



Annual Financial Report 2017



Investor Relator

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Tesmec S.p.A.

Registered Office: Piazza Sant'Ambrogio, 16 – 20123 Milan

Fully paid up share capital as at 31 December 2017 Euro 10,708,400

Milan Register of Companies no. 314026

Tax and VAT code 10227100152

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NOTICE OF CALL

TESMEC S.P.A.

Registered office

Piazza Sant' Ambrogio, 16 – 20123 Milan

Milan Register of companies no. 314026

Tax and VAT code: 10227100152

Share capital Euro 10,708,400

Website: "www.tesmec.com"

CALL OF THE ORDINARY SHAREHOLDERS' MEETING

The shareholders are convened to the ordinary meeting at Tesmec S.p.A. ("**Tesmec**" or "**Company**") in Grassobbio (BG), Via Zanica 17/O, 24050, on 6 April 2018 at 10:30 a.m. in single call to discuss and deliberate on the following:

AGENDA

- 1. Presentation of the Tesmec Group's consolidated financial statements and review and approval of the financial statements as at 31 December 2017 and relevant reports, including the Consolidated Non-Financial Statement; allocation of result for the period; related and consequent resolutions.**
- 2. Consultation on the first section of report on remuneration pursuant to Article 123-ter paragraph 6 of Italian Legislative Decree no. 58/1998.**
- 3. Proposal of authorisation to purchase and dispose of treasury shares, subject to the withdrawal of the resolution passed by the Shareholder's Meeting of 28 April 2017; related and consequent resolutions.**

Attending the Shareholders' Meeting

Pursuant to the law, those who have the right to vote may attend the Shareholder's Meeting. The right to attend and vote at the Shareholders' Meeting is certified by a notification to the Company, made by the intermediary, in favour of the person who has the right to vote, on the basis of evidences existing at the end of the accounting day of the seventh day of open market before the date scheduled for the Shareholders' Meeting in single call ("*record date*"), coincident with 26 March 2018. Therefore, those who will be the holders of the shares only after the *record date* mentioned above will be not entitled to attend and vote at the Shareholders' Meeting.

Share capital

The share capital of Tesmec totals Euro 10,708,400.00 constituted by 107,084,000 ordinary shares with a nominal value of Euro 0.10 each. The shares are nominative, indivisible, and freely transferable. Pursuant to Article 9 of the Articles of Association, each share gives right to one vote in the ordinary and extraordinary shareholders' meetings of the Company. At the time of this notice of call, the Company holds 4.711.879 treasury shares.

Representation

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

The Company, pursuant to Article 135-undecies of Italian Legislative Decree no. 58/1998 ("**TUF**"), appointed Ms. Lucia Caccia Dominioni as the representative to whom holders of voting rights may grant a written proxy, free of

charge for them and accompanied with voting instructions for all or part of the draft resolutions on the agenda, provided that she receives it no later than the end of the second day of open market before the date scheduled for the Shareholders' meeting in single call (i.e. not later than 4 April 2018), in accordance with the modalities specified and by means of the specific proxy form, with relevant voting instructions, available on the website of the Company www.tesmec.com and at the administrative office of the Company. The proxy thereby granted is effective only for those proposed draft resolutions in relation to which voting instructions are given. The proxy and voting instructions can be withdrawn within the same deadline specified above (i.e. not later than 4 April 2018). There are no procedures for postal votes or by electronic means.

Right to ask questions

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

In order to facilitate the proper course of the Shareholder' Meeting and its preparation, the Shareholders are invited to submit the questions not later than the third day before the date scheduled for the Shareholders' meeting in single call (i.e. not later than 3 April 2018).

Additions to the agenda and submission of new draft resolutions

Pursuant to Article 126-*bis* of the TUF, the shareholders who, individually or jointly, represent at least one fortieth of the share capital with voting rights can request, within ten days from the publication of this notice (i.e. not later than 2018, 16th of March), additions to the agenda or submit new draft resolutions, specifying in the request the further arguments or the new draft resolutions proposed on points already on the agenda. The request must be submitted in writing by the proposing shareholders by registered mail to the registered office of the Company for the attention of the President or by e-mail to the address tesmecspa@pec.it, accompanied by the relevant certification released by the intermediary proving the ownership of the above mentioned fraction of share capital. Within the above-mentioned term and through the same modalities, any proposing shareholder must deliver to the Board of Directors a report on the points they propose to treat or the reasons underlying the further draft resolutions submitted on points already on the agenda. No addition to the agenda is allowed for those arguments on which the Shareholders' Meeting deliberates, in accordance with the law, upon proposals made by the directors or on the basis of a project or report prepared by them, other than those indicated under Article 125-ter, paragraph 1, of the TUF.

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

Documents

The documents relating to the points on the agenda of the Shareholders' Meeting will be made available to the public within the terms provided by law at the administrative office in Grassobbio, Via Zanica 17/O of the Company and on the website of Borsa Italiana S.p.A., with the storage mechanism "NIS-Storage" and also on the website of the Company www.tesmec.com, under section "Shareholders' Meetings".

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

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

Grassobbio, 6 March 2018
Tesmec S.p.A.

COMPOSITION OF THE CORPORATE BODIES

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

Chairman and Chief Executive Officer	Ambrogio Caccia Dominioni
Vice Chairman	Gianluca Bolelli
Directors	Sergio Arnoldi (*) Giacchino 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 Marozzi 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	Giacchino 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	Giacchino Attanzio
Members	Sergio Arnoldi Caterina Caccia Dominioni

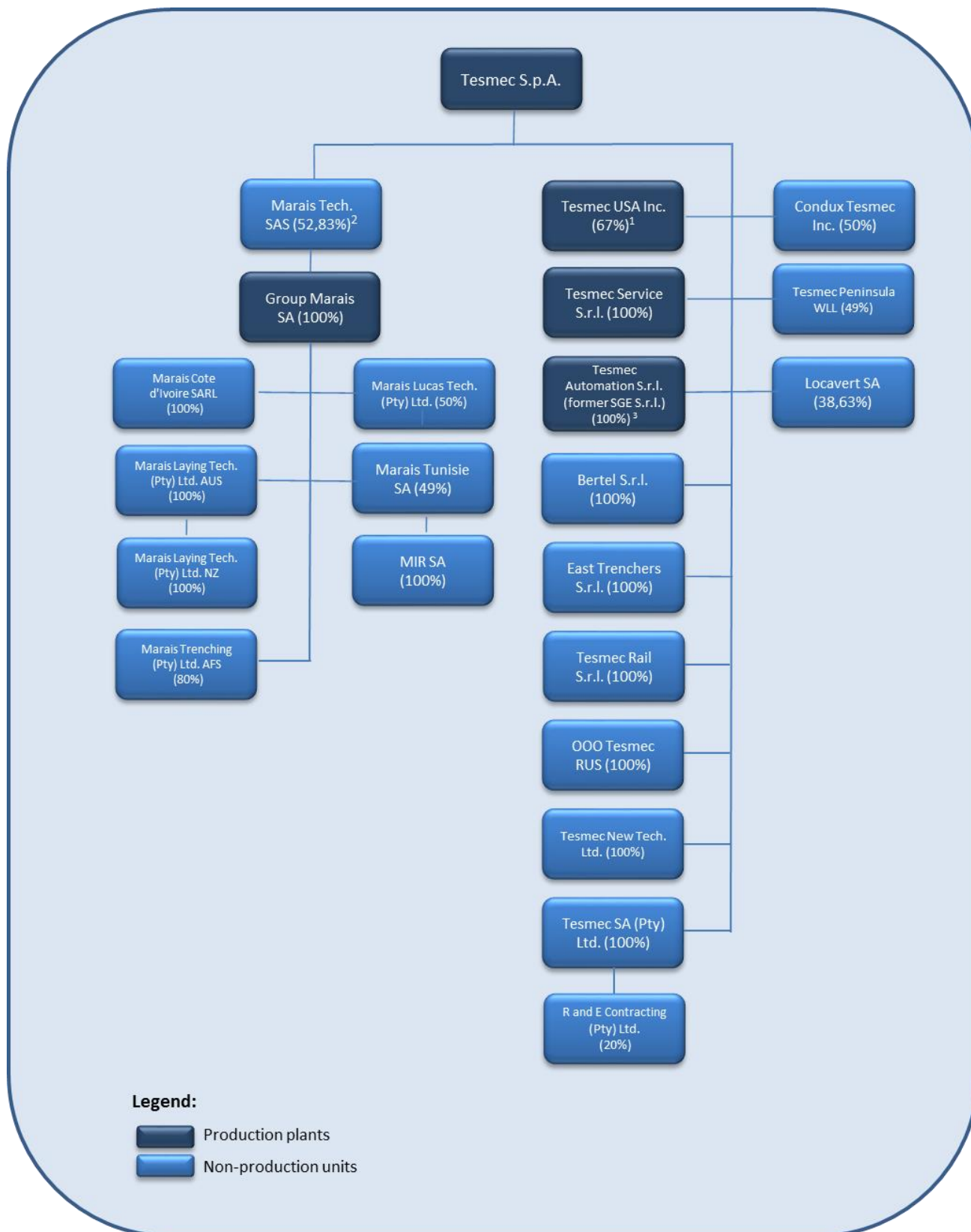
Lead Independent Director Gioacchino Attanzio

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 EY 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⁾ On 13 June 2017, the company SGE S.r.l. changed its name to Tesmec Automation S.r.l.

REPORT ON OPERATIONS

1. Introduction

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

The Tesmec Group is a leader in the design, production and marketing of special products and integrated solutions for the construction, maintenance and streamlining of infrastructures relating to the transmission of electrical power and data and material transport.

Founded in Italy in 1951 and managed by the Chairman and Chief Executive Officer Ambrogio Caccia Dominioni, the Group as from its listing on the Stock Exchange on 1 July 2010, 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. The structure has more than 750 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, Tesmec Automation (former SGE S.r.l.), after the reorganisation of the Automation sector, can avail itself of 3 additional operating units in Fidenza, Padua and Patrica (Frosinone). The Group 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.

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 was 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 (RockHawg);
- specialised consultancy and excavation services on customer request;
- multipurpose site machinery (Gallmac);
- this segment also includes the excavation services for power lines and fibre optic cables that constitute the core business of the recently acquired Marais Group.

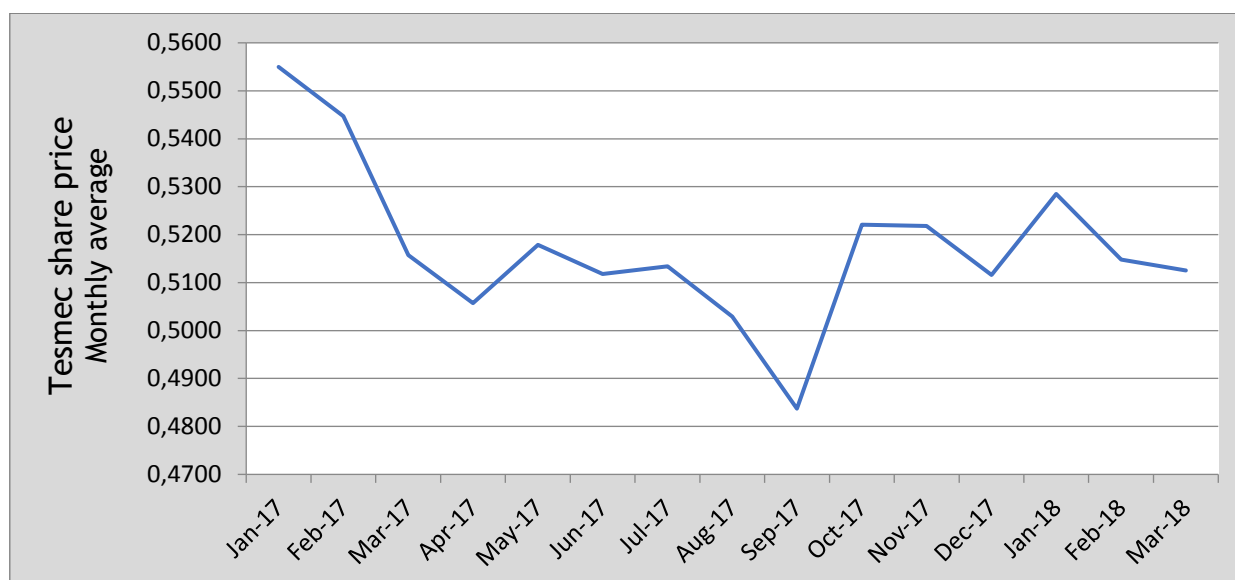
Rail segment

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

The know-how achieved in the development of specific technologies and innovative solutions and the presence of a team of highly-skilled engineers and technicians allow the Tesmec Group to directly manage the entire production chain: from the design, production and marketing of machinery to the supply of know-how relating to the use of systems and optimisation of work, to all pre- and post-sales services related to machinery and the increase in site efficiency.

2. Tesmec on the Stock Exchange Market

As at 31 December 2017, the reference price of the Tesmec share is equal to Euro 0.5050 per share while at the date of this report it is equal to Euro 0.5260 per share. Market capitalisation as at 31 December 2017 amounts to Euro 54.1 million (around Euro 56.3 million at the date of this report). The following chart shows the listing price trend of the shares of the Parent Company from 1 January 2017 to March 2018:



Reference price as at 31 December 2017	0.5050
Reference price as at 14 March 2018	0.526
Maximum price (18 January 2018) ⁽¹⁾	0.5700
Minimum price (22 September 2017) ⁽¹⁾	0.4670

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

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

The 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. On 21 December 2017, Tesmec Service S.r.l. also signed with RFI – Rete Ferroviaria Italiana S.p.A. a supplementary deed for a total value of approximately Euro 7.2 million, relating to a series of additional supplies due to the occurrence of new law provisions, as part of the contract, awarded in December 2016, of 88 multipurpose ladder trucks for the maintenance of the railway network.
- 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 all carried out within the Group without the involvement of third parties:
 - 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. (former 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. (former SGE S.r.l.) was signed;

- on 1 July 2017, Tesmec automation executed the lease agreement of the Bertel business unit by Bertel S.r.l. entirely controlled by the Parent Company;
 - to complete the above, on 2 October 2017, the purchase by Tesmec Automation S.r.l. (former 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 "Tescmec S.p.A. 6% 2014-2021" (the "Bond Issue"), note that on the basis of Article 12(vi) of the Bond Issue regulations (the "Regulations") pursuant to Art. 7 of the Regulations, the interest rate applicable to these bonds is increased by 1% and is therefore 7% until the maturity of the Bond Issue, except for the application of the relevant provisions of Article 7 of the Regulations;
 - on 27 October 2017, the Board of Directors of Tesmec S.p.A. approved a transaction with the related party MTS - Officine Meccaniche di Precisione S.p.A. The effects of the transaction were described in detail in the following paragraph *3.1 Transaction with the related party MTS - Officine Meccaniche di Precisione S.p.A.*;
 - on 14 December 2017, the Apulia Region issued a governing deed by which it decided to admit Tesmec Rail S.r.l. to the presentation of the final projects aimed at disbursing a non-repayable subsidised loan. Consequently, on 20 December 2017, with the purchase of the land, Tesmec Rail S.r.l. started work on the construction of a new production site that will be active in the rail business, located within the industrial area of Monopoli (Bari). In detail, the new modern production site, which will replace the two rented sites currently used in Monopoli, will be active in the design, prototyping and manufacture of railway wagons for the installation and maintenance of the railway catenary wire system, multi-purpose unit, shunting locomotives and power units for passenger trains. The investment planned for the new industrial shed and the related plants will be approximately Euro 8 million over several financial years. Investments in research and development and prototypes in the rail segment are also envisaged. Both investments will benefit from non-repayable subsidies from the Programme Contracts of the Apulia Region.

3.1 Transaction with the related party MTS - Officine Meccaniche di Precisione S.p.A.

On 27 October 2017, the Board of Directors of Tesmec S.p.A. approved a transaction with the related party MTS - Officine Meccaniche di Precisione S.p.A. concerning the signing of:

- a selling agreement, concerning the sale by Tesmec to MTS of certain machines produced by the Tesmec Group (the "Selling Agreement");
- a service contract for the supply by the Tesmec Group to MTS - and, in general - to the users of the machines in its range, of logistics and maintenance services (transport, maintenance, repair work covered and not covered by guarantee, custody, repair, etc.) (the "Service Contract"); and
- a rental agreement, concerning the rental by MTS to the Tesmec Group of certain machines owned by MTS (the "Rental Agreement").

The considerations of the Board of Directors with regard to the economic and financial reasons as well as to the advisability of these transactions consist in the Group's interest to develop its business as part of the activities related and functional to the implementation of projects in the field of renewable energy, networks and telecommunications (the "Project Activities") considering the very positive phase that projects in these areas are going through globally, and (ii) in the analysis carried out by the Company, which showed that the rental of machines to be used in Project Activities entails a low risk compared to the direct investment in machines, by reducing the invested capex and by increasing the level of flexibility of the operating cost structure.

The considerations of the transactions were determined as follows:

- with reference to the Selling Agreement and the Service Contract, based on the Group's list prices; and
- with reference to the Rental Agreement, on the basis of certain objective parameters of reference including the expected duration of the rentals and the type of machines to be possible rented.

The transactions consist of related party transactions, pursuant to the Regulations approved by CONSOB with Resolution no. 17221 of 12 March 2010, as amended and supplemented ("Related Party Regulation"), and of the procedure for transactions with related parties of the Company ("Related Party Procedure"), in that MTS and Tesmec are companies subject to the same control by TTC S.r.l. which holds approximately 57.09% of the share capital of Fi. Ind. S.p.A. which holds 95.27% of the share capital of MTS and 44.24% of the share capital of Tesmec.

The share capital of TTC S.r.l. is held 18.62% by the Chairman and Chief Executive Officer of Tesmec Ambrogio Caccia Dominioni, 18.62% by the Director of Tesmec Lucia Caccia Dominioni and 18.62% by the director of Tesmec Caterina Caccia Dominioni. Moreover, it should be noted that the Chairman and Chief Executive Officer of Tesmec Ambrogio Caccia Dominioni holds the office of non-executive director of MTS and the Vice Chairman of Tesmec Gianluca Bolelli holds the office of director of TTC S.r.l.

The Company involved the Control and Risk Committee in the negotiations and in the assessment of the transactions with functions of committee for transactions with related parties of the Group Companies, which issued its favourable opinion on the interest of the Group in carrying out the transactions and on the convenience and substantial correctness of the relevant conditions.

During the 2017 financial year, Tesmec Group sold 16 machines to MTS for a total consideration of Euro 13.5 million.

In the same period, MTS made payments to the Tesmec Group for the above sales for a total amount of Euro 11 million, an amount that reached the current Euro 11.8 million as at the date of this Report.

For further information, please refer to the information document on significant transactions with related parties published on 2 November 2017 in the Investor Relations-Governance section on the website www.tesmec.com.

4. Overview of the financial results

The consolidated financial statements of Tesmec have been prepared in accordance with International Financial Reporting Standards (hereinafter the "IFRS" or the "International Accounting Standards"), which were endorsed by the European Commission, in effect as at 31 December 2017. The following table shows a summary of the main profit and loss indicators in 2017 and in 2016 and the main financial indicators as at 31 December 2017 and as at 31 December 2016.

2017	OVERVIEW OF THE FINANCIAL RESULTS (consolidated figures)	2016
Key income statement data (Euro in millions)		
175.6	Operating Revenues	128.5
20.7	EBITDA	8.5
11.8%	EBITDA %	6.6%
22.9	adj EBITDA	11.6
13.1%	adj EBITDA %	9.0%
(1.4)	Group Net Profit	(3.9)
Tesmec S.p.A. (Euro in millions)		
2.0	Net income	1.6
Key financial position data (Euro in millions)		
130.1	Net Invested Capital	146.6
44.8	Shareholders' Equity	49.9
85.3	Net Financial Indebtedness	96.7
15.8	Net investments in tangible and intangible fixed assets	(1.2)
778	Annual average employees	659

5. Group performance

Macroeconomic framework

The macroeconomic framework of 2017 was characterised by:

- a strong growth in major economies, the effects of which are still evident in the first few months of 2018;
- a general increase in the cost of raw materials that did not have a proportional effect on inflation and interest rates - which remain at still moderate levels, although on a rising trend;
- a gradual start of quantitative tightening of expansionary monetary policies, which seems to be followed by expansionary tax policies, in particular for what concerns the United States with the recently approved reform.

Most analysts expect interest rates to gradually increase in the coming months, especially in the US dollar area, with a consequent appreciation of the dollar against the Euro. Greater volatility in the prices of securities listed on the main world stock markets, which however, in the long term, still point to growth opportunities and an increase in the price of oil controlled only by the increase in energy produced from renewable sources.

The factors in which the Tesmec Group is most interested within this scenario are:

- an increase in investments in infrastructural works already announced in both Industrialised Countries (USA) and Emerging Countries, which benefit from the combined effect of the increase in commodity prices and a weak dollar;
- the increase in oil prices that could help investments to recover in important markets such as the USA and the Middle East;

- the aim of increasing productivity combined with a higher level of capitalisation of the company system will favour the approach to the offer that the Tesmec Group has long been focusing on issues of automation, digitisation and limiting emissions by anticipating this market trend.

However, a factor that could negatively affect the positive trend described above is the increase in volatility that can be identified with the current substantial downward trend affecting the main World stock markets.

5.1 General performance

The Group realised in 2017 revenues of Euro 175,559 thousand against a figure of Euro 128,513 thousand in 2016 up by 36.6%. This increase is distributed over all business sectors especially in the new business sectors concerning Railways and Trencher.

5.2 Performance by segment

- **Energy**
The machines and integrated systems for the construction, maintenance and streamlining of underground and aerial power lines recorded an increase in revenues by Euro 9,857 thousand (+23.4%) from Euro 42,212 thousand as at 31 December 2016 to Euro 52,069 thousand as at 31 December 2017 thanks to a general recovery in infrastructure investments in Emerging Countries.
- **Trencher**
Trenchers and systems for the construction of underground infrastructures such as gas pipelines, oil pipelines, water systems, trenches for laying cables and for earth moving works recorded an increase in revenues of Euro 25,476 thousand (+31.6%) from Euro 80,571 thousand as at 31 December 2016 to Euro 106,047 thousand as at 31 December 2017. There was a strong increase especially during the last quarter thanks to the growth in revenues from service activities in the Renewable Energy and Telecommunications sector.
- **Rail**
Machines and integrated systems for the installation, maintenance and diagnostics of the railway catenary wire system, plus customised machines for special operations on the line recorded an increase in revenues by 204.4% compared to the previous year. Revenues as at 31 December 2017 amounted to Euro 17,443 thousand compared to Euro 5,730 thousand of the previous year; this increase is attributable to the starting phase of production activities related to the major orders acquired at the end of 2016.

5.3 Management performance of the main subsidiary and associated companies

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

- Tesmec USA Inc., a company that is 67% owned by Tesmec S.p.A. and 33% by Simest S.p.A. (with an option of Tesmec S.p.A. to repurchase the Simest's shareholding interest at 30 June 2018), is based in Alvarado (Texas) and operates in the Trencher segment and in the Rail segment. During 2017, the company generated revenues of Euro 29,708 thousand with an 80.2% increase compared to last year. These include service activities (rental without operator) of around 18.3%. Compared with the last quarter of 2016, a recovery in commercial activities is confirmed, and that positively reflects on the sales volumes and reduced financial indebtedness thanks to the lower levels of warehouse Note that an out-of-court settlement was reached during the financial year to close a dispute with the customer Fehlingher (relating to disputes over a previously sold machine) which involved an extraordinary cost of Euro 1.7 million. Finally, following the US tax reform and the consequent reduction in the tax rate, deferred taxes were adjusted with an impact of Euro 832 thousand.
- Tesmec Service S.r.l., company 100% owned by Tesmec S.p.A. with registered office in Grassobbio (BG) and operating unit in Monopoli (BA), carries out its activity of design and construction of machinery for the maintenance of rolling stock. During the 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 for Euro 15,759 thousand with an increase of 204% compared to the same period last year. This result contributed to achieving a net profit of Euro 1,670 thousand, which confirms the positive trend of the company's results.

- Tesmec SA (Pty) LTD, with registered office in Johannesburg (South Africa) is 100% owned by Tesmec S.p.A. During the financial year, the company generated revenues of Euro 3,082 thousand.
- OOO Tesmec Rus, with registered office in Moscow (Russia), is 100% owned by Tesmec S.p.A. The Company mainly operates in the segment of Energy and streamlining of Power Networks. During 2017, the decline in energy investments on the Russian market continued. The company generated revenues of Euro 569 thousand (Euro 666 thousand in 2016).
- Condux Tesmec Inc, a joint venture that is 50% owned by Tesmec S.p.A. and 50% by US shareholder Condux International, which is based in Mankato (USA), active in selling products for the North American stringing equipment market. The company has been consolidated using the equity method and generated in 2017 revenues totalling Euro 12,728 thousand up compared to Euro 7,961 thousand in 2016. The net result of the company amounts to Euro 1,008 thousand.
- Tesmec Peninsula WLL, a Joint Venture with registered office in Doha (Qatar) 49% owned by Tesmec S.p.A., is the hub through which the Tesmec Group is present on the Arabian peninsula. The company is consolidated using the equity method and was affected in 2017 by the crisis of infrastructure investments in the area due to low oil prices and generated revenues totalling Euro 4,258 thousand.
- Marais Technologies SAS, with registered office in Durtal (France), company 52.83% owned by Tesmec S.p.A., 33.96% by Simest S.p.A. (with an option of Tesmec S.p.A. to repurchase this shareholding interest as at 30 June 2020) and 13.21% by C2D SAS as at 31 December 2017 (in the first months of 2018, this equity investment was purchased by Tesmec S.p.A. as better specified in paragraph 14. *Significant events occurred after the close of the financial period*). The French company, acquired on 8 April 2015, is the holding of an international group leader in the construction of machines for infrastructures and in services for telecommunications, electricity and gas. In the 2017 financial period, the Group generated consolidated revenues for Euro 47,150 thousand compared to Euro 33,441 thousand in 2016, up 41% compared to the previous year.
- Tesmec Automation S.r.l. (former 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 integrated fault detectors and measurement devices for medium voltage power lines. During the 2017 financial period, following the merger with CPT Engineering S.r.l., the lease of the business unit Bertel and the acquisition of the business unit Ampere from Tesmec S.p.A., the company consolidated all the Group's activities in the energy efficiency sector and recorded revenues of Euro 4,098 thousand.

5.4 Financial performance analysis

Despite the significant improvement of the economic and financial indicators achieved by the Group in 2017, the financial covenants envisaged on some medium-long term loans with Italian Credit Institutions were not fully observed. According to the requirements of International Accounting Standards the relative medium and long-term loans have been fully reclassified as short term, for a total value of Euro 5,583 thousand.

The Group has promptly initiated with the relevant Credit Institutions procedures for obtaining waivers for the year 2017 in relation to the said non-compliance with the covenants. At present, the Group believes that the waiver will be granted in the necessary technical due times also in the light of the marked improvement in both economic and financial results mentioned above.

6. Income statement and balance sheet situation as at 31 December 2017

6.1 Consolidated Income statement

The Group closed the financial period as at 31 December 2017 with a net income of Euro 6,109 thousand (a net loss of Euro 4,310 thousand in 2016) but with a net loss of Euro 1,412 thousand compared to the net loss of Euro 3,853 thousand as at 31 December 2016 mainly due to exchange rate differences (losses of Euro 4,676 thousand in 2017 compared to gains of Euro 1,730 thousand in 2016). The following table shows the trend of major economic indicators as at 31 December 2017 compared to 31 December 2016.

<i>(Euro in thousands)</i>	Financial period ended 31 December			
	2017	% of revenues	2016	% of revenues
Revenues from sales and services	175,559	100.0%	128,513	100.0%
Cost of raw materials and consumables	(78,326)	-44.6%	(49,029)	-38.2%
Costs for services	(30,453)	-17.3%	(28,225)	-22.0%
Non-recurring costs for services	(403)	-0.2%	(873)	-0.7%
Payroll costs	(46,249)	-26.3%	(40,000)	-31.1%
Other operating (costs)/ revenues, net	(3,500)	-2.0%	(4,613)	-3.6%
Non-recurring other operating (costs)/revenues, net	-	0.0%	(2,232)	-1.7%
Reclassified rental costs of Grassobbio Property Complex	(1,800)	-1.0%	-	0.0%
Amortisation and depreciation	(14,633)	-8.3%	(12,830)	-10.0%
Development costs capitalised	5,671	3.2%	5,050	3.9%
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method	243	0.1%	(71)	-0.1%
Total operating costs	(169,450)	-96.5%	(132,823)	-103.4%
Operating income	6,109	3.5%	(4,310)	-3.4%
Financial expenses	(4,217)	-2.4%	(4,763)	-3.7%
Financial income	1,239	0.7%	614	0.5%
Foreign exchange gains/losses	(4,676)	-2.7%	1,730	1.3%
Portion of losses/(gains) from the valuation of equity investments using the equity method	33	0.0%	(141)	-0.1%
Pre-tax profit/(loss)	(1,512)	-0.9%	(6,870)	-5.3%
Income tax	100	0.1%	3,017	2.3%
Net profit (loss) for the period	(1,412)	-0.8%	(3,853)	-3.0%
Profit/(loss) attributable to non-controlling interests	18	0.0%	91	0.1%
Group profit/(loss)	(1,430)	-0.8%	(3,944)	-3.1%

Revenues

Total revenues as at 31 December 2017 increased by 36.6%.

<i>(Euro in thousands)</i>	Financial period ended 31 December				
	2017	% of revenues	2016	% of revenues	2017 vs. 2016
Sales of goods	125,536	71.5%	98,721	76.8%	26,815
Services rendered	43,186	24.6%	28,562	22.2%	14,624
	168,722	96.1%	127,283	99.0%	41,439
Changes in work in progress	6,837	3.9%	1,230	1.0%	5,607
Total revenues from sales and services	175,559	100.0%	128,513	100.0%	47,046

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

a) Revenues by geographic area

The turnover of the Group continues to be produced almost exclusively abroad and in non-EU countries, in particular. The revenue analysis by area is indicated below, compared with the 2017 financial period and the 2016 financial period, which indicates the decrease in the European, Middle Eastern and African markets. In the BRIC and Others segment, note the positive contribution of sales on the markets of Indonesia, Brazil and Oceania.

It is emphasised that the segmentation by geographic area is determined by the country where the customer is, regardless of the place where the project activities are organised.

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Italy	33,767	15,522
Europe	33,819	38,009
Middle East	8,993	15,081
Africa	11,205	18,143
North and Central America	34,009	15,711
BRIC and Others	53,766	26,047
Total revenues	175,559	128,513

Operating costs net of depreciation and amortisation

<i>(Euro in thousands)</i>	Financial period ended 31 December			
	2017	2016	2017 vs. 2016	% change
Cost of raw materials and consumables	(78,326)	(49,029)	(29,297)	59.8%
Costs for services	(30,453)	(28,225)	(2,228)	7.9%
Non-recurring costs for services	(403)	(873)	470	-53.8%
Payroll costs	(46,249)	(40,000)	(6,249)	15.6%
Other operating (costs)/ revenues, net	(3,500)	(4,613)	1,113	-24.1%
Non-recurring other operating (costs)/revenues, net	-	(2,232)	2,232	-100.0%
Reclassified rental costs of Grassobbio Property Complex	(1,800)	-	(1,800)	-100.0%
Development costs capitalised	5,671	5,050	621	12.3%
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method	243	(71)	314	-442.3%
Total operating costs net of depreciation and amortisation	(154,817)	(119,993)	(34,824)	29.0%

The table shows an increase in operating costs of Euro 34,824 thousand (+29.0%) in a less than proportional way compared to the increase in sales (+36.6%). The cost items include the more than proportional increase in costs for raw materials due to a different mix of purchases related to sales and the less than proportional increase in costs for services and payroll costs due to higher sales volumes acquired. 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 eight months and ten months, respectively).

For a better analysis of the comparison with the previous year, the rental costs of Euro 1.8 million, recorded following the new lease contract of Grassobbio at the end of last year as rental and not as amortisation and interest, as was previously the case, and the non-recurring costs of Euro 403 thousand referring to extraordinary consultancy work carried out between 2016 and 2017 were shown separately.

Other operating (costs)/revenues, net includes the positive effect of the tax credit for significant research and development expenses incurred by the Group in Italy and France in 2016 and 2017 for the expansion of the offer in the new sectors for automation, maintenance of existing power lines and service activities, which were combined with the renewal of the product range in all of Trencher's business areas. In particular, with reference to the tax credit on Research and Development activities in Italy, this is recorded on the basis of the provisions of the 2017 Budget Law (Italian Law 232/16) which changed the regulations of the tax benefit, introduced by the "Decreto Destinazione Italia" (Italian Law Decree no. 145/2013) as amended by Italian 2015 Stability Law (Italian Law 190/2014). As a whole, the value of the tax credit for the entire Tesmec Group both in Italy and in France amounted to Euro 544 thousand for 2016 and to Euro 5,335 thousand for 2017. The benefit was recorded in "other operating (costs)/revenues, net", and suspended for the portion directly attributable to capitalised research and development projects.

EBITDA

In terms of margins, EBITDA amounts to Euro 20,742 thousand, which represents 11.8% of the sales for the period, compared to 6.6% recorded in 2016.

The 2017 financial period includes a reclassification component of the rental of Euro 1,800 thousand related to the new lease contract at the end of 2016, in addition to Euro 403 thousand for non-recurring consultancy costs. Without considering these effects, the EBITDA for 2017 would have been 13.1% whereas during 2016, it would have been 9.0%.

They were separately shown when calculating the EBITDA.

<i>(Euro in thousands)</i>	Financial period ended 31 December				
	2017	% of revenues	2016	% of revenues	2017 vs. 2016
Operating income	6,109	3.5%	(4,310)	-3.4%	10,419
+ Depreciation and amortisation	14,633	8.3%	12,830	10.0%	1,803
EBITDA (*)	20,742	11.8%	8,520	6.6%	12,222
+ Non-recurring costs and revenues and reclassified rental costs of Grassobbio Property Complex	2,203	1.3%	3,105	2.4%	(902)
adj EBITDA (**)	22,945	13.1%	11,625	9.0%	11,320

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

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

Operating Income

<i>(Euro in thousands)</i>	Financial period ended 31 December				
	2017	% of revenues	2016	% of revenues	2017 vs. 2016
Energy	3,675	2.1%	765	0.6%	2,910
Trencher	2,385	1.4%	(4,055)	-3.2%	6,440
Rail	49	0.0%	(1,020)	-0.8%	1,069
Total operating income	6,109	3.5%	(4,310)	-3.4%	10,419

In the operating income that as at 31 December 2017 stood at Euro 6,109 thousand (3.5% of revenues) compared to the negative value of Euro 4,310 thousand (-3.4% of revenues) achieved as at 31 December 2016, the effects of the positive trend in revenues and margins achieved during the period are summarised below.

Financial Management

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Net Financial Income/Expenses	(3,125)	(4,188)
Realised foreign exchange gains/losses	(1,544)	190
Unrealised foreign exchange gains/losses	(3,132)	1,540
Fair value adjustment of derivative instruments	147	39
Portion of losses/(gains) from the valuation of equity investments using the equity method	33	(141)
Total net financial income/expenses	(7,621)	(2,560)

The net financial management decreased compared to the same period in 2016 by Euro 5,061 thousand, mainly due to:

- Euro 6,406 thousand related to the effects of the different USD/EUR exchange rate trend in the two periods of reference that resulted in the recording of net losses totalling Euro 4,676 thousand in 2017 (Euro 1,544 thousand realised and Euro 3,132 thousand unrealised) against a net profit of Euro 1,730 thousand in 2016.

However, it is important to note that net of these non-structural effects, the following important effects were achieved:

- increase by Euro 1,063 thousand related to the decrease in net cost of borrowing thanks to the benefits on the reduction of cost of short-term funding;
- increase by Euro 174 thousand of the portion of losses/(gains) from the valuation of equity investments using the equity method.

Net result

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Net profit (loss)	(1,412)	(3,853)
% Effect on revenues	-0.80%	-3.00%
Profit/(loss) attributable to non-controlling interests	18	91
Group net profit/(net loss)	(1,430)	(3,944)
% Effect on revenues	-0.81%	-3.07%

Results for the period amounted to Euro -1,412 thousand (Euro -3,853 thousand in 2016) after deducting positive taxes totalling Euro 100 thousand (Euro 3,017 thousand in 2016).

Net of the portion pertaining to minority interests, the net result is Euro -1,430 thousand.

Profitability ratios

<i>Ratio</i>	<i>Composition</i>	Financial period ended 31 December	
		2017	2016
Return on sales (R.O.S.)	Operating income / Net revenues	3.6%	-3.4%
Return on investment (R.O.I.)	Operating income / Invested capital	4.9%	-2.9%
Return on equity (R.O.E.)	Net income / Shareholders' equity	-0.1%	-7.9%
Invested capital turnover	Net revenues / Net invested capital	1.35	0.88
Working capital turnover	Net revenues / Net working capital	2.88	1.69
Debt ratio / EBITDA	Net financial indebtedness / EBITDA	3.72	8.32
Debt ratio	Net financial indebtedness / Shareholders' equity	1.91	1.94

The table above shows concisely the main trends that characterised the financial statements of the Group as at 31 December 2017 compared to 31 December 2016. The ratios reflect the worsening of margins and efficiency of working capital caused by lower sales volumes.

6.2 Income Statement by segment

Revenues by segment

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

<i>(Euro in thousands)</i>	Financial period ended 31 December				
	2017	% of revenues	2016	% of revenues	2017 vs. 2016
Energy	52,069	29.7%	42,212	32.8%	9,857
Trencher	106,047	60.4%	80,571	62.7%	25,476
Rail	17,443	9.9%	5,730	4.5%	11,713
Total revenues	175,559	100.0%	128,513	100.0%	47,046

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

Operating costs by segment

<i>(Euro in thousands)</i>	Financial period ended 31 December				
	2017	% of revenues	2016	% of revenues	2017 vs. 2016
Energy	48,394	27.6%	41,447	32.3%	6,947
Trencher	103,662	59.0%	84,626	65.9%	19,036
Rail	17,394	9.9%	6,750	5.3%	10,644
Total operating costs	169,450	96.5%	132,823	103.4%	36,627

Operating costs, depreciation and amortisation including, were up 27.6% compared to the prior period in a less than proportional way compared to the sales trend (36.6%). The costs of the Rail segment reflect the start of the production activities of the contract for multipurpose ladder trucks only in the last quarter of the year.

The table below show the adj EBITDA as at 31 December 2017 compared to that as at 31 December 2016, broken down into three operating segments:

<i>(Euro in thousands)</i>	Financial period ended 31 December				
	2017	% of revenues	2016	% of revenues	2017 vs. 2016
Energy	8,451	16.2%	6,041	14.3%	2,410
Trencher	11,356	10.7%	4,482	5.6%	6,874
Rail	3,138	18.0%	1,102	19.2%	2,036
adj EBITDA (**)	22,945	13.1%	11,625	9.0%	11,320

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

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

Margins increased in absolute terms by Euro 11,320 thousand (to Euro 11,625 thousand in 2016 from Euro 22,945 thousand in 2017) and in percentage terms to 13.1% in 2017 from 9.0% in 2016. This result is the combined effect of trends that can be explained better segment by segment:

- Energy: the margin, as a percentage of revenue, rose to 16.2% in 2017, compared to 14.3% recorded in 2016 mainly due to higher sales volumes, which led to a better absorption of fixed costs. The profitability of the segment is still affected by the strengthening phase of the activities that the Group acquired in the energy efficiency sector.
- Trencher: the margin, as a percentage of revenue, rose to 10.7% in 2017, compared to 5.6% recorded in 2016 mainly due to higher sales volumes generated in the period, which led to a better absorption of fixed costs.
- Rail: advanced revenues in the period generated a positive absorption of overhead costs, generating a positive adj EBITDA of Euro 3,138 thousand against Euro 1,102 thousand of the same period last year.

6.3 Balance sheet and financial profile

The financial position of the Company as at 31 December 2017 compared to 31 December 2016 is briefly shown in the table below.

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
USES		
Net working capital ⁽¹⁾	60,806	76,038
Fixed assets	68,386	70,056
Other long-term assets and liabilities	913	517
Net invested capital ⁽²⁾	130,105	146,611
SOURCES		
Net financial indebtedness ⁽³⁾	85,273	96,691
Shareholders' equity	44,832	49,920
Total sources of funding	130,105	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

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Trade receivables	39,854	49,433
Work in progress contracts	6,768	1,291
Inventories	63,125	69,227
Trade payables	(39,479)	(31,197)
Other current assets/(liabilities)	(9,462)	(12,716)
Net working capital ⁽¹⁾	60,806	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.

The Net working capital of Euro 60,806 thousands decreased by 20.0 % compared to 31 December 2016 despite the 36.6% increase in sales achieved during the same period. This trend reflects the effects of a more efficient management of working capital and is mainly due to the decrease in "Inventories" of Euro 6,102 thousand (-8.8%), the increase in "Trade payables" and "Other current assets/(liabilities)" for a net amount of Euro 5,028 thousand, the decrease in the item "Trade receivables" partially offset by the increase in "Work in progress contracts" for a total of Euro 5,477 thousand.

B) Fixed assets

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Intangible assets	18,340	18,891
Property, plant and equipment	46,102	47,289
Equity investments in associates	3,937	3,869
Other equity investments	7	7
Fixed assets	68,386	70,056

Total *fixed assets* recorded a decrease of Euro 1,670 thousand attributable to new net investments Euro 15,762 thousand, depreciations of Euro 14,633 thousand and the negative exchange rate effect of Euro 2,867 thousand.

C) Other medium to long-term assets and liabilities

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Financial receivables and other non-current financial assets	185	327
Non-current trade receivables	161	373
Deferred tax assets	10,451	11,520
Employee benefit liability	(3,656)	(3,680)
Non-current trade payables	(2)	(3)
Deferred tax liabilities	(6,202)	(7,870)
Non-recurring provisions for risks and charges	(24)	-
Other non-current liabilities	-	(150)
Other long-term assets and liabilities	913	517

Medium to long-term assets and liabilities increased by Euro 396 thousand from a balance of Euro 517 thousand as at 31 December 2016 to a balance of Euro 913 thousand as at 31 December 2017 mainly due to the adjustment of tax receivables related to the tax losses of the subsidiaries Tesmec Usa and Bertel. Moreover, following the US tax reform, deferred taxes were adjusted for an amount of Euro 832 thousand.

D) Net financial indebtedness

<i>(Euro in thousands)</i>	Financial period ended 31 December			
	2017	<i>of which with related parties and group</i>	2016	<i>of which with related parties and group</i>
Cash and cash equivalents	(21,487)		(18,501)	
Current financial assets ⁽¹⁾	(12,450)	(9,386)	(9,053)	(8,944)
Current financial liabilities	79,022	37	70,010	33
Current portion of derivative financial instruments	82		110	
Current financial indebtedness ⁽²⁾	45,167	(9,349)	42,566	(8,911)
Non-current financial liabilities	40,040	-	53,916	-
Non-current portion of derivative financial instruments	66		209	
Non-current financial indebtedness ⁽²⁾	40,106	-	54,125	-
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	85,273	(9,349)	96,691	(8,911)

⁽¹⁾ Current financial assets as at 31 December 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.

Net indebtedness as at 31 December 2017 stood at Euro 85,273 thousand (Euro 96,691 thousand as at 31 December 2016) decreasing by Euro 11,418 thousand.

The table below shows the breakdown of the following changes:

- increase in current financial indebtedness of Euro 2,601 thousand due to the:
 - increase in current financial liabilities of Euro 9,012 thousand mainly related for Euro 26,407 thousand to the reclassification of short-term portions of medium/long-term loans offset by refunds for the period of Euro 28,856 thousand. The reclassification of loans includes Euro 5,583 thousand relating to portions falling due beyond the year that, due to failure to comply with contractual obligations related to financial covenants, were reclassified under short-term liabilities;
 - increase in current financial assets and cash and cash equivalents of Euro 6,383 thousand;
- decrease in non-current financial indebtedness of Euro 14,022 thousand deriving from the activation of new loans of Euro 12,521 thousand offset by the reclassification in the current financial indebtedness described in the previous paragraph of Euro 26,407 thousand.

E) Shareholders' Equity

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Share capital	10,708	10,708
Reserves	33,829	41,457
Profit (loss) for the period	(1,430)	(3,944)
Non-controlling interests	1,725	1,699
Shareholders' equity	44,832	49,920

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

In the 2017 financial period, the major changes are due to the decrease in the translation reserve of Euro 3,375 thousand.

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

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	Shareholders' Equity	Net result
Amounts resulting from the financial statements of Tesmec S.p.A.	47,725	1,993
<i>Consolidation adjustments</i>		
a) Equity investments evaluated using the equity method	1,872	275
b) Difference between book value and assets of consolidated equity investments	(4,641)	
c) Results from consolidated equity investments	(3,414)	(3,414)
d) Translation reserve	3,185	
e) Elimination of dividends distributed by Companies of the Group		
f) Elimination of intercompany items	(1,620)	(284)
<i>Net effect of consolidation adjustments</i>	<i>(4,618)</i>	<i>(3,423)</i>
Amounts attributable to the Group	43,107	(1,430)

F) Investments

Investments include capitalisations relevant to development projects (Euro 5,671 thousand) that refer to strategic activities as a result of which Tesmec manages to maintain its technological leadership position on traditional markets and increase the range of offered products and services (railway market, new generation trenchers, management of the electric system) plucking up the high level of internationalisation of its sales network.

7. Regulatory framework of reference

The Group, producer and distributor of machinery and integrated systems for stringing equipment and Trencher, is subject, in the various countries where it operates, to several law and regulatory provisions, as well as national or international technical standards, applicable to companies operating in the same segment. The provisions on the protection of the environment take on particular importance.

The enactment of further regulatory provisions applicable to the Group or to its products or rather changes to the laws and regulations currently in force in areas where the Group operates, even internationally, could force the Tesmec Group to adopt stricter standards or influence its freedom of action in its areas of activity.

These factors could result in adjustment costs of production structures or of product characteristics, or even limit the operations of the Group with a subsequent negative effect on its activity and on its economic and financial situation.

Therefore, any change to the standards or regulatory criteria currently in force, as well as the occurrence of exceptional or unforeseeable circumstances, could force the Group to incur extraordinary expenses in environmental matters. These expenses could be significant and thus have adverse effects on the activity and the economic and financial situation of the Group. For more details on the subject of safety, environment and work, reference is made to the relevant paragraph.

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

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

Management and types of risk

Within its scope of operations, the Group is exposed, to a greater or lesser extent, to certain types of risk that are managed as follows.

The Group does not hold derivatives or similar products for purely speculative purposes.

Type of risks and hedging instruments used

Exchange rate risk

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

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

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

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

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

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

As at 31 December 2017, there was a forward SPOT contract of the Euro/ZAR exchange rate.

Credit risk

For the Group, credit risk is closely linked to the sale of products on the market. In particular, the extent of the risk depends on both technical and commercial factors and the purchaser's solvency.

From a commercial viewpoint, the Group is not exposed to a high credit risk insofar as it has been operating for years in markets where payment on delivery or letter of credit issued by a prime international bank are usually used as payment methods. For customers located in the European region, the Group mainly uses factoring without recourse. The provisions for doubtful accounts are considered to be a good indication of the extent of the overall credit risk.

Price risk

In general, price risk is linked to the fluctuation of commodity prices.

Specifically, the price risk of the Group is mitigated by the presence of many suppliers of raw materials as well as by the need to be sure on the supply volumes, in order not to affect the warehouse stock.

In reality, this risk seems remote for two fundamental reasons:

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

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

Liquidity/cash flow variation risks

The management of financial requirements and related risks (mainly interest rate risks, liquidity and exchange rate risks) is carried out by the Group on the basis of guidelines defined by the Group General Management and approved by the Chief Executive Officer of the Parent Company.

The main purpose of these guidelines is to guarantee the presence of a liability structure always in equilibrium with the structure of the balance sheet assets, in order to keep a very sound balance sheet structure.

Forms of financing most commonly used are represented by:

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

The average cost of indebtedness is benchmarked to the trend of the 1/3-month Euribor rates for short-term loans and of the 3/6-month Euribor rates for medium to long-term loans. Some interest rate hedges have been set in place for floating medium-long term loans.

The loans require compliance with certain covenants of both income nature that asset. Some of these financial parameters, as previously mentioned, have not been respected resulting in a reclassification of the short-term debt

Risks related to transactions with suppliers

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

9. Human Resources, Training and Industrial Relations

1) Employees

In 2017, the Tesmec Group strengthened its business lines, constantly enhancing the process of growth of the labour force, focusing on the following drivers:

- multidisciplinary and internationalisation;
- ability to adapt quickly to market and customer needs;
- process digitalisation;
- changing workforce;
- impact of automation and robotics on activities and processes.

The company performance of the Group made it possible to enhance the company values of honesty and sense of belonging and to present ourselves as a centre of attraction for brilliant, intelligent, resolute and creative persons so as to enrich and strengthen our group.

During 2017, the Tesmec Group strengthened the **Cross Innovation** process (technology, skills, cultures) that will allow us to complete the integration process between businesses, Markets and Company in the coming years through the following configurations:

- combine sectors, experiences, cultures, skills;
- diversity as a driver of innovation;
- cross disciplinary.

A decisive factor in the growth of our Group was the Global Integration Project, which will undergo a further phase of strengthening over the next few years:

- validation of the new organisational plan to align company processes by strengthening Group synergies;
- new models of Matrix Responsibility;
- completing the alignment of Group policies;
- Group job rotation by assessing the technical and behavioural skills of each employee, combining the needs of each operating unit/company.

Human capital, which is an expression of the growth key factor of the Company, focuses on the value and ability to create value that the personnel of a company have and points out the need to invest in it to optimise performance and quality.

Intentions, objectives and principles that inspire the organisational culture are defined through personnel management. Activities aimed at creating the system of relations between the parties of the organisation and at guiding them towards the results and objectives of the company derive from the guidelines provided by personnel management.

The 2017 figures show a strengthening of Italian level indicators and a trend reversal at Group level due to the company reorganisation for the premises of Tesmec Usa:

- 2) turnover rate of new hires from 12.96% in 2016 to 11.45% in 2017 as Group average (7.5% as an average figure in Italy);
- 3) stability rate within two years from 87.94% in 2016 to 83.20% in 2017 as Group average (86.56% as an average figure in Italy);
- 4) stability rate within five years from 78.37% in 2016 to 71.78% in 2017 as Group average (74.43% as an average figure in Italy);

Tesmec's mission is to grow its business by aligning the growth of Human Resources also through new acquisitions and/or by merging businesses as in 2017 during which Tesmec Automation S.r.l., CPT Engineering S.r.l., the Bertel and the Ampere business units were merged under a single entity.

During the 2017 financial period, the Group had an average of 784 employees (659 in 2016), confirming the international vocation of our Group and an increase in the Rail business to which we allocated part of our investments in Human Resources. The following changes occurred in the average workforce employed by the Group in 2017 compared to 2016:

<i>(average no. of employees)</i>	Financial period ended 31 December			
	2017	2016	2017 vs. 2016	%
Tesmec S.p.A.	331	315	16	5.1%
Tesmec Service S.r.l.	52	37	15	40.5%
Tesmec Automation S.r.l. (former SGE S.r.l.)*	51	45	6	13.3%
Tesmec USA, Inc.	76	81	-5	-6.2%
Tesmec SA (Pty) LTD	15	14	1	7.1%
OOO Tesmec RUS	6	8	(2)	-25.0%
Tesmec New Technology Beijing LTD	3	3	0	0.0%
Marais Group	250	156	94	60.3%
Total	784	659	125	19.0%

(*) Includes Bertel S.r.l., Tesmec Automation S.r.l. (SGE S.r.l.) and CPT Engineering S.r.l. subsequently merged into Tesmec Automation S.r.l.

There was an overall increase of 18.97% in Human Resources in 2017, with an average of 125 people, in relation to the pursuit of the company strategy in the search for new technology business (Rail), and in international growth: Marais acquisition with the strengthening in all markets in which Marais is the leader (Africa, Australia, New Zealand, etc.)

2) Level of education and seniority

The average age of the employees of the Group is 40.90 years. The figure breaks down into Italian companies with an average age of 40.60 years (workers 43.73 years, employees 41.46 of which 38 for women) and foreign companies with an average age of 41.21 years (workers 28, employees 44.13 of which 38 for women).

With Tesmec strengthening the Automation business, together with the decision to unify the activities into a single legal entity and the increase in the foreign activities of Marais (New Zealand and Australia), further strengthened the presence and hiring of personnel with university technical skills. In particular, the partnership with universities in the electronic and mechatronic sectors.

Projections of employee age profiles for 2017 and the growth and investment trends in the previous 5 years showed an increased percentage of age groups from 35 to 55 years old due to the need to find labour with greater seniority and specific skills suitable for the new business model related to the specific business units and contracting activities for the Energy division.

AGE	2017	2016
< 25	5%	7%
25-34	25%	29%
35-44	31%	30%
45-54	27%	22%
>55	14%	12%

3) Digital Transformation

During 2017, the driver of digital transformation (robotics, artificial intelligence, big data, cloud computing, Internet, sensors, cybersecurity, etc.) had an extraordinary acceleration within the processes of transversal information of the management because one of the first challenges that Tesmec will face in the coming years is the transformation of the contribution of information technology in the company. The new wave of contemporary innovation is based on the convergence of technologies and architectural models that have emerged from digitalisation, which this time will extend mainly to production and work.

The challenge, which in 2017 has started to take root, will have in the coming years a strong application for the digital transformation of business, a culture oriented towards Industry 4.0 and a development of appropriate skills.

4) Employee Branding

Moreover, in 2017, the HR platform integration processes were consolidated and strengthened through the implementation of:

- a "Human Capital Management" platform that will be optimised and integrated at international level over the next few years. This initiative is part of a broader project to review information systems at the company level, for which

preparatory activities were started in 2017 to map processes in order to identify the solution best suited to the Group's business requirements.

- a definition of a competency model for all business roles and integrated into the company assessment process through a strategy defined as "People strategy", i.e. strengthening and aligning the Group's Human Resources through the values that represent and describe the behaviour of the collaborators for a new corporate culture SPEED (S Safety, P Performance, E Empowerment, E Engagement, D Development).

During 2017, Tesmec launched two important projects of enhancement and visibility of our Group through partnerships with technical institutes of the territory.

- Academy project with the collaboration of a work administration company;
The Recruitment and Employer Branding Programme aims to promote knowledge of the company among fifth-year students in order to foster a breeding ground for excellent candidates through:
 - presentations and Vocational Guidance in the main technical and professional institutes of the territory, with the participation of company representatives;
 - selection of the best candidates, through Assessment Centres in the company.
- "Training for the future" project with the collaboration of leading companies in the sector
Tesmec Service S.r.l. was the testimonial of the "Training for the Future" project, whose aim is to propose orientation in schools through the metaphor of sports, an intervention by our Research and Development team at the Technical and Technological Institute "Panetti Pitagora" in Bari.

During 2017, Tesmec finalised and completed the initiative launched the previous year among all its collaborators (Suggestion Box) through the collection of information, suggestions and initiatives in the following themes:

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

The next phase involved the following guidelines as an expression of our resources and as a choice of management, positioning in the organisation, motivation and commitment:

- organisation in four business units (Trencher, Stringing, Railways, Automation);
- incentive scheme: launch of a new incentive plan for the sales department that took into account the commission portions with respect to the target ranges in terms of turnover collected by the sales area to enhance and speed up the Performance evaluation system of the sales network.

In order to increase the Employee engagement in 2017 a new initiative was launched called "Speed Awards", a campaign to encourage and enhance the value of skills with a view to involving people more closely in company life to improve awareness among all its employees.

- 1) High accelerator Speed
 - best Special Idea;
 - best Project Speed;
 - best Individual Performance.
- 2) Development Innovation Project
 - best engineering contribution to active and strategic innovation in the technical field;
 - best seniority for professionalism and competence in the manufacturing environment.
- 3) High people speed
 - best Culture Speed;
 - team Integration.

Each employee may put a colleague forward as a candidate, who may also belong to a different department/office, by filling in the appropriate form "*Speed Award 2017 - Speed People*".

5) Innovation awards

The rich Records of design and innovation awards of Tesmec increased considerably in 2017:

- IATT Award: research and development award;

- Conoscitivo Georadar 2.0 Award: for having exported abroad that a safe and conscious management of the underground service networks cannot be separated from a correct and timely mapping of the infrastructures of the underground networks.

6) Corporate social responsibility: Sustainability report

During 2017, Tesmec opted for the social responsibility project at the financial statement level for the whole Group with the aim to describe not only the performance of an organisation, but also the way in which it manages the most important aspects, in terms of principles, values, policies and management systems.

Therefore, an organisation can define its own strategic guidelines in the economic, environmental and social environment, by preparing a sustainability plan (3-5 years) starting from the dimensions through which it develops its concept of sustainability:

- personnel management;
- training and development of talents;
- diversity and equal opportunities;
- health and safety at work;
- dialogue with the social partners;
- human rights;
- relation with the local community.

7) Management and development and bonuses for Human Resources: Welfare

During 2017, Tesmec launched the Incentive Management plan: Competency Evaluation:

- individual development plans: incentives, international job rotation experience;
- empowerment programmes (align skill profiles and strengthen soft and hard skills);
- identify a Key Performance Indicator Platform that is integrated on a common platform but takes into account the type of product and production site (efficiency and cost reduction and stock reduction).

Tesmec placed the employees at the centre of their strategies for growth and development, favouring the increase of their well-being and of an ideal work-life balance.

In this perspective, our Company decided to strengthen for the 2017 financial period the Welfare Plan already active in 2016 in the management incentive plan, with a new Flexible Benefits plan for all employees opting for II level contracts and envisages using a set of different types of services aimed at increasing personal well-being, support to family life as well as social security and health coverage.

8) Resource training and professional development

The aim of the Tesmec Group is to increase human capital in accordance with corporate strategy. The training and education activities were consolidated also for 2017 by favouring active methods to support the processes of fitting into the company or into highly professional roles.

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

In fact, in addition to allowing the skills of the various professional figures to stand out, a general and specific continuous training, it increases not only the quality of services offered, but also awareness of the actions that are being implemented, the enhancement of the figures operating in the structure, the ability to adapt to and propose improvements.

In this regard, it will be necessary to obviously guarantee compulsory training as well as specific growth trends that each manager will have to provide for his/her sector in relation to its requirements as well as in relation to the peculiarities of each figure.

Opportunities to retrain Human Resources through training for its workers to update and retrain Human Resources that will have to use new technologies, new organisational processes, as well as training the skills suitable for programming and multidisciplinary engineering of products and processes in new ways" (hard skill and soft skill).

9) Industrial relations and social dialogue

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

During 2017, Tesmec continued to pursue, thanks to the support of trade unions, an effective activity of industrial relations with trade unions to create conditions of competitiveness and productivity to strengthen the global Tesmec system, to pursue and achieve improvements in productivity, efficiency and company well-being by reconciling the reasons of the companies and the persons who work for them, through a new pilot system of Flexible Benefit (flexible welfare solutions, from health to well-being, leisure time and training) that was able to limit fixed costs for the year by keeping the purchasing power of Tesmec employees high and competitive.

10) Recruiting

During 2017, Tesmec activated a recruiting policy with SOCIAL logics.

The consolidation of social tools, in addition to a significant reduction in the costs of HR portals, allows all organisations to start a slow but inevitable journey to the four macro areas: : E-Social Recruiting - Employee Engagement - Employer Branding - Social Learning.

These areas were used during 2017 to recruit candidates in the company's assessment phase; for this reason, the positive effect of SOCIAL HR begins even before the entry, generating greater company appeal on the candidates being selected.

Tesmec, during the year and for the next years, will have to develop a new culture of search for candidates who know how to collect a digital philosophy.

11) Health, safety and environment

Tesmec S.p.A. considers the protection of the workers' health and safety and the protection of the environment of fundamental importance and pursues these goals in compliance with all current specific regulations, in addition to establishing services in each factory to manage and control the issues in question. The service is coordinated by the head of environment/security.

The involvement of all employees, increased awareness and dissemination of the "safety culture" are considered to be decisive aspects for the achievement of the objectives of protection of the workers. Training is considered to be an important instrument, and is planned according to a precise timetable, based on strict technical standards and in compliance with the Italian State-Region Conference of 21/12/2011, implementing Article 37 of Italian Legislative Decree 81/2008.

During 2017, the internal service activities in order to prevent and protect against risks continued, through inspections on a quarterly basis of all production site departments, checking that the improvement actions had been started. All this within the system of procedures for managing aspects impacting on safety and the environment, now widespread in all the functions involved.

The search for solutions to implement in order to eliminate or reduce risks is shared with the business departments that must implement these specific measures to ensure their acceptance by the workers and efficient application.

During 2017 as well, the significant indicators (including frequency and severity) of occupational safety and health were monitored on a regular basis with statistical trend analyses, by reporting the consolidation of the excellent results achieved in previous years.

A precise system of environmental and safety authorisation was set up, assigned to the operating managers of the factories; they were trained through specific courses relating to Italian Legislative Decree 81/2008 for ASPPs or managers.

This led to greater involvement by the persons appointed to organise the work, with equal consideration for the aspects relating to environmental protection and workplace health and safety with respect to the production aspects.

There is still a great deal of attention paid to the prior assessment of all possible sources of risk to the health and safety of workers, including through the regularly monitoring of the working environments; the results show compliance with regulatory standards.

With regard to social responsibility and local territory matters, the company is committed to maintaining a high level of safety and environmental protection.

The current Organisational Model (Italian Legislative Decree 231/2001) is complete with the part relating to offences in violation of accident-prevention regulations and with regard to environmental crimes. It is kept updated.

10. Related party transactions

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

Significant related-party transactions.

In addition to what was reported in paragraph 3.1 *Transaction with the related party MTS - Officine Meccaniche di Precisione S.p.A.*, of this Report, during the 2017 financial period, no additional significant related-party transactions were carried out. For the supplemental information requested by CONSOB Communication No. 6064293 of 28 July 2006 on related-party

transactions, refer to note 37 of the consolidated financial statements of the Tesmec Group and to note 33 of the financial statements of the Parent Company.

11. Parent Company management performance

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

Income statement

The income statement of the Parent Company in 2017 compared with that of the prior financial period is summarised below:

<i>(Euro in thousands)</i>	Financial period ended 31 December			
	2017	% of revenues	2016	% of revenues
Revenues from sales and services	90,949	100.0%	78,810	100.0%
Cost of raw materials and consumables	(51,018)	-56.1%	(35,688)	-45.3%
Costs for services	(16,340)	-18.0%	(17,719)	-22.5%
Payroll costs	(18,604)	-20.5%	(18,291)	-23.2%
Other operating (costs)/ revenues, net	3,808	4.2%	(2,249)	-2.9%
Amortisation and Depreciation	(4,635)	-5.1%	(4,859)	-6.2%
Development costs capitalised	2,766	3.0%	2,751	3.5%
Total operating costs	(84,023)	-92.4%	(76,055)	-96.5%
Operating income	6,926	7.6%	2,755	3.5%
Financial expenses	(8,879)	-9.8%	(5,926)	-7.5%
Financial income	3,603	4.0%	5,252	6.7%
Pre-tax profit	1,650	1.8%	2,081	2.6%
Income tax	343	0.4%	(433)	-0.5%
Net profit for the period	1,993	2.2%	1,648	2.1%

Revenues from *goods sales* refer to income deriving from the transfer of stringing machines and equipment and trenchers, these revenues increased by 15.4%.

Other operating (costs)/revenues, net includes the positive effect of the tax credit for significant research and development expenses incurred by the Parent Company Tesmec S.p.A. for the expansion of the offer in the new sectors for automation, maintenance of existing power lines and service activities, which were combined with the renewal of the product range in all of Trencher's business areas. The total value of the tax credit amounted to Euro 377 thousand for the 2016 financial period and to Euro 4,002 thousand for the 2017 financial period.

The table below illustrates the performance of EBITDA that increased by 51.8% compared to that of the previous financial year mainly due to higher sales volumes and tax credit.

<i>(Euro in thousands)</i>	Financial period ended 31 December				
	2017	% of revenues	2016	% of revenues	2017 vs. 2016
Operating income	6,926	7.6%	2,755	3.5%	4,171
+ Depreciation and amortisation	4,635	5.1%	4,859	6.2%	(224)
EBITDA	11,561	12.7%	7,614	9.7%	3,947

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

Operating profit

Operating Profit equal to Euro 6,926 thousand in 2017, increased by 151.4% compared to 2016 as a result of the trends already described in the comment on EBITDA and of less amortisation related to investments in research and development of the current year.

Net income

Results for the period amounted to Euro 1,993 thousand (Euro 1,648 thousand in 2016) after deducting positive taxes totalling Euro 343 thousand (Euro 433 thousand in 2016).

Balance sheet and financial profile

The financial position of the Company as at 31 December 2017 compared to 31 December 2016 is briefly shown below.

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
USES		
Net working capital ⁽¹⁾	32,042	38,814
Fixed assets	57,957	57,255
Other long-term assets and liabilities	(1,367)	(2,319)
Net invested capital ⁽²⁾	88,632	93,750
SOURCES		
Net financial indebtedness ⁽³⁾	40,907	48,039
Shareholders' equity	47,725	45,711
Total sources of funding	88,632	93,750

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

⁽²⁾ The net invested capital is calculated as net working capital plus fixed assets and other long-term assets less long-term liabilities. The net invested capital is not recognised as a measure of performance under IFRS. The valuation criteria applied by the Company may not necessarily be the same as those adopted by other groups and therefore the balance obtained by the Company may not necessarily be comparable therewith.

⁽³⁾ The net financial indebtedness is calculated as the sum of cash and cash equivalents, current financial assets including available-for-sale securities, non-current financial liabilities, fair value of hedging instruments and other non-current financial assets.

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

Working capital

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Trade receivables	27,367	34,578
Inventories	35,554	35,983
Trade payables	(25,198)	(25,192)
Other current assets/(liabilities)	(5,681)	(6,555)
Net working capital ⁽¹⁾	32,042	38,814

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

The Working capital compared to net revenues decreased from 49.3% reported in 2016 to 35.2% in 2017. This result was affected by the decrease in trade payables of Euro 7,211 thousand and by the decrease in inventories of Euro 429 thousand partially offset by the increase in other current assets/(liabilities) of Euro 874 thousand.

Fixed assets

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Intangible assets	6,375	6,543
Property, plant and equipment	9,130	10,563
Equity investments in subsidiaries	40,711	38,408
Equity investments in associates	1,738	1,738
Other equity investments	3	3
Fixed assets	57,957	57,255

The increase in equity investments in subsidiaries is due to conversion of the total sum of Euro 2,000 thousand of financial receivables increasing the equity investment (Tesmec Automation S.r.l. and Bertel S.r.l.). The recapitalisation was necessary with regard to the development processes of the activities of these companies.

Net financial indebtedness

<i>(Euro in thousands)</i>	31 December			
	2017	<i>of which with related parties and group</i>	2016	<i>of which with related parties and group</i>
Cash and cash equivalents	(11,815)		(14,526)	
Current financial assets ⁽¹⁾	(45,836)	(42,901)	(41,384)	(41,352)
Current financial liabilities	63,859	2,077	61,015	10
Current portion of derivative financial instruments	82		108	
Current financial indebtedness ⁽²⁾	6,290	(40,824)	5,213	(41,342)
Non-current financial liabilities	34,554		42,654	
Non-current portion of derivative financial instruments	63		171	
Non-current financial indebtedness ⁽²⁾	34,617	-	42,825	-
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	40,907	(40,824)	48,038	(41,342)

⁽¹⁾ Current financial assets as at 31 December 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 balance obtained by the Group may not necessarily be comparable therewith.

Net indebtedness stood at Euro 40,907 thousand as at 31 December 2017 from Euro 48,039 thousand as at 31 December 2016. The change in non-current financial indebtedness includes Euro 11.219 thousand due to new loans obtained during the period offset by the reclassification of short-term portion of medium/long-term loans of Euro 19,319 thousand (of which Euro 5,583 thousand relating to portions falling due beyond the year that, due to failure to comply with contractual obligations related to financial covenants, were reclassified under short-term liabilities).

Shareholders' Equity

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

12. Corporate governance and self-regulatory code of conduct

The Tesmec Group conforms to the Self-regulatory Code of Conduct of listed companies approved in March 2006 and subsequently amended and updated in July 2015 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., with additions and adjustments resulting from the characteristics of the Group.

The "Report on corporate governance and ownership structures" contains a general description of the corporate governance system adopted by the Group and shows the information on ownership structure and compliance to the Self-regulatory Code of Conduct, including the main governance practices applied and the characteristics of the system of risk management and internal audit in relation to the process of financial reporting. The aforesaid Report is enclosed with the financial statements

and subject to the same advertising terms provided for the financial statements, and it is available on the following website www.tesmec.com, in the Investors/Governance section.

For the information relating to corporate offices covered by the Directors of the Company, we make reference to what is reported in the *Report on corporate governance and ownership structures*. For the members of the Board of the Statutory Auditors, the complete and updated list of the corporate offices is published by CONSOB on its website, pursuant to Article 144-quinquiesdecies of the Issuer Regulation.

13. Places where the Company operates

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

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

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

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

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

- on 31 January 2018, Tesmec S.p.A. purchased a further 13.2% stake in the share capital of Marais Technologies SAS, a French company already controlled by Tesmec with a 52.8% stake in the share capital.

This equity investment was sold to Tesmec by C2D SAS, a company owned by Daniel Rivard, current chairman of Marais, performing broader agreements (as per press releases dated 27 March 2015, 8 April 2015 and 22 December 2015) concluded on the one hand by Tesmec and on the other hand by Daniel Rivard and C2D.

The price paid for the purchase of the equity investment amounted to Euro 1.5 million, which can be increased by a total additional amount of Euro 2 million upon achieving turnover (for the financial period ended 31 December 2017) and margin targets (for the financial period ended 31 December 2018).

Daniel Rivard will continue to be operative chairman of Marais.

15. Business outlook

Based on the positive trend in order collection recorded by the Group in the second half of 2017, a target of revenues of around Euro 200 million is expected to be reached in 2018, with a consequent improvement in margins thanks to the better absorption of fixed costs. Inflation related to the cost of raw materials is expected to recover whereas the dollar - which is expected to remain at current exchange rates with the euro - could have a negative impact on margins. Order collection is expected to remain constant, maintaining the portfolio at current levels but with shorter maturities and greater diversification in the various operating sectors in which the Group operates. Moreover, a structural growth is expected in the more developed markets, in Italy and Europe in particular, with customers of primary importance who recognise the added value of the Group's "smart" solutions, characterised by high quality and high digital content in line with the "Industry 4.0" philosophy.

16. Other information

Management and co-ordination activities

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

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

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

Treasury shares and shares of parent companies

On 28 April 2017, the Shareholders' Meeting authorised the treasury share buy-back plan; the authorisation was granted for a period of 18 months; the authorisation of 28 April 2017 replaces the last authorisation resolved by the Shareholders' Meeting on 29 April 2016 and expiring in October 2017. 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 28 April 2017) to the date of the period covered by this report, 31 December 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.

Equity investments held by Directors and Statutory Auditors

Pursuant to the CONSOB Regulation no. 11971/99, equity investments held by Directors and Statutory Auditors in Tesmec and in its subsidiaries are recorded, according to diagram 3) provided in enclosure 3C) of the regulation above:

Tesmec shares held by directors and statutory auditors

Board of Directors and Auditors

Name	Shareholding	Role	Number of shares held at the beginning of the 2017 financial period	Number of shares purchased	Number of shares sold	Number of shares held at the end of the 2017 financial period
Ambrogio Caccia Dominioni	Direct	Chairman and Chief Executive Officer	155,800	-	-	155,800
Gianluca Bolelli	Direct	Vice Chairman	101,000	-	-	101,000
Caterina Caccia Dominioni	Direct	Director	9,500	-	-	9,500
Lucia Caccia Dominioni	Direct	Director	9,500	-	-	9,500
Stefano Chirico	Direct	Statutory Auditor	11,492	-	-	11,492

Italian Legislative Decree 231/01

The Company adopted an Organisational Model aimed at ensuring fair and transparent conditions in running the company business, to protect all holders of interest of the Company, tailored on the specificity of Tesmec S.p.A.

The Supervisory Body consists of Lorenzo G. Pascali, as Chairman, Maurizio Brigatti and Stefano Chirico, Statutory Auditor of the Company.

On 1 March 2018, the Board of Directors of the Company approved the Organisational, Management and Control Model updated by including the offence involving the system by which day workers are illegally hired through an intermediary and paid below the national minimum wage.

Information on Significant Companies outside the EU

Tesmec S.p.A., Parent Company, controls two companies (Tesmec USA, Inc. and Marais Laying Technologies (Pty) LTD) that are considered "Significant Companies outside the EU" as defined by Consob Resolution no. 16191/2007, as amended.

With reference to these companies, it should be noted that:

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

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

of the information flow through meetings both with the accounting auditor and with the Manager responsible for preparing the financial statement

17. Consolidated Disclosure of non-financial information in accordance with Italian Legislative Decree no. 254/2016

17.1 Methodological note

17.1.1 Purpose of this section

The Tesmec Group (also "Tesmec") falls within the scope of application of Italian Legislative Decree 254/2016 (also the "Decree") - issued in implementation of Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 - which envisages the requirement of Disclosure of non-financial information and diversity information by large companies and groups.

This consolidated Disclosure of non-financial information (also "DNF" or "Disclosure"), referring to the financial period ended 31 December 2017, is the commitment of the Tesmec Group to report on the non-financial impacts of its actions, in compliance with the provisions of the Decree: Tesmec has chosen to integrate the Disclosure into its 2017 Report on Operations.

17.1.2 Boundary of the Disclosure of non-financial information

The reporting boundary of this Disclosure includes the following companies of the Tesmec Group consolidated on a line-by-line basis (cf. § Group structure of the Report on Operations), in that considered significant for understanding the Group's sustainability impacts:

- Tesmec S.p.A.
- Tesmec USA
- Tesmec Service S.r.l.
- Tesmec Automation S.r.l.
- Tesmec SA
- Groupe Marais SA
- Marais Cote d'Ivoire SARL
- Marais Laying Technologies (Pty) Ltd
- Marais Laying NZ limited

For the reporting areas relating to personnel, the environment and the company, the reporting boundary does not include the other companies (however, for the area relating to anti-corruption, the reporting boundary is complete):

- OOO Tesmec RUS
- Tesmec New Technology (Beijing) Ltd
- East Trenchers S.r.l.
- Tesmec Rail S.r.l.
- Marais Trenching AFS
- Bertel S.r.l.

This choice of exclusion is made in compliance with the provisions of Article 4 of Italian Legislative Decree no. 254/2016, according to which the consolidated Disclosure may lead to the exclusion from the Disclosure of those companies that, albeit included in the scope of consolidation, are not necessary to understand the Group's activity, its performance, results and impact of the activity itself. In fact, the social, economic and environmental impacts of these companies, as envisaged by the Policy Group Non-Financial Report, are not considered significant due to their low incidence in terms of Group turnover (less than 2% of the consolidated total), number of employees (less than 10) and type of activity (non-productive).

Any additional limits to this boundary are properly indicated in the document in connection with each topic and indicator.

17.1.3 Reference guidelines and reporting process

The reporting standard adopted by Tesmec for the preparation of its DNF are the GRI Sustainability Reporting Standards (hereinafter also referred to as GRI Standards), published in 2016 by the GRI - Global Reporting Initiative. In particular, in accordance with Standard GRI 101: Foundation, paragraph 3, this document refers to the Reporting Standards listed in the "Concordance table between the TESMEC material aspects and the GRI Standards", shown below ("GRI-referenced" claim).

Tesmec Group identified the Chief Financial Officer, as well as Manager responsible for preparing the Company's financial statements, as the Manager in charge of preparing the DNF with the task of managing the process of collecting and aggregating the data and information required for preparing the DNF. Under his coordination, an internal working group was set up,

representing the main business functions, in order to collect the information required for the DNF, verify and validate it, and store the supporting documents to ensure their traceability.

The reporting process was developed according to the following working phases:

1. Definition of the Group Policy relating to the non-financial reporting process;
2. Preparation, updating and approval of the materiality analysis (cf. § below);
3. Definition of the contents of the DNF (indicators, disclosures and boundary);
4. Starting the process for collecting and approving non-financial data and information;
5. Approval of the DNF by the Board of Directors, together with the Report on Operations;
6. Certification by the Independent Auditors specifically appointed for this audit.

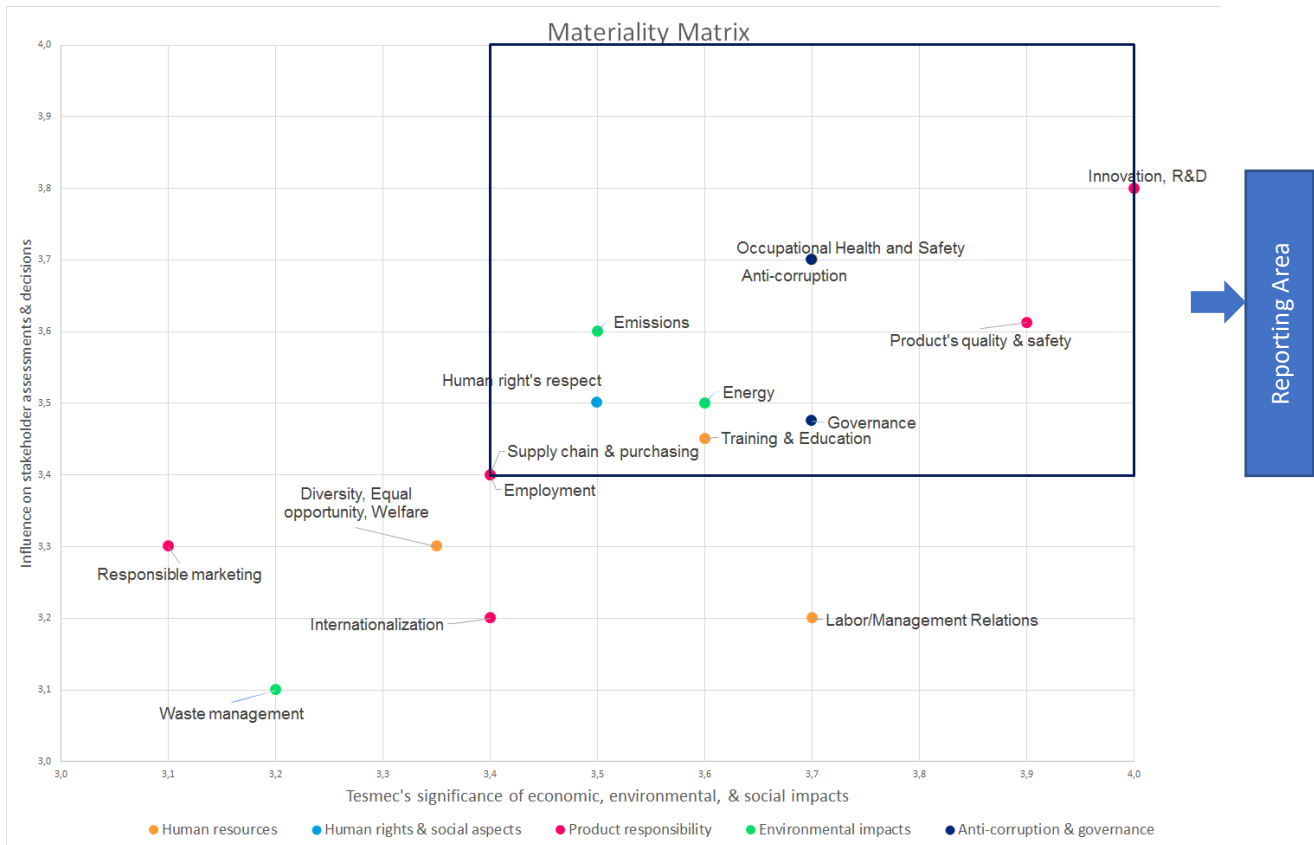
17.1.4 Materiality analysis

The information set out in this Disclosure, in accordance with the provisions of the Decree, was selected on the basis of the "materiality" principle, which identifies the information through which it can be ensured that the Group's activities, performance, results and impact on the non-financial aspects indicated in the Decree are understood.

The process for determining material aspects is carried out by filling in a questionnaire (known as materiality questionnaire) and a benchmarking activity, by way of completion of the materiality analysis, in order to bring out the aspects considered most significant, both for Tesmec Group and its Stakeholders, and which will be reported in this Disclosure.

The process was carried out according to the methodology indicated by the GRI Standards with the direct participation of the representatives of the companies included in the boundary of reference for the Disclosure of non-financial information (CFO, Head of Health, Safety and Environment, Head of Product development and Marketing, Purchasing Manager, Group Controller, Director in charge of the Internal control and Risk management system, Human Resources Manager and Investor Relator). A questionnaire was distributed to them containing a series of aspects relating to six macro areas: Governance, Collectivity, Economic responsibility, Product liability, Social responsibility and Environmental responsibility. Each aspect was assessed by assigning a score, in order to bring out those relevant and related to the Group's economic, environmental and social impacts. With regard to the aspects considered significant for Stakeholders, i.e. those able to influence their decisions and assessments, as a first reporting exercise, it was decided to carry out this activity indirectly by requesting this assessment from internal representatives, also considering the results of a benchmark carried out on the sustainability practices of some players in the sector.

The results of these analyses made it possible to construct the so-called materiality matrix, which considers in the x-axis the average values of each aspect relevant for Tesmec and in the y-axis the average values of each relevant aspect according to Stakeholders.



Aspects higher than 3.4 (defined as "materiality threshold"), on a scale from 0 to 4, for both axes, are considered material for Tesmec and are:

Concordance table between Tesmec material aspects and the GRI Standards

Area	Material aspects	Topic-specific GRI Standards of reference	IMPACT BOUNDARY	
			Impacts inside the Group	Impacts outside the Group
Anti-corruption and governance	Anti-corruption	Anti-corruption (GRI 205)	All the Group	Consultants, agents, business agents and partners
	Governance*	Governance structure (GRI 102-18)	All the Group	Shareholders
Human Resources	Training & Education	Training and education (GRI 404)	All the Group	
	Employment	Organisational Profile (GRI 102-8) Employment (GRI 401)	All the Group	Suppliers
	Occupational Health and Safety	Occupational health and safety (GRI 403)	All the Group	Suppliers
Product liability	Product's quality & safety	Customer health and safety (GRI 416)	All the Group	Sales Network (authorised dealers and agents)

	Supply Chain & Purchasing	Supply chain (GRI 102-9) Supplier environmental and social assessment (GRI 308, GRI 414) Materials (GRI 301)	All the Group	Suppliers
	Innovation, R&D*		All the Group	
Environmental topics	Energy	Energy (GRI 302)	All the Group	Suppliers
	Emissions	Emissions (GRI 305)	All the Group	Suppliers
Human and Social Rights	Human Rights' respect	Non-discrimination (GRI 406) Human Rights Assessment (GRI 412)	All the Group	Suppliers

* The materiality analysis has revealed some material aspects not strictly related to the non-financial areas provided for by the Decree. With regard to these aspects (not directly related to Topic-Specific GRI Standards) Tesmec indicates in the document the management approach adopted and the related indicators.

The aspect of "Diversity and well-being of employees" was not relevant in the light of the materiality analysis for Tesmec and its Stakeholders.

Reporting is not extended to the external perimeter.

17.1.5 Adopted calculation methods

Only CO₂ emissions were taken into account for the calculation of greenhouse gas emissions. CO₂ emissions are calculated by multiplying the GJ of energy by the emission factors deriving from the technical literature in force. In particular, for fossil fuels, the table of national standard parameters of the Ministry of the Environment using ISPRA data, updated to 2017, was used.

The emission factors used to convert energy into tonnes of CO₂ are as follows:

Category / fuel		
Electricity	kWh	Country specific EF - gCO₂ (Source: Terna international comparisons on 2016 Enerdata figures)
Natural Gas	1kmc natural gas	1.964 tCO ₂
Diesel oil	1 ton diesel oil	3.155 tCO ₂
LPG	1 ton LPG	3.026 tCO ₂

17.2. Mission and values of the Tesmec Group

The mission of the Tesmec Group is to operate in the market of technologies dedicated to infrastructures for the transmission of electrical power, data and materials (oil and derivatives, gas, water), strategic sectors for the growth and modernisation of each country in the world.

Tesmec has commercial activities in over 135 countries worldwide. The Group has production plants in: Grassobbio (Bergamo), Endine Gaiano (Bergamo), Sirone (Lecco), Monopoli (Bari) in Italy, Alvarado (Texas) in the United States, and Durtal, in France and a strong presence in the automation sector with the company Tesmec Automation S.r.l., at Fidenza (Parma), Padua and Patrica (Frosinone), respectively. Moreover, the Group has a global commercial presence through foreign subsidiaries and sales offices in South Africa, Russia, Qatar, China, Australia, New Zealand, Tunisia and the Ivory Coast.

The Tesmec Group is strategically placed between market and technology, interpreting the customer's needs in the best possible way, focusing on innovation and customisation of systems and solutions, all thanks to a flexible organisation, able to speed up decision-making processes and offer a fast and quality service. Tesmec trademark is known for efficiency, quality, safety and reliability at global level.

With its Code of Ethics, Tesmec defines at Group level the ethical and social responsibility of all participants in the entrepreneurial organisation. An ethical approach to business is essential to ensure the reliability of the Company and Group's behaviour towards Stakeholders and, more generally, towards the entire civil and economic context in which the Company and the Group operate.

In particular, the values of Tesmec are:

- Enhancement of human resources and personal integrity
- Confidentiality
- Honesty and Fairness
- Responsibility towards the community
- Transparency
- Fighting corruption and conflicts of interest
- Quality of machinery
- Fairness in the management of contracts
- Impartiality
- Environmental protection
- Fair competition
- Protection of Intellectual Property
- Safety of persons.

All this requires the Tesmec Group to pursue a growth strategy that can be summarised in the term "Glocal": to be global, but to have a local presence in the major areas of the planet to better interpret the needs of individual markets.

The challenges of the future require modern industrial societies, as well as emerging ones, to invest in energy and telecommunications technology.

New technologies are able to fill the gaps in infrastructures in different countries, improving efficiency and meeting the needs of new generations.

Therefore, the need to rationalise energy costs and improve the speed of information transmission makes global investment in energy and telecommunications crucial to global growth: for this reason, Tesmec's mission also includes an ever increasing investment in technologies for the streamlining and management of networks.

17.3 Governance and anti-corruption

This section covers the relevant aspects indicated in the previous § Materiality analysis and summarised in the following table. It should be noted that the Management of Tesmec identified the main risks, generated or suffered, related to the aspects of the Decree and deriving from the business activities, identifying the appropriate prevention and mitigation actions. These risks will be listed in specific tables for each chapter of this document.

RELEVANT ASPECTS RELATED TO IDENTITY AND GOVERNANCE	MAIN RELATED RISKS (cf. § “Main risks and uncertainties” of the Report on Operations)
<p style="text-align: center;">Anti-corruption Governance</p>	<p>Risks related to offences involving corruption</p> <p>Risks related to corporate crimes</p> <p>Risks related to non-compliance or violation of reference legislation or applicable regulations</p> <p>Reputational risk</p> <p>Possible unethical/illegal behaviour by the BoD, Top Management and employees</p>

Below is a description of the management and organisation model of the company's activities adopted by the Tesmec Group, also with reference to the management of the above mentioned aspects, the policies applied by the Group, the results achieved through them and the relative key non-financial performance indicators.

17.3.1 Policies, management systems and organisational models

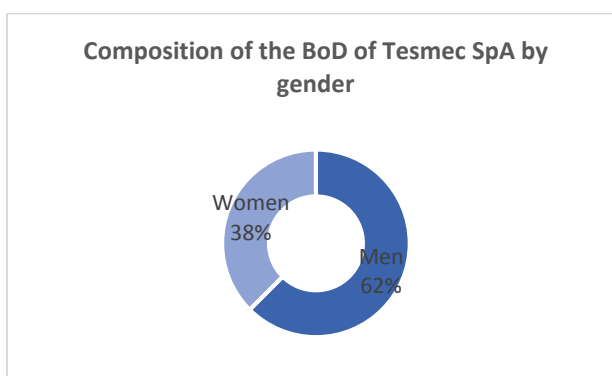
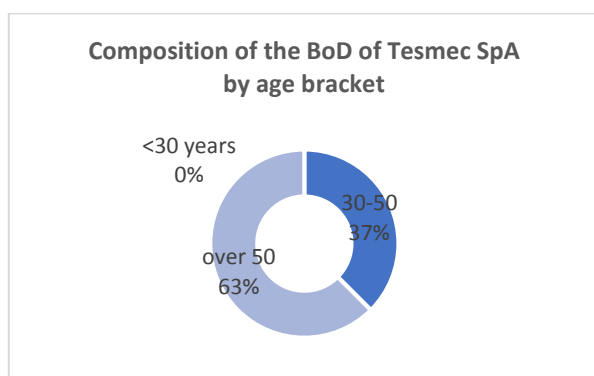
Corporate Governance Structure

The Corporate Governance structure adopted by Tesmec is based on the recommendations and regulations contained in the Self-Regulatory Code of Conduct adopted by the Corporate Governance Committee of the listed companies, in the belief that, on the one hand, having a structured system of rules allows the Company to operate according to maximum efficiency criteria, and on the other hand, ensuring greater levels of transparency contributes to increasing the reliability of the Company with investors.

Tesmec adopts a traditional management and control system that is characterised by the presence of:

- a Shareholders' Meeting vested with the decisions on prime acts of management of the Company, in accordance with the Law and the Articles of Association;
- a Board of Directors in charge of managing the company business, which has granted operational powers to bodies and delegated subjects;
- a Board of Statutory Auditors called upon to supervise compliance with the Law and the Articles of Association and compliance with the principles of correct administration, as well as to control the adequacy of the organisational structure, the internal control system and the Company's administrative-accounting system; the Board of Statutory Auditors comprises three statutory auditors and two alternate auditors;
- Independent Auditors, in charge of auditing and providing an opinion on the financial statements pursuant to the Law and Articles of Association.

The Board of Directors of Tesmec S.p.A. was appointed by the Shareholders' Meeting of 29 April 2016 and will remain in office until approval of the financial statements for the period ended 31 December 2018: it consists of 8 members, of whom 4 meet the independence requirements (“Independent Directors”).



The Board of Directors has set up a Control and Risk and Related party Transaction Committee and a Remuneration and Appointments Committee.

For further information on corporate bodies, internal committees and the internal control and risk management system, please refer to the Report on Operations and the Report on corporate governance and ownership structure published on the website www.tesmec.com.

Management systems and organisational models

Tesmec implemented the following business management systems and internal organisational models:

- ISO 9001:2008
- Organisational, Management and Control Model pursuant to Italian Legislative Decree 231/2001

for the following Group companies within the reporting boundary:

- Tesmec S.p.A.
- Tesmec Service S.r.l.
- Tesmec Automation S.r.l. (only ISO 9001:2008).

The Board of Directors of Tesmec S.p.A. of 23 February 2010 adopted an organisational model aimed at ensuring fair and transparent conditions in running the company business, to protect its own position and image and those of the companies of the Group, the expectations of its own shareholders and the work of its own employees and tailored on the specific needs determined by the coming into force of Italian Legislative Decree no. 231/2001 (Model 231).

The Management of Tesmec S.p.A. also approved specific policies on Environment, Health and Safety, which it will gradually extend to all Group companies.

The Group adopts a risk management system to control risks with an impact on Environment, Health and Safety at work. Model 231 of Tesmec S.p.A. and Tesmec Service S.r.l. contemplates the Special Part: Offences relating to health and safety at work and the Special Part: Environmental crimes in which specific sensitive areas are identified with reference to offences envisaged by Italian Legislative Decree no. 231/2001.

The function of Director in charge of the Internal control and Risk management system is also present.

For further information on ISO 9001 certification and Model 231, please refer to the Report on Operations and to the Group website ("About us" and "Governance" sections).

Risk management and control systems pursuant to Italian Legislative Decree no. 231/2001

The Company's risk management activity aims to promptly identify the risks in the company's core business, define suitable measures for their prevention and mitigation and safeguard operating effectiveness.

The importance of risk control in achieving the Company's objectives makes it of primary importance to define a preliminary analysis system that is adequately structured in order to strive for a high level of operating performance. Responsibility for risk management and control activities lies with the Chief Executive Officer, who is responsible for coordinating risk identification activities and monitoring their correct management.

To better safeguard compliance with reference regulations for the Italian companies of the Group and as a factor preventing the risk of offences related to disputes with the Public Administration, or with public officials responsible for inspections and checks on the merits, the Company adopts specific periodic monitoring programmes, including, but not limited to:

- safety at work;
- environmental protection;
- privacy;
- remuneration and social security.

The Company appoints the Internal Audit function as staff for the Board of Directors, reporting directly to the Control and Risk Committee, responsible for coordinating and assessing the compliance of company processes with rules and regulations, without prejudice to the responsibility of the Board of Statutory Auditors pursuant to art. 2403 of the Italian Civil Code.

The Internal Audit function periodically reports to the control bodies on its activities carried out.

Compliance checks relating to any significant impact on the financial statements, also in terms of potential liabilities, are carried out by the Board of Statutory Auditors, which formally certifies this by means of specific minutes.

Anti-corruption

Tesmec is actively committed to preventing and fighting corruption through a control unit that is an integral part of the Internal Control System. Legality, honesty, integrity, fairness and transparency are some of the general principles on which the Code of Ethics of the Group and the running of company business are based.

The prevention and fight against corruption is achieved through the implementation of two main instruments: i) the Organisational, Management and Control Model pursuant to Italian Legislative Decree 231/2001 (including the Code of Ethics of the Group), ii) Group Anti-Corruption Policy.

The first control unit to mitigate the risk of corruption both with regard to the Public Administration and among private individuals is represented by the Organisational, Management and Control Model pursuant to Italian Legislative Decree 231/2001 (hereinafter Model 231) adopted as part of specific documents by the Italian companies belonging to the Tesmec Group in order to ensure, as far as possible, the prevention of the commission of the crimes envisaged by the aforementioned decree.

In 2014, the Group Anti-Corruption Policy was also approved, adopted and disseminated.

The Anti-Corruption Policy is published on the company intranet to provide a systematic framework on anti-corruption, classifying as illegal for the Company Tesmec S.p.A., the Tesmec Group, its personnel and for anyone, the carrying out of activities for or on behalf of the Group and/or its personnel, the offer, payment or acceptance, directly or indirectly, of money or other benefits, in order to obtain or maintain a deal or secure an unfair advantage in relation to the business activities.

In detail, the Policy prohibits:

- offering, promising, giving, paying, authorising someone to give or pay, directly or indirectly, an economic advantage or other benefit to a Public Official or private individual (active corruption);
- accepting the request from, or invitation from, or authorising someone to accept or request, directly or indirectly, an economic advantage or other benefit from a Public Official or private individual (passive corruption);

when the intention is to:

- incite a Public Official or a private individual to perform improperly any public function or any activity associated with a business or to reward him for having performed it;
- influence an official measure (or omission) by a Public Official or any decision in violation of an official duty;
- obtain, secure or maintain a deal or an unfair advantage in relation to the business activities; or
- in any case, violate applicable laws.

The prohibited behaviour includes the offering to, or receipt by, the personnel of Tesmec (direct corruption) or by anyone acting on behalf of the Company, or the Group itself (indirect corruption) of an economic advantage or other benefit in relation to the activities of the company.

The prohibition is not limited to cash payments only, but includes, for corruption purposes:

- gifts, expenses and hospitality to third parties;
- contributions such as donations, sponsorships, etc;
- commercial activities, employment or investment opportunities;
- confidential information that could be used to trade in regulated securities and products;
- personal discounts or credits;
- care or support for family members;
- other advantages or benefits.

No incidents related to corruption were recorded in 2017.

17.4 Management of human resources and human rights

The relevant aspects related to the management of human resources are summarised in the following table, together with the main risks identified by Tesmec Management. The following pages describe the policies, the management system and the results achieved.

RELEVANT ASPECTS RELATED TO HUMAN RESOURCES and HUMAN RIGHTS	MAIN RELATED RISKS (cf. § "Main risks and uncertainties" of the Report on Operations)
<p style="text-align: center;">Growth, training, talents</p> <p style="text-align: center;">Safety at work</p> <p style="text-align: center;">Respect for Human Rights</p> <p style="text-align: center;">Employment protection</p>	<p>Risk of increased turnover and loss of competent and key personnel</p> <p>Risk of increased accidents</p> <p>Risk of increased work-related stress</p> <p>Risk of incompetence and negligence</p> <p>Risk of increasing cases of discrimination and unequal treatment along the supply chain</p>

17.4.1 Policies, management systems and organisational models

At Group level, as indicated in the Report on Operations, the human capital management system of Tesmec for growth and development is based on the Global Integration Project that will be further strengthened over the next few years and will be characterised by:

- validation of the new organisational plan to align company processes by strengthening Group synergies;
- new models of Matrix Responsibility;
- completing the alignment of Group policies;
- Group job rotation by assessing the technical and behavioural skills of each employee, combining the needs of each operating unit/company.

This project is particularly important, in that the growth of human resources takes place in the Tesmec Group also through new acquisitions and/or by merging businesses as in 2017, the year in which CPT Engineering S.r.l., of the Bertel S.r.l. business unit and of the Ampere business unit were merged under one single entity, Tesmec Automation S.r.l. (former SGE S.r.l.).

At Group level, even if Tesmec does not have a formalised single policy for the human resources aspect (given the diversity of the global, contractual and regulatory aspects of personnel management), there are HSE policies of the individual Group companies and the principles and guidelines contained in the Code of Ethics apply to all of them. In fact, it affirms the fundamental commitments according to which the Group companies safeguard and promote the value of human resources in order to increase the wealth of expertise of each employee and encourage the respect for a person's physical, moral and cultural integrity. Moreover, working conditions that respect individual dignity and safe working environments are ensured.

The elements that characterised Tesmec's personnel management system in 2017 are reported below:

- Employee Branding through:
 - o consolidation and strengthening of the HR platform integration processes;
 - o projects in partnership with local technical institutes, in Italy;
 - o internal involvement (Suggestion box initiative);
 - o organisation in four business units (Trencher, Stringing, Railway, Automation);
 - o new incentive plan;
 - o a campaign to encourage and enhance the value of skills with a view to involving people more closely in company life to improve awareness among all its employees;
- launch of the Incentive Management Plan: Competency Evaluation;
- strengthening of the company's Welfare Plan, already launched in 2016 (with a new Flexible Benefits plan for all employees under Level II contracts);
- training and skill upgrading plan;
- dialogue and relations with trade unions and workers' representatives;
- launch of innovative recruiting methods, using social logics;
- systems for managing health, safety and environmental aspects.

Tesmec is aware that some operations carried out as part of its activity may present risk characteristics for the environment and for the person, whether worker or subject present on site, but external to the organisation. Also for this reason, in addition to the commitments valid for the entire Group, Tesmec S.p.A. defined an integrated Policy for the Health and Safety of workers and for the Environment, available on the Company's intranet site. Furthermore, the objective of Tesmec S.p.A. is to implement an integrated QSA system.

Moreover, through the Company Regulations, Tesmec regulates the company conduct and the behaviour of the personnel of the Italian companies of the Group.

Finally, Tesmec USA adopted a Health & Safety Policy as well.

17.4.2 Tesmec and human rights

The safeguard of human rights is an important issue for Tesmec, but it is not considered necessary to manage it strategically, as the matter has been partially treated together with other material aspects in this Declaration, including issues related to employees' Health and Safety or contractual correctness.

However, in order to avoid as much as possible that isolated cases could damage human rights, Tesmec decided to envisage in its Code of Ethics, among the fundamental ethical principles of reference, also that of "Enhancement of human resources and personal integrity", with the relevant mechanism for strengthening the culture and the penalty system that derive from it. Based on the reporting, monitoring and control mechanisms envisaged by the Code of Ethics, no cases of discrimination were recorded in 2017.

Moreover, in 2017, no specific training activities on the respect for fundamental human rights were carried out by the companies of the Tesmec Group.

However, the Group is aware that the aspect concerning the respect for human rights could be important for the supply chain and that specific assessments to this effect could be carried out in the coming years (cf. below § 5.2).

17.4.3 Non-financial results and indicators

Composition and characteristics

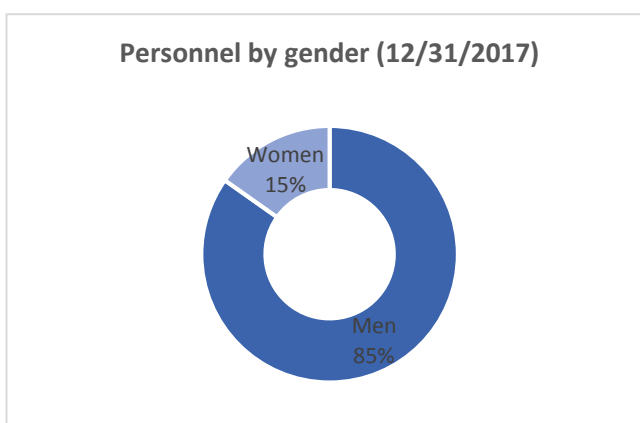
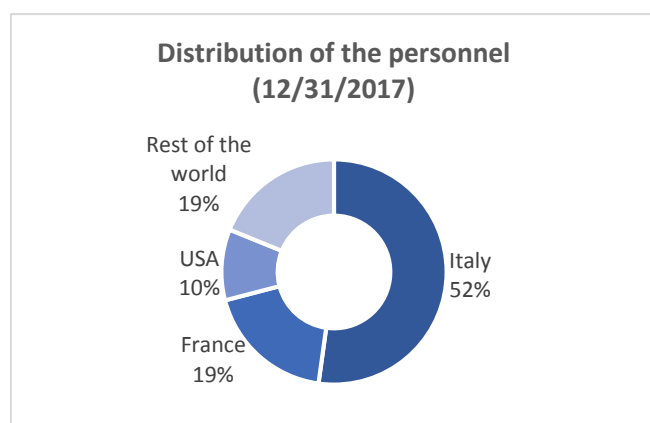
The Tesmec Group had 795 employees as at 31 December 2017. In 2017, there was an overall increase of 23% in human resources as at 31 December 2017 compared to 31 December 2016, in relation to the pursuit of the company strategy in the search for new technology business (Railways), and in international growth as a result of the acquisition of the Marais group in 2015, with the strengthening in all markets in which Marais is the leader (Africa, Australia, New Zealand, etc.).

The commitment to establish stable and lasting relations is confirmed by the high percentage of employees hired with an open-ended labour contract (97% of the total).

		Total number of employees by type of (open-term and fixed-term) contract and gender					
		2016			2017		
Type of Contract		Men	Women	Total	Men	Women	Total
		ITALY	Open-ended	290	63	353	323
Fixed-term	9		7	16	14	3	17
Total Italy	299		70	369	337	78	415
FRANCE	Open-ended	121	13	134	132	17	149
	Fixed-term	-	-	-	-	-	-
	Total France	121	13	134	132	17	149
USA	Open-ended	56	10	66	70	11	81
	Fixed-term	-	-	-	-	-	-
	Total USA	56	10	66	70	11	81
REST OF THE WORLD	Open-ended	70	9	79	130	15	150
	Fixed-term	-	-	-	5	-	-
	Total Rest of the World	70	9	79	135	15	150
TOTAL TESMEC GROUP	Open-ended	537	95	632	655	118	773
	Fixed-term	9	7	16	19	3	22
	Total TESMEC GROUP	546	102	648	674	121	795

The geographical distribution of Group employees: 52% of employees in Italy, 19% in France, 10% in North America and the remaining 19% in the rest of the world.

85% of the personnel are male.



Tesmec Group: Total number of employees by type of contract (full-time and part-time) and gender							
	Type of Contract	2016			2017		
		Men	Women	Total	Men	Women	Total
ITALY	Full-Time	544	89	633	672	108	780
	Part-time	2	13	15	2	13	15
	Total Italy	546	102	648	674	121	795

The professional category most represented is that of employees (47% of the total), followed by workers (44% of the total), middle managers (7% of the total), and managers (2% of the total).



Number of employees by type of contract and gender						
Employment category	2016			2017		
	Men	Women	Total	Men	Women	Total
Managers	13	-	13	13	-	13
Middle managers	46	3	49	54	7	61
Employees	207	85	292	282	99	381
Workers	280	14	294	325	15	340
Total	546	102	648	674	121	795

The use of external workers is divided into two segments: one concerns the part of project collaboration inserted in a strategic context related to market strategies and new technological solutions in the Rail segment. The second segment concerns external workers used to meet the workload requirements following new orders in the Rail segment.

In 2017, the number of external workers of the Tesmec Group is 101 (figure referring to all the reported companies, with the exception of Tesmec USA, for which no 2017 figures are available).

The use of coordinated and continued collaboration contracts takes place as part of the development of new product technologies in the Energy sector. The use of internships, especially in Italy, takes place in the context of collaboration with technical institutes or collaboration relations with public institutions to strengthen the production structure with personnel sent for relocation activities in the labour market of unemployed personnel.

Programmes for training, skills development, incentives and welfare

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

- welcoming and introducing onto the team through orientation programmes and personal tutors;
- achieving and sharing the results of the organisation;
- ensuring transparency, consistency and access to information necessary to perform the job;
- stimulating and guiding the collaborators so that they contribute to the organisational targets, beyond the mere scope of their work.

Training activities were consolidated also in 2017, favouring active methods to support the processes of fitting into the company or into highly professional roles.

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

In fact, in addition to allowing the skills of the various professional figures to stand out, a general and specific continuous training, increases not only the quality of services offered, but also awareness of the actions that are being implemented, the enhancement of the figures operating in the structure, the ability to adapt and propose improvements.

In this regard, it is necessary to guarantee the compulsory training as well as specific growth trends that each manager must have to provide for his sector in relation to its requirements as well as in relation to the peculiarities of each figure.

The opportunity to retrain human resources also includes training aimed at updating and retraining those who use new technologies, new organisational processes, as well as training the skills suitable for programming and multidisciplinary engineering of products and processes in new ways (hard skill and soft skill). Considering the programmes already implemented for in-company continuous training, no specific programmes have yet been implemented to support the continuous employment of personnel and to manage the final phase of their careers.

Tesmec places the employees at the centre of its strategies for growth and development, favouring the increase of their well-being and of an ideal work-life balance. In this perspective, the Company decided to strengthen for the 2017 financial period the Welfare Plan already active in 2016 in the management incentive plan, with a new Flexible Benefits plan for all employees opting for II level contracts and envisages using a set of different types of services aimed at increasing personal well-being, support to family life as well as social security and health coverage.

The benefits for full-time workers are also paid to part-time workers; the difference is defined by the different level of position in the company hierarchy.

Health and Safety at work

The Health and Safety of the workers is a fundamental aspect for the Group, the importance of the adequacy of the working environment and equipment, the training of the personnel and everything necessary to comply with safety requirements represents one of the main values for the Group and for the protection of its employees, considered the substantial asset of Tesmec.

In particular, the Tesmec Group, considering that Health and Safety at work is a fundamental right of workers and a key element for the sustainability of the Group, ensures safe and healthy working environments, in compliance with the regulations on safety and health at work in force in the various countries where it operates.

At the Parent Company level, the responsibility for ensuring a safe working environment in compliance with current regulations, and therefore, the carrying-out of activities concerning the application of laws that regulate Health and Safety at work in Italy, is assigned to the Employer in the first place and, to all other persons involved in the organisation of safety (Prevention and Protection Service Manager, Managers and Heads etc.). The periodic updating of the procedures that follows any new regulations or organisational changes always falls on the Employer, whether of the Parent Company or of the subsidiary companies.

The main data collected on Health and Safety at work is summarised below.

Accidents are divided into two categories:

- at work;
- while travelling to/from work.

In 2017, there were 25 accidents, 2 of which while travelling to/from work, not attributing any responsibility to Tesmec, i.e. without any legal involvement by the Company.

Whereas no accidents involving outside workers and trainees occurred in 2017.

Work-related accidents, excluding accidents while travelling to/from work, refer to men only. The related rates shown below only take account of work-related accidents.

Minor accidents that do not involve lost days (e.g. first-aid level) are not taken into account.

In addition to the accidents mentioned above, a fatal accident was reported at a customer's site in France and in 2016, there was also an occupational disease in France.

		Accident rates	
		2016	2017
ITALY	Injury rate	0.25	0.25
	<i>(number of days lost due to accidents at work/total number of hours worked) x 1,000</i>		
	Lost day rate	15	13
	<i>(number of accidents/total number of hours worked) x 1,000,000.</i>		
FRANCE	Injury rate	1.03	1.5
	<i>(number of days lost due to accidents at work/total number of hours worked) x 1,000</i>		
	Lost day rate	28	59
	<i>(number of accidents/total number of hours worked) x 1,000,000.</i>		
REST OF THE WORLD	Injury rate	N/A	0.02
	<i>(number of days lost due to accidents at work/total number of hours worked) x 1,000</i>		
	Lost day rate	N/A	5.4
	<i>(number of accidents/total number of hours worked) x 1,000,000.</i>		

*For Tesmec SA, the hours that can be worked were taken into account

Note: for 2017, with regard to Tesmec USA, only minor accidents that do not involve lost days (e.g. first-aid level) are present, not considered for reporting purposes.

17.5 Responsible management of the environment

The relevant aspects related to environmental management are summarised in the following table, together with the main risks identified by Tesmec Management. The following pages describe the policies, the management system and the results achieved.

RELEVANT ASPECTS RELATED TO THE ENVIRONMENT	MAIN RELATED RISKS (cf. § "Main risks and uncertainties" of the Report on Operations)
<p style="text-align: center;">Energy</p> <p style="text-align: center;">Emissions</p> <p style="text-align: center;">Supply chain and purchases (materials)</p>	<p>Increase in costs related to energy supply</p> <p>Non-compliance with environmental laws and regulations</p> <p>Amendments to the regulations with sanction risks</p>

17.5.1 Policies, management systems and organisational models

The Tesmec Group is mainly active in designing, manufacturing (mainly assembly) and selling products, technologies and integrated solutions for the construction, maintenance and efficiency of infrastructures related to the transport and supply of energy, data and materials such as: aerial and underground power networks, traditional and high-speed railway lines, cables and pipelines. Considering the activity, environmental impacts are related to the use of materials, energy and emissions, while the management of water resources is not material.

The Management is aware that some operations carried out as part of its activity may present risk characteristics for the environment.

To date, environmental commitments are not formalised in a single document valid for all Group companies, but are fully applied in the Code of Ethics at Group level, according to which the environment is a primary asset to be protected; in line with this principle, the Company and the Group plan their own activities seeking for the best possible balance between economic initiatives and environmental requirements, considering the rights of present and future generations.

Tesmec S.p.A. adopted an integrated Policy for the Health and Safety of workers and for the Environment; a Health & Safety Policy was also prepared for Tesmec USA.

Tesmec S.p.A. started a project to obtain Health and Safety (18001) and Environment (14001) certification.

For Italy, the Management of Tesmec S.p.A. defines its commitment to always keep in mind the aspect of the protection of the environmental heritage when defining company choices and objectives and is committed to the constant improvement of the following essential aspects:

- production cycles - minimise the environmental impact by improving the technologies used and selecting less polluting products;
- waste management and disposal - differentiate the waste generated and, where possible, reduce its quantity;
- products - analysis of the product to be manufactured, which takes into account, from the early stages of the project, the environmental impact of the product, both during operation and at the end of its life cycle and disposal.

The Management of Tesmec S.p.A. undertook to define and implement a management system so as to ensure that all workers can work in the best possible conditions and become aware of the importance of protecting their own and others' health and safety at work, of individual obligations, of the consequences of their work activities and of the possible environmental impacts of their work.

The advanced technologies developed by Tesmec are always focused on improving performance while respecting the environment. Tesmec is committed to reducing greenhouse gas emissions and increasing energy efficiency and the consequent dependence on renewable energy sources. The approach of the machines on the construction site aims to minimise environmental impact: low emission and high efficiency motors, automated controls that optimise operations and reduce errors, minimised deforestation through the use of stringing equipment demountable and transportable by helicopter, reduced excavation sections by the trenchers that allow recycling of excavated material.

17.5.2 Non-financial results and indicators

Energy

For the protection of the environment, Tesmec S.p.A. is implementing a monitoring system as per ENEA directives to check consumption and define energy saving solutions and procedures.

Energy consumption (GJ)	2017
Natural gas	18,466
Diesel oil	32,596
LPG	154
Renewable electrical power produced for in-house consumption	3,477
Non-renewable electricity from the network	16,253
Total	70,946

The Company Tesmec S.p.A. produces 1,187,777 kWh from photovoltaic renewable energies, of which 222,030 kWh is sold to the electricity network.

A summary and qualitative comparison with previous years shows that consumption is in line with that calculated for 2017. There are no particular organisational and/or production changes or energy saving initiatives to justify any changes thereof.

Emissions into the atmosphere

Given the nature of Tesmec's business and activities (described above), significant emissions into the atmosphere are those related to greenhouse gases, whereas emissions of pollutants are not significant.

Tesmec calculates its "carbon footprint" in terms of CO₂, reporting:

- direct emissions (Scope 1) deriving from the operation of plants and machinery owned or fully managed by the Company, such as, for example, heating plants (fuelled by natural gas), diesel-fuelled machines;
- indirect emissions (Scope 2) deriving from the energy consumption of all factories coming from external supply (electricity), net of production and supply from renewable source plants (photovoltaic).

Scope 2 emissions were calculated in accordance with the Location-based method envisaged by the "GHG Protocol Scope 2 Guidance - An amendment to the GHG Protocol Corporate Standard" (2015).

Carbon footprint trends of Tesmec Group (ton CO ₂)	
DIRECT EMISSIONS - SCOPE 1	2017
Emissions from natural gas consumption	1,032
Emissions from diesel oil consumption	2,398
Emissions from LPG consumption	10
Total Scope 1 (ton Co₂)	3,440
INDIRECT EMISSIONS - SCOPE 2	2017
Emissions from electricity consumption	1,780

Raw materials and materials

The entire production process is characterised by low use of polluting materials and correct disposal of waste and polluting agents, confined to special areas with adequate air treatment.

The raw material most used by the Group is steel, which is purchased by Tesmec S.p.A., Groupe Marais SA and Tesmec USA. Tesmec Service S.r.l. and Tesmec Automation S.r.l. do not purchase steel sheets/profiles as raw materials.

In total, 866 tonnes of steel and ferrous materials were purchased in 2017.

STEEL RAW MATERIAL (tons)	2017
Tesmec S.p.A.	573
Groupe Marais SA	61
Tesmec USA	232
Total	866

17.6 Product and supply chain

The relevant aspects related to the management of suppliers and of the product are summarised in the following table, together with the main risks identified by Tesmec Management. The following pages describe the policies, the management system and the results achieved.

RELEVANT ASPECTS RELATED TO PRODUCT AND SUPPLY CHAIN	MAIN RELATED RISKS (cf. § “Main risks and uncertainties” of the Report on Operations)
Product quality and safety	Reputational risk for negative externalities transferred to suppliers
Supply Chain and Purchases	Risk of loss of competitiveness
Innovation, Research and Development	Possible late and/or inadequate response to customer returns and expected levels of satisfaction
	Non conformity of product disclosure
	Reputational risk
	Possible critical issues arising from after-sales service

17.6.1 Policies, management systems and organisational models

The development and production of machines focus on efficiency, safety and quality, from the mechanical design of individual components to the analysis of materials and components and strict quality controls.

Specific devices designed with the sole purpose of increasing safety were developed and the machines were equipped with logical, electrical and electronic controls to increase efficiency and reduce consumption to allow easy and correct use of the machines and analysis devices.

The development of a Tesmec product - from conception to application on site - is a process that implies investments and involves the attention of different departments.

This delicate process has been global since its very beginning, involving the extensive network of experts, always expanding the horizon towards the search for partnerships with leading suppliers in its sector. Research into industrial products drives innovation in components, mechanisms and electronics, aimed at improving the performance of finished products.

Experimental development includes implementations and field tests coordinated and managed by specialised engineers. The attention for the machine or the equipment does not end with the finished product, but continues throughout its life cycle, through on-site inspections and continuous reporting and monitoring activities by technicians.

Tesmec holds the registration of several patents and certifications. Tesmec stringing equipment products passed the ISO 9001:2008, JSC "FGC UES", Achilles Group "TransQ" certifications and are recommended for use in the construction of electricity networks.

According to what is confirmed in its Code of Ethics, the Company and the Tesmec Group base their conduct in relations with suppliers on principles of transparency, equality, loyalty and free competition.

When choosing which suppliers to obtain supplies from, Tesmec considers relevant the evaluation on the convenience of the offer, on its compliance with business requirements and on their general reliability.

No other supplier or product policies were formalised at Group level in that the Code of Ethics guarantees the protection of these aspects.

17.6.2 Non-financial results and indicators

Supply chain

Tesmec Group has always tried to favour local suppliers (Europe for the production plants in Italy and France and USA for Tesmec USA, where this is possible and compatible with business solutions) to reduce transport time and costs.

The preference for local supply has also a positive impact on local communities (supporting the market) and the environment (helping to reduce pollution).

The main services/goods purchased are:

- raw materials and semi-finished products;
- services and productions in account for manufacture.

In Italy, Tesmec SpA, thanks to its quality management system, manages qualified suppliers in a special register (Qualified Suppliers List), which is subject to review at least once a year. The qualification of suppliers is defined on the basis of the assessment carried out according to the following parameters:

- assessment of technical capabilities and business organisation, with regard to the quality of the supplier, in particular;
- RSGQ recognition of a supplier that has achieved quality system certification according to ISO 9000 by an officially authorised body;
- assessment of the experience and reliability of the supplier in the acquired belief that the supplies had a consolidated quality over time, punctuality in delivery, availability, correct and punctual supply of the requested technical documentation.

At present, there are no specific environmental or social requirements used in the qualification of a new supplier, except for those aspects related to safety and protection at work both during the collection of documents and during the visit to the supplier's premises, assessing elements such as the technical and professional suitability of the examined company, the regularity of contributions and remuneration for employees, the existence of a structure dedicated to safety at work, etc.

Product quality and safety

In order to ensure the highest level of service to its customers, Tesmec adopted a quality management system focused on processes: this allowed the company to offer its customers maximum transparency in the carrying-out of the various phases of projects, which lead to the supply of solutions, even complex ones, within the established timeframe, while maintaining a simple and flexible organisational structure.

For this reason, Tesmec has long obtained the ISO 9001 certification of its Quality Management System, which covers the entire product life cycle, from research and development to the selling phase, from delivery and installation to after-sales service. Particular attention is paid to design control, a fundamental moment for defining the quality of the final product.

Conformity with the Machinery Directive (CE mark) is required for all products (where applicable), including those outside the EU, in order to ensure maximum coverage of the safety assessment. Therefore, the product is above the safety requirement in markets with lower safety requirements.

In some specific countries, special actions and customisations are required to comply with local legislation and each product may be subject to security inspections.

In some cases, non-compliance testing has been reported and specific actions have been undertaken to meet the request.

The Tesmec Group is constantly focused on:

- improve product performance (Teleprotection, PLC, BLT, etc);
- development of innovative products;
- development of innovative technologies to improve applications and product functions;
- development of products in accordance with customer specifications.

In 2017, no non-conformities were found with regard to product safety and quality.

17.7 GRI Content Index

GRI Standard Title	GRI disclosure number	GRI Disclosure Title	Page of the Disclosure	Omissions
GRI 102: General Disclosures 2016 - Organisational Profile	102-8	Information on employees and other workers	51, 52, 53	
	102-9	Supply chain	58	
GRI 102: General Disclosures 2016 - Reporting practice	102-45	Entities included in the consolidated financial statements	43	
	102-46	Defining report content and topic boundaries	45, 46	
	102-47	List of material topics	44, 45, 46	
	102-55	GRI content index	60	
	102-56	External assurance	Ind. Aud. Rep. Dnf	
GRI 102: General Disclosures 2016 - Strategy	102-15	Key impacts, risks and opportunities.	47, 48, 50, 55, 58	
GRI 102: General Disclosures 2016 - Ethics and integrity	102-16	Values, principles, standards and norms of behaviour	47	
GRI 102: General Disclosures 2016 - Governance	102-18	Governance structure	48	
GRI 103: Management Approach 2016	103 – 1:3	Explanation of the material topic and its boundary; management approach for each material aspect; evaluation of the management approach	44, 45, 48, 51, 56, 58	
GRI 205: Anti-corruption 2016	205-3	Confirmed incidents of corruption and actions taken	50	
GRI 301: Materials 2016	301-1	Materials used by weight or volume	57	<i>For this first year of reporting, the disclosure relates only to the main category of material used (steel). The Tesmec Group undertakes, for the coming years, to integrate the report on this disclosure.</i>
GRI 302: Energy 2016	302-1	Energy consumption within the organisation	56	
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions	57	
	305-2	Energy indirect (Scope 2) GHG emissions	57	

GRI 308: Supplier Environmental Assessment 2016	308-1	New suppliers that were screened using environmental criteria.	59	
GRI 401: Employment 2016	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	53, 54	
GRI 403: Occupational Health and Safety 2016	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	54, 55	<i>For this first year of reporting, some information required by the Standards is not available. The Tesmec Group undertakes, for the coming years, to integrate the report on this disclosure.</i>
GRI 404: Training and education 2016	404-2	Programs for upgrading employee skills and transition assistance programmes	53	
GRI 406: Non-discrimination 2016	406-1	Incidents of discrimination and corrective actions taken	51	
GRI 412: Human Rights Assessment 2016	412-2	Employee training on human rights policies or procedures	51	
GRI 414: Supplier Social Assessment 2016	414-1	New suppliers that were screened using social criteria	59	
GRI 416: Customer Health and Safety 2016	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	59	

INDEPENDENT AUDITOR'S REPORT



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Independent auditors' report on the consolidated disclosure of non-financial information in accordance with article 3, par. 10, of Legislative Decree 254/2016 and with article 5 of Consob Regulation adopted with Resolution 20267 (Translation from the original Italian text)

To the Board of Directors of
Tesmec S.p.A.

We have performed a limited assurance engagement pursuant to Article 3, paragraph 10, of Legislative Decree 30th December 2016, n. 254 (hereinafter "Decree") and article 5 of CONSOB Regulation adopted with Resolution 20267, on the consolidated disclosure of non-financial information of Tesmec S.p.A. and its subsidiaries (hereinafter the "Group") for the year ended on 31st December 2017 in accordance with article 4 of the Decree approved by the Board of Directors on 1st March 2018 (hereinafter "DNF").

Responsibilities of Directors and Board of Statutory Auditors for the DNF

The Directors are responsible for the preparation of the DNF in accordance with the requirements of articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by GRI – Global Reporting Initiative ("GRI Standards"), with regard to the selection of GRI Standards specified in the paragraph "Methodological Note" of the DNF, identified by them as a reporting standard.

The Directors are also responsible, within the terms provided by law, for that part of internal control that they consider necessary in order to allow the preparation of the DNF that is free from material misstatements caused by fraud or not intentional behaviors or events.

The Directors are also responsible for identifying the contents of the DNF within the matters mentioned in article 3, par. 1, of the Decree, considering the business and the characteristics of the Group and to the extent deemed necessary to ensure the understanding of the Group's business, its performance, its results and its impact.

The Directors are also responsible for defining the Group's management and organization business model, as well as with reference to the matters identified and reported in the DNF, for the policies applied by the Group and for identifying and managing the risks generated or incurred by the Group.

The Board of Statutory Auditors is responsible, within the terms provided by the law, for overseeing the compliance with the requirements of the Decree.

Auditors' independence and quality control

We are independent in accordance with the ethics and independence principles of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, based on fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior. Our audit firm applies the International Standard on Quality Control 1 (ISQC Italia 1) and, as a result, maintains a quality control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

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Auditors' responsibility

It is our responsibility to express, on the basis of the procedures performed, a conclusion about the compliance of the DNF with the requirements of the Decree and of the GRI Standards, with regard to the selection of GRI Standards specified in the paragraph "Methodological Note" of the DNF. Our work has been performed in accordance with the principle of "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This standard requires the planning and execution of work in order to obtain a limited assurance that the DNF is free from material misstatements. Therefore, the extent of work performed in our examination was lower than that required for a full examination according to the ISAE 3000 Revised ("reasonable assurance engagement") and, hence, it does not provide assurance that we have become aware of all significant matters and events that would be identified during a reasonable assurance engagement.

The procedures performed on the DNF were based on our professional judgment and included inquiries, primarily with company's personnel responsible for the preparation of the information included in the DNF, documents analysis, recalculations and other procedures in order to obtain evidences considered appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant topics in relation to the activities and characteristics of the Group reported in the DNF, in order to assess the reasonableness of the selection process applied in accordance with the provisions of article 3 of the Decree and considering the reporting standard applied;
2. analysis and evaluation of the criteria for identifying the consolidation area, in order to evaluate its compliance with the provisions of the Decree;
3. understanding of the following aspects:
 - o group's management and organization business model, with reference to the management of the topics indicated in article 3 of the Decree;
 - o policies adopted by the Group related to the matters indicated in art. 3 Decree, results achieved and related key performance indicators;
 - o main risks, generated or suffered related to the matters indicated in the article 3 of the Decree.

With regard to these aspects, we obtained the documentation supporting the information contained in the DNF and performed the procedures described in item 4. a) below.

4. Understanding of the processes that lead to the generation, detection and management of significant qualitative and quantitative information included in the DNF.
In particular, we have conducted interviews and discussions with the management of Tesmec S.p.A. and we have performed limited documentary evidence procedures, in order to collect information about the processes and procedures that support the collection, aggregation, processing and transmission of non-financial data and information to the management responsible for the preparation of the DNF.

Furthermore, for significant information, considering the Group activities and characteristics:

- at Group level
 - a) with reference to the qualitative information included in the DNF, and in particular to the business model, policies implemented and main risks, we carried out inquiries and



acquired supporting documentation to verify its consistency with the available evidence;

- b) with reference to quantitative information, we have performed both analytical procedures and limited assurance procedures to ascertain on a sample basis the correct aggregation of data.
- For the site of Grassobbio of Tesmec S.p.A., that we have selected based on its activity, relevance to the consolidated performance indicators and location, we have carried out a site visit during which we have had discussions with management and have obtained evidence about the appropriate application of the procedures and the calculation methods used to determine the indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the DNF of the Tesmec Group for the year ended on 31st December 2017 has not been prepared, in all material aspects, in accordance with the requirements of articles 3 and 4 of the Decree and the GRI Standards, with regard to the selection of GRI Standards specified in the paragraph "Methodological Note" of the DNF.

Other Information

The comparative information presented in the DNF for the year ended on 31st December 2016 have not been examined.

Milan, 15th March 2018

EY S.p.A.

Signed by: Massimiliano Vercellotti, Partner

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

DRAFT RESOLUTION OF ALLOCATION OF PROFIT OR LOSS FOR THE PERIOD

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

Dear Shareholders,

This report shows the draft resolutions that the Board of Directors of Tesmec S.p.A. (hereinafter referred to as "**Tesmec**" or the "**Company**") intends to submit for your approval in relation to the points on the agenda of the ordinary shareholders' meeting that will be held on 6 April 2018, 10:30 am, in single call at Tesmec headquarters in Via Zanica 17/O, Grassobbio (BG).

1. Presentation of the Tesmec Group's consolidated financial statements and review and approval of the financial statements as at 31 December 2017 and relevant reports, including the Consolidated Non-Financial Statement; allocation of result for the period; related and consequent resolutions.

Dear Shareholders,

The Company, within the term established by Article 154-ter of the TUF, must publish the annual financial statements comprising the draft financial statements, the consolidated financial statements, the directors' report (which includes the Consolidated Non-Financial Statement containing information, referred to Tesmec and its subsidiaries, relating to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters) and the certification set forth in Article 154-bis, paragraph 5, of the TUF. The audit reports prepared by the independent auditors as well as the reports indicated in Article 153 of the TUF are made fully available to the public together with the annual financial statements.

The draft financial statements were approved by the Board of Directors of the Company on 1 March 2018.

The directors' report will be made available to the public, together with the draft financial statements of Tesmec as at 31 December 2017, the consolidated financial statements of the Tesmec Group as at 31 December 2017, the certification of the Manager responsible for preparing the Company's financial reports, the report of the Board of Statutory Auditors and the Independent Auditors' Report, at the registered office and Borsa Italiana S.p.A. ("**Borsa Italiana**"), as well as on the website of the Company: www.tesmec.com and in accordance with to the other modalities prescribed by Consob within the terms provided by the regulations in force.

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

You are invited to approve the financial statements as at 31 December 2017 of Tesmec that ended with a profit of Euro 1,993,903.

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

- assign the profit for the year of Euro 1,993,903 to the extraordinary reserve.

Grassobbio, 6 March 2018.

TESMEC S.p.A.

The Chairman of the Board of Directors
Ambrogio Caccia Dominioni

CONSOLIDATED FINANCIAL STATEMENTS OF THE TESMEC GROUP

Consolidated statement of financial position

<i>(Euro in thousands)</i>	Notes	31 December	
		2017	2016
NON-CURRENT ASSETS			
Intangible assets	6	18,340	18,891
Property, plant and equipment	7	46,102	47,289
Equity investments in associates evaluated using the equity method	8	3,937	3,869
Other equity investments		7	7
Financial receivables and other non-current financial assets	9	184	324
Derivative financial instruments	19	1	3
Deferred tax assets	26	10,451	11,520
Non-current trade receivables		161	373
TOTAL NON-CURRENT ASSETS		79,183	82,276
CURRENT ASSETS			
Work in progress contracts	10	6,768	1,291
Inventories	11	63,125	69,227
Trade receivables	12	39,854	49,433
<i>of which with related parties:</i>		<i>2,581</i>	<i>753</i>
Tax receivables	13	909	1,705
Other available-for-sale securities		2	2
Financial receivables and other current financial assets	14	12,448	9,049
<i>of which with related parties:</i>		<i>9,386</i>	<i>8,944</i>
Other current assets	15	9,413	2,816
Derivative financial instruments	19	-	2
Cash and cash equivalents	16	21,487	18,501
TOTAL CURRENT ASSETS		154,006	152,026
TOTAL ASSETS		233,189	234,302
SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY			
SHAREHOLDERS			
Share capital	17	10,708	10,708
Reserves	17	33,829	41,457
Group net profit / (loss)	17	(1,430)	(3,944)
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS		43,107	48,221
Minority interest in capital and reserves		1,707	1,608
Net profit / (loss) for the period attributable to non-controlling interests		18	91
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		1,725	1,699
TOTAL SHAREHOLDERS' EQUITY		44,832	49,920
NON-CURRENT LIABILITIES			
Medium/long-term loans	18	25,243	39,181
Bond issue		14,797	14,735
Derivative financial instruments	19	63	209
Employee benefit liability	20	3,656	3,680
Deferred tax liabilities	26	6,202	7,870
Non-recurring provisions for risks and charges		24	-
Other non-current liabilities		-	150
Non-current trade payables		2	3
TOTAL NON-CURRENT LIABILITIES		49,987	65,828
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	21	79,022	70,010
<i>of which with related parties:</i>		<i>37</i>	<i>33</i>
Derivative financial instruments	19	85	110
Trade payables	22	39,479	31,197
<i>of which with related parties:</i>		<i>2,366</i>	<i>153</i>
Advances from customers		3,377	3,463
Income taxes payable	23	389	199
Provisions for risks and charges	24	3,321	3,704
Other current liabilities	25	12,697	9,871
TOTAL CURRENT LIABILITIES		138,370	118,554
TOTAL LIABILITIES		188,357	184,382
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		233,189	234,302

Consolidated income statement

(Euro in thousands)	Notes	Financial period ended 31 December	
		2017	2016
Revenues from sales and services	27	175,559	128,513
<i>of which with related parties:</i>		21,665	5,325
Cost of raw materials and consumables	28	(78,326)	(49,029)
<i>of which with related parties:</i>		(1,924)	(54)
Costs for services	29	(30,453)	(28,225)
<i>of which with related parties:</i>		(330)	(178)
Non-recurring costs for services	29	(403)	(873)
Payroll costs	30	(46,249)	(40,000)
Other operating (costs)/ revenues, net	31	(3,500)	(4,613)
<i>of which with related parties:</i>		(2,346)	209
Non-recurring other operating (costs)/revenues, net	31	-	(2,232)
Reclassified rental costs of Grassobbio Property Complex		(1,800)	-
Amortisation and Depreciation	32	(14,633)	(12,830)
Development costs capitalised	33	5,671	5,050
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method		243	(71)
Total operating costs		(169,450)	(132,823)
Operating income		6,109	(4,310)
Financial expenses	34	(10,239)	(6,618)
<i>of which with related parties:</i>		-	(873)
Financial income	35	2,585	4,199
<i>of which with related parties:</i>		108	126
Portion of gains/(losses) from associated companies and non-operational Joint Ventures evaluated using the equity method		33	(141)
Pre-tax profit/(loss)		(1,512)	(6,870)
Income tax	26	100	3,017
Net profit (loss) for the period		(1,412)	(3,853)
Profit/(loss) attributable to non-controlling interests		18	91
Group profit/(loss)		(1,430)	(3,944)
Basic and diluted earnings/(losses) per share		(0.134)	(0.368)

Consolidated statement of comprehensive income

<i>(Euro in thousands)</i>	Notes	Financial period ended 31 December	
		2017	2016
NET INCOME FOR THE PERIOD		(1,412)	(3,853)
<i>Other components of comprehensive income:</i>			
<i>Other components of comprehensive income that will be subsequently reclassified to net income/(loss) for the year:</i>			
Exchange differences on conversion of foreign financial statements	17	(3,371)	832
<i>Other components of comprehensive income that will not be subsequently reclassified to net income/(loss) for the year:</i>			
Actuarial profit/(loss) on defined benefit plans	20	(111)	(244)
Income tax		27	45
		(84)	(199)
Total other income/(losses) after tax		(3,455)	633
Total comprehensive income (loss) after tax		(4,867)	(3,220)
<i>Attributable to:</i>			
Equity holders of parent		(4,889)	(3,314)
Minority interests		22	94

Statement of consolidated cash flows

<i>(Euro in thousands)</i>	Notes	Financial period ended 31 December	
		2017	2016
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		(1,412)	(3,853)
<i>Adjustments to reconcile net income for the period with the cash flows generated by/(used in) operating activities:</i>			
Amortisation and Depreciation	32	14,633	12,830
Provisions for employee benefit liability	20	178	558
Provisions for risks and charges / inventory obsolescence / doubtful accounts		780	1,191
Employee benefit payments	20	(313)	(279)
Payments/use of provisions for risks and charges		(408)	(136)
Net change in deferred tax assets and liabilities	26	(835)	(2,840)
Change in fair value of financial instruments	19	(167)	(39)
<i>Change in current assets and liabilities:</i>			
Trade receivables	12	11,019	1,366
<i>of which with related parties</i>		(1,746)	(7,085)
Inventories	11	(2,412)	(7,085)
Trade payables	22	8,728	(7,980)
<i>of which with related parties</i>		2,276	(47)
Other current assets and liabilities		(2,926)	42
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		26,865	(6,225)
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	7	(14,793)	(13,695)
Investments in intangible assets	6	(7,851)	(7,431)
Change in the consolidation area		-	(6,538)
(Investments) / disposal of financial assets		(3,710)	3,916
<i>of which with related parties</i>		(67)	2,485
Grassobbio new lease contract effect		-	18,978
Proceeds from sale of property, plant and equipment and intangible assets	6-7	6,882	9,842
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		(19,472)	5,072
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	18	12,521	24,339
Repayment of medium/long-term loans	18	(28,856)	(21,474)
Grassobbio new lease contract effect		-	(16,579)
Change in the consolidation area		-	998
Net change in short-term financial debt	18	12,402	13,836
<i>of which with related parties</i>		6	1,208
Purchase of treasury shares		-	(316)
Dividend distribution		-	(2,566)
Change in the consolidation area		(221)	115
NET CASH FLOW GENERATED BY / (USED IN) FINANCING ACTIVITIES (C)		(4,154)	(1,647)
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		3,239	(2,800)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		(253)	97
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	16	18,501	21,204
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		21,487	18,501
Additional information:			
Interest paid		4,684	4,161
Income tax paid		217	3,543

Statement of changes in consolidated shareholders' equity

	Share capital	Legal reserve	Share premium reserve	Reserve of Treasury Shares	Translation reserve	Other reserves	Result for the period	Total Shareholders' equity attributable to Parent Company shareholders	Total Shareholders' equity attributable to non-controlling interests	Total shareholders' equity
<i>(Euro in thousands)</i>										
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/(loss) for the period	-	-	-	-	-	-	(3,944)	(3,944)	91	(3,853)
Other profits/(losses)	-	-	-	-	829	(199)	-	630	3	633
Total comprehensive income/(loss)								(3,314)	94	(3,220)
Allocation of profit for the period	-	-	-	111	-	4,254	(4,365)	-	-	-
Other profits/(losses)	-	-	-	-	-	30	-	30	-	30
Dividend distribution	-	-	-	-	-	-	(2,566)	(2,566)	-	(2,566)
Purchase of treasury shares	-	-	-	(316)	-	-	-	(316)	-	(316)
Change in the consolidation area	-	-	-	-	-	125	-	125	(10)	115
Balance as at 31 December 2016	10,708	2,141	10,915	(2,341)	6,560	24,182	(3,944)	48,221	1,699	49,920
Profit/(loss) for the period	-	-	-	-	-	-	(1,430)	(1,430)	18	(1,412)
Other profits/(losses)	-	-	-	-	(3,375)	(84)	-	(3,459)	4	(3,455)
Total comprehensive income/(loss)								(4,889)	22	(4,867)
Allocation of profit for the period	-	-	-	-	-	(3,944)	3,944	-	-	-
Other profits/(losses)	-	-	-	-	-	-	-	-	-	-
Dividend distribution	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Change in the consolidation area	-	-	-	-	-	(225)	-	(225)	4	(221)
Balance as at 31 December 2017	10,708	2,141	10,915	(2,341)	3,185	19,929	(1,430)	43,107	1,725	44,832

Explanatory notes

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

1. Company information

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

The publication of Tesmec's consolidated financial statements for the period ended as at 31 December 2017 was authorised by means of the resolution of the Board of Directors on 1 March 2018.

2. Reporting standards

The consolidated financial statements of the Tesmec Group as at 31 December 2017 comprise the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated cash-flow statement, statement of changes in consolidated shareholders' equity and the related explanatory notes. These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and approved by the European Union according to the text published on the Official Journal of the European Communities (OJEC) and in effect as at 31 December 2017 and on the basis of the provisions issued in implementation of Article 9 of Italian Legislative Decree no. 38/2005. These IFRS principles also include all revised international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretation Committee ("IFRIC"), previously called Standing Interpretations Committee ("SIC").

The reference accounting standards adopted in the current yearly consolidated financial statements are consistent with those used for preparing the yearly consolidated financial statements of the Group for the period ended as at 31 December 2016, also prepared according to the international accounting standards, with the exception of the principles and interpretations of new application, explained in note 3.2.

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

Business continuity

These Financial Statements were prepared on a going concern basis, in that the Directors have checked that there are no financial, operational or other indicators that could report critical issues regarding the ability of the Company and of the Group to meet its obligations in the foreseeable future. Risks and uncertainties relating to the business are described in the relevant sections of the Report on Operations.

A description of how the Company manages financial risks is provided in the section Management of financial risks of these Explanatory notes.

2.1 Adopted financial statement reporting formats

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

- in the consolidated income statement, it was decided to present a cost analysis by using a classification based on their nature;
- the statement of comprehensive income includes the result for the period and, by homogenous categories, the income and expenses that, under IFRS, are recognised directly in shareholders' equity;
- in the consolidated statement of financial position, it was decided to represent current and non-current assets and current and non-current liabilities classified separately, in accordance with IAS 1;
- the statement of changes in consolidated shareholders' equity occurred during the period are represented through a table that reconciles the opening and closing balances of each item of the Group shareholders' equity;

- the statement of consolidated cash flows represents the financial flows by dividing them into operating, investing and financing activities. In particular, financial flows from operating activities are represented, in accordance with IAS 7, using the indirect method, whereby net profit or loss for the year is adjusted by the effects of non-monetary transactions, by any deferral or provision of prior or future operating receipts or payments, and by revenue or cost elements connected with financial flows from investing or financing activities.

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

2.2 Consolidation methods and area

The consolidated financial statements are prepared on the basis of the draft financial statements approved by the Boards of Directors. The financial statements of subsidiaries are prepared using the same accounting policies of the Parent Company. Subsidiaries are fully consolidated from the date of acquisition, i.e. from the date on which the Group acquires the control, and they are no longer consolidated on the date on which the control is transferred outside the Group.

All balances and intra-group transactions, including any unrealised gains and losses arising from relations between companies of the Tesmec Group are completely written off.

Acquisitions of subsidiaries are recorded in accordance with the purchase method that involves the allocation of costs of the business combination at fair values of assets, liabilities and contingent liabilities acquired at the date of acquisition and the entry of the results of the acquired Company from the date of acquisition until the close of the financial period.

Non-controlling interests represent the portion of the profit or loss and equity related to net assets not held by the Group and are shown in a separate item of the consolidated income statement, of the consolidated statement of comprehensive income and of the consolidated statement of financial position, separately from profit and equity attributable to Group shareholders. Associated companies are those in which the Group holds at least 20% of the voting rights or exercises a significant influence, but not control or joint control, on financial and operating policies. Equity investments in associates are evaluated using the equity method. Profit or loss attributable to Parent Company shareholders is recognised in the consolidated financial statements from the date on which the significant influence began and until the date on which it ceases.

Joint ventures are defined in accordance with IAS 31 as a contractual agreement whereby two or more parties undertake an economic activity subject to joint control. The equity investments acquired or sold during the financial period are consolidated using equity method for the period in which the joint control was exercised.

On 31 December 2017, the consolidation 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 and Sep Liason Natixis 77 (controlled by Group Marais SA) were wound-up in that no longer of strategic importance;
- on 21 July 2017, the company CPT Engineering S.r.l. was merged into the company Tesmec Automation S.r.l. (former SGE S.r.l.);
- 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;
- on 30 October 2017, the company SEP Moselle 57 (controlled by Group Marais SA) was wound-up in that no longer of strategic importance;
- on 10 December 2017, the company SEP Cergy 95 (controlled by Group Marais SA) was wound-up in that no longer of strategic importance.

SUBSIDIARIES					
(full consolidation method, by making clear the portion of equity and of non-controlling interests)					
Name	Registered office	Currency	Share capital Currency unit	Percentage held	
				Directly	Indirectly
Tesmec USA, Inc.	Alvarado (Texas)	US Dollar	31,200,000	100.00%	-
TESMEC Service S.r.l.	Grassobbio - BG (Italy)	Euro	100,000	100.00%	-
TESMEC SA (Pty) Ltd	Johannesburg (South Africa)	South African Rand	510	100.00%	-
Tesmec Automation S.r.l. (former SGE S.r.l.)	Grassobbio - BG – (Italy)	Euro	10,000	100.00%	-
Bertel S.r.l.	Milan (Italy)	Euro	500,000	100.00%	-
East Trenchers S.r.l.	Milan (Italy)	Euro	100,000	100.00%	-
OOO TESMEC RUS	Moscow (Russia)	Russian Rouble	450,000	100.00%	-
Tesmec New Technology Beijing Ltd.	Beijing (China)	Euro	200,000	100.00%	-
Tesmec Rail S.r.l.	Monopoli - BA - (Italy)	Euro	10,000	100.00%	-
Marais Technologies SA	Durtal (France)	Euro	3,785,760	86.79%	-
Group Marais SA	Durtal (France)	Euro	3,700,000	-	86.79%
Marais Trenching (Pty) Ltd. AFS	Pretoria (South Africa)	South African Rand	500,000	-	69.43%
Marais Laying Technologies (Pty) Ltd. Australie	Sydney (Australia)	Australian Dollar	100	-	86.79%
Marais Laying Technologies (Pty) Ltd. Nouvelle Zelande	Auckland (New Zealand)	New Zealand Dollar	100	-	86.79%
Marais Cote d'Ivoire	Abidjan (Ivory Coast)	CFA Franc	6,500,000	-	86.79%

ASSOCIATED COMPANIES					
(consolidated with the equity method)					
Name	Registered office	Currency	Share capital Currency unit	Percentage held	
				Directly	Indirectly
Locavert SA	Bouillargues (France)	Euro	403,735	39.00%	-
R and E contracting Ltd	Pretoria (South Africa)	South African Rand	1,000	20.00%	-
MIR SA	Tunis (Tunisia)	Tunisian Dinar	300,000	-	42.53%

JOINT VENTURES					
(consolidated with the equity method)					
Name	Registered office	Currency	Share capital Currency unit	Percentage held	
				Directly	Indirectly
Condux Tesmec Inc	Mankato (Minnesota)	US Dollar	2,500,000	50.00%	-
Tesmec Peninsula WLL	Doha (Qatar)	Qatar Riyal	7,300,000	49.00%	-
Marais Tunisie SA	Tunis (Tunisia)	Tunisian Dinar	459,000	-	42.53%
Marais Lucas Technologies (Pty) Ltd.	Macquarie Park NSM (Australia)	Australian Dollar	332,400	-	43.40%

The companies Marais Lucas Technologie (Pty) Ltd. and Locavert close their company financial years as at 30 June of each year. Financial statements used for evaluating the equity investment in accordance with the equity method refer to the most recent available interim closing of accounts, at a date close to the end of the reporting period of the Group.

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

Translation of foreign currency financial statements and of foreign currency items

The consolidated financial statements are presented in Euro, which is the functional and presentation currency adopted by the Headquarter. Each company of the Group defines its functional currency, which is used to evaluate the items included in each financial statement. Foreign currency transactions are initially recognised using the exchange rate (referring to the functional currency) which is applicable on the transaction date. Monetary assets and liabilities in foreign currency are reconverted in the functional currency at the exchange rate in force at the end of the reporting period.

All exchange-rate differences are recognised in the income statement.

Non-monetary items, measured at their historical cost in foreign currency, are translated by using the exchange rates in force on the date of initial recognition of the transaction.

The conversion into Euro of the financial statements of the foreign companies being consolidated is carried out according to the current exchange-rate method, which contemplates using the exchange rate in force at the end of the reporting period for the translation of the financial items and the average exchange rate of the year for the income statement items.

Exchange-rate differences deriving from translation are directly posted to equity and separately recorded in a special fair-value reserve. On disposal of a foreign company, accumulated exchange-rate differences posted to equity with regard to that particular foreign company are recognised in the income statement.

The exchange rates used to determine the value in Euros of the financial statements of subsidiary companies expressed in foreign currency (exchange rate to 1 Euro) are shown below:

	Average exchange rate		End-of-period exchange rate	
	for the period ended as at 31 December		as at 31 December	
	2017	2016	2017	2016
US Dollar	1.129	1.107	1.199	1.054
Russian Rouble	65.888	74.145	69.392	64.300
South African Rand	15.043	16.265	14.805	14.457
Renminbi	7.626	7.352	7.804	7.320
Qatar Riyal	4.111	4.029	4.366	3.837
Algerian Dinar	125.311	121.097	137.834	116.379
Tunisian Dinar	2.730	2.376	2.974	2.499
Australian Dollar	1.473	1.488	1.535	1.460
New Zealand Dollar	1.590	1.589	1.685	1.516
CFA Franc	655.957	655.957	655.957	655.957

3.Accounting standards

3.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of EC Regulation No. 1606/2002 of the European Parliament and Council of July 19, 2002 and in accordance with Article 9 of Legislative Decree No. 38/2005.

The consolidated financial statements have been prepared on a historical cost basis, except for items that have been measured at fair value in accordance with IFRS (investment properties, available-for-sale, financial assets and contingent consideration). The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

There are no financial assets held to maturity.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the accounting policies adopted in the consolidated Financial Statements as at 31 December 2017 were applied in the same way also to all the periods of comparison.

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

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Tesmec S.p.A. and its subsidiaries as at 31 December 2017.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns;
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangements with the other vote holders of the investee;
- Rights arising from other contractual arrangements
- The Group's voting and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3.3 Significant accounting principles

Business combinations and goodwill

Business combinations are recorded by using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred at fair value at the date of acquisition and the amount of any minority interest in the acquired company. For each business combination, the purchaser must consider any minority interest in the acquired company at fair value or in proportion to the share of the minority interest in the identifiable net assets of the acquired company. Acquisition costs are paid and classified among administrative expenses.

When the Group acquires a business, it must classify or designate the acquired financial assets or the liabilities assumed in accordance with the contract terms, the economic conditions and other relevant conditions existing at the date of acquisition. This includes the verification to establish whether an embedded derivative must be separated from the host contract. If the business combination is carried out in several stages, the purchaser must recalculate the fair value of the previously held equity investment measured at equity and recognise any resulting profit or loss in the income statement.

Each contingent consideration must be recognised by the purchaser at fair value at the date of acquisition. The fair value change in the contingent consideration classified as asset or liability will be recognised in accordance with IAS 39, in the income statement or in the statement of the other components of comprehensive income. If the contingent consideration is classified in the shareholders' equity, its value must not be recalculated until its discharge is recorded as opposed to shareholders' equity.

The goodwill is initially measured at cost that arises as surplus between the sum of the paid consideration and the amount recognised for the minority shares compared to identifiable net assets acquired and liabilities undertaken by the Group. If the consideration is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognised in the income statement.

After initial recognition, goodwill is measured at cost, net of any accumulated impairment loss. For impairment loss verification, the goodwill acquired in a business combination must be allocated, from the date of acquisition, to each cash-flow generating unit of the Group that is expected to benefit from the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to such units.

If the goodwill has been allocated to the financial-flow generating unit and the entity disposes of part of the assets of such unit, the goodwill associated to the asset disposed of must be included in the book value of the asset when the profit or loss deriving from the divestment is determined. The goodwill associated with the asset disposed of must be determined on the basis of the values related to the asset disposed of and of the retained part of the financial-flow generating unit.

Intangible assets with definite lives

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

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

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

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

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

Research and Development costs

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

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

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

Rights and trademarks

The purchase costs of the rights and trademarks are amortised over a period of time during the useful life of the acquired asset, which was determined in five years. Rights and trademarks includes the purchase of know-how for the production of railways materials related to the acquisition of the business unit of company AMC2 from the subsidiary Tesmec Service S.r.l..

Property, plant and equipment

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

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

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

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

The estimate of the useful life of the main classes of property, plant and equipment is set below:

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

If significant parts of property, plant and equipment have different useful lives, these components are recorded separately. Lands, both without construction and belonging to buildings, are recorded separately and are not depreciated since they have an unlimited useful life.

The Group, based on the considerations made, established that the temporarily leased Trencher machines can be depreciated on a pro-rata basis according to actual use. In particular, they are depreciated at an annual 20% rate during the lease period. In the event that these trenchers are not leased temporarily during the reporting period, the depreciation process is suspended. Instead for Trenchers machines totally addressed to lease activity, due to it is necessary a usual replacement of significative parts of these machines, the group depreciate separately the following components, on the base of their useful life:

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

The book value of property, plant and equipment is subject to an impairment test when events or changed circumstances indicate that the book value cannot be recovered. If there is an indication of this type and, in the event that the book value exceeds the estimated realisable value, assets are written down so as to reflect their realisable value. The realisable value of property, plant and equipment is represented by the net sales price and the usage value, whichever is higher.

When defining the usage value, the expected future financial flows are discounted back using a pre-tax discount rate that reflects the current market estimate of the cost of money placed in relation to the timescale and specific risks of the asset. In relation to assets that do not generate fully independent financial flows, the realisable value is determined in relation to the financial-flow generating unit to which the asset belongs. Impairment losses are recorded in the income statement among costs for amortisation, depreciation and write-downs. These impairment losses are reversed if the reasons that generated them no longer exist.

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

Leases

Contracts with the Group as lessee

Lease contracts are classified as Financial or Operating Lease at the beginning of the Lease contract.

Financial lease contracts, which substantially transfer to the Group all the risks and benefits deriving from the ownership of the leased asset, are capitalised on the starting date of the lease at fair value of the leased asset or at present value of the lease payments, if lower. Lease payments are prorated between principal and interests in order to obtain the application of a constant interest rate on the residual balance of the debt. Financial expenses are posted directly to the income statement. Lease contracts in which the lessor substantially retains all risks and benefits related to the ownership of the asset are classified as operating leases.

Contracts with the Group as lessor

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

Impairment of assets

At the end of each reporting period, the Group considers the possible existence of impairment loss indicators of intangible assets with definite lives, of property, plant and equipment and of financial lease assets. If these indicators exist, an impairment test is carried out.

The recoverable value is determined as the fair value of an asset or financial-flow generating unit net of sales costs and its usage value, whichever is higher, and is determined by single asset, with the exception of the case in which this asset generates financial flows that are not widely independent from those generated by other assets or groups of assets, in which case the Group estimates the recoverable value of the cash-flow generating unit to which the asset belongs.

When determining the usage value, the Group discounts back the present value of future estimated financial flows, by using a pre-tax discount rate that reflects the market evaluations on the time value of money and specific risks of the asset.

In order to estimate the usage value, the future financial flows are derived from the business plans approved by the Board of Directors, which represent the best estimate made by the Group on the economic conditions laid down in the plan period. The projections of the plan cover normally a period of three financial periods; the long-term growth rate used in order to estimate the terminal value of the asset or of the unit is normally lower than the average long-term growth rate of the segment, country or market of reference. Future financial flows are estimated by referring to the current conditions: therefore, estimates do not consider benefits deriving from future restructuring for which the Group has not yet committed itself or future investments for improving or optimising the asset or the unit.

If the book value of an asset or financial-flow generating unit is greater than its recoverable value, this asset was impaired and consequently amortised until its recoverable value is reached.

Impairment losses incurred by operating assets are recognised in the income statement in the categories of cost consistent with the function of the asset that showed the impairment loss. At the end of each reporting period, the Group also considers the possible existence of elements indicating a decrease in impairment losses previously recognised and, if these indicators exist, it estimates the recoverable value again. The value of an asset previously written down can be restored only if there were changes in the estimates used for determining the recoverable value of the asset after the last recognition of an impairment loss. In this case, the book value of the asset is set to the recoverable value, however without the possibility for the value thus increased to exceed the book value that would have been determined, net of amortisation, if no impairment had been recognised in previous years. Each reversal of impairment loss is recognised as an income in the income statement; after recognising a reversal of impairment loss, the amortisation rate of the asset is adjusted in future periods, in order to distribute the changed book value, net of any residual value, on a straight-line basis over the remaining useful life.

Equity investments in joint ventures

The Group holds investments in jointly controlled companies classified as joint ventures. From 2012 on the base of the operative phase of two distributive joint ventures (Condux Tesmec and Tesmec Peinsula) the results of the same have been classified in the operative components of the operative Income. With the acquisition of Group Marais two new joint ventures (Marais Tunisie SA, Marais Luca Technology Pty Ltd.) entered in the consolidated area of the Group. Considering the kind of activity and effective operative phase of them, their result has been registered in the non-operative components of the the income, together with the other results of the other related companies.

A joint venture is a contractual agreement whereby two or more parties undertake an economic activity subject to joint control; a jointly-controlled company is a joint venture that involves the establishment of a separate company in which each shareholder has an equity investment. The Group consolidates the equity investment in the joint venture with the equity method. After applying the equity method, the Group determines whether it is necessary to record any additional impairment loss with reference to the net equity investment. In this case the Group calculates the amount of the loss as difference between the recoverable value of the joint venture and the inscription value of the same in its proper balance sheet, emerging that

difference in "Portion of gains/(losses) from associated companies and operational Joint Ventures evaluated using the equity method".

The joint venture draws up the financial statements of the same financial period of the parent company and applies homogeneous accounting policies. Any lack of homogeneity in the applied accounting policies are corrected by adjustments. When the Group brings or sells assets to the joint venture, the recognition of profit or loss shares deriving from the operation reflects the contents of the operation itself. When the Group purchases goods or services from the joint venture, it does not recognise its own profit share deriving from the operation until it sells such asset or service to an independent third party. The result of the income statement of the joint ventures that offer an operational contribution was included in the Group's Operating Income.

Equity investments in associates

An associate is a company over which the Group exercises a significant influence and is not classifiable as subsidiary or joint venture.

The Group consolidates its equity investments in associates with the equity method.

The application of the equity method implies the entry in the balance sheet of the cost increased by the changes following the acquisition of the net asset of the associate in the portion attributable to the Group. After applying the equity method, the Group determines whether it is necessary to record any additional impairment loss with reference to the net equity investment. In this case the Group calculates the amount of the loss as difference between the recoverable value of the associate company and the inscription value of the same in its proper balance sheet, emerging that difference in "Portion of gains/(losses) from associated companies and non-operational Joint Ventures evaluated using the equity method".

The income statement reflects the Group's share of the Company's operating result. If a company recognises adjustments directly posted to the shareholders' equity, the Group recognises its share and shows it in the statement of changes in shareholders' equity, if applicable. Any unrealised profit and loss deriving from transactions between the Group and the subsidiary is written off in proportion to the equity investment.

In case the draw-up date of the balance sheet of some associated company is not in line with that of the Group, for the purposes of the Group's consolidated financial statements, the companies will prepare interim closing accounts on dates next to the end of the reporting period of the Group. The accounting policies used comply with those used by the Group, for transactions and events of the same nature and in similar circumstances.

Financial assets and other non-current assets

These assets are measured according to the amortised cost approach by using the effective discount rate method net of any provision for impairment.

The amortised cost is calculated taking into consideration any discount or purchase premium and includes the commissions that are part and parcel of the effective interest rate and of the transaction costs.

Receivables falling due after one year, interest bearing or paying interests lower than the market, are discounted by using interest rates in line with market references.

Financial assets derecognized from Group statement of financial position when:

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

Inventories

Inventories are measured at the purchase and/or production cost, whichever lower, calculated by using the weighted average cost method, and the net realisable value. The purchase cost is inclusive of additional expenses; the cost of production includes directly attributable costs and a share of indirect costs, reasonably attributable to the products. The net estimated realisable value consists of the estimated sales prices less the estimated completion costs and the costs estimated to make the sale.

Write-down allowances are allocated for materials, finished products, spare parts and other supplies considered obsolete or slow-moving, taking into account their future expected usefulness or their realisable value.

Construction contracts

A work order is a contract specifically negotiated for the construction of an asset according to the instructions of the company commissioning the work, which defines in advance the design and specifications.

Work order revenues include the considerations initially agreed with the company commissioning the work, in addition to variations in the commissioned work and to price changes provided for in the contract that can be measured reliably.

When the work order result can be measured reliably, work order revenues and costs are recognised as sales and as costs on the basis of the percentage of completion; the work in progress is calculated by referring to the costs of the work order borne until the end of the reporting period as a percentage of total costs estimated for each work order.

The costs borne in relation to future activities of the work order are excluded from the work order costs when calculating the work in progress and are recorded as inventories.

Total estimated costs for each work order are reviewed periodically, and when the costs of the work order are expected to be greater than its total revenues, the expected loss is recognised immediately as a cost.

Trade receivables and other current assets

Trade receivables and other current assets are initially recorded at fair value, which generally corresponds to the nominal value and subsequently measured at amortised cost and reduced in case of impairment losses. Moreover, trade receivables are adjusted to their estimated realisable value by entering a special adjustment provision.

Receivables in foreign currency other than the reporting currency are recorded at the exchange rate of the date of operation and subsequently converted to the exchange rate at the end of the financial period. The profit or loss resulting from the conversion is attributed to the income statement.

If the maturity of the trade receivables and of the other current assets does not fall within the normal commercial terms and do not bear interests, a detailed discounting process is applied based on assumptions and estimates.

The Tesmec Group assigns part of its trade receivables through factoring without recourse. Receivables assigned following factoring operations can be written off from the assets of the balance sheet only if the risks and benefits related to their legal ownership were substantially transferred to the assignee.

Other receivables and other financial assets

They are recorded initially at fair value and subsequently measured according to the amortised cost.

A financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) is written off from the financial statements when:

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

If the Group has transferred the rights to receive financial flows from an asset and has not transferred or retained substantially all the risks and benefits or has not lost control over it, the asset is recognised in the financial statements of the Group to the extent of its residual involvement in the asset itself. The residual involvement that takes the form of a guarantee on the transferred asset is measured at the initial book value of the asset or the maximum value of the consideration that the Group could be obliged to pay, whichever lower.

If the residual involvement takes the form of an option issued and/or purchased on the transferred asset (including the cash-settled options or the like), the measure of the involvement of the Group corresponds to the amount of the transferred asset that the Group may repurchase; however, in case of a put option issued on an asset measured at fair value (including the cash-settled options or with similar provisions), the measure of the residual involvement of the Group is limited to the fair value of the transferred asset or the exercise price of the option, whichever lower.

Cash and cash equivalents

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

Loans

Loans are initially stated at fair value of the amount received, net of any related loan acquisition costs.

After initial statement, loans are valued using the amortised cost approach, applying the effective interest rate method.

Any profit or loss is recorded in the income statement when the liability is discharged, in addition to using the amortisation process.

Treasury shares

The repurchased treasury shares are recognised at cost and deducted from shareholders' equity. The purchase, sale or cancellation of treasury shares does not give rise to any profit or loss in the income statement. The difference between the

acquisition value and the consideration, in case of transfer, is recognised in share premium reserve. The voting rights related to the treasury shares are cancelled as well as the right to receive dividends. In case of exercise of share options during the period, these are met with treasury shares.

Trade payables and other payables

Payables are measured at nominal value.

Given the granted terms of payment, when a financial operation is configured, payables measured with the amortised cost approach are submitted to the discounting back of the nominal value to be paid, recording the discount as a financial charge.

Payables in foreign currency are aligned with the exchange rate at the end of the financial period and profits or losses deriving from the adjustment are posted to the income statement in unrealised exchange profits/losses.

Provisions for risks and charges

Provisions for risks and charges are made when the Group must face up a current liability (legal or implicit) that is the result of a past event; an outflow of resources is likely to meet this obligation and it is possible to make a reliable estimate of its amount. When the Group believes that a provision for risks and charges will be partially or totally reimbursed, for example in the case of risks covered by insurance policies, the compensation is recognised separately in the assets only if it is practically certain. In this case, the cost of any provision is stated in the income statement net of the amount recognised for the compensation.

If the discounting back effect of the value of money is significant, provisions are discounted back using a pre-tax discount rate that reflects, if appropriate, the specific risks of the liabilities. When discounting back is carried out, the increase in the provision due to the passage of time is recognised as a financial expense.

The Group makes provisions for product guarantees in relation to the guarantee contractually granted to its customers on the sold machines. These provisions are calculated on the basis of the historical incidence of costs for product guarantee borne in past financial periods, of the period of validity of the granted guarantees and benchmarked again in relation to the amount of revenues of the period to which they refer, and revised annually.

Employee benefit liability

Post employment benefits are defined on the basis of plans, even though not yet formalised, which are classified as “defined contribution” and “defined benefit” in relation to their characteristics.

The Italian legislation (Article 2120 of the Italian Civil Code) establishes that, at the date on which each employee rescinds the employment contract with the company, he/she receives an allowance called TFR (severance indemnity). The calculation of this allowance is based on some items forming the yearly pay of the employee for each year of work (properly revalued) and on the length of the employer-employee relationship. According to the Italian civil law, this allowance is reflected in the financial statements according to a calculation method based on the allowance accrued by each employee at the reporting date, if all employees rescind the employment contract on that date.

The IFRIC of the IASB dealt with the TFR matter, as defined by the Italian legislation, and concluded that, in accordance with IAS 19, it must be calculated according to a method called Projected Unit Credit Method (the so-called PUCM) in which the amount of the liability for the acquired benefits must reflect the expected resignation date and must be discounted back.

The Group's net liability deriving from defined benefit plans is calculated separately for each plan by estimating the amount of the future benefit that the employees acquired in exchange for the work carried out in the current financial period and in prior financial periods; this benefit is discounted back to calculate the present value. As provided by the revised version of IAS 19, actuarial gains and losses are recorded in full in the comprehensive income statement in the period in which they arise. The evaluation of liabilities is made by an independent actuary.

The Group has no other defined benefit pension plan.

The Group's liability deriving from defined-contribution plans is limited to the payment of contributions to the State or to an asset or legally separate entity (so-called fund), and is determined on the basis of the contributions due.

Government grants

Government grants are recognised in the financial statements when there exists a reasonable certainty that the company will meet all the conditions for receiving the contributions and that the contributions will be received. When the contributions are related to cost components, they are recognised as revenues, but are allocated systematically across the financial periods in order to be proportionate to the costs that they intend to compensate. If a contribution is related to an asset, the asset and the contribution are recognised for their nominal values and they are gradually discharged to the income statement, on a straight-line basis, along the expected useful life of the asset of reference.

If the Group receives a non-monetary contribution, the asset and contribution are recognised at their nominal value and discharged to the income statement, on a straight-line basis, along the expected useful life of the asset of reference. In case of loans or similar forms of assistance supplied by government entities or similar institutions that have an interest rate lower than the current market rate, the effect related to the favourable interest rate is considered as an additional government grant.

Financial instruments

The financial instruments are initially recognised at fair value and, after initial recognition, measured in relation to the classification, as required by IAS 39.

For financial assets, this treatment is differentiated among the following categories:

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

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

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

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

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

Derivative financial instruments

Derivative financial instruments are used solely with the intent to hedge financial risks relating to exchange-rate changes on commercial transactions in foreign currency and interest rate risks on interest-bearing loans and borrowings.

In accordance with IAS 39, hedging derivative financial instruments can be recorded according to the methods established for hedge accounting only when:

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

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

Fair value hedge – if a financial derivative is designated as a hedge of the exposure to changes in the present value of a balance-sheet asset or liability that may affect the income statement, the profit or loss arising from the future evaluation of the present value of the hedging instrument is recognised in the income statement, as well as the profit or loss on the item being hedged.

Cash flow hedge – if a financial derivative is designated as a hedge of the exposure to changes in cash flows of a balance-sheet asset or liability or of a highly probable expected transaction and that may affect the income statement, the effective portion of profits or losses on the financial instrument is recognised in equity; the accumulated profit or loss is reversed from equity and recorded in the income statement in the same period in which the transaction to be hedged is recognised; the profit or loss associated with a hedging, or with an ineffective hedging, are recorded in the income statement when the ineffectiveness is recognised.

If the conditions for the application of hedge accounting do not apply, the effects deriving from the fair value measurement of the derivative financial instrument are booked directly to the income statement.

Revenues and costs

Revenues and costs are stated on an accrual basis. Revenues and income, presented net of returns, discounts, allowances and premiums, are recorded at fair value insofar as it is possible to reliably determine such value and its economic benefits are likely to be enjoyed.

Revenues from the sale of goods are recognised when all the following conditions are met:

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

- the costs borne, or to be borne, can be reliably estimated.

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

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

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

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

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

Revenues from services rendered are recognised when all the following conditions are met:

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

In particular, the Tesmec Group provides services that contemplate an excavation activity carried out by using machines belonging to the company and specialised workers employed by third-party companies. The provision of these services is contractually regulated by agreements with the counterpart that indicate, among other things, the timing for carrying out the excavation and contemplate a price per excavated metre that changes according to different hardness of the soil. Revenues are recognised on the basis of the progress of the excavation to date, as resulting from the states of the work-in-progress recognised and agreed with the counterpart.

Moreover, the Tesmec Group provides after-sales services concerning the machines sold. If these services are requested after the expiry of the guarantee period, the service is contractually regulated by agreements with the counterpart. Revenues are recognised based on the time and components used by the technicians during repair operations.

Financial income and expenses

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

Determining the fair value of financial instruments

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

Dividends

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

Income tax

Current taxation

Taxes reflect an estimate of the tax burden, determined by applying the laws and regulations in force in the Countries where the Tesmec Group carries on its activity. Taxable income for tax purposes differs from the pre-tax profit or loss indicated in the income statement, because it excludes positive and negative components that will be taxable or deductible in other financial

periods and excludes items that will never be taxable or deductible. Current tax liabilities are calculated by using the rates in force or substantially approved at the end of the reporting period.

Current tax liabilities are recorded in the current liabilities net of any paid tax advances.

Deferred taxes

Deferred taxes are calculated on the temporary differences resulting at the end of the reporting period among the tax values used as a reference for assets and liabilities and the values indicated in the financial statements.

Deferred tax assets are recognised for all the temporary deductible differences and for retained tax assets and liabilities, insofar as the existence of appropriate future tax profits that can apply the use of the temporary deductible differences and of the retained tax assets and liabilities is likely.

The value to be stated in the financial statements for deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient income for tax purposes will be available in the future for this tax credit to be used totally or partially. Deferred tax assets not recognised are reviewed every year at the end of the reporting period and are recognised to the extent that the pre-tax profit is probably sufficient to allow the recovery of these deferred tax assets.

Deferred tax assets and liabilities are measured based on tax rates that are expected to be applied to the financial period in which such assets are sold or such liabilities are discharged, considering the rates in force and those already issued or substantially issued at the end of the reporting period.

Deferred tax assets and liabilities are recognised directly in the income statement, with the exception of those relating to items recognised directly in equity, in which case the related deferred taxes are also accounted for consistently without booking to the income statement.

Deferred tax assets and liabilities are offset, if there is a legal right to offset current tax assets against current tax liabilities, and the deferred taxes refer to the same tax entity and to the same tax authority.

Assets for deferred tax assets and liabilities for deferred tax liabilities are classified as non-current assets and liabilities.

Value added tax

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

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

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

Earnings per share

The basic earnings per share are calculated by dividing the Group's economic result by the weighted average of the outstanding shares during the period. For the purposes of the calculation of the diluted earnings per share, the weighted average of the outstanding shares is modified by assuming the conversion of all the potential dilutive shares. The net result is also adjusted to take account of the effects, net of tax, of the conversion.

The diluted earnings per share coincide with the basic earnings, since there are no outstanding shares or options other than ordinary shares.

3.4 Changes and new principles and interpretations

The accounting standards adopted for the preparation of the consolidated financial statements as at 31 December 2017 are in line with those used for the preparation of the consolidated financial statements as at 31 December 2016, with the exception of the adoption of the new standards, amendments and interpretations in force for the financial years that have beginning January 1, 2017. The Group has not adopted in advance any new standard, interpretation or amendment issued but not yet in force.

The nature and effects of these changes are illustrated below. Albeit these new standards and amendments were applicable for the first time in 2017, they had no impact on the consolidated financial statements of the Group or on the interim consolidated report on operations of the Group. The nature and impact of each new standard/amendment is listed below:

▪ **Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative**

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The application of the amendments did not have any significant impact on the Group.

▪ **Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses**

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

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

The following standards have been approved by the European Union but will apply from 2018; therefore, they are not applicable by the company in the financial statements at December 31, 2017.

- IFRS 9 "Financial Instrument": this standard, approved by the European Commission Regulation No.2016/2067 of November 22, 2016, entirely replaces IAS 39 "Financial instruments: recognition and measurement" and introduces two new criteria to recognize and measure financial assets and liabilities.

The main changes introduced by IFRS 9 may be summarized as follows:

- change of the classification and measurement model for financial assets, basing it on the characteristics of the financial instrument and on the business model adopted by the company. Financial assets can be measured either at fair value or at their amortized cost. As a result, the categories "loans and receivables", "available-for-sale financial assets" and "held-to-maturity investments" disappear;
- introduction of a new impairment model for financial assets that addresses expected credit losses;
- Bring in new hedge accounting requirements. In particular, IFRS 9 proposes simplification of the accounting of the embedded derivative, as the embedded derivative and the host financial asset are no longer recognized separately.

The information required in the notes is adapted to the classification and valuation rules introduced by IFRS 9.

IFRS 9 provisions are effective for annual periods beginning on or after January 1, 2018.

A project was launched to evaluate the potential impacts deriving from the application of the new standard and to decide upon the information to be provided in the notes accompanying the financial statements, with reference to the aforementioned three main areas being updated. With regard to the classification and measuring of the financial assets and liabilities according to the new provisions, at the current state of the analysis no substantial impacts are expected in connection with the introduction of IFRS 9.

In particular, trade receivables assigned to factoring, currently measured at amortized cost – substantially corresponding to the nominal value given the absence of transaction costs - in accordance with IFRS 9, are debt instruments to be measured at fair value, since they are not held to maturity. The new applicable classification according to IFRS 9, does not imply any impact on the carrying value of such loans since, in general, the fair value of a short-term trade receivable, in the absence of significant transaction costs, can be considered reasonably approximable to its nominal value.

With regards to the impairment process of financial assets on the basis of expected losses, the Group assessed that the credit risk attributable to the expected losses on performing loans - new element introduced by IFRS 9 - may be considered irrelevant, because:

- the allowance for doubtful accounts is currently calculated on the basis of specific assessments regarding the recoverability of overdue positions;
- losses on receivables historically recognized by the Group are not significant;

- the forms of collection envisaged by the Group almost include advance payments on sales (also by letters of credit) and / or other forms of mitigation of credit risk (deposit).

Finally, with regard to hedge accounting, the Group does not apply the hedge accounting treatment, but it reserves the right to carry out further in-depth investigations aimed at a future potential application of the hedge accounting treatment to its derivatives.

- IFRS 15 “Revenues from contracts with customers”: the standard, issued by the IASB on May 28, 2014 and approved by the European Union on October 29, 2016, is the result of efforts to achieve convergence between the IASB and the FASB (“Financial Accounting Standard Board”, the body responsible for issuing new accounting standards in the United States) in order to achieve a single revenue recognition model applicable both in terms of IFRS and US GAAP. The new standard will apply to all contracts with customers, including contract work in progress, and will thus replace the current IAS 18 - Revenues and IAS 11 - Long-term contracts and all related interpretations.

In particular, IFRS 15 requires revenue recognition to be based on the following five steps:

- identify the contract with the customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contracts;
- recognise revenue when (or as) the entity satisfies a performance obligation.

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

The provisions of IFRS 15, following the amendments made with the amendment issued on September 11, 2015, will be effective for years beginning on or after January 1, 2018. The Group plans to apply the new standard from the mandatory effective date, using the full retrospective approach application method.

In the course of financial year 2017, continued the activity, which was started up during the last year, continued the activity, started last year, in order to identify the individual cases considered potentially critical in relation to the different types of contract, evaluate the potential impacts on the financial statements and verify the need for any adjustments to the financial information support systems.

The Group analyzed its revenues according to the types of transactions typical of its business with reference to the following areas of analysis:

- analysis of the various contractual forms in existence and of the types of costs related to them;
- verification of the contracts envisaging the recognition of variable amounts;
- verification of the presence of major contractual components requiring separate recognition of the ‘time value’ as a financial component;
- verification of the presence of contractual components that presuppose the assumption by the company about the role of “Principal vs Agent”. The new standard provides for different methods of recording the consideration depending on whether a third party intervenes or not in providing the customer with goods and/or services;
- analysis of the detailed information to be provided in the notes accompanying the financial statements.

Sales of the Trencher sector consist of sales of crawler machinery for which the recognition of revenue occurs at the transfer of the asset’s control, identified on the basis of International Commercial Terms (In.co.term). These contracts do not include any performance obligations other than the sale of the asset, or financial components or discount policies. Therefore, as of today these transactions did not highlight the need for changes to accounting treatments.

With regards of the bill and hold transactions, the Group is finalizing its considerations regarding a possible Performance Obligation (for example, for the custody service) to which attribute a part of the transaction price.

Sales contracts of the Energy sector, in addition to the supply of material for stringing and for streamlining of power lines, can include additional services, such as transport services and / or design services. Currently, the Group adopts separate accounting for such separate obligations, therefore, there is no need to change these accounting treatments.

The Group is finalizing its considerations for the fees of some particular transport services (for example, for foreign customers), regarding the possible assumption of the role of Agent.

The main contracts in the railway sector concern the supply of customized machines, to which a full maintenance activity can be added for a subsequent period. The accounting treatment currently adopted by the Group, based on the allocation of the considerations between the construction phase, which matures on completion of works according to the percentage of completion method, and the maintenance activity, that is spread over the period after the delivery, appears consistent with the requirements of IFRS 15.

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

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

- on September 11, 2014, the IASB published an amendment to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Shareholdings in affiliates and joint ventures”, in order to resolve the conflict between IAS 28 and IFRS 10. According to the provisions of IAS 28, the gain or loss resulting from the sale or transfer of a non-monetary asset to a joint venture or associate in exchange for a share in the capital of the latter is limited to the shareholding in the joint venture or associate by other investors extraneous to the transaction. In contrast, IFRS 10 requires the recording of the entire gain or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling stake in it, including in this case also the sale or transfer of a subsidiary to a joint venture or associate. The amendments introduced require that for a sale or transfer of an asset or a subsidiary to a joint venture or associate, the measure of the gain or loss to be recognized in the financial statements of the seller (or transferor) depends on whether the asset or subsidiary sold (or transferred) constitute a business, under the meaning of IFRS 3. If the assets or the subsidiary sold represent a business, the entity shall recognize the gain or loss on the entire investment held; otherwise, the portion of the gain or loss related to the share still held by the entity shall be eliminated. For said amendments, a date of first application has not been established yet;
- IFRS 16 “Leasing”: the standard, issued by the IASB on January 13, 2016, which replaces IAS 17 and its relative interpretations. In particular, IFRS 16 defines leasing as a contract that provides the customer (the lessee) with the right to use an asset for a certain period of time in exchange for a payment. The new accounting standard eliminates the classification of leasings as operative or financial for the purposes of preparing the financial statements of companies operating as lessees; for all leasing contracts with a duration that exceeds 12 months, it is necessary to recognise an asset that represents the right to its use, and a liability that represents the obligation to make the payments defined in the contract. However, for the purposes of preparing the lessor financial statements, the distinction between operative and financial leasings has been maintained. IFRS 16 strengthens the financial statement information both for the lessees, as well as for the lessors. The provisions of IFRS 16 are effective as of January 1, 2019. In the course of the financial year 2017, an analysis activity was launched in order to identify the individual cases considered potentially critical in relation to the various types of contract, in order to assess the potential impacts on the financial statements and check any adjustments made to the financial support systems;
- on December 8, 2016, the IASB issued some amendments to the standards approved in the three-year period 2014-2016 in particular IFRS 1 “First-time adoption of International Accounting Standards”, IFRS 12 “Disclosure of shareholdings in other entities” and IAS 28 “Shareholdings in associates”:
 - With reference to IFRS 1, some exemptions are eliminated as provided by specific paragraphs of the standard;
 - The amendment to IAS 18 provides that, if the parent is a venture capital company, it has the power to measure its shareholdings in associates and joint ventures at fair value with recognition of any changes in the income statement;
 - The amendment to IFRS 12 establishes that the disclosure requirements also apply in cases where shareholdings in subsidiaries, associates and joint ventures are classified as “Non-current assets held for sale” in accordance with IFRS 5;
- on December 8, 2016, the IASB issued an amendment to IAS 40 “Property Investments”, which clarifies when an entity is required to transfer the ownership of properties (including those under construction). It also establishes that the only intention of the management to change the use of a property is not evidence of a change in the use of the property investment. The amendment to the standard in question, despite early adoption is provided, is applicable retrospectively with effect from January 1, 2018;

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

The Group is currently reviewing these new standards to determine their likely impact on the Group’s results if adopted.

3.5 Accounting estimates and significant judgements

The preparation of financial statements and interim reports in accordance with generally accepted accounting standards requires management to make accounting estimates based on complex or subjective judgements, past experience and assumptions deemed reasonable and realistic based on the information available at the time. The use of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based.

Summarized below are those accounting estimates used in the preparation of consolidated financial statements and interim reports that are considered critical because they require management to make a large number of subjective judgements, assumptions and estimates regarding matters that are inherently uncertain. Changes in the conditions underlying such judgements, assumptions and estimates may have a significant effect on future results.

Deferred tax assets

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

Contingencies

During the preparation of the financial statements and the interim reports, Tesmec records provisions for contingencies primarily in relation to employee benefits, litigation and tax issues. Determining appropriate amounts for provisions is a complex estimation process that includes subjective judgements by company management.

Employee benefits

Post-employment benefit plans arising from defined benefit plans are evaluated with reference to uncertain events and based upon actuarial assumptions including among others discount rates, expected rates of salary increases, mortality rates, retirement dates and medical cost trends. Since these are long-term plans, such estimates are subject to a significant level of uncertainty.

Development costs

Development costs are capitalised on the basis of IAS 38. The directors must make assumptions on future cash flows expected from fixed assets, discount rates to be applied and the periods during which the expected benefits reveal themselves in order to determine the values to be capitalised.

Impairment of non-current assets

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

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

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

4. Financial risk management policy

The Group is exposed in varying degrees to financial risks related to the core business. In particular, the Group is exposed at the same time to the market risk (interest-rate risk and exchange-rate risk), liquidity risk and credit risk.

The management of financial risks (mainly interest-rate risks) is carried out by the Group on the basis of guidelines defined by the Board of Directors. The purpose is to guarantee a liability structure always in equilibrium with the structure of the balance sheet assets, in order to keep a very sound balance sheet structure.

Forms of financing most commonly used are represented by:

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

The average cost of indebtedness is benchmarked to the trend of the 3-month Euribor rates plus a spread that depends on the financial instrument used and on the rating Group share.

The Group uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The Group does not apply the Cash Flow Hedge Accounting with reference to such positions, in that they do not meet the requirements provided in this regard by the IFRS.

The trading of derivative instruments with speculative purposes is not contemplated.

Management of the exchange-rate risk

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

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

As at 31 December 2017, there were ten positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 21.6 million, with a negative equivalent value of Euro 89 thousand.

As at 31 December 2016, there were eleven positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 27.4 million, with a negative equivalent value of Euro 235 thousand.

The short-term portion of interest bearing financial payables (current portion), which is mainly used to finance working capital requirements, is not subject to interest-rate risk hedging.

The cost of bank borrowing is benchmarked to the Euribor/Libor rate plus a spread that depends on the type of credit line used and is the same by type of line. The applied margins can be compared to the best market standards. The interest rate risk to which the Group is exposed is mainly originated from existing financial payables.

The main sources of exposure of the Group to the interest-rate risk refer to existing interest bearing medium/long-term financial payables (current portion) and interest bearing short-term financial payables and to the existing derivative instruments. In particular, the potential impacts on the Income Statement of the 2018 financial period (compared to 2017) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 2017 financial period;
- potential change in fair value of existing derivative instruments.

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

The Group estimated the potential impacts on the Income Statement and on Shareholders' Equity of the 2018 financial period (compared to 2017) produced by a simulation of the change in the term structure of the interest rates, by using internal measurement models, based on the general acceptance approach. In particular:

- for loans, these impacts were estimated by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates, applied only to the cash flows to be settled during the 2017 financial period (compared to 2016);

- for derivative instruments, by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates.

With reference to the situation as at 31 December 2017, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2017 financial period of Euro 245 thousand, offset by an increase of Euro 85 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 22 thousand, offset by a decrease of Euro 19 thousand in the collected spread for the existing derivatives.

With reference to the situation as at 31 December 2016, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2016 financial period of Euro 296 thousand, offset by an increase of Euro 147 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 56 thousand, offset by a decrease of Euro 37 thousand in the collected spread for the existing derivatives.

	Interests					
	31 December 2017			31 December 2016		
	Residual debt	Impact on the IS +100 bps	Impact on the IS -30 bps	Residual debt	Impact on the IS +100 bps	Impact on the IS -30 bps
<i>(Euro in thousands)</i>						
Borrowings/Bond issue	119,578*	(245)	22	124,621*	(296)	56
Total Loans	119,578*	(245)	22	124,621*	(296)	56
<i>(Euro in thousands)</i>	Notional	Impact on the IS +100 bps	Impact on the IS -30 bps	Notional	Impact on the IS +100 bps	Impact on the IS -30 bps
Derivative instruments hedging cash flows	21,563	85	(19)	27,369	147	(37)
Total Derivative instruments	21,563	85	(19)	27,369	147	(37)
Total		(160)	3		(149)	19

(*) The residual debt is considered before amortised costs

	Fair value sensitivity of derivatives									
	Financial period ended 31 December 2017									
	Notional value	Net FV	Net FV +100 bps	Net FV +100 bps	Impact on IS +100 bps	Impact on SE +100 bps	Net FV -30 bps	Net FV -30 bps	Impact on IS -30 bps	Impact on SE -30 bps
<i>(Euro in thousands)</i>										
Derivative instruments hedging cash flows	21,563	(89)	124	211	211	-	(128)	(41)	(41)	-
Total	21,563	(89)	124	211	211	-	(128)	(41)	(41)	-
	Financial period ended 31 December 2016									
	Notional value	Net FV	Net FV +100 bps	Net FV +100 bps	Impact on IS +100 bps	Impact on SE +100 bps	Net FV -30 bps	Net FV -30 bps	Impact on IS -30 bps	Impact on SE -30 bps
<i>(Euro in thousands)</i>										
Derivative instruments hedging cash flows	27,369	(235)	62	298	298	-	(312)	(76)	(76)	-
Total	27,369	(235)	62	298	298	-	(312)	(76)	(76)	-

With reference to the situation as at 31 December 2017, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 211 thousand, with an impact on the Income statement of the 2017 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 41 thousand, with an impact only on the income statement of the 2017 financial period.

With reference to the situation as at 31 December 2016, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would have resulted in an increase in the asset value of the existing hedging derivative instruments of Euro 298 thousand, with an impact on the Income statement of the 2017 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would have resulted in a decrease in the asset value of the existing hedging derivative instruments of around Euro 76 thousand, with an impact only on the income statement of the 2016 financial period.

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

Credit risk management

The company has a much parcelled out customer structure being mostly end-consumers. Moreover, most of the contemplated forms of collection include advance payments of the supply or a deposit not less than 30% of the sale.

This structure zeroes the credit risk; the validity of this approach is endorsed by the low amount of receivables at the end of the financial period compared to the amount of annual sales.

There are no significant concentrations of credit risk exposure in relation to individual debtors to be reported. All positions relating to trade receivables, both with reference to the end of the 2017 and 2016 reporting periods, expire before 12 months.

Management of liquidity risk

The Group manages the liquidity risk by controlling strictly the elements forming the working capital and in particular trade receivables and payables.

The Company tends to obtain upstream a good cash generation in relation to sales and then use it for paying the suppliers without compromising the short-term balance of the treasury and avoid problems and tensions in current liquidity.

The stratification of existing liabilities with reference to 2017 and to 2016 financial periods, with regard to financial instruments, by residual maturity, is set out below.

Maturity	31 December 2017				
	Financial payables/Bonds		Trade payables	Financial instruments	Total
	Capital	Interests			
<i>(Euro in thousands)</i>	a	b	c	d	a+b+c+d
Within 12 months	80,873	2,209	39,479	74	122,635
Between one and two years	12,033	1,566	-	20	13,619
Between two and three years	10,309	1,262	-	(5)	11,566
Between three and five years	16,362	960	-	(1)	17,321
Between five and seven years	-	-	-	-	-
After more than 7 years	-	-	-	-	-
Total	119,577	5,997	39,479	88	165,141

Maturity	31 December 2016				
	Financial payables/Bonds		Trade payables	Financial instruments	Total
	Capital	Interests			
<i>(Euro in thousands)</i>	a	b	c	d	a+b+c+d
Within 12 months	70,319	2,806	31,197	186	104,508
Between one and two years	19,830	2,199	-	52	22,081
Between two and three years	8,104	1,463	-	7	9,574
Between three and five years	24,429	2,360	-	(4)	26,785

Between five and seven years	589	199	-	-	788
After more than 7 years	1,350	194	-	-	1,544
Total	124,621*	9,221	31,197	241	165,280

(*) The residual debt is considered before amortised costs

The estimate of expected future expenses implicit in loans and of expected future differentials implicit in derivative instruments was determined on the basis of the term structure of interest rates in Euro existing at the reporting dates (31 December 2017 and 31 December 2016).

Management of the exchange-rate risk

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

The potential impacts on the Income Statement of the 2018 financial period (compared to 2017) referable to the exchange-rate risk are determined by the revaluation/write-down of asset and liability items in foreign currency.

The Group estimated the potential impacts on the income statement of the 2018 financial period (compared to 2017) produced by a shock of the exchange-rate market, by using internal measurement models, based on the general acceptance approach.

	2017 Exposure in foreign currency (USD)			2017 Sensitivity	
	Assets (USD/000)	Liabilities (USD/000)	Equity (USD/000)	Income statement EUR/USD exchange rate +5%(EUR/000)	Income statement EUR/USD exchange rate -5%(EUR/000)
Exposure with regard to equity items					
Trade receivables	5,858	-	5,858	(244)	244
Trade payables	-	18	18	(1)	1
Total gross exposure with regard to equity items	5,858	18	5,876	(245)	245
Derivative instruments	-	-	-	-	-

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

	2017 Exposure in foreign currency (ZAR)			2017 Sensitivity	
	Assets (ZAR/000)	Liabilities (ZAR/000)	Equity (ZAR/000)	Income statement EUR/ZAR exchange rate +5% (EUR/000)	Income statement EUR/ZAR exchange rate -5% (EUR/000)
Exposure with regard to equity items					
Trade receivables	72,324	-	72,324	(244)	244
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	72,324	-	72,324	(244)	244
Derivative instruments	-	-	-	-	-

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

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

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

Disclosures - categories of financial assets and liabilities

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

	Loans and receivables/payables	Guarantee deposits	Cash and cash equivalents	Available-for- sale financial assets	Fair value recognised in the income statement
<i>(Euro in thousands)</i>					
Financial assets:					
Financial receivables	184	-	-	-	-
Derivative financial instruments	-	-	-	-	1

Trade receivables	161	-	-	-	-
Total non-current	345	-	-	-	1
Trade receivables	39,854	-	-	-	-
Financial receivables from related parties	9,386	-	-	-	-
Financial receivables from third parties	3,062	-	-	-	-
Other available-for-sale securities	-	-	-	2	-
Cash and cash equivalents	-	-	21,487	-	-
Total current	52,302	-	21,487	2	-
Total	52,647	-	21487	2	1
Financial liabilities:					
Loans	22,989	-	-	-	-
Non-current portion of finance leases, net	2,254	-	-	-	-
Bond issue	14,797	-	-	-	-
Derivative financial instruments	-	-	-	-	63
Trade payables	2	-	-	-	-
Total non-current	40,042	-	-	-	63
Loans	26,286	-	-	-	-
Other financial payables (short-term leases)	1,187	-	-	-	-
Other short-term payables	51,549	-	-	-	-
Derivative financial instruments	-	-	-	-	85
Trade payables	39,479	-	-	-	-
Total current	118,501	-	-	-	85
Total	158,543	-	-	-	148

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 - inputs other than quoted prices included within level 1 that are observable in the market, either directly (as in the case of prices) or indirectly (i.e. when derived from the prices);
- level 3 - inputs that are not based on observable market data.

The following table shows the assets and liabilities that are measured at fair value as at 31 December 2017, divided into the three levels defined above:

<i>(Euro in thousands)</i>	Book value as at 31 December 2017	Level 1	Level 2	Level 3
Financial assets:				
Derivative financial instruments	1	-	1	-

Total non-current	1	-	1	-
Other available-for-sale securities	2	-	-	2
Derivative financial instruments	-	-	-	-
Total current	2	-	0	2
Total	3	-	1	2
Financial liabilities:				
Derivative financial instruments	66	-	66	-
Total non-current	66	-	66	-
Derivative financial instruments	82	-	82	-
Total current	82	-	82	-
Total	148	-	148	-

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. On 21 December 2017, Tesmec Service S.r.l. also signed with RFI – Rete Ferroviaria Italiana S.p.A. a supplementary deed for a total value of approximately Euro 7.2 million, relating to a series of additional supplies due to the occurrence of new law provisions, as part of the contract, awarded in December 2016, of 88 multipurpose ladder trucks for the maintenance of the Italian railway network.
- 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 all carried out within the Group without the involvement of third parties:
 - 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 by Bertel S.r.l. entirely controlled by the Parent Company;
 - to complete the above, on 2 October 2017, the purchase by Tesmec Automation S.r.l. (former 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 "Tescmec S.p.A. 6% 2014-2021" (the "Bond Issue"), note that on the basis of Article 12(vi) of the Bond Issue regulations (the "Regulations") pursuant to Art. 7 of the Regulations, the interest rate applicable to these bonds is increased by 1% and is therefore 7% until the maturity of the Bond Issue, except for the application of the relevant provisions of Article 7 of the Regulations;
- on 27 October 2017, the Board of Directors of Tescmec S.p.A. approved a transaction with the related party MTS - Officine Meccaniche di Precisione S.p.A. The effects of the transaction were described in detail in the following paragraph *5.1 Transaction with the related party MTS - Officine Meccaniche di Precisione S.p.A.*;
- on 14 December 2017, the Apulia Region issued a governing deed by which it decided to admit Tescmec Rail S.r.l. to the presentation of the final projects aimed at disbursing a non-repayable subsidised loan. Consequently, on 20 December 2017, with the purchase of the land, Tescmec Rail S.r.l. started work on the construction of a new production site that will be active in the rail business, located within the industrial area of Monopoli (Bari). In detail, the new modern production site, which will replace the two rented sites currently used in Monopoli, will be active in the design, prototyping and manufacture of railway wagons for the installation and maintenance of the railway catenary wire system, multi-purpose unit, shunting locomotives and power units for passenger trains. The investment planned for the new industrial shed and the related plants will be approximately Euro 8 million over several financial years. Investments in research and development and prototypes in the rail segment are also envisaged. Both investments will benefit from non-repayable subsidies from the Programme Contracts of the Apulia Region.

5.1 Transaction with the related party MTS - Officine Meccaniche di Precisione S.p.A.

On 27 October 2017, the Board of Directors of Tescmec S.p.A. approved a transaction with the related party MTS - Officine Meccaniche di Precisione S.p.A. concerning the signing of:

- a selling agreement, concerning the sale by Tescmec to MTS of certain machines produced by the Tescmec Group (the "Selling Agreement");
- a service contract for the supply by the Tescmec Group to MTS - and, in general - to the users of the machines in its range, of logistics and maintenance services (transport, maintenance, repair work covered and not covered by guarantee, custody, repair, etc.) (the "Service Contract"); and
- a rental agreement, concerning the rental by MTS to the Tescmec Group of certain machines owned by MTS (the "Rental Agreement").

The considerations of the Board of Directors with regard to the economic and financial reasons as well as to the advisability of these transactions consist in the Group's interest to develop its business as part of the activities related and functional to the implementation of projects in the field of renewable energy, networks and telecommunications (the "**Project Activities**") considering the very positive phase that projects in these areas are going through globally, and (ii) in the analysis carried out by the Company, which showed that the rental of machines to be used in Project Activities entails a low risk compared to the direct investment in machines, by reducing the invested capex and by increasing the level of flexibility of the operating cost structure.

The considerations of the transactions were determined as follows:

- with reference to the Selling Agreement and the Service Contract, based on the Group's list prices; and
- with reference to the Rental Agreement, on the basis of certain objective parameters of reference including the expected duration of the rentals and the type of machines to be possible rented.

The transactions consist of related party transactions, pursuant to the Regulations approved by CONSOB with Resolution no. 17221 of 12 March 2010, as amended and supplemented ("Related Party Regulation"), and of the procedure for transactions with related parties of the Company ("Related Party Procedure"), in that MTS and Tescmec are companies subject to the same control by TTC S.r.l. which holds approximately 57.09% of the share capital of Fi. Ind. S.p.A. which holds 95.27% of the share capital of MTS and 44.24% of the share capital of Tescmec.

The share capital of TTC S.r.l. is held 18.62% by the Chairman and Chief Executive Officer of Tescmec Ambrogio Caccia Dominioni, 18.62% by the Director of Tescmec Lucia Caccia Dominioni and 18.62% by the director of Tescmec Caterina Caccia Dominioni.

Moreover, it should be noted that the Chairman and Chief Executive Officer of Tesmec Ambrogio Caccia Dominioni holds the office of non-executive director of MTS and the Vice Chairman of Tesmec Gianluca Bolelli holds the office of director of TTC S.r.l.

The Company involved the Control and Risk Committee in the negotiations and in the assessment of the transactions with functions of committee for transactions with related parties of the Group Companies, which issued its favourable opinion on the interest of the Group in carrying out the transactions and on the convenience and substantial correctness of the relevant conditions.

During the 2017 financial year, Tesmec Group sold 16 machines to MTS for a total consideration of Euro 13.5 million.

In the same period, MTS made payments to the Tesmec Group for the above sales for an equivalent value of Euro 11 million, an amount that increased to the current Euro 11.8 million as at the date of this Report.

For further information, please refer to the information document on significant transactions with related parties published on 2 November 2017 in the Investor Relations-Governance section on the website www.tesmec.com.

COMMENTS ON THE MAIN ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

Non-current assets

6. Intangible assets

The breakdown of *Intangible assets* as at 31 December 2017 and as at 31 December 2016 is indicated in the table below:

<i>(Euro in thousands)</i>	31 December					
	2017			2016		
	Historical cost	Accum. amort.	Net value	Historical cost	Accum. amort.	Net value
Development costs	57,442	(43,143)	14,299	51,796	(37,174)	14,622
Rights and trademarks	8,502	(5,203)	3,299	6,368	(4,063)	2,305
Assets in progress and advance payments to suppliers	742	-	742	1,964	-	1,964
Total intangible assets	66,686	(48,346)	18,340	60,128	(41,237)	18,891

The following table shows the changes in intangible assets for the period ended 31 December 2017:

<i>(Euro in thousands)</i>	01/01/2017	Increases due to purchases	Reclassifications	Decreases	Amortisation	Exchange rate differences	31/12/2017
Development costs	14,622	6,825	-	(11)	(6,882)	(255)	14,299
Rights and trademarks	2,305	289	1,959	(96)	(1,160)	2	3,299
Assets in progress and advance payments to suppliers	1,964	737	(1,959)	-	-	-	742
Total intangible assets	18,891	7,851	-	(107)	(8,042)	(253)	18,340

As at 31 December 2017, intangible assets net of amortisation totalled Euro 18,340 thousand, down Euro 551 thousand due to the following effects:

- *development costs capitalised* of Euro 6,825 thousand, which were fully offset by amortisation for the period (Euro 6,882 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 (then merged into Tesmec Automation S.r.l.) 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.

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

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

7. Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2017 and as at 31 December 2016 is indicated in the table below:

<i>(Euro in thousands)</i>	31 December					
	2017			2016		
	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Land	3,122	(145)	2,977	1,934	(137)	1,797
Buildings	16,469	(5,727)	10,742	15,995	(4,400)	11,595
Plant and machinery	14,912	(11,311)	3,601	16,424	(11,767)	4,657
Equipment	7,599	(5,941)	1,658	6,937	(5,330)	1,607
Other assets	45,656	(19,158)	26,498	45,001	(17,890)	27,111
Assets in progress and advance payments to suppliers	626	-	626	522	-	522
Total property, plant and equipment	88,384	(42,282)	46,102	86,813	(39,524)	47,289

The following table shows the changes in property, plant and equipment for the period ended 31 December 2017:

<i>(Euro in thousands)</i>	01/01/2017	Increases due to purchases	Decreases	Reclassifications	Depreciations	Exchange rate differences	31/12/2017
Land	1,797	1,214	-	-	(8)	(26)	2,977
Buildings	11,595	380	(42)	25	(478)	(738)	10,742
Plant and machinery	4,657	386	(42)	(146)	(1,085)	(169)	3,601
Equipment	1,607	959	(156)	(226)	(526)	-	1,658
Other assets	27,111	11,750	(6,535)	347	(4,494)	(1,681)	26,498
Assets in progress and advance payments to suppliers	522	104	-	-	-	-	626
Total property, plant and equipment	47,289	14,793	(6,775)	-	(6,591)	(2,614)	46,102

As at 31 December 2017, property, plant and equipment totalled Euro 46,102 thousand, down compared to the previous year by Euro 1,187 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.

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

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

8. Equity investments in associates evaluated using the equity method

The breakdown of equity investments in associates evaluated using the equity method as at 31 December 2017 and 2016 is indicated in the table below:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Associated companies:		
Locavert SA	451	410
SEP Moselle 57	-	16
SEP Semafor 77	-	7
SEP Liaison Natix 77	-	9
R&E Contracting	5	-
Subtotal	456	442
Joint Ventures:		
Condux Tesmec Inc	3,316	3,285
Marais Tunisie SA	165	142
Subtotal	3,481	3,427
Total Equity investments in associates evaluated using the equity method	3,937	3,869

Following the application of the equity method to investments - accounting standard adopted by the Group on the Joint ventures - the margin achieved by Tesmec S.p.A. on the machines sold to them and not yet transferred to third-party customers as at 31 December 2017 was reversed against the value of the investment (if not sufficient, by creating a relevant covering provision).

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

<i>(Euro in thousands)</i>	31 December 2017							
	% held	Revenues	Net result	Assets	Liabilities	Shareholders' Equity	Equity investment value in the Consolidated Financial Statements	Value of provision for risks due to losses
Associated companies:								
Locavert SA	38.63%	920	40	750	299	450	451	-
R&E Contracting	20.00%	10	(10)	12	7	5	5	-
Joint Ventures:								
Condux Tesmec Inc.	50.00%	6,364	505	4,310	947	3,363	3,316	-
Tesmec Peninsula	49.00%	2,086	(262)	2,868	2,922	(53)	-	298
Marais Tunisie SA	49.00%	148	56	317	115	202	165	-
Marais Lucas Technologies Pty Ltd.	50.00%	-	(53)	225	2,056	(1,831)	-	1,883

The values of the equity investments were tested for impairment. The key assumptions used by Management are estimates of future business plans. The flows of expected earnings cover a period of three years subsequent to those of reference of the impairment test and they are based on plans submitted to the Board of Directors on 22 December 2017.

The discount rate used (WACC), defined as the weighted average cost of capital, net of taxes, was differentiated according to the country of reference, the values of which are positioned in a range between 7% and 10%. Cash flows beyond the three years were extrapolated using a growth rate of 1.1%.

The results of the impairment test showed that as at 31 December 2017, the recoverable amount of the CGU exceeds the book value.

The results underwent also a sensitivity analysis in order to consider the possible effects of changes in the key assumptions underlying the impairment process. This analysis involved a reasonably possible change in the expected growth rate of about +/- 0.25%, the discount rate used of about +/- 2%, and the EBIT value resulting from the Plan of about +/- 10%.

9. Financial receivables and other non-current assets

The following table sets forth the breakdown of financial receivables and other non-current assets as at 31 December 2017 and 2016:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Guarantee deposits	183	323
Financial receivables from third parties	1	1
Total financial receivables and other non-current financial assets	184	324

Financial receivables and other non-current financial assets compared to the previous financial year decreased by Euro 140 thousand as a result of the return of deposits previously received by the subsidiary Tesmec USA, Inc.

Current assets

10. Work in progress contracts

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

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Work in progress (Gross)	8,128	1,291
Advances from contractors	(1,360)	-
Work in progress contracts	6,768	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 reduction occurred thanks to a billing stream that exceeded the new amount of work in progress on order.

11. Inventories

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

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Raw materials and consumables	36,220	32,803
Work in progress	12,919	12,360
Finished products and goods for resale	13,773	23,958
Advances to suppliers for assets	213	106
Total Inventories	63,125	69,227

The measurement bases of inventories with regard to raw materials and consumables, work in progress, finished goods and merchandise remained unchanged compared to the prior financial period.

In total, inventories decreased by 8.8% or Euro 6,102 thousand due to higher sales during the period.

The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2017 and 2016 are indicated below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Value as at 1 January	5,332	4,960
Provisions	230	320
Uses	(41)	-
Exchange rate differences	(196)	52
Total provisions for inventory obsolescence	5,325	5,332

The value of the provisions for inventory obsolescence is in line with the previous financial year.

The adequacy of the provision is assessed on a regular basis to constantly monitor the actual level of inventories recovered through sales.

12. Trade receivables

The table below shows the breakdown of trade receivables as at 31 December 2017 and 2016:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Trade receivables from third-party customers	37,273	48,680
Trade receivables from related parties	2,581	753
Total trade receivables	39,854	49,433

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

Trade receivables from customers as at 31 December 2017 amounted to Euro 39,854 thousand down by Euro 9,579 thousand compared to the 2016.

The balance of trade receivables is shown net of provisions for doubtful accounts. This provision was calculated in an analytical manner by dividing the receivables in classes depending on the level of customer and Country risk and by applying to each class an expected percentage of loss derived from historical experience.

The changes in the provisions for doubtful accounts for the financial periods ended 31 December 2017 and 2016 are indicated in the table below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Value as at 1 January	2,964	4,064
Provisions	444	420
Uses	(1,056)	(1,538)
Exchange rate differences	(57)	18
Total provisions for doubtful accounts	2,295	2,964

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

The utilisations for the period refer to the positive outcome of cases relating to certain receivables of the Marais Group against which a special fund was recognised in the previous financial years.

13. Tax receivables

The following table sets forth the breakdown of tax receivables as at 31 December 2017 and 2016:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
IRAP receivables	77	32
IRES receivables	701	1,362
Other direct income taxes	131	309
Total tax receivables	909	1,703

The item *tax receivables* decreased compared to the previous financial year of Euro 796 thousand mainly due to the reduction in lower IRES receivables of the Parent Company Tesmec S.p.A.

14. Financial receivables and other current financial assets

The following table sets forth the breakdown of financial receivables and other current financial assets as at 31 December 2017 and as at 31 December 2016:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Financial receivables from related parties	9,386	8,944
Financial receivables from third parties	3,026	47
Other current financial assets	36	58
Total financial receivables and other current financial assets	12,448	9,049

The increase in *current financial assets* from Euro 9,049 thousand to Euro 12,448 thousand is mainly due to the increase in financial receivables from third parties by Euro 2,979 thousand relating to a receivable accrued following the positive ruling of the arbitration board on a litigation with a Chinese trading company and related parties of Euro 442 thousand. In particular, note the receivables from the related parties M.T.S. Officine Meccaniche S.p.A. of Euro 2,911 thousand and MTS4SERVICE USA L.l.c. of Euro 1,387 thousand.

15. Other current assets

The following table sets forth the breakdown of other current assets as at 31 December 2017 and as at 31 December 2016:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Prepaid expenses	706	785
VAT credit	3,098	1,242
Other receivables	331	349
Advance to suppliers for services	357	314
Other tax receivables	4,921	126
Total other current assets	9,413	2,816

Other current assets is considered receivable and therefore was not subject to value adjustment.

VAT credit, which amounted to Euro 3,098 thousand as at 31 December 2017, increased by Euro 1,856 thousand compared to 31 December 2016 in relation to the increase in sales for the period and, as a result, to more purchases of materials.

Other tax receivables includes the tax credit recognised for significant research and development expenses incurred by the Group in both Italy and France for the 2016 and 2017 financial periods. In particular, with reference to the tax credit on Research and Development activities in Italy, this is recorded on the basis of the provisions of the 2017 Budget Law (Italian Law

232/16) which changed the regulations of the tax benefit, introduced by the "Decreto Destinazione Italia" (Italian Law Decree no. 145/2013) as amended by Italian 2015 Stability Law (Italian Law 190/2014). As a whole, the value of the tax credit for the entire Tesmec Group both in Italy and in France amounted to Euro 544 thousand for 2016 and to Euro 5,335 thousand for 2017.

16. Cash and cash equivalents

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

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Bank and post office deposits	21,469	18,471
Cash on hand	11	23
Other cash	7	7
Total cash and cash equivalents	21,487	18,501

Cash and cash equivalents are deposited in current deposits and they are remunerated at a floating rate related to the Euribor trend. The balance as at 31 December amounted to Euro 21,487 thousand and increased of Euro 2,986 thousand.

Bank deposits are recorded in Tesmec S.p.A. for Euro 11,815 thousand, Tesmec USA, Inc. for Euro 2,118 thousand, Tesmec Service S.r.l. for Euro 4,761 thousand and the other companies of the Group for total amount of Euro 2,793 thousand.

The stated values are subject to a non-significant risk of change in value. The book value of cash and cash equivalents is deemed to be aligned to their fair value at the end of the reporting period.

The Group believes that the credit risk related to cash and cash equivalents is limited since it mainly represents deposits divided across domestic and international banking institutions.

17. Shareholders' Equity

Share capital and reserves

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

The following table sets forth the breakdown of *Other reserves* as at 31 December 2017 and 2016:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Revaluation reserve	86	86
Extraordinary reserve	26,942	25,294
Change in the consolidation area	(225)	125
Severance indemnity valuation reserve	(563)	(479)
Network Reserve	824	824
Retained earnings/(losses brought forward)	(3,087)	2,380
Bills charged directly to shareholders' equity on operations with entities <i>under common control</i>	(4,048)	(4,048)
Total other reserves	19,929	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 translation difference has a negative impact on Shareholders' Equity of Euro 3,375 thousand as at 31 December 2017.

As a result of the resolution of 28 March 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.

Non-current liabilities

18. Medium/long-term loans

Medium/long-term loans include medium-long term loans from banks, payables towards other providers of finance and payables towards leasing companies for tangible fixed assets recorded in the consolidated financial statements in accordance with the financial leasing accounting method. The following table shows the breakdown thereof as at 31 December 2017 and as at 31 December 2016, with separate disclosure of the current portion:

	31 December			
	2017	of which current portion	2016	of which current portion
<i>(Euro in thousands)</i>				
Banca Nazionale del Lavoro – loan at floating interest rate with a 2-year pre-amortisation; original value Euro 6 million; drawn down on 1 July 2010 with maturity date 31 May 2018; floating interest rate equivalent to 6-month Euribor rate + spread of 2.25%, half-yearly repayment.	923	923	1,846	1,846
BNL-BNP Paribas Group - loan in pool; original value Euro 21 million, drawn down on 11 March 2011 Euro 8 million with maturity date 4 March 2016, floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25). On 4 and 5 August 2011, Euro 4 million, on 9 November 2011, Euro 2 million, on 9 February 2012, Euro 2 million, on 31 May 2012, Euro 2 million and on 23 October 2012, another Euro 3 million with maturity date 4 March 2013, floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25) with option to extend repayment in 54 months (in 9 deferred half-yearly instalments) last instalment expiring on 4 September 2017, 6-month Euribor rate + spread of 1.90% (+/- 0.25), half-yearly repayment.	-	-	1,922	1,922
Simest UGF - loan for a total of Euro 1.9 thousand and drawn down the first tranche of Euro 580 thousand on 28 March 2013 with maturity date 14 February 2020, special annual interest rate of 0.4994% and second tranche of Euro 397 thousand to be used as from 14 March 2014 with maturity date 14 February 2020, special annual interest rate of 0.4994%, two months of prepayment and half-yearly repayment.	707	283	990	283
Cariparma - loan of Euro 1.5 million, drawn down on 21 October 2013 with maturity date 21 October 2017, floating interest rate equivalent to 3-month Euribor rate + spread of 3%, quarterly repayment.	-	-	389	389
Banca Intesa - unsecured loan of Euro 2.5 million, drawn down on 23 December 2013 with maturity date 31 December 2018, floating interest rate equivalent to 6-month Euribor rate + spread of 1.30%, half-yearly repayment.	118	118	234	117
ICCREA/BCC Chiro - loan of Euro 3.5 million 70% backed by SACE guarantee, drawn down on 27 March 2014 with maturity date 27 March 2022, floating interest rate equivalent to 6-month Euribor rate + spread of 3.95%, one year of prepayment and half-yearly repayment.	2,104	2,104	2,570	2,570
Popolare di Sondrio - loan of Euro 1 million, drawn down on 4 August 2014 with maturity date 31 August 2017, floating interest rate equivalent to 1-month Euribor rate + spread of 3.5%, monthly repayment.	-	-	231	231
Banca Carige S.p.A. - loan of Euro 2 million, drawn down on 27 March 2015 with maturity date 31 December 2018, floating interest rate equivalent to 3-month Euribor rate + spread of 1.75%, 6 months of prepayment and half-yearly repayment.	582	582	1,153	571
Cariparma - loan of Euro 4 million, drawn down on 26 March 2015 with maturity date 26 March 2020, floating interest rate equivalent to 6-month Euribor rate + spread of 2.50%, six months of prepayment and half-yearly repayment.	2,195	2,195	3,072	3,072

Monte dei Paschi di Siena - loan of Euro 5 million, drawn down on 11 August 2015 with maturity date 30 September 2020, floating interest rate equivalent to 6-months Euribor rate + spread of 1.90%, six months of prepayment and quarterly repayment.	3,035	1,104	4,139	1,104
Banca Intesa - loan of Euro 2 million, drawn down on 28 September 2015 with maturity date 30 September 2019, floating interest rate equivalent to 6-month Euribor rate + spread of 1.3%, monthly repayment.	880	501	1,376	495
Banca di Desio - loan of Euro 1.8 million, drawn down on 27 October 2015 with maturity date 10 May 2020, fixed interest rate of 1.85%, seven months of prepayment and monthly repayment.	1,098	448	1,538	440
Credito Valtellinese - loan of Euro 3 million, drawn down on 15 December 2015 with maturity date 5 January 2019, floating interest rate equivalent to 3-month Euribor rate + spread of 1.65%, one month of prepayment and monthly repayment.	1,088	1,003	2,074	986
Banca Popolare dell'Emilia Romagna - loan of Euro 5 million, drawn down on 18 December 2015 with maturity date 18 March 2021, floating interest rate equivalent to 3-month Euribor rate + spread of 1.85%, 3 months of prepayment and quarterly repayment.	3,272	986	4,239	967
Banca Popolare di Milano - loan of Euro 5 million, drawn down on 08 April 2016 with maturity date 30 April 2021, floating interest rate equivalent to 3-months Euribor rate + spread of 1.80%, monthly repayment (contract terminated early and replaced by two contracts with BPM no. 03838209 and 06052885).	-	-	4,347	4,347
Banco Popolare - loan of Euro 2.750 million, drawn down on 29 April 2016 with maturity date 15 December 2020, floating interest rate equivalent to 6-month Euribor rate + spread of 1.70%, 2 months of prepayment and half-yearly repayment (contract terminated early and replaced by two contracts with BPM no. 03838209 and 06052885).	-	-	2,741	685
Banca del Mezzogiorno - loan of Euro 5 million, drawn down on 23 June 2016 with maturity date 30 June 2021, floating interest rate equivalent to 6-month Euribor rate + spread of 2%, half-yearly repayment.	3,493	3,493	4,491	4,491
Banca popolare di Milano - loan of Euro 4 million, drawn down on 06 July 2016 with maturity date 31 July 2017, floating interest rate equivalent to 3-months Euribor rate + spread of 0.80%, monthly repayment.	-	-	3,110	3,110
Banco di Desio e Brianza - loan of Euro 700 thousand, drawn down on 19 July 2016 with maturity date 10 January 2018, floating interest rate equivalent to 6-month Euribor rate + spread of 1%, one month of prepayment and monthly repayment.	41	41	535	494
Unipol Banca - loan of Euro 2 million, drawn down on 27 October 2016 with maturity date 31 October 2019, floating interest rate equivalent to 3-months Euribor rate + spread of 1.90% minimum rate, monthly repayment	1,227	664	1,878	651
Banca Popolare di Bergamo - loan of Euro 2 million, drawn down on 11 November 2016 with maturity date 11 May 2019, floating interest rate equivalent to 3-months Euribor rate + spread of 1.75%, monthly repayment	1,140	801	1,927	788
Deutsche Bank - loan of Euro 1.5 million, drawn down on 20 January 2017 with maturity date 28 November 2020, floating interest rate equivalent to 3-month Euribor rate + spread of 0.90%, quarterly repayment	1,118	372	-	-
Popolare di Sondrio - loan of Euro 3 million, drawn down on 07 July 2017 with maturity date 31 July 2021, floating interest rate equivalent to 1-month Euribor rate + spread of 2.25%, monthly repayment	2,694	730	-	-
Banco BPM 03838209 loan - loan of Euro 2.4 million, drawn down on 18 December 2017 with maturity date 31 December 2024, floating interest rate equivalent to 3-month Euribor rate + spread of 2.15%, quarterly repayment	2,382	321	-	-
Banco BPM 06052885 loan - loan of Euro 3.45 million, drawn down on 28 December 2017 with maturity date 31 December 2024, floating interest rate equivalent to 3-month Euribor rate + spread of 2.15%, quarterly repayment	3,424	463	-	-
Credito Adesso Creval - loan of Euro 1.5 million, drawn down on 15 December 2016 with maturity date 30 April 2020, floating interest rate equivalent to 6-month Euribor rate + spread of 3.75%, half-yearly repayment	1,233	493	1,476	242

Comerica - unsecured loan received by TESMEC USA and guaranteed by a building owned by this company; amounting to USD 4.7 million, drawn down on 3 July 2013 with maturity date 3 July 2018, monthly repayment with constant principal and floating interest rate equivalent to 1-month LIBOR + spread 3.25%.	2,739	2,739	3,499	326
Pret senior - loan received from Marais Technologies SAS of Euro 17 million, drawn down on 10 February 2009 with maturity date 1 April 2020, annual repayment and fixed interest rate of 2.45%.	3,135	1,045	4,180	1,045
ICCREA - loan received from Group Marais of Euro 4 million, drawn down on 20 September 2016 with maturity date 20 September 2019, floating interest rate equivalent to 3-month Euribor rate + spread of 1.85%, quarterly repayment.	2,333	1,333	3,667	1,333
BPI - loan received from Group Marais of Euro 250 thousand, drawn down on 29 November 2013 with maturity date 30 June 2021, quarterly repayment as from 31 March 2016 and interest rate 0%.	175	50	238	63
ADEME - loan received from Group Marais of Euro 100 thousand, drawn down in October 2017 with maturity date August 2022, fixed rate 0.9% (on 50% of the amount drawn down) and 5.9% (on 50% of the amount drawn down), annual repayment.	100	-	-	-
Banque Populaire du Sud - loan received from Group Marais SA of Euro 132 thousand, drawn down on 20 September 2016 with maturity date 20 September 2019, interest rate of 2.14%, quarterly repayment.	7	7	52	45
Equipment finance - loan received from Marais Laying NZ of \$ 90 thousand, taken out on 23 May 2016, with maturity date 30 November 2017, base floating interest rate of 5.7% plus a 1.25% margin, monthly repayment.	-	-	37	37
Equipment finance - loan received from Marais Laying New Zealand of NZD 104 thousand, taken out on 2 August 2017, with maturity date 2 August 2020, base floating interest rate of 6.95% including a 0.75% margin, monthly repayment.	54	13	-	-
Wetppac Business Bank - loan received from Marais Laying Technologies Australie (Pty) of AUD 850 thousand, drawn down in November 2017 with maturity date November 2022, fixed interest rate 6.5% and monthly repayment.	566	117	-	-
Mutuo Chiro Banca Pop Cassinate - loan received from CPT Engineering S.r.l. merged into Tesmec Automation S.r.l. of Euro 200 thousand, drawn down on 17 July 2012 with maturity date 16 July 2018, floating interest rate equivalent to 3-month Euribor rate + spread of 2%, monthly repayment.	26	26	68	43
Mutuo BCC Anagni - loan received from CPT Engineering S.r.l. merged into Tesmec Automation S.r.l. of Euro 200 thousand, drawn down on 27 March 2015 with maturity date 27 March 2020, floating interest rate equivalent to 3-month Euribor rate + spread of 1.5%, monthly repayment.	97	42	136	39
Mutuo Ipotecario Banca Intesa - loan received from CPT Engineering S.r.l. merged into Tesmec Automation S.r.l. of Euro 600 thousand, drawn down on 01 June 2004 with maturity date 30 June 2021, floating interest rate equivalent to 6-month Euribor rate + spread of 1.4%, half-yearly repayment (repaid early following the New lease contract in December 2016).	-	-	213	45
Banca Popolare dell'Emilia - loan received from Bertel S.r.l of Euro 500 thousand, drawn down on 01 July 2014 with maturity date 27 December 2017, floating interest rate equivalent to 3-month Euribor rate + spread of 4.5%, monthly repayment.	-	-	175	175
Total interest-bearing medium/long-term financial payables	41,986	22,997	58,543	32,952
Less current portion	(22,997)		(32,952)	
Non-current portion of interest-bearing medium/long-term financial payables	18,989		25,591	
Medium/long-term loan due to Simest	11,406	7,406	11,406	
Less current portion	(7,406)		-	
Medium/long-term loan due to Simest	4,000		11,406	
Total medium/long-term loans	22,989	30,403	36,997	32,952
Non-current portion of finance leases	3,441	1,187	3,283	1,099

Less current portion	(1,187)	(1,099)	
Non-current portion of finance leases, net	2,254	2,184	
Total current portion		31,590	34,051
Medium/long-term loans	25,243	39,181	

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

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

- Net financial indebtedness/EBITDA
- Net financial indebtedness/Shareholders' equity
- Effective Net Worth
- Debt Service Coverage Ratio

Based on the results of the financial statements of the Company and of the Tesmec Group, some covenants on certain medium to long-term loans have not been met.

Following the failure to comply with certain covenants of a financial nature, the relevant medium and long-term loans were fully reclassified as short term, according to the requirements of International Accounting Standards, for a total value of Euro 5,583 thousand. The Group has promptly initiated with the relevant Credit Institutions procedures for obtaining waivers for the year 2017 in relation to the said non-compliance with the covenants. At present, the Group believes that the waiver will be granted in the necessary technical due times.

Finally, note that during 2017 new medium to long term loans were opened for a value of Euro 12,521 thousand.

The average cost of indebtedness is benchmarked to the trend of the 3-month Euribor rates plus a spread applied depending also on the type of the financial instrument used.

The table below shows the figures relevant to the outstanding loans of the Company as at 31 December 2017, by indicating the portion due within one year, within 5 years and after more than 5 years:

Description	Maturity	Interest rate	Residual value as at 31 December 2017	Portion within 12 months	Portion within 5 years	Portion after more than 5 years
Banca Nazionale del Lavoro	31-May-18	floating interest rate equivalent to 6-month Euribor rate + spread of 2.25%	923	923	-	-
Simest UGF	04-Feb-20	special annual interest rate of 0.4994%	707	283	424	-
Banca Intesa	31-Dec-18	floating interest rate equivalent to 6-months Euribor rate + spread 1.3%.	118	118	-	-
ICCREA/BCC Chiro	27-Mar-22	floating interest rate equivalent to 6-months Euribor rate + spread 3.95%	2,104	2,104	-	-
Banca Carige S.p.A.	31-Dec-18	floating interest rate equivalent to 3-months Euribor rate + spread 1.75%.	582	582	-	-
Cariparma	26-Mar-20	floating interest rate equivalent to 6-months Euribor rate + spread 2.50%.	2,195	2,195	-	-
Monte dei Paschi di Siena	30-Sep-20	floating interest rate equivalent to 6-months Euribor rate + spread 1.90%.	3,035	1,104	1,931	-
Banca Intesa	30-Sep-19	floating interest rate equivalent to 6-months Euribor rate + spread 1.3%.	880	501	379	-
Banca di Desio	10-May-20	fixed interest rate 1.85%	1,098	448	650	-
Credito Valtellinese	05-Jan-19	floating interest rate equivalent to 3-months Euribor rate + spread 1.65%	1,088	1,003	85	-
Banca Popolare dell'Emilia Romagna	18-Mar-21	floating interest rate equivalent to 3-months Euribor rate + spread 1.85%.	3,272	986	2,286	-
Banca del Mezzogiorno	30-Jun-21	floating interest rate equivalent to 6-months Euribor rate + spread 2%	3,493	3,493	-	-

Banco di Desio e Brianza	10-Jan-18	floating interest rate equivalent to 6-months Euribor rate + spread 1%	41	41	-	-
Unipol Banca	31-Oct-19	floating interest rate equivalent to 3-months Euribor rate + spread 1.90%	1,227	664	563	-
Banca popolare di Bergamo	11-May-19	floating interest rate equivalent to 3-months Euribor rate + spread 1.75%	1,140	801	339	-
Deutsche Bank	28-Nov-20	floating interest rate equivalent to 3-months Euribor rate + spread 0.90%.	1,118	372	746	-
Popolare di Sondrio	31-Jul-21	floating interest rate equivalent to 1-month Euribor + spread 2.25%.	2,694	730	1,964	-
Banco BPM	31-Dec-24	floating interest rate equivalent to 3-months Euribor rate + spread 2.15%.	2,382	321	1,347	714
Banco BPM	31-Dec-24	floating interest rate equivalent to 3-months Euribor rate + spread 2.15%.	3,424	463	1,935	1,026
Credito Adesso	30-Apr-20	floating interest rate equivalent to 6-months Euribor rate + spread 3.75%	1,233	493	740	-
Coamerica	03-Jul-18	floating interest rate equivalent to 1-month Libor + spread 3.25%	2,739	2,739	-	-
Pret senior	01-Apr-20	fixed interest rate 2.45%	3,135	1,045	2,090	-
ICCREA	20-Sep-19	floating interest rate equivalent to 3-months Euribor rate + spread 1.85%	2,333	1,333	1,000	-
BPI	30-Jun-21	interest rate 0%	175	50	125	-
Ademe	01-Aug-22	fixed interest rate of 0.9% (on 50%) and 5.9% (on 50%)	100	-	100	-
Banque Populaire du Sud	20-Sep-19	fixed interest rate 2.14%	7	7	-	-
Equipment finance	02-Aug-20	base floating rate of 6.95% including a 0.75% margin	54	13	41	-
Wetppac Business Bank	01-Nov-22	fixed interest rate 6.5%	566	117	449	-
Mutuo Chiro Banca Pop Cass	16-Jul-18	floating interest rate equivalent to 3-months Euribor rate + spread 2%	26	26	-	-
Mutuo BCC Anagni	27-Mar-20	floating interest rate equivalent to 3-months Euribor rate + spread 1.5%	97	42	55	-
Total			41,986	22,997	17,249	1,740

Net financial indebtedness

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

	31 December			
	2017	<i>of which with related parties and group</i>	2016	<i>of which with related parties and group</i>
<i>(Euro in thousands)</i>				
Cash and cash equivalents	(21,487)		(18,501)	
Current financial assets ⁽¹⁾	(12,450)	(9,386)	(9,053)	(8,944)
Current financial liabilities	79,022	37	70,010	33
Current portion of derivative financial instruments	82		110	
Current financial indebtedness ⁽²⁾	45,167	(9,349)	42,566	(8,911)
Non-current financial liabilities	40,040	-	53,916	-
Non-current portion of derivative financial instruments	66		209	
Non-current financial indebtedness ⁽²⁾	40,106	-	54,125	-
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	85,273	(9,349)	96,691	(8,911)

⁽¹⁾ Current financial assets as at 31 December 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.

Net indebtedness as at 31 December 2017 stood at Euro 85,273 thousand (Euro 96,691 thousand as at 31 December 2016) decreasing by Euro 11,418 thousand.

The table below shows the breakdown of the following changes:

- decrease in current financial indebtedness of Euro 2,601 thousand due to the:
 - increase in current financial liabilities of Euro 9,012 thousand mainly related for Euro 26,407 thousand to the reclassification of short-term portions of medium/long-term loans offset by refunds for the period of Euro 28,856 thousand. The reclassification of loans includes Euro 5,583 thousand relating to portions falling due beyond the year that, due to failure to comply with contractual obligations related to financial covenants, were reclassified under short-term liabilities;
 - increase in current financial assets and cash and cash equivalents of Euro 6,383 thousand;
- decrease in non-current financial indebtedness of Euro 14,022 thousand deriving from the activation of new loans of Euro 12,521 thousand offset by the reclassification in the current financial indebtedness described in the previous paragraph of Euro 26,407 thousand.

This table shows the comparison between the book value and the fair value of the financial instruments as at 31 December 2017:

<i>(Euro in thousands)</i>	Book value as at 31 December 2017	Fair value
Financial liabilities:		
Loans	60,784	65,801
Non-current portion of finance leases, net	3,440	3,519
Total	64,225	69,320

19. Derivative financial instruments

The Group signed some contracts related to derivative financial instruments whose contractual characteristics and related fair value as at 31 December 2017 and 2016 are shown in the table below:

Counterparts	Type	Debt interest rate (fixed)	Credit interest rate (variable)	Start date	Maturity date	Notional principal (Euro)	Fair Value (Euro/000) as at 31 December	
							2017	2016
BNL	IRS	1.15% 1st year; 1.65% 2nd year; 2% 3rd year; 2.60% five following years	3-month Euribor	01/01/2011	31/05/2018	923,077	(19)	(65)
BNL	IRS	Fixed interest rate 1.49%	3-month Euribor	04/03/2012	04/09/2017	-	-	(19)
BNL	IRS	Fixed interest rate 0.8%	3-month Euribor	04/03/2013	04/09/2017	-	-	(10)
Veneto Banca	IRS	Fixed interest rate 1.09%	6-month Euribor	31/12/2013	31/12/2018	543,713	(5)	(16)
Cariparma	IRS	Fixed interest rate 0.34%	6-month Euribor	07/05/2015	26/03/2020	2,222,222	(18)	(30)
Iccrea	CAP	Interest rate for the period 0.75%	6-month Euribor	27/09/2015	27/09/2020	1,928,571	1	3

Monte dei Paschi di Siena	CAP	Interest rate for the period 0.61%	6-month Euribor	31/12/2016	30/09/2020	3,055,556	(25)	(44)
Comerica Banco Popolare	IRS	Fixed interest rate 1.74%	USD-Libor-BBA	12/01/2015	07/01/2018	3,022,312	(3)	(37)
Banca Popolare di Milano	IRS	Fixed interest rate 0.06%	6-month Euribor	03/10/2016	15/12/2020	2,062,500	(7)	(10)
Deutsche Bank	CAP	Fixed interest rate 0.12%	3-month Euribor	31/01/2017	30/04/2021	3,377,703	(1)	(7)
BPER	CAP	Interest rate for the period 0.15%	3-month Euribor	20/01/2017	30/11/2020	1,125,000	(1)	-
Banca Popolare di Milano	FORWARD SPOT	-	-	18/12/2017	18/03/2021	3,302,237	(11)	-
HSBC	FLEXIBLE	-	-	21/12/2017	30/04/2018	2,026,288	(58)	-
HSBC	FLEXIBLE	-	-	18/04/2017	29/05/2017	-	-	(15)
HSBC	FLEXIBLE	-	-	02/03/2017	18/04/2017	-	-	(36)
HSBC	FLEXIBLE	-	-	31/03/2017	10/05/2017	-	-	(15)
HSBC	FLEXIBLE	-	-	01/07/2017	29/08/2017	-	-	1
HSBC	FLEXIBLE	-	-	05/06/2017	03/07/2017	-	-	(6)
HSBC	FLEXIBLE	-	-	05/05/2017	01/06/2017	-	-	(4)
HSBC	FLEXIBLE	-	-	30/06/2017	27/07/2017	-	-	(3)
HSBC	FLEXIBLE	-	-	31/05/2017	03/07/2017	-	-	(2)
HSBC	FLEXIBLE	-	-	01/07/2017	29/08/2017	-	-	1
Assets for derivative instruments within the financial period							-	2
Assets for derivative instruments beyond the financial period							1	3
Liabilities for derivative instruments within the financial period							(85)	(110)
Liabilities for derivative instruments beyond the financial period							(63)	(209)

The Group uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The transactions for interest-rate risk hedging are limited to medium to long-term loans. The exchange-rate hedging transactions are limited to the amounts of the Indonesian commissions in the Energy segment.

The Group does not account for these financial instruments according to the methods established for hedge accounting since they do not meet all the requirements provided on this matter by the international accounting standards. Therefore, the changes in fair value of the financial instruments are attributed to the income statement during the financial period under review.

The financial management of the Group does not envisage the trading of derivative instruments with speculative purposes.

20. Employee benefit liability

The Group has no defined benefit pension plans in the strict sense. However, the severance indemnity fund allocated by the Parent Company and Italian subsidiaries required by Article 2120 of the Italian Civil Code, in terms of recognition in the financial statements, falls under this type and as such was accounted for, as shown in the applied accounting policies.

The following table shows the changes for the period ended 31 December 2017 and 31 December 2016 of employee benefits:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Present value of the liability at the beginning of the period	3,680	2,847
Financial expense	(24)	59
Service Cost	202	131
Change in the consolidation area	-	310
Benefits accrued	-	368
Benefits paid	(313)	(279)

Financial loss (profit)	111	260
Demographic loss (profit)	-	(16)
Present value of the liability at the end of the period	3,656	3,680

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

Economic and financial technical bases

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Annual discount rate	1.30%	1.30%
Inflation rate	1.50%	1.50%
Expected turnover rate of employees	2.62%	3.00%
Advance rate	3.00%	2.00%

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

<i>(Euro in thousands)</i>	Discount rate	
	0.50%	-0.50%
Effect on the aggregate current cost of the service and of the financial expenses	66	29
Reported value for liabilities with respect to defined benefit plans	3,445	3,884

Technical and demographic bases

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Mortality	2004 ISTAT tables	2004 ISTAT tables
Disability	INPS tables	INPS tables
Retirement age	67 N/F	67 N/F

Frequency of turnover and advances on severance indemnity

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Advance frequency %	1.83%	0.95%
Turnover frequency %	40.45%	33.49%

Workforce

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

<i>(average no. of employees)</i>	Financial period ended 31 December			
	2017	2016	2017 vs. 2016	%
Tesmec S.p.A.	331	315	16	5.1%

Tesmec Service S.r.l.	52	37	15	40.5%
Tesmec Automation S.r.l. (former SGE S.r.l.)*	51	45	6	13.3%
Tesmec USA, Inc.	76	81	-5	-6.2%
Tesmec SA (Pty) LTD	15	14	1	7.1%
OOO Tesmec RUS	6	8	(2)	-25.0%
Tesmec New Technology Beijing LTD	3	3	0	0.0%
Marais Group	250	156	94	60.3%
Total	784	659	125	19.0%

(*) Includes Bertel S.r.l., Tesmec Automation S.r.l. (SGE S.r.l.) and CPT Engineering S.r.l. subsequently merged into Tesmec Automation S.r.l.

The average number of employees as at 31 December 2017 shows the growing trend of the Group in 2017 mainly related to the increase in service activities in the companies of the Marais Group.

Current liabilities

21. Interest-bearing financial payables (current portion)

The following table sets forth the breakdown of *Interest bearing financial payables (current portion)* for the 2017 and 2016 financial periods:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Advances from banks against invoices and bills receivables	36,010	28,011
Other financial payables (short-term leases)	1,187	1,099
Payables due to factoring companies	3,886	2,201
Current accounts overdraft	4,112	779
Financial payables due to SIMEST	7,406	-
Short-term loans to third parties	3,289	4,896
Current portion of medium/long-term loans	22,997	32,952
Other short-term financial payables	135	72
Total interest-bearing financial payables (current portion)	79,022	70,010

The current portion of medium/long-term loans increased by Euro 9,012 thousand following the reclassification of short-term portion of medium/long-term loans for Euro 26,407 thousand. In particular, because of failure to comply with contractual obligations related to financial covenants, as described in paragraph 19, Euro 5,583 thousand were reclassified as short term. Moreover, the funding operation carried out by Simest S.p.A. in Tesmec USA Inc. due as at 30 June 2018 of Euro 7,406 thousand was reclassified as short term.

The increase in payables due to factoring companies is due to the increased use of "reverse factoring" for third suppliers.

22. Trade payables

The breakdown of *Trade payables* as at 31 December 2017 and as at 31 December 2016, respectively, is indicated in the table below:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Trade payables due to third-parties	37,113	31,044
Trade payables due to related parties	2,366	153
Total trade payables	39,479	31,197

Trade payables as at 31 December 2017 increased by Euro 8,282 thousand, 26.5% compared to the previous financial period as a result of a higher volume of purchases due to the increase in sales.

This figure includes payables related to the normal course of business by the Group, in particular the purchase of raw materials and outsourced works.

Note also that there are no payables with maturity exceeding five years at the above dates.

23. Income taxes payable

The breakdown of *Income taxes payable* as at 31 December 2017 and as at 31 December 2016, respectively, is indicated in the table below:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Current IRES tax liabilities	271	77
Current IRAP tax liabilities	104	54
Other current taxes	14	68
Total income taxes payable	389	199

IRES and IRAP taxes payable as at 31 December 2017 includes the net payable due by the Group for the payment of direct income taxes.

24. Provisions for risks and charges

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

Changes in the *provisions for risks and charges* as at 31 December 2017 and as at 31 December 2016 are indicated below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Value as at 1 January	3,704	3,392
Provisions	106	451
Reclassifications	(213)	-
Uses	(236)	(154)
Exchange-rate differences	(40)	15
Value as at 31 December	3,321	3,704

25. Other current liabilities

The following table sets forth the breakdown of *Other current liabilities* as at 31 December 2017 and as at 31 December 2016:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Due to social security	1,968	1,891
Due to INAIL (National Insurance Institute for Industrial Accidents)	219	191
Due to trade funds	172	169
Due to employees and collaborators	4,068	3,259
Guarantee deposits payable	593	739
Due to others	1,573	1,918

Accrued expenses and liabilities	1,242	340
Other current taxes	2,862	1,364
Total other current liabilities	12,697	9,871

Other current liabilities increased compared to the prior financial period of Euro 2,826 thousand and refers to the increase in Due to employees and collaborators of Euro 809 thousand.

26. Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2017 and 2016:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Deferred tax assets	10,451	11,520
Deferred tax liabilities	6,202	7,870

The breakdown of net deferred taxes as at 31 December 2017 and 2016 is shown in the following table by type by listing the items that present underlying temporary differences:

<i>(Euro in thousands)</i>	31 December		31 December		Financial period ended 31 December	
	Statement of financial position		Shareholders' equity		Income statement	
	2017	2016	2017	2016	2017	2016
Deferred tax assets						
Reversals of intangible assets	48	55	-	-	(7)	(31)
Obsolescence fund	1,232	1,375	(9)	-	(134)	423
Unrealised exchange-rate losses	938	470	-	-	468	(266)
Tax effect on UCC gain reversals	199	241	-	-	(42)	(93)
Tax effect on intercompany margin adjustments	1,066	1,123	(25)	120	(32)	(108)
Deferred tax assets Tesmec USA	2,610	3,303	137	182	(830)	831
Deferred tax assets Bertel	1,272	757	12	602	503	155
Deferred tax assets Marais Group	2,100	2,500	-	197	(400)	(392)
Other temporary differences	986	1,696	(587)	68	(123)	988
Total deferred tax assets	10,451	11,520	(472)	1,169	(597)	1,507
Deferred tax liabilities						
Unrealised exchange-rate gains	(1,269)	(1,448)	(7)	(1)	186	10
Difference of value - USA building	(154)	(303)	30	(1)	119	-
Capitalisation of Development costs Tesmec USA	(330)	(841)	113	228	398	25
Deferred tax liabilities Tesmec USA	(869)	(1,202)	135	(296)	198	199
Profits allocated to network reserve	(218)	(217)	-	33	-	-
Tax effect on intercompany margin adjustments	(27)	-	(46)	-	18	-
Deferred tax liabilities of Marais Group	(3,311)	(3,832)	-	(537)	521	682
Other temporary differences	(24)	(27)	6	(255)	(3)	298
Total deferred tax liabilities	(6,202)	(7,870)	231	(829)	1,437	1,214
Net effect on Shareholders' Equity						
Net balance deferred wealth taxes	4,249					
<i>Represented in the income statement as follows:</i>						

<i>Deferred tax assets</i>	(597)
<i>Deferred tax liabilities</i>	1,437
Deferred tax liabilities, net	840

The change in deferred tax assets is mainly attributable to the consequences of the reduction in the US Tax Rate from 35% to 21%.

Current taxation

Profit before taxes and the allocation for income taxes for the financial periods as at 31 December 2017 and 2016 are summarised below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Consolidated pre-tax profits	(1,512)	(6,870)
Current taxation:		
Italy	(223)	94
USA	(8)	4
Rest of the world	(508)	198
Deferred tax (liabilities)/assets		
Italy	896	169
USA	(718)	2,089
Rest of the world	661	463
Total Income taxes	100	3,017

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

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Profit before tax	(1,512)	(6,870)
IRES tax rate in force during the period	24.00%	27.50%
Theoretical tax charge	363	1,889
Irap	(208)	(157)
Permanent tax differences	265	458
Effect of different tax rate for foreign companies	(320)	827
Total difference	(55)	1,285
Total tax charge as per income statement	100	3,017

Comments to the main items in the income statement

27. Revenues from sales and services

In the 2017 and 2016 financial periods, revenues from sales and services amounted to Euro 175,559 thousand and Euro 128,513 thousand, respectively. The breakdown is set below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Sales of goods	125,536	98,721
Services rendered	43,186	28,562
	168,722	127,283
Changes in work in progress	6,837	1,230
Total revenues from sales and services	175,559	128,513

The Group realised in 2017 revenues of Euro 175,559 thousand against a figure of Euro 128,513 thousand in 2016 up by 36.6%. The trend of the three segments is shown below:

- **Energy**
The machines and integrated systems for the construction, maintenance and streamlining of underground and aerial power lines recorded an increase in revenues by Euro 9,857 thousand (+23.4%) from Euro 42,212 thousand as at 31 December 2016 to Euro 52,069 thousand as at 31 December 2017 thanks to a general recovery in infrastructure investments in Emerging Countries.
- **Trencher**
High-powered truck trenchers and systems for the construction of underground infrastructures such as gas pipelines, oil pipelines, water systems, trenches for laying cables and for earth moving works recorded an increase in revenues of Euro 25,476 thousand (+31.6%) from Euro 80,571 thousand as at 31 December 2016 to Euro 106,047 thousand as at 31 December 2017.
- **Rail**
Machines and integrated systems for the installation, maintenance and diagnostics of the railway catenary wire system, plus customised machines for special operations on the line recorded an increase in revenues by 204.4% compared to the previous year. Revenues as at 31 December 2017 amounted to Euro 17,443 thousand (included Euro 6,837 thousand related to changes in work in progress) compared to Euro 5,730 thousand of the previous year; this increase is attributable to the development phase of production activities related to the major orders acquired at the end of 2016.

28. Cost of raw materials and consumables

For the financial periods as at 31 December 2017 and 31 December 2016, cost of raw materials and consumables amount to Euro 78,326 thousand and Euro 49,029 thousand, respectively.

The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Cost for the purchase of raw materials and consumables	74,640	57,063
Change in inventories	3,686	(8,034)
Total cost of raw materials and consumables	78,326	49,029

Cost of raw materials and consumables decreased by Euro 29,297 thousand (59.8%) less than proportionally than the increase in sales volumes (+36.6%).

29. Costs for services

The table below shows the breakdown of *costs for services* that amounted in 2017 and in 2016 to Euro 30,856 thousand and Euro 29,098 thousand, respectively.

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Transport, customs and incidental expenses	6,682	4,487
Outsourced work service	4,454	3,467
External production services	74	754
Services for legal, tax, technical and other consultancy	5,929	7,225
Banking services	782	726
Insurance	636	563
Energy, water, gas, telephone expenses and postage	1,518	1,335
Board and lodging expenses and travelling allowance	4,029	3,694
Directors' and Auditors' fees	891	918
Advertising and other selling expenses	1,277	1,116
Maintenance services	1,288	765
Commissions and additional expenses	1,971	2,955
Other general expenses	1,325	1,093
Total costs for services	30,856	29,098

The increase in costs for services (+6.0%) is due to the increase in *transport expenses* for Euro 2,195 thousand in relation to the increase in revenues. There was also a general reduction in costs following a policy of optimisation and cost containment.

The total includes Euro 403 thousand of non-recurring consultancy costs.

30. Payroll costs

During the financial periods ended 31 December 2017 and 31 December 2016, payroll costs amounted to Euro 46,249 thousand and Euro 40,000 thousand, respectively, up by 15.6%.

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Wages and salaries	34,615	29,435
Social security charges	9,434	8,390
Employee severance indemnity	1,095	1,062
Other personnel costs	1,105	1,113
Total payroll costs	46,249	40,000

The 15.6% increase in this item is related to the increase in service activities in Group revenues, in relation to the pursuit of the company strategy in the search for new technology businesses (Rail), and in international growth with the strengthening in all markets in which Marais is the leader (Africa, Australia, New Zealand, etc.)

31. Other operating (costs)/revenues, net

During the financial periods ended 31 December 2017 and 31 December 2016, other net operating (costs)/revenues amounted to Euro 3,500 thousand and Euro 6,845 thousand, respectively.

The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Provisions for risks and other net provisions	(245)	(172)
Rents	1,839	875
Hiring	5,336	2,570
Other lease and rental expenses	737	1,166
Sundry taxes	491	694
Non-recurring other operating (costs)/revenues, net	-	2,232
Other revenues	(6,076)	(1,714)
Other	1,418	1,194
Total other operating (costs)/revenues, net	3,500	6,845

The item *Other operating (costs)/revenues, net* decreased by Euro 3,345 thousand in that, in the 2016 financial period, this item contained non-recurring costs of Euro 2,232 thousand shown in the Consolidated Income Statement related to reclassification of the recording related to the building of Grassobbio.

The item other revenues includes the value of the tax credit for the 2016 and 2017 financial periods for both the Italian and French companies of the Group for a total value of Euro 5,335 thousand.

32. Amortisation and depreciation

During the financial periods ended 31 December 2017 and 31 December 2016, depreciation and amortisation amounted to Euro 14,633 thousand and Euro 12,830 thousand, respectively, with a 14.1% increase.

The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Amortisation of intangible assets	8,042	6,919
Depreciation of property, plant and equipment	6,591	5,911
Total amortisation and depreciation	14,633	12,830

33. Development costs capitalised

Development costs capitalised for the financial periods ended 31 December 2017 and 31 December 2016 amounted to Euro 5,671 thousand and Euro 5,050 thousand, respectively.

The Group continued to develop the projects for the launch of new models and new functionalities of own products, which are requested from the markets, in order to maintain its leader sector position.

34. Financial expenses

During the financial periods ended 31 December 2017 and 31 December 2016, financial expenses amounted to Euro 10,239 thousand and Euro 6,618 thousand. The increase compared to the previous year is mainly due to higher losses on unrealised exchange rates mainly deriving from loans granted to subsidiaries. The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Bank interests expense	453	339
Interests payable for factoring and billing discounts	206	203
Interests payable on interest-bearing medium/long-term loans and borrowings	2,618	2,615
Interests payable on advance loans on exports	187	104
Other sundry financial expenses	647	463

Financial expenses on lease contracts	94	929
Realised foreign exchange losses	2,475	770
Unrealised foreign exchange losses	3,547	1,085
Fair value adjustment of derivative instruments	12	110
Total financial expenses	10,239	6,618

Financial expenses shows an increase compared to the previous financial year of Euro 3,621 thousand as a result of:

- increase in *foreign exchange losses (realised and unrealised)* of Euro 4,167 thousand due to the exchange rate used on the date of collection compared to the one used on the invoice date and to the adjustment to the exchange rate in effect as at 31 December 2017 of the currency items;
- decrease in *financial expenses on lease contracts* of Euro 835 thousand following the new lease contract at the end of 2016.

35. Financial income

During the financial periods ended 31 December 2017 and 31 December 2016, financial income amounted to Euro 2,585 thousand and Euro 4,199 thousand, respectively.

The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Interests from banks	37	58
Realised foreign exchange gains	931	960
Unrealised foreign exchange gains	415	2,625
Fair value adjustment of derivative instruments	159	149
Sundry income	1,043	407
Total financial income	2,585	4,199

Financial income decreased by Euro 1,614 thousand mainly due to lower unrealised foreign exchange gains.

36. Segment Reporting

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

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 (RockHawg);
- specialised consultancy and excavation services on customer request;
- multipurpose site machinery (Gallmac).

Rail segment

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

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

	31 December									
	2017					2016				
	Energy	Trencher	Rail	Not allocated	Consolidated	Energy	Trencher	Rail	Not allocated	Consolidated
<i>(Euro in thousands)</i>										
Intangible assets	9,741	4,280	4,319	-	18,340	10,655	3,526	4,710	-	18,891
Property, plant and equipment	1,905	42,595	1,602	-	46,102	1,966	45,209	114	-	47,289
Financial assets	3,330	767	12	20	4,129	3,289	776	138	-	4,203
Other non-current assets	1,743	2,857	97	5,915	10,612	1,169	3,113	95	7,516	11,893
Total non-current assets	16,719	50,499	6,030	5,935	79,183	17,079	52,624	5,057	7,516	82,276
Work in progress contracts	-	-	6,768	-	6,768	-	-	1,291	-	1,291
Inventories	16,170	45,632	1,323	-	63,125	15,366	53,151	710	-	69,227
Trade receivables	6,889	31,508	1,457	-	39,854	15,387	33,600	446	-	49,433
Other current assets	1,686	2,211	2,779	16,096	22,772	2,312	2,740	30	8,492	13,574
Cash and cash equivalents	1,474	1,000	4,942	14,071	21,487	818	487	1,425	15,771	18,501
Total current assets	26,219	80,351	17,269	30,167	154,006	33,883	89,978	3,902	24,263	152,026
Total assets	42,938	130,850	23,299	36,102	233,189	50,962	142,602	8,959	31,779	234,302
Shareholders' equity attributable to Parent Company	-	-	-	43,107	43,107	-	-	-	48,221	48,221
Shareholders' equity attributable to non-controlling interests	-	-	-	1,725	1,725	-	-	-	1,699	1,699
Non-current liabilities	1,100	7,832	1,266	39,789	49,987	971	10,217	1,712	52,928	65,828
Current financial liabilities	542	7,220	2,782	68,563	79,107	959	3,792	371	64,998	70,120
Trade payables	9,178	25,763	4,538	-	39,479	10,620	18,244	2,333	-	31,197
Other current liabilities	1,127	6,793	1,420	10,444	19,784	1,557	7,609	404	7,667	17,237
Total current liabilities	10,847	39,776	8,740	79,007	138,370	13,136	29,645	3,108	72,665	118,554
Total liabilities	11,947	47,608	10,006	118,796	188,357	14,107	39,862	4,820	125,593	184,382
Total shareholders' equity and liabilities	11,947	47,608	10,006	163,628	233,189	14,107	39,862	4,820	175,513	234,302

	Financial period ended 31 December									
	2017					2016				
	Energy	Trencher	Rail	Consolidated	Energy	Trencher	Rail	Consolidated		
<i>(Euro in thousands)</i>										
Revenues from sales and services	52,069	106,047	17,443	175,559	42,212	80,571	5,730	128,513		
Operating costs net of depreciation and amortisation	(44,059)	(95,743)	(15,015)	(154,817)	(37,593)	(77,712)	(4,688)	(119,993)		
EBITDA	8,010	10,304	2,428	20,742	4,619	2,859	1,042	8,520		
Amortisation and Depreciation	(4,335)	(7,919)	(2,379)	(14,633)	(3,854)	(6,914)	(2,062)	(12,830)		
Total operating costs	(48,394)	(103,662)	(17,394)	(169,450)	(41,447)	(84,626)	(6,750)	(132,823)		
Operating income	3,675	2,385	49	6,109	765	(4,055)	(1,020)	(4,310)		
Net financial income/(expenses)				(7,621)				(2,560)		
Pre-tax profit/(loss)				(1,512)				(6,870)		
Income tax				100				3,017		
Net profit (loss) for the period				(1,412)				(3,853)		
Profit / (loss) attributable to non-controlling interests				18				91		
Group profit/(loss)				(1,430)				(3,944)		

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

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

37. Related party transactions

The following table gives details of economic and equity transactions with related parties. The companies listed below have been identified as related parties as they are linked directly or indirectly to the current shareholders:

In particular, for the financial period ended 31 December 2017, the breakdown of each related party is indicated below:

	31 December				31 December			
	2017				2016			
	Trade receivables	Current financial receivables	Current financial payables	Trade payables	Trade receivables	Current financial receivables	Current financial payables	Trade payables
<i>(Euro in thousands)</i>								
Associates:								
Locavert S.A.	95	-	-	-	78	-	-	-
SEP Moselle	-	-	-	-	-	32	-	-
SEP Semafor 77	-	-	-	-	-	-	20	-
SEP Laison	-	-	-	-	-	-	13	-
SEP College	-	-	-	-	-	6	-	-
Subtotal	95	-	-	-	78	38	33	-
Joint Ventures:								
Condux Tesmec Inc.	1,046	-	-	-	206	332	-	-
Tesmec Peninsula	17	1,930	37	979	39	3,508	-	34
Marais Tunisie	-	2	-	-	-	2	-	-
Marais Lucas	-	794	-	-	-	794	-	-
Subtotal	1,063	2,726	37	979	245	4,636	-	34
Related parties:								
Ambrosio S.r.l.	-	-	-	-	-	-	-	4
Ceresio Tours S.r.l.	-	-	-	-	-	-	-	1
Dream Immobiliare S.r.l.	-	1,162	-	-	-	4,270	-	212
Fi.ind.	27	-	-	-	-	-	-	-
TTC S.r.l.	-	-	-	26	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	1,373	2,911	-	1,199	308	-	-	-
MTS4SERVICE USA L.L.C	10	1,387	-	119	-	-	-	-
Reggiani Macchine S.p.A.	-	-	-	-	122	-	-	(112)
Comatel	9	-	-	-	-	-	-	-
C2D	4	1,200	-	43	-	-	-	14
Subtotal	1,423	6,660	-	1,387	430	4,270	-	119
Total	2,581	9,386	37	2,366	753	8,944	33	153

	Financial period ended 31 December					Financial period ended 31 December				
	2017					2016				
	Revenues	Cost of raw materials	Costs for services	Other operating (costs)/revenues, net	Financial income and expenses	Revenues	Cost of raw materials	Costs for services	Other operating (costs)/revenues, net	Financial income and expenses
<i>(Euro in thousands)</i>										
Associates:										
Locavert S.A.	696	-	-	-	-	225	-	-	-	-
Subtotal	696	-	-	-	-	225	-	-	-	-
Joint Ventures:										
Condux Tesmec Inc.	3,152	(9)	-	175	6	1,298	-	-	182	45
Tesmec Peninsula	-	(1,013)	(78)	53	102	-	-	(34)	109	81
Marais Tunisie Sa	-	-	-	-	-	4	-	-	-	-
Subtotal	3,152	(1,022)	(78)	228	108	1,302	-	(34)	291	126
Related parties:										
Ambrosio S.r.l.	-	-	-	(14)	-	-	-	-	(14)	-
CBF S.r.l.	-	-	-	-	-	-	-	-	1	-
Ceresio Tours S.r.l.	-	-	(8)	(1)	-	-	-	(6)	-	-
Dream Immobiliare S.r.l.	-	-	-	(2,242)	-	-	-	-	(322)	(873)
Fi.ind.	-	-	-	86	-	-	-	-	-	-
TTC S.r.l.	180	-	(21)	-	-	-	-	(21)	-	-
Fintetis S.r.l.	-	-	-	-	-	(30)	-	-	-	-
Lame Nautica S.r.l.	14	-	-	-	-	-	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	9,644	(902)	34	(277)	37	3,635	(1)	5	10	-
MTS4SERVICE USA L.L.C	7,978	-	-	(127)	10	-	-	-	-	-
Reggiani Macchine S.p.A.	-	-	-	-	-	193	(53)	(122)	243	-
C2D	1	-	(257)	1	2	-	-	-	-	-
Subtotal	17,817	(902)	(252)	(2,574)	49	3,798	(54)	(144)	(82)	(873)
Total	21,665	(1,924)	(330)	(2,346)	157	5,325	(54)	(178)	209	(747)

- Locavert S.A.: the French associate purchases normally trenchers/spare parts for rental business and carrying-out of excavation works at market prices and terms of payment;
- Condux Tesmec, Inc.: the JV purchases stringing machines and equipment for sale on the American market at market prices and terms of payment;
- Tesmec Peninsula WLL: the JV operates on the Saudi Arabian market supplying trencher machinery produced by the Group as well as on-site and after-sale support services. The income and cost items relate to the normal marketing activities of trenching machines;
- Dream Immobiliare S.r.l.: following the lease contract executed at the end of last year Other operating (costs)/revenues, net includes the rentals for the Grassobbio building of Euro 2,242 thousand. In the previous financial year, these costs were recorded as amortisation and interest expense;
- M.T.S. Officine meccaniche S.p.A. and MTS4SERVICE USA L.L.C: revenues amounting to Euro 9,644 thousand and Euro 7,978 thousand, respectively, are mainly related to the operation described in the paragraph 5.1 *Transaction with the related party MTS - Officine Meccaniche di Precisione S.p.A.*

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

Year 2017:

Board of Directors				
Name and Surname	Role	Fees (in Euro)	Bonus and other fees (in Euro)	Total fees (in Euro)
Ambrogio Caccia Dominioni	Chairman and Chief Executive Officer	480,000	-	480,000
Gianluca Bolelli	Vice Chairman	83,200	-	83,200
Sergio Arnoldi	Director	20,800	-	20,800
Gioacchino Attanzio	Director	30,000	-	30,000
Caterina Caccia Dominioni	Director	52,000	-	52,000
Guido Giuseppe Maria Corbetta	Director	20,000	-	20,000
Lucia Caccia Dominioni	Director	20,000	-	20,000
Paola Durante	Director	20,000	-	20,000

Board of Statutory Auditors				
Name and Surname	Role	Fees (in Euro)	Bonus and other fees (in Euro)	Total fees (in Euro)
Simone Cavalli	Chairman	40,560	-	40,560
Stefano Chirico	Standing Auditor	26,468	-	26,468
Alessandra De Beni	Standing Auditor	26,000	-	26,000

Fees paid to executives with strategic responsibilities in the 2017 financial period amounted to Euro 363 thousand (Euro 362 thousand in the 2016 financial year).

39. Legal disputes

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

The former distributor filed an appeal against the judgment. The case is called for discussion on 28 May 2018, unless referrals of a case back to the Court of second Instance for the duty.

In January 2016, as a result of the lodging of the defence documents and documentary evidence, the first hearing of the arbitration started by Tesmec at the China International Economic and Trade Arbitration Commission of Beijing (CIETAC) was held. The subject matter of the arbitration is the collection of the debt due by the Chinese trading company that has not paid the price of important supplies of stringing equipment material of more than Euro 1.3 million as from 2010.

On 12 May 2017, the Arbitration Court issued a ruling in favour of Tesmec, acknowledging the validity of the claims made by Tesmec regarding the non-payment of 2 supply contracts, ordering the trading company to pay Euro 889 thousand for principal, approximately Euro 494 thousand for interest on arrears, as well as reimbursement of legal expenses.

The trading company filed an appeal to the Beijing ordinary court against the arbitration award to obtain a pronouncement of invalidity for lack of jurisdiction. On 14 December 2017, the ordinary court dismissed the appeal and declared it to be entirely unfounded.

In connection with the finality of the sentence imposed by the arbitration award, contacts were initiated between the lawyers of the parties to define the methods for crediting the amount due, as well as the additional default interest accrued up to the date of crediting.

In connection with the arbitration ruling, Tesmec activated the recovery of the credit of the remaining supply contract, unpaid for Euro 491 thousand, taking legal action in the Beijing ordinary court. The proceedings are currently pending.

Tesmec was summoned to appear before the Court of Alabama for a claim for damages occurred in August 2013. Tesmec is involved as a provider of a rope. There appears to be no causal link concerning the alleged responsibility of Tesmec. To date, the parties are discussing about the competence of the Court of Alabama. The thesis of the lawyers of Tesmec is that the Federal Court and not the Public Court must be competent on this issue. The Insurance Company is constantly informed of the facts and confirmed that it will also bear the legal costs.

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

Note that, pursuant to CONSOB Communication no. DEM/6064293 of 28 July 2006, in 2017 the Company did not carry out any atypical and/or unusual operation, as defined by the Communication itself.

41. Commitments and risks

They include sureties, guarantees and third-party assets with the Group. For the financial periods as at 31 December 2017 and 2016, they are summarised as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Sureties	37,826	42,844
Total commitments and risks	37,826	42,844

The recorded value concerns sureties provided by Tesmec S.p.A. through primary banking institutions in favour of customers. The increase is mainly due to the orders of the newly set up Rail sector.

On the basis of the specific characteristics of the segments in which the Company works, Tesmec did not make any provision for contingent liabilities in the memorandum accounts. Risks and future expenses are reasonably hedged by funds specifically accounted for in the financial statements.

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

The following table shows the fees charged for the 2017 and 2016 financial periods for auditing services and for services other than audit rendered by the Independent Auditors.

<i>(Euro in thousands)</i>	Independent Auditors that supplied the service	Receiver	Accrued amount	
			2017	2016
Audit of the financial statements and consolidated financial statements	EY S.p.A.	Tesmec S.p.A. Parent Company	121	101
	Rete EY S.p.A.	Subsidiaries and Joint Ventures	178	93
Limited half-year auditing	EY S.p.A.	Tesmec S.p.A. Parent Company	28	28
Certification services (1)	EY S.p.A.	Tesmec S.p.A. Parent Company	5	5
Other services (2)	EY S.p.A.	Tesmec S.p.A. Parent Company	-	56
Total			332	283

(1) This item refers to activities aimed at the signing of Tax Returns.

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

In addition to the services reported in the previous table, in the period between the closing date of the financial year and the date of this Annual Financial Report, additional audit services for Euro 60 thousand are currently provided by EY S.p.A. for the Parent Company.

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

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

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

- on 31 January 2018, Tesmec S.p.A. purchased a further 13.2% stake in the share capital of Marais Technologies SAS, a French company already controlled by Tesmec with a 52.8% stake in the share capital.

This equity investment was sold to Tesmec by C2D SAS, a company owned by Daniel Rivard, current chairman of Marais, performing broader agreements (as per press releases dated 27 March 2015, 8 April 2015 and 22 December 2015) concluded on the one hand by Tesmec and on the other hand by Daniel Rivard and C2D.

The price paid for the purchase of the equity investment amounted to Euro 1.5 million, which can be increased by a total additional amount of Euro 2 million upon achieving turnover (for the financial period ended 31 December 2017) and margin targets (for the financial period ended 31 December 2018).

Daniel Rivard will continue to be operative chairman of Marais.

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

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

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

of the administrative and accounting procedures for preparing the consolidated financial statements during the 2017 financial period.

2. We also certify that:

2.1 the consolidated financial statements as at 31 December 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;
- provide a true and fair view of the financial position, the results of the operations and of the cash flows of the issuer and of its consolidated companies.

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

Milan, 1 March 2018

Ambrogio Caccia Dominioni
Chief Executive Officer

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

INDEPENDENT AUDITOR'S REPORT



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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014 (Translation from the original Italian text)

To the Shareholders of
Tesmec S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Tesmec Group (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in consolidated shareholders' equity and consolidated statement of consolidated cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of Tesmec S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

Key Audit Matter	Audit Response
<p>Revenue recognition: terms and conditions of product sales</p> <p>Sales transactions are based upon shipping terms that can vary by region and that include, in some cases, the transfer of risks of ownership to the buyer prior to the actual delivery of the product.</p> <p>Revenue recognition criteria for such transactions require the assessment of sales contractual terms and the fulfillment of relevant obligations.</p> <p>The assessment of sales terms and conditions and their application to revenue recognition have been deemed a key audit matter, considering the dissimilarity and complexity of certain contractual terms applied to sales transactions.</p> <p>The Group disclosed the criteria applied to revenue recognition for product sales in explanatory note 3.3 “Significant accounting policies – Revenues and costs” to the consolidated financial statements.</p>	<p>Our audit procedures in response to this key audit matter included, among others:</p> <ul style="list-style-type: none"> · gaining an understanding of the Group process related to revenue recognition in accordance with applicable financial reporting standards; · assessing the process and the key controls implemented by the Group for revenue recognition; · performing tests of key controls, including those related to the application of contractual terms; · performing substantive procedures to address revenue recognition at year-end, where the risks of ownership are transferred to the buyer prior to the actual delivery of the product. <p>Lastly, we reviewed the disclosure in the notes to the consolidated financial statements.</p>
<p>Compliance with financial covenants provided in financial loan contracts</p> <p>The Group’s net financial indebtedness amounts to Euro 85,3 million. Certain medium/long-term loan contracts contain financial covenant provisions that have not been met at 31 December 2017; accordingly, the Group reclassified to current liabilities the medium/long-term portion of such loans, amounting to Euro 5,6 million, and initiated discussions with credit institutions in order to obtain a waiver for the application of financial covenant provisions.</p> <p>The accounting treatment of the non-compliance with such covenants and related disclosure have been deemed a key audit matter considering the current and potential impacts of their non-compliance on the net financial indebtedness.</p>	<p>Our audit procedures in response to this key audit matter included, among others:</p> <ul style="list-style-type: none"> · reviewing loan contracts and communications with credit institutions on financial covenants; · corroborating the financial statement presentation of financial liabilities with covenants terms based on the criteria stated in financial loan contracts; · obtaining information from management in respect of the actions initiated with credit institutions in order to obtain the waiver and the evaluation of potential financial statements implications. <p>Lastly, we reviewed the disclosure in the notes to the consolidated financial statements.</p>

The Group disclosed its financial covenants, the potential impacts of their non-compliance and the actions initiated with credit institutions in explanatory note 18 “Medium/long-term loans” to the consolidated financial statements.

Related parties transactions

During the current year the Group executed a multi-years agreement with a related party concerning:

- (i) the sale of certain machines produced by Tesmec Group;
- (ii) the supply of related logistics and maintenance services on such machines;
- (iii) the possible use of the machines sold under short-term leasing agreements.

As described in the opinion provided by the Related-Party Committee, the transactions aimed to increase the level of flexibility of the operating cost structure and to lower the risk related to the direct investment in machines to be used in project activities. In addition, the considerations for the transactions are determined based on the Group's list prices and other terms and conditions applied to third parties.

The machines sold by the Group under such agreement resulted in the recognition of revenues in 2017 for Euro 13,5 million.

Considering the materiality of the transaction with such related party and the underlying economic and financial terms, we deemed that this area constitutes a key audit matter.

The Group disclosed such transactions with related party, the related reasons and approvals and their financial statements implications in explanatory note 5.1 “Transaction with related party MTS – Officine meccaniche di precisione S.p.A.” to the consolidated financial statements.

Our audit procedures in response to this key audit matter included, among others:

- assessing the application of the Group internal policy for transactions with related parties;
- inspecting the minutes of approval of the transaction by the Board of Directors and by the Related-Party Committee and the contracts signed under such approval;
- performing testing of sales occurred during the financial year, to assess the terms and conditions applied.

Lastly, we reviewed the disclosure in the notes to the consolidated financial statements.



Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional scepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required

to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the [consolidated] financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Tescmec S.p.A., in the general meeting held on 23 February 2010, engaged us to perform the audits of the separate and consolidated financial statements for each of the years ending 31 December 2010 to 31 December 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.



Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Tesmec S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Tesmec Group as at 31 December 2017, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Tesmec Group as at 31 December 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Tesmec Group as at 31 December 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Tesmec S.p.A. are responsible for the preparation of the consolidated disclosure of non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that the consolidated disclosure of non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such consolidated disclosure of non-financial information are subject to a separate compliance report signed by us.

Milan, 15 March 2018

EYS.p.A.
Signed by: Massimiliano Vercellotti, partner

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

FINANCIAL STATEMENTS OF TESMEC S.P.A.

Statement of financial position

(in Euro)	Notes	31 December	
		2017	2016
NON-CURRENT ASSETS			
Intangible assets	5	6,375,603	6,543,931
Property, plant and equipment	6	9,130,186	10,562,700
Equity investments in subsidiaries		40,710,726	38,408,386
Equity investments in associates	7	1,737,511	1,737,511
Other equity investments		2,808	2,808
Financial receivables and other non-current financial assets	8	1,500	4,200
<i>of which with related parties:</i>		-	-
Derivative financial instruments	16	868	2,849
Deferred tax assets	23	2,226,676	1,991,107
TOTAL NON-CURRENT ASSETS		60,185,878	59,253,492
CURRENT ASSETS			
Inventories	8	35,554,942	35,982,658
Trade receivables	9	27,367,015	34,578,218
<i>of which with related parties:</i>		10,558,344	4,977,565
Tax receivables	10	41,296	506,293
Other available-for-sale securities		2,109	2,037
Financial receivables and other current financial assets	11	45,833,610	41,383,641
<i>of which with related parties:</i>		42,900,998	41,351,777
Other current assets	12	4,851,572	728,795
<i>of which with related parties:</i>		485,186	8,798
Derivative financial instruments	16	-	1,538
Cash and cash equivalents	13	11,814,793	14,524,408
TOTAL CURRENT ASSETS		125,465,337	127,707,588
TOTAL ASSETS		185,651,215	186,961,080
SHAREHOLDERS' EQUITY			
Share capital	14	10,708,400	10,708,400
Reserves	14	35,022,921	33,355,302
Net profit (loss) for the period	14	1,993,903	1,647,917
TOTAL SHAREHOLDERS' EQUITY		47,725,224	45,711,619
NON-CURRENT LIABILITIES			
Medium/long-term loans	15	19,757,092	27,919,228
Bond issue		14,796,615	14,734,545
Derivative financial instruments	16	63,462	171,498
Employee benefit liability	17	2,137,736	2,526,375
Deferred tax liabilities	23	1,458,739	1,640,358
Other non-current liabilities		-	150,000
TOTAL NON-CURRENT LIABILITIES		38,213,644	47,142,004
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	18	63,858,564	61,015,343
<i>of which with related parties:</i>		2,076,510	9,893
Derivative financial instruments	16	81,759	109,974
Trade payables	19	25,197,870	25,192,280
<i>of which with related parties:</i>		3,144,263	4,691,442
Advances from customers		2,845,942	2,414,591
Income taxes payable	20	171	41,988
Provisions for risks and charges	21	250,000	350,000
Other current liabilities	22	7,478,041	4,983,281
<i>of which with related parties:</i>		436,260	42,420
TOTAL CURRENT LIABILITIES		99,712,347	94,107,457
TOTAL LIABILITIES		137,925,991	141,249,461
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		185,651,215	186,961,080

Income statement

<i>(in Euro)</i>	Notes	Financial period ended 31 December	
		2017	2016
Revenues from sales and services	24	90,949,729	78,810,499
<i>of which with related parties:</i>		24,858,321	12,900,858
Cost of raw materials and consumables	25	(51,017,644)	(35,687,991)
<i>of which with related parties:</i>		(4,052,453)	(6,271,217)
Costs for services	26	(15,937,659)	(16,846,511)
<i>of which with related parties:</i>		(46,496)	(565,264)
Non-recurring costs for services		(402,500)	(872,652)
Payroll costs	27	(18,604,045)	(18,291,156)
Other operating (costs)/ revenues, net	28	5,608,196	101,271
<i>of which with related parties:</i>		(817,501)	772,899
Additional rental costs of Grassobbio Property Complex		(1,800,000)	(2,349,967)
Amortisation and Depreciation	29	(4,635,395)	(4,858,652)
Development costs capitalised	30	2,765,555	2,750,807
Total operating costs		(84,023,492)	(76,054,851)
Operating income		6,926,237	2,755,648
Financial expenses	31	(8,878,658)	(5,926,284)
<i>of which with related parties:</i>		(69,395)	(872,878)
Financial income	32	3,603,205	5,251,563
<i>of which with related parties:</i>		1,291,486	1,407,325
Pre-tax profit		1,650,784	2,080,927
Income tax	23	343,119	(433,010)
Net profit for the period		1,993,903	1,647,917

Comprehensive income statement

<i>(in Euro)</i>	Notes	Financial period ended 31 December	
		2017	2016
NET PROFIT FOR THE PERIOD		1,993,903	1,647,917
<i>Other components of comprehensive income:</i>			
<i>Other components of comprehensive income that will not be subsequently reclassified to net income/(loss) for the year:</i>			
Actuarial profit/(loss) on defined benefit plans	17	(25,925)	145,908
Income tax		6,223	(268,479)
		(19,702)	(122,571)
Total other income/(losses) after tax		(19,702)	(122,571)
Total comprehensive income (loss) after tax		1,974,201	1,525,346

Cash flow statement

<i>(in Euro)</i>	Notes	Financial period ended 31 December	
		2017	2016
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		1,993,903	1,647,917
<i>Adjustments to reconcile net income for the period with the cash flows generated by / (used in) operating activities:</i>			
Amortisation and Depreciation	29	4,635,395	4,858,652
Provisions for employee benefit liability	17	32,844	207,139
Provisions for risks and charges / inventory obsolescence / doubtful accounts			57,000
Employee benefit payments	17	(277,003)	(245,514)
Payments/use of provisions for risks and charges		(100,000)	-
Net change in deferred tax assets and liabilities	23	(423,411)	497,892
Change in fair value of financial instruments	16	(132,732)	(13,910)
<i>Change in current assets and liabilities:</i>			
Trade receivables	9	7,642,554	(2,215,505)
<i>of which with related parties:</i>		(5,580,858)	3,878,636
Inventories	8	427,716	(5,443,712)
Trade payables	19	5,590	(5,202,573)
<i>of which with related parties:</i>		(1,547,075)	3,053,085
Other current assets and liabilities		(1,473,392)	(1,116,418)
<i>of which with related parties:</i>		(82,537)	(78,980)
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		12,331,464	(6,969,032)
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	6	(1,389,253)	(997,731)
Investments in intangible assets	5	(3,113,003)	(2,904,430)
(Investments) / disposal of financial assets		(6,749,681)	(2,520,780)
<i>of which with related parties:</i>		(1,551,693)	1,114,037
Proceeds from sale of property, plant and equipment and intangible assets	5-6	1,467,703	294,919
Grassobbio new lease contract effect			18,929,099
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		(9,784,234)	12,801,077
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	15	11,219,375	18,014,250
Repayment of medium/long-term loans	15	(24,230,228)	(17,905,741)
Grassobbio new lease contract effect		-	(16,579,133)
<i>of which with related parties:</i>		-	(16,579,133)
Net change in short-term financial debt	18	7,754,008	12,594,164
<i>of which with related parties:</i>		2,066,617	(1,200,995)
Dividend distribution		-	(2,565,838)
Purchase of treasury shares		-	(316,609)
NET CASH FLOW GENERATED BY / (USED IN) FINANCING ACTIVITIES (C)		(5,256,845)	(6,758,907)
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		(2,709,615)	(926,862)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	13	14,524,408	15,451,270
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		11,814,793	14,524,408
Additional information:			
Interest paid		4,021,468	3,680,192
Income tax paid		183,527	3,520,889

Statement of changes in shareholders' equity

	Share capital	Legal reserve	Share premium reserve	Reserve of Treasury Shares	Other reserves	Profit for the period	Total shareholders' equity
<i>(in Euro)</i>							
Balance as at 1 January 2016	10,708,400	2,141,680	10,915,101	(2,135,622)	17,998,178	7,411,919	47,039,656
Net profit for the period	-	-	-	-	-	1,647,917	1,647,917
Allocation of profit for the period	-	-	-	111,262	4,734,819	(4,846,081)	-
Dividend distribution	-	-	-	-	-	(2,565,838)	(2,565,838)
Purchase of treasury shares	-	-	-	(316,609)	-	-	(316,609)
Distribution for network Reserve	-	-	-	-	29,064	-	29,064
Other changes	-	-	-	-	(122,571)	-	(122,571)
Balance as at 31 December 2016	10,708,400	2,141,680	10,915,101	(2,340,969)	22,639,490	1,647,917	45,711,619
							-
Net profit for the period	-	-	-	-	-	1,993,903	1,993,903
Allocation of profit for the period	-	-	-	-	1,647,917	(1,647,917)	-
Dividend distribution	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-
Other changes	-	-	-	-	19,702	-	19,702
Balance as at 31 December 2017	10,708,400	2,141,680	10,915,101	(2,340,969)	24,307,109	1,993,903	47,725,224

Explanatory notes

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

1. Company information

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

The publication of Tesmec's financial statements for the period ended 31 December 2017 was authorised by means of the resolution of the Board of Directors on 1 March 2017.

2. Reporting standards

The financial statements of Tesmec S.p.A. as at 31 December 2017 comprise the statement of financial position, income statement, statement of comprehensive income, cash-flow statement, statement of changes in shareholders' equity and the related explanatory notes. These financial statements are prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and approved by the European Union according to the text published in the Official Journal of the European Communities (OJEC) and in effect as at 31 December 2016. These IFRS principles also include all revised international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretation Committee ("IFRIC"), previously called Standing Interpretations Committee ("SIC").

The reference accounting standards adopted in the current yearly financial statements are consistent with those used for preparing the yearly financial statements of the Company for the period ended as at 31 December 2016, also prepared according to the international accounting standards, with the exception of the principles and interpretations of new application, explained in note 2.3.

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

Business continuity

These financial statements were prepared on a going concern basis, in that the Directors have checked that there are no financial, operational or other indicators that could report critical issues regarding the ability of the Company and of the Group to meet its obligations in the foreseeable future. Risks and uncertainties relating to the business are described in the relevant sections of the Report on Operations.

A description of how the Company manages financial risks is provided in the section Management of financial risks of these Explanatory notes.

2.1 Adopted financial statement reporting formats

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

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

any deferral or provision of prior or future operating receipts or payments, and by revenue or cost elements connected with financial flows from investing or financing activities.

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

2.2 Significant accounting principles

Basis of preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of EC Regulation No. 1606/2002 of the European Parliament and Council of July 19, 2002 and in accordance with Article 9 of Legislative Decree No. 38/2005. The financial statements have been prepared on a historical cost basis, except for items that have been measured at fair value in accordance with IFRS (investment properties, available-for-sale, financial assets and contingent consideration).

The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

There are no financial assets held to maturity.

The financial statements as at 31 December 2017 provide comparative information in respect of the previous period. In addition, the accounting policies adopted in the Financial Statements as at 31 December 2017 were applied in the same way also to all the periods of comparison.

The financial statement is presented in Euro; all values are rounded to the nearest thousand, unless otherwise indicated.

Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Business combinations and goodwill

Business combinations are recorded by using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred at fair value at the date of acquisition and the amount of any minority interest in the acquired company. For each business combination, the purchaser must consider any minority interest in the acquired company at fair value or in proportion to the share of the minority interest in the identifiable net assets of the acquired company. Acquisition costs are paid and classified among administrative expenses.

When the Company acquires a business, it must classify or designate the acquired financial assets or the liabilities assumed in accordance with the contract terms, the economic conditions and other relevant conditions existing at the date of acquisition. This includes the verification to establish whether an embedded derivative must be separated from the host contract. If the

business combination is carried out in several stages, the purchaser must recalculate the fair value of the previously held equity investment measured at equity and recognise any resulting profit or loss in the income statement.

Each contingent consideration must be recognised by the purchaser at fair value at the date of acquisition. The fair value change in the contingent consideration classified as asset or liability will be recognised in accordance with IAS 39, in the income statement or in the statement of the other components of comprehensive income. If the contingent consideration is classified in the shareholders' equity, its value must not be recalculated until its discharge is recorded as opposed to shareholders' equity. The goodwill is initially measured at cost that arises as surplus between the sum of the paid consideration and the amount recognised for the minority shares compared to identifiable net assets acquired and liabilities undertaken by the Group. If the consideration is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognised in the income statement.

After initial recognition, goodwill is measured at cost, net of any accumulated impairment loss. For impairment loss verification, the goodwill acquired in a business combination must be allocated, from the date of acquisition, to each cash-flow generating unit of the Group that is expected to benefit from the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to such units.

If the goodwill has been allocated to the financial-flow generating unit and the entity disposes of part of the assets of such unit, the goodwill associated to the asset disposed of must be included in the book value of the asset when the profit or loss deriving from the divestment is determined. The goodwill associated with the asset disposed of must be determined on the basis of the values related to the asset disposed of and of the retained part of the financial-flow generating unit.

Intangible assets with definite lives

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

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

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

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

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

Research and Development costs

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

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

During the period of development, the asset is annually reviewed in order to recognise any impairment loss. After the initial recognition, development costs are measured at cost decreased by any accumulated amortisation or loss. The amortisation of the asset starts when the development is complete and the asset is available for use. It is amortised with reference to the period in which the connected project is expected to generate revenues for the Company, estimated on average over five

years. If the projects to which such assets refer are abandoned or the related machines are no longer included in the catalogue, specific impairment indicators are recognised, and therefore the asset is tested for impairment and written down for any impairment loss recognised as previously described for intangible assets with definite lives.

Rights and trademarks

The purchase costs of the rights and trademarks are amortised over a period of time during the useful life of the acquired asset, which was determined in five years.

Property, plant and equipment

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

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

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

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

The estimate of the useful life of the main classes of property, plant and equipment is set below:

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

If significant parts of property, plant and equipment have different useful lives, these components are recorded separately. Lands, both without construction and belonging to buildings, are recorded separately and are not depreciated since they have an unlimited useful life.

The Company, based on the considerations made, established that temporarily leased Trencher machines can be depreciated on a pro-rata basis according to actual use. In particular, they are depreciated at an annual 20% rate during the lease period. In the event that these trenchers are not leased temporarily during the reporting period, the depreciation process is suspended. The book value of property, plant and equipment is subject to an impairment test when events or changed circumstances indicate that the book value cannot be recovered. If there is an indication of this type and, in the event that the book value exceeds the estimated realisable value, assets are written down so as to reflect their realisable value. The realisable value of property, plant and equipment is represented by the net sales price and the usage value, whichever is higher.

When defining the usage value, the expected future financial flows are discounted back using a pre-tax discount rate that reflects the current market estimate of the cost of money placed in relation to the timescale and specific risks of the asset. In relation to assets that do not generate fully independent financial flows, the realisable value is determined in relation to the financial-flow generating unit to which the asset belongs. Impairment losses are recorded in the income statement among costs for amortisation, depreciation and write-downs. These impairment losses are reversed if the reasons that generated them no longer exist.

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

Leases

Contracts with the Company as lessee

Lease contracts are classified as Financial or Operating Lease at the beginning of the Lease contract.

Financial lease contracts, which substantially transfer to the Group all the risks and benefits deriving from the ownership of the leased asset, are capitalised on the starting date of the lease at fair value of the leased asset or at present value of the lease payments, if lower. Lease payments are prorated between principal and interests in order to obtain the application of a constant interest rate on the residual balance of the debt. Financial expenses are posted directly to the income statement.

Capitalised leased assets are amortised during the period of time of the estimated useful life of the asset or the period of validity of the lease contract, whichever is shorter, if the reasonable certainty that the Company will obtain the ownership of the asset at the end of the contract does not exist.

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

Contracts with the Company as lessor

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

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

Impairment of assets

At the end of each reporting period, the Company considers the possible existence of impairment loss indicators of intangible assets with definite lives, of property, plant and equipment and of financial lease assets. If these indicators exist, an impairment test is carried out.

The recoverable value is determined as the fair value of an asset or financial-flow generating unit net of sales costs and its usage value, whichever is higher, and is determined by single asset, with the exception of the case in which this asset generates financial flows that are not widely independent from those generated by other assets or groups of assets, in which case the Company estimates the recoverable value of the cash-flow generating unit to which the asset belongs.

When determining the usage value, the Company discounts back the present value of future estimated financial flows, by using a pre-tax discount rate that reflects the market evaluations on the time value of money and specific risks of the asset.

In order to estimate the usage value, the future financial flows are derived from the business plans approved by the Board of Directors, which represent the best estimate made by the Group on the economic conditions laid down in the plan period. The projections of the plan cover normally a period of three financial periods; the long-term growth rate used in order to estimate the terminal value of the asset or of the unit is normally lower than the average long-term growth rate of the segment, country or market of reference. Future financial flows are estimated by referring to the current conditions: therefore, estimates do not consider benefits deriving from future restructuring for which the Company has not yet committed itself or future investments for improving or optimising the asset or the unit.

If the book value of an asset or financial-flow generating unit is greater than its recoverable value, this asset was impaired and consequently amortised until its recoverable value is reached.

Impairment losses incurred by operating assets are recognised in the income statement in the categories of cost consistent with the function of the asset that showed the impairment loss. At the end of each reporting period, the Company also considers the possible existence of elements indicating a decrease in impairment losses previously recognised and, if these indicators exist, it estimates the recoverable value again. The value of an asset previously written down can be restored only if there were changes in the estimates used for determining the recoverable value of the asset after the last recognition of an impairment loss. In this case, the book value of the asset is set to the recoverable value, however without the possibility for the value thus increased to exceed the book value that would have been determined, net of amortisation, if no impairment had been recognised in previous years. Each reversal of impairment loss is recognised as an income in the income statement; after recognising a reversal of impairment loss, the amortisation rate of the asset is adjusted in future periods, in order to distribute the changed book value, net of any residual value, on a straight-line basis over the remaining useful life.

Equity investments in subsidiaries, associates and in joint ventures

Equity investments in subsidiaries, associates and companies subject to joint control (not classified as held for sale) are recorded in accordance with the method of cost, converted in Euro at historical exchange rates if referring to equity investments in foreign companies whose financial statements are drawn up in a currency other than Euro, in accordance with IAS 27. The initial cost is equal to the costs incurred for the purchase or constitution or it is defined by experts in case of acquisitions through contributions.

When there is an indication that the equity investment may have suffered an impairment, its recoverable value is estimated, in accordance with the method specified in IAS 36 "Impairment of Assets", in order to determine the eventual loss to be posted to the income statement.

Financial assets and other non-current assets

These assets are measured according to the amortised cost approach by using the effective discount rate method net of any provision for impairment.

The amortised cost is calculated taking into consideration any discount or purchase premium and includes the commissions that are part and parcel of the effective interest rate and of the transaction costs.

Receivables falling due after one year, interest bearing or paying interests lower than the market, are discounted by using interest rates in line with market references.

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

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

Inventories

Inventories are measured at the purchase and/or production cost, whichever lower, calculated by using the weighted average cost method, and the net realisable value. The purchase cost is inclusive of additional expenses; the cost of production includes directly attributable costs and a share of indirect costs, reasonably attributable to the products. The net estimated realisable value consists of the estimated sales prices less the estimated completion costs and the costs estimated to make the sale.

Write-down allowances are allocated for materials, finished products, spare parts and other supplies considered obsolete or slow-moving, taking into account their future expected usefulness or their realisable value.

Construction contracts

A work order is a contract specifically negotiated for the construction of an asset according to the instructions of the company commissioning the work, which defines in advance the design and specifications.

Work order revenues include the considerations initially agreed with the company commissioning the work, in addition to variations in the commissioned work and to price changes provided for in the contract that can be measured reliably.

When the work order result can be measured reliably, work order revenues and costs are recognised as sales and as costs on the basis of the percentage of completion; the work in progress is calculated by referring to the costs of the work order borne until the end of the reporting period as a percentage of total costs estimated for each work order.

The costs borne in relation to future activities of the work order are excluded from the work order costs when calculating the work in progress and are recorded as inventories.

Total estimated costs for each work order are periodically revised, and when the costs of the work order are expected to be greater than its total revenues, the expected loss is recognised immediately as a cost.

Trade receivables and other current assets

Trade receivables and other current assets are initially recorded at fair value, which generally corresponds to the nominal value and subsequently measured at amortised cost and reduced in case of impairment losses. Moreover, trade receivables are adjusted to their estimated realisable value by entering a special adjustment provision.

Receivables in foreign currency other than the reporting currency are recorded at the exchange rate of the date of operation and subsequently converted to the exchange rate at the end of the financial period. The profit or loss resulting from the conversion is attributed to the income statement.

If the maturity of the trade receivables and of the other current assets does not fall within the normal commercial terms and do not bear interests, a detailed discounting process is applied based on assumptions and estimates.

The Tesmec Company sells a portion of its trade receivables through factoring without recourse. Receivables assigned following factoring operations can be written off from the assets of the balance sheet only if the risks and benefits related to their legal ownership were substantially transferred to the assignee.

Other receivables and other financial assets

They are recorded initially at fair value and subsequently measured according to the amortised cost.

A financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) is written off from the financial statements when:

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

If the Company has transferred the rights to receive financial flows from an asset and has not transferred or retained substantially all the risks and benefits or has not lost control over it, the asset is recognised in the financial statements of the Group to the extent of its residual involvement in the asset itself. The residual involvement that takes the form of a guarantee

on the transferred asset is measured at the initial book value of the asset or the maximum value of the consideration that the Company could be obliged to pay, whichever lower.

If the residual involvement takes the form of an option issued and/or purchased on the transferred asset (including the cash-settled options or the like), the measure of the involvement of the Group corresponds to the amount of the transferred asset that the Company may repurchase; however, in case of a put option issued on an asset measured at fair value (including the cash-settled options or with similar provisions), the measure of the residual involvement of the Group is limited to the fair value of the transferred asset or the exercise price of the option, whichever lower.

Cash and cash equivalents

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

Loans

Loans are initially stated at fair value of the amount received, net of any related loan acquisition costs.

After initial statement, loans are valued using the amortised cost approach, applying the effective interest rate method.

Any profit or loss is recorded in the income statement when the liability is discharged, in addition to using the amortisation process.

Treasury shares

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

Trade payables and other payables

Payables are measured at nominal value.

Given the granted terms of payment, when a financial operation is configured, payables measured with the amortised cost approach are submitted to the discounting back of the nominal value to be paid, recording the discount as a financial charge.

Payables in foreign currency are aligned with the exchange rate at the end of the financial period and profits or losses deriving from the adjustment are posted to the income statement in unrealised exchange profits/losses.

Provisions for risks and charges

Provisions for risks and charges are made when the Company must face up a current liability (legal or implicit) that is the result of a past event; an outflow of resources is likely to meet this obligation and it is possible to make a reliable estimate of its amount.

When the Company believes that a provision for risks and charges will be partially or totally reimbursed, for example in the case of risks covered by insurance policies, the compensation is recognised separately in the assets only if it is practically certain. In this case, the cost of any provision is stated in the income statement net of the amount recognised for the compensation.

If the discounting back effect of the value of money is significant, provisions are discounted back using a pre-tax discount rate that reflects, if appropriate, the specific risks of the liabilities. When discounting back is carried out, the increase in the provision due to the passage of time is recognised as a financial expense.

The Company makes provisions for product guarantees in relation to the guarantee contractually granted to its customers on the sold machines. These provisions are calculated on the basis of the historical incidence of costs for product guarantee borne in past financial periods, of the period of validity of the granted guarantees and revised annually.

Employee benefit liability

Post employment benefits are defined on the basis of plans, even though not yet formalised, which are classified as "defined contribution" and "defined benefit" in relation to their characteristics.

The Italian legislation (Article 2120 of the Italian Civil Code) establishes that, at the date on which each employee rescinds the employment contract with the company, he/she receives an allowance called TFR (severance indemnity). The calculation of this allowance is based on some items forming the yearly pay of the employee for each year of work (properly revalued) and on the length of the employer-employee relationship. According to the Italian civil law, this allowance is reflected in the financial statements according to a calculation method based on the allowance accrued by each employee at the reporting date, if all employees rescind the employment contract on that date.

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

Government grants

Government grants are recognised in the financial statements when there is a reasonable certainty that the company will meet all the conditions for receiving the contributions and that the contributions will be received. When the contributions are related to cost components, they are recognised as revenues, but are allocated systematically across the financial periods in order to be proportionate to the costs that they intend to compensate. If a contribution is related to an asset, the asset and the contribution are recognised for their nominal values and they are gradually discharged to the income statement, on a straight-line basis, along the expected useful life of the asset of reference.

If the Company receives a non-monetary contribution, the asset and contribution are recognised at their nominal value and discharged to the income statement, on a straight-line basis, along the expected useful life of the asset of reference. In case of loans or similar forms of assistance supplied by government entities or similar institutions that have an interest rate lower than the current market rate, the effect related to the favourable interest rate is considered as an additional government grant.

Financial instruments

The financial instruments are initially recognised at fair value and, after initial recognition, measured in relation to the classification, as required by IAS 39.

For financial assets, this treatment is differentiated among the following categories:

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

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

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

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

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

Derivative financial instruments

Derivative financial instruments are used solely with the intent to hedge financial risks relating to exchange-rate changes on commercial transactions in foreign currency and interest rate risks.

In accordance with IAS 39, hedging derivative financial instruments can be recorded according to the methods established for hedge accounting only when:

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

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

Fair value hedge – if a financial derivative is designated as a hedge of the exposure to changes in the present value of a balance-sheet asset or liability that may affect the income statement, the profit or loss arising from the future evaluation of the present value of the hedging instrument is recognised in the income statement, as well as the profit or loss on the item being hedged.

Cash flow hedge – if a financial derivative is designated as a hedge of the exposure to changes in cash flows of a balance-sheet asset or liability or of a highly probable expected transaction and that may affect the income statement, the effective portion of profits or losses on the financial instrument is recognised in equity; the accumulated profit or loss is reversed from equity and recorded in the income statement in the same period in which the transaction to be hedged is recognised; the profit or loss associated with a hedging, or with an ineffective hedging, are recorded in the income statement when the ineffectiveness is recognised.

If the conditions for the application of hedge accounting do not apply, the effects deriving from the fair value measurement of the derivative financial instrument are booked directly to the income statement.

Revenues and costs

Revenues and costs are stated on an accrual basis. Revenues and income, presented net of returns, discounts, allowances and premiums, are recorded at fair value insofar as it is possible to reliably determine such value and its economic benefits are likely to be enjoyed.

Revenues from the sale of goods are recognised when all the following conditions are met:

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

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

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

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

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

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

Revenues from services rendered are recognised when all the following conditions are met:

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

In particular, the Tesmec Company provides services that contemplate an excavation activity carried out by using machines belonging to the company and specialised workers employed by third-party companies. The provision of these services is contractually regulated by agreements with the counterpart that indicate, among other things, the timing for carrying out the excavation and contemplate a price per excavated metre that changes according to different hardness of the soil. Revenues are recognised on the basis of the progress of the excavation to date, as resulting from the states of the work-in-progress recognised and agreed with the counterpart.

Moreover, the Tesmec Company provides after-sales services concerning the machines sold. If these services are requested after the expiry of the guarantee period, the service is contractually regulated by agreements with the counterpart. Revenues are recognised based on the time and components used by the technicians during repair operations.

Financial income and expenses

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

Determining the fair value of financial instruments

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

Dividends

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

Income tax

Current taxation

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

Current tax liabilities are recorded in the current liabilities net of any paid tax advances.

Deferred taxes

Deferred taxes are calculated on the temporary differences resulting at the end of the reporting period among the tax values used as a reference for assets and liabilities and the values indicated in the financial statements.

Deferred tax assets are recognised for all the temporary deductible differences and for retained tax assets and liabilities, insofar as the existence of appropriate future tax profits that can apply the use of the temporary deductible differences and of the retained tax assets and liabilities is likely.

The value to be stated in the financial statements for deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient income for tax purposes will be available in the future for this tax credit to be used totally or partially. Deferred tax assets not recognised are reviewed every year at the end of the reporting period and are recognised to the extent that the pre-tax profit is probably sufficient to allow the recovery of these deferred tax assets.

Deferred tax assets and liabilities are measured based on tax rates that are expected to be applied to the financial period in which such assets are sold or such liabilities are discharged, considering the rates in force and those already issued or substantially issued at the end of the reporting period.

Deferred tax assets and liabilities are recognised directly in the income statement, with the exception of those relating to items recognised directly in equity, in which case the related deferred taxes are also accounted for consistently without booking to the income statement.

Deferred tax assets and liabilities are offset, if there is a legal right to offset current tax assets against current tax liabilities, and the deferred taxes refer to the same tax entity and to the same tax authority.

Assets for deferred tax assets and liabilities for deferred tax liabilities are classified as non-current assets and liabilities.

Value added tax

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

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

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

Earnings per share

The basic earnings per share are calculated by dividing the Group's economic result by the weighted average of the outstanding shares during the period. For the purposes of the calculation of the diluted earnings per share, the weighted average of the outstanding shares is modified by assuming the conversion of all the potential dilutive shares. The net result is also adjusted to take account of the effects, net of tax, of the conversion.

The diluted earnings per share coincide with the basic earnings, since there are no outstanding shares or options other than ordinary shares.

2.3 Changes and new principles and interpretations

The accounting standards adopted for the preparation of the financial statements as at 31 December 2017 are in line with those used for the preparation of the financial statements as at 31 December 2016, with the exception of the adoption of the new standards, amendments and interpretations in force for the financial years that have beginning January 1, 2017. The Group has not adopted in advance any new standard, interpretation or amendment issued but not yet in force.

The nature and effects of these changes are illustrated below. Albeit these new standards and amendments were applicable for the first time in 2017, they had no impact on the financial statements of the Group or on the interim report on operations of the Group. The nature and impact of each new standard/amendment is listed below:

▪ Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The application of the amendments did not have any significant impact on the Group.

▪ Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

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

The following standards have been approved by the European Union but will apply from 2018; therefore, they are not applicable by the company in the financial statements at December 31, 2017.

- IFRS 9 "Financial Instrument": this standard, approved by the European Commission Regulation No.2016/2067 of November 22, 2016, entirely replaces IAS 39 "Financial instruments: recognition and measurement" and introduces two new criteria to recognize and measure financial assets and liabilities.

The main changes introduced by IFRS 9 may be summarized as follows:

- change of the classification and measurement model for financial assets, basing it on the characteristics of the financial instrument and on the business model adopted by the company. Financial assets can be measured either at fair value or at their amortized cost. As a result, the categories "loans and receivables", "available-for-sale financial assets" and "held-to-maturity investments" disappear;
- introduction of a new impairment model for financial assets that addresses expected credit losses;
- Bring in new hedge accounting requirements. In particular, IFRS 9 proposes simplification of the accounting of the embedded derivative, as the embedded derivative and the host financial asset are no longer recognized separately.

The information required in the notes is adapted to the classification and valuation rules introduced by IFRS 9.

IFRS 9 provisions are effective for annual periods beginning on or after January 1, 2018.

A project was launched to evaluate the potential impacts deriving from the application of the new standard and to decide upon the information to be provided in the notes accompanying the financial statements, with reference to the aforementioned three main areas being updated. With regard to the classification and measuring of the financial assets

and liabilities according to the new provisions, at the current state of the analysis no substantial impacts are expected in connection with the introduction of IFRS 9.

In particular, trade receivables assigned to factoring, currently measured at amortized cost – substantially corresponding to the nominal value given the absence of transaction costs - in accordance with IFRS 9, are debt instruments to be measured at fair value, since they are not held to maturity. The new applicable classification according to IFRS 9, does not imply any impact on the carrying value of such loans since, in general, the fair value of a short-term trade receivable, in the absence of significant transaction costs, can be considered reasonably approximable to its nominal value.

With regards to the impairment process of financial assets on the basis of expected losses, the Company assessed that the credit risk attributable to the expected losses on performing loans - new element introduced by IFRS 9 - may be considered irrelevant, because:

- the allowance for doubtful accounts is currently calculated on the basis of specific assessments regarding the recoverability of overdue positions;
- losses on receivables historically recognized by the Company are not significant;
- the forms of collection envisaged by the Company almost include advance payments on sales (also by letters of credit) and / or other forms of mitigation of credit risk (deposit).

Finally, with regard to hedge accounting, the Company does not apply the hedge accounting treatment, but it reserves the right to carry out further in-depth investigations aimed at a future potential application of the hedge accounting treatment to its derivatives.

- IFRS 15 “Revenues from contracts with customers”: the standard, issued by the IASB on May 28, 2014 and approved by the European Union on October 29, 2016, is the result of efforts to achieve convergence between the IASB and the FASB (“Financial Accounting Standard Board”, the body responsible for issuing new accounting standards in the United States) in order to achieve a single revenue recognition model applicable both in terms of IFRS and US GAAP. The new standard will apply to all contracts with customers, including contract work in progress, and will thus replace the current IAS 18 - Revenues and IAS 11 - Long-term contracts and all related interpretations.

In particular, IFRS 15 requires revenue recognition to be based on the following five steps:

- identify the contract with the customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contracts;
- recognise revenue when (or as) the entity satisfies a performance obligation.

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

The provisions of IFRS 15, following the amendments made with the amendment issued on September 11, 2015, will be effective for years beginning on or after January 1, 2018. The Company plans to apply the new standard from the mandatory effective date, using the full retrospective approach application method.

In the course of financial year 2017, continued the activity, which was started up during the last year, continued the activity, started last year, in order to identify the individual cases considered potentially critical in relation to the different types of contract, evaluate the potential impacts on the financial statements and verify the need for any adjustments to the financial information support systems.

The Company analyzed its revenues according to the types of transactions typical of its business with reference to the following areas of analysis:

- analysis of the various contractual forms in existence and of the types of costs related to them;
- verification of the contracts envisaging the recognition of variable amounts;

- verification of the presence of major contractual components requiring separate recognition of the 'time value' as a financial component;
- verification of the presence of contractual components that presuppose the assumption by the company about the role of "Principal vs Agent". The new standard provides for different methods of recording the consideration depending on whether a third party intervenes or not in providing the customer with goods and/or services;
- analysis of the detailed information to be provided in the notes accompanying the financial statements.

Sales of the Trencher sector consist of sales of crawler machinery for which the recognition of revenue occurs at the transfer of the asset's control, identified on the basis of International Commercial Terms (In.co.term). These contracts do not include any performance obligations other than the sale of the asset, or financial components or discount policies. Therefore, as of today these transactions did not highlight the need for changes to accounting treatments.

With regards of the bill and hold transactions, the Company is finalizing its considerations regarding a possible Performance Obligation (for example, for the custody service) to which attribute a part of the transaction price.

Sales contracts of the Energy sector, in addition to the supply of material for stringing and for streamlining of power lines, can include additional services, such as transport services and / or design services. Currently, the Company adopts separate accounting for such separate obligations, therefore, there is no need to change these accounting treatments.

The Company is finalizing its considerations for the fees of some particular transport services (for example, for foreign customers), regarding the possible assumption of the role of Agent.

The main contracts in the Railway sector concern the supply of customized machines, to which a full maintenance activity can be added for a subsequent period. The accounting treatment currently adopted by the Group, based on the allocation of the considerations between the construction phase, which matures on completion of works according to the percentage of completion method, and the maintenance activity, that is spread over the period after the delivery, appears consistent with the requirements of IFRS 15.

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

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

- on September 11, 2014, the IASB published an amendment to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Shareholdings in affiliates and joint ventures", in order to resolve the conflict between IAS 28 and IFRS 10. According to the provisions of IAS 28, the gain or loss resulting from the sale or transfer of a non-monetary asset to a joint venture or associate in exchange for a share in the capital of the latter is limited to the shareholding in the joint venture or associate by other investors extraneous to the transaction. In contrast, IFRS 10 requires the recording of the entire gain or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling stake in it, including in this case also the sale or transfer of a subsidiary to a joint venture or associate. The amendments introduced require that for a sale or transfer of an asset or a subsidiary to a joint venture or associate, the measure of the gain or loss to be recognized in the financial statements of the seller (or transferor) depends on whether the asset or subsidiary sold (or transferred) constitute a business, under the meaning of IFRS 3. If the assets or the subsidiary sold represent a business, the entity shall recognize the gain or loss on the entire investment held; otherwise, the portion of the gain or loss related to the share still held by the entity shall be eliminated. For said amendments, a date of first application has not been established yet;
- IFRS 16 "Leasing": the standard, issued by the IASB on January 13, 2016, which replaces IAS 17 and its relative interpretations. In particular, IFRS 16 defines leasing as a contract that provides the customer (the lessee) with the right to use an asset for a certain period of time in exchange for a payment. The new accounting standard eliminates the classification of leasings as operative or financial for the purposes of preparing the financial statements of companies operating as lessees; for all leasing contracts with a duration that exceeds 12 months, it is necessary to recognise an asset that represents the right to its use, and a liability that represents the obligation to make the payments defined in the contract. However, for the purposes of preparing the lessor financial statements, the distinction between operative and financial leasings has been maintained. IFRS 16 strengthens the financial statement information both for the lessees, as well as for the lessors. The provisions of IFRS 16 are effective as of January 1, 2019. In the course of the financial year 2017, an analysis activity was launched in order to identify the individual cases considered potentially critical in relation to the various types of contract, in order to assess the potential impacts on the financial statements and check any adjustments made to the financial support systems;

- on December 8, 2016, the IASB issued some amendments to the standards approved in the three-year period 2014-2016 in particular IFRS 1 “First-time adoption of International Accounting Standards”, IFRS 12 “Disclosure of shareholdings in other entities” and IAS 28 “Shareholdings in associates”:
 - With reference to IFRS 1, some exemptions are eliminated as provided by specific paragraphs of the standard;
 - The amendment to IAS 18 provides that, if the parent is a venture capital company, it has the power to measure its shareholdings in associates and joint ventures at fair value with recognition of any changes in the income statement;
 - The amendment to IFRS 12 establishes that the disclosure requirements also apply in cases where shareholdings in subsidiaries, associates and joint ventures are classified as “Non-current assets held for sale” in accordance with IFRS 5;
- on December 8, 2016, the IASB issued an amendment to IAS 40 “Property Investments”, which clarifies when an entity is required to transfer the ownership of properties (including those under construction). It also establishes that the only intention of the management to change the use of a property is not evidence of a change in the use of the property investment. The amendment to the standard in question, despite early adoption is provided, is applicable retrospectively with effect from January 1, 2018;
- IFRIC 22 “Transactions and advances in foreign currency”: this interpretation was issued by the IASB on December 8, 2016 and is intended to clarify the accounting for transactions that include the payment or collection of advance payments in currency other than the euro. In particular, this interpretation regulates the exchange rate to be adopted for transactions in foreign currency resulting in non-monetary assets and liabilities related to the collection or payment of advances, before the recognition of the related assets, costs or revenues. The interpretation in question is applicable from January 1, 2018.

The Group is currently reviewing these new standards to determine their likely impact on the Group’s results if adopted.

2.4 Accounting estimates and significant judgements

The preparation of financial statements and interim reports in accordance with generally accepted accounting standards requires management to make accounting estimates based on complex or subjective judgements, past experience and assumptions deemed reasonable and realistic based on the information available at the time. The use of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based.

Summarized below are those accounting estimates used in the preparation of financial statements and interim reports that are considered critical because they require management to make a large number of subjective judgements, assumptions and estimates regarding matters that are inherently uncertain. Changes in the conditions underlying such judgements, assumptions and estimates may have a significant effect on future results.

Deferred tax assets

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

Contingencies

During the preparation of the financial statements and the interim reports, Tesmec records provisions for contingencies primarily in relation to employee benefits, litigation and tax issues. Determining appropriate amounts for provisions is a complex estimation process that includes subjective judgements by company management.

Employee benefits

Post-employment benefit plans arising from defined benefit plans are evaluated with reference to uncertain events and based upon actuarial assumptions including among others discount rates, expected rates of salary increases, mortality rates, retirement dates and medical cost trends. Since these are long-term plans, such estimates are subject to a significant level of uncertainty.

Development costs

Development costs are capitalised on the basis of IAS 38. The directors must make assumptions on future cash flows expected from fixed assets, discount rates to be applied and the periods during which the expected benefits reveal themselves in order to determine the values to be capitalised.

Impairment of non-current assets

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

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

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

3. Management of financial risks

Tesmec S.p.A. is exposed in varying degrees to financial risks related to the core business. In particular, the Company is exposed at the same time to the market risk (interest-rate risk and exchange-rate risk), liquidity risk and credit risk.

The management of financial risks (mainly interest-rate risks) is carried out by the Company on the basis of guidelines defined by the Board of Directors. The purpose is to guarantee a liability structure always in equilibrium with the structure of the balance sheet assets, in order to keep a very sound balance sheet structure.

Forms of financing most commonly used are represented by:

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

The average cost of indebtedness is benchmarked to the trend of the 3-month Euribor rates plus a spread that depends on the financial instrument used and on the rating of the Company.

Tesmec S.p.A. uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The Company does not apply the Cash Flow Hedge Accounting with reference to such positions, in that they do not meet the requirements provided in this regard by the IFRS standards.

The trading of derivative instruments with speculative purposes is not contemplated.

Management of the exchange-rate risk

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

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

As at 31 December 2017, there were nine 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 18.6 million, with a negative equivalent value of Euro 86 thousand.

As at 31 December 2016, there were ten positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 23.5 million, with a negative equivalent value of Euro 198 thousand.

The short-term portion of interest bearing financial payables (current portion), which is mainly used to finance working capital requirements, is not subject to interest-rate risk hedging.

The cost of bank borrowing is benchmarked to the Euribor/Libor rate plus a spread that depends on the type of credit line used and is the same by type of line. The applied margins can be compared to the best market standards. The interest rate risk to which the Company is exposed is mainly originated from existing financial payables.

The main sources of exposure of the Company to the interest-rate risk refer to existing interest bearing medium/long-term financial payables (current portion) and interest bearing short-term financial payables and to the existing derivative instruments. In particular, the potential impacts on the income Statement of the 2018 financial period (compared to 2017) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 2017 financial period;
- potential change in fair value of existing derivative instruments.

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

The Company estimated the potential impacts on the Income Statement and on Shareholders' Equity of the 2018 financial period (compared to 2017) produced by a simulation of the change in the term structure of the interest rates, by using internal measurement models, based on the general acceptance approach. In particular:

- for loans, these impacts were estimated by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates, applied only to the cash flows to be settled during the 2017 financial period (compared to 2016);
- for derivative instruments, by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates.

With reference to the situation as at 31 December 2017, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2017 financial period of Euro 210 thousand, offset by an increase of Euro 70 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 12 thousand, offset by a decrease of Euro 15 thousand in the collected spread for the existing derivatives.

With reference to the situation as at 31 December 2016, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2016 financial period of Euro 296 thousand, offset by an increase of Euro 138 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 56 thousand, offset by a decrease of Euro 34 thousand in the collected spread for the existing derivatives.

	Interests					
	31 December 2017			31 December 2016		
	Residual debt	Impact on the IS +100 bps	Impact on the IS -30 bps	Residual debt	Impact on the IS +100 bps	Impact on the IS -30 bps
<i>(Euro in thousands)</i>						
Borrowings/Bond issue	98,912*	(210)	12	104,342*	(296)	56
Total Loans	98,912*	(210)	12	104,342*	(296)	56
<i>(Euro in thousands)</i>	Notional	Impact on the IS +100 bps	Impact on the IS -30 bps	Notional	Impact on the IS +100 bps	Impact on the IS -30 bps
Derivative instruments hedging cash flows	18,541	70	(15)	23,490	138	(34)
Total Derivative instruments	18,541	70	(15)	23,490	138	(34)
Total		(140)	(3)		(158)	22

(*) The residual debt is considered before amortised costs.

Fair value sensitivity of derivatives										
Financial period ended 31 December 2017										
(Euro in thousands)	Notional value	Net FV	Net FV +100 bps	Net FV +100 bps	Impact on IS +100 bps	Impact on SE +100 bps	Net FV - 30 bps	Net FV - 30 bps	Impact on IS - 30 bps	Impact on SE - 30 bps
Derivative instruments hedging cash flows	18,541	(86)	119	203	203	-	(123)	(39)	(39)	-
Total	18,541	(86)	119	203	203	-	(123)	(39)	(39)	-
Financial period ended 31 December 2016										
(Euro in thousands)	Notional value	Net FV	Net FV +100 bps	Net FV +100 bps	Impact on IS +100 bps	Impact on SE +100 bps	Net FV - 30 bps	Net FV - 30 bps	Impact on IS - 30 bps	Impact on SE - 30 bps
Derivative instruments hedging cash flows	23,490	(198)	107	305	305	-	(278)	(80)	(80)	-
Total	23,490	(198)	107	305	305	-	(278)	(80)	(80)	-

With reference to the situation as at 31 December 2017, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 203 thousand, with an impact on the Income statement of the 2017 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 39 thousand, with an impact only on the Income statement of the 2017 financial period.

With reference to the situation as at 31 December 2016, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would have resulted in an increase in the asset value of the existing hedging derivative instruments of Euro 305 thousand, with an impact on the Income statement of the 2016 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would have resulted in a decrease in the asset value of the existing hedging derivative instruments of around Euro 80 thousand, with an impact only on the Income statement of the 2016 financial period.

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

Credit risk management

The Company has a much parcelled out customer structure being mostly end-consumers. Moreover, most of the contemplated forms of collection include advance payments of the supply or a deposit not less than 30% of the sale.

This structure zeroes the credit risk; the validity of this approach is endorsed by the low amount of receivables at the end of the financial period compared to the amount of annual sales.

There are no significant concentrations of credit risk exposure in relation to individual debtors to be reported. All positions relating to trade receivables, both with reference to the end of the 2017 and 2016 reporting periods, expire before 12 months.

Management of liquidity risk

The Company manages the liquidity risk by controlling strictly the elements forming the working capital and in particular trade receivables and payables.

The Company tends to obtain upstream a good cash generation in relation to sales and then use it for paying the suppliers without compromising the short-term balance of the treasury and avoid problems and tensions in current liquidity.

The stratification of existing liabilities with reference to 2017 and to 2016 financial periods, with regard to financial instruments, by residual maturity, is set out below.

Maturity	31 December 2017				
	Financial payables/Bonds		Trade payables	Financial instruments	Total
	Capital	Interests			
(Euro in thousands)	a	b	c	d	a+b+c+d
Within 12 months	65,686	1,924	25,198	72	92,880
Between one and two years	8,649	1,449	-	20	10,118
Between two and three years	8,525	1,196	-	(5)	9,716
Between three and five years	16,052	934	-	(1)	16,985
Between five and seven years	-	-	-	-	-
After more than 7 years	-	-	-	-	-
Total	98,912*	5,503	25,198	86	129,699

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

(*) The residual debt is considered before amortised costs

The estimate of expected future expenses implicit in loans and of expected future differentials implicit in derivative instruments was determined on the basis of the term structure of interest rates in Euro existing at the reporting dates (31 December 2017 and 31 December 2016).

Management of the exchange-rate risk

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

The potential impacts on the Income Statement of the 2018 financial period (compared to 2017) referable to the exchange-rate risk are determined by the revaluation/write-down of asset and liability items in foreign currency.

The Company estimated the potential impacts on the income statement of the 2018 financial period (compared to 2017) produced by a shock of the exchange-rate market, by using internal measurement models, based on the general acceptance approach.

	2017 Exposure in foreign currency (USD)			2017 Sensitivity	
	Assets (USD/000)	Liabilities (USD/000)	Equity (USD/000)	Income statement EUR/USD exchange rate +5%(EUR/000)	Income statement EUR/USD exchange rate -5%(EUR/000)
Exposure with regard to equity items					
Trade receivables	5,858	-	5,858	(244)	244
Trade payables	-	18	18	(1)	1
Total gross exposure with regard to equity items	5,858	18	5,876	(245)	245
Derivative instruments	-	-	-	-	-

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

	2017 Exposure in foreign currency (ZAR)			2017 Sensitivity	
	Assets (ZAR/000)	Liabilities (ZAR/000)	Equity (ZAR/000)	Income statement EUR/ZAR exchange rate +5% (EUR/000)	Income statement EUR/ZAR exchange rate -5% (EUR/000)
Exposure with regard to equity items					
Trade receivables	72,324	-	72,324	(244)	244
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	72,324	-	72,324	(244)	244
Derivative instruments	-	30	30	(101)	101

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

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

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

Disclosures - categories of financial assets and liabilities

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

	Loans and receivables/payables	Guarantee deposits	Cash and cash equivalents	Available-for-sale financial assets	Fair value recognised in the income statement
<i>(Euro in thousands)</i>					
Financial assets:					
Financial receivables from third parties	2	-	-	-	-
Derivative financial instruments	-	-	-	-	1
Total non-current	2	-	-	-	1
Trade receivables	27,367	-	-	-	-
Financial receivables from related parties	42,901	-	-	-	-
Financial receivables from third parties	2,933	-	-	-	-
Other available-for-sale securities	-	-	-	2	-
Cash and cash equivalents	-	-	11,815	-	-
Total current	73,201	-	11,815	2	-
Total	73,202	-	11,815	2	1
Financial liabilities:					
Loans	18,389	-	-	-	-
Other financial payables (short-term leases)	1,368	-	-	-	-
Bond issue	14,797	-	-	-	-
Derivative financial instruments	-	-	-	-	63
Total non-current	34,554	-	-	-	63
Loans	20,032	-	-	-	-
Other financial payables (short-term leases)	594	-	-	-	-
Other short-term payables	43,233	-	-	-	-

Derivative financial instruments	-	-	-	-	82
Trade payables	25,198	-	-	-	-
Total current	89,056	-	-	-	82
Total	123,610	-	-	-	145

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 - inputs other than quoted prices included within level 1 that are observable in the market, either directly (as in the case of prices) or indirectly (i.e. when derived from the prices);
- level 3 - inputs that are not based on observable market data.

The following table shows the assets and liabilities that are measured at fair value as at 31 December 2017, divided into the three levels defined above:

<i>(Euro in thousands)</i>	Book value as at 31 December 2017	Level 1	Level 2	Level 3
Financial assets:				
Derivative financial instruments	1	-	1	-
Other available-for-sale securities	2	-	-	2
Total current	3	-	1	2
Total	3	-	1	2
Financial liabilities:				
Derivative financial instruments	63	-	63	-
Total non-current	63	-	63	-
Derivative financial instruments	82	-	82	-
Total current	82	-	82	-
Total	145	-	145	-

4. Significant events occurred during the period

Among the operations occurred during the 2017 financial period, the following is reported:

- with reference to the Bond Issue "Tescmec S.p.A. 6% 2014-2021" (the "Bond Issue"), note that on the basis of Article 12(vi) of the Bond Issue regulations (the "Regulations") pursuant to Art. 7 of the Regulations, the interest rate applicable to these bonds is increased by 1% and is therefore 7% until the maturity of the Bond Issue, except for the application of the relevant provisions of Article 7 of the Regulations;
- 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%;

- on 27 October 2017, the Board of Directors of Tesmec S.p.A. approved a transaction with the related party MTS - Officine Meccaniche di Precisione S.p.A.;
The effects of the transaction were described in detail in the following paragraph *4.1 Transaction with the related party MTS - Officine Meccaniche di Precisione S.p.A.*;
- on 21 December 2017, Tesmec S.p.A. started work on the construction in the industrial area of Monopoli (Bari) of a new production plant active in the design, prototyping and manufacture of special railway machines, financed also by using resources provided for in the Programme Contracts of the Apulia Region. Moreover, the new modern production site will replace the two rented sites currently used in Monopoli.

4.1 Transaction with the related party MTS - Officine Meccaniche di Precisione S.p.A.

On 27 October 2017, the Board of Directors of Tesmec S.p.A. approved a transaction with the related party MTS - Officine Meccaniche di Precisione S.p.A. concerning the signing of:

- a selling agreement, concerning the sale by Tesmec to MTS of certain machines produced by the Tesmec Group (the "Selling Agreement");
- a service contract for the supply by the Tesmec Group to MTS - and, in general - to the users of the machines in its range, of logistics and maintenance services (transport, maintenance, repair work covered and not covered by guarantee, custody, repair, etc.) (the "Service Contract"); and
- a rental agreement, concerning the rental by MTS to the Tesmec Group of certain machines owned by MTS (the "Rental Agreement").

The considerations of the Board of Directors with regard to the economic and financial reasons as well as to the advisability of these transactions consist in the Group's interest to develop its business as part of the activities related and functional to the implementation of projects in the field of renewable energy, networks and telecommunications (the "**Project Activities**") considering the very positive phase that projects in these areas are going through globally, and (ii) in the analysis carried out by the Company, which showed that the rental of machines to be used in Project Activities entails a low risk compared to the direct investment in machines, by reducing the invested capex and by increasing the level of flexibility of the operating cost structure.

The considerations of the transactions were determined as follows:

- with reference to the Selling Agreement and the Service Contract, based on the Group's list prices; and
- with reference to the Rental Agreement, on the basis of certain objective parameters of reference including the expected duration of the rentals and the type of machines to be possible rented.

The transactions consist of related party transactions, pursuant to the Regulations approved by CONSOB with Resolution no. 17221 of 12 March 2010, as amended and supplemented ("Related Party Regulation"), and of the procedure for transactions with related parties of the Company ("Related Party Procedure"), in that MTS and Tesmec are companies subject to the same control by TTC S.r.l. which holds approximately 57.09% of the share capital of Fi. Ind. S.p.A. which holds 95.27% of the share capital of MTS and 44.24% of the share capital of Tesmec.

The share capital of TTC S.r.l. is held 18.62% by the Chairman and Chief Executive Officer of Tesmec Ambrogio Caccia Dominioni, 18.62% by the Director of Tesmec Lucia Caccia Dominioni and 18.62% by the director of Tesmec Caterina Caccia Dominioni. Moreover, it should be noted that the Chairman and Chief Executive Officer of Tesmec Ambrogio Caccia Dominioni holds the office of non-executive director of MTS and the Vice Chairman of Tesmec Gianluca Bolelli holds the office of director of TTC S.r.l.

The Company involved the Control and Risk Committee in the negotiations and in the assessment of the transactions with functions of committee for transactions with related parties of the Group Companies, which issued its favourable opinion on the interest of the Group in carrying out the transactions and on the convenience and substantial correctness of the relevant conditions.

During the 2017 financial year, Tesmec S.p.A. sold 4 machines to MTS for a total consideration of Euro 3.3 million.

In the same period, MTS made payments to Tesmec S.p.A. for the above sales for an equivalent value Euro 3.0 million.

For further information, please refer to the information document on significant transactions with related parties published on 2 November 2017 in the Investor Relations-Governance section on the website www.tesmec.com.

COMMENTS ON THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

Non-current assets

5. Intangible assets

The breakdown of *Intangible assets* as at 31 December 2017 and as at 31 December 2016 is indicated in the table below:

<i>(Euro in thousands)</i>	31 December					
	2017			2016		
	Historical cost	Accum. amort.	Net value	Historical cost	Accum. amort.	Net value
Development costs	32,725	(26,631)	6,094	29,615	(23,636)	5,979
Rights and trademarks	2,815	(2,533)	282	2,815	(2,361)	454
Assets in progress and advance payments to suppliers	-	-	-	111	-	111
Total intangible assets	35,540	(29,164)	6,376	32,541	(25,997)	6,544

The following table shows the changes in intangible assets for the period ended 31 December 2017:

<i>(Euro in thousands)</i>	01/01/2017	Increases	Decreases	Reclassifications	Amortisation	31/12/2017
Development costs	5,979	3,111	-	-	(2,996)	6,094
Rights and trademarks	454	-	(95)	111	(188)	282
Assets in progress and advance payments to suppliers	111	-	-	(111)	-	-
Total intangible assets	6,544	3,111	(95)	-	(3,184)	6,376

As at 31 December 2017, intangible assets net of amortisation totalled Euro 6,376 thousand, down Euro 168 thousand on the previous year.

Increases for the period totalled Euro 3,111 thousand consisting in development costs capitalised related to the development of new products and equipment that are expected to generate positive cash flows in future financial periods. This amount is related for Euro 1,592 thousand to Trencher sector and for Euro 1,519 thousand to Energy sector.

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

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

6. Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2017 and as at 31 December 2016 is indicated in the table below:

<i>(Euro in thousands)</i>	31 December					
	2017			2016		
	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Land	1,250	-	1,250	1,250	-	1,250
Buildings	3,257	(399)	2,858	3,257	(301)	2,956
Plant and machinery	10,830	(8,386)	2,444	10,543	(7,582)	2,961
Equipment	3,651	(3,277)	374	3,697	(3,101)	596
Other assets	3,586	(1,904)	1,682	4,325	(2,047)	2,278
Assets in progress and advance payments to suppliers	522	-	522	522	-	522
Total property, plant and equipment	23,096	(13,966)	9,130	23,594	(13,031)	10,563

The following table shows the changes in property, plant and equipment for the period ended 31 December 2017:

<i>(Euro in thousands)</i>	01/01/2017	Increases	Decreases	Reclassifications	Depreciations	31/12/2017
Land	1,250	-	-	-	-	1,250
Buildings	2,958	-	-	-	(100)	2,858
Plant and machinery	2,960	288	-	-	(804)	2,444
Equipment	595	197	(127)	(70)	(221)	374
Other assets	2,278	905	(1,245)	70	(326)	1,682
Assets in progress and advance payments to suppliers	522	-	-	-	-	522
Total property, plant and equipment	10,563	1,390	(1,372)	-	(1,451)	9,130

As at 31 December 2017, property, plant and equipment totalled Euro 9,130 thousand, down compared to the previous year by Euro 1,433 thousand.

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

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

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

The breakdown of *Equity investments in subsidiaries, associates and joint ventures* as at 31 December 2017 and 2016 is indicated in the table below:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Subsidiaries:		
Tesmec USA, Inc.	21,261	21,261
Tesmec Service S.p.A.	3,596	3,596
Tesmec SA	361	361
East Trenchers S.r.l.	145	145
Tesmec Automation S.r.l.	2,526	410
OOO Tesmec RUS	11	11
Tesmec New Technology (Beijing) LTD	200	200
Marais Technologies SA	8,564	8,564
CPT Engineering S.r.l.	-	316
Bertel S.r.l.	4,035	3,535
Tesmec Rail S.r.l.	12	10
Total equity investments in subsidiaries	40,711	38,408

Equity investments in subsidiaries increased overall of Euro 2,302 thousand as a result of the following operations:

- Bertel S.r.l.: on 29 December 2017, the Company converted a sum amounting to Euro 500 thousand from financial receivable in capital reserve.
- Tesmec Automation S.r.l. (former SGE S.r.l.): the increase of Euro 2,116 thousand is related for Euro 316 thousand to the merger of the company CPT Engineering S.r.l. into Tesmec Automation S.r.l. on 1 August 2017, for Euro 300 thousand to the earn out paid and for Euro 1,500 thousand to the conversion of the financial receivable in capital reserve carried out on 29 December 2017.

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

<i>(Euro in thousands)</i>	31 December						
	% held	2017					
Revenues		Net result	Assets	Liabilities	Shareholders' Equity	Book value	
Subsidiaries:							
Tesmec USA, Inc.	100.00%	29,708	(2,236)	46,115	25,484	20,631	21,261
Tesmec Service S.r.l.	100.00%	15,759	1,670	20,247	17,413	2,834	3,596
Tesmec SA	100.00%	3,082	(617)	4,687	5,037	(350)	361
East Trenchers S.r.l.	100.00%	-	(5)	38	1	37	145
Tesmec Automation S.r.l.	100.00%	4,099	(1,249)	10,459	9,936	523	2,526
OOO Tesmec RUS	100.00%	569	(240)	541	962	(421)	11
Tesmec New Technology (Beijing) LTD	100.00%	875	(205)	771	1,312	(541)	200
Marais Technologies SA	86.79%	-	(566)	23,072	7,926	15,146	8,564
Bertel S.r.l.	100.00%	867	(698)	4,277	3,674	603	4,035
Tesmec Rail S.r.l.	100.00%	-	(2)	1,775	1,765	10	12

The values of the equity investments were tested for impairment. The key assumptions used by Management are estimates of future business plans. The flows of expected earnings cover a period of three years subsequent to those of reference of the impairment test and they are based on plans submitted to the Board of Directors on 22 December 2017.

The discount rate used (WACC), defined as the weighted average cost of capital, net of taxes, was differentiated according to the country of reference, the values of which are positioned in a range between 7% and 10%. Cash flows beyond the three years were extrapolated using a growth rate of 1.1%.

The results of the impairment test showed that as at 31 December 2017, the recoverable amount of the equity investments exceeds the book value.

The results underwent also a sensitivity analysis in order to consider the possible effects of changes in the key assumptions underlying the impairment process. This analysis involved a reasonably possible change in the expected growth rate of about +/- 0.25%, the discount rate used of about +/- 2%, and the EBIT value resulting from the Plan of about +/- 10%.

The breakdown of equity investments in associates and joint ventures as at 31 December 2017 and 2016 is indicated in the table below:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Associated companies:		
Locavert SA	52	52
Subtotal	52	52
Joint Ventures:		
Condux Tesmec Inc	956	956
Tesmec Peninsula	730	730
Subtotal	1,686	1,686
Total equity investments in associates	1,738	1,738

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

<i>(Euro in thousands)</i>	31 December						
	2017						
	% held	Revenues	Net result	Assets	Liabilities	Shareholders' Equity	Book value
Associated companies:							
Locavert SA	38.63%	920	40	750	299	450	52
Joint Ventures:							
Condux Tesmec Inc.	50.00%	6,364	505	4,310	947	3,363	956
Tesmec Peninsula	49.00%	2,086	(262)	2,868	2,922	(53)	730

At 31 December 2017, values of equity investments in associate companies were impaired as described in the previous paragraph.

The results of the impairment test showed that as at 31 December 2017, the recoverable amount of these equity investments exceeds the book value.

Current assets

8. Inventories

The following table sets forth the breakdown of *Inventories* as at 31 December 2017 and 2016:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Advances to Suppliers		1
Raw materials and consumables	20,238	17,268
Work in progress	5,792	6,667
Finished products and goods for resale	9,525	12,047
Total Inventories	35,555	35,983

The measurement bases of inventories remained unchanged compared to the prior financial period. The item as a whole decreased by 1.2% thanks to the increase in revenues.

The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2017 and 2016 are indicated below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Value as at 1 January	3,090	3,033
Provisions	-	57
Uses	-	-
Total provisions for inventory obsolescence	3,090	3,090

The value of the provisions for inventory obsolescence is unchanged compared to the prior financial period. The adequacy of the provision is assessed on a regular basis to constantly monitor the actual level of inventories recovered through sales.

9. Trade receivables

The table below shows the breakdown of trade receivables as at 31 December 2017 and 2016:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Trade receivables from third-party customers	16,809	30,030
Trade receivables from related parties	10,558	4,548
Total trade receivables	27,367	34,578

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

Trade receivables from customers as at 31 December 2017 amounted to Euro 27,367 thousand down by Euro 7,211 thousand compared to the 2016.

The balance of trade receivables is shown net of provisions for doubtful accounts. This provision was calculated in an analytical manner by dividing the receivables in classes depending on the level of risk, by country and customer, and by applying to each class an expected percentage of loss derived from historical experience.

The changes in the provisions for doubtful accounts for the financial periods ended 31 December 2017 and 2016 are indicated in the table below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Value as at 1 January	1,834	1,839
Provisions	-	-
Uses	(849)	(5)
Total provisions for doubtful accounts	985	1,834

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

10. Tax receivables

Tax receivables decreased by Euro 465 thousand as a result of lower IRES receivables for the period.

11. Financial receivables and other current financial assets

The following table sets forth the breakdown of *Financial receivables and other current financial assets* as at 31 December 2017 and as at 31 December 2016:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Financial receivables from related parties	42,901	41,352
Other current financial assets	2,933	32
Total financial receivables and other current financial assets	45,834	41,384

The increase in *financial receivables and current financial assets* (Euro 4,450 thousand) is due for Euro 1,549 thousand to the increase in credit positions relating to specific contracts signed with the related parties on which an interest rate is applied and repayable within 12 months. The main financial receivables and related interest rate applied are set below:

- Tesmec USA, Inc of Euro 12,124 thousand with annual interest rate of 3.75% or 6-month Euribor rate + spread of 2% applicable depending on the nature of the transaction;
- Tesmec Service S.r.l. of Euro 5,053 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3.5%;
- Tesmec SA (Pty) Ltd. of Euro 4,516 thousand with interest rate equivalent to 8.5%;
- Tesmec Automation S.r.l. (former SGE S.r.l.) of Euro 5,367 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3.5%;
- Bertel S.p.A. of Euro 3,499 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3%;

Moreover, the increase of Euro 2,901 thousand in Other current financial assets is related to a receivable accrued following the positive ruling of the arbitration board on a litigation with a Chinese trading company.

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

12. Other current assets

The following table sets forth the breakdown of *Other current assets* as at 31 December 2017 and as at 31 December 2016:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Accrued income	-	2
Prepaid expenses	380	458
VAT credit	(72)	(15)
Other tax receivables	3,728	15

Other receivables	171	145
Receivables from subsidiaries	485	9
Advance to suppliers for services	160	115
Total other current assets	4,852	729

Other current assets is considered receivable and therefore was not subject to value adjustment, the item increased by Euro 4,123 thousand compared to the previous financial period.

This increase is mainly due to the recognition of the income for tax credit on research and development costs of Euro 4,002 thousand. As described above, other operating (costs)/revenues, net includes the positive effect of the tax credit for significant research and development expenses incurred by the Company in 2016 and 2017 for the expansion of the offer in the new sectors for automation, maintenance of existing power lines and service activities, which were combined with the renewal of the product range in all of Trencher's business areas.

13. Cash and cash equivalents

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

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Bank and post office deposits	11,809	14,519
Cash on hand	4	3
Other cash	2	2
Total cash and cash equivalents	11,815	14,524

Cash and cash equivalents are invested in short-term bank deposits and they are remunerated at a floating rate related to the Euribor trend. The balance as at 31 December 2017 amounted to Euro 11,815 thousand and decreased of Euro 2,709 thousand. The stated values can be readily converted into cash and are subject to a non-significant risk of change in value. The book value of cash and cash equivalents is deemed to be aligned to their fair value at the end of the reporting period.

The Company believes that the credit risk related to cash and cash equivalents is limited since it mainly represents deposits divided across domestic and international banking institutions.

14. Shareholders' Equity

Share capital and reserves

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

The following table sets forth the breakdown of *Other reserves* as at 31 December 2017 and 2016:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Revaluation reserve	86	86
Extraordinary reserve	26,942	25,294
Severance indemnity valuation reserve	(346)	(366)
Network Reserve	754	754
Retained earnings/(losses brought forward)	2,490	2,490
Bills charged directly to shareholders' equity on operations with entities <i>under common control</i>	(5,619)	(5,619)
Total other reserves	24,307	22,639

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

As at 31 December 2017, *extraordinary reserve* increased by a total of Euro 1,648 thousand as a result of the decision for the allocation of the 2016 net income.

The Reserve for First Time Adoption is mainly related to the application of the principle of continuity of values within extraordinary operations concluded among companies "under common control" with a subsequent write-off of the higher values recognised in the transaction with the Shareholders' Equity as a balancing entry.

The Shareholders' Equity is therefore divided according to the origin, the possibility of usage, the related distributability and the actual usage in the 3 previous financial periods

Nature/description	Amount (Euro/000)	Possibility of usage	Amount available	Summary of uses in the last 3 periods	
				to cover losses	for other reasons
Share capital	10,708	B			
Equity's reserves:					
Share premium reserve	10,915	A, B, C (*)	10,915	-	-
Reserve of Treasury Shares	(2,340)				
Earnings reserves:					
Legal reserve	2,141	B			
Revaluation reserve	86	A, B, C	86	-	-
Extraordinary reserve	26,942	A, B, C	26,942	-	-
Reserve for First Time Adoption	(5,619)				
Severance indemnity valuation reserve	(346)				
Network Reserve	754				
Retained earnings/(losses brought forward)	2,490	B			
Profit for the period	1,994				
Total	47,725		37,943	-	-

(*) Pursuant to Article 2431 of the Italian Civil Code, the whole amount of this reserve is distributable only if the legal reserve has reached the limit established in Article 2430 of the Italian Civil Code. That level is reached as at 31 December 2017.

Legend:

A: To increase shareholders' equity

B: To cover losses

C: To distribute to shareholders

Following the resolution of 28 April 2017, the Shareholders' Meeting approved the allocation of 2016 profits of Euro 1,648 thousand entirely to the extraordinary reserve.

Non-current liabilities

15. Medium/long-term loans

Medium/long-term loans include medium-long term loans from banks, payables towards other providers of finance and payables towards leasing companies for tangible fixed assets recorded in the separate financial statements in accordance with the financial leasing accounting method.

The following table shows the breakdown thereof as at 31 December 2017 and as at 31 December 2016, with separate disclosure of the current portion:

	31 December			
	2017	of which current portion	2016	of which current portion
<i>(Euro in thousands)</i>				
Banca Nazionale del Lavoro – loan at floating interest rate with a 2-year pre-amortisation; original value Euro 6 million; drawn down on 1 July 2010 with maturity date 31 May 2018; floating interest rate equivalent to 6-month Euribor rate + spread of 2.25%, half-yearly repayment.	923	923	1,846	1,846
BNL-BNP Paribas Group - loan in pool; original value Euro 21 million, drawn down on 11 March 2011 Euro 8 million with maturity date 4 March 2016, floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25). On 4 and 5 August 2011, Euro 4 million, on 9 November 2011, Euro 2 million, on 9 February 2012, Euro 2 million, on 31 May 2012, Euro 2 million and on 23 October 2012, another Euro 3 million with maturity date 4 March 2013, floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25) with option to extend repayment in 54 months (in 9 deferred half-yearly instalments) last instalment expiring on 4 September 2017, 6-month Euribor rate + spread of 1.90% (+/- 0.25), half-yearly repayment.	-	-	1,922	1,922
Simest UGF - loan for a total of Euro 1.9 thousand and drawn down the first tranche of Euro 580 thousand on 28 March 2013 with maturity date 14 February 2020, special annual interest rate of 0.4994% and second tranche of Euro 397 thousand to be used as from 14 March 2014 with maturity date 14 February 2020, special annual interest rate of 0.4994%, two months of prepayment and half-yearly repayment.	707	283	990	283
Cariparma - loan of Euro 1.5 million, drawn down on 21 October 2013 with maturity date 21 October 2017, floating interest rate equivalent to 3-month Euribor rate + spread of 3%, quarterly repayment.	-	-	389	389
Banca Intesa - unsecured loan of Euro 2.5 million, drawn down on 23 December 2013 with maturity date 31 December 2018, floating interest rate equivalent to 6-month Euribor rate + spread of 1.30%, half-yearly repayment.	118	118	234	117
ICCREA/BCC Chiro - loan of Euro 3.5 million 70% backed by Sace guarantee, drawn down on 27 March 2014 with maturity date 27 March 2022, floating interest rate equivalent to 6-month Euribor rate + spread of 3.95%, one year of prepayment and half-yearly repayment.	2,104	2,104	2,570	2,570
Popolare di Sondrio - loan of Euro 1 million, drawn down on 4 August 2014 with maturity date 31 August 2017, floating interest rate equivalent to 1-month Euribor rate + spread of 3.5%, monthly repayment.	-	-	231	231
Banca Carige S.p.A. - loan of Euro 2 million, drawn down on 27 March 2015 with maturity date 31 December 2018, floating interest rate equivalent to 3-month Euribor rate + spread of 1.75%, 6 months of prepayment and half-yearly repayment.	582	582	1,153	571
Cariparma - loan of Euro 4 million, drawn down on 26 March 2015 with maturity date 26 March 2020, floating interest rate equivalent to 6-month Euribor rate + spread of 2.50%, six months of prepayment and half-yearly repayment.	2,195	2,195	3,072	3,072
Monte dei Paschi di Siena - loan of Euro 5 million, drawn down on 11 August 2015 with maturity date 30 September 2020, floating interest rate equivalent to 6-months Euribor rate + spread of 1.90%, six months of prepayment and quarterly repayment.	3,035	1,104	4,139	1,104
Banca Intesa - loan of Euro 2 million, drawn down on 28 September 2015 with maturity date 30 September 2019, floating interest rate equivalent to 6-month Euribor rate + spread of 1.3%, monthly repayment.	880	501	1,376	495

Banca di Desio - loan of Euro 1.8 million, drawn down on 27 October 2015 with maturity date 10 May 2020, fixed interest rate of 1.85%, seven months of prepayment and monthly repayment.	1,098	448	1,538	440
Credito Valtellinese - loan of Euro 3 million, drawn down on 15 December 2015 with maturity date 5 January 2019, floating interest rate equivalent to 3-month Euribor rate + spread of 1.65%, one month of prepayment and monthly repayment.	1,088	1,003	2,074	986
Banca Popolare dell'Emilia Romagna - loan of Euro 5 million, drawn down on 18 December 2015 with maturity date 18 March 2021, floating interest rate equivalent to 3-month Euribor rate + spread of 1.85%, 3 months of prepayment and quarterly repayment.	3,272	986	4,239	967
Banca Popolare di Milano - loan of Euro 5 million, drawn down on 08 April 2016 with maturity date 30 April 2021, floating interest rate equivalent to 3-months Euribor rate + spread of 1.80%, monthly repayment (contract terminated early and replaced by two contracts with BPM no. 03838209 and 06052885).	-	-	4,347	4,347
Banco Popolare - loan of Euro 2.750 million, drawn down on 29 April 2016 with maturity date 15 December 2020, floating interest rate equivalent to 6-month Euribor rate + spread of 1.70%, 2 months of prepayment and half-yearly repayment (contract terminated early and replaced by two contracts with BPM no. 03838209 and 06052885).	-	-	2,741	685
Banca del Mezzogiorno - loan of Euro 5 million, drawn down on 23 June 2016 with maturity date 30 June 2021, floating interest rate equivalent to 6-month Euribor rate + spread of 2%, half-yearly repayment.	3,493	3,493	4,491	4,491
Banca popolare di Milano - loan of Euro 4 million, drawn down on 06 July 2016 with maturity date 31 July 2017, floating interest rate equivalent to 3-months Euribor rate + spread of 0.80%, monthly repayment.	-	-	3,110	3,110
Banco di Desio e Brianza - loan of Euro 700 thousand, drawn down on 19 July 2016 with maturity date 10 January 2018, floating interest rate equivalent to 6-month Euribor rate + spread of 1%, one month of prepayment and monthly repayment.	41	41	535	494
Unipol Banca - loan of Euro 2 million, drawn down on 27 October 2016 with maturity date 31 October 2019, floating interest rate equivalent to 3-months Euribor rate + spread of 1.90% minimum rate, monthly repayment	1,227	664	1,878	651
Banca Popolare di Bergamo - loan of Euro 2 million, drawn down on 11 November 2016 with maturity date 11 May 2019, floating interest rate equivalent to 3-months Euribor rate + spread of 1.75%, monthly repayment	1,140	801	1,927	788
Deutsche Bank - loan of Euro 1.5 million, drawn down on 20 January 2017 with maturity date 28 November 2020, floating interest rate equivalent to 3-month Euribor rate + spread of 0.90%, quarterly repayment	1,118	372		
Popolare di Sondrio - loan of Euro 3 million, drawn down on 07 July 2017 with maturity date 31 July 2021, floating interest rate equivalent to 1-month Euribor rate + spread of 2.25%, monthly repayment	2,694	730		
Banco BPM 03838209 loan - loan of Euro 2.4 million, drawn down on 18 December 2017 with maturity date 31 December 2024, floating interest rate equivalent to 3-month Euribor rate + spread of 2.15%, quarterly repayment	2,382	321		
Banco BPM 06052885 loan - loan of Euro 3.45 million, drawn down on 28 December 2017 with maturity date 31 December 2024, floating interest rate equivalent to 3-month Euribor rate + spread of 2.15%, quarterly repayment	3,424	463		
Total interest-bearing medium/long-term financial payables	31,521	17,132	44,802	29,559
Less current portion	(17,132)		(29,559)	
Non-current portion of interest-bearing medium/long-term financial payables	14,389		15,243	
Medium/long-term loan due to Simest	11,406	7,406	11,406	
Less current portion	(7,406)			
Medium/long-term loan due to Simest	4,000			
Total medium/long-term loans	18,389	24,538	26,649	
Non-current portion of finance leases	1,962	594	1,753	484
Less current portion	(594)		(484)	
Non-current portion of finance leases, net	1,368		1,269	
Total current portion		25,132		30,043
Medium/long-term loans	19,757		27,918	

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

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

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

Based on the results of the financial statements of the Company and of the Tesmec Group, some covenants on certain medium to long-term loans have not been met.

Following the failure to comply with certain covenants of a financial nature, the relevant medium and long-term loans were fully reclassified as short term, according to the requirements of International Accounting Standards, for a total value of Euro 5,583 thousand. The Group has promptly initiated with the relevant Credit Institutions procedures for obtaining waivers for the year 2017 in relation to the said non-compliance with the covenants. At present, the Group believes that the waiver will be granted in the necessary technical due times.

Finally, note that during 2017 new medium to long term loans were opened for a value of Euro 11,219 thousand.

The average cost of indebtedness is benchmarked to the trend of the 3-month Euribor rates plus a spread applied depending also on the type of the financial instrument used.

The table below shows the figures relevant to the outstanding loans of the Company as at 31 December 2017, by indicating the portion due within one year, within 5 years and after more than 5 years:

Description	Maturity	Interest rate	Residual value as at 31 December 2017	Portion within 12 months	Portion within 5 years	Portion after more than 5 years
Banca Nazionale del Lavoro	31-May-18	floating interest rate equivalent to 6-month Euribor rate + spread of 2.25%	923	923	-	-
Banca Nazionale del Lavoro	04-Mar-16	floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25)	-	-	-	-
Banca Nazionale del Lavoro	04-Sep-17	floating interest rate equivalent to 6-month Euribor rate + spread of 1.90% (+/- 0.25)	-	-	-	-
Simest UGF	04-Feb-20	special annual interest rate of 0.4994%	707	283	424	-
Cariparma	21-Oct-17	floating interest rate equivalent to 3-months Euribor rate + spread 3%	-	-	-	-
Banca Intesa	31-Dec-18	floating interest rate equivalent to 6-months Euribor rate + spread 1.3%.	118	118	-	-
ICCREA/BCC Chiro	27-Mar-22	floating interest rate equivalent to 6-months Euribor rate + spread 3.95%	2,104	2,104	-	-
Sondrio	31-Aug-17	floating interest rate equivalent to 1-month Euribor + spread 3.5%	-	-	-	-
Banca Carige S.p.A.	31-Dec-18	floating interest rate equivalent to 3-months Euribor rate + spread 1.75%.	582	582	-	-
Cariparma	26-Mar-20	floating interest rate equivalent to 6-months Euribor rate + spread 2.50%.	2,195	2,195	-	-
Monte dei Paschi di Siena	30-Sep-20	floating interest rate equivalent to 6-months Euribor rate + spread 1.90%.	3,035	1,104	1,931	-
Veneto Banca	30-Sep-19	floating interest rate equivalent to 6-months Euribor rate + spread 1.3%.	880	501	379	-
Banca Intesa	10-May-20	fixed interest rate 1.85%	1,098	448	650	-
Credito Valtellinese	05-Jan-19	floating interest rate equivalent to 3-months Euribor rate + spread 1.65%	1,088	1,003	85	-
Banca Popolare dell'Emilia Romagna	18-Mar-21	floating interest rate equivalent to 3-months Euribor rate + spread 1.85%.	3,272	986	2,286	-

Banca Popolare di Milano	30-Apr-21	floating interest rate equivalent to 3-months Euribor rate + spread 1.80%.	-	-	-	-
Banco Popolare	15-Dec-20	floating interest rate equivalent to 6-months Euribor rate + spread 1.70%.	-	-	-	-
Banca del Mezzogiorno	30-Jun-21	floating interest rate equivalent to 6-months Euribor rate + spread 2%.	3,493	3,493	-	-
Banca Popolare di Milano	31-Jul-17	floating interest rate equivalent to 3-months Euribor rate + spread 0.80%.	-	-	-	-
Banco di Desio e Brianza	10-Jan-18	floating interest rate equivalent to 6-months Euribor rate + spread 1%.	41	41	-	-
Unipol Banca	31-Oct-19	floating interest rate equivalent to 3-months Euribor rate + spread 1.90%.	1,227	664	563	-
Banca popolare di Bergamo	11-May-19	floating interest rate equivalent to 3-months Euribor rate + spread 1.75%.	1,140	801	339	-
Deutsche Bank	28-Nov-20	floating interest rate equivalent to 3-months Euribor rate + spread 0.90%.	1,118	372	746	-
Popolare di Sondrio	31-Jul-21	floating interest rate equivalent to 1-month Euribor + spread 2.25%.	2,694	730	1,964	-
Banco BPM 03838209 loan	31-Dec-24	floating interest rate equivalent to 3-months Euribor rate + spread 2.15%.	2,382	321	1,347	714
Banco BPM 06052885 loan	31-Dec-24	floating interest rate equivalent to 3-months Euribor rate + spread 2.15%.	3,424	463	1,934	1,027
Total			31,521	17,132	12,648	1,741

Net financial indebtedness

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

	31 December			
	2017	<i>of which with related parties and group</i>	2016	<i>of which with related parties and group</i>
<i>(Euro in thousands)</i>				
Cash and cash equivalents	(11,815)		(14,526)	
Current financial assets ⁽¹⁾	(45,836)	(42,901)	(41,384)	(41,352)
Current financial liabilities	63,859	2,077	61,015	10
Current portion of derivative financial instruments	82		108	
Current financial indebtedness ⁽²⁾	6,290	(40,824)	5,213	(41,342)
Non-current financial liabilities	34,554		42,654	
Non-current portion of derivative financial instruments	63		171	
Non-current financial indebtedness ⁽²⁾	34,617	-	42,825	-
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	40,907	(40,824)	48,038	(41,342)

⁽¹⁾ Current financial assets as at 31 December 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 Company may not necessarily be the same as those adopted by other groups and therefore the balance obtained by the Company may not necessarily be comparable therewith.

Net indebtedness stood at Euro 40,907 thousand as at 31 December 2017 from Euro 48,038 thousand as at 31 December 2016 and decreased by Euro 7,131 due to the combined effect of the following changes:

- for the short-term portion, we point out a total increase of Euro 1,077 thousand related for Euro 5,583 thousand to the reclassification in current financial indebtedness of portions of medium/long-term loans due after one year because of failure to comply with contractual obligations related to financial covenants and Euro 7,406 thousand for the loan operation carried out by Simest S.p.A. in Tesmec USA Inc. in 2010, expiring on 30 June 2018;
- decrease in the long-term portion of Euro 8,208 thousand deriving from the activation of new loans of Euro 11,219 thousand offset by the reclassification in the current financial indebtedness described in the paragraph.

This table shows the comparison between the book value and the fair value of the financial instruments as at 31 December 2017:

<i>(Euro in thousands)</i>	Book value	Fair value
Financial liabilities:		
Loans	50,319	54,975
Non-current portion of finance leases, net	1,962	2,008
Total	52,280	56,983

⁽⁴⁾ The item includes the value of short-term loans to third parties of Euro 4,400 thousand classified in item "Interest-bearing financial payables (current portion)".

16. Derivative financial instruments

The Company signed some contracts related to derivative financial instruments whose contractual characteristics and related fair value as at 31 December 2017 and 2016 are shown in the table below:

Counterparts	Type	Debt interest rate (fixed)	Credit interest rate (variable)	Start date	Maturity date	Notional principal (Euro)	Fair Value (Euro/000) as at 31 December	
							2017	2016
BNL	IRS	1.15% 1st year; 1.65% 2nd year; 2% 3rd year; 2.60% five following years	3-month Euribor	01/01/2011	31/05/2018	923,077	(19)	(65)
BNL	IRS	Fixed interest rate 1.49%	3-month Euribor	04/03/2012	04/09/2017	-	-	(19)
BNL	IRS	Fixed interest rate 0.8%	3-month Euribor	04/03/2013	04/09/2017	-	-	(10)
Intesa San Paolo	IRS	Fixed interest rate 1.09%	6-month Euribor	31/12/2013	31/12/2018	543,713	(5)	(16)
Cariparma	IRS	Fixed interest rate 0.34%	6-month Euribor	07/05/2015	26/03/2020	2,222,222	(18)	(30)
Iccrea	CAP	Interest rate for the period 0.75%	6-month Euribor	27/09/2015	27/09/2020	1,928,571	1	3
Monte dei Paschi di Siena	CAP	Interest rate for the period 0.61%	6-month Euribor	31/12/2016	30/09/2020	3,055,556	(25)	(44)
Banco Popolare Banca	IRS	Fixed interest rate 0.06%	6-month Euribor	03/10/2016	15/12/2020	2,062,500	(7)	(10)
Popolare di Milano	IRS	Fixed interest rate 0.12%	3-month Euribor	31/01/2017	30/04/2021	3,377,703	(1)	(7)
Deutsche Bank	CAP	Fixed interest rate 0.00%	3-month Euribor	20/01/2017	30/11/2020	1,125,000	(1)	-
BPER	CAP	Interest rate for the period 0.15%	3-month Euribor	18/12/2017	18/03/2021	3,302,237	(11)	-
Banca Popolare di Milano	FORWARD SPOT	-	-	21/12/2017	30/04/2018	2,026,288	(58)	-
HSBC	FLEXIBLE	-	-	18/04/2017	29/05/2017	-	-	(15)

HSBC	FLEXIBLE	-	-	02/03/2017	18/04/2017	-	-	(36)
HSBC	FLEXIBLE	-	-	31/03/2017	10/05/2017	-	-	(15)
HSBC	FLEXIBLE	-	-	01/07/2017	29/08/2017	-	-	1
HSBC	FLEXIBLE	-	-	05/06/2017	03/07/2017	-	-	(6)
HSBC	FLEXIBLE	-	-	05/05/2017	01/06/2017	-	-	(4)
HSBC	FLEXIBLE	-	-	30/06/2017	27/07/2017	-	-	(3)
HSBC	FLEXIBLE	-	-	31/05/2017	03/07/2017	-	-	(2)
HSBC	FLEXIBLE	-	-	01/07/2017	29/08/2017	-	-	1
Assets for derivative instruments within the financial period								- 2
Assets for derivative instruments beyond the financial period								1 3
Liabilities for derivative instruments within the financial period								(82) (110)
Liabilities for derivative instruments beyond the financial period								(63) (172)

Tesmec S.p.A. uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The transactions for interest-rate risk hedging are mainly related to medium-term loans. The exchange-rate hedging transactions are related to commercial transactions.

The Company does not account for these financial instruments according to the methods established for hedge accounting since they do not meet all the requirements provided on this matter by the international accounting standards. Therefore, the changes in fair value of the financial instruments are attributed to the income statement during the financial period under review.

The financial management of the Company does not envisage the trading of derivative instruments with speculative purposes.

17. Employee benefit liability

The Company has no defined benefit pension plans in the strict sense. However, the severance indemnity fund required by Article 2120 of the Italian Civil Code, in terms of recognition in the financial statements, falls under this type and as such was accounted for, as shown in the applied accounting policies.

The following table shows the changes for the period ended 31 December 2017 and 31 December 2016 of employee benefits:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Present value of the liability at the beginning of the period	2,526	2,419
Financial expense	33	48
New entries	-	159
Transfers	(118)	-
Benefits paid	(277)	(246)
Financial loss (profit)	(26)	180
Demographic loss (profit)		(34)
Present value of the liability at the end of the period	2,138	2,526

With the adoption of the IFRS, the severance indemnity is considered a defined-benefit liability to be accounted for in accordance with IAS 19 and, as a result, the relevant liability is measured based on actuarial techniques.

The main assumptions used in determining the present value of the severance indemnity are shown below:

Economic and financial technical bases

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Annual discount rate	2.00%	2.00%

Inflation rate	1.50%	1.50%
Expected turnover rate of employees	3.00%	3.00%
Advance rate	2.00%	2.00%

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

<i>(Euro in thousands)</i>	Discount rate	
	0.50%	-0.50%
Effect on the aggregate current cost of the service and of the financial expenses	45	30
Reported value for liabilities with respect to defined benefit plans	2,024	2,261

Technical and demographic bases

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Mortality	2004 ISTAT tables	2004 ISTAT tables
Disability	INPS tables	INPS tables
Retirement age	67 N/F	67 N/F

Frequency of turnover and advances on severance indemnity

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Advance frequency %	1.83%	0.95%
Turnover frequency %	22.6%	22.35%

Workforce

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

<i>(average no. of employees)</i>	Financial period ended 31 December	
	2017	2016
Managers	6	7
Executives, employees and equated	171	157
Workers	154	152
Total	331	316

The average number of employees as at 31 December 2017 is substantially in line with the previous financial period.

Current liabilities

18. Interest-bearing financial payables (current portion)

The following table sets forth the breakdown of *Interest bearing financial payables (current portion)* for the 2017 and 2016 financial periods:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Advances from banks against invoices and bills receivables	30,216	24,615
Other financial payables (short-term leases)	594	484
Financial payables due from affiliated companies	2,077	10
Payables due to factoring companies	3,534	1,947
Financial payables due to SIMEST	7,406	-
Short-term loans to third parties	2,900	4,400
Current portion of medium/long-term loans	17,132	29,559
Total interest-bearing financial payables (current portion)	63,859	61,015

The current portion of interest-bearing medium/long-term loans and borrowings decreased of Euro 2,647 thousand following what was described in paragraph 16.

19. Trade payables

The breakdown of *Trade payables* as at 31 December 2017 and as at 31 December 2016, respectively, is indicated in the table below:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Trade payables due to third-parties	22,054	20,501
Trade payables due to related parties	3,144	4,691
Total trade payables	25,198	25,192

Trade payables as at 31 December 2017 is in line with the previous financial period.

This figure includes payables related to the normal course of business of the Company, in particular the purchase of raw materials and outsourced works.

Note also that there are no payables with maturity exceeding five years at the above dates.

20. Income taxes payable

The balance of tax payables was zero compared to 31 December 2016, when they amounted to Euro 42 thousand:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Current IRES tax liabilities	-	-
Current IRAP tax liabilities	-	42
Total income taxes payable	-	42

Domestic tax consolidation

The Company opted for the domestic tax consolidation system provided by Article 117 et sequitur of the Consolidated Act on Income Tax with the subsidiary Tesmec Service S.r.l. for the 2015/2017 three-year period and with the subsidiaries Tesmec Automation S.r.l. (which includes the merged company CPT Engineering S.r.l.), East Trenchers S.r.l., Bertel S.r.l. and Tesmec Rail S.r.l. for the 2017/2019 three-year period.

Consequently, in addition to the Parent Company Tesmec S.p.A., the investees Tesmec Service S.r.l., Tesmec Automation S.r.l., East Trenchers S.r.l., Bertel S.r.l. and Tesmec Rail S.r.l. are included in the tax consolidation for the 2017 financial year.

Specific consolidation agreements were signed with each subsidiary opting for the domestic tax consolidation system, which regulate the timing and the methods for exchanging the information required to carry out the tax consolidation, the timing and methods for transferring resources among companies resulting from group taxation, as well as the methods for recognising

the tax benefit to the companies that transferred, as part of the group taxation, tax losses, surpluses of non-deductible interest expenses and excess deduction to aid economic growth (A.C.E.).

These financial statements were affected by this institute in the following items:

- "Other current assets" of the statement of financial position, which includes the receivable of Euro 467 thousand from the subsidiary Tesmec Service S.r.l. for the 2017 IRES tax, pertaining to the latter;
- "Other current liabilities" of the statement of financial position, which includes the payable of Euro 436 thousand to the subsidiaries indicated below in connection with the recognition of the tax benefits deriving from the use of the tax losses transferred to the tax consolidation (including those referring to the previous year 2016):

Tax benefit for the use of 2016 tax loss Tesmec Service S.r.l.	Euro	34 thousand
Tax benefit for the use of 2016 tax loss Tesmec Automation S.r.l.	Euro	48 thousand
Tax benefit for the use of 2016 tax loss East Trenchers S.r.l.	Euro	4 thousand
Tax benefit for the partial use of 2017 tax loss Tesmec Automation S.r.l.	Euro	237 thousand
Tax benefit for the partial use of 2017 tax loss Bertel S.r.l.	Euro	112 thousand
Tax benefit for the partial use of 2017 tax loss East Trenchers S.r.l.	Euro	1 thousand

Total Euro 436 thousand

- "Income tax" of the statement of financial position, which includes the income from tax consolidation of Euro 31 thousand related to the partial use of the tax loss transferred from the Parent Company to the tax consolidation.

The tax result for the 2017 financial year referring to the tax consolidation consists, in summary, of the following:

	Financial period ended 31 December	
	2017	
<i>(Euro in thousands)</i>		
Tax income (loss) of the consolidating company Tesmec S.p.A.	(304)	
Tax income (loss) of the consolidated company Tesmec Service s.r.l.	1,946	
Tax income (loss) of the consolidated company Tesmec Automation s.r.l.	(2,353)	
Tax income (loss) of the consolidated company Bertel S.r.l.	(1,107)	
Tax income (loss) of the consolidated company East Trenchers S.r.l.	(9)	
Tax income (loss) of the consolidated company Tesmec Automation s.r.l.	(2)	
Total consolidated taxable income	(1,829)	

21. Provisions for risks and charges

Provisions for risks and charges mainly refers to the product guarantee fund. The calculation is based on a historical, statistical and technical analysis of the interventions under guarantee carried out on sales in prior financial periods and includes both the cost of labour and that for spare parts used.

Changes in the *Provisions for risks and charges* as at 31 December 2017 and 2016 are indicated below:

	Financial period ended 31 December	
	2017	2016
<i>(Euro in thousands)</i>		
Value as at 1 January	350	350
Provisions	-	-
Uses	(100)	-
Value as at 31 December	250	350

22. Other current liabilities

The following table sets forth the breakdown of *Other current liabilities* as at 31 December 2017 and 2016:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Due to social security	3,397	1,870
Due to INAIL (National Insurance Institute for Industrial Accidents)	191	170
Due to trade funds	165	165
Due to employees and collaborators	3,012	2,529
Due to others	157	159
Payables due to related parties	436	42
Accrued expenses and liabilities	120	48
Total other current liabilities	7,478	4,983

Other current liabilities increased compared to the prior financial period of Euro 2,495 thousand and refers to the increase in Due to employees and collaborators of Euro 483 thousand and to Due to social security of Euro 1,527 thousand.

23. Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2017 and 2016:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Deferred tax assets	2,227	1,991
Deferred tax liabilities	1,459	1,640

The breakdown of net deferred taxes as at 31 December 2017 and 2016 is shown in the following table by type by listing the items that present underlying temporary differences.

<i>(Euro in thousands)</i>	31 December		31 December		Financial period ended 31 December	
	Statement of financial position		Shareholders' equity		Income statement	
	2017	2016	2017	2016	2017	2016
Deferred tax assets						
Reversals of intangible assets	48	55	-	-	(7)	(31)
Obsolescence fund	862	862	-	-	-	(90)
Unrealised exchange-rate losses	938	470	-	-	468	(266)
Tax effect on UCC gain reversals	199	241	-	-	(42)	(93)
Other temporary differences	180	363	-	-	(183)	(53)
Total deferred tax assets	2,227	1,991	-	-	236	(533)
Deferred tax liabilities						
Unrealised exchange-rate gains	(1,269)	(1,448)	-	-	179	9
Profits allocated to network reserve	(199)	(199)	-	29	-	-
Other temporary differences	9	7	(6)	23	8	26

Total deferred tax liabilities	(1,459)	(1,640)	(6)	52	187	35
Net effect on Shareholders' Equity						
Net balance deferred wealth taxes	768	351				
<i>Represented in the income statement as follows:</i>						
Deferred tax assets	236	(533)				
Deferred tax liabilities	187	35				
Deferred tax liabilities, net	423	(498)				

Current taxation

Profit before taxes and the allocation for income taxes for the financial periods as at 31 December 2017 and 2016 are summarised below:

	Financial period ended 31 December	
	2017	2016
<i>(Euro in thousands)</i>		
Pre-tax profits	1,651	2,081
Current taxation	80	312
Income due to tax credits	-	(377)
Deferred tax liabilities/assets	(423)	498
Total taxes	(343)	433

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

		Financial period ended 31 December		
		2017		
<i>(Euro in thousands)</i>		IRES	IRAP	TOTAL
Profit before tax	A	1,651	1,651	
Difference in taxable income between IRES and IRAP	B		5,025	
	C=A+B	1,651	6,676	
Nominal rate (%)	D	24.0%	3.9%	
Theoretical taxes	E=C*D	396	260	657
Tax effect on permanent differences	F	(854)	(152)	(1,006)
Tax effect on temporary differences	G	455	-	455
Tax effect on the re-absorption of temporary differences	H	(70)	(5)	(75)
Tax effect on tax loss	I	73		73
Current taxation posted to the income statement	L=E+F+G+H+I	-	103	104
Deferred tax liabilities	M	(187)	(1)	(188)
Deferred tax assets	N	(241)	6	(235)
Taxes related to prior financial periods	O	7	-	7
Income from tax consolidation	P	(31)	-	(31)
Aggregate tax posted to the income statement	Q=L+M+N+O+P	(452)	108	(343)

Comments to the main items in the income statement

24. Revenues from sales and services

In the 2017 and 2016 financial periods, revenues from sales and services amounted to Euro 90,950 thousand and Euro 78,810 thousand with an increase of 15.4%. The breakdown is set below:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Sales of goods	87,917	77,479
Services rendered	3,033	1,392
Total revenues from sales and services	90,950	78,871
Changes in work in progress	-	(61)
Total revenues from sales and services	90,950	78,810

Revenues from *Sales of goods* refer to transfer of machines and equipment for Energy, Trenchers and Rail.

25. Cost of raw materials and consumables

For the financial periods as at 31 December 2017 and 2016, cost of raw materials and consumables amount to Euro 51,018 thousand and Euro 35,688 thousand, respectively. The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Cost for the purchase of raw materials and consumables	50,591	42,931
Change in inventories	427	(7,243)
Total cost of raw materials and consumables	51,018	35,688

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

26. Costs for services

The table below shows the breakdown of *costs for services* that amounted in 2017 and in 2016 to Euro 16,340 thousand and Euro 17,719 thousand, respectively.

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Transport, customs and incidental expenses	3,389	2,307
Outsourced work service	2,713	2,418
Services for legal, tax, technical and other consultancy	3,232	4,731
External production services	74	765
Banking services	527	543
Insurance	274	295
Energy, water, gas, telephone expenses and postage	832	775
Board and lodging expenses and travelling allowance	740	636
Directors' and Auditors' fees	819	801
Advertising and other selling expenses	930	845
Maintenance services	323	336

Commissions and additional expenses	1,625	2,503
Other general expenses	862	764
Total costs for services	16,340	17,719

The item decreased by Euro 1,379 thousand compared to the previous financial period, however, non-recurring costs of Euro 403 thousand are included in the 2017 financial period (Euro 873 thousand in the 2016 financial period).

27. Payroll costs

During the financial periods ended 31 December 2017 and 2016, payroll costs amounted to Euro 18,838 thousand and Euro 18,291 thousand, respectively, up by 3.0%, mainly for the adjustment plans of the technical departments in line with the increased complexity of the offer of the Company.

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Wages and salaries	13,762	13,625
Social security charges	3,891	3,759
Employee severance indemnity	842	807
Other personnel costs	109	100
Total payroll costs	18,604	18,291

The average composition of staff is given in Note 18.

28. Other operating (costs)/revenues

During the financial periods ended 31 December 2017 and 31 December 2016, *other net operating (costs)/revenues* amounted to Euro 5,608 thousand and Euro 2,249 thousand, respectively.

The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Rents	468	370
Hiring	620	523
Other lease and rental expenses	53	25
Sundry taxes	102	145
Other revenues	(2,854)	(1,167)
Income for Research and Development tax credits	(4,002)	-
Losses	5	2,353
Total other operating (costs)/revenues, net	(5,608)	2,249

Other operating (costs)/revenues, net increased by Euro 7,857 thousand compared to the previous financial period in that it contains:

- the income for tax credit on research and development costs of Euro 4,002 thousand. As described above, other operating (costs)/revenues, net includes the positive effect of the tax credit for significant research and development expenses incurred by the Company in 2016 and 2017 for the expansion of the offer in the new sectors for automation, maintenance of existing power lines and service activities, which were combined with the renewal of the product range in all of Trencher's business areas;
- a loss of Euro 2,350 thousand relating to a transaction with related parties was recognised in 2016.

29. Amortisation and depreciation

During the financial periods ended 31 December 2017 and 2016, depreciation and amortisation amounted to Euro 4,635 thousand and Euro 4,859 thousand, respectively.

The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Amortisation of intangible assets	3,184	3,077
Depreciation of property, plant and equipment	1,451	1,782
Total amortisation and depreciation	4,635	4,859

30. Development costs capitalised

Development costs capitalised for the financial periods ended 31 December 2017 and 31 December 2016 amounted to Euro 2,766 thousand and Euro 2,751 thousand, respectively.

During the financial period, the increase in the item is related to the development of projects for the launch of new models and new functions requested by the markets in which the Company operates.

The percentage incidence on revenues of development costs capitalised decreased from 3.5% for the 2016 financial period to 3.0% for the 2017 financial period.

31. Financial expenses

During the financial periods ended 31 December 2017 and 2016, financial expenses amounted to Euro 8,879 thousand and Euro 5,926 thousand, respectively, with an increase of Euro 2,953 thousand.

The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Interests payable for factoring and billing discounts	130	160
Interests payable on interest-bearing medium/long-term loans and borrowings	2,423	2,454
Interests payable on advance loans on exports	182	99
Other sundry financial expenses	609	368
Financial expenses on lease contracts	64	929
Realised foreign exchange losses	2,289	708
Unrealised foreign exchange losses	3,167	1,073
Fair value adjustment of derivative instruments	15	135
Total financial expenses	8,879	5,926

Financial expenses decreased by Euro 2,953 thousand as a result of:

- increase in *foreign exchange losses (realised and unrealised)* of Euro 3,675 thousand due to the exchange rate used on the date of collection compared to the one used on the invoice date and to the adjustment to the exchange rate in effect as at 31 December 2017 of the currency items, mainly due to the depreciation of US Dollar.

32. Financial income

During the financial periods ended 31 December 2017 and 2016, financial income amounted to Euro 3,603 thousand and Euro 5,252 thousand, respectively.

The breakdown of the item is as follows:

<i>(Euro in thousands)</i>	Financial period ended 31 December	
	2017	2016
Interests from banks	2	5
Realised foreign exchange gains	929	897
Unrealised foreign exchange gains	410	2,550
Fair value adjustment of derivative instruments	127	149
Sundry income	2,135	1,651
Total financial income	3,603	5,252

Financial income decreased by Euro 1,649 thousand mainly due to:

- decrease in *foreign exchange gain (realised and unrealised)* of Euro 2,108 thousand due to the exchange rate used on the date of collection compared to the one used on the invoice date and to the adjustment to the exchange rate in effect as at 31 December 2017 of the currency items;
- Increase in *sundry income* of Euro 484 thousand related to interests accrued on financial receivables due from subsidiaries and associated companies.

33. Related party transactions

The following table gives details of economic and equity transactions with related parties. The companies listed below have been identified as related parties as they are linked directly or indirectly to the current shareholders:

	31 December						31 December					
	2017						2016					
	Trade receivables	Current financial receivables	Other current assets	Current financial payables	Trade payables	Other current liabilities	Trade receivables	Current financial receivables	Other current assets	Current financial payables	Trade payables	Other current liabilities
<i>(Euro in thousands)</i>												
Subsidiaries:												
Tesmec USA Inc.	2,012	12,124	-	1,574	18	-	537	23,391	1	-	3,608	-
Tesmec Service S.r.l.	1,889	5,053	467	-	3	34	270	944	-	-	23	17
East Trencher S.r.l.	-	-	-	9	-	5	-	-	-	10	-	2
Tesmec SA	369	4,516	18	-	-	-	2,346	2,834	8	-	34	-
Tesmec RUS	556	259	-	-	4	-	325	280	-	-	-	-
Tesmec Automation S.r.l. (former SGE S.r.l.)	99	5,367	-	-	-	285	70	3,511	-	-	-	23
Tesmec New Technology (Beijing)	837	-	-	-	24	-	192	-	-	-	-	-
Marais Technologies SAS	32	1,830	-	-	-	-	-	-	-	-	-	-
Group Marais SAS	1,239	-	-	457	1,175	-	276	-	-	-	874	-
Marais Laying Tech. Ltd. AUS	1,359	-	-	-	-	-	-	-	-	-	-	-
Marais Laying Tech. Ltd. NZ	208	-	-	-	-	-	144	-	-	-	-	-
Marais Cote d'Ivoire	4	-	-	-	-	-	-	-	-	-	-	-
Bertel S.r.l.	31	3,499	-	-	-	112	39	2,784	-	-	-	-
Tesmec Rail S.r.l.	101	1,663	-	-	-	-	-	-	-	-	-	-
CPT Engineering S.r.l.	-	-	-	-	-	-	26	836	-	-	-	-
Subtotal	8,736	34,311	485	2,040	1,224	436	4,225	34,580	9	10	4,539	42
Associates:												
Locavert S.A.	95	-	-	-	-	-	78	-	-	-	-	-
Subtotal	95	-	-	-	-	-	78	-	-	-	-	-
Joint Ventures:												
Condux Tesmec Inc.	1,046	-	-	-	-	-	206	332	-	-	-	-
Tesmec Peninsula	17	1,930	-	37	979	-	39	3,508	-	-	34	-
Subtotal	1,063	1,930	-	37	979	-	245	3,840	-	-	34	-
Related parties:												
Ambrosio S.r.l.	-	-	-	-	-	-	-	-	-	-	4	-
Ceresio Tours S.r.l.	-	-	-	-	-	-	-	-	-	-	1	-
Dream Immobiliare S.r.l.	623	1,162	-	-	-	-	-	2,932	-	-	211	-
TTC S.r.l.	-	-	-	-	25	-	-	-	-	-	-	-
Fi.ind.	27	-	-	-	-	-	-	-	-	-	-	-
M.T.S. Officine Meccaniche S.p.A.	-	2,911	-	-	901	-	308	-	-	-	-	-
MTS4SERVICE USA LLC	10	1,387	-	-	-	-	-	-	-	-	-	-
Reggiani Macchine S.p.A.	-	-	-	-	-	-	122	-	-	-	(112)	-
Comatel	4	-	-	-	15	-	-	-	-	-	-	-
C2D	-	1,200	-	-	-	-	-	-	-	-	14	-
Subtotal	664	6,660	-	-	941	-	430	2,932	-	-	118	-
Total	10,558	42,901	485	2,077	3,144	436	4,978	41,352	9	10	4,691	42

	Financial period ended 31 December					Financial period ended 31 December				
	2017					2016				
	Revenues	Cost of raw materials	Costs for services	Other operating (costs)/revenues, net	Financial income and expenses	Revenues	Cost of raw materials	Costs for services	Other operating (costs)/revenues, net	Financial income and expenses
<i>(Euro in thousands)</i>										
Subsidiaries:										
Tesmec USA, Inc.	3,923	(32)	(18)	79	338	2,520	(5,011)	(128)	90	638
Tesmec Service S.r.l.	3,461	(15)	72	465	61	446	(87)	38	207	169
East Trencher S.r.l.	-	-	-	3	-	-	-	-	3	-
Tesmec SA	1,309	-	(34)	10	340	3,648	(58)	(113)	17	249
Tesmec RUS	275	(29)	(30)	2	20	404	-	(24)	1	17
Tesmec Automation S.r.l. (former SGE S.r.l.)	235	1	20	362	173	-	-	3	170	62
Tesmec New Technology (Beijing)	673	-	3	2	-	58	-	(88)	-	-
Marais Technologies SAS	-	-	-	14	18	-	-	-	-	-
Group Marais SAS	1,988	(2,053)	(44)	68	(3)	331	(856)	(77)	49	5
Marais Laying Tech. Ltd. AUS	1,894	-	2	5	-	-	-	-	-	-
Marais Laying Tech. Ltd. NZ	64	-	-	1	-	144	-	-	-	-
Marais Cote d'Ivoire	-	-	3	-	-	-	-	-	-	-
Marais Tunisie SA	-	-	-	-	-	4	-	-	-	-
Bertel S.r.l.	-	-	7	85	116	26	(206)	-	19	128
Tesmec Rail S.r.l.	-	-	74	7	3	-	-	-	-	-
CPT Engineering S.r.l.	-	-	-	-	-	-	-	2	8	14
Subtotal	13,822	(2,128)	55	1,103	1,066	7,581	(6,218)	(387)	564	1,282
Associates:										
Locavert S.A.	696	-	-	-	-	224	-	-	-	-
Bertel S.p.A.	-	-	-	-	-	-	-	-	-	-
Subtotal	696	-	-	-	-	224	-	-	-	-
Joint Ventures:										
Condux Tesmec Inc.	3,152	(9)	-	175	6	1,298	-	-	181	45
Tesmec Peninsula	-	(1,013)	(78)	53	102	-	-	(34)	109	81
Marais Algerie SARL	-	-	-	-	-	-	-	-	-	-
Subtotal	3,152	(1,022)	(78)	228	108	1,298	-	(34)	290	126
Related parties:										
Ambrosio S.r.l.	-	-	-	(14)	-	-	-	-	(14)	-
Ceresio Tours S.r.l.	-	-	(8)	(1)	-	-	-	(6)	-	-
Dream Immobiliare S.r.l.	-	-	-	(2,242)	-	-	-	-	(322)	(873)
TTC S.r.l.	-	-	(21)	-	-	-	-	(21)	-	-
Fintetis S.r.l.	-	-	-	-	-	(30)	-	-	-	-
Lame Nautica S.r.l.	13	-	-	-	-	-	-	-	-	-
Fi.ind.	-	-	-	86	-	-	-	-	-	-
M.T.S. Officine Meccaniche S.p.A.	7,175	(902)	6	20	36	3,634	-	5	10	-
MTS4SERVICE USA LLC	-	-	-	-	10	-	-	-	-	-
Reggiani Macchine S.p.A.	-	-	-	-	-	193	(53)	(122)	243	-
CBF S.r.l.	-	-	-	-	-	-	-	-	1	-
C2D	-	-	-	2	2	-	-	-	-	-
Subtotal	7,188	(902)	(23)	(2,149)	48	3,797	(53)	(144)	(82)	(873)
Total	24,858	(4,052)	(46)	(818)	1,222	12,900	(6,271)	(565)	772	535

- Tesmec USA Inc: Revenues and Costs of materials refer to mutual sales transactions concerning machines and spare parts. Financial income refers to the remuneration of a current account balance that reported during the year an indebtedness situation of Tesmec USA towards Tesmec S.p.A.;
- Tesmec SA (Pty) LTD: Revenues of Euro 1,309 thousand refer to the sales of trencher machines subsequently resold from the South African subsidiary. Financial income refers to the remuneration of a current account balance that reported during the year an indebtedness situation of Tesmec SA towards Tesmec S.p.A.;
- Tesmec RUS: Revenues refer to the sale of stringing equipment machines and spare parts;
- Locavert S.A.: the French associate purchases normally trenchers/spare parts for rental business and carrying-out of excavation works at market prices and terms of payment;
- Condux Tesmec, Inc.: the JV purchases stringing machines and equipment for sale on the American market at market prices and terms of payment;
- Tesmec Peninsula WLL: the JV operates on the Saudi Arabian market supplying trencher machinery produced by the Group as well as on-site and after-sale support services. The income and cost items relate to the normal marketing activities of trenching machines;
- Dream Immobiliare S.r.l.: following the lease contract executed at the end of last year Other operating (costs)/revenues, net includes the rentals for the Grassobbio building of Euro 2,242 thousand. In the previous financial year, these costs were recorded as amortisation and interest expense;
- M.T.S. Officine Meccaniche S.p.A.: revenues amounting to Euro 7,175 thousand are mainly related to the operation described in the paragraph 4.1 *Transaction with the related party MTS - Officine Meccaniche di Precisione S.p.A.*

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

Year 2017:

Board of Directors				
Name and Surname	Role	Fees (in Euro)	Bonus and other fees (in Euro)	Total fees (in Euro)
Ambrogio Caccia Dominioni	Chairman and Chief Executive Officer	480,000	-	480,000
Gianluca Bolelli	Vice Chairman	83,200	-	83,200
Sergio Arnoldi	Director	20,800	-	20,800
Gioacchino Attanzio	Director	30,000	-	30,000
Caterina Caccia Dominioni	Director	52,000	-	52,000
Guido Giuseppe Maria Corbetta	Director	20,000	-	20,000
Lucia Caccia Dominioni	Director	20,000	-	20,000
Paola Durante	Director	20,000	-	20,000

Board of Statutory Auditors				
Name and Surname	Role	Fees (in Euro)	Bonus and other fees (in Euro)	Total fees (in Euro)
Simone Cavalli	Chairman	40,560	-	40,560
Stefano Chirico	Standing Auditor	26,468	-	26,468
Alessandra De Beni	Standing Auditor	26,000	-	26,000

Fees paid to executives with strategic responsibilities in the 2017 financial period amounted to Euro 363 thousand (Euro 362 thousand in the 2016 financial year).

35. Summary statement of considerations to the Independent Auditors and to the entities belonging to its network

Pursuant to Article 149 *duodecies* of the Consob Issuer Regulation (Resolution no. 11971/1999 and subsequent amendments), the following table shows the considerations accrued in the financial statements ended 31 December 2017 and 2016 for audit services and for other services rendered to the Company by Reconta Ernst & Young and by the entities belonging to the EY network.

<i>(Euro in thousands)</i>	Independent Auditors that supplied the service	Receiver	Accrued amount	
			2017	2016
Audit of the financial statements and consolidated financial statements	EY S.p.A.	Tesmec S.p.A. Parent Company	121	101
Limited half-year auditing	EY S.p.A.	Tesmec S.p.A. Parent Company	28	28
Certification services (1)	EY S.p.A.	Tesmec S.p.A. Parent Company	5	5
Other services (1)	EY S.p.A.	Tesmec S.p.A. Parent Company	-	45
Total			154	179

⁽¹⁾ This item refers to activities aimed at the signing of Tax Returns.

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

In addition to the services reported in the previous table, in the period between the closing date of the financial year and the date of this Annual Financial Report, additional audit services for Euro 60 thousand are currently provided by EY S.p.A. for the Parent Company.

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

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

37. Commitments and risks

They include sureties, guarantees and third-party assets with the Company. For the financial periods as at 31 December 2017 and 2016, they are summarised as follows:

<i>(Euro in thousands)</i>	31 December	
	2017	2016
Surities	80,899	30,337
Total commitments and risks	80,899	30,337

The recorded value concerns sureties provided by Tesmec S.p.A. through primary banking institutions in favour of customers. The increase is mainly due to the orders of the newly set up Rail sector.

On the basis of the specific characteristics of the segments in which the Company works, Tesmec did not make any provision for contingent liabilities in the memorandum accounts. Risks and future expenses are reasonably hedged by funds specifically accounted for in the financial statements.

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

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

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

- on 31 January 2018, Tesmec S.p.A. purchased a further 13.2% stake in the share capital of Marais Technologies SAS, a French company already controlled by Tesmec with a 52.8% stake in the share capital.

This equity investment was sold to Tesmec by C2D SAS, a company owned by Daniel Rivard, current chairman of Marais, performing broader agreements (as per press releases dated 27 March 2015, 8 April 2015 and 22 December 2015) concluded on the one hand by Tesmec and on the other hand by Daniel Rivard and C2D.

The price paid for the purchase of the equity investment amounted to Euro 1.5 million, which can be increased by a total additional amount of Euro 2 million upon achieving turnover (for the financial period ended 31 December 2017) and margin targets (for the financial period ended 31 December 2018).

Daniel Rivard will continue to be operative chairman of Marais.

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

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

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

of the administrative and accounting procedures for preparing the financial statements during the 2017 financial period.

2. We also certify that:

2.1 the financial statements as at 31 December 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;
- provide a true and fair view of the financial position, the results of the operations and of the cash flows of the issuer.

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

Milan, 1 March 2018

Ambrogio Caccia Dominioni
Chief Executive Officer

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

**REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS'
MEETING**

TESMEC S.p.A.
Registered office in Milan, Piazza S. Ambrogio no. 16
Subscribed and paid-up share capital Euro 10,708,400
Tax code and registration number at the
Milan Register of Companies no. 10227100152
Economic and Administrative Register (REA) no. 1360673

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF TESMEC S.P.A. PURSUANT TO ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE 58/1998 AND OF ARTICLE 2429 OF THE ITALIAN CIVIL CODE

Dear Shareholders,

During the financial period ended 31 December 2017, the Board of Statutory Auditors of Tesmec S.p.A. carried out the supervision activities required by law in accordance with the principles of conduct of the Board of Statutory Auditors recommended by the Italian Accounting Profession Council (CNDCEC), by attending the meetings of the company's Bodies, carrying out periodic audits and meeting the managers of the Independent Auditors Reconta Ernst & Young S.p.A. (the "Independent Auditors"), the members of the Control and Risk Committee, the members of the Supervisory Body set up pursuant to Italian Legislative Decree 231/2001, the key representatives of the different business functions and the Manager responsible for preparing the Company's financial statements for an exchange of information on activities and programs.

Pursuant to Article 153 of Italian Legislative Decree 58/1998 (the "Consolidated Law on Finance (T.U.F.)") and of Article 2429, paragraph 3 of the Italian Civil Code, taking also into account the instructions given by CONSOB with communication no. DEM/1025564 of 6 April 2001, and subsequent amendments and supplements, we report the following:

- we supervised the observance of the law and of the articles of association;
- we obtained from the Directors, on a regular periodicity, information on management performance and business outlook as well as on the business carried on and on the major economic and financial operations performed during the financial period, also through subsidiaries, verifying that they comply with the law and with the articles of association and that they are not clearly imprudent or reckless, in potential conflict of interest, in contrast with the resolutions passed by the Shareholders' Meeting or such as to compromise the integrity of the company assets;
- we received from the Board of Directors, within the timeframe set by the law, the half-yearly financial report and the quarterly interim reports on operations;
- we verified the correct application of the criteria and procedures adopted by the Board of Directors to ascertain the independence of its members on the basis of the methods provided by law and by the Self-Regulatory Code of Conduct;
- we obtained information and supervised, to the extent of our authority, compliance with the principles of correct administration and the adequacy of the organisational structure and of the instructions given by the Company to the subsidiaries pursuant to Article 114, paragraph 2, of the Consolidated Law on Finance, by means of direct observations, collecting information from department heads and meetings with the Independent

Auditors, with the manager responsible for preparing the Company's financial statements and with the Head of Internal Control in order to exchange relevant data and information.

- we obtained information and supervised, to the extent of our authority, also pursuant to Article 19 of Italian Legislative Decree 39/2010, the adequacy and effectiveness of the internal control system and risk management, as well as the activity carried out by the relevant manager responsible for preparing the Company's financial statements and the company's administrative-accounting system, the reliability of the latter in correctly representing operating performance, by obtaining information from the persons in charge of their respective functions, examining company documents and the work carried out by the Independent Auditors, the attendance at the meetings of the Control and Risk Committee and meetings with the Manager responsible for preparing the Company's financial statements, and Executive Director in charge of supervising the functionality of the internal control system;
- there are no atypical and/or unusual operations with third parties, companies of the Group or related parties to report, nor have we received information from the Board of Directors, Independent Auditors or Control and Risk Committee on the subject;
- during the meeting of 10 March 2017, the Board of Directors of Tesmec S.p.A. stated that the subsidiaries companies Tesmec USA Inc and Group Marais are "strategically important subsidiaries";
- we have ascertained that the information flows provided by the subsidiaries outside the European Union are adequate to conduct the auditing of annual and interim accounts as provided by Article 15 of the Market Regulation adopted with CONSOB Resolution no. 20249 of 28 December 2017;
- the Directors illustrated, in the accompanying report on operations both on the financial statements of Tesmec S.p.A. and on the consolidated financial statements of the Tesmec Group as well as in the relevant explanatory notes, ordinary operations carried out during the financial period with related parties or companies of the group. We refer to those documents, to the extent of our authority, and in particular for that which concerns the description of the characteristics of the operations and relevant economic and financial effects, and in particular on the effects of the transaction with the related party MTS – Officine Meccaniche di Precisione S.p.A.. With reference to such operations, with the help of the Board of Directors and of the Control and Risk Committee we verified the existence of and compliance with procedures designed to ensure that they are concluded at market conditions and conforming to the normal management of the company. In this regard, we also supervised the compliance with the principles indicated in the CONSOB Regulation containing provisions on related party transactions adopted with resolution no. 17221 of 12 March 2010, as subsequently amended (the "OPC Regulation"), of the subsequent Procedure for Related Party Transactions, adopted by the Board of Directors on 11 November 2010 and updated on 14 March 2014, as well as on its application; on 10 March 2017, the Board of Directors, in the Triennial review, evaluated the situation and made no changes to the procedure;
- the Directors, also on the basis of the information given by CONSOB with communication n. 3907 of 19 January 2015, have adequately described in the explanatory notes to the financial statements the main assumptions used in the performance of the impairment test for some assets of the financial statements together with the sensitivity analysis performed;
- during the financial period, the Company carried out transactions on Treasury shares thanks also to the shareholders' approval taken in this regard, on 28 April 2017;
- no complaints were received ex Article 2408 of the Italian Civil Code nor statements from third parties;
- we supervised the observance of the regulations established by Legislative Decree 254/2016, examining the

Consolidated Disclosure of non-financial information, also ascertaining compliance with the provisions that govern its preparation pursuant to the aforementioned Decree;

- based on the information received from the Independent Auditors the fees paid relate only to auditing services, therefore it is not necessary to proceed with further assessments on the potential risks of independence of the statutory auditor and of the safeguards applied pursuant to art. 22-ter of Directive 2006/43 / EC. As clearly described in the explanatory notes in the period between the closing date of the financial year and the date of this Report, additional audit services for Euro 60 thousand are currently being provided by EY S.p.A. for the Parent Company.
- we received confirmation of the independence of the Independent Auditors, in charge of the external audit pursuant the EU Reg. 537/2014 and no situations compromising this independence or the occurrence of incompatibility were reported;
- we received from the Independent Auditors the additional report pursuant to art. 11 of EU Reg. 537/2014 dated 15 March 2018 from the examination of which no aspects that should be highlighted in this report have emerged, and which will be transmitted to the Board of Directors as required by current legislation;
- we supervised the effectiveness of the external audit process by examining with the Independent Auditors the audit plan and by discussing the activities carried out;
- the Independent Auditors issued, on 15 March 2018, pursuant to art. 14 of Legislative Decree 39/2010 and of art. 10 of EU Regulation 537/2014, the Reports on the separate and consolidated financial statements as of 31 December 2017. The text of the Audit Report has been revised in form and in content following the amendments made by Legislative Decree 135/2016 to the provisions contained in Legislative Decree 39/2010.

With regards to opinions and attestations in the audit reports, the Independent Auditors have:

- issued an opinion which shows that the financial and consolidated financial statements of Tesmec S.p.A. provide a truthful and correct representation of the equity and financial situation of the Company and of the Group as of 31 December 2017, and of the economic results and cash flows for the year ended on that date in accordance with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued in implementation of art. 9 of Legislative Decree 38/2005;
- issued a consistency opinion which shows that the management reports accompanying the financial statements and the consolidated financial statements as of 31 December 2017 and some specific information contained in the "Report on corporate governance and ownership structure" as indicated in the art. 123 - bis, paragraph 4 of the T.U.F. whose responsibility is the responsibility of the Company's Directors, are drawn up in compliance with the law;
- declared, as regards any significant errors in the Management Report, based on the knowledge and understanding of the company and the related context acquired during the audit, that they have nothing to report;
- On 15 March 2018 the Independent Auditors also issued the Report on the Consolidated Disclosure of non-financial information, in accordance with art. 3, paragraph 10 of Legislative Decree 254/2016 and with art. 5 of Consob Regulation No. 20267 of 18 January 2018. The Independent Auditors' Report certifies that there are no remarks on the Tesmec Group's Consolidated Disclosure of non-financial information, referring to the financial period ended 31 December 2017, and that the Disclosure has been prepared in all significant aspects in accordance with the requirements of articles 3 and 4 of the aforementioned Decree and of the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by GRI - Global Reporting Initiative ("GRI

Standards");

- during the meetings held with the Independent Auditors pursuant to Article 150, paragraph 3, of the Consolidated Law on Finance, no relevant issues emerged that would require any particular comments;
- during the financial period, we issued the opinions required by the Board of Statutory Auditors pursuant to the law;
- we took note of the preparation of the Report on Remuneration ex Articles 123-ter of the Consolidated Law on Finance and 84-quarter of the Issuers' Regulation and we have no special observations to make;
- we verified that the independence requirements of the Statutory Auditors remain valid, as already ascertained before the appointment, on the basis of the methods provided by law and by the Self-Regulatory Code of Conduct; we have also complied with the limit on the number of tasks required by the Article of Associations and Art. 144-terdices of the Consob Issuers Regulation 11971, fulfilling, if required, during the year the relevant Consob disclosure obligations;
- during the financial period, we attended the Shareholders' meeting for the approval of the balance sheet, and 5 meetings of the current Board of Directors. During the same period, the Board of Statutory Auditors met 10 times including 4 in joint session with the Control and Risk Committee;
- we have tested and evaluated the information and periodic press releases issued by the Company to the public, as well as the obligations to notify Consob;
- we supervised the concrete methods of implementing corporate governance regulations of the Self-Regulatory Code of Conduct for the Corporate Governance of listed companies, whose adoption was approved by the Board of Directors during the meeting of 23 February 2010. As described in the section of the Report of the Board of Directors, the Group adheres to the Code of Conduct for listed companies approved in March 2006 (as amended in March 2010, December 2011, July 2014 and July 2015) by the Committee for the Corporate Governance Committee and promoted by Borsa Italiana S.p.A. with additions and amendments related to the characteristics of the Group. Adherence to the rules laid down by the said code has been verified by us and has been the subject of the Report on Corporate Governance and Ownership Structure attached to the budget and subject to the same terms of advertising as applied to the financial statement;
- we verified, through direct audits and information received from the Independent Auditors and the Manager responsible for preparing the Company's financial statements, compliance with the rules of laws concerning the preparation and layout of the consolidated financial statements of the Tesmec Group, of the financial statements of Tesmec S.p.A. and of the report on operations. Moreover, nothing reported to the supervisory authorities or worth mentioning in this report was revealed by our supervisory activity;
- the Company adopted an Organizational Model in compliance with the Italian Legislative Decree n. 231/2001 (the "Organizational Model 231"), of which the Code of Ethics is an integral part; the aim is to prevent the offenses listed in the Decree and consequently the extension of the administrative liability to the Company. On March 1, 2018, the Company approved the New Organizational Model 231 updated with the integration of measures relating to the crime of hitting corporal. The Board of statutory auditors met the Supervisory Board during the year for the reciprocal exchange of information on the activity carried out, as well as having read the annual report of the same dated 23 February 2018 in which no reprehensible facts or violations of the Model adopted by the Company, or acts or conduct that violate the provisions contained in Legislative Decree 231/2001;
- the Directors, in the paragraph called "Main risks and uncertainties to which the Tesmec Group is exposed" on

the Report on operations, point out the risk factors or uncertainties that may significantly affect the activity of the Tesmec Group. In particular, some information tending to illustrate the aims and policies of the Group on the management of the exchange-rate, price and financial risk, as well as tending to indicate the degree of exposure to credit risk, liquidity risk and cash-flow variation risks is provided.

Considering all the above, we find no reasons not to approve - to the extent of our authority - the financial statements as of 31 December 2017, or to make observations on the proposal for appropriation of the profit for the year, including the proposal for dividend distribution, contained in the report on management performance prepared by the Board of Directors.

Grassobbio, 15 March 2018

The Board of Statutory Auditors

Simone Cavalli - Chairman

Alessandra De Beni - Statutory Auditor

Stefano Chirico - Statutory Auditor

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

INDEPENDENT AUDITOR'S REPORT



EY S.p.A.
Via Meravigli, 12
20123 Milano

Tel: +39 02 722121
Fax: +39 02 722122037
ey.com

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Tesmec S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Tesmec S.p.A. (the Company), which comprise the statement of financial position as at 31 December 2017, and the income statement, the comprehensive income statement, the statement of changes in shareholders' equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00391231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

Key Audit Matter	Audit Response
<p>Revenue recognition: terms and conditions of product sales</p> <p>Sales transactions are based upon shipping terms that can vary by region and that include, in some cases, the transfer of risks of ownership to the buyer prior to the actual delivery of the product.</p> <p>Revenue recognition criteria for such transactions require the assessment of sales contractual terms and the fulfillment of relevant obligations.</p> <p>The assessment of sales terms and conditions and their application to revenue recognition have been deemed a key audit matter, considering the dissimilarity and complexity of certain contractual terms applied to sales transactions.</p> <p>The Company disclosed the criteria applied to revenue recognition for product sales in explanatory note 2.2 “Significant accounting policies – Revenues and costs” to the financial statements</p>	<p>Our audit procedures in response to this key audit matter included, among others:</p> <ul style="list-style-type: none"> · gaining an understanding of the Company’s process related to revenue recognition in accordance with applicable financial reporting standards; · assessing the process and the key controls implemented by the Company for revenue recognition; · performing tests of key controls, including those related to the application of contractual terms; · performing substantive procedures to address revenue recognition at year-end, where the risks of ownership are transferred to the buyer prior to the actual delivery of the product. <p>Lastly, we reviewed the disclosure in the notes to the financial statements.</p>
<p>Compliance with financial covenants provided in financial loan contracts</p> <p>The Company’s net financial indebtedness amounts to Euro 40,9 million. Certain medium/long-term loan contracts contain financial covenant provisions that have not been met at 31 December 2017; accordingly, the Company reclassified to current liabilities the medium/long-term portion of such loans, amounting to Euro 5,6 million, and initiated discussions with credit institutions in order to obtain a waiver for the application of financial covenant provisions.</p> <p>The accounting treatment of the non-compliance with such covenants and related disclosure have been deemed a key audit matter considering the current and potential impacts of their non-compliance on the net financial indebtedness.</p>	<p>Our audit procedures in response to this key audit matter included, among others:</p> <ul style="list-style-type: none"> · reviewing loan contracts and communications with credit institutions on financial covenants; · corroborating the financial statement presentation of financial liabilities with covenants terms based on the criteria stated in financial loan contracts; · obtaining information from management in respect of the actions initiated with credit institutions in order to obtain the waiver and the evaluation of potential financial statements implications. <p>Lastly, we reviewed the disclosure in the notes to the financial statements.</p>

The Company disclosed its financial covenants, the potential impacts of their non-compliance and the actions initiated with credit institutions in explanatory note 1.5 “Medium/long-term loans” to the financial statements.

Related parties transactions

During the current year the Company executed a multi-years agreement with a related party concerning:

- (i) the sale of certain machines produced by Tesmec Group;
- (ii) the supply of related logistics and maintenance services on such machines;
- (iii) the possible use of the machines sold under short-term leasing agreements.

As described in the opinion provided by the Related-Party Committee, the transactions aimed to increase the level of flexibility of the operating cost structure and to lower the risk related to the direct investment in machines to be used in project activities. In addition, the considerations for the transactions are determined based on the Company's list prices and other terms and conditions applied to third parties.

The machines sold by the Company under such agreement resulted in the recognition of revenues in 2017 for Euro 3,3 million.

Considering the materiality of the transaction with such related party and the underlying economic and financial terms, we deemed that this area constitutes a key audit matter.

The Company disclosed such transactions with related party, the related reasons and approvals and their financial statements implications in explanatory note 4.1 “Transaction with related party MTS – Officine meccaniche di precisione S.p.A.” to the financial statements.

Our audit procedures in response to this key audit matter included, among others:

- assessing the application of the Company's internal policy for transactions with related parties;
- inspecting the minutes of approval of the transaction by the Board of Directors and by the Related-Party Committee and the contracts signed under such approval;
- performing testing of sales occurred during the financial year, to assess the terms and conditions applied.

Lastly, we reviewed the disclosure in the notes to the financial statements.



Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional scepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;



- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Tesmec S.p.A., in the general meeting held on 23 February 2010, engaged us to perform the audits of the separate and consolidated financial statements for each of the years ending 31 December 2010 to 31 December 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Tesmec S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Tesmec S.p.A. as at 31 December 2017, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Tesmec S.p.A. as at 31 December 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.



In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Tesmec S.p.A. as at 31 December 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, 15 March 2018

EY S.p.A.

Signed by: Massimiliano Vercellotti, partner

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

ENCLOSURES

Enclosure A

List of investments held as at 31 December 2017 by Tesmec S.p.A. and statement of changes during the financial period. The following is the list of investments held as at 31 December 2017, which includes, under Article 126 of Consob Regulation no. 11971/99, the investments held in companies with unlisted shares or in limited liability companies, in more than 10% of the capital.

CHANGES IN INVESTMENTS MADE DURING FINANCIAL PERIOD ENDED 31 DECEMBER 2017

Company	31 December 2016			Increases		Decreases		Other changes	31 December 2017		
	Quantity	%	Value	Quantity	Cost	Quantity	Cost	Write-down Revaluation	Quantity	%	Value
<i>Subsidiaries consolidated</i>											
Tesmec USA Inc.	10,450,000	67.00% (1)	21,261,434	-	-	-	-	-	10,450,000	67.00% (1)	21,261,434
Tesmec Service S.r.l.	100,000	100.00%	3,595,882	-	-	-	-	-	100,000	100.00%	3,595,882
OOO Tesmec Rus	10,590	100.00%	10,590	-	-	-	-	-	10,590	100.00%	10,590
Tesmec SA (Pty) Ltd.	100	100.00%	360,816	-	-	-	-	-	100	100.00%	360,816
East Trenchers S.r.l. (2)	100,000	100.00%	145,000	-	-	-	-	-	100,000	100.00%	145,000
Tesmec Automation S.r.l. (former SGE S.r.l.)	10,000	100.00%	410,000	-	2,115,600	-	-	-	10,000	100.00%	2,525,600
Tesmec France EURL	3,000	100.00%	-	-	-	3,000	-	-	-	-	-
Tesmec New Technology (Beijing)	200,000	100.00%	200,000	-	-	-	-	-	200,000	100.00%	200,000
Marais Technologies	328,566	52.83% (1)	8,563,664	-	-	-	-	-	328,566	52.83% (1)	8,563,664
CPT Engineering S.r.l.	315,600	100.00%	315,600	-	-	315,600	315,600	-	-	-	-
Bertel S.r.l.	200,000	100.00%	3,535,400	-	500,000	-	-	-	200,000	100.00%	4,035,400
Tesmec Rail S.r.l.	10,000	100.00%	10,000	-	2,340	-	-	-	10,000	100.00%	12,340
Total			38,408,386		2,617,940		315,600	-			40,710,726
<i>Associates consolidated under the equity method</i>											
Tesmec Peninsula WLL	346,125	49.00%	729,748	-	-	-	-	-	346,125	49.00%	729,748
Locavert S.A.	20,525	38.63%	52,000	-	-	-	-	-	20,525	38.63%	52,000
Condux Tesmec Inc.	250	50.00%	955,763	-	-	-	-	-	250	50.00%	955,763
Total			1,737,511				-				1,737,511

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

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



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