Interim consolidated financial report as at September 30, 2017

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Tesmec S.p.A.
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Fully paid up share capital as at 30 September 2017 Euro 10,708,400
Milan Register of Companies no. 314026
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COMPOSITION OF THE CORPORATE BODIES

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

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

(*) Independent Directors

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

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

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

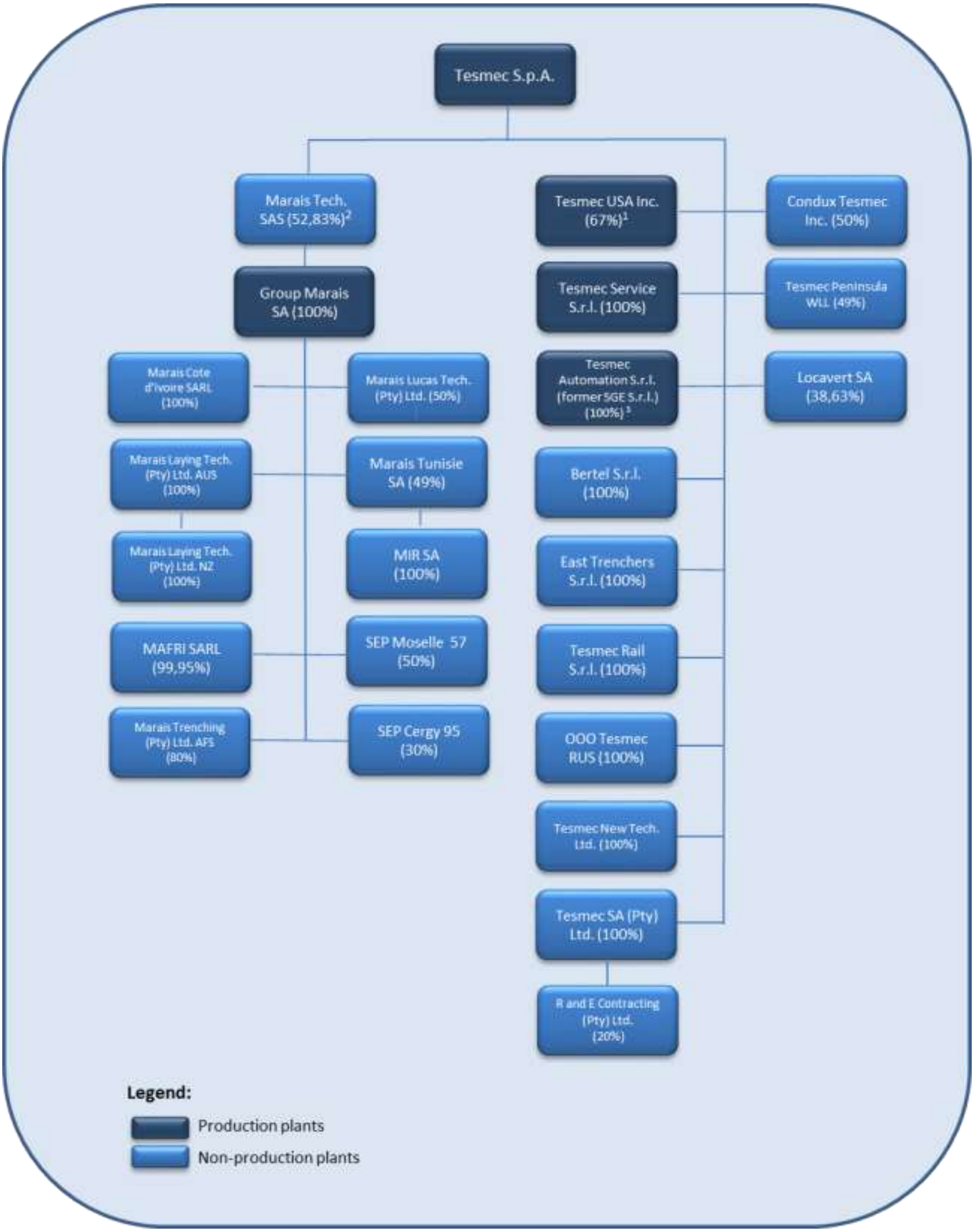
Chairman	Sergio Arnoldi
Members	Gioacchino Attanzio Gianluca Bolelli

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

Chairman	Gioacchino Attanzio
Members	Sergio Arnoldi Caterina Caccia Dominioni

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

GROUP STRUCTURE



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

(2) The remaining 47.17% is held by Simest S.p.A. for 33.96% and by C2D SAS (related party) for 13.21%. Since Tesmec has an obligation to buy it back from Simest S.p.A., from an accounting point of view the shareholding of the Parent Company in Marais Technologies SAS is consolidated on an 86.79% basis.

(3) The On June 30, 2017 the company SGE S.r.l. changed the name in Tesmec Automation S.r.l..

INTERIM CONSOLIDATED REPORT ON OPERATIONS

(Not audited by the Independent Auditors)

1. Introduction

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

The Tesmec Group is a leader in the design, production and marketing of special products and integrated solutions for the construction, maintenance and streamlining of infrastructures relating to the transmission of electrical power and data and material transport.
Founded in Italy in 1951 and managed by the Chairman and Chief Executive Officer Ambrogio Caccia Dominioni, the Group has more than 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: Energy, Trencher and Rail.

Note: as from the Interim consolidated financial report as at 30 June 2017, following the increased offer of products not strictly related to the stringing equipment, the sector previously called stringing equipment will be called 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

Signs of robust growth of the major economies of the planet multiply. In connection with this significant trend, there are no typical overheating effects with inflation that is estimated at the end of the year for the European area at 1.1%, down from the previous estimate of 1.3%. The increase in crude oil demand mainly from the major Asian economies (China and India in the foreground) is balanced by an increase in the offer coming from the United States where the extraction costs of Shale Oil continue to decrease and by the increase in the offer of the Countries not aligned with OPEC (Libya, Nigeria). Therefore, in the short term, the barrel price is expected to fluctuate from 50 to 60 USD. The growing volumes of production coming from investments in the renewable sector the output of which represents an increasingly important part of the energy supply mitigate the upward pressures as well. In this scenario of increased energy consumption and in particular the one coming from renewable sources and of increased attention to control over emissions, the offer of the Group, also thanks to recent acquisitions, is believed to be extremely favourable.

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;

- for the automation business, the simplification plan of the corporate structure relating to acquisitions recently made to complete the range of products offered was implemented with the following operations:

    - on 13 June 2017, the name of the wholly owned company SGE s.r.l. was changed to "Tesmec Automation S.r.l.";

    - on 13 June 2017, the Extraordinary Shareholders' Meeting of the wholly owned companies CPT Engineering S.r.l. and Tesmec Automation S.r.l. (formerly SGE S.r.l.) approved the merger plan. On 21 July 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 signed;

    - on 1 July 2017, Tesmec Automation executed the lease agreement of the Bertel business unit, Bertel S.r.l., entirely controlled by the Parent Company;

    - to complete the above, in October, the purchase by Tesmec Automation S.r.l. (formerly SGE S.r.l.) of the business unit Ampere by Tesmec S.p.A. was executed;

- 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 on the basis of Art. 12(vi) of the Bond Issue regulations (the "Regulations") 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%;

- 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 interest rate of 2.25%.

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

The consolidated financial statements of Tesmec have been prepared in accordance with International Financial Reporting Standards (hereinafter the "IFRS" or the "International Accounting Standards"), which were endorsed by the European Commission, in effect as at 31 December 2016. The following table shows the major economic and financial indicators of the Group as at September 2017 compared with the same period of 2016.

	OVERVIEW OF RESULTS	
30 September 2016	**Key income statement data** (Euro in millions)	**30 September 2017**
108.5	Operating Revenues	132.1
10.7	EBITDA	13.6
1.6	Operating Income	3.1
(1.4)	Group Net Profit	(1.8)
31 December 2016	**Key financial position data** (Euro in millions)	**30 September 2017**
146.6	Net Invested Capital	138.7
49.9	Shareholders' Equity	45.2
96.7	Net Financial Indebtedness	93.5
(1.2)	Investments in property, plant and equipment and intangible assets	12.0
659	Annual average employees	769

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 energy/rail sector (as from 2012). In the first nine months of 2017, revenues amounted to Euro 20.4 million, up by 15% compared to the same period last year and include service activities (rental without operator) of around 22%. Compared to the last quarter of 2016, a recovery in commercial activities that positively affects the sales volumes and the decrease in financial indebtedness thanks to the lower levels of the warehouse is confirmed.
  Note that an out-of-court settlement was reached to close a dispute with the customer Fehlingher (relating to disputes over a previously sold machinery) which involved an overall cost of Euro 1.7 million fully set aside already as from the half-year results 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 nine months of the 2017 financial year, 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 of Euro 10 million compared to revenues of Euro 3.8 million during the same period of 2016.

- 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 nine months, the company generated revenues of Euro 2.8 million. Negotiations that could be finalised in the coming months are underway.

- 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 nine months of the year generated revenues totalling Euro 8.2 million, clearly recovering on the figure of Euro 5.7 million compared to the same period in the previous year.

- Marais Technologies SAS, with registered office in Durtal (France), company 52.83% owned by Tesmec S.p.A., 33.96% by Simest S.p.A. (with an option of Tesmec to repurchase this shareholding interest 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 nine months of 2017 revenues totalling Euro 33.5 million clearly recovering on the figure of Euro 24.9 million compared with the same period in the previous year thanks to the development trend of service activities for projects in the telecommunications and renewable energy segments in Oceania and Africa.

The figures relating to Tesmec Automation S.r.l., company that contains as at 30 September almost all the activities of the Group in the automation segment with the exception of the Ampere business unit which will be granted starting on 2 October 2017:

- 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 nine months of 2017, revenues amounted to Euro 2.9 million after the merger with CPT S.r.l.

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 September 2017 with those as at 30 September 2016.

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

	As at 30 September			
(Euro in thousands)	**2017**	**% of revenues**	**2016**	**% of revenues**
Revenues from sales and services	**132,131**	**100.0%**	**108,477**	**100.0%**
Cost of raw materials and consumables	(58,678)	-44.4%	(46,285)	-42.7%
Costs for services	(22,915)	-17.3%	(22,593)	-20.8%
Payroll costs	(33,412)	-25.3%	(29,190)	-26.9%
Other operating (costs)/revenues, net	(7,433)	-5.6%	(3,312)	-3.1%
Amortisation and depreciation	(10,463)	-7.9%	(9,115)	-8.4%
Development costs capitalised	3,929	3.0%	3,513	3.2%
Portion of losses/(gains) from the valuation of Joint Ventures using the equity method	(38)	0.0%	85	0.1%
Total operating costs	**(129,010)**	**-97.6%**	**(106,897)**	**-98.5%**
Operating income	**3,121**	**2.4%**	**1,580**	**1.5%**
Financial expenses	(8,110)	-6.1%	(5,891)	-5.4%
Financial income	1,644	1.2%	2,470	2.3%
Portion of losses/(gains) from the valuation of equity investments using the equity method	63	0.0%	(177)	-0.2%
Pre-tax profit/(loss)	**(3,282)**	**-2.5%**	**(2,018)**	**-1.9%**
Income tax	1,467	1.1%	641	0.6%
Net profit/(loss) for the period	**(1,815)**	**-1.4%**	**(1,377)**	**-1.3%**
Profit / (loss) attributable to non-controlling interests	25	0.0%	50	0.0%
Group profit/(loss)	**(1,840)**	**-1.4%**	**(1,427)**	**-1.3%**

Revenues

Total revenues as at 30 September 2017 increased by 21.8%. The following table shows their division between service activities and sales of products:

	As at 30 September	
(Euro in thousands)	**2017**	**2016**
Sales of products	95,409	84,817
Services rendered	30,474	21,572
	125,883	**106,389**
Changes in work in progress	6,248	2,088
Total revenues from sales and services	**132,131**	**108,477**

The revenues confirm the recovery already shown in the previous quarters with an increase as at 30 September 2017 of 21.8% compared to the same period the previous year. This result is mainly supported by the services sector that recorded an increase in the same period by 41%. Services rendered mainly concern the trencher segment and are represented by the project activities and machine rental business carried out in France, Africa, Oceania and in the United States.

a) Revenues by geographic area

Even if the revenues recorded by the Group in Italy more than doubled compared to the same period last year thanks to the contributions of the Rail and Automation segments, the Group recorded 82% of revenues abroad and in particular in non-EU countries. The revenue analysis by area is indicated below, compared with the first nine months of 2017 and the first nine months 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.

	As at 30 September	
(Euro in thousands)	**2017**	**2016**
Italy	23,422	11,038
Europe	25,676	24,963
Middle East	10,873	13,478
Africa	9,826	16,808
North and Central America	21,710	21,549
BRIC and Others	40,624	20,641
Total revenues	**132,131**	**108,477**

Operating costs net of depreciation and amortisation

	As at 30 September			
(Euro in thousands)	**2017**	**2016**	**2017 vs. 2016**	**% change**
Cost of raw materials and consumables	(58,678)	(46,285)	(12,393)	26.8%
Costs for services	(22,915)	(22,593)	(322)	1.4%
Payroll costs	(33,412)	(29,190)	(4,222)	14.5%
Other operating (costs)/revenues, net	(7,433)	(3,312)	(4,121)	124.4%
Development costs capitalised	3,929	3,513	416	11.8%
Portion of losses/(gains) from the valuation of Joint Ventures using the equity method	(38)	85	(123)	-144.7%
Operating costs net of depreciation and amortisation	**(118,547)**	**(97,782)**	**(20,765)**	**21.2%**

The table shows an increase in operating costs of Euro 20,756 thousand (+21.2%) lower than the increase in sales (+21.8%). 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 five months and seven months, respectively).
The increase in the item "Other operating (costs)/revenues, net" is mainly due to higher rental costs of Euro 1.7 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 nine months of 2017* equal to Euro 1.7 million.

EBITDA

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

	As at 30 September				
(Euro in thousands)	**2017**	**% of revenues**	**2016**	**% of revenues**	**2017 vs. 2016**
Operating income	3,121	2.4%	1,580	1.5%	1,541
+ Depreciation and amortisation	10,463	7.9%	9,115	8.4%	1,348
EBITDA (*)	**13,584**	**10.3%**	**10,695**	**9.9%**	**2,889**

(*****) 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.

In terms of margins, EBITDA amounts to Euro 13,584 thousand, up by 27.0% over the figure recorded in the first nine months of 2016 and an almost doubled operating income thanks to higher sales volumes.
It is noted that, when comparing the same figure with the previous year, rental costs of Euro 1.7 million are calculated in EBITDA 2017, as a result of the new lease contract realised at the end of last year, which in 2016 were recorded as amortisation and interest expense. Excluding these costs, EBITDA as at 30 September 2017 would have been Euro 15.3 million.

Financial Management

	As at 30 September	
(Euro in thousands)	**2017**	**2016**
Net Financial Income/Expenses	(2,017)	(3,170)
Foreign exchange gains/losses	(4,561)	(308)
Fair value adjustment of derivative instruments	112	57
Portion of losses/(gains) from the valuation of equity investments using the equity method	63	(177)
Total net financial income/expenses	**(6,403)**	**(3,598)**

The financial management is negatively affected by foreign exchange losses deriving from the adjustment of the currency positions at the exchange rate applicable at year-end due to the effect of the appreciation of the euro against the main currencies with which the holding entertains qualifying and gearing ratios. The main factor that affected this cost is attributable to the different trend in the USD/EUR exchange rate in the two periods of reference (EUR/USD Exchange Rate equal to 1.054 as at 31 December 2016 and 1.1806 as at 30 September 2017). This phenomenon involved losses net of hedging for a total of Euro 4,561 thousand in the first nine months of 2017 against net losses of Euro 308 thousand in the first nine months of 2016.

It should be noted that the amount of Euro 4,561 thousand consists of a positive value of realised exchange rate differences of Euro 97 thousand and a negative value of unrealised exchange rate differences of Euro 4,658 thousand. The latter refers to medium to long-term intercompany positions that could be reabsorbed over time.

Conversely, financial management recorded a lower cost of Euro 1,153 thousand due to the lower cost of indebtedness and to the lower interests due to the effects of the lease contract for the amount of Euro 655 thousand.

5.2 Income Statement by segment

Revenues by segment

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

	As at 30 September				
(Euro in thousands)	**2017**	**% of revenues**	**2016**	**% of revenues**	**2017 vs. 2016**
Energy	44,836	33.9%	30,472	28.1%	14,364
Trencher	76,083	57.6%	74,276	68.5%	1,807
Rail	11,212	8.5%	3,729	3.4%	7,483
Total revenues	**132,131**	**100.0%**	**108,477**	**100.0%**	**23,654**

In the first nine months of 2017, the Group consolidated revenues of Euro 132,131 thousand, marking an increase of Euro 23,654 thousand compared to Euro 108,477 thousand in the same period of the previous year. In percentage terms, this increase represents a positive difference of 21.8%, which is split unevenly between the Group's three business areas. More specifically, an increase of +47.1% was recorded for the Energy segment, +200.7% for the Rail segment and +2.4% for the Trencher segment.

For all three segments, the trend already seen in the previous quarters is confirmed compared to the same period last year with trenchers that recovered the drop in revenues of the first quarter.

For the Energy segment, revenues as at 30 September 2017 benefit from a general recovery in infrastructure investments in Emerging Countries.

With regard to the Rail segment, the improvement is attributable to the development phase of production activities related to the major orders acquired at the end of 2016.

For the Trencher segment, the trend is mainly attributable to the growth of revenues for service activities.

EBITDA by segment

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

	As at 30 September				
(Euro in thousands)	**2017**	**% of revenues**	**2016**	**% of revenues**	**2017 vs. 2016**
Energy	7,305	16.3%	2,927	9.6%	4,378
Trencher	4,815	6.3%	7,494	10.1%	(2,679)
Rail	1,465	13.1%	274	7.3%	1,191
EBITDA (*)	**13,585**	**10.3%**	**10,695**	**9.9%**	**2,890**

(*****) 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 2,927 thousand in the first nine months of 2016 to Euro 7,305 thousand in 2017 is due to higher sales volumes. In percentage terms, the value is 16.3% of revenues in line with the trends that this industry has historically achieved in the past.

- Trencher: the margin decreased by 35.8% in an inversely proportional way compared to the increase in revenues (+2.4%), due to the trend in the USD/EUR exchange rate and to the impact of the Fehlingher case (relating to disputes over a previously sold machinery) which resulted in a total cost of Euro 1.7 million.
- Rail: EBITDA increased from a value of Euro 274 thousand as at 30 September 2016 to a value of Euro 1,465 thousand as at 30 September 2017 thanks to trend in sales volumes that more than doubled in the first nine months of 2017 compared to the same period of the previous year, confirming the success of the development strategy of the Group's offer in this segment.

6.Summary of balance sheet figures as at 30 September 2017

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

(Euro in thousands)	**As at 30 September 2017**	**As at 31 December 2016**
USES		
Net working capital (1)	68,584	76,038
Fixed assets	68,715	70,056
Other long-term assets and liabilities	1,415	517
Net invested capital (2)	**138,714**	**146,611**
SOURCES		
Net financial indebtedness (3)	93,522	96,691
Shareholders' equity	45,192	49,920
Total sources of funding	**138,714**	**146,611**

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

A) Net working capital

Details of the composition of the "Net Working Capital" as at 30 September 2017 and 31 December 2016 are as follows:

(Euro in thousands)	**As at 30 September 2017**	**As at 31 December 2016**
Trade receivables	52,410	49,433
Work in progress contracts	4,454	1,291
Inventories	60,831	69,227
Trade payables	(33,199)	(31,197)
Other current assets/(liabilities)	(15,912)	(12,716)
Net working capital (1)	**68,584**	**76,038**

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

Net working capital amounted to Euro 68,584 thousand, marking a decrease of Euro 7,454 thousand (equal to 9.8%) compared to 31 December 2016. This trend is mainly due to the decrease in "Inventories" of Euro 8,396 thousand (-12.1%), the increase in "Trade payables" and "Other current assets/(liabilities) for a net amount of Euro 5,198 thousand, partially offset by the increase in the item "Trade receivables" and the increase in "Work in progress contracts" for a total of Euro 6,140 thousand.

B) Fixed assets

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

(Euro in thousands)	**As at 30 September 2017**	**As at 31 December 2016**
Intangible assets	18,161	18,891
Property, plant and equipment	46,808	47,289
Equity investments in associates	3,739	3,869
Other equity investments	7	7
Fixed assets	**68,715**	**70,056**

The total of net *fixed assets* decreased by Euro 1,341 thousand in that the depreciations made were greater than new investments.

C) Net financial indebtedness

Details of the breakdown of "Net financial indebtedness" as at 30 September 2017 and 31 December 2016 are as follows:

(Euro in thousands)	**As at 30 September 2017**	***of which with related parties and group***	**As at 31 December 2016**	***of which with related parties and group***
Cash and cash equivalents	(21,994)		(18,501)	
Current financial assets [(1)]	(11,451)	*(10,029)*	(9,053)	*(8,944)*
Current financial liabilities	79,427	*28*	70,010	*33*
Current portion of derivative financial instruments	19		110	
Current financial indebtedness [(2)]	**46,001**	***(10,001)***	**42,566**	***(8,911)***
Non-current financial liabilities	47,418	-	53,916	-
Non-current portion of derivative financial instruments	103		209	
Non-current financial indebtedness [(2)]	**47,521**	**-**	**54,125**	**-**
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	**93,522**	***(10,001)***	**96,691**	***(8,911)***

[(1)] Current financial assets as at 30 September 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 nine months of 2017, the Group's net financial indebtedness decreased by Euro 3,169 thousand compared to the figure at the end of 2016.

The table below shows the breakdown of the following changes:

- the increase in current financial indebtedness of Euro 3,435 thousand whose main effects include:

- the Euro 8,569 thousand decrease relating to medium/long-term payables reclassified as short term that were reclassified in the medium/long-term financial indebtedness after obtaining the waivers;
- the Euro 20,976 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 5,891 thousand and a net balance between refunds and taking-out of new short lines of Euro 3,081 thousand;

▪ decrease in medium/long-term financial indebtedness by Euro 6,604 thousand that chiefly includes:
  - the Euro 8,569 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 5,909 thousand obtained during the period;
  - the Euro 20,976 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 Consolidated Financial Statements for 2016, where the Group's policies in relation to the management of financial risks are presented.

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

In compliance with the Consob communications of 20 February 1997, 27 February 1998, 30 September 1998, 30 September 2002 and 27 July 2006, we specify that during the first nine months of 2017, no transactions took place with related parties of an atypical or unusual nature with no bearing on the company's normal operations or such as to harm the income statement, balance sheet or financial results of the Group.
For significant information on intercompany and related party transactions, please see the paragraph "Related party transactions" in the Explanatory Notes.

9.Group Employees

The average number of Group employees in the first nine months of 2017, including the employees of companies that are fully consolidated, is 769 persons compared to 659 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.

Events occurring after the end of the reporting period

Significant events occurred after 30 September 2017 include the signing of some arrangements with the related party MTS – Officine Meccaniche di Precisione S.p.A. illustrated in the Information Document published on 2 November 2017.

Business outlook

The revenues of the fourth quarter are expected to be higher than those of the third quarter mainly thanks to the development rate of the projects as part of Green Energy where the Group already consolidated its presence and to the deliveries related to the work order of railway wagons with RFI. Therefore, revenues will be achieved at the end of the year of around Euro 180 million and generate a level of EBITDA Adj on revenues of approximately 14%. Finally, a forecast of debt reduction is confirmed thanks to the continuous improvement of working capital.

INTERIM REPORT ON OPERATIONS

Consolidated financial statements

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

(Euro in thousands)	Notes	30 September 2017	31 December 2016
NON-CURRENT ASSETS			
Intangible assets	6	18,161	18,891
Property, plant and equipment	7	46,808	47,289
Equity investments in associates valued using the equity method		3,739	3,869
Other equity investments		7	7
Financial receivables and other non-current financial assets		195	324
Derivative financial instruments	15	1	3
Deferred tax assets		11,611	11,520
Non-current trade receivables		277	373
TOTAL NON-CURRENT ASSETS		**80,799**	**82,276**
CURRENT ASSETS			
Work in progress contracts	8	4,454	1,291
Inventories	9	60,831	69,227
Trade receivables	10	52,410	49,433
of which with related parties:	10	*2,980*	*753*
Tax receivables		903	1,705
Other available-for-sale securities		3	2
Financial receivables and other current financial assets	11	11,448	9,049
of which with related parties:	11	*10,029*	*8,944*
Other current assets		5,543	2,816
of which with related parties:		*600*	-
Derivative financial instruments		-	2
Cash and cash equivalents		21,994	18,501
TOTAL CURRENT ASSETS		**157,586**	**152,026**
TOTAL ASSETS		**238,385**	**234,302**
SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS			
Share capital	12	10,708	10,708
Reserves / (deficit)	12	34,601	41,457
Group net profit / (loss)	12	(1,840)	(3,944)
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS		**43,469**	**48,221**
Minority interest in capital and reserves / (deficit)		1,698	1,608
Net profit / (loss) for the period attributable to non-controlling interests		25	91
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		**1,723**	**1,699**
TOTAL SHAREHOLDERS' EQUITY		**45,192**	**49,920**
NON–CURRENT LIABILITIES			
Medium/long-term loans	13	32,637	39,181
Bond issue		14,781	14,735
Derivative financial instruments	15	103	209
Employee benefit liability		3,415	3,680
Deferred tax liabilities		7,240	7,870
Provisions for risks and charges		12	-
Other non-current liabilities		-	150
Non-current trade payables		2	3
TOTAL NON-CURRENT LIABILITIES		**58,190**	**65,828**
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	14	79,427	70,010
of which with related parties:	14	*28*	*33*
Derivative financial instruments	15	19	110
Trade payables		33,199	31,197
of which with related parties:		*325*	*153*
Advances from customers		7,355	3,463
Income taxes payable		495	199
Provisions for risks and charges		3,619	3,704
Other current liabilities		10,889	9,871
TOTAL CURRENT LIABILITIES		**135,003**	**118,554**
TOTAL LIABILITIES		**193,193**	**184,382**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**238,385**	**234,302**

Consolidated income statement as at 30 September 2017 and 2016

(Euro in thousands)	Notes	As at 30 September	
		2017	2016
Revenues from sales and services	17	**132,131**	**108,477**
of which with related parties:		*12,915*	*4,387*
Cost of raw materials and consumables		(58,678)	(46,285)
of which with related parties:		*(1)*	*(25)*
Costs for services		(22,915)	(22,593)
of which with related parties:		*(199)*	*(238)*
Payroll costs		(33,412)	(29,190)
Other operating (costs)/revenues, net		(7,433)	(3,312)
of which with related parties:		*(1,573)*	*187*
Amortisation and depreciation		(10,463)	(9,115)
Development costs capitalised		3,929	3,513
Portion of losses/(gains) from the valuation of Joint Ventures using the equity method		(38)	85
Total operating costs	18	**(129,010)**	**(106,897)**
Operating income		**3,121**	**1,580**
Financial expenses		(8,110)	(5,891)
of which with related parties:		-	*(655)*
Financial income		1,644	2,470
of which with related parties:		*89*	*97*
Portion of losses/(gains) from the valuation of equity investments using the equity method		63	(177)
Pre-tax profit/(loss)		**(3,282)**	**(2,018)**
Income tax		1,467	641
Net profit/(loss) for the period		**(1,815)**	**(1,377)**
Profit/(loss) attributable to non-controlling interests		**25**	**50**
Group profit/(loss)		**(1,840)**	**(1,427)**
Basic and diluted earnings/(losses) per share		**(0.0172)**	**(0.0133)**

Consolidated statement of comprehensive income as at 30 September 2017 and 2016

(Euro in thousands)	Notes	As at 30 September 2017	 2016
NET PROFIT/(LOSS) FOR THE PERIOD		**(1,840)**	**(1,427)**
Other components of comprehensive income			
Other components of comprehensive income that will be subsequently reclassified to net income/(loss) for the year:			
Exchange differences on conversion of foreign financial statements	12	(2,975)	(827)
Other components of comprehensive income that will not be subsequently reclassified to net income/(loss) for the year:			
Actuarial profit/(loss) on defined benefit plans		142	(251)
Income tax		(34)	69
	12	108	(182)
Total other income/(losses) after tax		**(2,867)**	**(1,009)**
Total comprehensive income (loss) after tax		**(4,707)**	**(2,436)**
Attributable to:			
Equity holders of parent		(6,522)	(3,813)
Minority interests		1,815	1,377

Statement of consolidated cash flows as at 30 September 2017 and 2016

		As at 30 September	
(Euro in thousands)	**Notes**	**2016**	**2015**
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit/(loss) for the period		(1,815)	(1,377)
Adjustments to reconcile net income for the period with the cash flows generated by (used in) operating activities:			
Amortisation and depreciation	6-7	10,463	9,115
Provisions for employee benefit liability		77	533
Provisions for risks and charges / inventory obsolescence / doubtful accounts		423	864
Employee benefit payments		(222)	(423)
Payments of provisions for risks and charges		(116)	(22)
Net change in deferred tax assets and liabilities		(1,046)	(1,646)
Change in fair value of financial instruments	15	(193)	(58)
Change in current assets and liabilities:			
Trade receivables	10	2,964	(7,520)
Inventories	9	2,372	5,067
Trade payables		2,347	(11,976)
Other current assets and liabilities		(813)	598
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		**14,441**	**(6,845)**
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	7	(11,573)	(11,376)
Investments in intangible assets	6	(5,176)	(5,538)
(Investments) / disposal of financial assets		(2,497)	5,326
Changes in the consolidation area		-	(6,538)
Proceeds from sale of property, plant and equipment and intangible assets	6-7	4,771	6,223
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		**(14,475)**	**(11,903)**
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	16	5,909	17,657
Repayment of medium/long-term loans	16	(19,065)	(17,008)
Changes in the consolidation area		-	930
Net change in short-term financial debt	16	16,951	13,500
Purchase of treasury shares	12	-	(316)
Other changes	12	42	87
Dividend distribution	12	-	(2,566)
NET CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES (C)		**3,837**	**12,284**
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		**3,803**	**(6,464)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		(310)	(8)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)		18,501	21,204
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		**21,994**	**14,732**
Additional information:			
Interest paid		4,221	3,652
Income tax paid		-	2,411

Statement of changes in consolidated shareholders' equity as at 30 September 2017 and 2016

(Euro in thousands)	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
Balance as at 1 January 2017	**10,708**	**2,141**	**10,915**	**(2,341)**	**6,560**	**24,182**	**(3,944)**	**48,221**	**1,699**	**49,920**
Profit for the period	-	-	-	-	-	-	(1,840)	(1,840)	25	(1,815)
Other profits/(losses)	-	-	-	-	(2,975)	108	-	(2,867)	(4)	(2,871)
Total comprehensive income/(loss)	-	-	-	-	-	-	-	**(4,707)**	**21**	**(4,686)**
Allocation of profit from the previous year	-	-	-	-	-	(3,944)	3,944	-	-	-
Change in the consolidation area	-	-	-	-	-	(45)	-	(45)	3	(42)
Purchase of treasury shares			-	-	-	-	-	-	-	-
Balance as at 30 September 2017	**10,708**	**2,141**	**10,915**	**(2,341)**	**3,585**	**20,301**	**(1,840)**	**43,469**	**1,723**	**45,192**

(Euro in thousands)	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
Balance as at 1 January 2016	**10,708**	**2,141**	**10,915**	**(2,136)**	**5,731**	**19,972**	**6,931**	**54,262**	1,615	**55,877**
Profit for the period	-	-	-	-	-	-	(1,427)	(1,427)	50	(1,377)
Other profits/(losses)	-	-	-	-	(827)	(182)	-	(1,009)	7	(1,002)
Total comprehensive income/(loss)	-	-	-	-	-	-	-	**(2,436)**	57	**(2,379)**
Allocation of profit from the previous year	-	-	-	111	-	4,254	(4,365)	-		-
Dividend distribution	-	-	-	-	-	-	(2,566)	(2,566)	-	(2,566)
Change in the consolidation area	-	-	-	-	-	106	-	106	(19)	87
Purchase of treasury shares	-		-	(316)	-	-	-	(316)	-	(316)
Balance as at 30 September 2016	**10,708**	**2,141**	**10,915**	**(2,341)**	**4,904**	**24,150**	**(1,427)**	**49,050**	**1,653**	**50,703**

Explanatory notes

Accounting policies adopted in preparing the consolidated financial statements as at 30 September 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 September 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 report on operations as at 30 September 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 interim condensed consolidated report on operations does not disclose all the information required in preparing the consolidated annual financial statements, it must be read together with the consolidated financial statements as at 31 December 2016.

The interim condensed consolidated report on operations as at 30 September 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 nine months of 2016 for the consolidated income statement, comprehensive income statement, statement of changes in shareholders' equity and statement of cash flows).

The interim condensed consolidated report on operations is presented in Euro and all values are rounded to the nearest thousand, unless otherwise indicated.

Disclosure of the interim condensed consolidated report on operations of the Tesmec Group for the period ended 30 September 2017 was authorised by the Board of Directors on 27 October 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 period ended 30 September		End-of-period exchange rate as at 30 September	
	2017	2016	2017	2016
US Dollar	1.103	1.116	1.181	1.116
Bulgarian Lev	1.956	1.956	1.956	1.956
Russian Rouble	64.434	76.305	68.252	70.514
South African Rand	14.578	16.702	15.944	15.524
Renminbi	7.540	7.343	7.853	7.446
Qatar Riyal	4.016	4.062	4.297	4.063
Algerian Dinar	120.678	121.649	133.478	122.317
Tunisian Dinar	2.627	2.348	2.917	2.461
Australian Dollar	1.448	1.505	1.508	1.466
New Zealand Dollar	1.545	1.614	1.635	1.537
CFA Franc	655.957	655.957	655.957	655.957

3.Consolidation methods and area

On 30 September 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;
- on 22 August 2017, the subsidiary Tesmec SA (Pty) Ltd. purchased 20% of the South African company R and E Contracting (Pty) Ltd. and the subject matter of which is the rental of Trencher machines.

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 at 30 September 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 recognise and measure financial assets and liabilities. The main changes introduced by IFRS 9 may be summarised 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 amortised 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. On the other hand, dividends continue to be recognised 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 that 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 that replaces the impairment model based on realised losses. The amendment in question is applicable from 1 January 2018.

- IFRS 15 "Revenue from contracts with customers": the standard, issued by the IASB on 28 May 2014 and approved by the European Union on 29 October 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.

On 11 September 2015, IASB issued an amendment to the standard in question postponing its date of application effective as from 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;

- for the automation business, the simplification plan of the corporate structure relating to acquisitions recently made to complete the range of products offered was implemented with the following operations:

  - on 13 June 2017, the name of the wholly owned company SGE s.r.l. was changed to "Tesmec Automation S.r.l.";

  - on 13 June 2017, the Extraordinary Shareholders' Meeting of the wholly owned companies CPT Engineering S.r.l. and Tesmec Automation S.r.l. (formerly SGE S.r.l.) approved the merger plan. On 21 July 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 signed;

  - on 1 July 2017, Tesmec automation executed the lease agreement of the Bertel business unit, Bertel S.r.l., entirely controlled by the Parent Company;

  - to complete the above, in October, the purchase by Tesmec Automation S.r.l. (formerly SGE S.r.l.) of the business unit Ampere by Tesmec S.p.A. was executed;

- 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"), 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%";

- 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 interest rate of 2.25%.

COMMENTS ON THE MAIN ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

6. Intangible assets

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

(Euro in thousands)	01/01/2017	Increases due to purchases	Decreases	Reclassifications	Amortisation	Exchange rate differences	30/09/2017
Development costs	14,622	4,621	-	-	(4,850)	(225)	14,168
Rights and trademarks	2,305	51	-	1,959	(829)	(2)	3,484
Assets in progress and advance payments to suppliers	1,964	504	-	(1,959)	-	-	509
Total intangible assets	**18,891**	**5,176**	**-**	**-**	**(5,679)**	**(227)**	**18,161**

As at 30 September 2017, *intangible assets* totalled Euro 18,161 thousand, down Euro 730 thousand on the previous year due to:

- *development costs* capitalised in the first nine months of 2017 of Euro 4,621 thousand, fully offset by amortisation for the period (Euro 4,850 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 1,959 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 that 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 September 2017 and as at 31 December 2016 are shown in the table below:

(Euro in thousands)	01/01/2017	Increases due to purchases	Decreases	Reclassifications	Depreciation	Exchange rate differences	30/09/2017
Land	1,797	-	-	-	(6)	(23)	1,768
Buildings	11,595	235	-	26	(355)	(649)	10,852
Plant and machinery	4,657	263	-	(146)	(765)	(148)	3,861
Equipment	1,607	745	(74)	(156)	(391)	(2)	1,729
Other assets	27,111	10,321	(4,697)	276	(3,267)	(1,677)	28,067
Assets in progress and advance payments to suppliers	522	9	-	-	-	-	531
Total property, plant and equipment	**47,289**	**11,573**	**(4,771)**	**-**	**(4,784)**	**(2,499)**	**46,808**

As at 30 September 2017, property, plant and equipment totalled Euro 46,808 thousand, down compared to the previous year by Euro 481 thousand.
The change is due to the capitalisation of trencher machines registered in the fleet following the drawing-up of new lease contracts offset by the sale of trencher machines and by depreciations for the period.

8.Work in progress contracts

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

(Euro in thousands)	30 September 2017	31 December 2016
Work in progress (Gross)	6,249	1,291
Advances from contractors	(1,795)	-
Work in progress contracts	**4,454**	**1,291**
Advances from contractors (Gross)	-	-
Work in progress (Gross)	-	-
Advances from contractors	**-**	**-**

"Work in progress" refers exclusively to the rail segment where the machinery is produced in accordance with specific customer requirements. "Work in progress" is recognised as an asset if, on the basis of an analysis carried out for each contract, the gross value of work in progress is greater than advances from customers; it is recognised as a liability if the advances are greater than the related work in progress.
If the advances are not collected at the reporting date, the corresponding amount is recognised as trade receivables.
The change for the period is mainly due to the progress of orders in the Rail segment and the advances refer to the invoicing of states of progress of works not yet completed.

9.Inventories

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

(Euro in thousands)	30 September 2017	31 December 2016
Raw materials and consumables	37,561	32,803
Work in progress	13,791	12,360
Finished products and goods for resale	9,214	23,958
Advances to suppliers for assets	265	106
Total Inventories	**60,831**	**69,227**

Inventories compared to 31 December 2016 decreased by Euro 8,396 thousand thanks to the sales in the first nine months of 2017.

10.Trade receivables

The following table provides a breakdown of Trade receivables as at 30 September 2017 and as at 31 December 2016:

(Euro in thousands)	30 September 2017	31 December 2016
Trade receivables from third-party customers	49,430	48,680
Trade receivables from associates, related parties and joint ventures	2,980	753
Total trade receivables	**52,410**	**49,433**

The increase in *trade receivables* (6.0%) reflects the trend of sales for the period concentrated in September in particular. The balance of trade receivables due from related parties increased by Euro 2,227 thousand mainly due to higher sales to the related party M.T.S. Officine meccaniche S.p.A. For further information, please see the paragraph *19.Related party transactions* 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 September 2017 and as at 31 December 2016:

(Euro in thousands)	30 September 2017	31 December 2016
Financial receivables due from associates, related parties and joint ventures	10,029	8,944
Financial receivables from third parties	1,376	47
Other current financial assets	43	58
Total financial receivables and other current financial assets	**11,448**	**9,049**

The increase in *current financial assets* from Euro 9,049 thousand to Euro 11,448 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 and from related parties by Euro 1,085 thousand where receivables from related parties M.T.S. Officine meccaniche S.p.A. and MTS4SERVICE USA L.L.C. increased.

12.Share capital and reserves

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

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

(Euro in thousands)	30 September 2017	31 December 2016
Revaluation reserve	86	86
Extraordinary reserve	26,942	25,294
Change in the consolidation area	(45)	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)
Total other reserves	**20,301**	**24,182**

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

The value of the difference from translation of financial statements, posted to the Translation reserve, amounted to Euro 3,585 thousand and has a negative impact on Shareholders' Equity of Euro 2,975 thousand as at 30 September 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 nine months of 2017, medium-long term loans decreased from Euro 39,181 thousand to Euro 32,637 thousand mainly due to the following effects:

- the Euro 8,569 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 5,909 thousand obtained during the period;
- the Euro 20,976 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 September 2017 and as at 31 December 2016:

(Euro in thousands)	**30 September 2017**	**31 December 2016**
Advances from banks against invoices and bills receivables	39,365	28,011
Other financial payables (short-term leases)	1,168	1,099
Payables due to factoring companies	5,427	2,201
Current account overdrafts	3,873	779
Short-term loans to third parties	3,274	4,896
Current portion of medium/long-term loans	26,222	32,952
Other short-term financial payables	98	72
Total interest-bearing financial payables (current portion)	**79,427**	**70,010**

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

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 September 2017:

(Euro in thousands)	**Loans and receivables/ financial liabilities measured at amortised cost**	**Guarantee deposits**	**Cash and cash equivalents**	**Available-for-sale financial assets**	**Fair value recognised in the income statement**
Financial assets:					
Guarantee deposits	-	195	-	-	-
Trade receivables	277	-	-	-	-
Derivative financial instruments	-	-	-	-	1
Total non-current	**277**	**195**	**-**	**-**	**1**
Trade receivables	52,410	-	-	-	-
Financial receivables from related parties	10,029	-	-	-	-
Financial receivables from third parties	1,419	-	-	-	-
Other available-for-sale securities	-	-	-	3	-

Cash and cash equivalents	-	-	21,994	-	-
Total current	**63,858**	**-**	**21,994**	**3**	**-**
Total	**64,135**	**195**	**21,994**	**3**	**1**
Financial liabilities:					
Loans	9,938	-	-	-	-
Bond issue	14,781	-	-	-	-
Non-current portion of finance leases, net	22,699	-	-	-	-
Derivative financial instruments	-	-	-	-	103
Trade payables	2	-	-	-	-
Total non-current	**47,420**	**-**	**-**	**-**	**103**
Loans	26,320	-	-	-	-
Other financial payables (short-term leases)	1,168	-	-	-	-
Other short-term payables	51,939	-	-	-	-
Derivative financial instruments	-	-	-	-	19
Trade payables	33,199	-	-	-	-
Total current	**112,626**	**-**	**-**	**-**	**19**
Total	**160,046**	**-**	**-**	**-**	**122**

Management and types of risk

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

Interest rate risk

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

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

As at 30 September 2017, there were six 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 13.1 million, with a negative equivalent value of Euro 80 thousand. Moreover, there were four positions related to derivative instruments of Cap interest rate; the notional value of these positions was equal to Euro 9.8 million, with a negative equivalent value of Euro 41 thousand.

Exchange rate risk

A significant portion of the Group's revenues is generated by sales in foreign countries, including developing countries.
The main transaction currencies used for the Group's sales are the Euro and the US Dollar. The Group believes that if the exchange rate fluctuations of these two currencies are low, there is no risk to operating margins, insofar as the sale price could be adapted on each occasion to the exchange rate. However, if the US dollar were to depreciate significantly against the Euro, we cannot exclude negative effects on margins to the extent that a good portion of sales in US dollars concerns the productions of Italian factories that operate with costs in the Eurozone.
With regard to net exposure that is mainly represented by loans in US Dollars of Tesmec S.p.A., the forward buying of the American currency is adopted as the only hedging instrument. However, these hedges are carried out only for one part of the total exposure in that the timing of the inflow of the receipts in dollars is difficult to predict at the level of each sales invoice.

Besides, for a good part of the sales in dollars, the Group uses the production of the American factory with costs in US dollars by creating in this way a sort of natural hedging of the currency exposure.
Forward sale instruments for fixing the exchange rate at the moment of the order are mainly used for covering the risk of the dollar exposure deriving from:
i) selling trenchers produced in Italy in Middle-East countries;
ii) selling stringing machines produced in Italy in the USA where purchases are in Euro, and sales in US dollars.
Despite the adoption of the above strategies aimed at reducing the risks arising from fluctuation of exchange rates, the Group cannot exclude that future changes thereof might affect the results of the Group. Fluctuations in exchange rates could also significantly affect the comparability of the results of each financial period.

As at 30 September 2017, there were no forward cover contracts.

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 September 2017, divided into the three levels defined above:

(Euro in thousands)	**Book value as at 30 September 2017**	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Derivative financial instruments	1	-	1	-
Total non-current	**1**	**-**	**1**	**-**
Other available-for-sale securities	3	-	-	3
Total current	**3**	**-**	**-**	**3**
Total	**4**	**-**	**1**	**3**
Financial liabilities:				
Derivative financial instruments	103	-	103	-
Total non-current	**103**	**-**	**103**	**-**
Derivative financial instruments	19	-	19	-
Total current	**19**	**-**	**19**	**-**
Total	**122**	**-**	**122**	**-**

16. Revenues from sales and services

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

	As at 30 September	
(Euro in thousands)	**2017**	**2016**
Sales of products	95,409	84,817
Services rendered	30,474	21,572
	125,883	**106,389**
Changes in work in progress	6,248	2,088
Total revenues from sales and services	**132,131**	**108,477**

In the first nine months of 2017, the Group consolidated revenues of Euro 132,131 thousand, marking an increase of Euro 23,654 thousand compared to Euro 108,477 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 +47.1% was recorded for the Energy segment, +200.7% for the Rail segment and +2.4% for the Trencher segment.

The trend of the three segments is shown below:

- Energy: the improvement of the EBITDA from Euro 2,927 thousand in the first nine months of 2016 to Euro 7,305 thousand in 2017 is due to higher sales volumes. In percentage terms, the value is 16.3% of revenues in line with the trends that this industry has historically achieved in the past.
- Trencher: the margin decreased by 35.8% in an inversely proportional way compared to the increase in revenues (+2.4%), due to the trend in the USD/EUR exchange rate and to the impact of the Fehlingher case (relating to disputes over a previously sold machinery) which resulted in a total cost of Euro 1.7 million.
- Rail: EBITDA increased from a value of Euro 274 thousand as at 30 September 2016 to a value of Euro 1,465 thousand as at 30 September 2017 thanks to trend in sales volumes that more than doubled in the first nine months of 2017 compared to the same period of the previous year, confirming the success of the development strategy of the Group's offer in this segment.

17.Operating costs

The item *Operating costs* amounted to Euro 118,547 thousand, an increase of 21.2% compared to the previous year, a less than proportional increase with respect to the performance in revenues (21.8%).

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.

(Euro in thousands)	As at 30 September							
	2017				2016			
	Energy	Trencher	Rail	Consolidated	Energy	Trencher	Rail	Consolidated
Revenues from sales and services	44,836	76,083	11,212	132,131	30,472	74,276	3,729	108,477
Operating costs net of depreciation and amortisation	(37,531)	(71,268)	(9,747)	(118,546)	(27,545)	(66,782)	(3,455)	(97,782)
EBITDA	**7,305**	**4,815**	**1,465**	**13,585**	**2,927**	**7,494**	**274**	**10,695**
Amortisation and depreciation	(3,095)	(5,693)	(1,676)	(10,464)	(2,582)	(5,065)	(1,468)	(9,115)
Total operating costs	**(40,626)**	**(76,961)**	**(11,423)**	**(129,010)**	**(30,127)**	**(71,847)**	**(4,923)**	**(106,897)**
Operating income	**4,210**	**(878)**	**(211)**	**3,121**	**345**	**2,429**	**(1,194)**	**1,580**
Net financial income/(expenses)				(6,403)				(3,598)
Pre-tax profit/(loss)				**(3,282)**				**(2,018)**
Income tax				1,467				641
Net profit/(loss) for the period				**(1,815)**				**(1,377)**
Profit/(loss) attributable to non-controlling interests				25				50
Group profit/(loss)				**(1,840)**				**(1,427)**

(*) 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 September 2017 and as at 31 December 2016:

(Euro in thousands)	As at 30 September 2017					As at 31 December 2016				
	Energy	Trencher	Rail	Not allocated	Consolidated	Energy	Trencher	Rail	Not allocated	Consolidated
Intangible assets	10,723	4,214	3,224	-	18,161	10,655	3,526	4,710	-	18,891
Property, plant and equipment	1,895	44,651	262	-	46,808	1,966	45,209	114	-	47,289
Financial assets	3,141	762	12	27	3,942	3,289	776	138	-	4,203
Other non-current assets	1,341	3,163	86	7,298	11,888	1,169	3,113	95	7,516	11,893
Total non-current assets	**17,100**	**52,790**	**3,584**	**7,325**	**80,799**	**17,079**	**52,624**	**5,057**	**7,516**	**82,276**
Work in progress contracts	-	-	4,454	-	4,454	-	-	1,291	-	1,291
Inventories	16,554	43,253	1,024	-	60,831	15,366	53,151	710	-	69,227
Trade receivables	14,102	37,350	958	-	52,410	15,387	33,600	446	-	49,433
Other current assets	1,247	2,813	892	12,945	17,897	2,312	2,740	30	8,492	13,574
Cash and cash equivalents	1,145	904	2,697	17,248	21,994	818	487	1,425	15,771	18,501
Total current assets	**33,048**	**84,320**	**10,025**	**30,193**	**157,586**	**33,883**	**89,978**	**3,902**	**24,263**	**152,026**
Total assets	**50,148**	**137,110**	**13,609**	**37,518**	**238,385**	**50,962**	**142,602**	**8,959**	**31,779**	**234,302**
Shareholders' equity attributable to Parent Company Shareholders	**-**	**-**	**-**	**43,469**	**43,469**	**-**	**-**	**-**	**48,221**	**48,221**
Shareholders' equity attributable to non-controlling interests	**-**	**-**	**-**	**1,723**	**1,723**	**-**	**-**	**-**	**1,699**	**1,699**
Non-current liabilities	**804**	**7,825**	**1,473**	**48,088**	**58,190**	**971**	**10,217**	**1,712**	**52,928**	**65,828**
Current financial liabilities	-	-	-	79,446	79,446	-	-	-	70,120	70,120
Trade payables	9,601	20,202	3,396	-	33,199	10,620	18,244	2,333	-	31,197

Other current liabilities	1,108	7,414	600	13,236	22,358	1,557	7,609	404	7,667	17,237
Total current liabilities	**10,709**	**27,616**	**3,996**	**92,682**	**135,003**	**12,177**	**25,853**	**2,737**	**77,787**	**118,554**
Total liabilities	**11,513**	**35,441**	**5,469**	**140,770**	**193,193**	**13,148**	**36,070**	**4,449**	**130,715**	**184,382**
Total shareholders' equity and liabilities	**11,513**	**35,441**	**5,469**	**185,962**	**238,385**	**13,148**	**36,070**	**4,449**	**180,635**	**234,302**

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:

	As at 30 September 2017					**As at 30 September 2016**				
(Euro in thousands)	**Revenues**	**Cost of raw materials**	**Costs for services**	**Other operating (costs)/ revenues, net**	**Financial income and expenses**	**Revenues**	**Cost of raw materials**	**Costs for services**	**Other operating (costs)/ revenues, net**	**Financial income and expenses**
Associates:										
Locavert S.A.	778	-	-	-	-	602	-	-	-	-
SEP Semofor 77	-	-	-	-	-	-	-	-	4	-
Subtotal	**778**	**-**	**-**	**-**	**-**	**602**	**-**	**-**	**4**	**-**
Joint Ventures:										
Condux Tesmec Inc.	1,945	-	-	133	4	1,154	-	-	134	36
Tesmec Peninsula	-	-	(22)	53	85	-	-	-	81	61
Subtotal	**1,945**	**-**	**(22)**	**186**	**89**	**1,154**	**-**	**-**	**215**	**97**
Related parties:										
Ambrosio S.r.l.	-	-	-	(11)	-	-	-	-	(11)	-
TTC S.r.l.	-	-	(21)	-	-	-	-	(21)	-	-
CBF S.r.l.	-	-	-	-	-	-	-	-	1	-
Ceresio Tours S.r.l.	-	-	(5)	-	-	-	-	(4)	-	-
Dream Immobiliare S.r.l.	-	-	-	(1,684)	-	-	-	-	(244)	(655)
CONAI	-	-	-	-	-	-	(2)	-	-	-
FI.IND. S.p.A.	-	-	-	60	-	-	-	-	-	-
Lame Nautica S.r.l.	11	-	-	-	-	-	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	5,715	(1)	34	(124)	-	2,583	(1)	3	8	-
MTS4SERVICE USA L.L.C	4,359	-	-	-	-	-	-	-	-	-
Reggiani Macchine S.p.A.	-	-	-	-	-	78	(22)	(216)	214	-
Fintetis SARL	-	-	-	-	-	(30)	-	-	-	-
C2D	1	-	(185)	-	-	-	-	-	-	-
Comatel	106	-	-	-	-	-	-	-	-	-
Subtotal	**10,192**	**(1)**	**(177)**	**(1,759)**	**-**	**2,631**	**(25)**	**(238)**	**(32)**	**(655)**
Total	**12,915**	**(1)**	**(199)**	**(1,573)**	**89**	**4,387**	**(25)**	**(238)**	**187**	**(558)**

(Euro in thousands)	30 September 2017					31 December 2016				
	Trade receivables	Other current assets	Current financial receivables	Current financial payables	Trade payables	Trade receivables	Other current assets	Current financial receivables	Current financial payables	Trade payables
Associates:										
Locavert S.A.	515	-	-	-	-	78	-	-	-	-
SEP Moselle	-	-	-	28	-	-	-	32	-	-
SEP Semafor 77	-	-	-	-	-	-	-	-	20	-
SEP Laison	-	-	-	-	-	-	-	-	13	-
SEP College	-	-	-	-	-	-	-	6	-	-
Subtotal	**515**		**-**	**28**	**-**	**78**		**38**	**33**	**-**
Joint Ventures:										
Condux Tesmec Inc.	242	-	447	-	-	206	-	332	-	-
Tesmec Peninsula	27	-	1,961	-	8	39	-	3,508	-	34
Marais Tunisie	-	-	1	-	-	-	-	2	-	-
Marais Lucas	-	-	794	-	-	-	-	794	-	-
Subtotal	**269**	-	**3,203**	**-**	**8**	**245**	-	**4,636**	**-**	**34**
Related parties:										
Ambrosio S.r.l.	-	-	-	-	4	-	-	-	-	4
Ceresio Tours S.r.l.	-	-	-	-	-	-	-	-	-	1
Dream Immobiliare S.r.l.	-	-	2,527	-	141	-	-	4,270	-	212
TTC S.r.l.	-	-	-	-	25	-	-	-	-	-
Lame Nautica S.r.l.	11	-	-	-	-	-	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	2,178	-	2,912	-	131	308	-	-	-	-
MTS4SERVICE USA L.L.C	-	-	1,387	-	-	-	-	-	-	-
Reggiani Macchine S.p.A.	-	-	-	-	-	122	-	-	-	(112)
Comatel	7	-	-	-	-	-	-	-	-	-
C2D	-	600	-	-	16	-	-	-	-	14
Subtotal	**2,196**	**600**	**6,826**	**-**	**317**	**430**	**-**	**4,270**	**-**	**119**
Total	**2,980**	**600**	**10,029**	**28**	**325**	**753**	**-**	**8,944**	**33**	**153**

- 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 Other net operating (costs)/revenues includes the rentals for the Grassobbio building of Euro 1,674 thousand. In the previous financial year, these costs were recorded as amortisation and interest expense;
- M.T.S. Officine meccaniche S.p.A.: it should be noted that as at 30 September 2017, machine sales in favour of MTS Officine Meccaniche di Precisione S.p.A. increased from Euro 2,583 thousand to Euro 5,715 thousand as a result of the start-up of its business in the segment of purchase of machines for subsequent rental.
- C2D: the amount of Euro 600 thousand included in other current assets refers to the advance paid for the purchase of shares that the company holds in Marais Technology that currently has not yet been fully defined.

20.Significant events occurred after the end of the reporting period

Significant events occurred after 30 September 2017 include the signing of some arrangements with the related party MTS – Officine Meccaniche di Precisione S.p.A. illustrated in the Information Document published on 2 November 2017.

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 adopted to prepare the Interim consolidated report on operations as at 30 September 2017.

2. We also certify that:

2.1 the Interim condensed consolidated financial statements as at 30 September 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 nine months of the year and their impact on the condensed interim consolidated financial statements, together with a description of the main risks and uncertainties for the three 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, 27 October 2017

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

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