



## Half-year Financial Report at 30 June 2017





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Fully paid up share capital as at 30 June 2017 Euro 10,708,400  
Milan Register of Companies no. 314026  
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## **COMPOSITION OF THE CORPORATE BODIES**

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**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 (*) Giacchino Attanzio (*) Guido Giuseppe Maria Corbetta (*) Caterina Caccia Dominioni Lucia Caccia Dominioni Paola Durante (*)
(*) Independent Directors	

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**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

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**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	Giacchino Attanzio Gianluca Bolelli

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**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	Giacchino Attanzio
Members	Sergio Arnoldi Caterina Caccia Dominioni

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**Lead Independent Director** Gioacchino Attanzio

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**Director in charge of the internal control and risk management system** Caterina Caccia Dominioni

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

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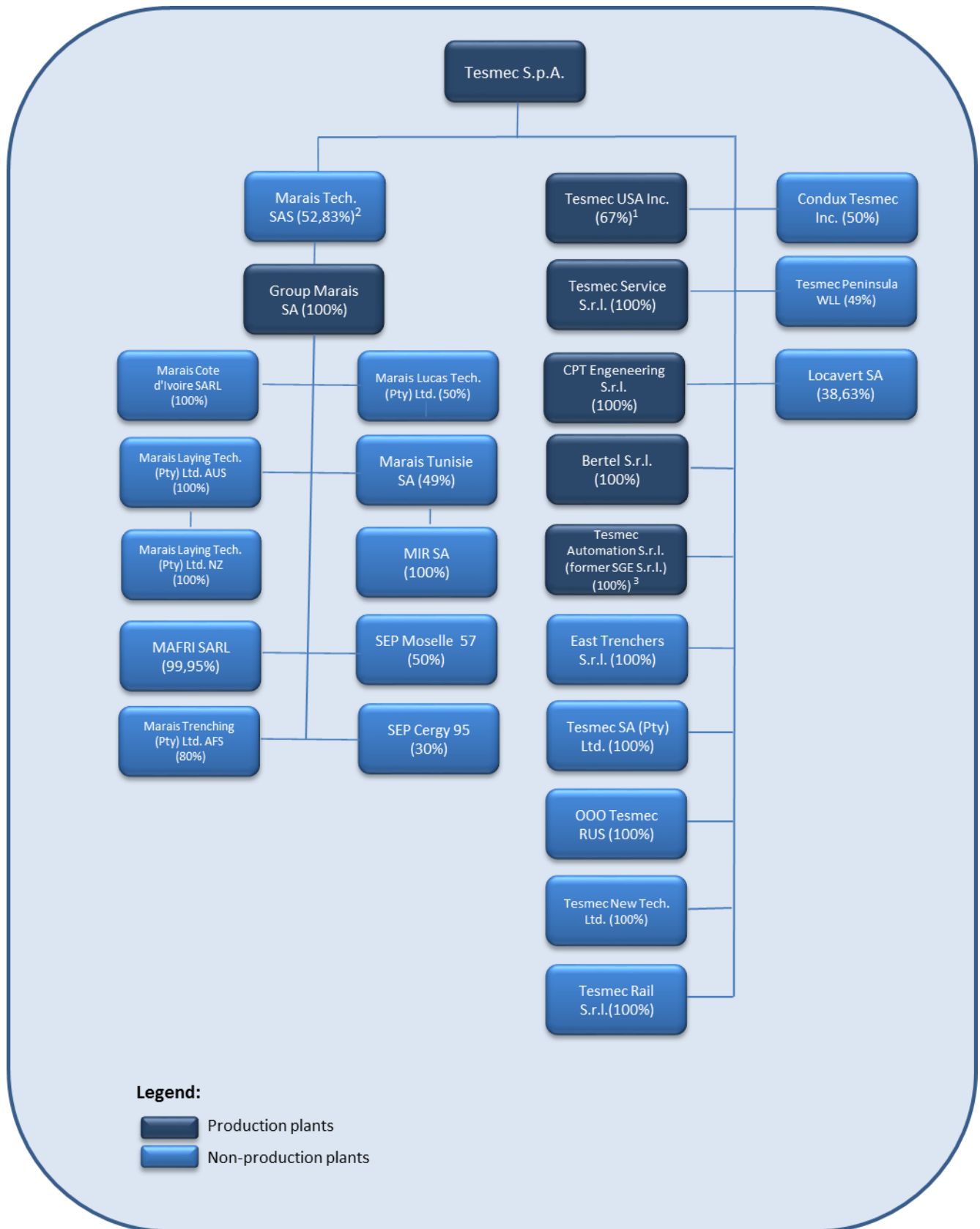
**Independent Auditors** Ernst & Young S.p.A.

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## **GROUP STRUCTURE**

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(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**

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## 1. Introduction

The parent company Tesmec S.p.A. (hereinafter "Parent Company" or "Tescmec") 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 "Tescmec 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 700 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, Tesmec Automation (formerly SGE S.r.l.) 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.

Note: As from today's Financial report, in relation to the increased weight of non-strictly related stringing products, the sector previously named Stringing Equipment, will be named Energy.

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

### ***Energy 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 (Rock Hawg);
- 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 world macroeconomic framework is still marked by an overall optimism driven by good financial market conditions and the long-awaited recovery of the manufacturing and trade sector. Economic growth expectations for 2017 stand at 3.5% compared to the 3.1% recorded in 2016.

Unlike expectations, consumer price indexes posted a slight drop in June, backing the statements to continue the expansive monetary policies announced by the ECB. The Euro-US Dollar exchange rate continued to strengthen due to the increasing

difficulties of the current US presidency and Middle Eastern geopolitical tensions. 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 the Energy and Telecommunications sectors, where most of the Group's offer of products and services is concentrated, a growing interest in different geographies of the planet continues to surface, even if the methods for funding the activities often encounter political problems.

### 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;
- in order to complete the strategy to offer an integrated supply of products in the automation area that led to the completion of the acquisition of the business unit by R&S by the wholly owned subsidiary SGE S.r.l., of the company Bertel S.r.l. and CPT S.r.l. and finally the business unite Ampere, the grouping of all "Automation" activities started in a single legal entity that involved the following operations:
  - on 13 June 2017, the name of the company SGE was changed to "Tesmec automation";
  - on June 13, 2017, the Extraordinary Shareholders' Meetings of the companies CPT Engineering S.r.l. and Tesmec Automation S.r.l. (former SGE S.r.l.) approved the merger project. On July 21, 2017, the merger deed incorporating the company CPT Engineering S.r.l. in the company Tesmec Automation S.r.l. (formerly SGE S.r.l.) was published;
  - on July 1, 2017, Tesmec Automation (former SGE S.r.l.) has rented from Tesmec S.p.A. fully controlled company Bertel S.r.l., the entire business concern;
  - to complete the above mentioned automation restructuring project in September is planned the acquisition from Tesmec S.p.A. of the Ampere business concern (already acquired in 2016 by Tesmec S.p.A.) by Tesmec Automation S.r.l. (former SGE S.r.l.).

This will be completed by September 30, 2017, the integration plan for companies operating in the Automation segment allowing to Tesmec Automation S.r.l. to take full advantage of the commercial, industrial and research synergies and synergies associated with the unification of activities.

- On 15 March 2017, Cerved Rating Agency, the Italian rating agency specialised in assessing the creditworthiness of non-financial companies, assigned the B1.1 - Good credit rating to the Company.

With reference to the Bond Issue "Tesmec S.p.A. 6% 2014-2021" (the "Bond Issue"), note that because of the company's failure to comply with the financial covenants set out in Art. 12(vi) of the Bond Issue regulations (the "Regulations") as at 31 December 2016 pursuant to Art. 7 of the Regulations, the interest rate applicable to these bonds in the period between 10 April 2018 and 10 April 2019 will be increased 1% more than the initial interest rate, so it will be 7%. To provide complete disclosure, please note that if the Company (i) restores the values of the financial parameters as set out in Art. 12(vi) of the Regulations as at the first date of calculation and verification of said financial parameters - and therefore during 2018 - the interest rate applicable to the bonds in the period between 10 April 2019 and 10 April 2020 will return to 6%, or (ii) restores the values of the financial parameters as set out in Art. 12(vi) of the Regulations as at the second date of calculation and verification of said financial parameters - and therefore during 2019 - the interest rate applicable to the bonds in the period between 10 April 2020 and 10 April 2021 (date of maturity of the Bond Issue) will be 6.5%".

- It is confirmed that as at the date of this Report, all waivers requested in connection with the failure, at 31 December 2016, to comply with some financial covenants comprised in some medium-long term loans with Italian credit institutions were obtained and, as a result, the amounts regarding these loans were reclassified as described in paragraph 6. Summary of balance sheet figures as at 30 June 2017 under point c) net financial indebtedness.

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

The Interim 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 in June 2017 and in June 2016.

OVERVIEW OF RESULTS		
30 June 2016	Key income statement data (Euro in millions)	30 June 2017
74.0	Operating Revenues	91.1
7.4	EBITDA	8.7
1.4	Operating Income	2.0
(1.3)	Group Net Profit	(1.8)
31 December 2016	Key financial position data (Euro in millions)	30 June 2017
146.6	Net Invested Capital	137.6
49.9	Shareholders' Equity	46.2
96.7	Net Financial Indebtedness	91.5
(1.2)	Investments in property, plant and equipment and intangible assets	8.6
659	Annual average employees	746

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 segment (as from 2012). In the first six months of 2017, revenues achieved directly with customers/end users came to Euro 16.2 million. Compared with the last quarter of 2016, a recovery in commercial activities is confirmed, and that positively reflects on the sales volumes and reduced financial indebtedness thanks to the lower levels of machines in the warehouse  
Note that during the period an out-of-court settlement was reached to close a dispute with the customer Fehlingher (concerning disputes over a previously sold machinery), which involved a cost of Euro 1.7 million charged in the interim consolidated financial statements as at 30 June 2017.
- 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 half 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 7 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 six months, the company generated revenues of Euro 2.2 million. No major sales orders were finalised in the half 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 six months of the year generated revenues totalling Euro 7.7 million, clearly recovering on the figure of Euro 4.0 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 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. The Group generated during the first half of 2017 revenues totalling Euro 21.1 million clearly recovering on the figure of Euro 15.7 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 Energy and that generated total revenues of Euro 1,9 million 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 six months of 2017, the company generated revenues totalling Euro 0,2 million.
- Tesmec Automation S.r.l. (formerly 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 six months of 2017, revenues amounted to Euro 1 million.
- CPT Engineering 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 six months of 2017, the company generated revenues totalling Euro 0,8 million.

## 5. Income statement

### 5.1 Consolidated Income statement

The comments provided below refer to the comparison of the consolidated income statement figures as at 30 June 2017 with those as at 30 June 2016.

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

<i>(Euro in thousands)</i>	Half-year ended 30 June			
	2017	% of revenues	2016	% of revenues
<b>Revenues from sales and services</b>	<b>91,114</b>	<b>100.0%</b>	<b>73,986</b>	<b>100.0%</b>
Cost of raw materials and consumables	(41,478)	-45.5%	(31,062)	-42.0%
Costs for services	(15,565)	-17.1%	(15,430)	-20.9%
Payroll costs	(23,671)	-26.0%	(19,770)	-26.7%
Other operating (costs)/revenues, net	(4,592)	-5.0%	(2,937)	-4.0%
Amortisation and depreciation	(6,708)	-7.4%	(5,921)	-8.0%
Development costs capitalised	2,783	3.1%	2,560	3.5%
Portion of gains/(losses) from operational Joint Ventures evaluated using the equity method	117	0.1%	13	0.0%
<b>Total operating costs</b>	<b>(89,114)</b>	<b>-97.8%</b>	<b>(72,547)</b>	<b>-98.1%</b>
<b>Operating income</b>	<b>2,000</b>	<b>2.2%</b>	<b>1,439</b>	<b>1.9%</b>
Financial expenses	(6,058)	-6.6%	(4,695)	-6.3%
Financial income	1,471	1.6%	2,072	2.8%
Portion of gains/(losses) from associated companies and non-operational Joint Ventures evaluated using the equity method	40	0.0%	(95)	-0.1%
<b>Pre-tax profit/(loss)</b>	<b>(2,547)</b>	<b>-2.8%</b>	<b>(1,279)</b>	<b>-1.7%</b>
Income tax	749	0.8%	(31)	0.0%
<b>Net profit/(loss) for the period</b>	<b>(1,798)</b>	<b>-2.0%</b>	<b>(1,310)</b>	<b>-1.8%</b>
Profit/(loss) attributable to non-controlling interests	(26)	0.0%	(14)	0.0%
<b>Group profit/(loss)</b>	<b>(1,772)</b>	<b>-1.9%</b>	<b>(1,296)</b>	<b>-1.8%</b>

### Revenues

Total revenues as at 30 June 2017 increased by 23.2%.

<i>(Euro in thousands)</i>	Half-year ended 30 June				
	2017	% of revenues	2016	% of revenues	2017 vs. 2016
Sales of products	67,306	73.87%	59,640	80.61%	7,666
Services rendered	18,898	20.74%	14,572	19.70%	4,326
	<b>86,204</b>	<b>94.61%</b>	<b>74,212</b>	<b>100.31%</b>	<b>11,992</b>
Changes in work in progress	4,910	5.39%	(226)	-0.31%	5,136
<b>Total revenues from sales and services</b>	<b>91,114</b>	<b>100.00%</b>	<b>73,986</b>	<b>100.00%</b>	<b>17,128</b>

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 and machinery sold to MTS as detailed in paragraph 19. *Related party transactions* contained in Explanatory Notes, 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 half of 2017 and the first half of 2016, which indicates the growth of the Italian and BRIC and Others markets, partially balanced by the downtrends recorded in the African 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.

<i>(Euro in thousands)</i>	Half-year ended 30 June	
	2017	2016
Italy	20,359	8,013
Europe	17,288	15,446
Middle East	5,147	11,240
Africa	7,482	14,144
North and Central America	12,856	12,972
BRIC and Others	27,982	12,171
<b>Total revenues</b>	<b>91,114</b>	<b>73,986</b>

#### Operating costs net of depreciation and amortisation

<i>(Euro in thousands)</i>	Half-year ended 30 June			
	2017	2016	2017 vs. 2016	% change
Cost of raw materials and consumables	(41,478)	(31,062)	(10,416)	33.5%
Costs for services	(15,565)	(15,430)	(135)	0.9%
Payroll costs	(23,671)	(19,770)	(3,901)	19.7%
Other operating (costs)/revenues, net	(4,592)	(2,937)	(1,655)	56.4%
Development costs capitalised	2,783	2,560	223	8.7%
Portion of gains/(losses) from operational Joint Ventures evaluated using the equity method	117	13	104	800.0%
<b>Operating costs net of depreciation and amortisation</b>	<b>(82,406)</b>	<b>(66,626)</b>	<b>(15,780)</b>	<b>23.7%</b>

The table shows an increase in operating costs of Euro 15,780 thousand (+23.7%) in a more than proportional way compared to the increase in sales (+23.2%). 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 included the companies CPT and Bertel only from the date of acquisition (therefore for two months and four months, respectively).

The increase in the item "Other operating (costs)/revenues, net" is mainly due to higher rental costs of Euro 1 million following the lease contract executed at the end of last year and to the non-recurring costs connected with the closing of the Fehlingher litigation described under paragraph 4. Activity, reference market and operating performance for the first six months of 2017 equal to Euro 1.7 million.

## EBITDA

In terms of margins, EBITDA amounts to Euro 8,708 thousand, up by 18.3% over the figure recorded in the first half of 2016. A restatement of the income statement figures representing the performance of EBITDA is provided below:

<i>(Euro in thousands)</i>	Half-year ended 30 June				
	2017	% of revenues	2016	% of revenues	2017 vs. 2016
Operating income	2,000	2.2%	1,439	1.9%	561
+ Depreciation and amortisation	6,708	7.4%	5,921	8.0%	787
<b>EBITDA (*)</b>	<b>8,708</b>	<b>9.6%</b>	<b>7,360</b>	<b>9.9%</b>	<b>1,348</b>

(\*) 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.

At the level of margins, a gross operating margin of Euro 8,708 thousand was recorded, an improvement of 18.3% compared with the first half of 2016.

It is recalled that compared to the same figure with the previous year, EBITDA 2017 has been calculated as rental costs for Euro 1 million that in 2016 were recorded as amortization and interest expense.

## Financial Management

<i>(Euro in thousands)</i>	Half-year ended 30 June	
	2017	2016
Net Financial Income/Expenses	(1,535)	(2,181)
Foreign exchange gains/losses	(3,138)	(453)
Fair value adjustment of derivative instruments on exchange rates	86	11
Portion of losses/(gains) from the valuation of equity investments using the equity method	40	(95)
<b>Total net financial income/expenses</b>	<b>(4,547)</b>	<b>(2,718)</b>

Financial management net of foreign exchange gains/losses increased by Euro 856 thousand due to the lower cost of indebtedness, which also benefited from the effects of the lease contract for the amount of Euro 436 thousand.

Nevertheless, the item "Total net financial income/expenses" decreased compared to the same period in 2016 of Euro 1,829 thousand, due, for Euro 2,685 thousand, to the different trend in the USD/EUR exchange rate in the two periods of reference (EUR/USD exchange rate 1.054 as at 31 December 2016 and 1.1412 as at 30 June 2017).

This change led to losses net of hedging for a total of Euro 3,138 thousand in the first half of 2017 (realised for Euro 142 thousand and not realised for Euro 2,996 thousand) versus net losses of Euro 453 thousand in the first half of 2016.

## 5.2 Income Statement by segment

### Revenues by segment

The tables below show the income statement figures as at 30 June 2017 compared to those as at 30 June 2016, broken down into three operating segments.

<i>(Euro in thousands)</i>	Half-year ended 30 June				
	2017	% of revenues	2016	% of revenues	2017 vs. 2016
Energy	31,986	35.1%	22,176	30.0%	9,810
Trencher	51,277	56.3%	49,453	66.8%	1,824
Rail	7,851	8.6%	2,357	3.2%	5,494
<b>Total revenues</b>	<b>91,114</b>	<b>100.0%</b>	<b>73,986</b>	<b>100.0%</b>	<b>17,128</b>

In the first six months of 2017, the Group consolidated revenues of Euro 91,114 thousand, marking an increase of Euro 17,128 thousand compared to Euro 73,986 thousand in the same period of the previous year. In percentage terms, this increase represents a positive difference of 23.2%, which is split unevenly between the Group's three business areas. More specifically, an increase of +44.2% was recorded for the Energy segment, +233.1% for the Rail segment and +3.7% for the Trencher segment.

For the Energy segment, revenues in the first half of 2017 benefited from a general recovery in investment in the Energy segment in addition to the completion of the production operations of the Indonesian order within the terms provided under the contract.

For the Rail segment, the improvement is attributable to the strategy pursued by the Group focused on technological innovation in the range of products offered through which numerous projects on the Italian market were awarded, while the impact of the long-term orders is still insignificant.

For the Trencher segment, the still insignificant growth due to the delayed finalisation of projects already acquired and sales contracts being negotiated in the Middle East and South Africa is offset by the positive trend of revenues of the service activities. Therefore, in this area, the prevailing customer orientation towards the demand for service activity is confirmed more than the purchase of investment goods

### EBITDA by segment

The tables below show the income statement figures as at 30 June 2017 compared to those as at 30 June 2016, broken down into three operating segments:

<i>(Euro in thousands)</i>	Half-year ended 30 June				
	2017	% of revenues	2016	% of revenues	2017 vs. 2016
Energy	5,542	17.3%	2,523	11.4%	3,019
Trencher	2,034	4.0%	4,713	9.5%	(2,679)
Rail	1,132	14.4%	124	5.3%	1,008
<b>EBITDA</b>	<b>8,708</b>	<b>9.6%</b>	<b>7,360</b>	<b>9.9%</b>	<b>1,348</b>

(\*) 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:

- Energy: the improvement of the EBITDA from Euro 2,523 thousand in the first half of 2016 to Euro 5,542 thousand in 2017 is due to higher sales volumes. In percentage terms, the value is 17.3% of revenues in line with the trends that this industry has historically achieved.
- Trencher: the margin decreased by 56.8% in an inversely proportional way compared to the increase in revenues (+3.7%) due to the Euro/Usd exchange rate and of the slip in the cost efficiency target for the integration of the Marais and Tesmec activities.
- Rail: EBITDA increased from a value of Euro 124 thousand as at 30 June 2016 to a value of Euro 1,132 thousand as at

30 June 2017 thanks to trend in sales volumes that more than duplicate in the first half of 2017 compared to the same period of the previous year confirming the success of the Group's growth strategy in this area.

## 6.Summary of balance sheet figures as at 30 June 2017

Information is provided below on the Group's main equity indicators as at 30 June 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 30 June 2017 and as at 31 December 2016:

<i>(Euro in thousands)</i>	<b>As at 30 June 2017</b>	<b>As at 31 December 2016</b>
<b>USES</b>		
Net working capital <sup>(1)</sup>	65,981	76,038
Fixed assets	70,071	70,056
Other long-term assets and liabilities	1,586	517
<b>Net invested capital <sup>(2)</sup></b>	<b>137,638</b>	<b>146,611</b>
<b>SOURCES</b>		
Net financial indebtedness (3)	91,466	96,691
Shareholders' equity	46,172	49,920
<b>Total sources of funding</b>	<b>137,638</b>	<b>146,611</b>

(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 30 June 2017 and 31 December 2016:

<i>(Euro in thousands)</i>	<b>As at 30 June 2017</b>	<b>As at 31 December 2016</b>
Trade receivables	56,261	49,433
Work in progress contracts	4,799	1,291
Inventories	64,750	69,227
Trade payables	(39,480)	(31,197)
Other current assets/(liabilities)	(20,349)	(12,716)
<b>Net working capital <sup>(1)</sup></b>	<b>65,981</b>	<b>76,038</b>

(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 65,981 thousand, marking a decrease of Euro 10,057 thousand (equal to 13.2%) compared to 31 December 2016. This trend is mainly due to the decrease in "Inventories" of Euro 4,477 thousand (-6.5%), the increase in "Trade payables" and "Other current assets/(liabilities) for a net amount of Euro 15,916 thousand, partially offset

by the increase in the item “Trade receivables” and the increase in “Work in progress contracts” for a total of Euro 10,336 thousand.

## B) Fixed assets

The table below shows a breakdown of “Fixed assets” as at 30 June 2017 and 31 December 2016:

<i>(Euro in thousands)</i>	As at 30 June 2017	As at 31 December 2016
Intangible assets	18,444	18,891
Property, plant and equipment	47,763	47,289
Equity investments in associates	3,857	3,869
Other equity investments	7	7
<b>Fixed assets</b>	<b>70,071</b>	<b>70,056</b>

The total of fixed assets is substantially in line with the previous financial period.

## C) Net financial indebtedness

Details of the breakdown of “Net financial indebtedness” as at 30 June 2017 and 31 December 2016 are as follows:

<i>(Euro in thousands)</i>	As at 30 June 2017	of which with related parties and group	As at 31 December 2016	of which with related parties and group
Cash and cash equivalents	(22,581)		(18,501)	
Current financial assets <sup>(1)</sup>	(10,547)	(9,080)	(9,053)	(8,944)
Current financial liabilities	73,413	-	70,010	33
Current portion of derivative financial instruments	(35)		110	
<b>Current financial indebtedness <sup>(2)</sup></b>	<b>40,250</b>	<b>(9,080)</b>	<b>42,566</b>	<b>(8,911)</b>
Non-current financial liabilities	51,115	-	53,916	-
Non-current portion of derivative financial instruments	101		209	
<b>Non-current financial indebtedness (2)</b>	<b>51,216</b>	<b>-</b>	<b>54,125</b>	<b>-</b>
<b>Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006</b>	<b>91,466</b>	<b>(9,080)</b>	<b>96,691</b>	<b>(8,911)</b>

(1) Current financial assets as at 30 June 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 be comparable therewith.

In the first six months of 2017, the Group’s net financial indebtedness decreased by Euro 5,225 thousand compared to the figure at the end of 2016.

The table below shows the breakdown of the following changes:

- the decrease in current financial indebtedness of Euro 2,316 thousand whose main effects include:
  - the Euro 9,499 thousand decrease relating to medium/long-term payables that were reclassified in the medium/long-term financial indebtedness after obtaining the waivers.

- the Euro 15,047 increase relating to reclassification of the short-term portion of medium/long-term loans in the current financial indebtedness that mainly includes the funding operation carried out by Simest S.p.A. in Tesmec USA Inc. in 2010 that becomes due as at 30 June 2018;
- increase in current financial assets and cash and cash equivalents of Euro 5,574 thousand;
- decrease in medium/long-term financial indebtedness by Euro 2,909 thousand that chiefly includes:
  - the Euro 9,499 thousand increase relating to medium/long-term payables that were reclassified in the medium/long-term financial indebtedness after obtaining the waivers.
  - the increase for new loans of Euro 2,747 thousand obtained during the period;
  - the Euro 15,047 decrease relating to reclassification of the short-term portion of medium/long-term loans in the current financial indebtedness that mainly includes the funding operation carried out by Simest S.p.A. in Tesmec USA Inc. in 2010 that becomes due as at 30 June 2018.

## 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 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 half-year of 2017, including the employees of companies that are fully consolidated, is 746 persons compared to 646 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, 30 June 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.

### Subsequent Events

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

- a new medium/long-term loan was drawn down on 7 July 2017 for the amount of Euro 3 million with a 48-month term with a fixed rate at 2.25%;
- major initiatives have been launched in Kuwait that see the development not only of new products but also of international partnerships in ways different from those traditionally pursued by the Tesmec Group. Agreements with

global partners in the sector have also been set up to promote the implementation of renewable energy projects with good development prospects.

### **Business outlook**

In view of the recovery of the US market, the numerous projects for renewable energy and telecommunications and thanks to the positive performance of the first half year revenues, it is expected that the year-end forecast revenues between Euro 160 and 170 million will be exceeded and to reach an EBITDA of 14% coupled with a further reduction in the Net Financial Indebtedness. As a matter of effect the current Euro/USD exchange is negatively impacting on the expected profitability rates.





# **INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE TESMEC GROUP**

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Consolidated financial statements

## Consolidated statement of financial position as at 30 June 2017 and as at 31 December 2016

<i>(Euro in thousands)</i>	Notes	30 June 2017	31 December 2016
<b>NON-CURRENT ASSETS</b>			
Intangible assets	6	18,444	18,891
Property, plant and equipment	7	47,763	47,289
Equity investments in associates valued using the equity method		3,857	3,869
Other equity investments		7	7
Financial receivables and other non-current financial assets		218	324
Derivative financial instruments	15	2	3
Deferred tax assets		11,880	11,520
Non-current trade receivables		431	373
<b>TOTAL NON-CURRENT ASSETS</b>		<b>82,602</b>	<b>82,276</b>
<b>CURRENT ASSETS</b>			
Work in progress contracts	8	4,799	1,291
Inventories	9	64,750	69,227
Trade receivables	10	56,261	49,433
<i>of which with related parties:</i>	10	6,670	753
Tax receivables		1,896	1,705
Other available-for-sale securities	15	3	2
Financial receivables and other current financial assets	11	10,544	9,049
<i>of which with related parties:</i>	11	9,080	8,944
Other current assets		3,370	2,816
Derivative financial instruments	15	84	2
Cash and cash equivalents		22,581	18,501
<b>TOTAL CURRENT ASSETS</b>		<b>164,288</b>	<b>152,026</b>
<b>TOTAL ASSETS</b>		<b>246,890</b>	<b>234,302</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS</b>			
Share capital	12	10,708	10,708
Reserves / (deficit)	12	35,560	41,457
Group net profit / (loss)	12	(1,772)	(3,944)
<b>TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY</b>		<b>44,496</b>	<b>48,221</b>
Minority interest in capital and reserves / (deficit)		1,702	1,608
Net profit / (loss) for the period attributable to non-controlling interests		(26)	91
<b>TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS</b>		<b>1,676</b>	<b>1,699</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>46,172</b>	<b>49,920</b>
<b>NON-CURRENT LIABILITIES</b>			
Medium/long-term loans	13	36,350	39,181
Bond issue		14,765	14,735
Derivative financial instruments	15	101	209
Employee benefit liability		3,477	3,680
Deferred tax liabilities		7,466	7,870
Other non-current liabilities		-	150
Non-current trade payables		2	3
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>62,161</b>	<b>65,828</b>
<b>CURRENT LIABILITIES</b>			
Interest-bearing financial payables (current portion)	14	73,413	70,010
<i>of which with related parties:</i>	14	-	33
Derivative financial instruments	15	49	110
Trade payables		39,480	31,197
<i>of which with related parties:</i>		203	153
Advances from customers		6,273	3,463
Income taxes payable		454	199
Provisions for risks and charges		5,348	3,704
Other current liabilities		13,540	9,871
<b>TOTAL CURRENT LIABILITIES</b>		<b>138,557</b>	<b>118,554</b>
<b>TOTAL LIABILITIES</b>		<b>200,718</b>	<b>184,382</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>246,890</b>	<b>234,302</b>

## Consolidated income statement for the half-year ended 30 June 2017 and 2016

<i>(Euro in thousands)</i>	Notes	Half-year ended 30 June	
		2017	2016
<b>Revenues from sales and services</b>	16	<b>91,114</b>	<b>73,986</b>
<i>of which with related parties:</i>		10,886	3,182
Cost of raw materials and consumables		(41,478)	(31,062)
<i>of which with related parties:</i>		-	(9)
Costs for services		(15,565)	(15,430)
<i>of which with related parties:</i>		(123)	(159)
Payroll costs		(23,671)	(19,770)
Other operating (costs)/revenues, net		(4,592)	(2,937)
<i>of which with related parties:</i>		(941)	118
Amortisation and depreciation		(6,708)	(5,921)
Development costs capitalised		2,783	2,560
Portion of gains/(losses) from operational Joint Ventures evaluated using the equity method		117	13
<b>Total operating costs</b>	17	<b>(89,114)</b>	<b>(72,547)</b>
<b>Operating income</b>		<b>2,000</b>	<b>1,439</b>
Financial expenses		(6,058)	(4,695)
<i>of which with related parties:</i>			(436)
Financial income		1,471	2,072
<i>of which with related parties:</i>		59	67
Portion of gains/(losses) from associated companies and non-operational Joint Ventures evaluated using the equity method		40	(95)
<b>Pre-tax profit/(loss)</b>		<b>(2,547)</b>	<b>(1,279)</b>
Income tax		749	(31)
<b>Net profit/(loss) for the period</b>		<b>(1,798)</b>	<b>(1,310)</b>
<b>Profit/(loss) attributable to non-controlling interests</b>		<b>(26)</b>	<b>(14)</b>
<b>Group profit/(loss)</b>		<b>(1,772)</b>	<b>(1,296)</b>
<b>Basic and diluted earnings/(losses) per share</b>		<b>(0.017)</b>	<b>(0.012)</b>

## Consolidated statement of comprehensive income for the half-year ended 30 June 2017 and 2016

<i>(Euro in thousands)</i>	Notes	Half-year ended 30 June	
		2017	2016
<b>NET PROFIT/(LOSS) FOR THE PERIOD</b>		<b>(1,798)</b>	<b>(1,310)</b>
<b><i>Other components of comprehensive income</i></b>			
<i>Other components of comprehensive income that will be subsequently reclassified to net income/(loss) for the year:</i>			
Exchange differences on conversion of foreign financial statements	12	(2,115)	(623)
<i>Other components of comprehensive income that will not be subsequently reclassified to net income/(loss) for the year:</i>			
Actuarial profit/(loss) on defined benefit plans		142	(251)
Income tax		(34)	69
	12	108	(182)
<b>Total other income/(losses) after tax</b>		<b>(2,007)</b>	<b>(805)</b>
<b>Total comprehensive income (loss) after tax</b>		<b>(3,805)</b>	<b>(2,115)</b>
<i>Attributable to:</i>			
Equity holders of parent		(3,779)	(2,101)
Minority interests		(26)	(14)

## Statement of consolidated cash flows as at 30 June 2017 and 2016

<i>(Euro in thousands)</i>	Notes	Half-year ended 30 June	
		2017	2016
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net profit/(loss) for the period		(1,798)	(1,310)
<i>Adjustments to reconcile net income for the period with the cash flows generated by (used in) operating activities:</i>			
Amortisation and depreciation	6-7	6,708	5,921
Provisions for employee benefit liability		77	131
Provisions for risks and charges / inventory obsolescence / doubtful accounts		2,296	391
Employee benefit payments		(160)	189
Payments of provisions for risks and charges		(174)	63
Net change in deferred tax assets and liabilities		(970)	(1,321)
Change in fair value of financial instruments	15	(250)	(12)
<i>Change in current assets and liabilities:</i>			
Trade receivables	10	(3,138)	(2,894)
Inventories	9	(915)	(367)
Trade payables		8,510	(6,262)
Other current assets and liabilities		3,134	2,145
<b>NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)</b>		<b>13,320</b>	<b>(3,326)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Investments in property, plant and equipment	7	(9,164)	(7,095)
Investments in intangible assets	6	(3,357)	(3,927)
(Investments) / disposal of financial assets		(1,643)	5,938
Change in the consolidation area		-	(6,510)
Proceeds from sale of property, plant and equipment and intangible assets	6-7	3,963	6,965
<b>NET CASH FLOW USED IN INVESTING ACTIVITIES (B)</b>		<b>(10,201)</b>	<b>(4,629)</b>
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>			
Disbursement of medium/long-term loans	13	2,747	13,169
Repayment of medium/long-term loans	13	(14,328)	(11,808)
Change in the consolidation area		-	930
Net change in short-term financial debt	14	12,741	15,996
Purchase of treasury shares	12	-	(193)
Other changes	12	57	92
Dividend distribution	12	-	(2,566)
<b>NET CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES (C)</b>		<b>1,217</b>	<b>15,620</b>
<b>TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)</b>		<b>4,336</b>	<b>7,665</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)</b>		<b>(256)</b>	<b>(54)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)</b>		<b>18,501</b>	<b>21,204</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)</b>		<b>22,581</b>	<b>28,815</b>
<b>Additional information:</b>			
Interest paid		3,716	2,822
Income tax paid		63	1,018

## Statement of changes in consolidated shareholders' equity for the half-year ended 30 June 2017 and 2016

	Share capital	Legal reserve	Share premium reserve	Reserve of Treasury Shares	Translation reserve	Other reserves	Net profit/(loss) for the period	Total Shareholders' equity attributable to Parent Company shareholders	Total Shareholders' Equity attributable to Non-Controlling Interests	Total shareholders' equity
<i>(Euro in thousands)</i>										
<b>Balance as at 1 January 2017</b>	<b>10,708</b>	<b>2,141</b>	<b>10,915</b>	<b>(2,341)</b>	<b>6,560</b>	<b>24,182</b>	<b>(3,944)</b>	<b>48,221</b>	<b>1,699</b>	<b>49,920</b>
Net profit/(loss) for the period	-	-	-	-	-	-	(1,772)	(1,772)	(26)	(1,798)
Other profits/(losses)	-	-	-	-	(2,115)	108	-	(2,007)	-	(2,007)
<b>Total comprehensive income/(loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,779)</b>	<b>(26)</b>	<b>(3,805)</b>
Allocation of profit for the period	-	-	-	-	-	(3,944)	3,944	-	-	-
Dividend distribution	-	-	-	-	-	-	-	-	-	-
Change in the consolidation area	-	-	-	-	-	54	-	54	3	57
Other changes	-	-	-	-	-	-	-	-	-	-
<b>Balance as at 30 June 2017</b>	<b>10,708</b>	<b>2,141</b>	<b>10,915</b>	<b>(2,341)</b>	<b>4,445</b>	<b>20,400</b>	<b>(1,772)</b>	<b>44,496</b>	<b>1,676</b>	<b>46,172</b>

	Share capital	Legal reserve	Share premium reserve	Reserve of Treasury Shares	Translation reserve	Other reserves	Net profit/(loss) for the period	Total Shareholders' equity attributable to Parent Company shareholders	Total Shareholders' Equity attributable to Non-Controlling Interests	Total shareholders' equity
<i>(Euro in thousands)</i>										
<b>Balance as at 1 January 2016</b>	<b>10,708</b>	<b>2,141</b>	<b>10,915</b>	<b>(2,136)</b>	<b>5,731</b>	<b>19,972</b>	<b>6,931</b>	<b>54,262</b>	<b>1,615</b>	<b>55,877</b>
Net profit/(loss) for the period	-	-	-	-	-	-	(1,296)	(1,296)	(14)	(1,310)
Other profits/(losses)	-	-	-	-	(630)	(182)	-	(812)	7	(805)
<b>Total comprehensive income/(loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,108)</b>	<b>(7)</b>	<b>(2,115)</b>
Allocation of profit for the period	-	-	-	111	-	4,254	(4,365)	-	-	-
Dividend distribution	-	-	-	-	-	-	(2,566)	(2,566)	-	(2,566)
Change in the consolidation area	-	-	-	-	-	96	-	96	(4)	92
Purchase of treasury shares	-	-	-	(193)	-	-	-	(193)	-	(193)
<b>Balance as at 30 June 2016</b>	<b>10,708</b>	<b>2,141</b>	<b>10,915</b>	<b>(2,218)</b>	<b>5,101</b>	<b>24,140</b>	<b>(1,296)</b>	<b>49,491</b>	<b>1,604</b>	<b>51,095</b>

## **Explanatory notes**

### **Accounting policies adopted in preparing the consolidated financial statements as at 30 June 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 interim consolidated financial statements as at 30 June 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 30 June 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 30 June 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 interim consolidated financial statements are presented in Euro and all values are rounded to the nearest thousand, unless otherwise indicated.

Disclosure of the interim consolidated financial statements of the Tesmec Group for the period ended 30 June 2017 was authorised by the Board of Directors on 4 August 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		End-of-period exchange rate	
	half-year ended 30 June		as at 30 June	
	2017	2016	2017	2016
US Dollar	1.074	1.116	1.141	1.110
Bulgarian Lev	1.956	1.956	1.956	1.956
Russian Rouble	62.259	78.412	67.545	71.520
South African Rand	14.272	17.204	14.920	16.446
Renminbi	7.401	7.272	7.739	7.376
Qatar Riyal	3.911	4.061	4.154	4.041
Algerian Dinar	117.867	121.215	123.026	122.497
Tunisian Dinar	2.513	2.290	2.776	2.447
Australian Dollar	1.425	1.522	1.485	1.493
New Zealand Dollar	1.524	1.648	1.555	1.562
CFA Franc	655.957	655.957	655.957	655.957

### 3.Consolidation methods and area

On 30 June 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.New accounting standards

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 2016, with the exception of the adoption as of 1 January 2017 of the new standards and amendments. 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 amendments were applicable for the first time in 2017, they have no significant impact on the interim condensed consolidated financial statements of the Group. The nature and impact of each new standard/amendment is listed below:

Reporting standards and changes in the Group's accounting standards

#### ***IAS 7 Disclosure Initiative – Amendments to IAS 7 (not applicable due to lack of EU endorsement)***

The amendments require an entity to provide supplementary information on the changes in liabilities tied to the financing activity, including both the cash flow changes and the non-monetary changes (such as profits and losses on exchange rates). At the time of initial application of this amendment, the entity does not have to submit the comparative information of previous financial periods.

#### ***Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses (not applicable due to lack of EU endorsement)***

The amendments clarify that an entity must consider whether the tax legislation restricts the sources of taxable income against which it could make deductions associated with the turnover ratio of temporary deductible differences. The amendment also provides guidelines on how an entity should determine future taxable income, and it explains the circumstances in which the taxable income might include recovery of some assets for a value higher than their book value.



Entities must apply these amendments retrospectively. However, at the time of initial application of the amendments, the change in opening shareholders' equity of the first period of comparison might be recorded under opening retained earnings (or under another shareholders' equity item, as the case may be), without allocating the change to opening retained earnings and the other shareholders' equity items. The entities that apply this facility must report it.

#### **Annual cycle of improvements - 2014-2016 (not applicable due to lack of EU endorsement)**

##### ***Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12***

The amendments clarify that the disclosure requirements of IFRS 12, unlike that described under paragraphs B10-B16, apply to the equity investments of an entity in a subsidiary, joint venture or an associate (or to the shareholding in a joint venture or an associate) that is classified (or included in a classified disposal group) as held for sale.

##### **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 consolidated financial statements as at 30 June 2017.

- IFRS 9 "Financial Instruments": this standard, approved by the European Union on 29 November 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 amortised 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 amortised cost. The rules to account for derivatives have been simplified, as the embedded derivative and the host financial asset are no longer recognised 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 19 November 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 recognised in the income statement;
- the effective date of the standard is deferring, originally effective as of 1 January 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 realised losses. The amendment in question is applicable from 1 January 2018.

- IFRS 15 "Revenues from Contracts with Customers": the standard, issued by the IASB on 28 May 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 -

Revenue and IAS 11 - Construction Contracts and all related interpretations. 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 amendment issued by IASB on 11 September 2015, will be effective for years beginning on or after 1 January 2018.

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

## 5. 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;
- in order to complete the strategy to offer an integrated supply of products in the automation area that led to the completion of the acquisition of the business unit by R&S by the wholly owned subsidiary SGE S.r.l., of the company Bertel S.r.l. and CPT S.r.l. and finally the business unite Ampere, the grouping of all "Automation" activities started in a single legal entity that involved the following operations:
  - on 13 June 2017, the name of the company SGE was changed to "Tescmec automation";
  - on June 13, 2017, the Extraordinary Shareholders' Meetings of the companies CPT Engineering S.r.l. and Tesmec Automation S.r.l. (former SGE S.r.l.) approved the merger project. On July 21, 2017, the merger deed incorporating the company CPT Engineering S.r.l. in the company Tesmec Automation S.r.l. (formerly SGE S.r.l.) was published;
  - on July 1, 2017, Tesmec Automation (former SGE S.r.l.) has rented from Tesmec S.p.A. fully controlled company Bertel S.r.l., the entire business concern;
  - to complete the above mentioned automation restructuring project in September is planned the acquisition from Tesmec S.p.A. of the Ampere business concern (already acquired in 2016 by Tesmec S.p.A.) by Tesmec Automation S.r.l. (former SGE S.r.l.).

This will be completed by September 30, 2017, the integration plan for companies operating in the Automation segment allowing to Tesmec Automation S.r.l. to take full advantage of the commercial, industrial and research synergies and synergies associated with the unification of activities.

- On 15 March 2017, Cerved Rating Agency, the Italian rating agency specialised in assessing the creditworthiness of non-financial companies, assigned the B1.1 - Good credit rating to the Company.

With reference to the Bond Issue "Tescmec S.p.A. 6% 2014-2021" (the "Bond Issue"), note that because of the company's failure to comply with the financial covenants set out in Art. 12(vi) of the Bond Issue regulations (the "Regulations") as at 31 December 2016 pursuant to Art. 7 of the Regulations, the interest rate applicable to these bonds in the period between 10 April 2018 and 10 April 2019 will be increased 1% more than the initial interest rate, so it will be 7%. To provide complete disclosure, please note that if the Company (i) restores the values of the financial parameters as set out in Art. 12(vi) of the Regulations as at the first date of calculation and verification of said financial parameters - and therefore during 2018 - the interest rate applicable to the bonds in the period between 10 April 2019 and 10 April 2020 will return to 6%, or (ii) restores the values of the financial parameters as set out in Art. 12(vi) of the Regulations as at the second date of calculation and verification of said financial parameters - and therefore during 2019 - the interest rate applicable to the bonds in the period between 10 April 2020 and 10 April 2021 (date of maturity of the Bond Issue) will be 6.5%".

- It is confirmed that as at the date of this Report, all waivers requested in connection with the failure, at 31 December 2016, to observe some financial covenants comprised in some medium-long term loans with Italian credit institutions were obtained and, as a result, the amounts regarding these loans were reclassified.

## COMMENTS ON THE MAIN ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

### 6. Intangible assets

The breakdown and changes in “Intangible assets” as at 30 June 2017 and as at 31 December 2016 are shown in the table below:

<i>(Euro in thousands)</i>	01/01/2017	Increases due to purchases	Decreases	Reclassifications	Amortisation	Exchange rate differences	30/06/2017
Development costs	14,622	3,098	-	-	(3,094)	(163)	14,463
Rights and trademarks	2,305	39	-	1,849	(547)	-	3,646
Assets in progress and advance payments to suppliers	1,964	220	-	(1,849)	-	-	335
<b>Total intangible assets</b>	<b>18,891</b>	<b>3,357</b>	<b>-</b>	<b>-</b>	<b>(3,641)</b>	<b>(163)</b>	<b>18,444</b>

As at 30 June 2017, intangible assets totalled Euro 18,444 thousand, down Euro 447 thousand on the previous year due to:

- development costs capitalised in the first six months of 2017 for Euro 3,098 thousand, almost entirely by amortisation for the period (Euro 3,094 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 will be amortised over a five year period.

### 7. Property, plant and equipment

The breakdown and changes in “Property, plant and equipment” as at 30 June 2017 and as at 31 December 2016 are shown in the table below:

<i>(Euro in thousands)</i>	01/01/2017	Increases due to purchases	Decreases	Reclassifications	Depreciation	Exchange rate differences	30/06/2017
Land	1,797	-	-	-	(4)	(17)	1,776
Buildings	11,595	228	-	26	(238)	(464)	11,147
Plant and machinery	4,657	227	-	(146)	(513)	(107)	4,118
Equipment	1,607	665	-	(124)	(267)	-	1,881
Other assets	27,111	8,036	(3,963)	244	(2,045)	(1,072)	28,311
Assets in progress and advance payments to suppliers	522	8	-	-	-	-	530
<b>Total property, plant and equipment</b>	<b>47,289</b>	<b>9,164</b>	<b>(3,963)</b>	<b>-</b>	<b>(3,067)</b>	<b>(1,660)</b>	<b>47,763</b>

As at 30 June 2017, property, plant and equipment totalled Euro 47,763 thousand, up compared to the previous year by Euro 474 thousand.

The increase is mainly due to the capitalisation of trencher machines registered in the fleet following the drawing-up of new lease contracts.

## 8. Work in progress contracts

The following table sets forth the breakdown of Work in progress contracts as at 30 June 2017 and as at 31 December 2016:

<i>(Euro in thousands)</i>	30 June 2017	31 December 2016
Work in progress (Gross)	6,201	1,291
Advances from contractors	(1,402)	-
<b>Work in progress contracts</b>	<b>4,799</b>	<b>1,291</b>
Advances from contractors (Gross)	-	-
Work in progress (Gross)	-	-
<b>Advances from contractors</b>	<b>-</b>	<b>-</b>

"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 change in the period is mainly due to the progress of orders in the rail sector and advances refer to bills of work progress not yet completed.

## 9. Inventories

The following table provides a breakdown of the item Inventories as at 30 June 2017 compared to 31 December 2016:

<i>(Euro in thousands)</i>	30 June 2017	31 December 2016
Raw materials and consumables	37,065	32,803
Work in progress	9,633	12,360
Finished products and goods for resale	17,935	23,958
Advances to suppliers for assets	117	106
<b>Total Inventories</b>	<b>64,750</b>	<b>69,227</b>

Inventories compared to 31 December 2016 decreased by Euro 4,477 thousand thanks to the sales in the first half of 2017.

## 10. Trade receivables

The following table sets forth the breakdown of Trade Receivables as at 30 June 2017 and as at 31 December 2016:

<i>(Euro in thousands)</i>	30 June 2017	31 December 2016
Trade receivables from third-party customers	49,591	48,680
Trade receivables from associates, related parties and joint ventures	6,670	753
<b>Total trade receivables</b>	<b>56,261</b>	<b>49,433</b>

The increase in trade receivables (+13.8%) reflects the trend of sales for the half-year concentrated in June, in particular. The balance of trade receivables due from related parties increased by Euro 5,917 thousand mainly due to higher sales to the

associated company M.T.S. Officine meccaniche S.p.A. For more information, see paragraph 19. *Related parties transactions* contained in the Explanatory Notes.

## 11. Financial receivables and other current financial assets

The following table provides a breakdown of financial receivables and other current financial assets as at 30 June 2017 and as at 31 December 2016:

<i>(Euro in thousands)</i>	<b>30 June 2017</b>	<b>31 December 2016</b>
Financial receivables due from associates, related parties and joint ventures	9,080	8,944
Financial receivables from third parties	1,376	47
Other current financial assets	88	58
<b>Total financial receivables and other current financial assets</b>	<b>10,544</b>	<b>9,049</b>

The increase in current financial assets from Euro 9,049 thousand to Euro 10,544 thousand is mainly due to the increase in financial receivables from third parties by Euro 1,329 thousand for a receivable accrued following the positive ruling of the arbitration board on a litigation with a Chinese trading company.

## 12. 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 each.

The following table provides a breakdown of Other reserves as at 30 June 2017 and as at 31 December 2016:

<i>(Euro in thousands)</i>	<b>30 June 2017</b>	<b>31 December 2016</b>
Revaluation reserve	86	86
Extraordinary reserve	26,942	25,294
Change in the consolidation area	54	125
Severance indemnity valuation reserve	(371)	(479)
Network Reserve	824	824
Retained earnings/(losses brought forward)	(3,087)	2,380
Bills charged directly to shareholders' equity on operations with entities under common control	(4,048)	(4,048)
<b>Total other reserves</b>	<b>20,400</b>	<b>24,182</b>

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, booked in the Translation reserve, amounts to Euro 4.445 thousand, has a negative impact on Shareholders' Equity of Euro 2,155 thousand as at 30 June 2017.

As a result of the resolution of 28 April 2017, with the approval of the 2016 financial statements, the Shareholders' Meeting of Tesmec S.p.A. decided to allocate the profit of the Parent Company of Euro 1,648 thousand to the extraordinary reserve.

### 13. Medium-long term loans

During the first six months of 2017, medium-long term loans increased from Euro 39,181 thousand to Euro 36,350 thousand mainly due to the following effects:

- Euro 9,499 thousand increase relating to medium/long-term payables that were reclassified in the medium/long-term financial indebtedness;
- increase of Euro 2,747 thousand for new loans obtained during the period;
- Euro 15,047 thousand decrease relating to reclassification of the short-term portion of medium/long-term loans in the current financial indebtedness that mainly includes the funding operation carried out by Simest S.p.A. in Tesmec USA Inc. in 2010 that becomes due as at 30 June 2018.

### 14. Interest-bearing financial payables (current portion)

The following table provides details of this item as at 30 June 2017 and as at 31 December 2016:

<i>(Euro in thousands)</i>	30 June 2017	31 December 2016
Advances from banks against invoices and bills receivables	35,134	28,011
Other financial payables (short-term leases)	1,222	1,099
Payables due to factoring companies	4,859	2,201
Current account overdrafts	4,711	779
Short-term loans to third parties	3,371	4,896
Current portion of medium/long-term loans	16,640	32,952
Other short-term financial payables	7,476	72
<b>Total interest-bearing financial payables (current portion)</b>	<b>73,413</b>	<b>70,010</b>

The increase in the current portion of medium/long-term loans refers to the increase of export advances.

### 15. 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 30 June 2017:

<i>(Euro in thousands)</i>	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
<b>Financial assets:</b>					
Financial receivables	218	-	-	-	-
Trade receivables	431	-	-	-	-
Derivative financial instruments	-	-	-	-	2
<b>Total non-current</b>	<b>649</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>
Trade receivables	56,261	-	-	-	-
Financial receivables from related parties	9,080	-	-	-	-

Financial receivables from third parties	1,464	-	-	-	-
Other available-for-sale securities	-	-	-	3	-
Derivative financial instruments	-	-	-	-	84
Cash and cash equivalents	-	-	22,581	-	-
<b>Total current</b>	<b>66,805</b>	<b>-</b>	<b>22,581</b>	<b>3</b>	<b>84</b>
<b>Total</b>	<b>67,454</b>	<b>-</b>	<b>22,581</b>	<b>3</b>	<b>86</b>
<b>Financial liabilities:</b>					
Loans	33,811	-	-	-	-
Bond issue	14,765	-	-	-	-
Non-current portion of finance leases, net	2,539	-	-	-	-
Derivative financial instruments	-	-	-	-	101
Trade payables	2	-	-	-	-
<b>Total non-current</b>	<b>51,117</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>101</b>
Loans	20,011	-	-	-	-
Other financial payables (short-term leases)	1,222	-	-	-	-
Other short-term financial payables	52,180	-	-	-	-
Derivative financial instruments	-	-	-	-	49
Trade payables	39,480	-	-	-	-
<b>Total current</b>	<b>112,893</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49</b>
<b>Total</b>	<b>164,010</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>150</b>

## 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 Tescmec 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 30 June 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 15.9 million, with a negative equivalent value of Euro 108 thousand. Moreover, there were four positions related to derivative instruments of Cap interest rate; the notional value of these positions was equal to Euro 10.4 million, with a negative equivalent value of Euro 40 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 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.

As at 30 June 2017, there were five forward cover contracts of the Euro/USD (flexible/spot) exchange rate. The notional value of these positions was equal to Euro 3.5 million, with a positive equivalent value of Euro 84 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 30 June 2017, divided into the three levels defined above:

<i>(Euro in thousands)</i>	<b>Book value as at 30 June 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets:</b>				
Derivative financial instruments	2	-	2	-
<b>Total non-current</b>	<b>2</b>	<b>-</b>	<b>2</b>	<b>-</b>
Other available-for-sale securities	3	-	-	3
Derivative financial instruments	84	-	84	-
<b>Total current</b>	<b>87</b>	<b>-</b>	<b>84</b>	<b>3</b>
<b>Total</b>	<b>89</b>	<b>-</b>	<b>86</b>	<b>3</b>
<b>Financial liabilities:</b>				
Derivative financial instruments	101	-	101	-
<b>Total non-current</b>	<b>101</b>	<b>-</b>	<b>101</b>	<b>-</b>
Derivative financial instruments	49	-	49	-
<b>Total current</b>	<b>49</b>	<b>-</b>	<b>49</b>	<b>-</b>
<b>Total</b>	<b>150</b>	<b>-</b>	<b>150</b>	<b>-</b>

## 16.Revenues from sales and services

The table below shows the breakdown of Revenues from sales and services as at 30 June 2017 and as at 30 June 2016:

<i>(Euro in thousands)</i>	Half-year ended 30 June	
	2017	2016
Sales of products	67,306	59,640
Services rendered	18,898	14,572
	<b>86,204</b>	<b>74,212</b>
Changes in work in progress	4,910	(226)
<b>Total revenues from sales and services</b>	<b>91,114</b>	<b>73,986</b>

In the first six months of 2017, the Group consolidated revenues of Euro 91,114 thousand, marking an increase of Euro 17,128 thousand compared to Euro 73,986 thousand in the same period of the previous year. In percentage terms, this increase represents a positive difference of 23.2%, which is split unevenly between the Group's three business areas. More specifically, an increase of +44.2% was recorded for the Energy segment, +233.1% for the Rail segment and +3.7% for the Trencher segment.

For the Energy segment, revenues in the first half of 2017 benefited from a general recovery in investment in the Energy segment in addition to the completion of the production operations of the Indonesian order within the terms provided under the contract.

For the Rail segment, the improvement is attributable to the strategy pursued by the Group focused on technological innovation in the range of products offered through which numerous projects on the Italian market were awarded, while the impact of the long-term orders is still insignificant.

For the Trencher segment, the still insignificant growth due to the delayed finalisation of projects already acquired and sales contracts being negotiated in the Middle East and South Africa is offset by the positive trend of revenues of the service activities. Therefore, in this area, the prevailing customer orientation towards the demand for service activity is confirmed more than the purchase of investment goods

## 17.Operating costs

The item operating costs amounted to Euro 89,114 thousand, an increase of 22.8% compared to the previous year, a less than proportional increase with respect to the performance in revenues (23.2%).

## 18.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:

### *Energy 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 (Rock Hawg);
- 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.

<i>(Euro in thousands)</i>	Half-year ended 30 June							
	2017				2016			
	Energy	Trencher	Rail	Consolidated	Energy	Trencher	Rail	Consolidated
Revenues from sales and services	31,986	51,277	7,851	91,114	22,176	49,453	2,357	73,986
Operating costs net of depreciation and amortisation	(26,444)	(49,243)	(6,719)	(82,406)	(19,653)	(44,740)	(2,233)	(66,626)
<b>EBITDA</b>	<b>5,542</b>	<b>2,034</b>	<b>1,132</b>	<b>8,708</b>	<b>2,523</b>	<b>4,713</b>	<b>124</b>	<b>7,360</b>
Amortisation and depreciation	(1,993)	(3,645)	(1,070)	(6,708)	(1,525)	(3,433)	(963)	(5,921)
<b>Total operating costs</b>	<b>(28,437)</b>	<b>(52,888)</b>	<b>(7,789)</b>	<b>(89,114)</b>	<b>(21,178)</b>	<b>(48,173)</b>	<b>(3,196)</b>	<b>(72,547)</b>
<b>Operating income</b>	<b>3,549</b>	<b>(1,611)</b>	<b>62</b>	<b>2,000</b>	<b>998</b>	<b>1,280</b>	<b>(839)</b>	<b>1,439</b>
Net financial income/(expenses)				(4,547)				(2,718)
<b>Pre-tax profit/(loss)</b>				<b>(2,547)</b>				<b>(1,279)</b>
Income tax				749				(31)
<b>Net profit/(loss) for the period</b>				<b>(1,798)</b>				<b>(1,310)</b>
Profit/(loss) attributable to non-controlling interests				(26)				(14)
<b>Group profit/(loss)</b>				<b>(1,772)</b>				<b>(1,296)</b>

(\*) 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 30 June 2017 and as at 31 December 2016:

<i>(Euro in thousands)</i>	As at 30 June 2017					As at 31 December 2016				
	Energy	Trencher	Rail	Not allocated	Consolidated	Energy	Trencher	Rail	Not allocated	Consolidated
Intangible assets	10,233	3,756	4,455	-	18,444	10,655	3,526	4,710	-	18,891
Property, plant and equipment	1,985	45,506	272	-	47,763	1,966	45,209	114	-	47,289
Financial assets	3,273	784	-	27	4,084	3,289	776	138	-	4,203
Other non-current assets	1,361	3,491	87	7,372	12,311	1,169	3,113	95	7,516	11,893
<b>Total non-current assets</b>	<b>16,852</b>	<b>53,537</b>	<b>4,814</b>	<b>7,399</b>	<b>82,602</b>	<b>17,079</b>	<b>52,624</b>	<b>5,057</b>	<b>7,516</b>	<b>82,276</b>
Work in progress contracts	-	-	4,799	-	4,799	-	-	1,291	-	1,291
Inventories	18,615	44,989	1,146	-	64,750	15,366	53,151	710	-	69,227
Trade receivables	14,542	40,915	804	-	56,261	15,387	33,600	446	-	49,433
Other current assets	1,077	3,808	126	10,886	15,897	2,312	2,740	30	8,490	13,572
Cash and cash equivalents	963	1,626	4,102	15,890	22,581	818	487	1,425	15,771	18,501
<b>Total current assets</b>	<b>35,197</b>	<b>91,338</b>	<b>10,977</b>	<b>26,776</b>	<b>164,288</b>	<b>33,883</b>	<b>89,978</b>	<b>3,902</b>	<b>24,261</b>	<b>152,024</b>
<b>Total assets</b>	<b>52,049</b>	<b>144,875</b>	<b>15,791</b>	<b>34,175</b>	<b>246,890</b>	<b>50,962</b>	<b>142,602</b>	<b>8,959</b>	<b>31,777</b>	<b>234,300</b>
Shareholders' equity attributable to Parent Company Shareholders	-	-	-	44,496	44,496	-	-	-	48,221	48,221
Shareholders' equity attributable to non-controlling interests	-	-	-	1,676	1,676	-	-	-	1,699	1,699
<b>Non-current liabilities</b>	<b>772</b>	<b>8,391</b>	<b>1,473</b>	<b>51,526</b>	<b>62,162</b>	<b>971</b>	<b>10,217</b>	<b>1,712</b>	<b>52,928</b>	<b>65,828</b>
Current financial liabilities	-	-	-	73,462	73,462	-	-	-	70,120	70,120
Trade payables	13,026	23,527	2,927	-	39,480	10,620	18,244	2,333	-	31,197
Other current liabilities	1,058	10,990	2,395	11,172	25,615	1,557	7,609	404	7,667	17,237
<b>Total current liabilities</b>	<b>14,084</b>	<b>34,517</b>	<b>5,322</b>	<b>84,634</b>	<b>138,557</b>	<b>12,177</b>	<b>25,853</b>	<b>2,737</b>	<b>77,787</b>	<b>118,554</b>
<b>Total liabilities</b>	<b>14,856</b>	<b>42,908</b>	<b>6,796</b>	<b>136,160</b>	<b>200,718</b>	<b>13,148</b>	<b>36,070</b>	<b>4,449</b>	<b>130,715</b>	<b>184,382</b>
<b>Total shareholders' equity and liabilities</b>	<b>14,856</b>	<b>42,908</b>	<b>6,796</b>	<b>182,332</b>	<b>246,890</b>	<b>13,148</b>	<b>36,070</b>	<b>4,449</b>	<b>180,635</b>	<b>234,302</b>

## 19.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:

	Half-year ended 30 June 2017					Half-year ended 30 June 2016				
	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
<i>(Euro in thousands)</i>										
<b>Associates:</b>										
Locavert S.A.	264	-	-	-	-	67	-	-	-	-
<b>Subtotal</b>	<b>264</b>	-	-	-	-	<b>67</b>	-	-	-	-
<b>Joint Venture:</b>										
Condux Tesmec Inc.	1,749	-	-	91	1	1,117	-	-	89	26
Tesmec Peninsula	-	-	(14)	53	58	-	-	-	54	41
<b>Subtotal</b>	<b>1,749</b>	-	<b>(14)</b>	<b>144</b>	<b>59</b>	<b>1,117</b>	-	-	<b>143</b>	<b>67</b>
<b>Related parties:</b>										
Ambrosio S.r.l.	-	-	-	(7)	-	-	-	-	(7)	-
TTCS.r.l.	-	-	(21)	-	-	-	-	(21)	-	-
CBF S.r.l.	-	-	-	-	-	-	-	-	1	-
Ceresio Tours S.r.l.	-	-	(3)	-	-	-	-	(3)	-	-
Dream Immobiliare S.r.l.	-	-	-	(1,126)	-	-	-	-	(167)	(436)
CONAI	-	-	-	-	-	-	(1)	-	-	-
FI.IND	-	-	-	32	-	-	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	8,792	-	34	16	-	1,965	-	2	5	-
Reggiani Macchine S.p.A.	-	-	-	-	-	33	(8)	(137)	143	-
COMATEL	81	-	-	-	-	-	-	-	-	-
C2D	-	-	(119)	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>8,873</b>	-	<b>(109)</b>	<b>(1,085)</b>	-	<b>1,998</b>	<b>(9)</b>	<b>(159)</b>	<b>(25)</b>	<b>(436)</b>
<b>Total</b>	<b>10,886</b>	-	<b>(123)</b>	<b>(941)</b>	<b>59</b>	<b>3,182</b>	<b>(9)</b>	<b>(159)</b>	<b>118</b>	<b>(369)</b>

	30 June 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
<i>(Euro in thousands)</i>										
<b>Associates:</b>										
Locavert S.A.	146	-	-	-	-	78	-	-	-	-
SEP Moselle	-	47	-	-	-	-	32	-	-	-
SEP Semofo 77	-	-	-	-	-	-	-	-	20	-
SEP Liaison	-	-	-	-	-	-	-	-	13	-
SEP College	-	-	-	-	-	-	6	-	-	-
<b>Subtotal</b>	<b>146</b>	<b>47</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>78</b>	<b>38</b>	<b>-</b>	<b>33</b>	<b>-</b>
<b>Joint Venture:</b>										
Condux Tesmec Inc.	977	659	-	-	-	206	332	-	-	-
Tesmec Peninsula	83	4,916	-	-	14	39	3,508	-	-	34
Marais Tunisie	-	2	-	-	-	-	2	-	-	-
Marais Lucas	-	794	-	-	-	-	794	-	-	-
<b>Subtotal</b>	<b>1,060</b>	<b>6,371</b>	<b>-</b>	<b>-</b>	<b>14</b>	<b>245</b>	<b>4,636</b>	<b>-</b>	<b>-</b>	<b>34</b>
<b>Related parties:</b>										
Ambrosio S.r.l.	-	-	-	-	4	-	-	-	-	4
TTC S.r.l.	-	-	-	-	25	-	-	-	-	-
Ceresio Tours S.r.l.	-	-	-	-	1	-	-	-	-	1
Dream Immobiliare S.r.l.	-	2,662	-	-	141	-	4,270	-	-	212
M.T.S. Officine meccaniche S.p.A.	5,464	-	-	-	-	308	-	-	-	-
Reggiani Macchine S.p.A.	-	-	-	-	-	122	-	-	-	(112)
C2D	-	-	-	-	18	-	-	-	-	14
<b>Subtotal</b>	<b>5,464</b>	<b>2,662</b>	<b>-</b>	<b>-</b>	<b>189</b>	<b>430</b>	<b>4,270</b>	<b>-</b>	<b>-</b>	<b>119</b>
<b>Total</b>	<b>6,670</b>	<b>9,080</b>	<b>-</b>	<b>-</b>	<b>203</b>	<b>753</b>	<b>8,944</b>	<b>-</b>	<b>33</b>	<b>153</b>

- 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.: following the lease contract executed at the end of last year the item Other operating (costs)/revenues includes the rentals for the Grassobbio building of Euro 1,126 thousand.  
In the previous year, these costs were recorded as amortization and interest expense;
- M.T.S. Officine meccaniche S.p.A.: note that at June 30, 2017 there was an increase of Euro 1,965 thousand to Euro 8,792 thousand of sales of machines for MTS Officine Meccaniche S.p.A. As a result of the latter's start-up of its business in the field of the purchase of machines for the subsequent rental.

## 20. Commitments and risks

The Group uses guarantees provided by primary banking institutions and insurance companies on behalf of the operating companies for the requirements relating to the execution of contracts in progress. In general, these are guarantees for the satisfactory performance of contracts (known as performance bonds) or guarantees issued upon receipt of payment by the

contractor in the form of advance/down payment on contracts in progress (advanced payment bonds). As at 30 June the net book value of these guarantees was Euro 24,468 thousand.

## **21. Significant events occurred after the close of the financial period**

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

- a new medium/long-term loan was drawn down on 7 July 2017 for the amount of Euro 3 million with a 48-month term with a fixed rate at 2.25%;
- major initiatives have been launched in Kuwait that see the development not only of new products but also of international partnerships in ways different from those traditionally pursued by the Tesmec Group. Agreements with global partners in the sector have also been set up to promote the implementation of renewable energy projects with good development prospects.



## 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 30 June 2017.

2. We also certify that:

2.1 the Interim condensed consolidated financial statements as at 30 June 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 refers to the important events that took place during the first six months of the financial period and their impact on the Condensed Consolidated Financial Statements, together with a description of the main risks and uncertainties for the six 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, 4 August 2017

Ambrogio Caccia Dominioni

Chief Executive Officer

Andrea Bramani

Manager responsible for  
preparing the Company's  
financial statements



## **INDEPENDENT AUDITOR'S REPORT**

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## Review report on the interim condensed consolidated financial statements (Translation from the original Italian text)

To the Shareholders of  
Tesmec S.p.A.

### Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and the related explanatory notes of Tesmec S.p.A. and its subsidiaries (the "Tesmec Group") as of 30 June 2017. The Directors of Tesmec S.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of 31 July 1997. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Tesmec Group as of 30 June 2017 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.  
Milan, 8 August 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

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