Equity.

The Group estimated the potential impacts on the Income Statement and on Shareholders' Equity of the 2017 financial period (compared to 2016, calculated with reference to the situation existing at the end of the 2015 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 2017 financial period (compared to 2016);
- 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 2016, 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 2017 financial period of Euro 296 thousand, offset by an increase of Euro 147 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 56 thousand, offset by a decrease of Euro 37 thousand in the collected spread for the existing derivatives.

With reference to the situation as at 31 December 2015, 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 2016 financial period of Euro 230 thousand, offset by an increase of Euro 85 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 42 thousand, offset by a decrease of Euro 24 thousand in the collected spread for the existing derivatives.

(Euro in thousands)	Interests					
	31 December 2016			31 December 2015		
	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/Bond issue	124,621*	(296)	56	123,137*	(230)	42
Total Loans	**124,621***	**(296)**	**56**	**123,137***	**(230)**	**42**
(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	27,369	147	(37)	27,761	85	(24)
Total Derivative instruments	**27,369**	**147**	**(37)**	**27,761**	**85**	**(24)**
Total		**(149)**	**19**		**(145)**	**18**

(*) The residual debt is considered before amortised costs

(Euro in thousands)	Fair value sensitivity of derivatives									
	Financial period ended 31 December 2016									
	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	27,369	(235)	62	298	298	-	(312)	(76)	(76)	-
Total	**27,369**	**(235)**	**62**	**298**	**298**	**-**	**(312)**	**(76)**	**(76)**	**-**
	Financial period ended 31 December 2015									
(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	27,761	(353)	(70)	278	278	-	(434)	(87)	(87)	-
Total	**27,761**	**(353)**	**(70)**	**278**	**278**	**-**	**(434)**	**(87)**	**(87)**	**-**

With reference to the situation as at 31 December 2016, 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 298 thousand, with an impact on the Income statement of the 2017 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 76 thousand, with an impact only on the Income statement of the 2017 financial period.

With reference to the situation as at 31 December 2015, 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 278 thousand, with an impact on the Income statement of the 2016 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 87 thousand, with an impact only on the Income statement of the 2016 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 2015 and 2013 reporting periods - expire before 12 months.

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 2016 and to 2015 financial periods, with regard to financial instruments, by residual maturity, is set out below.

Maturity	31 December 2016				
	Financial payables/Bonds		Trade payables	Financial instruments	Total
	Capital	Interests			
(Euro in thousands)	a	b	c	d	a+b+c+d
Within 12 months	70,319	2,806	31,197	186	**104,508**
Between one and two years	19,830	2,199	-	52	**22,081**
Between two and three years	8,104	1,463	-	7	**9,574**
Between three and five years	24,429	2,360	-	(4)	**26,785**
Between five and seven years	589	199	-	-	**788**
After more than 7 years	1,350	194	-	-	**1,544**
Total	**124,621***	**9,221**	**31,197**	**241**	**165,280**

Maturity	31 December 2015				
	Financial payables/Bonds		Trade payables	Financial instruments	Total
	Capital	Interests			
(Euro in thousands)	a	b	c	d	a+b+c+d
Within 12 months	45,921	3,821	39,049	242	**89,033**
Between one and two years	13,339	3,512	-	123	**16,974**
Between two and three years	18,230	3,795	-	19	**22,044**
Between three and five years	17,052	3,722	-	(7)	**20,767**
Between five and seven years	18,351	2,819	-	(6)	**21,164**
After more than 7 years	10,244	1,797	-	-	**12,041**
Total	**123,137***	**19,466**	**39,049**	**371**	**182,023**

(*) The residual debt is considered before amortised costs

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 2016 and 31 December 2015).

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 and South African Rand). 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 2017 financial period (compared to 2016) 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 2017 financial period (compared to 2016, calculated with reference to the situation existing at the end of the 2015 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	2016 Exposure in foreign currency (USD)			2016 Sensitivity	
	Assets (USD/000)	Liabilities (USD/000)	Equity (USD/000)	Income statement EUR/USD exchange rate +5% (EUR/000)	Income statement EUR/USD exchange rate -5% (EUR/000)
Trade receivables	8,854	-	8,854	(420)	420
Trade payables	-	2	2	-	-
Total net exposure with regard to equity items	**8,854**	**2**	**8,856**	**(420)**	**420**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2015 Exposure in foreign currency (USD)			2015 Sensitivity	
	Assets (USD/000)	Liabilities (USD/000)	Equity (USD/000)	Income statement EUR/USD exchange rate +5% (EUR/000)	Income statement EUR/USD exchange rate -5% (EUR/000)
Trade receivables	10,990		10,990	(505)	505
Trade payables		83	83	(4)	4
Total net exposure with regard to equity items	**10,990**	**83**	**11,073**	**(509)**	**509**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2016 Exposure in foreign currency (ZAR)			2016 Sensitivity	
	Assets (ZAR/000)	Liabilities (ZAR/000)	Equity (ZAR/000)	Income statement EUR/ZAR exchange rate +5% (EUR/000)	Income statement EUR/ZAR exchange rate -5% (EUR/000)
Trade receivables	74,885	-	74,885	(259)	259
Trade payables	-	-	-	-	-
Total net exposure with regard to equity items	**74,885**	**-**	**74,885**	**(259)**	**259**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2015 Exposure in foreign currency (ZAR)			2015 Sensitivity	
	Assets (ZAR/000)	Liabilities (ZAR/000)	Equity (ZAR/000)	Income statement EUR/ZAR exchange rate +5% (EUR/000)	Income statement EUR/ZAR exchange rate -5% (EUR/000)
Trade receivables	63,375	-	63,375	(2,911)	2,911
Trade payables	-	-	-	-	-
Total net exposure with regard to equity items	**63,375**	**-**	**63,375**	**(2,911)**	**2,911**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2016 Exposure in foreign currency (IDR)			2016 Sensitivity	
	Assets (IDR/000)	Liabilities (IDR/000)	Equity (IDR/000)	Income statement EUR/IDR exchange rate +5% (EUR/000)	Income statement EUR/IDR exchange rate -5% (EUR/000)
Trade receivables	-	-	-	-	-
Trade payables	-	-	-	-	-
Total net exposure with regard to equity items	**-**	**-**	**-**	**-**	**-**
Derivative instruments	158,497,466	-	158,497,466	(559)	559

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	324	-	-	-	-
Derivative financial instruments	-	-	-	-	3
Trade receivables	373	-	-	-	-
Total non-current	**697**	**-**	**-**	**-**	**3**
Trade receivables	49,433	-	-	-	-
Financial receivables from related parties	7,608	-	-	-	-
Financial receivables from third parties	1,441	-	-	-	-
Other available-for-sale securities	-	-	-	2	-
Derivative financial instruments	-	-	-	-	2
Cash and cash equivalents	-	-	18,501	-	-
Total current	**58,482**	**-**	**18,501**	**2**	**2**
Total	**59,179**	**-**	**18,501**	**2**	**5**
Financial liabilities:					
Loans	36,997	-	-	-	-
Non-current portion of finance leases, net	2,184	-	-	-	-
Bond issue	14,735	-	-	-	-
Derivative financial instruments	-	-	-	-	209
Trade payables	3	-	-	-	-
Total non-current	**53,919**	**-**	**-**	**-**	**209**
Loans	37,848	-	-	-	-
Other financial payables (short-term leases)	1,099	-	-	-	-
Other short-term payables	31,063	-	-	-	-
Derivative financial instruments	-	-	-	-	110
Trade payables	31,197	-	-	-	-
Total current	**101,207**	**-**	**-**	**-**	**110**
Total	**155,126**	**-**	**-**	**-**	**319**

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 2016, divided into the three levels defined above:

(Euro in thousands)	**Book value as at 31 December 2016**	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Derivative financial instruments	3	-	3	-
Total non-current	**3**	**-**	**3**	**-**
Other available-for-sale securities	2	-	-	2
Derivative financial instruments	2	-	2	-
Total current	**4**	**-**	**2**	**2**
Total	**7**	**-**	**5**	**2**
Financial liabilities:				
Derivative financial instruments	209	-	209	-
Total non-current	**209**	**-**	**209**	**-**
Derivative financial instruments	110	-	110	-
Total current	**110**	**-**	**110**	**-**
Total	**319**	**-**	**319**	**-**

5.Significant events occurred during the period

The completion of the diversification strategy in the trencher segment for service activities started with the acquisition of the Marais Group on 8 April 2015 continued with the following investments:

- on 9 February 2016, the subsidiary Group Marais SA purchased the entire shareholding in the French company EAM SRL, with registered office in Carcassone, for Euro 0.45 million; on 30 December 2016, the company EAM SRL was merged in the parent company Group Marais SA.

- on 1 August 2016, the company Marais Cote d'Ivoire, 100% owned by Group Marais SA, was set up. The company is based in Abidjan (Ivory Coast) and its purpose is the construction of energy telecommunications networks, sale and rental of Trencher machines.

- with regard to the Rail segment, on 3 October 2016, the company Tesmec Rail S.r.l., 100% owned by Tesmec S.p.A., was set up. The company is based in Monopoli (BA) and its purpose is the design, construction and maintenance of railway systems for electric traction and signalling and railway equipment.

Moreover, the completion of the range in the new automation segment of power lines continued with the following investments:

- on 3 March 2016, the parent company Tesmec S.p.A. purchased for Euro 0.3 million the remaining 60% of the share capital of Bertel S.r.l., company characterised as a highly innovative start-up in that operating in a market with a high technical profile such as that of streamlining systems of Transmission Power Lines. As a result of this operation, Tesmec holds the entire share capital of the company. The effects of the acquisition were described in the next paragraph *3.1 Effects of the acquisition of the remaining 60% of Bertel*.

- On 20 April 2016, the parent company Tesmec S.p.A. acquired 100% of CPT Engineering S.r.l., company specialised in the design and implementation of monitoring, protection and industrial automation solutions, which offers cutting-edge systems within the technologies of power lines. In detail, the transaction involved the purchase of the entire share capital of CPT against a price of Euro 0.3 million to which an earn-out up to a maximum of Euro 0.8 million is expected to be added related to the achievement of certain turnover results by the CPT and its economic balance. The payment of the price by Tesmec will be made by using own resources.
  The effects of the acquisition were described in the next paragraph *5.1 Effects of the acquisition of CPT.*

- On 28 April 2016, the subsidiary SGE S.r.l. finalised with effective date as from 1 July 2016 the acquisition by R&S Laboratorio S.r.l. of the business unit, already rented since 2014, active in technology research, design, manufacture and sale of sensors and fault and basic electrical quantity detectors in substations and medium voltage power lines.

  The transaction is part of the more general development strategy of the offer in Energy Automation, in which the Group has recently completed the acquisition of Bertel and CPT described above.

  The value of the transaction is Euro 1.4 million: Euro 0.9 million was already paid upon acquisition and the remaining part will be paid in subsequent instalments. The effects of the acquisition were described in the next paragraph *5.2 Effects of the acquisition of the SGE business unit.*

- On 1 August 2016, Tesmec S.p.A. finalised the acquisition of Ampere S.r.l. in liquidation, of the business unit, including the Ampere trademark, involved in the sale of measuring and monitoring instruments and after-sales services for the production, transmission and distribution of electrical power for a price amounting to Euro 0.1 million.

  This acquisition allows the Tesmec Group to expand the potential customer base of the Energy sector in Italy by benefiting from the strong relations that Ampere S.r.l. has with important customers.

These acquisitions represent a significant step in the growth process of Tesmec in the world of energy, allowing the Group to complete the portfolio of solutions offered at the level of different voltage classes (high, medium, low) to meet the new technological challenges related to renewable energy sources and to distributed generation. In fact, the combination of the excellent skills in the development of sensors with the excellent skills in electronic devices will allow the Tesmec Group to offer a wide range of integrated systems to manage efficiently and in a sustainable manner the requests of a market characterised by the increase in energy consumption.

Other significant events during the period include:

- on 29 April 2016, upon approval of the financial statements for 2015, the Shareholders' Meeting of Tesmec S.p.A. resolved to:
  - allocate the profit of the Parent Company, amounting to Euro 7,412 thousand, as follows:
    - assign a dividend of Euro 0.025 to each outstanding ordinary share;
    - assign to the extraordinary reserve the amount of profit remaining after the allocation to dividend.
  - appoint the new Board of Directors that will remain in office until the shareholders' meeting that will be called to approve the financial statements for the year ended 31 December 2018, composed of Gianluca Bolelli, Sergio Arnoldi, Gioacchino Attanzio, Guido Giuseppe Maria Corbetta, Caterina Caccia Dominioni, Lucia Caccia Dominioni and Paola Durante as well as Ambrogio Caccia Dominioni who was confirmed as Chairman of the Board of Directors;
  - appoint the new Board of Statutory Auditors that will also remain in office until the shareholders' meeting called to approve the 2018 financial statements, composed of Statutory Auditors Simone Cavalli (Chairman), Alessandra De Beni and Stefano Chirico and Alternate Auditors Attilio Marcozzi and Stefania Rusconi;

- on 29 April 2016, the Board of Directors confirmed Ambrogio Caccia Dominioni as the Chief Executive Officer and Gianluca Bolelli as Vice Chairman.

  The Board of Directors decided to:

- change the name of the current Remuneration Committee in "Remuneration and Appointments Committee" and to merge the function previously carried out by the Appointments Committee in the new Remuneration and Appointments Committee;
- appoint the directors Gioacchino Attanzio (Chairman), Sergio Arnoldi and Caterina Caccia Dominioni as members of the new Remuneration and Appointments Committee;
- appoint the directors Sergio Arnoldi (Chairman), Gianluca Bolelli and Gioacchino Attanzio as members of the Control and Risk Committee;
- appoint Caterina Caccia Dominioni as director in charge of the internal control and risk management system;
- appoint the Independent Director Gioacchino Attanzio as lead independent director;
- appoint Lorenzo Pascali (Chairman), Maurizio Brigatti and Stefano Chirico as members of the Supervisory Body that will remain in office until the shareholders' meeting that will be called to approve the financial statements for the year ended 31 December 2018;

- on 22 May 2016, the subsidiary Marais Group signed a protocol for the sale of the 49% share held in Marais Algerie SARL at the price of Euro 40 thousand to the majority shareholder, in that this investment was no longer of strategic importance;

- On 16 September 2016, the subsidiary Tesmec Service S.r.l. ranked first in the tender by negotiated procedure called by RFI - Rete Ferroviaria Italiana S.p.A., company of the Ferrovie dello Stato Italiane Group responsible for the overall management of the national rail network, for the supply of 88 multipurpose ladder trucks for the maintenance of the Italian railway network. The definitivly award was made in the month of December 2016.

  The result was declared by the Commission during the public session held at the RFI Purchasing Department in Rome.

  The total value of the tender amounts to around Euro 91.8 million and, in the event of final awarding, the supply, to be completed within 4 years and also including a 6-year period of full maintenance service (FMS), is broken down as follows:

  - Lot 1: no. 26 multipurpose ladder trucks with axes;
  - Lot 2: no. 42 multipurpose boogie ladder trucks;
  - Lot 3: no. 20 multipurpose boogie ladder trucks.

  This result is due to the high technological content of the railway systems of the Tesmec Group that has been the key to the positive assessment.

- In November 2016, the Tesmec Group was awarded a new contract in the Stringing equipment segment of around Euro 14 million for the supply of 25 complete packages (machines and equipment) for stringing aerial lines for the transmission of high voltage electrical power at PT PLN (Persero), State Electricity Company of Indonesia that manages, as a monopoly, the distribution and transmission of electricity in the Country. The supply will be carried out during the 2017 financial year.

- On 21 December 2016, the Board of Directors of Tesmec S.p.A. approved certain transactions with the related party Dream Immobiliare S.r.l. ("Dream") concerning the properties located in Grassobbio (Bergamo) ("Grassobbio Property Complex"), Padua ("Padua Property") and Patrica (Frosinone) ("Frosinone Property") where the factories of Tesmec and of the subsidiaries SGE S.r.l. ("SGE") and CPT Engineering S.r.l. ("CPT") are based. The considerations of the Board of Directors with regard to the economic and financial reasons as well as to the advisability of these transactions were carried out, first of all, taking into account the Group's strategy focusing on the operations, leaving aside all the activities pertaining to property companies, management companies and property development companies. The effects of this transaction were described in detail in the next paragraph *5.3 Effects of the New lease contract with related parties.*

5.1 Impact of the acquisition of the remaining 60% of Bertel

As described above, on 3 March 2016, the parent company Tesmec S.p.A. purchased the remaining 60% of the share capital of Bertel S.r.l. (of which Tesmec already owned 40% of the share capital).
The value of the transaction amounted to Euro 300 thousand corresponding to the nominal value and will be paid in two tranches: the first one of Euro 150 thousand within 12 months and the second one of Euro 150 thousand within 24 months. Moreover, following the acquisition of Bertel S.r.l., it repaid the loan of Euro 260 thousand to the old shareholder.

The differential arising from this acquisition amounted to Euro 1,147 thousand and has been provisionally allocated among Assets in progress and advance payments to suppliers in that, as provided by IFRS 3, within 12 months after the transaction (i.e. March 2017), the recording of the acquisition will be completed through the final allocation of the arising differential.

Assets and liabilities at fair value are broken down below:

Book values of the acquired company *(Euro in thousands)*	**Company acquisition** **BERTEL**
Assets	
Intangible assets	2,539
Property, plant and equipment	162
Other non-current assets	598
Inventories	668
Trade receivables	285
Other current assets	757
Cash and cash equivalents	79
Total assets	**5,088**
Liabilities	
Medium/long-term loans	146
Employee benefit liability	133
Interest-bearing financial payables (current portion)	4,069
Other current liabilities	587
Total liabilities	**4,935**
Fair value of net assets acquired	**153**

5.2 Effects of the acquisition of CPT

As described above, on 20 April 2016, the parent company Tesmec S.p.A. purchased 100% of the share capital of *CPT Engineering S.r.l.* The transaction involved the purchase of the entire share capital of CPT against a price of Euro 300 thousand to which an earn-out up to a maximum of Euro 800 thousand is expected to be added related to the achievement of certain turnover results by the CPT and its economic balance. The payment of the price by Tesmec will be made by using own resources.

The differential arising from this acquisition amounted to Euro 100 thousand and has been provisionally allocated among Assets in progress and advance payments to suppliers in that, as provided by IFRS 3, within 12 months after the transaction (i.e. April 2017), the recording of the acquisition will be completed through the final allocation of the arising differential.

Assets and liabilities at fair value are broken down below:

Book values of the acquired company *(Euro in thousands)*	**Company acquisition** **CPT**
Assets	
Intangible assets	723
Property, plant and equipment	1,102
Other current assets	597

Total assets	**2,422**
Liabilities	
Medium/long-term loans	479
Employee benefit liability	206
Other current liabilities	1,537
Total liabilities	**2,222**
Fair value of net assets acquired	**200**
Consideration for the acquisition/sale	**(316)**
Difference between consideration paid and net assets acquired	**(116)**

5.3 Effects of the acquisition of the SGE business unit

As described above, on 28 April 2016, the subsidiary SGE S.r.l. finalised with effective date as from 1 July 2016 the acquisition by R&S Laboratorio S.r.l. of the business unit, already rented since 2014, active in technology research, design, manufacture and sale of sensors and fault and basic electrical quantity detectors in substations and medium voltage power lines.

The value of the transaction amounted to Euro 1.2 million and is paid in three tranches: the first Euro 644 thousand on July 1, 2016, the second of Euro 52 thousand on 1 August 2016 and the remaining amount to Euros 470 thousand in installments with maturities up to April 20, 2017

The differential arising from this acquisition amounted to Euro 575 thousand and has been provisionally allocated among Assets in progress and advance payments to suppliers in that, as provided by IFRS 3, within 12 months after the transaction (i.e. July 2017), the recording of the acquisition will be completed through the final allocation of the arising differential.

Assets and liabilities at fair value are broken down below:

Book values of the acquired company (Euro in thousands)	Business unit SGE
Assets	
Intangible assets	802
Tangible assets	34
Total assets	**836**
Liabilities	
Employee benefit liability	228
Total liabilities	**228**
Fair value of net assets acquired	**608**
Consideration for the acquisition/sale	**(1,183)**
Difference between consideration paid and net assets acquired	**(575)**

5.4 Effects of the transaction with Related Parties

As described above, on 21 december 2016, the Board of Directors of Tesmec S.p.A. approved certain transactions with the related party Dream Immobiliare S.r.l. (“**Dream**”) involving the properties situated in Grassobbio (Bergamo) (“**Grassobbio Property Complex**”), in Padua (“**Padua Building**”) and Patrica (Frosinone) (“**Frosinone Building**”), in which factories of Tesmec and of its subsidiaries SGE S.r.l. (“**SGE**”) and CPT Engineering S.r.l. (“**CPT**”) are located.

- With regard to the Grassobbio Property Complex, where Tesmec's production plant also has its headquarters, the Company's Board of Directors has considered exercising of the option with respect to Dream to no longer be strategic for Tesmec, thereby allowing said option to expire. This option expires on 31 December 2016 and regards a takeover of the lease contract in place between Dream and Unicredit Leasing S.p.A. for said property complex for Euro 3,500 thousand.

  The Board of Directors consequently renegotiated the rent and term of the lease contract with Dream, with respect to the portion of the Grassobbio Property Complex in which Tesmec carries out its activities, agreeing on a reduction in the annual rent of approximately Euro 160 thousand (from about Euro 1,960 thousand to Euro 1,800 thousand) and a new contract term with expiry envisaged for 30 January 2027. Consequently the availability of the property in the production site was also guaranteed.

  As a result of these transactions, the Tesmec Group's Net Financial Position at 31 December 2016 will result in improvement for about Euro 16,579 thousand, primarily concerning the adjustment of the financial debt resulting from the renegotiation of the main clauses of the lease contract.

- With regard to the Padua Building, where SGE currently conducts its production activities in the automation segment, following agreement with Dream Immobiliare, the latter agreed to replace SGE in the preliminary purchase agreement for said property, for the same amount .Dream agreed to lease said property to SGE starting from the purchase (expected in 2017) for an annual amount of Euro 75 thousand, determined based on the annual market rent indicated in the report drawn up by CBRE Valuation S.p.A.

- With regard to the Frosinone Building, where CPT currently conducts its production activities in the automation segment, CPT and Dream reached an agreement involving its purchase by Dream for Euro 1,019 thousand.

  Pursuant to the agreement reached by the parties, the Frosinone Building will therefore be let by Dream to CPT at an annual rent of Euro 63 thousand determined based on the annual market rent indicated in the report drawn up by CBRE Valuation S.p.A.

The transactions described above will involve, for Tesmec Group as at December 31, 2016 an improvement in the net financial position for Euro 17,716 thousand, a reduction of EBITDA for Euro 2,232 thousand and a reduction of net income for Euro 1,527 thousand.

Below a summary table showing the economic, patrimonial and financial effect of the transaction as at December 31, 2016:

Balance sheet effects

(In migliaia di Euro)	**Grassobbio Property Complex**	**Padua Building**	**Frosinone Building**	**Total**
USES				
Net working capital	738	(33)	-	705
Fixed assets	(18,929)	-	(1,019)	(19,948)
Other long-term assets and liabilities	-	-	-	-
Net invested capital	**(18,191)**	**(33)**	**(1,019)**	**(19,243)**
SOURCES				
Net financial indebtedness	(16,579)	(118)	(1,019)	(17,716)
Shareholder’s equity	(1,612)	85	-	(1,527)
Total sources of funding	**(18,191)**	**(33)**	**(1,019)**	**(19,243)**

Economic effects

(In migliaia di Euro)	**Grassobbio Property Complex**	**Padua Building**	**Frosinone Building**	**Total**
Loss	(2,350)	-	-	(2,350)
Income	-	118	-	118
EBITDA	**(2,350)**	**118**	**-**	**(2,232)**
Tax	738	(33)	-	705
Effect on net result	**(1,612)**	**85**	**-**	**(1,527)**

The accounting effects of these operations on an annual basis will be the rental costs of Euro 1,895 thousand which will be reflected on EBITDA and a decrease in financial expenses of Euro 754 thousand and amortization of Euro 610 thousand. These effects will produce a positive tax effect of Euro 196 thousand on the Group's taxable income, the net result will therefore suffer a worsening of Euro 335 thousand.

For further information please refer to the Information Document on significant transactions with related parties published on December 22, 2016 in the Investor Relations-Governance section on the website www.tesmec.com

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 2016 and as at 31 December 2015 is indicated in the table below:

	31 December					
	2016			2015		
(Euro in thousands)	**Historical cost**	**Accum. amort.**	**Net value**	**Historical cost**	**Accum. amort.**	**Net value**
Development costs	51,796	(37,174)	14,622	40,017	(28,405)	11,612
Rights and trademarks	6,368	(4,063)	2,305	5,433	(3,218)	2,215
Assets in progress and advance payments to suppliers	1,964	-	1,964	-	-	-
Total intangible assets	**60,128**	**(41,237)**	**18,891**	**45,450**	**(31,623)**	**13,827**

The following table shows the changes in intangible assets for the period ended 31 December 2016:

(Euro in thousands)	**01/01/2016**	**Increases due to purchases**	**Change in the consolidation area**	**Decreases**	**Amortisation**	**Exchange rate differences**	**31/12/2016**
Development costs	11,612	5,883	3,228	(49)	(6,114)	62	14,622
Rights and trademarks	2,215	858	35	-	(805)	2	2,305
Assets in progress and advance payments to suppliers	-	690	1,274	-	-	-	1,964
Total intangible assets	**13,827**	**7,431**	**4,537**	**(49)**	**(6,919)**	**64**	**18,891**

As at 31 December 2016, intangible assets net of amortisation totalled Euro 18,891 thousand, up Euro 5,064 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 7,431 thousand mainly consisting in *Development costs capitalised* of Euro 5,883 thousand, which were fully offset by the amortisation of the period (Euro 6,114 thousand).
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.

The change in the consolidation area amounted to Euro 4,537 thousand and was related for Euro 839 thousand to the company acquired during the period (C.P.T. Engineering S.r.l.) and for Euro 3,698 thousand to the line-by-line consolidation of the subsidiary Bertel S.r.l. as from 1 March 2016.
This amount includes as *assets in progress and advance payments to suppliers* the temporary differential of Euro 116 thousand generated by the acquisition of the company CPT Engineering S.r.l. and of Euro 1,158 thousand by the acquisition of the remaining 60% of the equity investment in the company Bertel S.r.l. in March. As provided by IFRS 3, within 12 months after the transaction (i.e. March 2017), the recording of these acquisitions will be completed through the final allocation of the emerging differential.

The following table shows the changes in intangible assets for the period ended 31 December 2015:

(Euro in thousands)	01/01/2015	Increases due to purchases	Change in the consolidation area	Decreases	Reclassifications	Amortisation	Exchange rate differences	31/12/2015
Development costs	10,365	5,769	-	(23)	-	(4,816)	317	11,612
Rights and trademarks	386	921	7	(2)	1,550	(647)	-	2,215
Assets in progress and advance payments to suppliers	1,621	125	-	(196)	(1,550)	-	-	-
Total intangible assets	**12,372**	**6,815**	**7**	**(221)**	**-**	**(5,463)**	**317**	**13,827**

7.Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2016 and as at 31 December 2015 is indicated in the table below:

	31 December					
	2016			2015		
(Euro in thousands)	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Land	1,934	(137)	1,797	5,943	(128)	5,815
Buildings	15,995	(4,400)	11,595	30,130	(5,517)	24,613
Plant and machinery	16,424	(11,767)	4,657	19,609	(11,711)	7,898
Equipment	6,937	(5,330)	1,607	6,011	(4,744)	1,267
Other assets	45,001	(17,890)	27,111	41,268	(16,049)	25,219
Assets in progress and advance payments to suppliers	522	-	522	540	-	540
Total property, plant and equipment	**86,813**	**(39,524)**	**47,289**	**103,501**	**(38,149)**	**65,352**

The following table shows the changes in property, plant and equipment for the period ended 31 December 2016:

(Euro in thousands)	01/01/2016	Increases due to purchases	Change in the consolidation area	Decreases	Reclassifications	Depreciation	Exchange rate differences	31/12/2016
Land	5,815	-	189	(4,205)	-	(9)	7	1,797
Buildings	24,613	111	856	(15,743)	2,468	(904)	194	11,595
Plant and machinery	7,898	327	54	(86)	(2,468)	(1,110)	42	4,657
Equipment	1,267	722	100	(65)	(11)	(410)	4	1,607
Other assets	25,219	12,535	802	(8,654)	11	(3,478)	676	27,111
Assets in progress and advance payments to suppliers	540	-	-	(18)	-	-	-	522
Total property, plant and equipment	**65,352**	**13,695**	**2,001**	**(28,771)**	**-**	**(5,911)**	**923**	**47,289**

As at 31 December 2016, property, plant and equipment totalled Euro 47,289 thousand, down compared to the previous year by Euro 18,063 thousand.

The decrease is due to the new lease contract described in paragraph *5.4 Effects of the New lease contract with related parties* of Euro 19,948 thousand and to the change in the consolidation area of Euro 2,001 thousand.
The latter concerns the companies acquired during the period (EAM S.r.l. acquired by Group Marais SA and subsequently merged within it and CPT Engineering S.r.l.) of Euro 1,839 thousand and the acquisition of the remaining 60% of the equity investment in the company Bertel S.r.l. of Euro 162 thousand in March.

The reclassification of Euro 2,468 thousand was made for a better accounting of items previously classified as plant and machinery.

The following table shows the changes in property, plant and equipment for the period ended 31 December 2015:

(Euro in thousands)	**01/01/2015**	**Increases due to purchases**	**Change in the consolidation area**	**Decreases**	**Reclassifications**	**Depreciation**	**Exchange rate differences**	**31/12/2015**
Land	5,457	-	342	-	-	(6)	22	5,815
Buildings	24,596	72	-	-	190	(867)	622	24,613
Plant and machinery	6,007	233	2,732	(42)	37	(1,258)	189	7,898
Equipment	503	264	945	(77)	-	(419)	51	1,267
Other assets	10,831	10,934	10,698	(4,806)	-	(3,217)	779	25,219
Assets in progress and advance payments to suppliers	722	26	149	-	(376)	-	19	540
Total property, plant and equipment	**48,116**	**11,529**	**14,866**	**(4,925)**	**(149)**	**(5,767)**	**1,682**	**65,352**

8.Equity investments in associates valued using the equity method

The breakdown of equity investments in associates valued using the equity method as at 31 December 2016 and 2015 is indicated in the table below:

	31 December	
(Euro in thousands)	**2016**	**2015**
Associated companies:		
Locavert SA	410	403
Bertel S.p.A.	-	1,079
SEP Moselle 57	16	15
SEP Semafor 77	7	-
SEP Laison Natix 77	9	-
Subtotal	**442**	**1,497**
Joint Ventures:		
Condux Tesmec Inc	3,285	3,105
Marais Tunisie SA	142	161
Subtotal	**3,427**	**3,266**
Total Equity investments in associates valued using the equity method	**3,869**	**4,763**

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 2016 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:

(Euro in thousands)	31 December 2016							
	% 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%	461	8	648	238	410	410	-
SEP Moselle 57	50.00%	168	2	93	78	16	16	-
SEP College 77	33.00%	4	(4)	56	60	(4)	-	4
SEP Cergy 95	30.00%	1	4	12	12	-	-	-
SEP Semafor 77	33.00%	7	7	7	-	7	7	-
SEP Laison Natix 77	33.00%	9	9	9	-	9	9	-
Joint Ventures:								
Condux Tesmec Inc.	50.00%	3,981	75	5,057	1,772	3,285	3,285	-
Tesmec Peninsula	49.00%	342	(145)	5,015	4,795	220	-	269
Marais Tunisie SA	49.00%	85	(5)	380	197	183	142	-
Marais Lucas Technologies Pty Ltd.	50.00%	-	(57)	302	2,173	(1,871)	-	1,933

The values of the equity 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 they are based on plans reviewed by Board of Directors on 10 March 2017.
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 7% and 15%. Cash flows beyond the three years were extrapolated using a growth rate of 1.1%. The results of the impairment test showed that as at 31 December 2016, the recoverable amount of the CGU exceeds the carrying amount. The results underwent also a sensitivity analysis in order to consider the possible effects of changes in the key assumptions underlying the impairment process. This analysis involved a reasonably possible change in the expected growth rate of about +/- 0.25%, the discount rate used of about +/- 2%, and the EBIT value resulting from the Plan of about +/- 10%.

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 2016 and 2015:

(Euro in thousands)	31 December	
	2016	2015
Guarantee deposits	323	472
Financial receivables from third parties	1	1
Total financial receivables and other non-current financial assets	**324**	**473**

Financial receivables and other non-current financial assets compared to the previous financial year decreased by Euro 149 thousand as a result of the return of deposits previously received by the subsidiary Tesmec USA, Inc.

Current assets

10.Work in progress contracts

The following table sets forth the breakdown of work in progress contracts as at 31 December 2016 and as at 31 December 2015:

	31 December	
(Euro in thousands)	**2016**	**2015**
Work in progress (Gross)	1,291	9,158
Advances from contractors	-	(5,294)
Work in progress contracts	**1,291**	**3,864**
Advances from contractors (Gross)	-	-
Work in progress (Gross)	-	-
Advances from contractors	**-**	**-**

"Work in progress" refers exclusively to the rail segment where the machinery is produced in accordance with specific customer requirements. "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.
The reduction occurred thanks to a billing stream that exceeded the new amount of work in progress on order.

11.Inventories

The following table sets forth the breakdown of Inventories as at 31 December 2016 and 2015:

	31 December	
(Euro in thousands)	**2016**	**2015**
Raw materials and consumables	32,803	32,886
Work in progress	12,360	9,824
Finished products and goods for resale	23,958	16,134
Advances to suppliers for assets	106	47
Total Inventories	**69,227**	**58,891**

The measurement bases of inventories with regard to raw materials and consumables, work in progress, finished goods and merchandise remained unchanged compared to the prior financial period.
In total, inventories increased by 17.6% amounting to Euro 10,336 thousand despite the decrease in revenues in relation to the postponement of some deliveries and to the finalisation of the Indonesian contract.

The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2016 and 2015 are indicated in the table below:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Value as at 1 January	4,960	3,318
Provisions	320	1,012
Change in the consolidation area	-	522
Exchange rate differences	52	108
Total provisions for inventory obsolescence	**5,332**	**4,960**

The value of the provisions for inventory obsolescence increased by Euro 372 thousand compared to the prior financial period due to the increase in slow moving material and spare parts.
The adequacy of the provision is assessed on a regular basis to constantly monitor the actual level of inventories recovered through sales.

12.Trade receivables

The table below shows the breakdown of trade receivables as at 31 December 2016 and 2015:

	31 December	
(Euro in thousands)	**2016**	**2015**
Trade receivables from third-party customers	48,680	46,832
Trade receivables from related parties	753	4,050
Total trade receivables	**49,433**	**50,882**

For terms and conditions relating to receivables from related parties, refer to paragraph 35.

Trade receivables from customers as at 31 December 2016 amounted to Euro 49,433 thousand down by Euro 1,449 thousand compared to the 2015.
The decrease in trade receivables from related parties primarily due to the reduction in receivables from the related party M.T.S. Officine meccaniche S.p.A. (from Euro 2,170 thousand in 2015 to Euro 308 thousand in 2016).
financial period mainly for a decrease of trade receivables from related parties. The latter fell by Euro 3,297 thousand mainly due to deconsolidation of the Joint Venture Marais Algerie Sarl amounting to Euro 1,102 thousand, reclassified to trade receivables from third-parties.

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 2016 and 2015 are indicated in the table below:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Value as at 1 January	4,064	2,138
Provisions	420	798
Change in the consolidation area	-	1,237
Uses	(1,538)	(153)
Exchange rate differences	18	44
Total provisions for doubtful accounts	**2,964**	**4,064**

Provisions and uses related to the provisions for doubtful accounts are included in "other operating (costs)/revenues, net" of the income statement.
The utilisations for the period refer to the positive outcome of cases relating to certain receivables of the Marais Group against which a special fund was prudently set aside.

13.Tax receivables

The following table sets forth the breakdown of tax receivables as at 31 December 2016 and 2015:

	31 December	
(Euro in thousands)	**2016**	**2015**
IRAP receivables	33	8
IRES receivables	503	-
Other direct income taxes	1,169	478
Total tax receivables	**1,705**	**486**

The item *tax receivables* increased compared to the previous financial year of Euro 1,219 thousand mainly due to the recording of direct taxes of the French subsidiary Marais Technologies SAS.

14.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 2016 and as at 31 December 2015:

	31 December	
(Euro in thousands)	**2016**	**2015**
Financial receivables from related parties	8,944	11,497
Financial receivables from third parties	47	287
Other current financial assets	58	65
Total financial receivables and other current financial assets	**9,049**	**11,849**

The decrease in *current financial assets* from Euro 11,849 thousand to Euro 9,049 thousand is mainly due to the decrease in credit positions relating to specific contracts signed with JV related parties on which an interest rate is applied and repayable within 12 months, and to the acquisition of the remaining 60% of the company Bertel S.r.l., which led to the line-by-line consolidation of the company compared to the 2015 financial period during which the consolidation occurred with the equity method.

15.Other current assets

The following table sets forth the breakdown of other current assets as at 31 December 2016 and as at 31 December 2015:

	31 December	
(Euro in thousands)	**2016**	**2015**
Prepaid expenses	785	680
VAT credit	1,242	2,576
Other receivables	349	879
Advance to suppliers for services	314	179
Other tax receivables	126	23
Total Other current assets	**2,816**	**4,337**

Other current assets is considered receivable and therefore was not subject to value adjustment.
VAT credit, which amounted to Euro 1,242 thousand as at 31 December 2016, decreased by Euro 1,334 thousand compared to 31 December 2015 in relation to the decrease in sales for the period and, as a result, to less purchases of materials.

16.Cash and cash equivalents

The following table sets forth the breakdown of the item as at 31 December 2016 and 2015:

	31 December	
(Euro in thousands)	**2016**	**2015**
Bank and post office deposits	18,471	20,509
Cash on hand	23	59
Other cash	7	636
Total cash and cash equivalents	**18,501**	**21,204**

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 18,501 thousand and decreased of Euro 2,703 thousand.
Cash and cash equivalents are recorded in Tesmec S.p.A. for Euro 14,524 thousand, Tesmec USA, Inc. for Euro 947 thousand, Tesmec Service S.r.l. for Euro 1,451 thousand and the other companies of the Group for total amount of Euro 1,549 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.

17.Shareholders' Equity

Share capital and reserves

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 2016 and 2015:

	31 December	
(Euro in thousands)	**2016**	**2015**
Revaluation reserve	86	86
Extraordinary reserve	25,294	20,559
Change in the consolidation area	125	(900)
Severance indemnity valuation reserve	(479)	(278)
Network Reserve	824	794
Retained earnings/(losses brought forward)	2,380	3,759
Bills charged directly to shareholders' equity		
on operations with entities under common control	(4,048)	(4,048)
Total other reserves	**24,182**	**19,972**

The *revaluation reserve* is a reserve in respect of which tax has been deferred, set up in accordance with Italian Law 72/1983.

The value of translation differences has a negative impact on Shareholders' Equity of Euro 829 thousand as at 31 December 2016.

As a result of the resolution of 29 April 2016, with the approval of the 2015 financial statements, the Shareholders' Meeting of Tesmec S.p.A. decided to allocate the profit of the Parent Company of Euro 7,412 thousand, as follows:

- assign a dividend of Euro 0.025 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

18.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 2016 and as at 31 December 2015, with separate disclosure of the current portion:

	31 December			
(Euro in thousands)	**2016**	**of which current portion**	**2015**	**of which current portion**
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%, half-yearly repayment.	1,846	1,846	2,769	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), half-yearly repayment.	1,922	1,922	6,093	4,169
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% and second tranche of Euro 397 thousand to be used as from 14 March 2014 with maturity date 14 February 2020, special annual interest rate of 0.4994%, two months of prepayment and half-yearly repayment.	990	283	1,273	283
Cariparma - loan of Euro 1.5 million, drawn down on 21 October 2013 with maturity date 21 October 2017, floating interest rate equivalent to 3-month Euribor rate + spread of 3%, quarterly repayment.	389	389	767	378
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 3.5%, quarterly repayment.	-	-	1,031	1,031
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%, amended on 11 November 2015 in Euribor 6-month + 2%, one month of prepayment and monthly repayment.	-	-	518	518
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 1.30%, half-year repayment.	234	117	1,546	506
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%, one year of prepayment and half-year repayment.	2,570	2,570	3,036	465
Sondrio - loan of Euro 1 million, drawn down on 4 August 2014 with maturity date 31 August 2017, floating interest rate equivalent to 1-month Euribor rate + spread of 3.5%, monthly repayment.	231	231	568	337

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%, monthly repayment.	-	-	630	630
Banca Carige S.p.A. - loan of Euro 2 million, drawn down on 27 March 2015 with maturity date 31 December 2018, floating interest rate equivalent to 3-month Euribor rate + spread of 1.75%, 6 months of prepayment and half-year repayment.	1,153	571	1,714	561
Cariparma - loan of Euro 4 million, drawn down on 26 March 2015 with maturity date 26 March 2020, floating interest rate equivalent to 6-month Euribor rate + spread of 2.50%, six months of prepayment and half-year repayment.	3,072	3,072	3,949	877
Monte dei Paschi di Siena - loan of Euro 5 million, drawn down on 11 August 2015 with maturity date 30 September 2020, floating interest rate equivalent to 6-months Euribor rate + spread of 1.90%, six months of prepayment and quarterly repayment.	4,139	1,104	4,965	826
Veneto Banca - loan of Euro 2 million, drawn down on 28 September 2015 with maturity date 30 September 2019, floating interest rate equivalent to 6-month Euribor rate + spread of 1.3%, monthly repayment.	1,376	495	1,866	484
Banca di Desio - loan of Euro 1.8 million, drawn down on 27 October 2015 with maturity date 10 May 2020, fixed interest rate of 1.85%, seven months of prepayment and monthly repayment.	1,538	440	1,790	252
Credito Valtellinese - loan of Euro 3 million, drawn down on 15 December 2015 with maturity date 5 January 2019, floating interest rate equivalent to 3-month Euribor rate + spread of 1.65%, one month of prepayment and monthly repayment.	2,074	986	2,963	889
Banca Popolare dell'Emilia Romagna - loan of Euro 5 million, drawn down on 18 December 2015 with maturity date 18 March 2021, floating interest rate equivalent to 3-month Euribor rate + spread of 1.85%, 3 months of prepayment and quarterly repayment.	4,239	967	4,950	711
Banca Popolare di Milano - loan of Euro 5 million, drawn down on 08 April 2016 with maturity date 30 April 2021, floating interest rate equivalent to 3-months Euribor rate + spread of 1.80%, monthly repayment.	4,347	4,347	-	-
Banco Popolare - loan of Euro 2.750 million, drawn down on 29 April 2016 with maturity date 15 December 2020, floating interest rate equivalent to 6-month Euribor rate + spread of 1.70%, 2 months of prepayment and half-year repayment.	2,741	685	-	-
Banca del Mezzogiorno - loan of Euro 5 million, drawn down on 23 June 2016 with maturity date 30 June 2021, floating interest rate equivalent to 6-month Euribor rate + spread of 2%, monthly repayment.	4,491	4,491	-	-
Banca Popolare di Milano - loan of Euro 4 million, drawn down on 06 July 2016 with maturity date 31 July 2017, floating interest rate equivalent to 3-months Euribor rate + spread of 0.80%, monthly repayment.	3,110	3,110	-	-
Banco di Desio e Brianza - loan of Euro 700 thousand, drawn down on 19 July 2016 with maturity date 10 January 2018, floating interest rate equivalent to 6-month Euribor rate + spread of 1%, one month of prepayment and monthly repayment.	535	494	-	-
Unipol Banca - loan of Euro 2 million, drawn down on 27 October 2016 with maturity date 31 October 2019, floating interest rate equivalent to 3-months Euribor rate + spread of 1.90%, monthly repayment	1,878	651	-	-
Banca Popolare di Bergamo - loan of Euro 2 million, drawn down on 11 November 2016 with maturity date 11 May 2019, floating interest rate equivalent to 3-months Euribor rate + spread of 1.75%, monthly repayment	1,927	788	-	-
Credito Adesso Creval - loan of Euro 1.5 million, drawn down on 15 December 2016 with maturity date 30 April 2020, floating interest rate equivalent to 6-month Euribor rate + spread of 3.75%, half-year repayment	1,476	242	-	-

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%.	3,499	326	3,588	285
Pret senior - loan received from Marais Technologies SAS of Euro 17 million, drawn down on 10 February 2009 with maturity date 1 April 2020, annual repayment and fixed interest rate of 2.45%.	4,180	1,045	5,725	1,545
BPI - loan received from Group Marais of Euro 250 thousand, drawn down on 29 November 2013 with maturity date 30 June 2021, quarterly repayment as from 31 March 2016 and interest rate 0%.	238	63	250	25
Emprunt ICCREA + 1 AN - loan received from Group Marais of Euro 4 million, drawn down on 20 September 2016 with maturity date 20 September 2019, floating interest rate equivalent to 3-month Euribor rate + spread of 1.85%, quarterly repayment.	3,667	1,333	-	-
Emprunt EAM trancheuse Tesmec - loan received from EAM S.r.l. (now Group Marais) of Euro 132 thousand, drawn down on 20 September 2016 with maturity date 20 September 2019, interest rate of 2.14%, quarterly repayment.	52	45	-	-
Equipment finance - loan received from Marais Laying NZ of $ 90 thousand, taken out on 23 May 2016, with maturity date 30 November 2017, base floating interest rate of 5.7% plus a 1.25% margin, monthly repayment.	37	37	-	-
Mutuo Chiro Banca Pop Cassinate - loan received from CPT Engineering S.r.l. of Euro 200 thousand, drawn down on 17 July 2012 with maturity date 16 July 2018, floating interest rate equivalent to 3-month Euribor rate + spread of 2%, monthly repayment.	68	43	-	-
Mutuo BCC Anagni - loan received from CPT Engineering S.r.l. of Euro 200 thousand, drawn down on 27 March 2015 with maturity date 27 March 2020, floating interest rate equivalent to 3-month Euribor rate + spread of 1.5%, monthly repayment.	136	39	-	-
Mutuo Ipotecario Banca Intesa - loan received from CPT Engineering S.r.l. of Euro 600 thousand, drawn down on 01 June 2004 with maturity date 30 June 2021, floating interest rate equivalent to 6-month Euribor rate + spread of 1.4%, half-yearly repayment.	213	45	-	-
Banca Popolare dell'Emilia - loan received from Bertel Srl of Euro 500 thousand, drawn down on 01 July 2014 with maturity date 27 December 2017, floating interest rate equivalent to 3-month Euribor rate + spread of 4.5%, monthly repayment.	175	175	-	-
Total Interest-bearing financial payables	**58,543**	**32,952**	**49,991**	**15,695**
Less current portion	(32,952)		(15,695)	
Non-current portion of interest-bearing financial payables	**25,591**		**34,296**	
Loan due to Simest	11,406		11,406	
Total medium-long term loans	**36,997**		**45,702**	
Non-current portion of finance leases	3,283	1,099	19,428	2,455
Less current portion	(1,099)		(2,455)	
Non-current portion of finance leases, net	**2,184**		**16,973**	
Total current portion		**34,051**		**18,150**
Medium/long-term loans	**39,181**		**62,675**	

ICCREA-BCC, BNL, Comerica and Banca del Mezzogiorno loan contracts contain 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

- 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, some expected covenants on medium to long-term loans have not been observed.
Following the failure to comply with certain covenants of a financial nature, some medium and long-term loans have been fully reclassified as short term, according to the requirements of International Accounting Standards, for a total counter value of EUR 12,273. The Group has promptly initiated with the relevant credit institutions procedures for obtaining waivers for the year 2016 in relation to the said non-compliance with the covenants. At present, the Group believes that the waiver will be granted in the necessary technical due times. Such a consideration is supported both from the first few positive banks feed-back and from the 2017 budget which forecasts revenues of between 160 and 170 million euro, against which it is reasonable to assume an EBITDA of around 15%, in line with the Group historical data, and a significant improvement in Net Financial Debt.
Note that during 2016 new medium to long term loans were opened for a value of Euro 23,741 thousand against a total value of the same lines repaid of Euro 35,593 thousand (of which Euro 14,743 thousand related to the new lease contract described in paragraph *5.4 Effects of the New lease contract with related parties*.

The average cost of indebtedness is benchmarked to the trend of the 3-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 2016, 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 2016	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%	1,846	1,846	-	-
Banca Nazionale del Lavoro	04-Mar-16	floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25)	1,922	1,922	-	-
Banca Nazionale del Lavoro	04-Sep-17	floating interest rate equivalent to 6-month Euribor rate + spread of 1.90% (+/- 0.25)				
Simest UGF	04-Feb-20	special annual interest rate of 0.4994%	990	283	707	-
Cariparma	21-Oct-17	floating interest rate equivalent to 3-months Euribor rate + spread 3%	389	389	-	-
Veneto Banca	31-Dec-18	floating interest rate equivalent to 6-months Euribor rate + spread 1.3%.	234	117	117	-
BCC Chiro	27-Mar-22	floating interest rate equivalent to 6-months Euribor rate + spread 3.95%	2,570	2,570	-	-
Sondrio	31-Aug-17	floating interest rate equivalent to 1-month Euribor + spread 3.5%	231	231	-	-
Banca Carige S.p.A.	31-Dec-18	floating interest rate equivalent to 3-months Euribor rate + spread 1.75%.	1,153	571	582	-
Cariparma	26-Mar-20	floating interest rate equivalent to 6-months Euribor rate + spread 2.50%.	3,072	3,072	-	-
Monte dei Paschi di Siena	30-Sep-20	floating interest rate equivalent to 6-months Euribor rate + spread 1.90%.	4,139	1,104	3,035	-
Veneto Banca	30-Sep-19	floating interest rate equivalent to 6-months Euribor rate + spread 1.3%.	1,376	495	881	-
Banca di Desio	10-May-20	fixed interest rate 1.85%	1,538	440	1,098	-
Credito Valtellinese	05-Jan-19	floating interest rate equivalent to 3-months Euribor rate + spread 1.65%	2,074	986	1,088	-
Banca Popolare dell'Emilia Romagna	18-Mar-21	floating interest rate equivalent to 3-months Euribor rate + spread 1.85%.	4,239	967	3,013	259

Banca Popolare di Milano	30-Apr-21	floating interest rate equivalent to 3-months Euribor rate + spread 1.80%	4,347	4,347	-	-
Banco Popolare	15-Dec-20	floating interest rate equivalent to 6-months Euribor rate + spread 1.70%	2,741	685	2,056	-
Banca del Mezzogiorno	30-Jun-21	floating interest rate equivalent to 6-months Euribor rate + spread 2%	4,491	4,491	-	-
Banca Popolare di Milano	31-Jul-17	floating interest rate equivalent to 3-months Euribor rate + spread 0.80%	3,110	3,110	-	-
Banco di Desio e Brianza	10-Jan-18	floating interest rate equivalent to 6-months Euribor rate + spread 1%	535	494	41	-
Unipol Banca	31-Oct-19	floating interest rate equivalent to 3-months Euribor rate + spread 1.90%	1,878	651	664	563
Banca Popolare di Bergamo	11-May-19	floating interest rate equivalent to 3-months Euribor rate + spread 1.75%	1,927	788	801	338
Credito Adesso Creval	30-Apr-20	floating interest rate equivalent to 6-months Euribor rate + spread 3.75%	1,476	242	1,234	
Coamerica	03-Jul-18	floating interest rate equivalent to 1-month LIBOR + spread 3.25%	3,499	326	1,210	1,963
Pret senior	01-Apr-20	fixed interest rate 2.45%	4,180	1,045	3,135	-
BPI	30-Jun-21	interest rate 0%	238	63	175	-
Emprunt ICCREA	20-Sep-19	floating interest rate equivalent to 3-months Euribor rate + spread 1.85%	3,667	1,333	2,334	-
Emprunt EAM trancheuse Tesmec	20-Sep-19	fixed interest rate 2.14%	52	45	7	-
Equipment finance	30-Nov-17	base floating rate of 5.7% plus a 1.25% margin	37	37	-	-
Mutuo Chiro Banca Pop Cass	16-Jul-18	floating interest rate equivalent to 3-months Euribor rate + spread 2%	68	43	25	-
Mutuo BCC Anagni	27-Mar-20	floating interest rate equivalent to 3-months Euribor rate + spread 1.5%	136	39	97	-
Mutuo Ipotecario Banca Intesa	30-Jun-21	floating interest rate equivalent to 6-months Euribor rate + spread 1.4%	213	45	168	-
Banca Popolare dell'Emilia	27-Dec-17	floating interest rate equivalent to 3-months Euribor rate + spread 4.5%	175	175	-	-
Total			**58,543**	**32,952**	**22,468**	**3,123**

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:

	31 December			
(Euro in thousands)	**2015**	***of which with related parties and group***	**2014**	***of which with related parties and group***
Cash and cash equivalents	(18,501)		(21,204)	
Current financial assets (1)	(9,053)	*(7,608)*	(11,871)	*(11,499)*
Current financial liabilities	70,010	*33*	45,178	*1,241*
Current portion of derivative financial instruments	110		14	
Current financial indebtedness (2)	**42,566**	**(7,575)**	**12,117**	**(10,258)**
Non-current financial liabilities	53,916	-	77,409	*14,743*
Non-current portion of derivative financial instruments	209		350	
Non-current financial indebtedness (2)	**54,125**	**-**	**77,759**	**14,743**
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	**96,691**	**(7,575)**	**89,876**	**4,485**

(1) Current financial assets as at 31 December 2016 and 31 December 2015 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 2016 stood at Euro 96,691 thousand (Euro 89,876 thousand as at 31 December 2015) increasing by Euro 6,815 thousand.
The change is related to the postponement of revenues especially in the last quarter of 2016 that determined the increase in warehouse values as at 31 December generating a level of working capital higher than expected offset by the benefits of the effects of the new lease contract described in paragraph *3.4 Effects of the New lease contract with related parties* of Euro 17,717 thousand.

The table below shows the breakdown of the following changes:

- increase in current financial indebtedness of Euro 30,449 thousand due to the:
  - increase in current financial liabilities of Euro 24,832 thousand related for Euro 12,273 thousand to the reclassification in current financial indebtedness of long-term portions of medium/long-term loans because of failure to comply with contractual obligations related to financial covenants with reference to the financial statements of the Group;
  - decrease in current financial assets and cash and cash equivalents of Euro 5,521 thousand.
- decrease in non-current financial indebtedness of Euro 23,767 thousand deriving from the activation of new loans of Euro 26,577 thousand offset by the reclassification in the current financial indebtedness described in the previous paragraph and the benefit of the real effects of the transaction described in section *3.4 Effects of the transaction with Related Parties* for Euro 13,413 thousand.

This table shows the comparison between the book value and the fair value of the financial instruments as at 31 December 2016:

(Euro in thousands)	**Book value as at 31 December 2016**	**Fair value**
Financial liabilities:		
Loans (*)	89,580	96,211
Non-current portion of finance leases, net	3,283	3,401
Total	**92,863**	**99,612**

(1) The item includes the value of short-term loans to third parties of Euro 4,896 thousand classified in item "Interest-bearing financial payables (current portion)".

19.Derivative financial instruments

The Group signed some contracts related to derivative financial instruments whose contractual characteristics and related fair value as at 31 December 2016 and 2015 are shown in the table below:

Counterparts	**Type**	**Debt interest rate (fixed)**	**Credit interest rate (variable)**	**Start date**	**Maturity date**	**Notional principal**	**Fair Value (Euro/000) as at 31 December**	
						(Euro)	**2016**	**2015**
BNL	IRS	1.15% 1st year; 1.65% 2nd year; 2% 3rd year; 2.60% five following years	3-month Euribor	01/01/2011	31/05/2018	1,846,154	(65)	(128)
BNL	IRS	Fixed interest rate 2.57%	3-month Euribor	05/09/2011	04/03/2016	-	-	(14)
BNL	IRS	Fixed interest rate 1.49%	3-month Euribor	04/03/2012	04/09/2017	1,506,844	(19)	(58)
BNL	IRS	Fixed interest rate 0.8%	3-month Euribor	04/03/2013	04/09/2017	1,382,044	(10)	(29)

Veneto Banca	IRS	Fixed interest rate 1.09%	6-month Euribor	31/12/2013	31/12/2018	1,064,634	(16)	(28)
Cariparma	IRS	Fixed interest rate 0.34%	6-month Euribor	07/05/2015	26/03/2020	3,555,556	(30)	(26)
Iccrea	CAP	Interest rate for the period 0.75%	6-month Euribor	27/09/2015	27/09/2020	2,357,143	3	11
Emilia Romagna	CAP	Interest rate for the period 0.50%	3-month Euribor	07/05/2014	07/11/2016	-	-	-
Cariparma	CAP	Interest rate for the period 0.75%	3-month Euribor	21/01/2014	23/10/2017	585,469	-	-
Monte dei Paschi di Siena	CAP	Interest rate for the period 0.61%	6-month Euribor	31/12/2016	30/09/2020	4,166,667	(44)	(19)
Comerica	IRS	Fixed interest rate 1.74%	USD-Libor-BBA	12/01/2015	07/01/2018	3,878,419	(37)	(62)
Banco Popolare	IRS	Fixed interest rate 0.06%	6-month Euribor	03/10/2016	15/12/2020	2,750,000	(10)	-
Banca Popolare di Milano	IRS	Fixed interest rate 0.12%	3-month Euribor	31/01/2017	30/04/2021	4,275,556	(7)	-
HSBC	FLEXIBLE	-	-	18/04/2017	29/05/2017	1,411,836	(15)	-
HSBC	FLEXIBLE	-	-	02/03/2017	18/04/2017	3,204,723	(36)	-
HSBC	FLEXIBLE	-	-	31/03/2017	10/05/2017	1,416,612	(15)	-
HSBC	FLEXIBLE	-	-	01/07/2017	29/08/2017	590,031	1	-
HSBC	FLEXIBLE	-	-	05/06/2017	03/07/2017	1,338,732	(6)	-
HSBC	FLEXIBLE	-	-	05/05/2017	01/06/2017	1,145,813	(4)	-
HSBC	FLEXIBLE	-	-	30/06/2017	27/07/2017	591,214	(3)	-
HSBC	FLEXIBLE	-	-	31/05/2017	03/07/2017	505,310	(2)	-
HSBC	FLEXIBLE	-	-	01/07/2017	29/08/2017	501,097	1	-
Assets for derivative instruments within the financial period							**2**	**-**
Assets for derivative instruments beyond the financial period							**3**	**11**
Liabilities for derivative instruments within the financial period							**(110)**	**(14)**
Liabilities for derivative instruments beyond the financial period							**(209)**	**(350)**

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 exchange-rate hedging transactions are limited to the amounts of the Indonesian commissions in the tending industry.
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.

20.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 and Italian subsidiaries 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 2016 and 31 December 2015 of employee benefits:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Present value of the liability at the beginning of the period	2,847	3,016
Financial expense	59	48
Service Cost	131	(25)
Change in the consolidation area	310	-

Benefits accrued	368	132
Benefits paid	(279)	(270)
Financial loss (profit)	260	(112)
Demographic loss (profit)	(16)	58
Present value of the liability at the end of the period	**3,680**	**2,847**

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)	**2016**	**2015**
Annual discount rate	1.30%	2.00%
Inflation rate	1.50%	1.50%
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	224	219
Reported value for liabilities with respect to defined benefit plans	3,443	3,872

Technical and demographic bases

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Mortality	2004 ISTAT tables	2004 ISTAT tables
Disability	INPS tables	INPS tables
Retirement age	67 N/F	67 N/F

Frequency of turnover and advances on severance indemnity

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Advance frequency %	0.95%	0.97%
Turnover frequency %	33.49%	21.51%

Workforce

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

(average no. of employees)	Financial period ended 31 December			
	2016	2015	2016 vs. 2015	%
Tesmec S.p.A.	315	307	8	2.6%
Tesmec Service S.r.l.	37	37	-	0.0%
Tesmec USA, Inc.	81	114	(33)	-28.9%
Tesmec SA (Pty) LTD	14	11	3	27.3%
OOO Tesmec RUS	8	7	1	14.3%
Bertel S.r.l.	11	-	11	100.0%
SGE S.r.l.	13	11	2	18.2%
CPT S.r.l.	12	-	12	100.0%
Tesmec New Technology Beijing LTD	3	4	(1)	-25.0%
Marais Group	156	78	78	100.0%
Total	**650**	**569**	**81**	**14.2%**

The average number of employees as at 31 December 2016 shows the growing trend of the Group in 2016 mainly related to the acquisition of the remaining 60% of the company Bertel S.r.l. and of the acquisition of the company CPT Engineering S.r.l. and Marais (remember that the Group Marais was acquired in April 2015 and the average number of employees in 2015 reflects consolidation for only nine months).

Current liabilities

21.Interest-bearing financial payables (current portion)

The following table sets forth the breakdown of *Interest bearing financial payables (current portion)* for the 2016 and 2015 financial periods:

(Euro in thousands)	31 December	
	2016	2015
Advances from banks against invoices and bills receivables	28,011	18,403
Other financial payables (short-term leases)	1,099	2,455
Payables due to factoring companies	2,201	4,822
Current account overdrafts	779	22
Short-term loans to third parties	4,896	3,806
Current portion of medium/long-term loans	32,952	15,695
Other short-term financial payables	72	37
Total interest-bearing financial payables (current portion)	**70,010**	**45,240**

The current portion of medium/long-term loans increased by Euro 24,770 thousand following the reclassification of short-term portion of medium/long-term loans for Euro 12,273 thousand because of failure to comply with contractual obligations related to financial covenants with reference to the financial statements of the Group as described in paragraph 19.
The increase in payables due to factoring companies is due to the increased use of "reverse factoring" for third suppliers who met an increasing popularity especially in the range of small and medium-sized suppliers.

22.Trade payables

The breakdown of *Trade payables* as at 31 December 2016 and as at 31 December 2015, respectively, is indicated in the table below:

(Euro in thousands)	31 December 2016	2015
Trade payables due to third-parties	31,044	38,850
Trade payables due to related parties	153	199
Total trade payables	**31,197**	**39,049**

Trade payables as at 31 December 2015 decreased by Euro 7,852 thousand, 20.1% compared to the previous financial period as a result of a lower volume of purchases due to the reduction in sales.
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.

23.Income taxes payable

The breakdown of *Income taxes payable* as at 31 December 2016 and as at 31 December 2015, respectively, is indicated in the table below:

(Euro in thousands)	31 December 2016	2015
Current IRES tax liabilities	77	2,590
Current IRAP tax liabilities	54	339
Other current taxes	68	4
Total income taxes payable	**199**	**2,933**

IRES and IRAP taxes payable as at 31 December 2016 includes the net payable due by the Group for the payment of direct income taxes and the decrease for the period is related to the parent company Tesmec S.p.A.

24.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 2016 and as at 31 December 2015 are indicated below:

(Euro in thousands)	Financial period ended 31 December 2016	2015
Value as at 1 January	3,392	1,040
Provisions	451	100
Change in the consolidation area	-	2,709
Uses	(154)	(479)
Exchange-rate differences	15	22
Value as at 31 December	**3,704**	**3,392**

25.Other current liabilities

The following table sets forth the breakdown of *Other current liabilities* as at 31 December 2016 and 2015:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Due to social security	1,891	2,395
Due to INAIL (National Insurance Institute for Industrial Accidents)	191	168
Due to trade funds	169	162
Due to employees and collaborators	3,259	2,601
Guarantee deposits payable	739	-
Due to others	1,918	1,170
Accrued expenses and liabilities	340	603
Other current taxes	1,364	788
Total other current liabilities	**9,871**	**7,887**

Other current liabilities increased compared to the prior financial period of Euro 1,984 thousand and refers to Guarantee deposits payable in connection with machinery rental contracts.

26.Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2016 and 2015:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Deferred tax assets	11,520	8,844
Deferred tax liabilities	7,870	8,255

The breakdown of net deferred taxes as at 31 December 2016 and 2015 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)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Deferred tax assets						
Reversals of intangible assets	55	86	-	-	(31)	17
Obsolescence fund	1,375	952	-	-	423	218
Unrealised exchange-rate losses	470	736	-	-	(266)	362
Tax effect on UCC gain reversals	241	334	-	-	(93)	(58)
Tax effect on intercompany margin adjustments	1,123	1,111	120	356	(108)	(30)
Deferred tax assets Tesmec USA	3,303	2,290	182	(254)	831	1,944
Deferred tax assets Bertel	757	-	602	-	155	-
Deferred tax assets Marais Group	2,500	2,695	197	2,695	(392)	-
Other temporary differences	1,696	640	68	(18)	988	238
Total deferred tax assets	**11,520**	**8,844**	**1,169**	**2,779**	**1,507**	**2,691**
Deferred tax liabilities						
Unrealised exchange-rate gains	(1,448)	(1,457)	(1)	-	10	(677)
Difference of value - USA building	(303)	(302)	(1)	(22)	-	-
Capitalisation of Development costs Tesmec USA	(841)	(1,094)	228	(88)	25	-
Deferred tax liabilities Tesmec USA	(1,202)	(1,105)	(296)	(132)	199	(747)

Profits allocated to network reserve	(217)	(250)	33	-	-	-
Tax effect on intercompany margin adjustments	-	-	-	58	-	-
Deferred tax liabilities of Marais Group	(3,832)	(3,977)	(537)	(3,609)	682	(368)
Other temporary differences	(27)	(70)	(255)	(13)	298	235
Total deferred tax liabilities	**(7,870)**	**(8,255)**	**(829)**	**(3,806)**	**1,214**	**(1,557)**
Effect on Shareholders' Equity						
Net balance deferred wealth taxes	**3,650**					
Represented in the income statement as follows:						
Deferred tax assets	**1,507**					
Deferred tax liabilities	**1,214**					
Deferred tax liabilities, net	**2,721**					

The change in deferred tax assets is due to the recognition of tax receivables relating to losses incurred by Tesmec USA and Bertel S.r.l.; the inclusion of this receivable is supported by the recoverability expectations expressed by the business plans.

Current taxation

Profit before taxes and the allocation for income taxes for the financial periods as at 31 December 2016 and 2015 are summarised below:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Consolidated pre-tax profits	**(6,870)**	**9,105**
Current taxation:		
Italy	94	(3,774)
USA	4	635
Rest of the World	198	61
Deferred tax liabilities/assets		
Italy	169	276
USA	2,089	1,196
Rest of the World	463	(338)
Total Income taxes	**3,017**	**(1,944)**

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)	**2016**	**2015**
Profit before tax	**(6,870)**	**9,105**
IRES tax rate in force during the period	27.50%	27.50%
Theoretical tax charge	**1,889**	**(2,504)**
Irap	**(157)**	**(653)**
Permanent tax differences	458	1,638
Effect of different tax rate for foreign companies	827	(425)
Total difference	**1,285**	**1,213**
Total tax charge as per income statement	**3,017**	**(1,944)**

Comments to the main items in the income statement

27.Revenues from sales and services

In the 2016 and 2015 financial periods, revenues from sales and services amounted to Euro 128,513 thousand and Euro 164,402 thousand, respectively. The breakdown is set below:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Sales of products	98,721	140,550
Services rendered	28,562	20,430
	127,283	**160,980**
Changes in work in progress	1,230	3,422
Total revenues from sales and services	**128,513**	**164,402**

The Group realised in 2016 revenues of Euro 128,513 thousand against a figure of Euro 164,402 thousand in 2015 down by 21.8%. The trend of the three segments is shown below:

- **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 Euro 29,934 thousand (-41.5%) from Euro 72,146 thousand as at 31 December 2015 to Euro 42,212 thousand as at 31 December 2016.
  Revenues as at 31 December 2015 benefited from the big project of Abengoa for the construction of more than 5,000 km of 500kV lines in Brazil. However, the awarding of the important Indonesian project acquired at the end of the year was of benefit to the order backlog and will positively affect revenues for the 2017 financial year. Within this segment, growth in revenues continued thanks to the sale of products of the new Automation business (of CPT, SGE and Bertel S.r.l. and of the Ampere business unit), confirming the validity of the strategic choices implemented in the past years that also focused on the market of streamlining of power lines.

- **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 7,919 thousand (-8.9%) from Euro 88,490 thousand as at 31 December 2015 to Euro 80,571 thousand as at 31 December 2016. This performance is attributable to the combined effect of the positive sales trend of service activities (+44.1% mainly carried out by the Marais Group) and the negative sales trend of machinery on the US and Middle Eastern markets.

- **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 52.2% compared to the previous year. Revenues as at 31 December 2016 amounted to Euro 5,730 thousand compared to Euro 3,766 thousand of the previous year; this increase is supported by an important flow of orders that concern multi-year activities confirming the success of the Group's strategy to complete its product range with activities that have higher recurrence in revenues.
  It should be noted that revenues in 2016 include the effects of the state of completion of contracts in progress at the end of the year for a total amount equal to Euro 1,216 thousand and Euro 3,422 thousand in 2015.

28.Cost of raw materials and consumables

For the financial periods as at 31 December 2016 and 31 December 2015, cost of raw materials and consumables amount to Euro 49,029 thousand and Euro 82,838 thousand, respectively.
The breakdown of the item is as follows:

(Euro in thousands)	Financial period ended 31 December	
	2016	**2015**
Cost for the purchase of raw materials and consumables	57,063	80,193
Change in inventories	(8,034)	2,645
Total cost of raw materials and consumables	**49,029**	**82,838**

Cost of raw materials and consumables decreased by Euro 33,809 thousand (-40.8%) more than proportionally than the increase in sales volumes (-20.1%), due to the greater weight of the revenues from services to total revenues.

29.Costs for services and Non-recurring costs for services

The table below shows the breakdown of *recurring and non-recurring costs for services* that amounted in 2016 and in 2015 to Euro 29,098 thousand and Euro 27,909 thousand, respectively.

(Euro in thousands)	Financial period ended 31 December	
	2016	**2015**
Transport, customs and incidental expenses	4,487	4,653
Outsourced work service	3,467	3,683
External production services	754	1,020
Services for legal, tax, technical and other consultancy	7,225	4,377
Banking services	726	1,301
Insurance	563	592
Energy, water, gas, telephone expenses and postage	1,335	1,344
Board and lodging expenses and travelling allowance	3,694	3,256
Directors' and Auditors' fees	918	1,252
Advertising and other selling expenses	1,116	799
Maintenance services	765	744
Commissions and additional expenses	2,955	3,941
Other general expenses	1,093	947
Total costs for services	**29,098**	**27,909**

The increase in costs for services (+4.3%) is due to the following changes:

- *legal, tax, technical and other consultancy costs* of Euro 4,377 thousand in the 2015 financial period compared to Euro 7,225 thousand in the 2016 financial period. This item includes non-recurring costs of Euro 873 thousand shown in the Consolidated Income Statement versus non-recurring costs of the previous year for a total of Euro 564 thousand;
- *commissions and additional expenses* decreased by Euro 986 thousand due to the decrease in revenues of the Stringing equipment segment where the structure most commonly used is indirect sales.

30.Payroll costs

During the financial periods ended 31 December 2016 and 31 December 2015, payroll costs amounted to Euro 40,000 thousand and Euro 34,530 thousand, respectively, up by 15.8%.

(Euro in thousands)	Financial period ended 31 December	
	2016	2015
Wages and salaries	29,435	25,160
Social security charges	8,390	6,948
Employee severance indemnity	1,062	915
Other personnel costs	1,113	1,507
Total payroll costs	**40,000**	**34,530**

The increase by 15.8% of this item is related to the acquisitions for the period and the increase in service activities in Group revenues.

31.Other operating (costs)/revenues, net and Non-recurring other operating (costs)/revenues, net

During the financial periods ended 31 December 2016 and 31 December 2015, other net operating (costs)/revenues amounted to Euro 6,845 thousand and Euro 2,718 thousand, respectively.

The breakdown of the item is as follows:

(Euro in thousands)	Financial period ended 31 December	
	2016	2015
Provisions for risks and other net provisions	(172)	(488)
Rents	875	937
Hiring	2,570	986
Other lease and rental expenses	1,166	1,179
Sundry taxes	694	826
Non-recurring other operating (costs)/revenues, net	2,232	-
Other revenues	(1,714)	(1,311)
Other	1,194	589
Total other operating (costs)/revenues, net	**6,845**	**2,718**

The item *Other operating (costs)/revenues, net* increased by Euro 4,127 thousand in that this item contains non-recurring costs of Euro 2,232 thousand shown in the Consolidated Income Statement related to the New lease contract described in the paragraph *5.4 Effects of the New lease contract with related parties.*

Please note that the year 2015 benefited from a non-recurring amount of Euro 2,633 thousand relating to Badwill resulting from the acquisition of the Group Marais.

32.Amortisation and depreciation

During the financial periods ended 31 December 2016 and 31 December 2015, depreciation and amortisation amounted to Euro 12,830 thousand and Euro 11,230 thousand, respectively, with a 14.2% increase.
The breakdown of the item is as follows:

(Euro in thousands)	Financial period ended 31 December	
	2016	2015
Amortisation of intangible assets	6,919	5,463
Depreciation of property, plant and equipment	5,911	5,767
Total amortisation and depreciation	**12,830**	**11,230**

The increase in amortization of intangible assets is the result of acquisitions of the period.

33.Development costs capitalised

Development costs capitalised for the financial periods ended 31 December 2016 and 31 December 2015 amounted to Euro 5,050 thousand and Euro 5,104 thousand, respectively.
The Group continued to develop the projects for the launch of new models and new functionalities of own products, which are requested from the markets, in order to maintain its leader sector position.

34.Financial expenses

During the financial periods ended 31 December 2016 and 31 December 2015, financial expenses amounted to Euro 6,618 thousand and Euro 7,881 thousand, in line with the previous year The decrease compared to the previous year is due to lower losses on unrealized exchange rates.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Bank interests expense	339	507
Interests payable for factoring and billing discounts	203	342
Interests payable on interest-bearing loans and borrowings	2,615	2,477
Interests payable on advance loans on exports	104	174
Other sundry financial expenses	463	705
Financial expenses on lease contracts	929	1,150
Realised foreign exchange losses	770	396
Unrealised foreign exchange losses	1,085	2,020
Fair value adjustment of derivative instruments	110	110
Total financial expenses	**6,618**	**7,881**

Financial expenses shows a decrease compared to the previous financial year of Euro 1,263 thousand as a result of:

- decrease in *foreign exchange losses (realised and unrealised)* of Euro 561 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 2016 of the currency items.
- decrease in *financial expenses on lease contracts* of Euro 221 thousand following the drawing-up of new leasing agreements reached maturity and thus redeemed.

35.Financial income

During the financial periods ended 31 December 2016 and 31 December 2015, financial income amounted to Euro 4,199 thousand and Euro 4,724 thousand, respectively.

The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Interests from banks	58	71
Realised foreign exchange gains	960	1,193
Unrealised foreign exchange gains	2,625	3,029
Fair value adjustment of derivative instruments	149	203
Sundry income	407	228
Total financial income	**4,199**	**4,724**

Financial income slightly increased by Euro 525 thousand mainly due to the exchange gains.

36.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									
	2016					2015				
(Euro in thousands)	Stringing equipment	Trencher	Rail	Not allocated	Consolidated	Stringing equipment	Trencher	Rail	Not allocated	Consolidated
Intangible assets	10,655	3,526	4,710	-	18,891	4,537	3,664	5,626	-	13,827
Property, plant and equipment	1,966	45,209	114	-	47,289	11,456	53,792	104	-	65,352
Financial assets	3,289	776	138	-	4,203	4,187	692	371	-	5,250
Other non-current assets	1,169	3,113	95	7,516	11,893	146	2,775	78	5,925	8,924
Total non-current assets	**17,079**	**52,624**	**5,057**	**7,516**	**82,276**	**20,326**	**60,923**	**6,179**	**5,925**	**93,353**
Work in progress contracts	-	-	1,291	-	1,291	-	-	3,864	-	3,864
Inventories	15,366	53,151	710	-	69,227	12,580	45,865	446	-	58,891
Trade receivables	15,387	33,600	446	-	49,433	13,247	36,874	761	-	50,882
Other current assets	2,312	2,740	30	8,492	13,574	826	3,244	309	12,315	16,694
Cash and cash equivalents	818	487	1,425	15,771	18,501	-	-	-	21,204	21,204
Total current assets	**33,883**	**89,978**	**3,902**	**24,263**	**152,026**	**26,653**	**85,983**	**5,380**	**33,519**	**151,535**
Total assets	**50,962**	**142,602**	**8,959**	**31,779**	**234,302**	**46,979**	**146,906**	**11,559**	**39,444**	**244,888**
Shareholders' equity attributable to Parent Company Shareholders	**-**	**-**	**-**	**48,221**	**48,221**	**-**	**-**	**-**	**54,262**	**54,262**
Shareholders' equity attributable to non-controlling interests	**-**	**-**	**-**	**1,699**	**1,699**	**-**	**-**	**-**	**1,615**	**1,615**
Non-current liabilities	**971**	**10,217**	**1,712**	**52,928**	**65,828**	**35**	**9,086**	**372**	**79,309**	**88,802**
Current financial liabilities	-	-	-	70,120	70,120	-	-	-	45,254	45,254
Trade payables	10,620	18,244	2,333	-	31,197	15,820	22,248	981	-	39,049
Other current liabilities	1,557	7,609	404	7,667	17,237	531	6,135	277	8,963	15,906
Total current liabilities	**12,177**	**25,853**	**2,737**	**77,787**	**118,554**	**16,351**	**28,383**	**1,258**	**54,217**	**100,209**
Total liabilities	**13,148**	**36,070**	**4,449**	**130,715**	**184,382**	**16,386**	**37,469**	**1,630**	**133,526**	**189,011**
Total shareholders' equity and liabilities	**13,148**	**36,070**	**4,449**	**180,635**	**234,302**	**16,386**	**37,469**	**1,630**	**189,403**	**244,888**

(Euro in thousands)	Financial period ended 31 December							
	2016				2015			
	Stringing equipment	Trencher	Rail	Consolidated	Stringing equipment	Trencher	Rail	Consolidated
Revenues from sales and services	42,212	80,571	5,730	128,513	72,146	88,490	3,766	164,402
Operating costs net of depreciation and amortisation	(37,593)	(77,712)	(4,688)	(119,993)	(60,779)	(75,466)	(4,112)	(140,357)
EBITDA	**4,619**	**2,859**	**1,042**	**8,520**	**11,367**	**13,024**	**(346)**	**24,045**
Amortisation and depreciation	(3,854)	(6,914)	(2,062)	(12,830)	(2,850)	(6,922)	(1,458)	(11,230)
Total operating costs	**(41,447)**	**(84,626)**	**(6,750)**	**(132,823)**	**(63,629)**	**(82,388)**	**(5,570)**	**(151,587)**
Operating income	**765**	**(4,055)**	**(1,020)**	**(4,310)**	**8,517**	**6,102**	**(1,804)**	**12,815**
Net financial income/(expenses)				(2,560)				(3,710)
Pre-tax profit				**(6,870)**				**9,105**
Income tax				3,017				(1,944)
Net result for the period				**(3,853)**				**7,161**
Profit/(loss) attributable to non-controlling interests				91				230
Group reuslt				**(3,944)**				**6,931**

It should be noted that non-current non-current assets mainly refer to the value of deferred tax assets recorded in the consolidated financial statements of the Group. Current unallocated assets relate to current account ratios and short-term financial receivables from related parties.

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 are managed at Group level and are not allocated to the individual operating segments.

37.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 2016, the breakdown of each related party is indicated below:

	31 December					31 December				
	2016					2015				
(Euro in thousands)	Trade receivables	Current financial receivables	Non-current financial payables	Current financial payables	Trade payables	Trade receivables	Current financial receivables	Non-current financial payables	Current financial payables	Trade payables
Associates:	-	-	-	-	-					
Locavert S.A.	78	-	-	-	-	12	-	-	-	-
Bertel S.p.A.	-	-	-	-	-	25	2,524	-	-	-
SEP Cergy	-	-	-	-	-	-	46	-	-	-
SEP Moselle	-	32	-	-	-	-	32	-	-	-
SEP Semafor 77	-	-	-	20	-	-	-	-	20	-
SEP Laison	-	-	-	13	-	-	-	-	10	-
SEP College	-	6	-	-	-	-	6	-	-	-
Subtotal	**78**	**38**	**-**	**33**	**-**	**37**	**2,608**	**-**	**30**	**-**
Joint Ventures:	-	-	-	-	-					
Condux Tesmec Inc.	206	332	-	-	-	576	2,307	-	-	1
Tesmec Peninsula	39	3,508	-	-	34	44	4,690	-	-	7
Marais Algerie SARL	-	-	-	-	-	1,102	-	-	-	-
Marais Tunisie	-	2	-	-	-	-	2	-	-	-
Marais Lucas	-	794	-	-	-	-	794	-	-	-
Subtotal	**245**	**4,636**	**-**	**-**	**34**	**1,722**	**7,793**	**-**	**-**	**8**
Related parties:	-	-	-	-	-					
Ambrosio S.r.l.	-	-	-	-	4	-	-	-	-	-
Ceresio Tours S.r.l.	-	-	-	-	1	-	-	-	-	-
Dream Immobiliare S.r.l.	-	4,270	-	-	212	-	1,096	14,743	1,211	52
TTC S.r.l.	-	-	-	-	-	-	-	-	-	42
Fintetis S.r.l.	-	-	-	-	-	30	-	-	-	-
Lame Nautica S.r.l.	-	-	-	-	-	1	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	308	-	-	-	-	2,170	-	-	-	-
Reggiani Macchine S.p.A.	122	-	-	-	(112)	52	-	-	-	77
Comatel	-	-	-	-	-	38	-	-	-	-
C2D	-	-	-	-	14	-	-	-	-	20
Subtotal	**430**	**4,270**	**-**	**-**	**119**	**2,291**	**1,096**	**14,743**	**1,211**	**191**
Total	**753**	**8,944**	**-**	**33**	**153**	**4,050**	**11,497**	**14,743**	**1,241**	**199**

(Euro in thousands)	Financial period ended 31 December 2016					Financial period ended 31 December 2015				
	Revenues	Cost of raw materials	Cost of services	Other operating (costs)/ revenues, net	Financial income and expenses	Revenues	Cost of raw materials	Cost of services	Other operating (costs)/ revenues, net	Financial income and expenses
Associates:										
Locavert S.A.	225	-	-	-	-	66	-	-	-	-
Bertel S.p.A.	-	-	-	-	-	138	-	3	16	45
Subtotal	**225**	**-**	**-**	**-**	**-**	**204**	**-**	**3**	**16**	**45**
Joint Ventures:										
Condux Tesmec Inc.	1,298	-	-	182	45	2,964	-	(1)	181	31
Tesmec Peninsula	-	-	(34)	109	81	1,862	(147)	(28)	110	99
Marais Tunisie Sa	4	-	-	-	-					
Marais Algerie SARL	-	-	-	-	-	12	-	-	-	-
Subtotal	**1,302**	**-**	**(34)**	**291**	**126**	**4,838**	**(147)**	**(29)**	**291**	**130**
Related parties:										
Ambrosio S.r.l.	-	-	-	(14)	-	-	-	-	(15)	-
CBF S.r.l.	-	-	-	1	-					
Ceresio Tours S.r.l.	-	-	(6)	-	-	-	-	(9)	-	-
Dream Immobiliare S.r.l.	-	-	-	(322)	(873)	-	-	-	(350)	(1,031)
Studio Bolelli	-	-	-	-	-	-	-	(131)	-	-
TTC S.r.l.	-	-	(21)	-	-	-	-	(49)	-	-
Fintetis S.r.l.	(30)	-	-	-	-	25	-	-	-	-
Lame Nautica S.r.l.	-	-	-	-	-	71	-	1	-	-
M.T.S. Officine meccaniche S.p.A.	3,635	(1)	5	10		2,357	(5)	5	50	-
Reggiani Macchine S.p.A.	193	(53)	(122)	243	-	-	(36)	(82)	154	-
Comatel	-	-	-	-	-	202	-	-	-	-
C2D	-	-	-	-	-	-	-	-	(7)	-
Subtotal	**3,798**	**(54)**	**(144)**	**(82)**	**(873)**	**2,655**	**(43)**	**(265)**	**(168)**	**(1,031)**
Total	**5,325**	**(54)**	**(178)**	**209**	**(747)**	**7,697**	**(190)**	**(291)**	**139**	**(856)**

- 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;
- Condux Tesmec, Inc.: the JV purchases stringing machines and equipment for sale on the American market 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 Grassobbio Property of Euro 873 thousand. Changes from the previous year refer to the operation described in paragraph *5.4 Effects of transaction with Related Parties*;
- M.T.S. Officine meccaniche S.p.A.: revenues refer to sales of semi-finished products made by the Tesmec Workshop in Sirone;
- Reggiani Macchine S.p.A.: costs for services mainly refers to costs related to users for a total amount of Euro 243 thousand.

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

Year 2016:

Board of directors				
Name and Surname	**Role**	**Fees (in Euro)**	**Bonus and other fees (in Euro)**	**Total fees (in Euro)**
Ambrogio Caccia Dominioni	Chairman and Chief Executive Officer	480,000	-	480,000
Gianluca Bolelli	Vice Chairman	76,267	-	76,267
Sergio Arnoldi	Director	20,800	-	20,800
Gioacchino Attanzio	Director	30,000	-	30,000
Caterina Caccia Dominioni	Director	48,533	-	48,533
Guido Giuseppe Maria Corbetta	Director	18,410	-	18,410
Lucia Caccia Dominioni	Director	20,000	-	20,000
Paola Durante	Director	13,478	-	13,478

Board of Statutory Auditors				
Name and Surname	**Role**	**Fees (in Euro)**	**Bonus and other fees (in Euro)**	**Total fees (in Euro)**
Simone Cavalli	Chairman	40,640	-	40,640
Stefano Chirico	Statutory Auditor	26,468	-	26,468
Alessandra De Beni	Statutory Auditor	26,000	-	26,000

Fees paid to executives with strategic responsibilities in the 2016 financial period amounted to Euro 362 thousand (Euro 600 thousand in the 2016 financial year).

39.Legal disputes

Tesmec S.p.A. won the litigation started by the former French distributor of the Trencher segment, who had sued Tesmec S.p.A. for unjustified termination of the distribution agreement and alleged violation of territorial exclusivity. The Court found the termination of the distribution agreement made by Tesmec well-grounded and hence rejected the main opponent's claim consisting in the request for compensation based both on the loss of goodwill and on the loss in revenue. Otherwise, the Court decided to apply to the termination of the agreement the remedies envisaged therein mainly consisting in the payment of commercial funds (of Euro 30 thousand) and in the recovery of the stock of spare parts at the former distributor (Euro 74 thousand); in addition to paying Eurofor a minimum compensation equal to the margin not achieved by it on a sale of machine in France, also as a result of the contractual notice. Any other claim of the distributor has been rejected.
The former distributor filed an appeal against the judgment. The Court of second instance fixed the first hearing on 12 September 2017, assigning to the other party the deadline of 12 April 2017 by which to file the claim.

In January 2016, as a result of the lodging of the defence documents and documentary evidence, the first hearing of the arbitration started by Tesmec at the China International Economic and Trade Arbitration Commission of Beijing (CIETAC) was held. The subject matter of the arbitration is the collection of the debt due by the Chinese trading company that has not paid the price of important supplies of Stringing equipment material of more than Euro 1.3 million as from 2010. This arbitration follows the first one, started by Tesmec but then abandoned, without excluding further claims, due to procedural loopholes. An amount of 70% of the said debt was allocated in provisions for doubtful accounts.

Tesmec was summoned to appear before the Court of Alabama for a claim for damages following a death claim occurred in August 2013 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. To date, the parties are discussing about the competence of the Court of Alabama. The thesis of the lawyers of Tesmec is that the Federal Court and not the Public Court must be competent on this issue. The Insurance Company is constantly informed of the facts and confirmed that it will also bear the legal costs.

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

Note that, pursuant to CONSOB Communication no. DEM/6064293 of 28 July 2006, in 2016 the Company did not carry out any atypical and/or unusual operation, as defined by the Communication itself.

41.Commitments and risks

They include sureties, guarantees and third-party assets with the Group. For the financial periods as at 31 December 2016 and 2015, they are summarised as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Sureties	42,844	32,671
Total commitments and risks	**42,844**	**32,671**

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.

42.Reporting pursuant to Article 149-duodecies of CONSOB Issuer Regulation

The following table shows the fees charged for the 2016 and 2015 financial periods 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)			**2016**	**2015**
Audit of the financial statements and consolidated financial statements	Ernst & Young S.p.A.	Tesmec S.p.A. Parent Company	101	80
	Ernst & Young S.p.A.	Subsidiaries and joint ventures	93	93
Limited half-year auditing	Ernst & Young S.p.A.	Tesmec S.p.A. Parent Company	28	20
Certification services (1)	Ernst & Young S.p.A.	Tesmec S.p.A. Parent Company	5	5
Other services (2)	Ernst & Young S.p.A.	Tesmec S.p.A. Parent Company	41	15
Total			**283**	**213**

(1) This item refers to activities aimed at the signing of tax returns.

(2) The other services provided to the parent company mainly relate to support for the identification of regulatory intervention areas.

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

On the date of this report, the Company holds a total of 4,711,879 treasury shares, equal to 4.40% of the Share Capital.

The significant events occurred after the close of the financial period include:

- On 28 February 2017, the Tesmec Group received the Notice of effectiveness of the final awarding by the subsidiary Tesmec Service S.r.l. (the final awarding was already notified on 16 December 2016) related to the tender by negotiated procedure called by RFI - Rete Ferroviaria Italiana S.p.A., company of the Ferrovie dello Stato Italiane Group responsible for the overall management of the national rail network, for the supply of 88 multipurpose ladder trucks for the maintenance of the Italian railway network. The total value of the tender amounts to around Euro 91.9 million and the supply, to be completed within 4 years, also includes a 6-year period of full maintenance service (FMS). This result is due to the high technological content of the railway systems of the Tesmec Group that has been the key to the positive assessment;

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 2016 financial period.

2. They also certify that:

2.1 the consolidated financial statements as at 31 December 2016:

   - 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;
   - provides a true and fair view of the financial position, the results of the operations and of the cash flows 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, 10 March 2017

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 auditor's report in accordance with articles 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.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Tesmec Group, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholder's equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The Directors of Tesmec S.p.A. are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Tesmec Group. as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Emphasis of Matter

We draw attention to paragraph 5.4 "Financial performance analysis" of the Report on Operations and to note 18 "Medium/long-terms loans" of the Explanatory notes, which describe the Group's failure to comply with certain financial covenants clauses on loan contracts and related Directors' considerations. Our opinion is not modified in respect of this matter.

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and Ownership Structure with the consolidated financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements. The Directors of Tesmec S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information of the Report on Corporate Governance and the Company's Ownership Structure are consistent with the consolidated financial statements of Group Tesmec as at 31 December 2016.

Milano, 30 March 2017

EY S.p.A.
Signed by: Massimiliano Vercellotti, 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 2016	2015
NON-CURRENT ASSETS			
Intangible assets	5	6,543,931	6,716,413
Property, plant and equipment	6	10,562,700	30,570,727
Equity investments in subsidiaries		38,408,386	33,047,386
Equity investments in associates	7	1,737,511	3,437,511
Other equity investments		2,808	2,808
Financial receivables and other non-current financial assets		4,200	1,500
Derivative financial instruments	17	2,849	11,114
Deferred tax assets	24	1,991,107	2,523,663
TOTAL NON-CURRENT ASSETS		**59,253,492**	**76,311,122**
CURRENT ASSETS			
Work in progress contracts	8	-	1,882,786
Inventories	9	35,982,658	28,713,160
Trade receivables	10	34,578,218	31,163,711
of which with related parties:		*4,977,565*	*8,856,122*
Tax receivables	11	506,293	-
Other available-for-sale securities		2,037	22,288
Financial receivables and other current financial assets	12	41,383,641	42,506,310
of which with related parties:		*41,351,777*	*42,465,534*
Other current assets	13	728,795	1,681,695
of which with related parties:		*8,798*	*147,949*
Derivative financial instruments	17	1,538	-
Cash and cash equivalents	14	14,524,408	15,451,270
TOTAL CURRENT ASSETS		**127,707,588**	**121,421,220**
TOTAL ASSETS		**186,961,080**	**197,732,342**
SHAREHOLDERS' EQUITY			
Share capital	15	10,708,400	10,708,400
Reserves	15	33,355,302	28,919,337
Net income (loss) for the period	15	1,647,917	7,411,919
TOTAL SHAREHOLDERS' EQUITY		**45,711,619**	**47,039,656**
NON–CURRENT LIABILITIES			
Medium/long-term loans	16	27,919,228	53,893,392
of which with related parties:		-	*14,743,133*
Bond issue	2.2	14,734,545	14,672,260
Derivative financial instruments	17	171,498	288,006
Employee benefit liability	18	2,526,375	2,418,842
Deferred tax liabilities	24	1,640,358	1,727,423
Other non-current liabilities		150,000	-
TOTAL NON-CURRENT LIABILITIES		**47,142,004**	**72,999,923**
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	19	61,015,343	38,979,924
of which with related parties:		*9,893*	*1,210,888*
Derivative financial instruments	17	109,974	14,103
Trade payables	20	25,192,280	30,394,853
of which with related parties:		*4,691,442*	*1,639,669*
Advances from customers		2,414,591	1,215,589
Income taxes payable	21	41,988	2,803,808
Provisions for risks and charges	22	350,000	350,000
Other current liabilities	23	4,983,281	3,934,486
of which with related parties:		*42,420*	*260,551*
TOTAL CURRENT LIABILITIES		**94,107,457**	**77,692,763**
TOTAL LIABILITIES		**141,249,461**	**150,692,686**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**186,961,080**	**197,732,342**

Income statement

(in Euro)	Notes	Financial period ended 31 December 2016	2015
Revenues from sales and services	25	**78,810,499**	**115,071,242**
of which with related parties:		*12,900,858*	*22,625,121*
Cost of raw materials and consumables	26	(35,687,991)	(64,164,423)
of which with related parties:		*(6,271,217)*	*(1,142,291)*
Cost of services	27	(16,846,511)	(17,764,433)
of which with related parties:		*(565,264)*	*(186,297)*
Non-recurring costs for services	27	(872,652)	-
Payroll costs	28	(18,291,156)	(17,335,078)
Other operating (costs)/revenues, net	29	101,271	(774,628)
of which with related parties:		*772,899*	*(87,785)*
Non-recurring other operating (costs)/revenues, net	29	(2,349,967)	-
Amortisation and depreciation	30	(4,858,652)	(4,880,611)
Development costs capitalised	31	2,750,807	3,000,309
Total operating costs		**(76,054,851)**	**(101,918,864)**
Operating income		**2,755,648**	**13,152,378**
Financial expenses	32	(5,926,284)	(7,468,640)
of which with related parties:		*(872,878)*	*(1,531,472)*
Financial income	33	5,251,563	5,541,120
of which with related parties:		*1,407,325*	*1,201,805*
Pre-tax profit		**2,080,927**	**11,224,858**
Income tax	24	(433,010)	(3,812,939)
Net profit for the period		**1,647,917**	**7,411,919**

Comprehensive income statement

(in Euro)	Notes	Financial period ended 31 December 2016	2015
NET PROFIT FOR THE PERIOD		**1,647,917**	**7,411,919**
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	18	145,908	50,292
Income tax		(268,479)	(13,830)
		(122,571)	36,462
Total other income/(losses) after tax		**(122,571)**	**36,462**
Total comprehensive income (loss) after tax		**1,525,346**	**7,448,381**

Cash flow statement

(in Euro)	Notes	Financial period ended 31 December 2016	2015
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		1,647,917	7,411,919
Adjustments to reconcile net income for the period with the cash flows generated by (used in) operating activities:			
Amortisation and depreciation	30	4,858,652	4,880,611
Provisions for employee benefit liability	18	207,139	20,667
Provisions for risks and charges / inventory obsolescence / doubtful accounts		57,000	1,198,948
Employee benefit payments	18	(245,514)	(258,633)
Payments/use of provisions for risks and charges			-
Net change in deferred tax assets and liabilities	24	497,892	44,436
Change in fair value of financial instruments	17	(13,910)	(153,364)
Change in current assets and liabilities:			
Trade receivables	10	(2,215,505)	(4,715,247)
Inventories	9	(5,443,712)	(1,449,600)
Trade payables	20	(5,202,573)	3,924,199
Other current assets and liabilities		(1,116,418)	2,180,098
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		**(6,969,032)**	**13,084,034**
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	6	(997,731)	(403,204)
Investments in intangible assets	5	(2,904,430)	(4,079,419)
(Investments) / disposal of financial assets		(2,520,780)	(22,799,345)
Proceeds from sale of property, plant and equipment and intangible assets	5-6	294,919	313,219
Grassobbio new lease contract effect	4.1	18,929,099	
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		**12,801,077**	**(26,968,749)**
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	16	18,014,250	26,576,894
Repayment of medium/long-term loans	16	(17,905,741)	(12,645,103)
Grassobbio new lease contract effect	4.1	(16,579,133)	
Net change in short-term financial debt	19	12,594,164	4,675,868
Dividend distribution	15	(2,565,838)	(2,403,217)
Purchase of treasury shares		(316,609)	(1,184,446)
NET CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES (C)		**(6,758,907)**	**15,019,996**
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		**(926,862)**	**1,135,281**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	14	15,451,270	14,315,989
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		**14,524,408**	**15,451,270**
Additional information:			
Interest paid		3,680,192	4,084,722
Income tax paid		3,520,889	1,840,848

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 2015	**10,708,400**	**2,004,543**	**10,915,101**	**(1,010,891)**	**14,284,019**	**6,277,766**	**43,178,938**
Net profit for the period	-	-	-	-	-	7,411,919	7,411,919
Allocation of profit for the period	-	137,137	-	59,715	3,677,697	(3,874,549)	-
Dividend distribution	-	-	-	-	-	(2,403,217)	(2,403,217)
Purchase of treasury shares	-	-	-	(1,184,446)	-	-	(1,184,446)
Distribution for Network Reserve	-	-	-	-	-	-	-
Other changes	-	-	-	-	36,462	-	36,462
Balance as at 31 December 2015	**10,708,400**	**2,141,680**	**10,915,101**	**(2,135,622)**	**17,998,178**	**7,411,919**	**47,039,656**
							-
Net profit for the period	-	-	-	-		1,647,917	1,647,917
Allocation of profit for the period	-	-	-	111,262	4,734,819	(4,846,081)	-
Dividend distribution	-	-	-	-		(2,565,838)	(2,565,838)
Purchase of treasury shares	-	-	-	(316,609)		-	(316,609)
Recognition of deferred taxes for network reserve	-	-	-	-	29,064	-	29,064
Other changes	-	-	-	-	(122,571)	-	(122,571)
Balance as at 31 December 2016	**10,708,400**	**2,141,680**	**10,915,101**	**(2,340,969)**	**22,639,490**	**1,647,917**	**45,711,619**

Explanatory notes

Accounting policies adopted in preparing the financial statements as at 31 December 2016

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 2016 was authorised by means of the resolution of the Board of Directors on 10 March 2017.

2.Reporting standards

The financial statements of Tesmec S.p.A. as at 31 December 2016 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 2015. 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 2015, 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.

As indicated in the Report on Operation, such robustness is confirmed optic perspective from revenue forecasts at the end of 2017, including between 160 and 170 million euro, against which it is reasonable to assume an EBITDA in line with the Group's historical data , and a significant improvement in net debt.

The level of backlog reached at the end of 2016 and the expected path for the first quarter with growth estimated at between 15 and 20% over the previous quarter supports commented expectancy of sales volume growth.

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 reported under specific sub-items, in case of significant amounts, in the statement of financial position, income statement and statement of cash flows.

2.2 Restatement of the figures of the previous financial year

To better represent the financial statement contents, the bond issue of Euro 15 million and with maturity date 31 December 2021, included in the item "Medium/long-term loans" was reclassified, also for the 2015 financial year, to the item "Bond issue".

The table below summarises the effect of the reclassification made:

(Euro in thousands)	**31 December 2015 (restated)**	**31 December 2015**
Medium/long-term loan	53,893	62,628
Medium/long-term loan	**53,893**	**62,628**
Bond issue	14,672	-
Total bond issue	**14,672**	**-**
Interest-bearing financial payables (current portion)	38,980	38,917
Interest-bearing financial payables (current portion)	**38,980**	**38,917**

2.1 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 2015 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
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 temporarily leased 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

Lease contracts are classified as Financial or Operating Lease at the beginning of the Lease contract.
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.
Lease contracts in which the lessor substantially retains all risks and benefits related to the ownership of the asset are classified as operating leases.

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.
Lease contracts in which the Group substantially retains all risks and benefits related to the ownership of the asset are classified as operating leases.

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.
Financial assets are derecognised from the Company's statement of financial position when:

- rights to receive financial flows from the asset are paid off; or
- the Group has transferred to a third Pary the right to receive financial flows from asset or it has assumed the contractual obligation to transfer them totally and without any delays and (a) it has transferred substantially all risks and benefits related to the ownership of the financial asset, or (b) it has not substantially transferred all risks and benefits of the activity, but it has transferred the control of the same.

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.
Total estimated costs for each work order are periodically revised, and 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 Group has transferred to a third Party the right to receive the financial flows from the asset or it has undertaken the contractual obligation to pay them in full and without delay to a third party and (a) it has 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 revised annually.

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 is 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 interim condensed consolidated financial statements are the same as those adopted for the preparation of the consolidated financial statements for the year ended 31 December 2015, with the exception of the adoption as of 1 January 2016 of the new standards, amendments and interpretations. The Group has not adopted in advance any new standard, interpretation or change issued but not yet in force.
The nature and effects of these changes are shown below. Albeit these new standards and amendments were applicable for the first time in 2016, they had no impact on the consolidated financial statements of the Group or on the interim consolidated report on operations of the Group. The nature and impact of each new standard/amendment is listed below:

Amendments to IAS 19 - Defined contribution plans: employee contributions
IAS 19 requires an entity to consider contributions from employees or third parties in the recording of defined benefit plans. When the contributions are related to the provided service, they should be attributed to the periods of service as a negative benefit. This amendment clarifies that, if the amount of contributions does not depend on the number of years of service, the entity is allowed to recognise these contributions as a reduction of the cost of service in the period in which the service is rendered, instead of allocating the contribution to the periods of service. This amendment is effective for annual periods beginning on or after 1 February 2015. This amendment is not relevant to the Group, given that none of the entities that are part of the Group have plans comprising contributions of employees or third parties.

Annual Improvements to IFRSs 2010–2012 Cycle

IFRS 2 Share-based payment
This improvement applies prospectively and clarifies various points related to the definition of performance and service conditions representing vesting conditions, including:

- a performance condition must include a service condition;
- an objective of performance must be achieved while the counterparty provides a service;
- an objective of performance can refer to the operations or activities of an entity, or to those of another entity within the same Group;
- a performance condition can be a market based performance condition or a non-market performance condition;
- if the counterparty, regardless of the reasons, ceases to provide service during the vesting period, the service condition is not met.

Therefore, these improvements did not affect the accounting standards of the Group, since none of the entities forming part of the Group have plans that require share-based remuneration.

IFRS 3 Business Combinations
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). This is consistent with the Group's current accounting policy, and thus this amendment had no impact on the Group's accounting policy.

IFRS 8 Operating segments
The amendment applies prospectively and clarifies that:

- an entity should disclose information on the assessments made by the management in applying the aggregation criteria set forth in paragraph 12 of IFRS 8, including a short description of the operating segments that have been aggregated and of the economic characteristics (for example: sales, gross margin) used for defining whether the segments are "similar”;
- it is necessary to present the reconciliation of the segment assets with the total assets only if the reconciliation is presented by the senior operating decision maker, as required for segment liabilities.

The Group did not apply the aggregation criteria provided by IFRS 8.12. In the previous periods, the Group presented the reconciliation of the segment's assets with total assets and continues to present it in Explanatory Notes, inasmuch as the reconciliation is provided to the highest decision-making level.

IAS 16 Property, plant and equipment and IAS 38 Intangible assets
The amendment applies prospectively and clarifies that in IAS 16 and in IAS 38 an asset can be revalued with reference to observable data both by adjusting the gross book value of the asset to the market value and by determining the market value of the book value and adjusting proportionally the gross book value in such a way that the resulting book value is equal to the market value. Moreover, the accumulated amortisation and depreciation is the difference between the gross book value and the book value of the asset. The Group has not recorded any revaluation adjustment during the interim period of reference.

IAS 24 Related party disclosures

The amendment applies prospectively and clarifies that a management entity (entity providing key management personnel services) is a related party subject to related party disclosures. Moreover, an entity that makes use of a management entity must disclose the costs incurred for management services. This amendment is not relevant for the Group in that it does not receive management services from other entities.

Amendments to IFRS 11 - Accounting for Acquisitions of interests in Joint Operations

The amendments to IFRS 11 require that a joint operator that records the acquisition of a stake in a joint arrangement, whose assets represent a business, must apply the relevant principles of IFRS 3 regarding the accounting of business combinations.
The amendments also clarify that, if joint control is maintained, the interest previously held in a joint operation is not subject to re-measurement at the time of the acquisition of an additional interest in the same joint operation. Moreover, an exclusion from the scope of IFRS 11 was added to clarify that the amendments do not apply when the parties that share control, including the entity that prepares the financial statements, are under the share control of the same last controlling party.
The changes apply both to the acquisition of the initial stake in a joint arrangement and to the acquisition of further stakes in the same joint arrangement. The amendments must be applied from years starting 1 January 2016 or later; early application is permitted. These amendments have no impact on the Group in that during the period there were no acquisitions of interests in a joint operation.

Amendments to IAS 16 and IAS 38 - Clarification of Acceptable methods of depreciation and amortisation

The amendments clarify the principle contained in IAS 16 Property, plant and equipment and IAS 38 Intangible Assets: revenues reflect a model of economic benefits generated by the management of a business (to which the asset belongs), rather than economic benefits that are consumed with the use of the asset. This means that a revenue-based method cannot be used to depreciate property, plant and equipment and could be used only in very limited circumstances for the amortisation of intangible assets. The amendments must be applied from years starting 1 January 2016 or later; early application is permitted. These amendments have no impact on the Group in that the Group does not use methods based on revenues for the amortisation/depreciation of non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

These amendments have no impact on the Group in that the Group has no bearer plants.

Amendments to IAS 27 Equity Method in separate financial statements

The amendments will allow entities to use the net equity method to recognise investments in subsidiaries, joint ventures and associates in its separate financial statements. Entities that are already applying the IFRS and decided to change the accounting criteria by passing to the net equity method in their separate financial statements must apply the change retrospectively. In case of first adoption of the IFRS, the entity that decides to use the equity method in its own separate financial statements must apply it from the date of transition to the IFRSs. The amendments take effect for financial periods starting 1 January 2016 or later; early application is permitted. These amendments have no impact on the consolidated financial statements of the Group.

Annual Improvements to IFRSs - 2012–2014 Cycle

These amendments take effect for financial periods starting 1 January 2016 or later. They include:

IFRS 5 Non-current assets held for sale and discontinued operations

Assets or disposal groups are generally held for sale or for distribution to owners. The amendment states that the change from one to another of these methods of disposal should not be considered a new plan to sell, but rather a continuation of the original plan. Therefore, there is no interruption in the application of the requirements of IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment states that a servicing contract that includes a fee can lead to a continuous involvement in a financial asset. An entity must define the nature of the fee and of the agreement on the basis of the guidance in IFRS 7 on continuous involvement to consider whether a disclosure is requested. The definition of which service contract involves continuous involvement must be made retrospectively. However, the disclosure required must not be presented for the financial years preceding the first-time application of this amendment.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements
The amendment clarifies that the disclosure requirements on fees do not apply to condensed interim financial statements, unless this disclosure provides a significant updating of the information presented in the last financial statements. This amendment must be applied retrospectively.

IAS 19 Employee benefits
The amendment clarifies that the active market (market depth) of high-quality company bonds must be defined by reference to the currency of the bond, rather than the country in which the bond is located. When there is no active market for high-quality company bonds in that currency, the rates of the related Italian Government bonds must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting
The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively. These amendments have no impact on the Group.

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 clarify rather than amend significantly some of the already existing requirements of IAS 1
. The amendments clarify:

- the materiality requirement in IAS 1;
- the fact that specific lines in the statement of profit/(loss) for the year or of other components of the statement of comprehensive income or in the statement of financial position can be broken down;
- that the entities have flexibility with respect to the order in which they present the notes to the financial statements;
- that the portion of other components of the statement of comprehensive income related to associates and joint ventures accounted for with the equity method must be presented in aggregate on one line, and classified among those items that will not be reclassified subsequently to the income statement.

In addition, the amendments clarify the requirements that apply when sub-totals are presented in the statement of profit/(loss) for the year or of other components of the statement of comprehensive income or in the statement of financial position. These amendments take effect for financial periods starting 1 January 2016 or later; early application is permitted. These amendments have no impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.
Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.
These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

Accounting standards approved by the European Union but applicable in future years

The following standards have been approved by the European Union but will apply from 2018; therefore, they are not applicable by the company in the financial statements at December 31, 2016.

- IFRS 9 “Financial instruments”: this standard, approved by the European Union on November 29, 2016, entirely replaces IAS 39 “Financial instruments: recognition and measurement” and introduces two new criteria to recognize and measure financial assets and liabilities. The main changes introduced by IFRS 9 may be summarized as follows: financial assets can be measured either at fair value or at their amortized cost. As a result, the categories “loans and receivables”, “available-for-sale financial assets” and “held-to-maturity investments” disappear. Classification within the two categories is carried out on the basis of an entity’s business model and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if both of the following requirements are met: the objective of the entity's business model is to hold assets to collect contractual cash flows (and therefore in substance not to earn trading profits) and the characteristics of the cash flows of the asset are solely payments of principal and interest. A financial asset is measured at fair value if it is not measured at amortized cost. The rules to account for derivatives have been simplified, as the embedded derivative and the host financial asset are no longer recognized separately.

All equity instruments - listed or unlisted - must be measured at fair value (IAS 39 established on the other hand that unlisted equity instruments should be valued at cost if fair value could not be reliably measured).

An entity has the option of presenting changes in the fair value of equity instruments that are not held for trading in equity; that option is not permitted for equity instruments that are held for trading. This designation is permitted on initial recognition, may be adopted for each individual instrument and is irrevocable. If an election is made for this option, changes in the fair value of these instruments may never be reclassified from equity to the income statement. Dividends on the other hand continue to be recognized in the income statement.

IFRS 9 does not permit reclassifications between the two categories of financial asset except in the rare case of a change in an entity's business model. In this case, the effects of the reclassification are applied prospectively.

The disclosures required to be made in the notes have been adjusted to the classification and measurements rules introduced by IFRS 9. On November 19, 2013, the IASB issued an amendment to this standard which mainly regards the following:

- the substantial revision of the "Hedge accounting", which will allow entities to better reflect their risk management activities in the financial statements;
- enabling entities to change the accounting of liabilities measure at fair value: in particular, the effects of a worsening of an entity's own credit risk will no longer be recognized in the income statement;
- the effective date of the standard is deferring, originally effective as of January 1, 2015.

A partial amendment to the standard was issued in July 2014 on the subject of the valuation of financial instruments, with the introduction of the expected-loss impairment model for loans which replaces the impairment model based on realized losses. The amendment in question is applicable from January 1, 2018.

▪ IFRS 15 "Revenues from contracts with customers": the standard, issued by the IASB on May 28, 2014 and approved by the European Union on October 29, 2016, is the result of efforts to achieve convergence between the IASB and the FASB ("Financial Accounting Standard Board", the body responsible for issuing new accounting standards in the United States) in order to achieve a single revenue recognition model applicable both in terms of IFRS and US GAAP. The new standard will apply to all contracts with customers, including contract work in progress, and will thus replace the current IAS 18 - Revenues and IAS 11 - Long-term contracts and all related interpretations. The essential element of IFRS 15 requires the recognition of revenue to be carried out for an amount that reflects the amount that the Group expects to be entitled to receive in respect of the transfer of goods and/or services. A contract with a customer falls within the scope of the standard if all the following conditions are met:

- the contract has been approved by the parties to the contract, who have undertaken to carry out their respective obligations;
- each party's rights in relation to the goods and services to be transferred can be identified and the payment terms have been identified;
- the contract has commercial substance (the risks, the timing or the cash flows may change as the result of the contract);
- it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

IFRS 15 also includes the disclosure requirements that are significantly more extensive than the existing standard concerning the nature, amounts, timing and uncertainty of revenues and cash flows arising from contracts with customers.

The provisions of IFRS 15, following the amendments made with the amendment issued on September 11, 2015, will be effective for years beginning on or after January 1, 2018.

During 2016, the company started a preliminary assessment of the effects of IFRS 15 still in the process of being completed.

Accounting standards, amendments and interpretations not yet approved by the European Union

The following standards and amendments to existing standards are still pending approval by the European Union and are therefore not applicable by the company. The dates indicated reflect the expected effectiveness date and enacted in the standards; this date is however subject to the actual approval by the competent bodies of the European Union:

- on September 11, 2014, the IASB published an amendment to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Shareholdings in affiliates and joint ventures", in order to resolve the conflict between IAS 28 and IFRS 10. According to the provisions of IAS 28, the gain or loss resulting from the sale or transfer of a non-monetary asset to a joint venture or associate in exchange for a share in the capital of the latter is limited to the shareholding in the joint venture or associate by other investors extraneous to the transaction. In contrast, IFRS 10 requires the recording of the entire gain or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling stake in it, including in this case also the sale or transfer of a subsidiary to a joint venture or associate. The amendments introduced require that for a sale or transfer of an asset or a subsidiary to a joint venture or associate, the measure of the gain or loss to be recognized in the financial statements of the seller (or transferor) depends on whether the asset or subsidiary sold (or transferred) constitute a business, under the meaning of IFRS 3. If the assets or the subsidiary sold represent a business, the entity shall recognize the gain or loss on the entire investment held; otherwise, the portion of the gain or loss related to the share still held by the entity shall be eliminated. For said amendments, a date of first application has not been established yet;

- IFRS 14 "Regulatory deferral accounts": the new transitional standard, issued by the IASB January 30, 2014, allows the entity that adopts for the first time the international accounting standards IAS/IFRS, to continue to apply the previous GAAP accounting policies for the evaluation (including impairment) and elimination of regulatory deferral accounts. This principle does not apply to the Group as it already uses IFRS;

- IFRS 15 "Revenues from contracts with customers": the amendment, issued on April 12, 2016 and applicable from January 1, 2018, aims to clarify the guidelines for the identification of an obligation to sell an asset or provide one or more services, and also intends to provide clarification regarding the accounting of licenses related to intellectual property;

- IFRS 16 "Leasing": this standard, issued by the IASB on January 13, 2016, replaces IAS 17 and sets out the criteria for the recognition, measurement and presentation of leasing contracts. IFRS 16 is applicable from January 1, 2019, but early adoption is permitted for entities that also apply IFRS 15;

- IAS 7 "Additional information in the financial statements on financial instruments": the amendment to the standard, applicable from January 1, 2017, was issued by the IASB on January 29, 2016 and requires that an entity provide information that enables users of the financial statements to evaluate changes in liabilities arising from financial assets;

- IAS 12 "Income taxes": on January 19, 2016, the IASB published some amendments that aim to clarify the accounting method for deferred tax assets related to debt instruments measured at fair value. The amendments are applicable from January 1, 2017;

- IFRS 4 "Insurance contracts": the amendment issued by the IASB on September 12, 2016 disciplines the effects of the application of the standard in question together with those related to the adoption of IFRS 9 "Financial instruments" in the financial statements of insurance contracts issuers. This amendment is applicable from January 1, 2018;

- on December 8, 2016, the IASB issued some amendments to the standards approved in the three-year period 2014-2016 in particular IFRS 1 "First-time adoption of International Accounting Standards", IFRS 12 "Disclosure of shareholdings in other entities" and IAS 28 "Shareholdings in associates":
  - With reference to IFRS 1, some exemptions are eliminated as provided by specific paragraphs of the standard;

- The amendment to IAS 18 provides that, if the parent is a venture capital company, it has the power to measure its shareholdings in associates and joint ventures at fair value with recognition of any changes in the income statement;
- The amendment to IFRS 12 establishes that the disclosure requirements also apply in cases where shareholdings in subsidiaries, associates and joint ventures are classified as “Non-current assets held for sale” in accordance with IFRS 5;

▪ on December 8, 2016, the IASB issued an amendment to IAS 40 “Property Investments”, which clarifies when an entity is required to transfer the ownership of properties (including those under construction). It also establishes that the only intention of the management to change the use of a property is not evidence of a change in the use of the property investment. The amendment to the standard in question, despite early adoption is provided, is applicable retrospectively with effect from January 1, 2018;

▪ IFRIC 22 “Transactions and advances in foreign currency”: this interpretation was issued by the IASB on December 8, 2016 and is intended to clarify the accounting for transactions that include the payment or collection of advance payments in currency other than the euro. In particular, this interpretation regulates the exchange rate to be adopted for transactions in foreign currency resulting in non- monetary assets and liabilities related to the collection or payment of advances, before the recognition of the related assets, costs or revenues. The interpretation in question is applicable from January 1, 2018.

2.4 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.

Impairment of non-current assets
An impairment loss occurs when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher value between its fair value deducted the selling costs and its value in use. Fair value less selling costs is equal to the amount obtainable from the sale of an asset or cash-generating unit in a free transaction between knowledgeable, willing parties, deducted from writing off costs. The calculation of the value in use is based on a discounted cash flow model. The cash flows are derived from the budget of the next three years and do not include restructuring activities for which the Group has not yet committed to or significant future investments that will increase the results related activity included in the cash generating unit evaluated. The recoverable amount depends significantly on the discount rate used in the discounted cash flow model, as well as the expected cash flows in the future and the growth rate used for extrapolation.

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 3-month EURIBOR rates 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 2016, there were ten 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 23.5 million, with a negative equivalent value of Euro 198 thousand.

As at 31 December 2015, there were eight 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 24 million, with a negative equivalent value of Euro 291 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 2017 financial period (compared to 2016) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 2016 financial period;
- potential change in fair value of existing derivative instruments.

The potential changes in fair value of the effective component of existing hedging derivative instruments affect Shareholders' Equity.

The Company estimated the potential impacts on the Income Statement and on Shareholders' Equity of the 2017 financial period (compared to 2016, calculated with reference to the situation existing at the end of the 2015 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 2017 financial period (compared to 2017);
- 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 2016, 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 2017 financial period of Euro 296 thousand, offset by an increase of Euro 138 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 56 thousand, offset by a decrease of Euro 34 thousand in the collected spread for the existing derivatives.

With reference to the situation as at 31 December 2015, 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 2016 financial period of Euro 230 thousand, offset by an increase of Euro 94 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 42 thousand, offset by a decrease of Euro 27 thousand in the collected spread for the existing derivatives.

	Interests					
	31 December 2016			31 December 2015		
(Euro in thousands)	**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/Bond issue	104,342*	(296)	56	108,354*	(230)	42
Total Loans	**104,342***	**(296)**	**56**	**108,354***	**(230)**	**42**
(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	23,490	138	(34)	23,977	94	(27)
Total Derivative instruments	**23,490**	**138**	**(34)**	**23,977**	**94**	**(27)**
Total		**(158)**	**22**		**(136)**	**15**

(*) The residual debt is considered before amortised costs

(Euro in thousands)	Fair value sensitivity of derivatives									
	Financial period ended 31 December 2016									
	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	23,490	(198)	107	305	305	-	(278)	(80)	(80)	-
Total	**23,490**	**(198)**	**107**	**305**	**305**	**-**	**(278)**	**(80)**	**(80)**	**-**
	Financial period ended 31 December 2015									
(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	23,977	(291)	(1)	290	290	-	(378)	(87)	(87)	-
Total	**23,977**	**(291)**	**(1)**	**290**	**290**	**-**	**(378)**	**(87)**	**(87)**	**-**

With reference to the situation as at 31 December 2016, 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 305 thousand, with an impact on the Income statement of the 2016 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 80 thousand, with an impact only on the Income statement of the 2016 financial period.

With reference to the situation as at 31 December 2015, 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 290 thousand, with an impact on the Income statement of the 2016 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 87 thousand, with an impact only on the Income statement of the 2016 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 2016 and 2015 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 2016 and to 2015 financial periods, with regard to financial instruments, by residual maturity, is set out below.

	31 December 2016				
	Financial payables/Bonds		Trade payables	Financial instruments	Total
Maturity	Capital	Interests			
(Euro in thousands)	a	b	c	d	a+b+c+d
Within 12 months	61,318	2,386	25,192	155	**89,051**
Between one and two years	15,588	1,854	-	46	**17,488**
Between two and three years	5,053	1,227	-	7	**6,287**
Between three and five years	22,278	2,067	-	(4)	**24,341**
Between five and seven years	105	-	-	-	**105**
After more than 7 years	-	-	-	-	**-**
Total	**104,342***	**7,534**	**25,192**	**204**	**137,272**

	31 December 2015				
	Financial payables/Bonds		Trade payables	Financial instruments	Total
Maturity	Capital	Interests			
(Euro in thousands)	a	b	c	d	a+b+c+d
Within 12 months	39,111	3,429	30,395	197	**73,132**
Between one and two years	11,965	3,194	-	106	**15,265**
Between two and three years	16,991	3,539	-	16	**20,546**
Between three and five years	13,914	3,454	-	(7)	**17,361**
Between five and seven years	17,751	2,526	-	(6)	**20,271**
After more than 7 years	8,622	1,177	-	-	**9,799**
Total	**108,354***	**17,319**	**30,395**	**306**	**156,374**

(*) The residual debt is considered before amortised costs
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 2016 and 31 December 2015).

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 and South African Rand). 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 2017 financial period (compared to 2016) 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 2017 financial period (compared to 2016, calculated with reference to the situation existing at the end of the 2015 reporting period, respectively) produced by a shock of the exchange-rate market, by using internal measurement models, based on the general acceptance approach.

	2016 Exposure in foreign currency (USD)			**2016 Sensitivity**	
Exposure with regard to equity items	**Assets (USD/000)**	**Liabilities (USD/000)**	**Equity (USD/000)**	**Income statement EUR/USD exchange rate +5% (EUR/000)**	**Income statement EUR/USD exchange rate -5% (EUR/000)**
Trade receivables	8,854	-	8,854	(420)	420
Trade payables	-	2	2	-	-
Total net exposure with regard to equity items	**8,854**	**2**	**8,856**	**(420)**	**420**
Derivative instruments	-	-	-	-	-

	2015 Exposure in foreign currency (USD)			**2015 Sensitivity**	
Exposure with regard to equity items	**Assets (USD/000)**	**Liabilities (USD/000)**	**Equity (USD/000)**	**Income statement EUR/USD exchange rate +5% (EUR/000)**	**Income statement EUR/USD exchange rate -5%(EUR/000)**
Trade receivables	10,989	-	10,989	(505)	505
Trade payables	-	83	83	(4)	4
Total net exposure with regard to equity items	**10,989**	**83**	**11,072**	**(509)**	**509**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2016 Exposure in foreign currency (ZAR)			2016 Sensitivity	
	Assets (ZAR/000)	Liabilities (ZAR/000)	Equity (ZAR/000)	Income statement EUR/ZAR exchange rate +5% (EUR/000)	Income statement EUR/ZAR exchange rate -5% (EUR/000)
Trade receivables	74,885	-	74,885	(259)	259
Trade payables	-	-	-	-	-
Total net exposure with regard to equity items	**74,885**	**-**	**74,885**	**(259)**	**259**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2015 Exposure in foreign currency (ZAR)			2015 Sensitivity	
	Assets (ZAR/000)	Liabilities (ZAR/000)	Equity (ZAR/000)	Income statement EUR/ZAR exchange rate +5% (EUR/000)	Income statement EUR/ZAR exchange rate -5% (EUR/000)
Trade receivables	63,375	-	63,375	(2,911)	2,911
Trade payables	-	-	-	-	-
Total net exposure with regard to equity items	**63,375**	**-**	**63,375**	**(2,911)**	**2,911**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2016 Exposure in foreign currency (IDR)			2016 Sensitivity	
	Assets (IDR/000)	Liabilities (IDR/000)	Equity (IDR/000)	Income statement EUR/IDR exchange rate +5% (EUR/000)	Income statement EUR/IDR exchange rate -5% (EUR/000)
Trade receivables	-	-	-	-	-
Trade payables	-	-	-	-	-
Total net exposure with regard to equity items	**-**	**-**	**-**	**-**	**-**
Derivative instruments	158,497,466	-	158,497,466	(559)	559

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:					
Derivative financial instruments	-	-	-	-	3
Total non-current	**-**	**-**	**-**	**-**	**3**
Trade receivables	34,578	-	-	-	-
Financial receivables from related parties	41,352	-	-	-	-
Financial receivables from third parties	32	-	-	-	-
Other available-for-sale securities	-	-	-	2	-
Cash and cash equivalents	-	-	14,524	-	-
Total current	**75,962**	**-**	**14,524**	**2**	**-**
Total	**75,962**	**-**	**14,524**	**2**	**3**
Financial liabilities:					
Loans	26,649	-	-	-	-
Non-current portion of finance leases, net	1,269	-	-	-	-
Bond issue	14,735	-	-	-	-
Derivative financial instruments	-	-	-	-	171
Total non-current	**42,653**	**-**	**-**	**-**	**171**
Loans	33,959	-	-	-	-
Other financial payables (short-term leases)	484	-	-	-	-
Other short-term payables	26,572	-	-	-	-
Derivative financial instruments	-	-	-	-	110
Trade payables	25,192	-	-	-	-
Total current	**86,208**	**-**	**-**	**-**	**110**
Total	**128,861**	**-**	**-**	**-**	**281**

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 2016, divided into the three levels defined above:

(Euro in thousands)	Book value as at 31 December 2016	Level 1	Level 2	Level 3
Financial assets:				
Derivative financial instruments	3	-	3	-
Other available-for-sale securities	2	-	-	2
Total current	**5**	**-**	**3**	**2**
Total	**5**	**-**	**3**	**2**
Financial liabilities:				
Derivative financial instruments	171	-	171	-
Total non-current	**171**	**-**	**171**	**-**
Derivative financial instruments	110	-	110	-
Total current	**110**	**-**	**110**	**-**
Total	**281**	**-**	**281**	**-**

4.Significant events occurred during the period

Among the operations occurred during the 2016 financial period, the following is reported:

- with regard to the Railway segment, on 3 October 2016, the company Tesmec Rail S.r.l., 100% owned by Tesmec S.p.A., was set up. The company is based in Monopoli (BA) and its purpose is the design, construction and maintenance of railway systems for electric traction and signalling and railway equipment.

- on 3 March 2016, the parent company Tesmec S.p.A. purchased for Euro 0.3 million the remaining 60% of the share capital of Bertel S.r.l., company characterised as a highly innovative start-up in that operating in a market with a high technical profile such as that of streamlining systems of Transmission Power Lines. As a result of this operation, Tesmec holds the entire share capital of the company; as at 31 December 2016, Bertel increased Group's revenue for Euro 0.3 million. The effects of the acquisition were described in the next paragraph *3.1 Effects of the acquisition of the remaining 60% of Bertel*.

- on 20 April 2016, the parent company Tesmec S.p.A. acquired 100% of CPT Engineering S.r.l., company specialised in the design and implementation of monitoring, protection and industrial automation solutions, which offers cutting-edge systems within the technologies of power lines. In detail, the transaction involved the purchase of the entire share capital of CPT against a price of Euro 0.30 million to which an earn-out up to a maximum of Euro 0.8 million is expected to be added related to the achievement of certain turnover results by the CPT and its economic balance. The payment of the price by Tesmec will be made by using own resources.
  The effects of the acquisition were described in the next paragraph *3.2 Effects of the acquisition of CPT.*

- on 1 August 2016, Tesmec S.p.A. finalised the acquisition of Ampere S.r.l. in liquidation, of the business unit, including the Ampere trademark, involved in the sale of measuring and monitoring instruments and after-sales services for the production, transmission and distribution of electrical power for a fixed net price of Euro 0.1 million.

  This acquisition allows the Tesmec Group to expand the potential customer base of the Energy sector in Italy by benefiting from the strong relations that Ampere S.r.l. has with important customers.

- on 29 April 2016, upon approval of the financial statements for 2015, the Shareholders' Meeting of Tesmec S.p.A. resolved to:

- allocate the profit of the Parent Company, amounting to Euro 7,412 thousand, as follows:
    - assign a dividend of Euro 0.025 to each outstanding ordinary share;
    - assign to the extraordinary reserve the amount of profit remaining after the allocation to dividend.
- appoint the new Board of Directors that will remain in office until the shareholders' meeting that will be called to approve the financial statements for the year ended 31 December 2018, composed of Gianluca Bolelli, Sergio Arnoldi, Gioacchino Attanzio, Guido Giuseppe Maria Corbetta, Caterina Caccia Dominioni, Lucia Caccia Dominioni and Paola Durante as well as Ambrogio Caccia Dominioni who was confirmed as Chairman of the Board of Directors;
- appoint the new Board of Statutory Auditors that will also remain in office until the shareholders' meeting called to approve the 2018 financial statements, composed of Statutory Auditors Simone Cavalli (Chairman), Alessandra De Beni and Stefano Chirico and Alternate Auditors Attilio Marcozzi and Stefania Rusconi;

▪ on 29 April 2016, the Board of Directors confirmed Ambrogio Caccia Dominioni as the Chief Executive Officer and Gianluca Bolelli as Vice Chairman.

The Board of Directors decided to:

- change the name of the current Remuneration Committee in "Remuneration and Appointments Committee" and to merge the function previously carried out by the Appointments Committee in the new Remuneration and Appointments Committee;
- appoint the directors Gioacchino Attanzio (Chairman), Sergio Arnoldi and Caterina Caccia Dominioni as members of the new Remuneration and Appointments Committee;
- appoint the directors Sergio Arnoldi (Chairman), Gianluca Bolelli and Gioacchino Attanzio as members of the Control and Risk Committee;
- appoint Caterina Caccia Dominioni as director in charge of the internal control and risk management system;
- appoint the Independent Director Gioacchino Attanzio as lead independent director;
- appoint Lorenzo Pascali (Chairman), Maurizio Brigatti and Stefano Chirico as members of the Supervisory Body that will remain in office until the shareholders' meeting that will be called to approve the financial statements for the year ended 31 December 2018;

▪ on 21 December 2016, the Board of Directors of Tesmec S.p.A. approved certain transactions with the related party Dream Immobiliare S.r.l. (“Dream”) concerning the properties located in Grassobbio (Bergamo) (“Grassobbio Property Complex”), Padua (“Padua Property”) and Patrica (Frosinone) (“Frosinone Property”) where the factories of Tesmec and of the subsidiaries SGE S.r.l. (“SGE”) and CPT Engineering S.r.l. (“CPT”) are based. The considerations of the Board of Directors with regard to the economic and financial reasons as well as to the advisability of these transactions were carried out, first of all, taking into account the Group's strategy focusing on the operations, leaving aside all the activities pertaining to property companies, management companies and property development companies. These considerations, with reference to Padua Property and Frosinone Property, were supported by the expert opinions prepared by the expert CBRE Valuation S.p.A., appointed by the Board in support of its considerations and of those of the Committee. The effects of this transaction were described in detail in the next paragraph 4.1 Effects of the New lease contract with related parties.

4.1 Effects of the transaction with Related Parties

As described above, on 21 december 2016, the Board of Directors of Tesmec S.p.A. approved certain transactions with the related party Dream Immobiliare S.r.l. (“**Dream**”) involving the properties situated in Grassobbio (Bergamo) (“**Grassobbio Property Complex**”), in Padua (“**Padua Building**”) and Patrica (Frosinone) (“**Frosinone Building**”), in which factories of Tesmec and of its subsidiaries SGE S.r.l. (“**SGE**”) and CPT Engineering S.r.l. (“**CPT**”) are located.

- With regard to the <u>Grassobbio Property Complex</u>, where Tesmec's production plant also has its headquarters, the Company's Board of Directors has considered exercising of the option with respect to Dream to no longer be strategic for Tesmec, thereby allowing said option to expire. This option expires on 31 December 2016 and regards a takeover of the lease contract in place between Dream and Unicredit Leasing S.p.A. for said property complex for Euro 3,500 thousand.

The Board of Directors consequently renegotiated the rent and term of the lease contract with Dream, with respect to the portion of the Grassobbio Property Complex in which Tesmec carries out its activities, agreeing on a reduction in the annual rent of approximately Euro 160 thousand (from about Euro 1,960 thousand to Euro 1,800 thousand) and a new contract term with expiry envisaged for 30 January 2027. Consequently the availability of the property in the production site was also guaranteed.

As a result of these transactions, the Tesmec Group's Net Financial Position at 31 December 2016 will result in improvement for about Euro 16,579 thousand, primarily concerning the adjustment of the financial debt resulting from the renegotiation of the main clauses of the lease contract.

The transactions described above will involve, for Tesmec S.p.A. as at December 31, 2016 an improvement in the net financial position for Euro 16,579 thousand, a reduction of EBITDA for Euro 2,350 thousand and a reduction of net income for Euro 1,612 thousand.

Below a summary table showing the economic, patrimonial and financial effect of the transaction as at December 31, 2016:

Balance sheet effects

(In migliaia di Euro)	**Grassobbio Property Complex**
USES	
Net working capital	738
Fixed assets	(18,929)
Other long-term assets and liabilities	-
Net invested capital	**(18,191)**
SOURCES	
Net financial indebtedness	(16,579)
Shareholder’s equity	(1,612)
Total sources of funding	**(18,191)**

Economic effects

(In migliaia di Euro)	**Grassobbio Property Complex**
Loss	(2,350)
Income	-
EBITDA	**(2,350)**
Tax	738
Effect on net result	**(1,612)**

The accounting effects of these operations on an annual basis will be the rental costs of Euro 1,800 thousand which will be reflected on EBITDA and a decrease in financial expenses of Euro 751 thousand and amortization of Euro 572 thousand. These effects will produce a positive tax effect of Euro 179 thousand on the Company’s taxable income, the net result will therefore suffer a worsening of Euro 289 thousand.

For further information please refer to the Information Document on significant transactions with related parties published on December 22, 2016 in the Investor Relations-Governance section on the website www.tesmec.com.

COMMENTS ON THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

Non-current assets

5.Intangible assets

The breakdown of Intangible assets as at 31 December 2016 and as at 31 December 2015 is indicated in the table below:

	31 December					
	2016			2015		
(Euro in thousands)	**Historical cost**	**Accum. amort.**	**Net value**	**Historical cost**	**Accum. amort.**	**Net value**
Development costs	29,615	(23,636)	5,979	26,860	(20,739)	6,121
Rights and trademarks	2,815	(2,361)	454	2,777	(2,182)	595
Assets in progress and advance payments to suppliers	111	-	111	-	-	-
Total intangible assets	**32,541**	**(25,997)**	**6,544**	**29,637**	**(22,921)**	**6,716**

The following table shows the changes in intangible assets for the period ended 31 December 2016:

(Euro in thousands)	**01/01/2016**	**Increases**	**Decreases**	**Reclassifications**	**Amortisation**	**31/12/2016**
Development costs	6,121	2,756	-	-	(2,898)	5,979
Rights and trademarks	595	38	-	-	(179)	454
Assets in progress and advance payments to suppliers	-	111	-	-	-	111
Total intangible assets	**6,716**	**2,905**	**-**	**-**	**(3,077)**	**6,544**

As at 31 December 2016, intangible assets net of amortisation totalled Euro 6,544 thousand, up Euro 172 thousand on the previous year.
Increases for the period totalled Euro 2,905 thousand mainly consisting in development costs capitalised (Euro 2,756 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 1,163 thousand to Trencher and for Euro 1,593 thousand to Stringing Equipment.

The following table shows the changes in intangible assets for the period ended 31 December 2015:

(Euro in thousands)	**01/01/2015**	**Increases**	**Decreases**	**Reclassifications**	**Amortisation**	**31/12/2015**
Development costs	5,605	3,356	-	-	(2,840)	6,121
Rights and trademarks	184	597	-	-	(186)	595
Assets in progress and advance payments to suppliers	70	126	(196)	-	-	-
Total intangible assets	**5,859**	**4,079**	**(196)**	**-**	**(3,026)**	**6,716**

6.Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2016 and as at 31 December 2015 is indicated in the table below:

	31 December					
	2016			2015		
(Euro in thousands)	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Land	1,250	-	1,250	5,266	-	5,266
Buildings	3,257	(301)	2,956	21,553	(3,013)	18,540
Plant and machinery	10,543	(7,582)	2,961	10,517	(6,864)	3,653
Equipment	3,697	(3,101)	596	3,260	(2,863)	397
Other assets	4,325	(2,047)	2,278	4,142	(1,949)	2,193
Assets in progress and advance payments to suppliers	522	-	522	522	-	522
Total property, plant and equipment	**23,594**	**(13,031)**	**10,563**	**45,260**	**(14,689)**	**30,571**

The following table shows the changes in property, plant and equipment for the period ended 31 December 2016:

(Euro in thousands)	01/01/2016	Increases	Decreases	Reclassifications	Depreciation	31/12/2016
Land	5,266	-	(4,016)	-	-	1,250
Buildings	18,540	-	(14,913)	-	(669)	2,958
Plant and machinery	3,653	129	(77)	-	(745)	2,960
Equipment	397	502	(64)	-	(240)	595
Other assets	2,193	367	(154)	-	(128)	2,278
Assets in progress and advance payments to suppliers	522	-	-	-	-	522
Total property, plant and equipment	**30,571**	**998**	**(19,224)**	**-**	**(1,782)**	**10,563**

As at 31 December 2016, property, plant and equipment totalled Euro 10,563 thousand, down compared to the previous year by Euro 18,226 thousand.

The decrease is due to the new lease contract described in paragraph *4.1 Effects of the New lease contract with related parties* of Euro 18,929 thousand*. Other assets* includes the net value of Trenchers on fleet for Euro 2,215 thousand in 2016 and for 2,136 thousand in 2015.

The following table shows the changes in property, plant and equipment for the period ended 31 December 2015:

(Euro in thousands)	01/01/2015	Increases	Decreases	Reclassifications	Depreciation	31/12/2015
Land	5,266	-	-	-	-	5,266
Buildings	19,197	12	-	-	(669)	18,540
Plant and machinery	4,336	172	(42)	-	(813)	3,653
Equipment	428	187	-	-	(218)	397
Other assets	2,393	30	(75)	-	(155)	2,193
Assets in progress and advance payments to suppliers	520	2	-	-	-	522
Total property, plant and equipment	**32,140**	**403**	**(117)**	**-**	**(1,855)**	**30,571**

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

The breakdown of *Equity investments in subsidiaries, associates and joint ventures* as at 31 December 2016 and 2015 is indicated in the table below:

	31 December	
(Euro in thousands)	**2016**	**2015**
Subsidiaries:		
Tesmec USA, Inc.	21,261	21,261
Tesmec Service S.p.A.	3,596	2,096
Tesmec SA	361	361
East Trenchers S.r.l.	145	145
SGE S.r.l.	410	410
OOO Tesmec RUS	11	11
Tesmec New Technology (Beijing) LTD	200	200
Marais Technologies SA	8,564	8,564
CPT Engineering S.r.l.	316	-
Bertel S.r.l.	3,535	-
Tesmec Rail S.r.l.	10	-
Total equity investments in subsidiaries	**38,408**	**33,047**

Equity investments in subsidiaries increased all in all of Euro 5,361 thousand as a result of the following operations:

- Tesmec Service S.r.l.*:* on 31 December 2016, the Company converted a sum amounting to Euro 1,500 thousand from the borrowing in capital reserve.
- Bertel S.r.l.: on 3 March 2016, Tesmec S.p.A. acquired the remaining 60% of the equity investment held in the company Bertel S.r.l. of Euro 300 thousand reclassifing the amount of Euro 1,700 thounsand previously included in Total equity investments in associates and on 31 December 2016, the Company converted a sum amounting to Euro 1,500 thousand from the borrowing in capital reserve.
- CPT Engineering S.r.l.: on April 20, 2016, Tesmec S.p.A. has acquired the entire shareholding in the company for a value of Euro 316 thousand.

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

	31 December						
	2016						
(Euro in thousands)	**% held**	**Revenues**	**Net income**	**Assets**	**Liabilities**	**Shareholders' Equity**	**Book value**
Subsidiaries:							
Tesmec USA, Inc.	100.00%	16,486	(4,222)	62,437	36,568	25,869	21,261
Tesmec France EURL	100.00%	-	(7)	3	4	(1)	-
Tesmec Balkani EAD	100.00%	-	(41)	-	-	-	-
Tesmec Service SpA	100.00%	5,186	(224)	7,203	6,028	1,175	3,596
Tesmec SA	100.00%	4,445	24	6,705	6,421	284	361
East Trenchers Srl	100.00%	-	(23)	43	1	42	145
SGE Srl	100.00%	2,856	(143)	5,197	4,938	259	410
OOO Tesmec RUS	100.00%	666	(132)	436	644	(208)	11
Tesmec New Technology (Beijing) LTD	100.00%	137	(215)	147	511	(364)	200
Marais Technologies SA	86.79%	-	(466)	24,116	8,404	15,712	8,564
CPT Engineering S.r.l.	100.00%	1,210	(79)	3,009	2,888	121	315

Bertel S.r.l.	100.00%	526	(855)	4,502	3,716	786	3,535
Tesmec Rail S.r.l.	100.00%	-	-	17	7	10	10

It should be noted that the value of shareholders' equity of the subsidiary Tesmec New Technology (Beijing) Ltd. was strongly influenced by the current start-up phase of the related assets.

The values of the equity 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 they are based on plans reviewed by Board of Directors on 10 March 2017.
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 7% and 15%. Cash flows beyond the three years were extrapolated using a growth rate of 1.1%. The results of the impairment test showed that as at 31 December 2016, the recoverable amount of the CGU exceeds the carrying amount. The results underwent also a sensitivity analysis in order to consider the possible effects of changes in the key assumptions underlying the impairment process. This analysis involved a reasonably possible change in the expected growth rate of about +/- 0.25%, the discount rate used of about +/- 2%, and the EBIT value resulting from the Plan of about +/- 10%.

The breakdown of equity investments in associates and joint ventures as at 31 December 2016 and 2015 is indicated in the table below:

	31 December	
(Euro in thousands)	**2016**	**2015**
Associated companies:		
Locavert SA	52	52
Bertel	-	1,700
Subtotal	**52**	**1,752**
Joint Ventures:		
Condux Tesmec Inc	956	956
Tesmec Peninsula	730	730
Subtotal	**1,686**	**1,686**
Total equity investments in associates	**1,738**	**3,438**

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

	31 December						
	2016						
(Euro in thousands)	**% held**	**Revenues**	**Net income**	**Assets**	**Liabilities**	**Shareholders' Equity**	**Book value**
Associated companies:							
Locavert SA	38.63%	461	8	648	238	410	52
Joint Ventures:							
Condux Tesmec Inc.	50.00%	3,981	75	5,057	1,772	3,285	956
Tesmec Peninsula	49.00%	342	(145)	5,015	4,795	220	730

At 31 December 2016, values of equity investments in associate companies were impaired as described in the previous paragraph. The results of the impairment test showed that as at 31 December 2016, the recoverable amount of these equity investments exceeds the carrying amount.
Impairment tests and sensitivity analyses were carried out also for equity investments in associates by following the indicated parameters, and the tests carried out did not report any potential impairment.

Current assets

8.Work in progress contracts

The following table sets forth the breakdown of work in progress contracts as at 31 December 2016 and as at 31 December 2015:

	31 December	
(Euro in thousands)	**2016**	**2015**
Work in progress (Gross)	-	2,508
Advances from contractors	-	(625)
Work in progress contracts	**-**	**1,883**
Advances from contractors (Gross)	-	-
Work in progress (Gross)	-	-
Advances from contractors	**-**	**-**

"Work in progress" refers exclusively to the rail segment where the machinery is produced in accordance with specific customer requirements. "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.

9.Inventories

The following table sets forth the breakdown of *Inventories* as at 31 December 2016 and 2015:

	31 December	
(Euro in thousands)	**2016**	**2015**
Advances to Suppliers	1	25
Raw materials and consumables	17,268	15,999
Work in progress	6,667	4,517
Finished products and goods for resale	12,047	8,172
Total Inventories	**35,983**	**28,713**

The measurement bases of inventories remained unchanged compared to the prior financial period. The item as a whole increased by 25.3% as a result of the decrease in revenues.
In total, inventories increased by 25.3% to Euro 7,270 thousand, despite the reduction in revenues due to the shortages of certain deliveries and the completion of the Indonesian deal.

The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2016 and 2015 are indicated in the table below:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Value as at 1 January	3,033	2,340
Provisions	57	693
Uses	-	-
Total provisions for inventory obsolescence	**3,090**	**3,033**

The value of the provisions for inventory obsolescence increased by Euro 57 thousand compared to the prior financial period due to the increase in slow moving material and spare parts.
The adequacy of the provision is assessed on a regular basis to constantly monitor the actual level of inventories recovered through sales.

10.Trade receivables

The table below shows the breakdown of trade receivables as at 31 December 2016 and 2015:

	31 December	
(Euro in thousands)	**2016**	**2015**
Trade receivables from third-party customers	30,030	22,308
Trade receivables from related parties	4,548	8,856
Total trade receivables	**34,578**	**31,164**

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

Trade receivables as at 31 December 2016 amounted to Euro 34,578 thousand up by Euro 3,414 thousand compared to the 2015 financial period.
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 2016 and 2015 are indicated in the table below:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Value as at 1 January	1,839	1,564
Provisions	-	405
Uses	(5)	(130)
Total provisions for doubtful accounts	**1,834**	**1,839**

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

11.Tax receivables

Tax receivables increased by Euro 506 thousand as a result of the recognition of IRES receivables of Euro 503 thousand and IRAP receivables of Euro 3 thousand.

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 2016 and as at 31 December 2015:

	31 December	
(Euro in thousands)	**2016**	**2015**
Financial receivables from related parties	41,352	42,466
Other current financial assets	32	40
Total financial receivables and other current financial assets	**41,384**	**42,506**

The decrease in *financial receivables and other current financial assets* (Euro 1,122 thousand) is due to the decrease in credit positions relating to specific contracts signed with the related parties 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 23,391 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 944 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3.5%;
- Tesmec SA (Pty) Ltd. of Euro 2,834 thousand with interest rate equivalent to 8.5%;
- SGE S.r.l. of Euro 3,511 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3.5%;
- Bertel S.p.A. of Euro 2,784 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3%;
- Tesmec Peninsula WLL of Euro 2,085 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.

In addition, financial receivables from related parties include the effect described in paragraph 4.1 Effects of transactions with related parties.

For terms and conditions relating to receivables from related parties, refer to note 35.

13.Other current assets

The following table sets forth the breakdown of *other current assets* as at 31 December 2016 and as at 31 December 2015:

	31 December	
(Euro in thousands)	**2016**	**2015**
Accrued income	2	-
Prepaid expenses	458	464
VAT credit	(15)	364
Other tax receivables	15	16
Other receivables	145	602
Receivables from subsidiaries	9	148
Advance to suppliers for services	115	88
Total Other current assets	**729**	**1,682**

Other current assets is considered receivable and therefore was not subject to value adjustment, the item decreased mainly due to the decrease in the VAT credit.

14.Cash and cash equivalents

The following table sets forth the breakdown of the item as at 31 December 2016 and 2015:

	31 December	
(Euro in thousands)	**2016**	**2015**
Bank and post office deposits	14,519	15,447
Cash on hand	3	2
Other cash	2	2
Total cash and cash equivalents	**14,524**	**15,451**

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 2016 amounts to Euro 14,524 thousand and decreased of Euro 927 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

Share capital and reserves

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 2016 and 2015:

	31 December	
(Euro in thousands)	**2016**	**2015**
Revaluation reserve	86	86
Extraordinary reserve	25,294	20,559
Severance indemnity valuation reserve	(366)	(243)
Network Reserve	754	725
Retained earnings/(losses brought forward)	2,490	2,490
Bills charged directly to shareholders' equity on operations with entities under common control	(5,619)	(5,619)
Total other reserves	**22,639**	**17,998**

The revaluation reserve is a reserve in respect of which tax has been deferred, set up in accordance with Italian Law 72/1983. As at 31 December 2016, *extraordinary reserve* increased by a total of Euro 4,735 thousand as a result of the decision for the allocation of the 2015 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	(2,340)				
Earnings reserves:					
Legal reserve	2,142	B			
Revaluation reserve	86	A, B, C	86	-	-
Extraordinary reserve	25,294	A, B, C	25,294	-	-
Reserve for First Time Adoption	(5,619)				
Severance indemnity valuation reserve	(366)				
Network Reserve	754				
Retained earnings/(losses brought forward)	2,490	B			

Profit for the period	1,648			
Total	**45,712**	**36,295**	**-**	**-**

(*) Pursuant to Article 2431 of the Italian Civil Code, the whole amount of this reserve is distributable only if the legal reserve has reached the limit established in Article 2430 of the Italian Civil Code. That level is reached as at 31 December 2016.

Legend:
A: To increase shareholders' equity
B: To cover losses
C: To distribute to shareholders
Following the resolution of 29 April 2016, the Shareholders' Meeting approved the allocation of 2015 profits of Euro 7,412 thousand as follows:

- assign a dividend of Euro 0.025 to each outstanding ordinary share;
- assign to the extraordinary reserve the amount of profit remaining after the allocation to 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 2016 and as at 31 December 2015, with separate disclosure of the current portion:

	31 December			
(Euro in thousands)	**2016**	**of which current portion**	**2015**	**of which current portion**
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%, half-yearly repayment.	1,846	1,846	2,769	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), half-yearly repayment.	1,922	1,922	6,093	4,169
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% and second tranche of Euro 397 thousand to be used as from 14 March 2014 with maturity date 14 February 2020, special annual interest rate of 0.4994%, two months of prepayment and half-yearly repayment.	990	283	1,273	283
Cariparma - loan of Euro 1.5 million, drawn down on 21 October 2013 with maturity date 21 October 2017, floating interest rate equivalent to 3-month Euribor rate + spread of 3%, quarterly repayment.	389	389	767	378

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 3.5%, quarterly repayment.	-	-	1,031	1,031
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%, amended on 11 November 2015 in Euribor 6-month + 2%, one month of prepayment and monthly repayment.	-	-	518	518
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 1.30%, half-year repayment.	234	117	1,546	506
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, one year of prepayment and half-year repayment.	2,570	2,570	3,036	465
Sondrio - loan of Euro 1 million, drawn down on 4 August 2014 with maturity date 31 August 2017, floating interest rate equivalent to 1-month Euribor rate + spread of 3.5%, monthly repayment.	231	231	568	337
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%, monthly repayment.	-	-	630	630
Banca Carige S.p.A. - loan of Euro 2 million, drawn down on 27 March 2015 with maturity date 31 December 2018, floating interest rate equivalent to 3-month Euribor rate + spread of 1.75%, 6 months of prepayment and half-year repayment.	1,153	571	1,714	561
Cariparma - loan of Euro 4 million, drawn down on 26 March 2015 with maturity date 26 March 2020, floating interest rate equivalent to 6-month Euribor rate + spread of 2.50%, six months of prepayment and half-year repayment.	3,072	3,072	3,949	877
Monte dei Paschi di Siena - loan of Euro 5 million, drawn down on 11 August 2015 with maturity date 30 September 2020, floating interest rate equivalent to 6-months Euribor rate + spread of 1.90%, six months of prepayment and quarterly repayment.	4,139	1,104	4,965	826
Veneto Banca - loan of Euro 2 million, drawn down on 28 September 2015 with maturity date 30 September 2019, floating interest rate equivalent to 6-month Euribor rate + spread of 1.3%, monthly repayment.	1,376	495	1,866	484
Banca di Desio - loan of Euro 1.8 million, drawn down on 27 October 2015 with maturity date 10 May 2020, fixed interest rate of 1.85%, seven months of prepayment and monthly repayment.	1,538	440	1,790	252
Credito Valtellinese - loan of Euro 3 million, drawn down on 15 December 2015 with maturity date 5 January 2019, floating interest rate equivalent to 3-month Euribor rate + spread of 1.65%, one month of prepayment and monthly repayment.	2,074	986	2,963	889
Banca Popolare dell'Emilia Romagna - loan of Euro 5 million, drawn down on 18 December 2015 with maturity date 18 March 2021, floating interest rate equivalent to 3-month Euribor rate + spread of 1.85%, 3 months of prepayment and quarterly repayment.	4,239	967	4,950	711
Banca Popolare di Milano - loan of Euro 5 million, drawn down on 08 April 2016 with maturity date 30 April 2021, floating interest rate equivalent to 3-months Euribor rate + spread of 1.80%, monthly repayment.	4,347	4,347	-	-

Banco Popolare - loan of Euro 2.750 million, drawn down on 29 April 2016 with maturity date 15 December 2020, floating interest rate equivalent to 6-month Euribor rate + spread of 1.70%, 2 months of prepayment and half-year repayment.	2,741	685	-	-
Banca del Mezzogiorno - loan of Euro 5 million, drawn down on 23 June 2016 with maturity date 30 June 2021, floating interest rate equivalent to 6-month Euribor rate + spread of 2%, monthly repayment.	4,491	4,491	-	-
Banca Popolare di Milano - loan of Euro 4 million, drawn down on 06 July 2016 with maturity date 31 July 2017, floating interest rate equivalent to 3-months Euribor rate + spread of 0.80%, monthly repayment.	3,110	3,110	-	-
Banco di Desio e Brianza - loan of Euro 700 thousand, drawn down on 19 July 2016 with maturity date 10 January 2018, floating interest rate equivalent to 6-month Euribor rate + spread of 1%, one month of prepayment and monthly repayment.	535	494	-	-
Unipol Banca - loan of Euro 2 million, drawn down on 27 October 2016 with maturity date 31 October 2019, floating interest rate equivalent to 3-months Euribor rate + spread of 1.90%, monthly repayment	1,878	651	-	-
Banca Popolare di Bergamo - loan of Euro 2 million, drawn down on 11 November 2016 with maturity date 11 May 2019, floating interest rate equivalent to 3-months Euribor rate + spread of 1.75%, monthly repayment	1,927	788	-	-
Total Interest-bearing financial payables	**44,802**	**29,559**	**40,428**	**13,840**
Less current portion	(29,559)		(13,840)	
Non-current portion of interest-bearing financial payables	**15,243**		**26,588**	
Loan due to Simest	11,406		11,406	
Total medium-long term loans	**26,649**		**37,994**	
Non-current portion of finance leases	1,753	484	17,714	1,814
Less current portion	(484)		(1,814)	
Non-current portion of finance leases, net	**1,269**		**15,900**	
Total current portion		**30,043**		**15,654**
Medium/long-term loans	**27,918**		**53,894**	

ICCREA-BCC, BNL, Cariparma and Banca del Mezzogiorno loan contracts contain financial covenant clauses. In particular, they require that 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, some expected covenants on medium to long-term loans have not been observed.

Following the failure to comply with certain covenants of a financial nature, some medium and long-term loans have been fully reclassified as short term, according to the requirements of International Accounting Standards, for a total counter value of EUR 12,273. The Group has promptly initiated with the relevant credit institutions procedures for obtaining waivers for the year 2016 in relation to the said non-compliance with the covenants. At present, the Group believes that the waiver will be granted in the necessary technical due times. Such a consideration is supported both from the first few positive banks feed-back and from the 2017 budget which forecasts revenues of between 160 and 170 million euro, against which it is reasonable to assume an EBITDA of around 15%, in line with the Group historical data, and a significant improvement in Net Financial Debt.

Note that during 2016 new medium to long term loans were opened for a value of Euro 18,014 thousand against a total value of the same lines repaid of Euro 17,905 thousand.

In addition, payables to other lenders have benefited from the positive effects of the related party transaction described in paragraph *4.1 Effects of the Transaction with Related Parties*.

The average cost of indebtedness is benchmarked to the trend of the 3-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 2016, 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 2016	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%	1,846	1,846	-	-
Banca Nazionale del Lavoro	04-Mar-16	floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25)	1,922	1,922	-	-
Banca Nazionale del Lavoro	04-Sep-17	floating interest rate equivalent to 6-month Euribor rate + spread of 1.90% (+/- 0.25)				
Simest UGF	04-Feb-20	special annual interest rate of 0.4994%	990	283	707	
Cariparma	21-Oct-17	floating interest rate equivalent to 3-months Euribor rate + spread 3%	389	389	-	-
Veneto Banca	31-Dec-18	floating interest rate equivalent to 6-months Euribor rate + spread 1.3%.	234	117	117	-
BCC Chiro	27-Mar-22	floating interest rate equivalent to 6-months Euribor rate + spread 3.95%	2,570	2,570	(242)	242
Sondrio	31-Aug-17	floating interest rate equivalent to 1-month Euribor + spread 3.5%	231	231	-	-
Banca Carige S.p.A.	31-Dec-18	floating interest rate equivalent to 3-months Euribor rate + spread 1.75%.	1,153	571	582	-
Cariparma	26-Mar-20	floating interest rate equivalent to 6-months Euribor rate + spread 2.50%.	3,072	3,072	-	-
Monte dei Paschi di Siena	30-Sep-20	floating interest rate equivalent to 6-months Euribor rate + spread 1.90%.	4,139	1,104	3,035	-
Veneto Banca	30-Sep-19	floating interest rate equivalent to 6-months Euribor rate + spread 1.3%.	1,376	495	881	-
Banca di Desio	10-May-20	fixed interest rate 1.85%	1,538	440	1,098	-
Credito Valtellinese	05-Jan-19	floating interest rate equivalent to 3-months Euribor rate + spread 1.65%	2,074	986	1,088	-
Banca Popolare dell'Emilia Romagna	18-Mar-21	floating interest rate equivalent to 3-months Euribor rate + spread 1.85%.	4,239	967	3,272	-
Banca Popolare di Milano	30-Apr-21	floating interest rate equivalent to 3-months Euribor rate + spread 1.80%.	4,347	4,347	-	-
Banco Popolare	15-Dec-20	floating interest rate equivalent to 6-months Euribor rate + spread 1.70%.	2,741	685	2,056	-
Banca del Mezzogiorno	30-Jun-21	floating interest rate equivalent to 6-months Euribor rate + spread 2%.	4,491	4,491	-	-
Banca Popolare di Milano	31-Jul-17	floating interest rate equivalent to 3-months Euribor rate + spread 0.80%.	3,110	3,110	-	-
Banco di Desio e Brianza	10-Jan-18	floating interest rate equivalent to 6-months Euribor rate + spread 1%.	535	494	41	-
Unipol Banca	31-Oct-19	floating interest rate equivalent to 3-months Euribor rate + spread 1.90%.	1,878	651	1,227	-
Banca Popolare di Bergamo	11-May-19	floating interest rate equivalent to 3-months Euribor rate + spread 1.75%.	1,927	788	1,139	-
Total			**44,802**	**29,559**	**15,001**	**242**

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 2016	of which with related parties and group	2015	of which with related parties and group
Cash and cash equivalents	(14,526)		(15,451)	
Current financial assets [(1)]	(41,384)	*(41,352)*	(42,529)	*(42,464)*
Current financial liabilities	61,015	*10*	38,918	*1,211*
Current portion of derivative financial instruments	108		14	
Current financial indebtedness [(2)]	**5,213**	*(41,342)*	**(19,048)**	*(41,253)*
Non-current financial liabilities	42,654	-	68,628	*14,743*
Non-current portion of derivative financial instruments	171		288	
Non-current financial indebtedness [(2)]	**42,825**	-	**68,916**	*14,743*
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	***48,038***	***(41,342)***	***49,868***	***(11,258)***

[(1)] Current financial assets as at 31 December 2016 and 31 December 2015 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.

Net indebtedness stood at Euro 48,039 thousand as at 31 December 2016 from Euro 49,868 thousand as at 31 December 2015 and decreased by Euro 16,579 thousand thanks to the effects of the new lease contract described in paragraph *5.3 Effects of the New lease contract with related parties.* The reduction is partially offset by current financial requirements.

During the 2016 financial period, the indebtedness decreased compared to 2015 by Euro 1,830 thousand, due to the combined effect of the following changes:

- for the short-term portion, we point out a total increase of Euro 24,261 thousand related for Euro 12,273 thousand to the reclassification in current financial indebtedness of portions of medium/long-term loans due after one year because of failure to comply with contractual obligations related to financial covenants;

- decrease in the long-term portion of Euro 26,091 thousand deriving from the activation of new loans of Euro 18,014 thousand offset by the reclassification in the current financial indebtedness described in the previous paragraph and the benefit of the real effects of the transaction described in section 4*.1 Effects of the transaction with Related Parties*.

This table shows the comparison between the book value and the fair value of the financial instruments as at 31 December 2016:

(Euro in thousands)	Book value	Fair value
Financial liabilities:		
Loans	75,343	81,077
Non-current portion of finance leases, net	1,753	1,855
Total	**77,096**	**82,932**

(1) The item includes the value of short-term loans to third parties of Euro 4,400 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 2016 and 2015 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 2016	2015
BNL	IRS	1.15% 1st year; 1.65% 2nd year; 2% 3rd year; 2.60% five following years	3-month Euribor	01/01/2011	31/05/2018	1,846,154	(65)	(128)
BNL	IRS	Fixed interest rate 2.57%	3-month Euribor	05/09/2011	04/03/2016	-	-	(14)
BNL	IRS	Fixed interest rate 1.49%	3-month Euribor	04/03/2012	04/09/2017	1,506,844	(19)	(58)
BNL	IRS	Fixed interest rate 0.8%	3-month Euribor	04/03/2013	04/09/2017	1,382,044	(10)	(29)
Veneto Banca	IRS	Fixed interest rate 1.09%	6-month Euribor	31/12/2013	31/12/2018	1,064,634	(16)	(28)
Cariparma	IRS	Fixed interest rate 0.34%	6-month Euribor	07/05/2015	26/03/2020	3,555,556	(30)	(26)
Iccrea	CAP	Interest rate for the period 0.75%	6-month Euribor	27/09/2015	27/09/2020	2,357,143	3	11
Emilia Romagna	CAP	Interest rate for the period 0.50%	3-month Euribor	07/05/2014	07/11/2016	-	-	-
Cariparma	CAP	Interest rate for the period 0.75%	3-month Euribor	21/01/2014	23/10/2017	585,469	-	-
Monte dei Paschi di Siena	CAP	Interest rate for the period 0.61%	6-month Euribor	31/12/2016	30/09/2020	4,166,667	(44)	(19)
Banco Popolare	IRS	Fixed interest rate 0.06%	6-month Euribor	03/10/2016	15/12/2020	2,750,000	(10)	-
Banca Popolare di Milano	IRS	Fixed interest rate 0.12%	3-month Euribor	31/01/2017	30/04/2021	4,275,556	(7)	-
HSBC	FLEXIBLE	-	-	18/04/2017	29/05/2017	1,411,836	(15)	-
HSBC	FLEXIBLE	-	-	02/03/2017	18/04/2017	3,204,723	(36)	-
HSBC	FLEXIBLE	-	-	31/03/2017	10/05/2017	1,416,612	(15)	-
HSBC	FLEXIBLE	-	-	01/07/2017	29/08/2017	590,031	1	-
HSBC	FLEXIBLE	-	-	05/06/2017	03/07/2017	1,338,732	(6)	-
HSBC	FLEXIBLE	-	-	05/05/2017	01/06/2017	1,145,813	(4)	-
HSBC	FLEXIBLE	-	-	30/06/2017	27/07/2017	591,214	(3)	-
HSBC	FLEXIBLE	-	-	31/05/2017	03/07/2017	505,310	(2)	-
HSBC	FLEXIBLE	-	-	01/07/2017	29/08/2017	501,097	1	-
Assets for derivative instruments within the financial period							**2**	**11**
Assets for derivative instruments beyond the financial period							**3**	**-**
Liabilities for derivative instruments within the financial period							**(110)**	**(14)**
Liabilities for derivative instruments beyond the financial period							**(172)**	**(288)**

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 exchange-rate hedging transactions are limited to the amounts of the Indonesian commissions in the tending industry.

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 2016 and 31 December 2015 of employee benefits:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Present value of the liability at the beginning of the period	2,419	2,707
Financial expense	48	43
New entries	159	-
Service Cost	-	(22)
Benefits paid	(246)	(259)
Financial loss (profit)	180	(90)
Demographic loss (profit)	(34)	40
Present value of the liability at the end of the period	**2,526**	**2,419**

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)	**2016**	**2015**
Annual discount rate	2.00%	2.00%
Inflation rate	1.50%	1.50%
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	60	36
Reported value for liabilities with respect to defined benefit plans	2,396	2,668

Technical and demographic bases

(Euro in thousands)	Financial period ended 31 December	
	2016	**2015**
Mortality	2004 ISTAT tables	2004 ISTAT tables
Disability	INPS tables	INPS tables
Retirement age	67 N/F	67 N/F

Frequency of turnover and advances on severance indemnity

(Euro in thousands)	Financial period ended 31 December	
	2016	**2015**
Advance frequency %	0.95%	0.97%
Turnover frequency %	22.35%	10.24%

Workforce

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

(average no. of employees)	Financial period ended 31 December	
	2016	**2015**
Managers	7	5
Executives, employees and equated	156	149
Workers	152	153
Total	**315**	**307**

The average number of employees as at 31 December 2016 is substantially in line with the previous financial period.

Current liabilities

19.Interest-bearing financial payables (current portion)

The following table sets forth the breakdown of *Interest bearing financial payables (current portion)* for the 2016 and 2015 financial periods:

(Euro in thousands)	31 December	
	2016	**2015**
Advances from banks against invoices and bills receivables	24,615	15,187
Other financial payables (short-term leases)	484	603
Financial payables due from affiliated companies	10	1,211
Payables due to factoring companies	1,947	4,789
Short-term loans to third parties	4,400	3,350
Current portion of medium/long-term loans	29,559	13,840
Total interest-bearing financial payables (current portion)	**61,015**	**38,980**

The current portion of interest-bearing loans and borrowings increased of Euro 15,719 thousand following what was described in paragraph 16.

20.Trade payables

The breakdown of *Trade payables* as at 31 December 2016 and as at 31 December 2015, respectively, is indicated in the table below:

	31 December	
(Euro in thousands)	**2016**	**2015**
Trade payables due to third-parties	20,501	28,756
Trade payables due to related parties	4,691	1,639
Total trade payables	**25,192**	**30,395**

Trade payables as at 31 December 2016 decreased by Euro 5,203 thousand compared to 31 December 2015 as a result of a lower volume of purchases due to a decreased volume of revenues.
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 42 thousand as at 31 December 2016 and Euro 2,804 thousand as at 31 December 2015 represents the amount payable for current income taxes for the period, which are broken down as follows:

	31 December	
(Euro in thousands)	**2016**	**2015**
Current IRES tax liabilities	-	2,494
Current IRAP tax liabilities	42	310
Total income taxes payable	**42**	**2,804**

The item includes the net payable due by the Company for the payment of direct income taxes.

Domestic tax consolidation

The company opted for the domestic tax consolidation system provided by Article 117 et sequitur of the Consolidated Act on Income Tax with the subsidiary Tesmec Service S.r.l. for the 2015/2017 three-year period and 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 2016 financial year.
Specific consolidation agreements were signed with each subsidiary opting for the domestic tax consolidation system, 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:

- "Other 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	16,802
Tax benefit for the transfer of tax loss SGE S.r.l.	Euro	23,592
Tax benefit for the transfer of loss East Trenchers S.r.l.	Euro	2,026
Total	Euro	42,420

The taxable income referring to the tax consolidation consists, in summary, of the following:

		Financial period ended 31 December
(Euro in thousands)		**2016**
Taxable income of consolidating company Tesmec S.p.A.	A	154
Taxable income of consolidating company Tesmec Service s.r.l.	B	(61)
Taxable income of consolidating company East Trenchers S.r.l.	C	(7)
Taxable income of consolidating company SGE S.r.l.	D	(86)
Total consolidated taxable income	**E=A+B+C+D**	**-**
I.RE.S. - 27.5 % tax rate	F=E*27.5%	-
Previous year IRES surplus	G	-
Advances paid	H	-
Current IRES tax liabilities	**I=F+G+H**	**-**

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.
Changes in the *Provisions for risks and charges* as at 31 December 2016 and 2015 are indicated below:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Value as at 1 January	350	250
Provisions	-	100
Uses	-	-
Value as at 31 December	**350**	**350**

23.Other current liabilities

The following table sets forth the breakdown of *Other current liabilities* as at 31 December 2016 and 2015:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Due to social security	1,870	1,290
Due to INAIL (National Insurance Institute for Industrial Accidents)	170	158
Due to trade funds	165	160
Due to employees and collaborators	2,529	2,057
Due to others	159	7
Payables due to related parties	42	261
Accrued expenses and liabilities	48	1
Total other current liabilities	**4,983**	**3,934**

Other current liabilities increase compared to previous year in proportion to the increase in labour costs.

24.Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2016 and 2015:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Deferred tax assets	1,991	2,524
Deferred tax liabilities	1,640	1,727

The breakdown of net deferred taxes as at 31 December 2016 and 2015 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)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Deferred tax assets						
Reversals of intangible assets	55	86	-	-	(31)	17
Obsolescence fund	862	952	-	-	(90)	218
Unrealised exchange-rate losses	470	736	-	-	(266)	362
Tax effect on UCC gain reversals	241	334	-	-	(93)	(58)
Other temporary differences	363	416	-	-	(53)	95
Total deferred tax assets	**1,991**	**2,524**	**-**	**-**	**(533)**	**634**
Deferred tax liabilities						
Unrealised exchange-rate gains	(1,448)	(1,457)	-	-	9	(677)
Profits allocated to network reserve	(199)	(228)	29	-	-	-
Other temporary differences	7	(42)	23	(13)	26	(2)
Total deferred tax liabilities	**(1,640)**	**(1,727)**	**52**	**(13)**	**35**	**(679)**
Effect on Shareholders' Equity						
Net balance deferred wealth taxes	**351**	**797**				
Represented in the income statement as follows:						
Deferred tax assets	**(533)**	**634**				
Deferred tax liabilities	**35**	**(679)**				
Deferred tax liabilities, net	**(498)**	**(45)**				

Deferred tax assets and liabilities as at 31 December 2016 were adjusted due to the reduction of the IRES tax rate from 27.5% to 24% laid down by Italian Law 208 28/12/2015 effective as from the 2017 financial year. This operation led to the recognition in the income statement of charges for lower deferred tax assets of Euro 301 thousand and of income for lower deferred tax liabilities of Euro 202 thousand, with an overall negative effect of Euro 99 thousand.

Deferred tax assets and liabilities already recognised in "Network Reserve" and in "Severance indemnity valuation reserve" were also adjusted.

Current taxation

Profit before taxes and the allocation for income taxes for the financial periods as at 31 December 2016 and 2015 are summarised below:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Pre-tax profits	**2,081**	**11,225**
Current taxation	312	3,768
Income due to tax credits	(377)	-
Deferred tax liabilities/assets	498	45
Total taxes	**433**	**3,813**

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		
	2016		
(Euro in thousands)		IRES	IRAP
Profit before tax	**A**	**2,081**	**2,081**
Difference in taxable income between IRES and IRAP	B		1,768
	C=A+B	2,081	3,849
Nominal rate (%)	D	27.5%	3.9%
Theoretical taxes	**E=C*D**	**572**	**150**
Tax effect on permanent differences	F	(80)	2
Tax effect on temporary differences	G	(405)	-
Tax effect on the re-absorption of temporary differences	H	(44)	(7)
Current taxation posted to the income statement	**I=E+F+G+H**	**43**	**145**
Deferred tax liabilities	L	(34)	-
Deferred tax assets	M	527	5
Taxes related to prior financial periods	N	97	27
Aggregate tax posted to the income statement	**O=I+L+M+N**	**633**	**177**
Income due to tax credits	P	(377)	-
Tax posted to the income statement	**Q=O+P**	**256**	**177**

Comments to the main items in the income statement

25.Revenues from sales and services

In the 2016 and 2015 financial periods, revenues from sales and services amounted to Euro 78,810 thousand and Euro 115,071 thousand with a decrease of 31.5%. The breakdown is set below:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Sales of products	77,479	112,151
Services rendered	1,392	384
Total revenues from sales and services	**78,871**	**112,535**
Changes in work in progress	(61)	2,536
Total revenues from sales and services	**78,810**	**115,071**

Revenues from *product sales* refer to transfer of stringing machines and equipment, trenchers and rail.

26.Cost of raw materials and consumables

For the financial periods as at 31 December 2016 and 2015, cost of raw materials and consumables amount to Euro 35,688 thousand and Euro 64,164 thousand, respectively. The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Cost for the purchase of raw materials and consumables	42,931	63,013
Change in inventories	(7,243)	1,151
Total cost of raw materials and consumables	**35,688**	**64,164**

Cost of raw materials and consumables decreases more than proportionally with the decrease in sales volumes due to the different margins of the sectors affected by the decline in revenues.

27.Costs for services and Non-recurring costs for services

The table below shows the breakdown of *recurring and non-recurring costs for services* that amounted in 2016 and in 2015 to Euro 17,719 thousand and Euro 17,764 thousand, respectively.

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Transport, customs and incidental expenses	2,307	2,858
Outsourced work service	2,418	2,952
External production services	4,731	2,789
Services for legal, tax, technical and other consultancy	765	1,046
Banking services	543	1,012
Insurance	295	249
Energy, water, gas, telephone expenses and postage	775	847
Board and lodging expenses and travelling allowance	636	773
Directors' and Auditors' fees	801	1,190
Advertising and other selling expenses	845	397
Maintenance services	336	364
Commissions and additional expenses	2,503	2,539

Other general expenses	764	748
Total costs for services	**17,719**	**17,764**

The item is substantially in line with the previous financial period, however, non-recurring costs for the year 2016 include Euro 873 thousand.

28.Payroll costs

During the financial periods ended 31 December 2016 and 2015, payroll costs amounted to Euro 18,291 thousand and Euro 17,335 thousand, respectively, up by 5.5%, 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)	**2016**	**2015**
Wages and salaries	13,625	12,655
Social security charges	3,759	3,783
Employee severance indemnity	807	746
Other personnel costs	100	151
Total payroll costs	**18,291**	**17,335**

The average composition of staff is given in Note 18.

29.Other operating (costs)/revenues, net and Non-recurring other operating (costs)/revenues, net

During the financial periods ended 31 December 2016 and 31 December 2015, *other recurring and non-recurring net operating (costs)/revenues* amounted to Euro 2,249 thousand and Euro 775 thousand, respectively.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2016**	**2015**
Provisions for risks and other net provisions	-	505
Write-down of equity investments	-	68
Rents	370	377
Hiring	523	487
Other lease and rental expenses	25	350
Sundry taxes	145	132
Other revenues	(1,167)	(1,164)
Losses	2,353	20
Total other operating (costs)/revenues, net	**2,249**	**775**

The item *Other operating (costs)/revenues, net* increased by Euro 1,474 thousand compared to the prior financial period in that it contains the loss of Euro 2,350 thousand described in paragraph *4.1 Effects of the New lease contract with related parties.*

30.Amortisation and depreciation

During the financial periods ended 31 December 2016 and 2015, depreciation and amortisation amounted to Euro 4,859 thousand and Euro 4,881 thousand, respectively.
The breakdown of the item is as follows:

(Euro in thousands)	Financial period ended 31 December 2016	2015
Amortisation of intangible assets	3,077	3,026
Depreciation of property, plant and equipment	1,782	1,855
Total amortisation and depreciation	**4,859**	**4,881**

31.Development costs capitalised

Development costs capitalised for the financial periods ended 31 December 2016 and 31 December 2015 amounted to Euro 2,751 thousand and Euro 3,000 thousand, respectively.
During the financial period, the increase in the item is related to the 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 2.6% for the 2015 financial period to 3.5% for the 2016 financial period.

32.Financial expenses

During the financial periods ended 31 December 2016 and 2015, financial expenses amounted to Euro 5,926 thousand and Euro 7,469 thousand, respectively, with a decrease of Euro 1,543 thousand.
The breakdown of the item is as follows:

(Euro in thousands)	Financial period ended 31 December 2016	2015
Interests payable for factoring and billing discounts	160	320
Interests payable on interest-bearing loans and borrowings	2,454	2,370
Interests payable on advance loans on exports	99	160
Other sundry financial expenses	368	623
Financial expenses on lease contracts	929	1,125
Realised foreign exchange losses	708	346
Unrealised foreign exchange losses	1,073	1,975
Fair value adjustment of derivative instruments	135	50
Losses on the sale of equity investments	-	500
Total financial expenses	**5,926**	**7,469**

Financial expenses increased by Euro 1,543 thousand as a result of:

- decrease in *foreign exchange losses (realised and unrealised)* of Euro 540 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 2016 of the currency items, mainly due to the appreciation of US Dollar;
- a recognition of the loss on equity investments of Euro 500 thousand deriving from the sale of 20% of the equity investment in Marais Technologies SAS to the C2D SAS company on 13 October 2015 was recognised in 2015.

33.Financial income

During the financial periods ended 31 December 2016 and 2015, financial income amounted to Euro 5,252 thousand and Euro 5,541 thousand, respectively.
The breakdown of the item is as follows:

(Euro in thousands)	Financial period ended 31 December	
	2016	**2015**
Interests from banks	5	10
Realised foreign exchange gains	897	992
Unrealised foreign exchange gains	2,550	3,098
Fair value adjustment of derivative instruments	149	203
Sundry income	1,651	1,238
Total financial income	**5,252**	**5,541**

Financial income decreased by Euro 289 thousand mainly due to:

- decrease in *foreign exchange gain (realised and unrealised)* of Euro 643 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 2016 of the currency items;
- Increase in *sundry income* of Euro 413 thousand related to interests accrued on financial receivables due from subsidiaries and associated companies.

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:

	31 December 2016						31 December 2015						
(Euro in thousands)	Trade receivables	Current financial receivables	Other current assets	Current financial payables	Trade payables	Other current liabilities	Trade receivables	Current financial receivables	Other current assets	Non-current financial payables	Current financial payables	Trade payables	Other current liabilities
Subsidiaries:													
Tesmec USA Inc.	537	23,391	1	-	3,608	-	1,525	24,493	-	-	-	21	-
Tesmec Service S.r.l.	270	944	-	-	23	17	75	5,098	-	-	-	1,425	250
East Trencher S.r.l.	-	-	-	10	-	2	1	7	-	-	-	-	11
Tesmec SA	2,346	2,834	8	-	34	-	3,738	1,680	5	-	-	-	-
Tesmec RUS	325	280	-	-	-	-	223	136	-	-	-	1	-
SGE S.r.l.	70	3,511	-	-	-	23	178	433	143	-	-	-	-
Tesmec New Technology (Beijing)	192	-	-	-	-	-	161	-	-	-	-	-	-
Group Marais SAS	276	-	-	-	874	-	7	-	-	-	-	-	-
Marais Laying Tech. Ltd. NZ	144	-	-	-	-	-	-	-	-	-	-	-	-
Bertel S.r.l.	39	2,784	-	-	-	-	-	-	-	-	-	-	-
CPT Engineering S.r.l.	26	836	-	-	-	-	-	-	-	-	-	-	-
Subtotal	**4,225**	**34,580**	**9**	**10**	**4,539**	**42**	**5,908**	**31,847**	**148**	**-**	**-**	**1,447**	**261**
Associates:													
Locavert S.A.	78	-	-	-	-	-	12	-	-	-	-	-	-
Bertel S.r.l.	-	-	-	-	-	-	25	2,524	-	-	-	-	-
Subtotal	**78**	**-**	**-**	**-**	**-**	**-**	**37**	**2,524**	**-**	**-**	**-**	**-**	**-**
Joint Ventures:													
Condux Tesmec Inc.	206	332	-	-	-	-	576	2,307	-	-	-	1	-
Tesmec Peninsula	39	3,508	-	-	34	-	44	4,690	-	-	-	7	-
Marais Algerie SARL	-	-	-	-	-	-	9	-	-	-	-	-	-
Subtotal	**245**	**3,840**	**-**	**-**	**34**	**-**	**629**	**6,997**	**-**	**-**	**-**	**8**	**-**
Related parties:													
Ambrosio S.r.l.	-	-	-	-	4	-	-	-	-	-	-	-	-
Ceresio Tours S.r.l.	-	-	-	-	1	-	-	-	-	-	-	-	-
Dream Immobiliare S.r.l.	-	2,932	-	-	211	-	-	1,096	-	14,743	1,211	52	-
TTC S.r.l.	-	-	-	-	-	-	-	-	-	-	-	42	-
Fintetis S.r.l.	-	-	-	-	-	-	30	-	-	-	-	-	-
Lame Nautica S.r.l.	-	-	-	-	-	-	1	-	-	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	308	-	-	-	-	-	2,170	-	-	-	-	-	-
Reggiani Macchine S.p.A.	122	-	-	-	(112)	-	52	-	-	-	-	77	-
Comatel	-	-	-	-	-	-	29	-	-	-	-	-	-
C2D	-	-	-	-	14	-	-	-	-	-	-	13	-
Subtotal	**430**	**2,932**	**-**	**-**	**118**	**-**	**2,282**	**1,096**	**-**	**14,743**	**1,211**	**184**	**-**
Total	**4,978**	**41,352**	**9**	**10**	**4,691**	**42**	**8,856**	**42,464**	**148**	**14,743**	**1,211**	**1,639**	**261**

(Euro in thousands)	Financial period ended 31 December 2016					Financial period ended 31 December 2015				
	Revenues	Cost of raw materials	Cost of services	Other operating (costs)/revenues, net	Financial income and expenses	Revenues	Cost of raw materials	Cost of services	Other operating (costs)/revenues, net	Financial income and expenses
Subsidiaries:										
Tesmec USA, Inc.	2,520	(5,011)	(128)	90	638	6,673	(135)	133	314	610
Tesmec Service S.r.l.	446	(87)	38	207	169	6	(800)	(16)	(734)	171
Tesmec Balkani E.A.D.	-	-	-	-	-	-	-	-	-	1
East Trencher S.r.l.	-	-	-	3	-	34	-	-	2	1
Tesmec SA	3,648	(58)	(113)	17	249	7,895	(17)	-	16	212
Tesmec RUS	404	-	(24)	1	17	83	-	(14)	-	4
SGE S.r.l.	-	-	3	170	62	-	-	2	165	27
Tesmec New Technology (Beijing)	58	-	(88)	-	-	162	-	-	-	-
Group Marais SAS	331	(856)	(77)	49	5	84	-	-	3	-
Marais Laying Tech. Ltd. NZ	144	-	-	-	-	-	-	-	-	-
Marais Tunisie SA	4	-	-	-	-	-	-	-	-	-
Bertel S.r.l.	26	(206)	-	19	128	-	-	-	-	-
CPT Engineering S.r.l.	-	-	2	8	14	-	-	-	-	-
Subtotal	**7,581**	**(6,218)**	**(387)**	**564**	**1,282**	**14,937**	**(952)**	**105**	**(234)**	**1,026**
Associates:										
Locavert S.A.	224	-	-	-	-	66	-	-	-	-
Bertel S.p.A.	-	-	-	-	-	138	-	3	16	45
Subtotal	**224**	**-**	**-**	**-**	**-**	**204**	**-**	**3**	**16**	**45**
Joint Ventures:										
Condux Tesmec Inc.	1,298	-	-	181	45	2,964	-	(1)	181	31
Tesmec Peninsula	-	-	(34)	109	81	1,862	(147)	(28)	110	99
Marais Algerie SARL	-	-	-	-	-	12	-	-	-	-
Subtotal	**1,298**	**-**	**(34)**	**290**	**126**	**4,838**	**(147)**	**(29)**	**291**	**130**
Related parties:										
Ambrosio S.r.l.	-	-	-	(14)	-	-	-	-	(15)	-
Ceresio Tours S.r.l.	-	-	(6)	-	-	-	-	(9)	-	-
Dream Immobiliare S.r.l.	-	-	-	(322)	(873)	-	-	-	(350)	(1,031)
Studio Bolelli	-	-	-	-	-	-	-	(131)	-	-
TTC S.r.l.	-	-	(21)	-	-	-	-	(49)	-	-
Fintetis S.r.l.	(30)	-	-	-	-	25	-	-	-	-
Lame Nautica S.r.l.	-	-	-	-	-	71	-	1	-	-
M.T.S. Officine meccaniche S.p.A.	3,634	-	5	10	-	2,357	(5)	5	50	-
Reggiani Macchine S.p.A.	193	(53)	(122)	243	-	-	(36)	(82)	154	-
CBF S.r.l.	-	-	-	1	-	-	-	-	-	-
Comatel	-	-	-	-	-	193	-	-	-	-
C2D	-	-	-	-	-	-	-	-	-	(500)
Subtotal	**3,797**	**(53)**	**(144)**	**(82)**	**(873)**	**2,646**	**(41)**	**(265)**	**(161)**	**(1,531)**
Total	**12,900**	**(6,271)**	**(565)**	**772**	**535**	**22,625**	**(1,140)**	**(186)**	**(88)**	**(330)**

- 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 6,648 thousand refer to the sales of trencher machines subsequently resold from 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.;
- Tesmec RUS: 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;
- Condux Tesmec, Inc.: the JV purchases stringing machines and equipment for sale on the American market 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;
- Dream Immobiliare S.r.l.: financial income and expenses includes interests payable deriving from the recognition in accordance with IAS 17 of the Grassobbio Property of Euro 873 thousand. Changes from the previous year refer to the operation described in paragraph 4.*1 Effects of transaction with Related Parties*;;
- M.T.S. Officine meccaniche S.p.A.: revenues refer to sales of semi-finished products made by the Tesmec Workshop in Sirone;
- Reggiani Macchine S.p.A.: costs for services mainly refer to costs related to users for a total amount of Euro 243 thousand.

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

Year 2016:

Board of Directors				
Name and Surname	**Role**	**Fees (in Euro)**	**Bonus and other fees (in Euro)**	**Total fees (in Euro)**
Ambrogio Caccia Dominioni	Chairman and Chief Executive Officer	480,000	-	480,000
Gianluca Bolelli	Vice Chairman	76,267	-	76,267
Sergio Arnoldi	Director	20,800	-	20,800
Gioacchino Attanzio	Director	30,000	-	30,000
Caterina Caccia Dominioni	Director	48,533	-	48,533
Guido Giuseppe Maria Corbetta	Director	18,410	-	18,410
Lucia Caccia Dominioni	Director	20,000	-	20,000
Paola Durante	Director	13,478	-	13,478

Board of Statutory Auditors				
Name and Surname	**Role**	**Fees (in Euro)**	**Bonus and other fees (in Euro)**	**Total fees (in Euro)**
Simone Cavalli	Chairman	40,640	-	40,640
Stefano Chirico	Statutory Auditor	26,468	-	26,468
Alessandra De Beni	Statutory Auditor	26,000	-	26,000

Fees paid to executives with strategic responsibilities in the 2016 financial period amounted to Euro 362 thousand (Euro 363 thousand in the 2014 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 2016 and 2015 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**	
			2016	**2015**
Audit of the financial statements and consolidated financial statements	Ernst & Young S.p.A.	Tesmec S.p.A. Parent Company	101	80
Limited half-year auditing	Ernst & Young S.p.A.	Tesmec S.p.A. Parent Company	28	20
Certification services (2)	Ernst & Young S.p.A.	Tesmec S.p.A. Parent Company	5	5
Other services (2)	Ernst & Young S.p.A.	Tesmec S.p.A. Parent Company	45	15
Total			**179**	**120**

(1) This item refers to activities aimed at the signing of tax returns.

(2) The other services provided to the parent company mainly relate to support for the identification of regulatory intervention areas..

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 2016 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 2016 and 2015, they are summarised as follows:

	31 December	
(Euro in thousands)	**2016**	**2015**
Sureties	30,337	30,790
Total commitments and risks	**30,337**	**30,790**

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.

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

On the date of this report, the Company holds a total of 4,711,879 treasury shares, equal to 4.40% of the Share Capital.

The significant events occurred after the close of the financial period include:

- on 8 February 2017, the subsidiary Tesmec France SARL was wound-up in that this investment was no longer of strategic importance.

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 2016 financial period.

2. They also certify that:

2.1 the financial statements as at 31 December 2016:

- 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, 10 March 2017

Ambrogio Caccia Dominioni
Chief Executive Officer

Andrea Bramani
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 2016, 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, and in particular on the effects of the transaction with the related party Dream Immobiliare S.r.l.. 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;

- the Directors, also on the basis of the information given by CONSOB with communication n. 3907 of 19 January 2015, have adequately described in the explanatory notes to the financial statements the main assumptions used in the performance of the impairment test for some assets of the financial statements together with the sensitivity analysis performed;
- during the financial period, the Company carried out transactions on Treasury shares in thanks also to the shareholders' approval taken in this regard, on 29 April 2016;
- 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 2016, 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 56 thousand relating to services performed for acquisition operation, 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 30 March 2017 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 30 March 2017, the Reports on the separate and consolidated financial statements. The Report do not contain remarks and gives information about non-compliance by the Company

and by the Group of certain financial parameters on medium-long term loans and the related Directors' assessments);

- 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 15 meetings of the current Board of Directors. During the same period, the Board of Statutory Auditors met 10 times including 5 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, July 2014 and July 2015) 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 2016, the Board of Directors of Tesmec S.p.A. stated that the subsidiaries companies Tesmec USA Inc and Marais Technologies SA are "strategically important subsidiaries";
- 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;
- the Company adopted an Organizational Model in compliance with the Italian Legislative Decree n. 231/2001 (the "Organizational Model 231"), which the Code of Ethics is an integral part of; the aims is to prevent the offenses listed in the Decree and consequently the extension of the administrative liability to the Company. On March 10, 2017, the Company approved the New Organizational Model 231 concerning the offence of self-laundering (Italian Law 186/2014), environmental offences (Italian Law 68/2015) and corporate crimes (Provisions on crimes against public administration, Mafia-like associations and false accounting, Italian Law 69/2015);
- 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 2016, 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, 31 March 2017

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

EY S.p.A.
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Independent auditor's report in accordance with articles 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.

Report on the financial statements

We have audited the accompanying financial statements of Tesmec S.p.A., which comprise the statement of financial position as at 31 December 2016, the income statement, the statement of comprehensive income, the statement of changes in shareholder's equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors of Tesmec S.p.A. are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Building a better working world

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Tesmec S.p.A. as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Emphasis of Matter

We draw attention to paragraph 5.4 "Financial performance analysis" of the Report on Operations and to note 16 "Medium/long-terms loans" of the Explanatory notes, which describe the Company's failure to comply with certain financial covenants clauses on loan contracts and related Directors' considerations. Our opinion is not modified in respect of this matter.

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and Ownership Structure with the financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the financial statements. The Directors of Tesmec S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information of the Report on Corporate Governance and the Company's Ownership Structure are consistent with the financial statements of Tesmec S.p.A. as at 31 December 2016.

Milano, 30 March 2017

EY S.p.A.
Signed by: Massimiliano Vercellotti, partner

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

ENCLOSURES

Enclosure A

List of investments held as at 31 December 2016 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 2016, 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 2016

	31 December 2015			Increases		Decreases		Other	31 December 2016		
Company	Quantity	%	Value	Quantity	Cost	Quantity	Cost	Write-down/ Revaluation	Quantity	%	Value
Subsidiaries consolidated											
Tesmec USA Inc.	10,450,000	67.00% [1]	21,261,434	-	-	-	-	-	10,450,000	67.00% [1]	21,261,434
Tesmec Service	100,000	100.00%	2,095,882	-	1,500,000	-	-	-	100,000	100.00%	3,595,882
OOO Tesmec Rus	10,590	100.00%	10,590	-	-	-	-	-	10,590	100.00%	10,590
Tesmec SA (Pty)	100	100.00%	360,816	-	-	-	-	-	100	100.00%	360,816
Tesmec Balkani	5,000	100.00%	-	-	-	-	-	-	5,000	100.00%	-
East Trenchers S.r.l.	100,000	100.00%	145,000	-	-	-	-	-	100,000	100.00%	145,000
SGE S.r.l.	10,000	100.00%	410,000	-	-	-	-	-	10,000	100.00%	410,000
Tesmec France	3,000	100.00%	-	-	-	-	-	-	3,000	100.00%	-
Tesmec New Tech.	200,000	100.00%	200,000	-	-	-	-	-	200,000	100.00%	200,000
Marais Tech.	328,566	52.83% [2]	8,563,664	-	-	-	-	-	328,566	52.83% [1]	8,563,664
CPT Engineering	-	-	-	315,600	315,600	-	-	-	315,600	100.00%	315,600
Bertel S.r.l.	-	-	-	200,000	3,535,400	-	-	-	200,000	100.00%	3,535,400
Tesmec Rail S.r.l.	-	-	-	10,000	10,000	-	-	-	10,000	100.00%	10,000
Total			**33,047,386**		**5,361,000**		-	-			**38,408,386**
Associates consolidated under the equity method											
Tesmec Peninsula	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	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**				**1,700,000**				**1,737,511**

[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.

[2] The remaining 47.17% is held by Simest S.p.A. for 33.96% and by C2D SAS for 13.21%. 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 Marais Technologies SAS is consolidated on an 86.79% basis.

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