Interim Financial Report at March 31, 2017

Investor Relator
Lucia Caccia Dominioni
Tel: 035.4232840 - Fax: 035.3844606
email: ir@tesmec.it

Tesmec S.p.A.
Registered Office: Piazza Sant'Ambrogio, 16 – 20123 Milan
Fully paid up share capital as at 31 March 2017 Euro 10,708,400
Milan Register of Companies no. 314026
Tax and VAT code 10227100152

Website: www.tesmec.com
Switchboard: 035.4232911

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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)

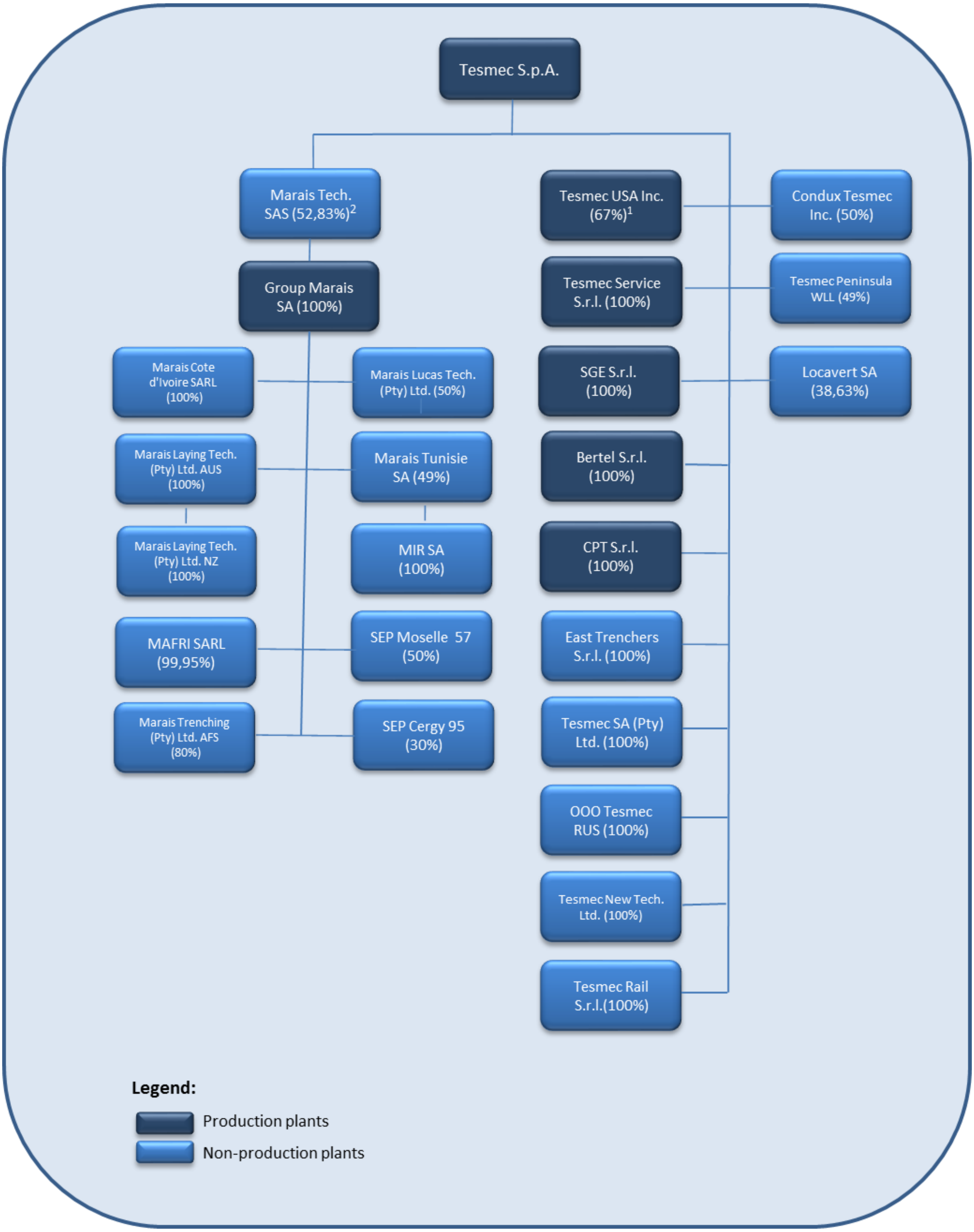
Chairman	Sergio Arnoldi
Members	Gioacchino Attanzio Gianluca Bolelli

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.

INTERIM CONSOLIDATED REPORT ON OPERATIONS

(Not audited by the Independent Auditors)

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. Macroeconomic Framework

The first part of 2017 showed a positive trend of the main macroeconomic indicators that was generalised in the major economies of the planet without excluding countries like Russia and Brazil that have just emerged from a period of downturn. The growth of the economies of China and India does not seem to stop, despite the threats that the new US government has raised on the issue of trade balance redressing.

In Europe, even within a positive economic cycle driven by Germany, the public and private spending for infrastructures is still affected by the high rates of indebtedness of some countries, and wages do not grow due to high rates of unemployment and immigration that is pressing.

In general, the development of the current macroeconomic scenario is seen as an opportunity to be taken also in relation to the expansion of offer of products and services that Tesmec achieved with the recent acquisitions of the Marais Group and of companies in the railway and automation sectors.

3.Significant events occurred during the period

The extraordinary transactions that occurred during the period include the following:

- 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 confirms the high technological content of the solutions for railway maintenance wagons of the Tesmec Group that has been the key to the positive assessment by the customer;

4.Activity, reference market and operating performance for the first three months of 2017

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 the major economic and financial indicators of the Group as at March 2017 compared with the same period of 2016.

	OVERVIEW OF RESULTS	
31 March 2016	**Key income statement data** (Euro in millions)	**31 March 2017**
40.5	Operating Revenues	49.8
5.4	EBITDA	5.6
2.5	Operating Income	2.5
(1.4)	Foreign exchange gains/losses	(0.4)
(0.1)	Group Net Profit	0.8
31 December 2016	**Key financial position data** (Euro in millions)	**31 March 2017**
146.6	Net Invested Capital	147.2
49.9	Shareholders' Equity	50.2
96.7	Net Financial Indebtedness	97.0
(1.2)	Investments in property, plant and equipment and intangible assets	5.4
650	Annual average employees	719

The information on the operations of the main subsidiaries in the reference period is shown:

- Tesmec USA Inc., a company that is 67% owned by Tesmec S.p.A. and 33% by Simest S.p.A. (with an option of Tesmec S.p.A. to repurchase the Simest’s shareholding interest), is based in Alvarado (Texas) and operates in the Trencher segment and in the stringing equipment/rail sector (as from 2012). In the first three months of 2017, revenues achieved directly with customers/end users came to Euro 8.8 million. Compared with the last quarter of 2016, a steady recovery in commercial activities began to reflect positively on sales volumes and end-of-period stock levels.

  Margin levels and net financial indebtedness of the quarter are still not fully reflective of the positive effects of the improved market situation.

- Tesmec Service S.r.l., company 100% owned by Tesmec S.p.A. with registered office in Grassobbio (BG) and operating unit in Monopoli (BA) where it carries out its activity of design and construction of machinery for the maintenance of rolling stock. During the first quarter of the 2017 financial period, the company started production activities related to the supply of 88 multipurpose ladder trucks for the maintenance of the Italian railway network and continued the production activities of the other contracts in progress, recording revenues for Euro 3.5 million.

- Tesmec SA (Pty) Ltd, with registered office in Johannesburg (South Africa), 100% owned by Tesmec S.p.A., was set up in August 2011. In the first three months, the company generated revenues of Euro 0.8 million. No major sales orders were finalised in the quarter that will generate revenues in the coming months.

- Condux Tesmec Inc, a joint venture that is 50% owned by Tesmec S.p.A. and 50% by US shareholder Condux, which is based in Mankato (USA), has been active since June 2009 in selling products for the North American stringing equipment market. The company has been consolidated using the equity method and in the first three months of the year generated revenues totalling Euro 5.0 million, clearly recovering on the figure of Euro 3.0 million compared with same period in the previous year.

- 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 to repurchase this shareholding interest 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. The Group generated during the first quarter of 2017 revenues totalling Euro 9.1 million clearly recovering on the figure of Euro 6.5 million compared with same period in the previous year thanks to the development trend in Oceania and Africa.

The figures relating to the three companies working in the Automation segment within the Stringing equipment and that generated total revenues of Euro 1,264 thousand and for which the process of integration and development of the range of products offered continued during the period 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. During the first three months of 2017, the company generated revenues totalling Euro 7 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 first three months of 2017, revenues amounted to Euro 842 million.

- 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. During the first three months of 2017, the company generated revenues totalling Euro 415 thousand.

5. Income statement

5.1 Consolidated Income statement

The comments provided below refer to the comparison of the consolidated income statement figures as at 31 March 2017 with those as at 31 March 2016.

The main profit and loss figures for the first three months of 2017 and 2016 are presented in the table below:

	Quarter ended 31 March			
(Euro in thousands)	**2017**	**% of revenues**	**2016**	**% of revenues**
Revenues from sales and services	**49,788**	**100.0%**	**40,458**	**100.0%**
Cost of raw materials and consumables	(24,418)	-49.0%	(17,795)	-44.0%
Cost of services	(8,121)	-16.3%	(7,687)	-19.0%
Payroll costs	(11,118)	-22.3%	(9,403)	-23.2%
Other operating (costs)/revenues, net	(2,233)	-4.5%	(1,395)	-3.4%
Amortisation and depreciation	(3,102)	-6.2%	(2,898)	-7.2%
Development costs capitalised	1,464	2.9%	1,124	2.8%
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method	265	0.5%	65	0.2%
Total operating costs	**(47,263)**	**-94.9%**	**(37,989)**	**-93.9%**
Operating income	**2,525**	**5.1%**	**2,469**	**6.1%**
Net Financial Income/Expenses	(1,107)	-2.2%	(1,079)	-2.7%
Foreign exchange gains/losses	(365)	-0.7%	(1,379)	-3.4%
Portion of gains/(losses) from associated companies and non-operational Joint Ventures evaluated using the equity method	5	0.0%	(93)	-0.2%
Pre-tax profit	**1,058**	**2.1%**	**(82)**	**-0.2%**
Income tax	(292)	-0.6%	(35)	-0.1%
Net profit for the period	**766**	**1.5%**	**(117)**	**-0.3%**
Profit / (loss) attributable to non-controlling interests	(62)	-0.1%	(66)	-0.2%
Group profit	**828**	**1.7%**	**(51)**	**-0.1%**

Revenues

Total revenues as at 31 March 2017 increased by 23.1%.

	Quarter ended 31 March				
(Euro in thousands)	**2017**	**% of revenues**	**2016**	**% of revenues**	**2017 vs. 2016**
Sales of products	39,636	79.61%	33,520	82.85%	6,116
Services rendered	7,452	14.97%	6,040	14.93%	1,412
	47,088	**94.58%**	**39,560**	**97.78%**	**7,528**
Changes in work in progress	2,700	5.42%	898	2.22%	1,802
Total revenues from sales and services	**49,788**	**100.00%**	**40,458**	**100.00%**	**9,330**

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

a) Revenues by geographic area

Even if the revenues recorded by the Group in Italy more than doubled compared to the same period last year thanks to the contributions of the Rail and Automation segments, the Group recorded 77% of revenues abroad and in particular in non-EU countries. The revenue analysis by area is indicated below, compared with the first quarter of 2017 and the first quarter of

2016, which indicates the growth of the Italian and BRIC and Others markets, partially balanced by the downtrends recorded in the European and Middle-Eastern markets. In the BRIC and Others segment, note the contribution deriving from the completion of the order to the Indonesian Electricity Company (PLN), the award of which was announced on 7 November 2016. 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.

	Quarter ended 31 March	
(Euro in thousands)	**2017**	**2016**
Italy	11,462	4,067
Europe	6,202	10,114
Middle East	2,471	6,069
Africa	3,614	6,207
North and Central America	8,127	9,413
BRIC and Others	17,912	4,588
Total revenues	**49,788**	**40,458**

Operating costs net of depreciation and amortisation

	Quarter ended 31 March			
(Euro in thousands)	**2017**	**2016**	**2017 vs. 2016**	**% change**
Cost of raw materials and consumables	(24,418)	(17,795)	(6,623)	37.2%
Cost of services	(8,121)	(7,687)	(434)	5.6%
Payroll costs	(11,118)	(9,403)	(1,715)	18.2%
Other operating (costs)/revenues, net	(2,233)	(1,395)	(838)	60.1%
Development costs capitalised	1,464	1,124	340	30.2%
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method	265	65	200	307.7%
Operating costs net of depreciation and amortisation	**(44,161)**	**(35,091)**	**(9,070)**	**25.8%**

The table shows an increase in operating costs of Euro 9,070 thousand (+25.8%) in a more than proportional way compared to the increase in sales (+23.1%). Among the cost items, there is an increase in the cost items for raw materials linked to the higher sales during the period and to their different mix. It should be noted that the comparison with the same period of the previous year is also affected by a different consolidation area that in 2016 did not yet include CPT and Bertel. “Other operating (costs)/revenues, net” includes Euro 0.5 million related to the rent of the Grassobbio plant, which was recorded as amortisation and interest expense in the past year due to the different accounting treatment.

EBITDA

In relation to the increase in revenues (+23.1%) in a less than proportional way compared to the increase in operating costs net of depreciation and amortisation (+25.8%), in terms of margins, EBITDA amounts to Euro 5,627 thousand increasing by 4.8% compared to what was recorded in the first quarter of 2016.
A restatement of the income statement figures representing the performance of EBITDA is provided below:

	Quarter ended 31 March				
(Euro in thousands)	**2017**	**% of revenues**	**2016**	**% of revenues**	**2017 vs. 2016**
Operating income	2,525	5.1%	2,469	6.1%	56
+ Depreciation and amortisation	3,102	6.2%	2,898	7.2%	204
EBITDA (*)	**5,627**	**11.3%**	**5,367**	**13.3%**	**260**

(*) 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.

Financial Management

	Quarter ended 31 March	
(Euro in thousands)	**2017**	**2016**
Net Financial Income/Expenses	(925)	(1,100)
Foreign exchange gains/losses	(365)	(1,379)
Fair value adjustment of derivative instruments	(182)	21
Portion of gains/(losses) from associated companies and non-operational Joint Ventures evaluated using the equity method	5	(93)
Total net financial income/expenses	**(1,467)**	**(2,551)**

Net financial management increased compared to the same period in 2016 of Euro 1,084 thousand due, for Euro 1,014 thousand, to the different trend in the USD/EUR exchange rate in the two periods of reference that resulted in the recording of net losses totalling Euro 365 thousand (realised for Euro 47 thousand and unrealised for Euro 318 thousand) in the first quarter of 2017 against net losses of Euro 1,379 thousand in the first quarter of 2016.

5.2 Income Statement by segment

Revenues by segment

The tables below show the income statement figures as at 31 March 2017 compared to those at 31 March 2016, broken down into three operating segments.

	Quarter ended 31 March				
(Euro in thousands)	**2017**	**% of revenues**	**2016**	**% of revenues**	**2017 vs. 2016**
Stringing equipment	21,877	43.9%	10,408	25.7%	11,469
Trencher	24,417	49.0%	29,231	72.3%	(4,814)
Rail	3,494	7.0%	819	2.0%	2,675
Total revenues	**49,788**	**100.0%**	**40,458**	**100.0%**	**9,330**

In the first three months of 2017, the Group recorded consolidated revenues of Euro 49,788 thousand, marking an increase of Euro 9,330 thousand compared to Euro 40,458 thousand in the same period of the previous year. In percentage terms, this increase represents a positive difference of 23.1%, which is split unevenly between the Group’s three business areas. More specifically, an increase of +110.2% was recorded for the Stringing equipment segment, +326.6% for the Rail segment and a decrease of -16.5% for the Trencher segment.
For the Stringing equipment segment, revenues in the first quarter of 2017 more than doubled compared to the same period of the previous year by benefiting also from the successful completion of the production operations of the Indonesian order within the terms provided under the contract.

For the Rail segment, the significantly improved value of revenues compared to the same period of the previous year is due both to the beginning of production operations for the RFI tender (supply of 88 multipurpose ladder trucks for the maintenance of the Italian railway network) and to the progress of activities related to other orders in progress.

The decrease in revenues of the Trencher segment is mainly due to the failure to finalise the sales contracts being negotiated in the Middle East and South Africa only partially offset by the positive performance of revenues of the service activities of the Marais Group.

EBITDA by segment

The tables below show the income statement figures as at 31 March 2017 compared to those at 31 March 2016, broken down into three operating segments:

	Quarter ended 31 March				
(Euro in thousands)	**2017**	**% of revenues**	**2016**	**% of revenues**	**2017 vs. 2016**
Stringing equipment	3,939	18.0%	1,979	19.0%	1,960
Trencher	793	3.2%	3,728	12.8%	(2,935)
Rail	895	25.6%	(340)	-41.5%	1,235
EBITDA (*)	**5,627**	**11.3%**	**5,367**	**13.3%**	**260**

(*) 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.

This result is the combined effect of different trends in the three segments:

- Stringing equipment: the improvement of the EBITDA from Euro 1,979 thousand in the first quarter of 2016 to Euro 3,939 thousand in 2017 is due to higher sales volumes. In percentage terms, the value is 18% of revenues in line with the trends that this industry has historically achieved.
- Trencher: the margin decreased by 78.7% in a more than proportional way compared to the decrease in revenues (-16.5%) due to the lower absorption of fixed overhead costs.
- Rail: Ebitda increased from a negative value of Euro 340 thousand as at 31 March 2016 to a positive value of Euro 895 thousand as at 31 March 2017 thanks to trend in sales volumes that more than tripled in the first quarter of 2017 compared to the same period of the previous year.

6.Summary of balance sheet figures as at 31 March 2017

Information is provided below on the Group's main equity indicators as at 31 March 2017 compared to 31 December 2016. In particular, the following table shows the reclassified funding sources and uses from the consolidated balance sheet as at 31 March 2017 and as at 31 December 2016:

(Euro in thousands)	**As at 31 March 2017**	**As at 31 December 2016**
USES		
Net working capital (1)	73,665	76,038
Fixed assets	72,268	70,056
Other long-term assets and liabilities	1,256	517
Net invested capital (2)	**147,189**	**146,611**
SOURCES		
Net financial indebtedness (3)	96,980	96,691
Shareholders' equity	50,209	49,920
Total sources of funding	**147,189**	**146,611**

(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

The table below shows a breakdown of "Net Working Capital" as at 31 March 2017 and 31 December 2016:

(Euro in thousands)	**As at 31 March 2017**	**As at 31 December 2016**
Trade receivables	64,691	49,433
Work in progress contracts	3,991	1,291
Inventories	61,691	69,227
Trade payables	(37,971)	(31,197)
Other current assets/(liabilities)	(18,737)	(12,716)
Net working capital (1)	**73,665**	**76,038**

(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.

Despite the increase in sales volumes both compared to the same period last year (+23.1%) and especially compared to the last quarter of 2016 (+148%), net working capital amounting to Euro 73,665 thousand decreased by Euro 2,373 thousand (by 3.1%) compared to 31 December 2016. This trend is mainly due to the decrease in "Inventories" of Euro 7,536 thousand (-10.1%) partially offset by the increase in "Trade receivables" net of the increase in the balance of suppliers and Other current assets/(liabilities) for a net amount of Euro 2,463 thousand.

B) Fixed assets

The table below shows a breakdown of "Fixed assets" as at 31 March 2017 and 31 December 2016:

(Euro in thousands)	**As at 31 March 2017**	**As at 31 December 2016**
Intangible assets	18,805	18,891
Property, plant and equipment	49,403	47,289
Equity investments in associates	4,053	3,869
Other equity investments	7	7
Fixed assets	**72,268**	**70,056**

Total *fixed assets* recorded an increase of Euro 2,212 thousand due to the increase in property, plant and equipment of Euro 2,114 thousand as a result of the increase in the machinery used for service activities in the Trencher segment especially in the American subsidiary and in the Marais Group.

C) Net financial indebtedness

Details of the breakdown of "Net financial indebtedness" as at 31 March 2017 and 31 December 2016 are as follows:

(Euro in thousands)	**As at 31 March 2017**	***of which with related parties and group***	**As at 31 December 2016**	***of which with related parties and group***
Cash and cash equivalents	(21,220)		(18,501)	
Current financial assets (1)	(8,268)	*(8,157)*	(9,053)	*(8,944)*
Current financial liabilities	73,313	*13*	70,010	*33*
Current portion of derivative financial instruments	346		110	
Current financial indebtedness (2)	**44,171**	***(8,144)***	**42,566**	***(8,911)***
Non-current financial liabilities	52,655	-	53,916	-

Non-current portion of derivative financial instruments	154		209	
Non-current financial indebtedness [(2)]	**52,809**	-	**54,125**	-
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	**96,980**	***(8,144)***	**96,691**	***(8,911)***

[(1)] Current financial assets as at 31 March 2017 and 31 December 2016 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.

In the first three months of 2017, the Group's net financial indebtedness increased by Euro 289 thousand compared to the figure at the end of 2016.

The table below shows the breakdown of the following changes:

- increase in current financial indebtedness of Euro 1,605 thousand due to the:
  - increase in current financial liabilities of Euro 3,303 thousand mainly due to (i) Euro 6,852 thousand as a result of greater advances on export and to (ii) Euro 4,632 thousand as a result of the decrease in short-term loans to third parties;
  - decrease in current financial assets and cash and cash equivalents of Euro 2,719 thousand;
- decrease in non-current financial indebtedness of Euro 1,316 thousand mainly due to the reclassification of current financial indebtedness relating to the short-term portion of medium/long-term loans.

7.Management and types of financial risk

For the management of financial risks, please see the paragraph "Financial risk management policy" contained in the Explanatory Notes to the Annual Consolidated Financial Statements for 2016, where the Group's policies in relation to the management of financial risks are presented.

8.Atypical and/or unusual and non-recurring transactions with related parties

In compliance with the Consob communications of 20 February 1997, 27 February 1998, 30 September 1998, 30 September 2002 and 27 July 2006, it should be noted that during the first quarter of the 2017 financial year, no transactions took place with related parties of an atypical or unusual nature, outside of normal company operations or such as to harm the profits, balance sheet or financial results of the Group.
For significant intercompany and related party information, please see the paragraph "Related party transactions" in the Explanatory Notes.

9.Group Employees

The average number of Group employees in the first quarter of 2017, including the employees of companies that are fully consolidated, is 719 persons compared to 622 in 2016.

10.Other information

Treasury shares

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 March 2017, 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.

Events occurring after the close of the financial period

There are no significant events subsequent to the end of the quarter.

Business outlook

Thanks to the positive performance of revenues of the first quarter and an order backlog that, as at 31 March 2017, increased further compared to the already high values achieved at the end of last year, revenue forecasts at the end of the year ranging from Euro 160 and to Euro 170 million, against which, in the light of the expected improvements of the results of the Marais Group and the American subsidiary, it is reasonable to assume an EBITDA of around 15% at the end of the year and a substantial improvement in the Net Financial Indebtedness in 2017.

CONSOLIDATED FINANCIAL STATEMENTS OF THE TESMEC GROUP

Consolidated financial statements

Consolidated statement of financial position as at 31 March 2017 and as at 31 December 2016

(Euro in thousands)	Notes	31 March 2017	31 December 2016
NON-CURRENT ASSETS			
Intangible assets	5	18,805	18,891
Property, plant and equipment	6	49,403	47,289
Equity investments in associates valued using the equity method		4,053	3,869
Other equity investments		7	7
Financial receivables and other non-current financial assets	14	173	324
Derivative financial instruments	14	3	3
Deferred tax assets		11,801	11,520
Non-current trade receivables		806	373
TOTAL NON-CURRENT ASSETS		**85,051**	**82,276**
CURRENT ASSETS			
Work in progress contracts	7	3,991	1,291
Inventories	8	61,691	69,227
Trade receivables	9	64,691	49,433
of which with related parties:	9	*3,123*	*753*
Tax receivables		1,813	1,705
Other available-for-sale securities	14	2	2
Financial receivables and other current financial assets	10	8,266	9,049
of which with related parties:	10	*8,157*	*8,944*
Other current assets		3,148	2,816
Derivative financial instruments		-	2
Cash and cash equivalents	14	21,220	18,501
TOTAL CURRENT ASSETS		**164,822**	**152,026**
TOTAL ASSETS		**249,873**	**234,302**
SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS			
Share capital	11	10,708	10,708
Reserves / (deficit)	11	37,047	41,457
Group net profit / (loss)	11	828	(3,944)
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS		**48,583**	**48,221**
Minority interest in capital and reserves / (deficit)		1,688	1,608
Net profit / (loss) for the period attributable to non-controlling interests		(62)	91
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		**1,626**	**1,699**
TOTAL SHAREHOLDERS' EQUITY		**50,209**	**49,920**
NON–CURRENT LIABILITIES			
Medium/long-term loans	12	37,905	39,181
Bond issue		14,750	14,735
Derivative financial instruments	14	154	209
Employee benefit liability		3,703	3,680
Deferred tax liabilities		7,672	7,870
Other non-current liabilities		150	150
Non-current trade payables		2	3
TOTAL NON-CURRENT LIABILITIES		**64,336**	**65,828**
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	13	73,313	70,010
of which with related parties:	13	*13*	*33*
Derivative financial instruments	14	346	110
Trade payables		37,971	31,197
of which with related parties:		*196*	*153*
Advances from customers		5,931	3,463
Income taxes payable		1,066	199
Provisions for risks and charges		3,877	3,704
Other current liabilities		12,824	9,871
TOTAL CURRENT LIABILITIES		**135,328**	**118,554**
TOTAL LIABILITIES		**199,664**	**184,382**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**249,873**	**234,302**

Consolidated income statement for the quarter ended 31 March 2017 and 2016

(Euro in thousands)	**Notes**	**Quarter ended 31 March**	
		2017	**2016**
Revenues from sales and services	15	**49,788**	**40,458**
of which with related parties:		*4,218*	*1,411*
Cost of raw materials and consumables		(24,418)	(17,795)
of which with related parties:		-	-
Cost of services		(8,121)	(7,687)
of which with related parties:		*(20)*	*(21)*
Payroll costs		(11,118)	(9,403)
Other operating (costs)/revenues, net		(2,233)	(1,395)
of which with related parties:		*(495)*	*(19)*
Amortisation and depreciation		(3,102)	(2,898)
Development costs capitalised		1,464	1,124
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method		265	65
Total operating costs	16	**(47,263)**	**(37,989)**
Operating income		**2,525**	**2,469**
Financial expenses		(2,801)	(4,392)
of which with related parties:		-	*(218)*
Financial income		1,329	1,934
of which with related parties:		*28*	*39*
Portion of gains/(losses) from associated companies and non-operational Joint Ventures evaluated using the equity method		5	(93)
Pre-tax profit		**1,058**	**(82)**
Income tax		(292)	(35)
Net profit for the period		**766**	**(117)**
Profit / (loss) attributable to non-controlling interests		(62)	(66)
Group profit		**828**	**(51)**
Basic and diluted earnings per share		**0.0077**	**(0.0005)**

Consolidated statement of comprehensive income for the quarter ended 31 March 2017 and 2016

		Quarter ended 31 March	
(Euro in thousands)	**Notes**	**2017**	**2016**
NET PROFIT FOR THE PERIOD		**828**	**(51)**
Other components of comprehensive income:			
Exchange differences on conversion of foreign financial statements		(520)	(1,439)
Total other income/(losses) after tax		**(520)**	**(1,439)**
Total comprehensive income (loss) after tax		**308**	**(1,490)**
Attributable to:			
Equity holders of parent		370	(1,424)
Minority interests		(62)	(66)

Statement of consolidated cash flows for the quarter ended 31 March 2017 and 2016

		Quarter ended 31 March	
(Euro in thousands)	**Notes**	**2017**	**2016**
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		766	(51)
Adjustments to reconcile net income for the period with the cash flows generated by (used in) operating activities:			
Amortisation and depreciation		3,102	2,898
Provisions for employee benefit liability		31	208
Provisions for risks and charges / inventory obsolescence / doubtful accounts		290	340
Employee benefit payments		(8)	(112)
Payments of provisions for risks and charges		57	16
Net change in deferred tax assets and liabilities		(500)	(791)
Change in fair value of financial instruments	14	183	(22)
Change in current assets and liabilities:			
Trade receivables	9	(13,210)	(12,347)
Inventories	8	4,436	(1,379)
Trade payables		6,775	(4,887)
Other current assets and liabilities		3,396	(397)
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		**5,318**	**(16,524)**
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	6	(4,449)	(2,688)
Investments in intangible assets	5	(1,620)	(1,505)
Change in the consolidation area		-	(4,590)
(Investments) / disposal of financial assets		617	5,443
Proceeds from sale of property, plant and equipment and intangible assets	5-6	666	6,137
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		**(4,786)**	**2,797**
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	12	1,490	-
Repayment of medium/long-term loans	12	(7,426)	(7,001)
Change in the consolidation area		-	491
Net change in short-term financial debt	13	8,069	17,990
Purchase of treasury shares		-	(193)
Change in the consolidation area		58	(15)
NET CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES (C)		**2,191**	**11,272**
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		**2,723**	**(2,455)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		(4)	(118)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)		18,501	2,719
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)	14	**21,220**	**146**
Additional information:			
Interest paid		679	835
Income tax paid		-	23

Statement of changes in consolidated shareholders’ equity for the quarter ended 31 March 2017 and 2016

(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 2017	**10,708**	**2,141**	**10,915**	**(2,341)**	**6,560**	**24,182**	**(3,944)**	**48,221**	**1,699**	**49,920**
Profit for the period	-	-	-	-	-	-	828	828	(62)	766
Other profits/(losses)	-	-	-	-	(520)	-	-	(520)	(15)	(535)
Total comprehensive income/(loss)	-	-	-	-	-	-	-	**308**	**(77)**	**231**
Allocation of profit for the period	-	-	-	-	-	(3,944)	3,944	-	-	-
Change in the consolidation area	-	-	-	-	-	54	-	54	4	58
Other changes	-	-	-		-		-	-	-	-
Balance as at 31 March 2017	**10,708**	**2,141**	**10,915**	**(2,341)**	**6,040**	**20,292**	**828**	**48,583**	**1,626**	**50,209**

(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 2016	**10,708**	**2,141**	**10,915**	**(2,136)**	**5,731**	**19,972**	**6,931**	**54,262**	**1,615**	**55,877**
Profit for the period	-	-	-	-	-	-	(51)	(51)	(66)	(117)
Other profits/(losses)	-	-	-	-	(1,439)	-	-	(1,439)	3	(1,436)
Total comprehensive income/(loss)	-	-	-	-	-	-	-	**(1,490)**	**(63)**	**(1,553)**
Allocation of profit for the period	-	-	-	-	-	6,931	(6,931)	-	-	-
Change in the consolidation area	-	-	-	-	-	(6)	-	(6)	(9)	(15)
Other changes	-	-	-	(193)	-	-	-	(193)		(193)
Balance as at 31 March 2016	**10,708**	**2,141**	**10,915**	**(2,329)**	**4,292**	**26,897**	**(51)**	**52,573**	**1,543**	**54,116**

Explanatory notes

Accounting policies adopted in preparing the consolidated financial statements as at 31 March 2017

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.

2.Reporting standards

The consolidated financial statements as at 31 March 2017 were prepared in condensed form in accordance with International Financial Reporting Standards (IFRS), by using the methods for preparing interim financial reports provided by IAS 34 Interim financial reporting.

The accounting standards adopted in preparing the interim consolidated financial statements as at 31 March 2017 are those adopted for preparing the consolidated financial statements as at 31 December 2016 in compliance with IFRS.

More precisely, the consolidated statement of financial position, income statement, comprehensive income statement, statement of changes in shareholders' equity and statement of cash flows are drawn up in extended form and are in the same format adopted for the consolidated financial statements as at 31 December 2016. The explanatory notes to the financial statements indicated below are in condensed form and therefore do not include all the information required for annual financial statements. In particular, as provided by IAS 34, in order to avoid repeating already disclosed information, the notes refer exclusively to items of the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholders’ equity and the statement of consolidated cash flows whose breakdown or change, with regard to amount, type or unusual nature, are significant to understanding the economic and financial situation of the Group.

Since the consolidated financial statements do not disclose all the information required in preparing the consolidated annual financial statements, they must be read together with the consolidated financial statements as at 31 December 2016.

The consolidated financial statements as at 31 March 2017 comprise the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated shareholders’ equity, statement of consolidated cash flows and related explanatory notes. Comparative figures are disclosed as required by IAS 34 (31 December 2016 for the statement of financial position and the first quarter of 2016 for the consolidated income statement, consolidated statement of comprehensive income, statement of changes in shareholders’ equity and cash flow statement).

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

Disclosure of the quarterly consolidated financial statements of the Tesmec Group for the period ended 31 March 2017 was authorised by the Board of Directors on 28 April 2017.

Translation of foreign currency financial statements and of foreign currency items

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 rates for the quarter ended 31 March		End-of-period exchange rate as at 31 March	
	2017	2016	2017	2016
US Dollar	1.063	1.102	1.069	1.139
Bulgarian Lev	1.956	1.956	1.956	1.956
Russian Rouble	62.825	82.473	60.313	76.305
South African Rand	14.220	17.460	14.240	16.787
Renminbi	7.317	7.209	7.364	7.351
Qatar Riyal	3.869	4.010	3.892	4.144
Algerian Dinar	116.878	118.781	117.453	123.567
Tunisian Dinar	2.444	2.238	2.456	2.292
Australian Dollar	1.407	1.530	1.398	1.481
New Zealand Dollar	1.483	1.662	1.531	1.641
CFA Franc	655.957	655.957	655.957	655.957

3.Consolidation methods and area

On 31 March 2017, the consolidated area changed with respect to that as at 31 December 2016:

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

- on 28 February 2017, the subsidiaries Sep College 77, Sep Semafor 77 e Sep Liason Natixis 77 (controlled by Group Marais SA) were wound-up in that no longer of strategic importance.

4.Significant events occurred during the period

The extraordinary transactions that occurred during the period include the following:

- 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.

COMMENTS ON THE MAIN ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

5.Intangible assets

The breakdown and changes in "Intangible assets" as at 31 March 2017 and as at 31 December 2016 are shown in the table below:

(Euro in thousands)	01/01/2017	Increases due to purchases	Reclassifications	Decreases	Amortisation	Exchange rate differences	31/03/2017
Development costs	14,622	1,598	-	-	(1,475)	(34)	14,711
Rights and trademarks	2,305	22	1,849	-	(199)	2	3,979
Assets in progress and advance payments to suppliers	1,964	-	(1,849)	-	-	-	115
Total intangible assets	**18,891**	**1,620**	**-**	**-**	**(1,674)**	**(32)**	**18,805**

As at 31 March 2017, *intangible assets* totalled Euro 18,805 thousand, down Euro 86 thousand on the previous year due to:

- *development costs* capitalised in the first three months of 2017 for Euro 1,598 thousand, partially offset by the amortisation for the period (Euro 1,475 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 reclassification of the period equal to Euro 1,849 thousand from *Assets in progress and advance payments to suppliers* to *Rights and trademarks* concerns the allocation of emerging differentials during 2016 relating to the acquisition of the company CPT Engineering and to the line-by-line consolidation of the subsidiary Bertel S.r.l. as from 1 March 2016.
  As provided by IFRS 3, within 12 months after the acquisition, these differentials were allocated among rights and trademarks in that they relate to the Know How acquired and amortised over a five year period.

6.Property, plant and equipment

The breakdown and changes in "Property, plant and equipment" as at 31 March 2017 and as at 31 December 2016 are shown in the table below:

(Euro in thousands)	01/01/2017	Increases due to purchases	Reclassifications	Decreases	Depreciations	Exchange rate differences	31/03/2017
Land	1,797	-	-	-	(2)	(3)	1,792
Buildings	11,595	122	26	-	(118)	(85)	11,540
Plant and machinery	4,657	13	(147)	-	(222)	(20)	4,281
Equipment	1,607	91	-	-	(103)	(2)	1,593
Other assets	27,111	4,223	121	(666)	(983)	(131)	29,675
Assets in progress and advance payments to suppliers	522	-	-	-	-	-	522
Total property, plant and equipment	**47,289**	**4,449**	**-**	**(666)**	**(1,428)**	**(241)**	**49,403**

As at 31 March 2017, property, plant and equipment totalled Euro 49,403 thousand, up compared to the previous year by Euro 2,114 thousand.
The increase is due to the capitalisation of trencher machines registered in the fleet following the drawing-up of new lease contracts.

7.Work in progress contracts

The following table sets forth the breakdown of Work in progress contracts as at 31 March 2017 and as at 31 December 2016:

(Euro in thousands)	**31 March 2017**	**31 December 2016**
Work in progress (Gross)	3,991	1,291
Advances from contractors	-	-
Work in progress contracts	**3,991**	**1,291**
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.

8.Inventories

The following table provides a breakdown of the item Inventories as at 31 March 2017 compared to 31 December 2016:

(Euro in thousands)	**31 March 2017**	**31 December 2016**
Raw materials and consumables	32,922	32,803
Work in progress	14,471	12,360
Finished products and goods for resale	14,283	23,958
Advances to suppliers for assets	15	106
Total Inventories	**61,691**	**69,227**

Inventories compared to 31 December 2016 decreased by Euro 7,536 thousand thanks to the sales in the first quarter of 2017.

9.Trade receivables

The following table sets forth the breakdown of Trade Receivables as at 31 March 2017 and as at 31 December 2016:

(Euro in thousands)	**31 March 2017**	**31 December 2016**
Trade receivables from third-party customers	61,568	48,680
Trade receivables from associates, related parties and joint ventures	3,123	753
Total trade receivables	**64,691**	**49,433**

The increase in *trade receivables* (30.9%) reflects the trend of sales for the quarter, which were concentrated in March, in particular. The balance of trade receivables due from related parties increased by Euro 2,370 thousand mainly due to higher sales to the associated company M.T.S. Officine meccaniche S.p.A.

10.Financial receivables and other current financial assets

The following table provides a breakdown of financial receivables and other current financial assets as at 31 March 2017 and as at 31 December 2016:

(Euro in thousands)	31 March 2017	31 December 2016
Financial receivables from related parties	8,157	8,944
Financial receivables from third parties	50	47
Other current financial assets	59	58
Total financial receivables and other current financial assets	**8,266**	**9,049**

The decrease in current financial assets from Euro 9,049 thousand to Euro 8,266 thousand is mainly due to the decrease in credit positions relating to specific contracts signed with the related parties of joint ventures on which an interest rate is applied and repayable within 12 months.

11.Share capital and reserves

The share capital amounts to Euro 10,708 thousand, fully paid in, and is comprised of 107,084,000 shares with a par value of Euro 0.1 each.

The following table provides a breakdown of Other reserves as at 31 March 2017 and as at 31 December 2016:

(Euro in thousands)	31 March 2017	31 December 2016
Revaluation reserve	86	86
Extraordinary reserve	25,294	25,294
Change in the consolidation area	54	125
Severance indemnity valuation reserve	(479)	(479)
Network Reserve	824	824
Retained earnings/(losses brought forward)	(1,439)	2,380
Bills charged directly to shareholders' equity		
on operations with entities under common control	(4,048)	(4,048)
Total other reserves	**20,292**	**24,182**

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 the difference from translation of financial statements has a negative impact on Shareholders' Equity of Euro 520 thousand as at 31 March 2017.

As at 31 March 2017, the increase in Retained earnings/(losses brought forward) is due to the 2017 result that was allocated by the Shareholders' Meeting on 28 April 2017.

12.Medium-long term loans

During the first three months of 2017, medium-long term loans decreased from Euro 39,181 thousand to Euro 37,905 thousand mainly due to (i) the reclassification in the current financial indebtedness relating to the short-term portion of medium/long-term loans and (ii) the signing of a new medium/long-term loan of Euro 1,490 thousand.

13.Interest-bearing financial payables (current portion)

The following table provides details of this item as at 31 March 2017 and as at 31 December 2016:

(Euro in thousands)	31 March 2017	31 December 2016
Advances from banks against invoices and bills receivables	34,863	28,011
Other financial payables (short-term leases)	997	1,099
Payables due to factoring companies	3,105	2,201
Current account overdrafts	2,768	779
Short-term loans to third parties	3,158	4,896
Current portion of medium/long-term loans	28,380	32,952
Other short-term financial payables	42	72
Total interest-bearing financial payables (current portion)	**73,313**	**70,010**

The increase in the *current portion of medium/long-term loans* refers to the reclassification of the short-term portion of the loans described in the previous paragraph.

14.Disclosure of derivative financial instruments

The following table shows a summary of the financial instruments, other than cash and cash equivalents, owned by the Group as at 31 March 2017:

(Euro in thousands)	Loans and receivables/ financial liabilities measured at amortised cost	Guarantee deposits	Cash and cash equivalents	Available-for-sale financial assets	Fair value recognised in the income statement
Financial assets:					
Financial receivables	173	-	-	-	-
Derivative financial instruments	-	-	-	-	3
Trade receivables	806	-	-	-	-
Total non-current	**979**	**-**	**-**	**-**	**3**
Trade receivables	64,691	-	-	-	-
Financial receivables from related parties	7,944	-	-	-	-
Financial receivables from third parties	263	-	-	-	-
Other current financial assets	59	-	-	-	-
Other available-for-sale securities	-	-	-	2	-
Cash and cash equivalents	-	-	21,220	-	-
Total current	**72,957**	**-**	**21,220**	**2**	**-**
Total	**73,936**	**-**	**21220**	**2**	**3**
Financial liabilities:					
Loans	37,905	-	-	-	-
Bond issue	14,750	-	-	-	-
Derivative financial instruments	-	-	-	-	154
Trade payables	2	-	-	-	-

Total non-current	**52,657**	**-**	**-**	**-**	**154**
Loans	31,538	-	-	-	-
Other financial payables (short-term leases)	997	-	-	-	-
Other short-term payables	40,778	-	-	-	-
Derivative financial instruments	-	-	-	-	346
Trade payables	37,971	-	-	-	-
Total current	**111,284**	**-**	**-**	**-**	**346**
Total	**163,941**	**-**	**-**	**-**	**500**

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.

Interest rate risk

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

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

As at 31 March 2017, 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 17.2 million, with a negative equivalent value of Euro 126 thousand. Moreover, there were four positions related to derivative instruments of Cap interest rate; the notional value of these positions was equal to Euro 7.7 million, with a negative equivalent value of Euro 35 thousand.

Exchange rate risk

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

The main transaction currencies used for the Group's sales are the Euro and the US Dollar. The Group believes that if the exchange rate fluctuations of these two currencies are low, there is no risk to operating margins, insofar as the sale price could be adapted on each occasion to the exchange rate. However, if the US dollar were to depreciate significantly against the Euro, we cannot exclude negative effects on margins to the extent that a good portion of sales in US dollars concerns the productions of Italian factories that operate with costs in the Eurozone.
With regard to net exposure that is mainly represented by loans in US Dollars of Tesmec S.p.A., the forward buying of the American currency is adopted as the only hedging instrument. However, these hedges are carried out only for one part of the total exposure in that the timing of the inflow of the receipts in dollars is difficult to predict at the level of each sales invoice. Besides, for a good part of the sales in dollars, the Group uses the production of the American factory with costs in US dollars by creating in this way a sort of natural hedging of the currency exposure.
Forward sale instruments for fixing the exchange rate at the moment of the order are mainly used for covering the risk of the dollar exposure deriving from:
i) selling trenchers produced in Italy in Middle-East countries;
ii) selling stringing machines produced in Italy in the USA where purchases are in Euro, and sales in US dollars.
Despite the adoption of the above strategies aimed at reducing the risks arising from fluctuation of exchange rates, the Group cannot exclude that future changes thereof might affect the results of the Group. Fluctuations in exchange rates could also significantly affect the comparability of the results of each financial period.

As at 31 March 2017, there were nine forward cover contracts of the Euro/USD (flexible/spot) exchange rate. The notional value of these positions was equal to Euro 10.7 million, with a negative equivalent value of Euro 336 thousand.

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. Loan contracts signed with ICCREA-BCC, BNL and Comerica contain certain financial covenant clauses.

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.

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 March 2017, divided into the three levels defined above:

(Euro in thousands)	**Book value as at 31 March 2017**	**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
Total current	**2**	**-**	**-**	**2**
Total	**5**	**-**	**3**	**2**
Financial liabilities:				
Derivative financial instruments	154	-	154	-
Total non-current	**154**	**-**	**154**	**-**
Derivative financial instruments	-	**-**	**346**	**-**
Total current	**-**	**-**	**346**	**-**
Total	**154**	**-**	**500**	**-**

15.Revenues from sales and services

The table below shows the breakdown of Revenues from sales and services as at 31 March 2017 and as at 31 March 2016:

	Quarter ended 31 March	
(Euro in thousands)	**2017**	**2016**
Sales of products	39,636	33,520
Services rendered	7,452	6,040
Total revenues from sales and services	**47,088**	**39,560**
Changes in work in progress	2,700	898
Total revenues from sales and services	**49,788**	**40,458**

For the Stringing equipment segment, revenues in the first quarter of 2017 more than doubled compared to the same period of the previous year by benefiting also from the successful completion of the production operations of the Indonesian order within the terms provided under the contract.

For the Rail segment, the value of revenues significantly improving compared to the same period of the previous year is due both to the beginning of production operations for the RFI tender (supply of 88 multipurpose ladder trucks for the maintenance of the Italian railway network) and to the progress of activities related to other orders in progress.

The decrease in revenues of the Trencher segment is mainly due to the failure to finalise the sales contracts being negotiated in the Middle East and South Africa only partially offset by the positive performance of revenues of the service activities of the Marais Group.

16.Operating costs

The item *operating costs* amounted to Euro 47,263 thousand, an increase of 24.4% compared to the previous year, a more than proportional increase with respect to the performance in revenues (23.1%).

17.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.

	Quarter ended 31 March							
	2017				2016			
(Euro in thousands)	**Stringing equipment**	**Trencher**	**Rail**	**Consolidated**	**Stringing equipment**	**Trencher**	**Rail**	**Consolidated**
Revenues from sales and services	21,877	24,417	3,494	49,788	10,408	29,231	819	40,458
Operating costs net of depreciation and amortisation	(17,938)	(23,624)	(2,599)	(44,161)	(8,429)	(25,503)	(1,159)	(35,091)
EBITDA	**3,939**	**793**	**895**	**5,627**	**1,979**	**3,728**	**(340)**	**5,367**
Amortisation and depreciation	(889)	(1,702)	(511)	(3,102)	(770)	(1,769)	(359)	(2,898)
Total operating costs	**(18,827)**	**(25,326)**	**(3,110)**	**(47,263)**	**(9,199)**	**(27,272)**	**(1,518)**	**(37,989)**
Operating income	**3,050**	**(909)**	**384**	**2,525**	**1,209**	**1,959**	**(699)**	**2,469**
Net financial income/(expenses)				(1,467)				(2,551)
Pre-tax profit				**1,058**				**(82)**
Income tax				(292)				(35)
Net profit for the period				**766**				**(117)**
Profit / (loss) attributable to non-controlling interests				(62)				(66)
Group profit				**828**				**(51)**

(*) 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.

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.

The following table shows the consolidated statement of financial position by business segment as at 31 March 2017 and as at 31 December 2016:

	As at 31 March 2017					As at 31 December 2016				
(Euro in thousands)	**Stringing equipment**	**Trencher**	**Rail**	**Not allocated**	**Consolidated**	**Stringing equipment**	**Trencher**	**Rail**	**Not allocated**	**Consolidated**
Intangible assets	10,607	3,692	4,506	-	18,805	10,655	3,526	4,710	-	18,891
Property, plant and equipment	1,960	47,334	109	-	49,403	1,966	45,209	114	-	47,289
Financial assets	3,571	631	34	-	4,236	3,289	776	138	-	4,203
Other non-current assets	1,252	3,852	99	7,404	12,607	1,169	3,113	95	7,516	11,893
Total non-current assets	**17,390**	**55,509**	**4,748**	**7,404**	**85,051**	**17,079**	**52,624**	**5,057**	**7,516**	**82,276**
Work in progress contracts	-	-	**3,991**	-	3,991	-	-	1,291	-	1,291
Inventories	12,446	48,406	839	-	61,691	15,366	53,151	710	-	69,227
Trade receivables	22,772	40,909	1,010	-	64,691	15,387	33,600	446	-	49,433
Other current assets	1,140	3,342	371	8,376	13,229	2,312	2,740	30	8,490	13,572
Cash and cash equivalents	2,006	2,150	1,032	16,032	21,220	818	487	1,425	15,771	18,501
Total current assets	**38,364**	**94,807**	**3,252**	**24,408**	**160,831**	**33,883**	**89,978**	**3,902**	**24,261**	**152,024**
Total assets	**55,754**	**150,316**	**8,000**	**31,812**	**245,882**	**50,962**	**142,602**	**8,959**	**31,777**	**234,300**
Shareholders' equity attributable to Parent Company Shareholders	-	-	-	**48,583**	**48,583**	-	-	-	**48,221**	**48,221**
Shareholders' equity attributable to non-controlling interests	-	-	-	**1,626**	**1,626**	-	-	-	**1,699**	**1,699**
Non-current liabilities	**975**	**9,686**	**1,720**	**51,955**	**64,336**	**971**	**10,217**	**1,712**	**52,928**	**65,828**
Current financial liabilities	-	-	-	73,659	73,659	-	-	-	70,120	70,120
Trade payables	15,977	19,138	2,856	-	37,971	10,620	18,244	2,333	-	31,197
Other current liabilities	1,442	8,311	2,101	11,844	23,698	1,557	7,609	404	7,667	17,237
Total current liabilities	**17,419**	**27,449**	**4,957**	**85,503**	**135,328**	**12,177**	**25,853**	**2,737**	**77,787**	**118,554**
Total liabilities	**18,394**	**37,135**	**6,677**	**137,458**	**199,664**	**13,148**	**36,070**	**4,449**	**130,715**	**184,382**
Total shareholders' equity and liabilities	**18,394**	**37,135**	**6,677**	**187,667**	**249,873**	**13,148**	**36,070**	**4,449**	**180,635**	**234,302**

18. 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:

	Quarter ended 31 March 2017					Quarter ended 31 March 2016				
(Euro in thousands)	**Revenues**	**Cost of raw materials**	**Costs for services**	**Other operating (costs)/ revenues, net**	**Financial income and expenses**	**Revenues**	**Cost of raw materials**	**Costs for services**	**Other operating (costs)/ revenues, net**	**Financial income and expenses**
Associates:										
Locavert S.A.	203	-	-	-	-	55	-	-	-	-
Subtotal	**203**	**-**	**-**	**-**	**-**	**55**	**-**	**-**	**-**	**-**
Joint Ventures:										
Condux Tesmec Inc.	793	-	-	46	1	470	-	-	44	18
Tesmec Peninsula	-	-	-	-	27	-	-	-	27	21
Subtotal	**793**	**-**	**-**	**46**	**28**	**470**	**-**	**-**	**71**	**39**
Related parties:										
Ambrosio S.r.l.	-	-	-	(4)	-	-	-	-	(4)	-
Ceresio Tours S.r.l.	-	-	(1)	-	-	-	-	(1)	-	-
Dream Immobiliare S.r.l.	-	-	-	(568)	-	-	-	-	(89)	(218)
Fi.Ind.	-	-	-	32	-	-	-	-	-	-
TTC S.r.l.	-	-	(21)	-	-	-	-	(21)	-	-
M.T.S. Officine meccaniche S.p.A.	3,222	-	2	(1)	-	886	-	1	3	-
Subtotal	**3,222**	**-**	**(20)**	**(541)**	**-**	**886**	**-**	**(21)**	**(90)**	**(218)**
Total	**4,218**	**-**	**(20)**	**(495)**	**28**	**1,411**	**-**	**(21)**	**(19)**	**(179)**

(Euro in thousands)	31 March 2017					31 December 2016				
	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
Condux Tesmec Inc.	837	5	-	-	-	206	332	-	-	-
Tesmec Peninsula	27	4,299	-	-	-	39	3,508	-	-	34
Marais Algerie SARL	-	-	-	-	-	-	-	-	-	-
Marais Tunisie	-	2	-	-	-	-	2	-	-	-
Marais Lucas	-	794	-	-	-	-	794	-	-	-
Subtotal	**864**	**5,100**	**-**	**-**	**-**	**245**	**4,636**	**-**	**-**	**34**
Related parties:										
Ambrosio S.r.l.	-	-	-	-	4	-	-	-	-	4
Ceresio Tours S.r.l.	-	-	-	-	1	-	-	-	-	1
Dream Immobiliare S.r.l.	-	3,010	-	-	151	-	4,270	-	-	212
TTC S.r.l.	-	-	-	-	26	-	-	-	-	-
Fintetis S.r.l.	-	-	-	-	-	-	-	-	-	-
Lame Nautica S.r.l.	-	-	-	-	-	-	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	2,088	-	-	-	-	308	-	-	-	-
Reggiani Macchine S.p.A.	-	-	-	-	-	122	-	-	-	(112)
Comatel	-	-	-	-	-	-	-	-	-	-
C2D	-	-	-	-	14	-	-	-	-	14
Subtotal	**2,088**	**3,010**	**-**	**-**	**196**	**430**	**4,270**	**-**	**-**	**119**
Total	**3,123**	**8,157**	**-**	**13**	**196**	**753**	**8,944**	**-**	**33**	**153**

Certification pursuant to Article 154-bis of Italian Legislative Decree 58/98

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 Interim Condensed Consolidated Financial Statements as at 31 March 2017.

2. We also certify that:

2.1 the Interim condensed consolidated financial statements as at 31 March 2017:

   - 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;
   - give 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 interim report on operations includes a reliable analysis of the important events that took place during the first three months of the financial period and their impact on the Interim Condensed Consolidated Financial Statements, together with a description of the main risks and uncertainties for the nine remaining months of the financial period. The interim report on operations also includes a reliable analysis of information on significant transactions with related parties.

Grassobbio, 28 April 2017

Ambrogio Caccia Dominioni	Andrea Bramani
Chief Executive Officer	Manager responsible for preparing the Company's financial statements

www.tesmec.com

Tesmec S.p.A.
Registered Office
Piazza S. Ambrogio, 16 - 20123 Milano - Italy

Share Capital Euro 10.708.400 fully paid
VAT identification code IT10227100152