Interim Financial Report at March 31, 2018

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COMPOSITION OF THE CORPORATE BODIES

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

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

(*) Independent Directors

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

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

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

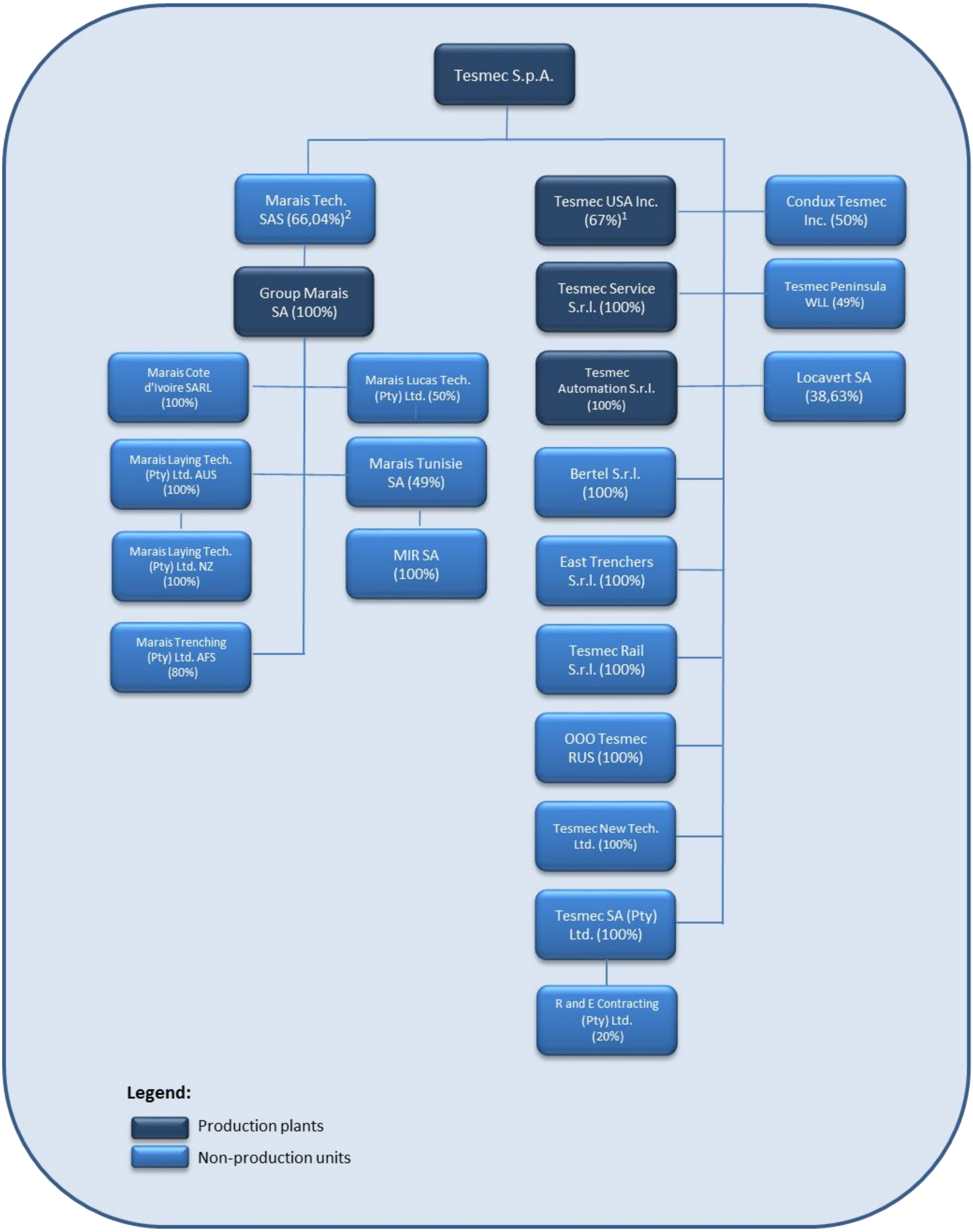
Chairman	Sergio Arnoldi
Members	Gioacchino Attanzio Gianluca Bolelli

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

Chairman	Gioacchino Attanzio
Members	Sergio Arnoldi Caterina Caccia Dominioni

Lead Independent Director	Gioacchino Attanzio
Director in charge of the internal control and risk management system	Caterina Caccia Dominioni
Manager responsible for preparing the Company's financial statements	Ambrogio Caccia Dominioni
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 33.96% is held by Simest S.p.A. Since Tesmec has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the shareholding of the Parent Company in Marais Technologies SAS is consolidated on an 100% basis.

INTERIM CONSOLIDATED REPORT ON OPERATIONS

(Not audited by the Independent Auditors)

1. Introduction

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

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

Founded in Italy in 1951 and led by the Chairman and Chief Executive Officer Ambrogio Caccia Dominioni, the Group, which has been listed on the Stock Exchange since 1 July 2010, has pursued the stated objective of diversification of product types in order to offer a complete range of integrated solutions grouped into three main areas of business: Energy, Trencher and Rail. The company has more than 800 employees, with 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. Furthermore, after the reorganisation of the Automation sector, Tesmec Automation has 3 additional operating units available in Fidenza, Padua and Patrica (Frosinone). The Group has a global commercial structure, with a direct presence on different continents, through foreign companies and sales offices in the USA, South Africa, Russia, Qatar, China and France.

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

Rail segment

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

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

2. Macroeconomic Framework

The first quarter of 2018 was characterised by continued economic recovery, which was also evident in 2017; the recovery strengthened in Europe (including Italy) and other major countries, with the exception of Brazil and Venezuela. This economic growth drove an overall scenario of investor confidence, also supported by the elimination of monetary stimulus by central banks.

Global stock markets experienced a phase of reflection, with the exception of Milan, which registered an increase of 2.55% in the quarter. The euro became even stronger compared to other currencies, especially against the dollar, while the barrel price fell. Europe and emerging countries are in less mature phases of the economic cycle compared to the USA, and therefore have more room for acceleration; on the other hand, the approval of the tax reform bill in the USA could provide support for the dollar.

From a political perspective, there is a marked decline in migration to Europe, but a deterioration of the situation of migrants in Africa. Instability in the Middle East has drawn the attention of the USA, China and Russia.

3. Significant events during the period

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

- on 31 January 2018, Tesmec S.p.A. acquired an additional investment equivalent to 13.21% of the share capital of Marais Technologies SAS, a French company in which Tesmec already had a shareholding of 52.8% of share capital; Marais Technologies SAS is the head of an international group, leader in rental services and construction of machines for infrastructures in telecommunications, electricity and gas. This investment was sold to Tesmec by C2D SAS, a company belonging to Daniel Rivard, current president of Marais, in execution of broader agreements (referred to in the press releases of 27 March 2015, 8 April 2015, and 22 December 2015), concluded between Tesmec and the parties Daniel Rivard and C2D. The price paid to acquire the investment amounted to Euro 1,500 thousand, based on previous agreements;

- on 8 March 2018, the Group was awarded a contract, through its joint venture Tesmec Peninsula, related to the management of a fleet of 7 large trencher machines for the customer Qatar Building Company (QBC), one of the largest Qatari groups in the infrastructure sector. The estimated value of the contract is USD 4.3 million, with a duration of 23 months. Specifically, Ashghal, the Qatar Public Works Agency responsible for planning, design, procurement, construction, delivery, and asset management activities of all of the country's infrastructure and public building projects, awarded QBC the excavation work related to the construction of a series of infrastructure projects, mainly sewers and drainage systems, in the industrial area of Doha as part of the construction of PACKAGE 3 (which covers a surface area of 457 hectares). Tesmec Group will manage a fleet of 7 large trencher machines (models 1675 and 1475) - owned by QBC - supplying spare parts, consumables, operators, mechanics, specialised technicians, and expertise within the framework of a fleet management contract. The contract confirms the winning strategy undertaken by Tesmec Group in recent years, based on technological innovation and services, as well as direct oversight in the most important markets, such as the Middle East;

- on 15 March 2018, Cerved Rating Agency, the Italian rating agency specialised in assessing creditworthiness of non-financial companies, confirmed the “B1.1” solicited rating of the Company. This result substantiates the financial soundness of Tesmec Group and is the result of an in-depth evaluation process that combines rigorous quantitative models to forecast credit risk and accurate qualitative analyses by the agency, which also considers the Company's competitive position in the industry.

4. Activities, reference market and operating performance for the first three months of 2018

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 the major economic and financial indicators of the Group as at March 2018 compared with the same period of 2017.

OVERVIEW OF RESULTS

31 March 2017	**Key income statement data** (Euro in millions)	**31 March 2018**
49.8	Operating Revenues	46.7
5.6	EBITDA	6.1
2.5	Operating Income	2.8
(0.4)	Foreign exchange gains/losses	(0.7)
0.8	Group Net Profit	1.1

31 December 2017	**Key financial position data** (Euro in millions)	31 March 2018
130.1	Net Invested Capital	142.7
44.8	Shareholders' Equity	43.9
85.3	Net Financial Indebtedness	98.7
15.8	Investments in property, plant and equipment and intangible assets	3.3
719	Annual average employees	836

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

- Tesmec USA Inc., a company that is 67% owned by Tesmec S.p.A. and 33% by Simest S.p.A. (with an option of Tesmec S.p.A. to repurchase Simest's shareholding interest), is based in Alvarado (Texas) and operates in the Trencher segment and in the stringing equipment/rail sector (as from 2012). In the first three months of 2018, revenues achieved directly with customers/end users came to Euro 5.3 million.

- Tesmec Service S.r.l., company 100% owned by Tesmec S.p.A. with registered office in Grassobbio (BG) and operating unit in Monopoli (BA) where it carries out its activity of design and construction of machinery for the maintenance of rolling stock. During the first quarter of the 2018, the company continued production activities related to contracts in progress, recording revenues of Euro 4.1 million.

- Tesmec SA (Pty) LTD, with registered office in Johannesburg (South Africa), is 100% owned by Tesmec S.p.A. In the first three months, the company generated revenues of Euro 2.2 million.

- Condux Tesmec Inc, a joint venture that is 50% owned by Tesmec S.p.A. and 50% by American shareholder Condux, which is based in Mankato (USA), has been active since June 2009 in selling products for the North American stringing equipment market. The company has been consolidated using the equity method and in the first three months of the year generated revenues totalling Euro 2.2 million.

- Marais Technologies SAS, with registered office in Durtal (France), 66.04% owned by Tesmec S.p.A. and 33.96% by Simest S.p.A. The French company, acquired on 8 April 2015, is the holding company of an international group, leader in rental services and construction of machines for infrastructures in telecommunications, electricity and gas. During the first quarter of 2018, the Group generated revenues totalling Euro 14.7 million, a clear improvement over the figure of Euro 9.1 million in the same period of the previous year, due to the growth trend in Oceania and Africa.

- Tesmec Automation S.r.l., a company 100% owned by Tesmec S.p.A., with registered office in Grassobbio (BG) and specialised in the design and sale of sensors, fault detectors and measurement devices for medium voltage power lines. During the first three months of 2018, revenues amounted to Euro 1.7 million.

- Tesmec Rail S.r.l., a 100% subsidiary of Tesmec S.p.A., is continuing to develop the new Monopoli production facility, which will operate in the Rail sector.

5. Income statement

5.1 Consolidated income statement

The comments provided below refer to the comparison of the consolidated income statement figures as at 31 March 2018 with those as at 31 March 2017.

The main profit and loss figures for the first three months of 2018 and 2017 are presented in the table below:

	Quarter ended 31 March			
(Euro in thousands)	**2018**	**% of revenues**	**2017**	**% of revenues**
Revenues from sales and services	**46,745**	**100.0%**	**49,788**	**100.0%**
Cost of raw materials and consumables	(19,842)	-42.4%	(24,418)	-49.0%
Costs for services	(6,942)	-14.9%	(8,121)	-16.3%
Payroll costs	(11,484)	-24.6%	(11,118)	-22.3%
Other operating costs/revenues, net	(3,892)	-8.3%	(2,233)	-4.5%
Depreciation	(3,305)	-7.1%	(3,102)	-6.2%
Development costs capitalised	1,437	3.1%	1,464	2.9%
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method	55	0.1%	265	0.5%
Total operating costs	**(43,973)**	**-94.1%**	**(47,263)**	**-94.9%**
Operating income	**2,772**	**5.9%**	**2,525**	**5.1%**
Net financial income/expenses	(793)	-1.7%	(1,107)	-2.2%
Foreign exchange gains/losses	(680)	-1.5%	(365)	-0.7%
Portion of gains/(losses) from associated companies and non-operational Joint Ventures evaluated using the equity method	3	0.0%	5	0.0%
Pre-tax profit	**1,302**	**2.8%**	**1,058**	**2.1%**
Income tax	(178)	-0.4%	(292)	-0.6%
Net profit for the period	**1,124**	**2.4%**	**766**	**1.5%**
Profit / (loss) attributable to non-controlling interests	1	0.0%	(62)	-0.1%
Group profit	**1,123**	**2.4%**	**828**	**1.7%**

Revenues

Total revenues as at 31 March 2018 decreased by 6.1%. This change is the result of a different mix in terms of a reduction in product sales (associated with the Indonesian contract as described in the paragraph below) and an increase in the provision of services compared with the first quarter of the prior year.

	Quarter ended 31 March				
(Euro in thousands)	**2018**	**% of revenues**	**2017**	**% of revenues**	**2018 vs. 2017**
Sales of products	33,035	70.67%	39,636	79.61%	(6,601)
Services rendered	11,697	25.02%	7,452	14.97%	4,245
	44,732	**95.69%**	**47,088**	**94.58%**	**(2,356)**
Changes in work in progress	2,013	4.31%	2,700	5.42%	(687)
Total revenues from sales and services	**46,745**	**100.00%**	**49,788**	**100.00%**	**(3,043)**

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

a) Revenues by geographic area

The Group's turnover continues to be produced almost exclusively abroad and in particular, in non-EU countries. The revenue analysis by area is indicated below, comparing the first quarter of 2018 with the first quarter of 2017, which indicates growth in the Italian and African markets, partially offset by declines recorded in North and Central America, BRIC, and other markets. In the BRIC and Others segment, note that the quarter for the prior year was heavily influenced by the positive effect of sales in Indonesian markets related to the contract with the Indonesian Electricity Authority (PLN). It is emphasised that the segmentation by geographic area is determined by the country where the customer is located, regardless of where project activities are organised.

	Quarter ended 31 March	
(Euro in thousands)	**2018**	**2017**
Italy	12,509	11,462
Europe	6,422	6,202
Middle East	1,949	2,471
Africa	5,517	3,614
North and Central America	7,185	8,127
BRIC and Others	13,163	17,912
Total revenues	**46,745**	**49,788**

Operating costs net of depreciation and amortisation

	Quarter ended 31 March			
(Euro in thousands)	**2018**	**2017**	**2018 vs. 2017**	**% change**
Cost of raw materials and consumables	(19,842)	(24,418)	4,576	-18.7%
Costs for services	(6,942)	(8,121)	1,179	-14.5%
Payroll costs	(11,484)	(11,118)	(366)	3.3%
Other operating costs/revenues, net	(3,892)	(2,233)	(1,659)	74.3%
Development costs capitalised	1,437	1,464	(27)	-1.8%
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method	55	265	(210)	-79.2%
Operating costs net of depreciation and amortisation	**(40,668)**	**(44,161)**	**3,493**	**-7.9%**

The table shows a decrease in operating costs of Euro 3,493 thousand (-7.9%), more than proportional to the decrease in sales (-6.1%). Among cost items, there was an increase in cost items for raw materials linked to the different mix of sales realised during the period. Moreover, the comparison with the same period of the previous year is also affected by lower costs for raw materials and consumables associated with the Indonesian contract mentioned above.

EBITDA

In relation to the decrease in revenues (-6.1%) less than proportional to the decrease in operating costs net of depreciation and amortisation (-7.9%), in terms of margins, EBITDA amounts to Euro 6,077 thousand, up 8.0% compared to the first quarter of 2017.
A restatement of the income statement figures representing the performance of EBITDA is provided below:

(Euro in thousands)	Quarter ended 31 March				
	2018	% of revenues	2017	% of revenues	2018 vs. 2017
Operating income	2,772	5.9%	2,525	5.1%	247
+ Depreciation and amortisation	3,305	7.1%	3,102	6.2%	203
EBITDA (*)	**6,077**	**13.0%**	**5,627**	**11.3%**	**450**

(*) EBITDA is represented by the operating income gross of 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 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 calculation criterion applied by the Group may not be in line with the criterion adopted by others and is therefore not comparable.

Financial Management

(Euro in thousands)	Quarter ended 31 March	
	2018	2017
Net financial income/expenses	(813)	(925)
Foreign exchange gains/losses	(680)	(365)
Fair value adjustment of derivative instruments	20	(182)
Portion of gains/(losses) from associated companies and non-operational Joint Ventures evaluated using the equity method	3	5
Total net financial income/expenses	**(1,470)**	**(1,467)**

The registered net financial management is overall in line with the same period of 2017, however, note the following changes:

- improvement of Euro 112 thousand related to the decrease of net cost of borrowing as a result of benefits from reducing the cost of short-term funding;
- deterioration of Euro 315 thousand generated by the divergent trend in the USD/EUR exchange rate in the two reference periods, which resulted in recognising net losses totalling Euro 680 thousand (realised of Euro 139 thousand and unrealised of Euro 541 thousand) in the first quarter of 2018 against net losses of Euro 365 thousand in the first quarter of 2017;

5.2 Income Statement by segment

Revenues by segment

The tables below show the income statement figures as at 31 March 2018 compared to those at 31 March 2017, broken down into three operating segments.

(Euro in thousands)	Quarter ended 31 March				
	2018	% of revenues	2017	% of revenues	2018 vs. 2017
Energy	9,242	19.8%	21,877	43.9%	(12,635)
Trencher	33,367	71.4%	24,417	49.0%	8,950
Rail	4,136	8.8%	3,494	7.0%	642
Total revenues	**46,745**	**100.0%**	**49,788**	**100.0%**	**(3,043)**

In the first three months of 2018, the Group recorded consolidated revenues of Euro 46,745 thousand, a decrease of Euro 3,043 thousand compared to Euro 49,788 thousand in the same period of the previous year. In percentage terms, this decrease represents a negative change of 6.1%, which is split disparately between the Group’s three business areas. More specifically, an increase of +36.7% was recorded for the Trencher segment, +18.4% for the Rail segment, and a decrease of -57.8% for the Energy segment.

The considerable increase in revenues for the Trencher segment confirms the Group's strategy of focusing on service and project management activities in key areas such as the Middle East and Australia-New Zealand.

For the Rail segment, revenues improved compared to the same period of the previous year due to technological advances that the Group is pursuing in terms of Research & Development.

The decrease in revenues in the Energy segment is mainly attributable to the fact that revenues for the first quarter of 2017 benefited from a large, one-off order to supply stringing equipment for the Indonesian market. Furthermore, note that the Automation segment is progressively increasing its contribution to the Group's turnover, following the consolidation process and development of intelligent networks (smart grids).

EBITDA by segment

The tables below show the income statement figures as at 31 March 2018 compared to those at 31 March 2017, broken down into three operating segments.

	Quarter ended 31 March				
(Euro in thousands)	**2018**	**% of revenues**	**2017**	**% of revenues**	**2018 vs. 2017**
Energy	1,227	13.3%	3,939	18.0%	(2,712)
Trencher	4,192	12.6%	793	3.2%	3,399
Rail	658	15.9%	895	25.6%	(237)
EBITDA (*)	**6,077**	**13.0%**	**5,627**	**11.3%**	**450**

(*****) 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 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 calculation criterion applied by the Group may not be in line with the criterion adopted by others and is therefore not comparable.

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

- Trencher: improvement in EBITDA from Euro 793 thousand in the first quarter of 2017 to Euro 4,192 thousand in 2018 linked to the increase in business activities in the various reference sectors and to the fixed cost absorption;
- Rail: EBITDA decreased from Euro 895 thousand as at 31 March 2017 to Euro 658 thousand as at 31 March 2018 due to the trend in sales volumes;
- Energy: deterioration in EBITDA from Euro 3,939 thousand in the first quarter of 2017 to Euro 1,227 thousand in 2018, is attributable to the concentration of sales of Energy products in the first quarter of the prior year, due to the Indonesian contract completed at the end of 2016 but than in items of turnover and margins, has mainly impacted the first quarter of 2017.

6. Summary of balance sheet figures as at 31 March 2018

The information provided below, relates to the main financial indicators of the Group as at 31 March 2018, compared to 31 December 2017. The following table shows in particular, the reclassified funding sources and uses from the consolidated balance sheet as at 31 March 2018 and 31 December 2017:

(Euro in thousands)	**As at 31 March 2018**	**As at 31 December 2017**
USES		
Net working capital (1)	74,311	60,806
Fixed assets	67,554	68,386
Other long-term assets and liabilities	787	913

Net invested capital (2)	**142,652**	**130,105**
SOURCES		
Net financial indebtedness (3)	98,749	85,273
Shareholders' equity	43,903	44,832
Total sources of funding	**142,652**	**130,105**

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

A) Net working capital

The table below shows a breakdown of “Net Working Capital” as at 31 March 2018 and 31 December 2017:

(Euro in thousands)	**As at 31 March 2018**	**As at 31 December 2017**
Trade receivables	53,589	39,854
Work in progress contracts	9,168	6,768
Inventories	61,392	63,125
Trade payables	(39,706)	(39,479)
Other current assets/(liabilities)	(10,132)	(9,462)
Net working capital (1)	**74,311**	**60,806**

(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 IFRS. The valuation criteria applied by the Company may not necessarily be the same as those adopted by other groups and therefore the balance obtained by the Company may not necessarily be comparable therewith.

Net working capital amounted to Euro 74,311 thousand, marking an increase of Euro 13,505 thousand (equal to 22.2%) compared to 31 December 2017. This trend is mainly due to the increase in “Trade receivables" of Euro 13,735 thousand (34.5%), as the sales of the first quarter were mainly concentrated in the month of March, partially offset by the decrease in “Inventories" of Euro 1,733 thousand (-2.7%).

B) Fixed assets

The table below shows a breakdown of “Fixed assets” as at 31 March 2018 and 31 December 2017:

(Euro in thousands)	**As at 31 March 2018**	**As at 31 December 2017**
Intangible assets	18,007	18,340
Property, plant and equipment	45,827	46,102
Equity investments in associates	3,714	3,937
Other equity investments	6	7
Fixed assets	**67,554**	**68,386**

Total fixed assets posted a decrease of Euro 832 thousand resulting from depreciation on machinery used for service activities in the Trencher segment, especially in the American subsidiary and in Marais Group.

C) Net financial indebtedness

Details of the breakdown of “Net financial indebtedness” as at 31 March 2018 and 31 December 2017 are as follows:

(Euro in thousands)	**As at 31 March 2018**	***of which with related parties and group***	**As at 31 December 2017**	***of which with related parties and group***
Cash and cash equivalents	(15,790)		(21,487)	
Current financial assets [(1)]	(10,507)	*(7,489)*	(12,450)	*(9,386)*
Current financial liabilities	84,699	*1,284*	79,022	*37*
Current portion of derivative financial instruments	153		85	
Current financial indebtedness [(2)]	**58,555**	***(6,205)***	**45,170**	***(9,349)***
Non-current financial liabilities	40,136	-	40,040	-
Non-current portion of derivative financial instruments	58		63	
Non-current financial indebtedness [(2)]	**40,194**	**-**	**40,103**	**-**
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	**98,749**	***(6,205)***	**85,273**	***(9,349)***

[(1)] Current financial assets as at 31 March 2018 and 31 December 2017 include the market value of equities that are considered as cash and cash equivalents.

[(2)] Current and non-current financial indebtedness is not identified as an accounting element by IFRS. The valuation criteria applied by the Group may not necessarily be the same as those adopted by other groups and therefore the balances obtained by the Group may not necessarily comparable therewith.

In the first three months of 2018, the Group’s net financial indebtedness increased by Euro 13,476 thousand compared to the figure at the end of 2017.

The table below shows the breakdown of the following changes:

- increase in current financial indebtedness of Euro 13,385 thousand due to the:
  - increase in current financial liabilities of Euro 5,677 thousand mainly due to (i) greater advances on exports for Euro 8,271 thousand and (ii) the decrease in the current portion of medium/long-term loans for Euro 3,878 thousand;
  - increase in current financial assets and cash and cash equivalents of Euro 7,640 thousand;
- increase in non-current financial indebtedness of Euro 91 thousand mainly due to the reclassification of current financial indebtedness relating to the current portion of medium/long-term loans.

7. Management and types of financial risk

For the management of financial risks, please see the paragraph "Financial risk management policy" contained in the Explanatory Notes to the Annual Consolidated Financial Statements for 2017, where the Group's policies in relation to the management of financial risks are presented.

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

In compliance with the Consob communications of 20 February 1997, 27 February 1998, 30 September 1998, 30 September 2002 and 27 July 2006, it should be noted that during the first quarter of the 2018 financial year, no transactions took place with related parties of an atypical or unusual nature, outside of normal company operations or such as to harm the profits, balance sheet or financial results of the Group.
For significant intercompany and related party information, please see the paragraph "Related party transactions" in the Explanatory Notes.

9. Group Employees

The average number of Group employees in the first quarter of 2018, including the employees of companies that are fully consolidated, is 836 persons compared to 778 in 2017.

10. Other information

Treasury shares

On 6 April 2018, the Shareholders' Meeting authorised the treasury share buy-back plan; the authorisation was granted for a period of 18 months; the authorisation of 6 April 2018 replaces the last authorisation resolved by the Shareholders' Meeting on 28 April 2017 and expiring in October 2018. The plan set the maximum quantity as 10% of Share Capital; from the launch of the buy-back plan resolved on 10 January 2012 (and renewed on 30 April 2014) to the date of the period covered by this report, 31 March 2018, 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 commissions) for a total equivalent value of Euro 2,612 thousand.

Events occurring after the close of the financial period

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

Business outlook

Based on the important ongoing negotiations, an improvement in the turnover targets to be achieved at the end of 2018 is expected. In fact, revenues exceeding 200 million euros are expected, with an increase in margins thanks to better absorption of fixed costs and efficiency improvements in the several businesses. Furthermore, the positive impact of incentives connected to the Group's investments in Research & Development and to the project of the railway hub in Puglia should be considered. An improvement in the net financial position is expected thanks to the normalization of working capital and the improvement of the operating profitability.

An important growth of the Railway segment is expected thanks to the new technological development and the construction of the new production plant in Puglia, which is expected to be fully operational from the fourth quarter of 2018. Specialized digging solutions and services of the Trencher segment will be increasingly used both in infrastructure projects and in telecom and renewable energy projects. The Energy sector, thanks to advanced technologies for the management of smart grids, should, finally, record a good performance both in Italy and internationally, with an increase in the second part of the year thanks to the start of various projects.

Therefore, orders are expected to be characterized by a good balance between the business segments of the Group and geographically diversified, with focus on the more developed markets that recognize the added value of the Tesmec 4.0 technologies and are recording an increase in investments in sectors with high digital content.

CONSOLIDATED FINANCIAL STATEMENTS OF THE TESMEC GROUP

Consolidated financial statements

Consolidated statement of financial position as at 31 March 2018 and as at 31 December 2017

(Euro in thousands)	Notes	31 March 2018	31 December 2017
NON-CURRENT ASSETS			
Intangible assets	5	18,007	18,340
Property, plant and equipment	6	45,827	46,102
Equity investments in associates valued using the equity method		3,714	3,937
Other equity investments		6	7
Financial receivables and other non-current financial assets	14	182	184
Derivative financial instruments	14	1	1
Deferred tax assets		10,176	10,451
Non-current trade receivables		10	161
TOTAL NON-CURRENT ASSETS		**77,923**	**79,183**
CURRENT ASSETS			
Work in progress contracts	7	9,168	6,768
Inventories	8	61,392	63,125
Trade receivables	9	53,589	39,854
of which with related parties:	9	*5,184*	*2,581*
Tax receivables		981	909
Other available-for-sale securities	14	2	2
Financial receivables and other current financial assets	10	10,505	12,448
of which with related parties:	10	*7,489*	*9,386*
Other current assets		7,904	9,413
Cash and cash equivalents	14	15,790	21,487
TOTAL CURRENT ASSETS		**159,331**	**154,006**
TOTAL ASSETS		**237,254**	**233,189**
SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS			
Share capital	11	10,708	10,708
Reserves / (deficit)	11	32,049	33,829
Group net profit / (loss)	11	1,123	(1,430)
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS		**43,880**	**43,107**
Capital and reserves / (deficit) attributable to non-controlling interests		22	1,707
Net profit / (loss) for the period attributable to non-controlling interests		1	18
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		**23**	**1,725**
TOTAL SHAREHOLDERS' EQUITY		**43,903**	**44,832**
NON–CURRENT LIABILITIES			
Medium/long-term loans	12	25,324	25,243
Bond issue		14,812	14,797
Derivative financial instruments	14	58	63
Employee benefit liability		3,637	3,656
Deferred tax liabilities		5,909	6,202
Provisions for risks and non-recurring charges		34	24
Non-current trade payables		2	2
TOTAL NON-CURRENT LIABILITIES		**49,776**	**49,987**
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	13	84,699	79,022
of which with related parties:	13	*1,284*	*37*
Derivative financial instruments	14	153	85
Trade payables		39,706	39,479
of which with related parties:		*980*	*2366*
Advances from customers		4,255	3,377
Income taxes payable		525	389
Provisions for risks and charges		3,316	3,321
Other current liabilities		10,921	12,697
TOTAL CURRENT LIABILITIES		**143,575**	**138,370**
TOTAL LIABILITIES		**193,351**	**188,357**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**237,254**	**233,189**

Consolidated income statement for the quarter ended 31 March 2018 and 2017

		Quarter ended 31 March	
(Euro in thousands)	**Notes**	**2018**	**2017**
Revenues from sales and services	15	**46,745**	**49,788**
of which with related parties:		*5,326*	*4,218*
Cost of raw materials and consumables		(19,842)	(24,418)
of which with related parties:		*(340)*	-
Costs for services		(6,942)	(8,121)
of which with related parties:		*(104)*	*(20)*
Payroll costs		(11,484)	(11,118)
Other operating costs/revenues, net		(3,892)	(2,233)
of which with related parties:		*(1,093)*	*(495)*
Depreciation		(3,305)	(3,102)
Development costs capitalised		1,437	1,464
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method		55	265
Total operating costs	16	**(43,973)**	**(47,263)**
Operating income		**2,772**	**2,525**
Financial expenses		(2,072)	(2,801)
of which with related parties:		*(3)*	-
Financial income		599	1,329
of which with related parties:		*13*	*28*
Portion of gains/(losses) from associated companies and non-operational Joint Ventures evaluated using the equity method		49	5
Pre-tax profit		**1,302**	**1,058**
Income tax		(178)	(292)
Net profit for the period		**1,124**	**766**
Profit / (loss) attributable to non-controlling interests		1	(62)
Group profit		**1,123**	**828**
Basic and diluted earnings per share		**0.0105**	**0.0077**

Consolidated statement of comprehensive income for the quarter ended 31 March 2018 and 2017

		Quarter ended 31 March	
(Euro in thousands)	**Notes**	**2018**	**2017**
NET PROFIT FOR THE PERIOD		**1,123**	**828**
Other components of comprehensive income:			
Exchange differences on conversion of foreign financial statements		(547)	(520)
Total other income/(losses) after tax		**(547)**	**(520)**
Total comprehensive income (loss) after tax		**576**	**308**
Attributable to:			
Shareholders of Parent Company		575	370
Minority interests		1	(62)

Statement of consolidated cash flows for the quarter ended 31 March 2018 and 2017

(Euro in thousands)	Notes	Quarter ended 31 March 2018	Quarter ended 31 March 2017
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		1,124	766
Adjustments to reconcile net income for the period with the cash flows generated by (used in) operating activities:			
Depreciation		3,305	3,102
Provisions for employee benefit liability			31
Provisions for risks and charges / inventory obsolescence / doubtful accounts		273	290
Employee benefit payments		(19)	(8)
Payments of provisions for risks and charges		(12)	57
Net change in deferred tax assets and liabilities		(62)	(500)
Change in fair value of financial instruments	14	63	183
Change in current assets and liabilities:			
Trade receivables	9	(12,649)	(13,210)
of which with related parties:		*(2,575)*	*(2,363)*
Inventories	8	(1,174)	4,436
Trade payables		412	6,775
of which with related parties:		*(1,363)*	*43*
Other current assets and liabilities		(237)	3,396
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		**(8,976)**	**5,318**
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	6	(2,117)	(4,449)
Investments in intangible assets	5	(1,605)	(1,620)
(Investments) / disposals of financial assets		2,168	617
of which with related parties:		*1,948*	*844*
Proceeds from sale of property, plant and equipment and intangible assets	5-6	411	666
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		**(1,143)**	**(4,786)**
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	12	548	1,490
Repayment of medium/long-term loans	12	(3,822)	(7,426)
Net change in short-term financial debt	13	9,283	8,069
of which with related parties:		*1,253*	*(20)*
Purchase of treasury shares		-	-
Change in the consolidation area		(1,500)	58
NET CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES (C)		**4,509**	**2,191**
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		**(5,610)**	**2,723**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		(87)	(4)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)		21,487	18,501
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)	**14**	**15,790**	**21,220**
Additional information:			
Interest paid		876	679
Income tax paid		-	-

Statement of changes in consolidated shareholders' equity for the quarter ended 31 March 2018 and 2017

(Euro in thousands)	Share capital	Legal reserve	Share premium reserve	Reserve of treasury shares	Translation reserve	Other reserves	Result for the period	Total shareholders' equity attributable to Parent Company shareholders	Total shareholders' equity attributable to non-controlling interests	Total shareholders' equity
Balance as at 1 January 2018	**10,708**	**2,141**	**10,915**	**(2,341)**	**3,185**	**19,929**	**(1,430)**	**43,107**	**1,725**	**44,832**
Result for the period	-	-	-	-	-	-	1,123	1,123	1	1,124
Other profits/(losses)	-	-	-	-	(547)	-	-	(547)	(6)	(553)
Total comprehensive income/(loss)	-	-	-	-	-	-	-	**576**	**(5)**	**571**
Allocation of the result for the period	-	-	-	-	-	(1,430)	1,430	-	-	-
Change in the consolidation area	-	-	-	-	-	197	-	197	(1,697)	(1,500)
Balance as at 31 March 2018	**10,708**	**2,141**	**10,915**	**(2,341)**	**2,638**	**18,696**	**1,123**	**43,880**	**23**	**43,903**

(Euro in thousands)	Share capital	Legal reserve	Share premium reserve	Reserve of treasury shares	Translation reserve	Other reserves	Result for the period	Total shareholders' equity attributable to Parent Company shareholders	Total shareholders' equity attributable to non-controlling interests	Total shareholders' equity
Balance as at 1 January 2017	**10,708**	**2,141**	**10,915**	**(2,341)**	**6,560**	**24,182**	**(3,944)**	**48,221**	**1,699**	**49,920**
Profit for the period	-	-	-	-	-	-	828	828	(62)	766
Other profits/(losses)	-	-	-	-	(520)	-	-	(520)	(15)	(535)
Total comprehensive income/(loss)	-	-	-	-	-	-	-	**308**	**(77)**	**231**
Allocation of profit for the period	-	-	-	-	-	(3,944)	3,944	-	-	-
Change in the consolidation area	-	-	-	-	-	54	-	54	4	58
Other changes	-	-	-		-		-	-	-	-
Balance as at 31 March 2017	**10,708**	**2,141**	**10,915**	**(2,341)**	**6,040**	**20,292**	**828**	**48,583**	**1,626**	**50,209**

Explanatory notes

Accounting policies adopted in preparing the consolidated financial statements as at 31 March 2018

1. Company information

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

2. Reporting standards

The consolidated financial statements as at 31 March 2018 were prepared in condensed form in accordance with International Financial Reporting Standards (IFRS), by using the methods for preparing interim financial reports provided by IAS 34 "Interim Financial Reporting".

The accounting standards adopted in preparing the interim consolidated financial statements as at 31 March 2018 are those adopted for preparing the consolidated financial statements as at 31 December 2017 in compliance with IFRS.

More precisely, the consolidated statement of financial position, income statement, comprehensive income statement, statement of changes in shareholders' equity and statement of cash flows are drawn up in extended form and are in the same format adopted for the consolidated financial statements as at 31 December 2017. The explanatory notes to the financial statements indicated below are in condensed form and therefore do not include all the information required for annual financial statements. In particular, as provided by IAS 34, in order to avoid repeating already disclosed information, the notes refer exclusively to items of the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholders' equity and the statement of consolidated cash flows whose breakdown or change, with regard to amount, type or unusual nature, are significant to understanding the economic and financial situation of the Group.

Since the consolidated financial statements do not disclose all the information required in preparing the consolidated annual financial statements, they must be read together with the consolidated financial statements as at 31 December 2017.

The consolidated financial statements as at 31 March 2018 comprise the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated shareholders' equity, statement of consolidated cash flows and related explanatory notes. Comparative figures are disclosed as required by IAS 34 (31 December 2017 for the statement of financial position and the first quarter of 2017 for the consolidated income statement, consolidated statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement).

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

Disclosure of the quarterly consolidated financial statements of Tesmec Group for the period ended 31 March 2018 was authorised by the Board of Directors on 3 May 2018.

Translation of foreign currency financial statements and of foreign currency items

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

	Average exchange rates for the quarter ended 31 March		End-of-period exchange rate as at 31 March	
	2018	2017	2018	2017
US Dollar	1.227	1.063	1.232	1.069
Russian Rouble	69.660	62.825	70.890	60.313
South African Rand	14.748	14.220	14.621	14.240
Renminbi	7.823	7.317	7.747	7.364
Qatari Riyal	4.468	3.869	4.485	3.892
Algerian Dinar	139.982	116.878	140.498	117.453
Tunisian Dinar	2.971	2.444	2.973	2.456
Australian Dollar	1.551	1.407	1.604	1.398
New Zealand Dollar	1.685	1.483	1.710	1.531
CFA Franc	655.957	655.957	655.957	655.957

3. Consolidation methods and area

As at 31 March 2018, the consolidated area had changed with respect to that as at 31 December 2017:

- on 31 January 2018, Tesmec S.p.A. acquired an additional investment equivalent to 13.21% of the share capital of Marais Technologies SAS. Following this transaction, Tesmec owns 66.04%, while the remaining 52.83% is held by Simest S.p.A. Since Tesmec has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the shareholding of the Parent Company in Marais Technologies SAS is consolidated on an 100% basis.

4. Significant events during the period

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

- on 31 January 2018, Tesmec S.p.A. acquired an additional investment equivalent to 13.2% of the share capital of Marais Technologies SAS, a French company in which Tesmec already had a shareholding of 52.8% of share capital; Marais Technologies SAS is the head of an international group, leader in rental services and construction of machines for infrastructures in telecommunications, electricity and gas. This investment was sold to Tesmec by C2D SAS, a company belonging to Daniel Rivard, current president of Marais, in execution of broader agreements (referred to in the press releases of 27 March 2015, 8 April 2015, and 22 December 2015), concluded between Tesmec and the parties Daniel Rivard and C2D. The price paid to acquire the investment amounted to Euro 1,500 thousand;

- on 8 March 2018, the Group was awarded a contract, through its joint venture Tesmec Peninsula, related to the management of a fleet of 7 large trencher machines for the customer Qatar Building Company (QBC), one of the largest Qatari groups in the infrastructure sector. The estimated value of the contract is USD 4.3 million, with a duration of 23 months. Specifically, Ashghal, the Qatar Public Works Agency responsible for planning, design, procurement, construction, delivery, and asset management activities of all of the country's infrastructure and public building projects, awarded QBC the excavation work related to the construction of a series of infrastructure projects, mainly sewers and drainage systems, in the industrial area of Doha as part of the construction of PACKAGE 3 (which covers a surface area of 457 hectares). Tesmec Group will manage a fleet of 7 large trencher machines (models 1675 and 1475) - owned by QBC - supplying spare parts, consumables, operators, mechanics, specialised technicians, and expertise within the framework of a fleet management contract. The contract confirms the winning strategy undertaken by Tesmec Group in recent years, based on technological innovation and services, as well as direct oversight in the most important markets, such as the Middle East;

- on 15 March 2018, Cerved Rating Agency, the Italian rating agency specialised in assessing creditworthiness of non-financial companies, confirmed the “B1.1” solicited rating of the Company. This result substantiates the financial soundness of Tesmec Group and is the result of an in-depth evaluation process that combines rigorous quantitative models to forecast credit risk and accurate qualitative analyses by the agency, which also considers the Company's competitive position in the industry.

COMMENTS ON THE MAIN ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

5. Intangible assets

The breakdown and changes in "Intangible assets" as at 31 March 2018 and as at 31 December 2017 are shown in the table below:

(Euro in thousands)	01/01/2018	Increases due to purchases	Decreases	Amortisation	Exchange rate differences	31/03/2018
Development costs	14,299	1,519	-	(1,562)	(43)	14,213
Rights and trademarks	3,299	11	-	(285)	1	3,026
Assets in progress and advance payments to suppliers	742	75	(49)	-	-	768
Total intangible assets	**18,340**	**1,605**	**(49)**	**(1,847)**	**(42)**	**18,007**

As at 31 March 2018, *intangible assets* totalled Euro 18,093 thousand, down Euro 247 thousand on the previous year due to:

- *development costs* capitalised in the first three months of 2018 for Euro 1,519 thousand, entirely offset by the amortisation for the period (Euro 1,562 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;

6. Property, plant and equipment

The breakdown and changes in "Property, plant and equipment" as at 31 March 2018 and as at 31 December 2017 are shown in the table below:

(Euro in thousands)	01/01/2018	Increases due to purchases	Reclassifications	Decreases	Depreciation	Exchange rate differences	31/03/2018
Land	2,977	-	-	-	(1)	(6)	2,970
Buildings	10,742	2	-	-	(120)	(141)	10,483
Plant and machinery	3,601	7	-	(2)	(248)	(32)	3,326
Equipment	1,658	26	1	-	(115)	-	1,570
Other assets	26,498	1,044	-	(360)	(974)	(393)	25,815
Assets in progress and advance payments to suppliers	626	1,038	(1)	-	-	-	1,663
Total property, plant and equipment	**46,102**	**2,117**	**-**	**(362)**	**(1,458)**	**(572)**	**45,827**

As at 31 March 2018, property, plant and equipment totalled Euro 45,827 thousand, a decrease of Euro 275 thousand compared to the previous year.
The decrease is due to depreciation for the period and exchange differences; in addition, note that assets in progress include costs for the construction of the Monopoli production facility of Tesmec Rail S.r.l.

7. Work in progress contracts

The following table sets forth the breakdown of work in progress contracts as at 31 March 2018 and as at 31 December 2017:

(Euro in thousands)	31 March 2018	31 December 2017
Work in progress (Gross)	10,141	8,128
Advances from contractors	(972)	(1,360)
Work in progress contracts	**9,168**	**6,768**
Advances from contractors (Gross)	-	-
Work in progress (Gross)	-	-
Advances from contractors	**-**	**-**

"Work in progress" refers exclusively to the Rail segment where the machinery is produced in accordance with specific customer requirements. "Work in progress" is recognised as an asset if, on the basis of an analysis carried out for each contract, the gross value of work in progress is greater than advances from customers; it is recognised as a liability if the advances are greater than the related work in progress.

If the advances are not collected at the reporting date, the corresponding amount is recognised as trade receivables.

8. Inventories

The following table provides a breakdown of the "Inventories" item as at 31 March 2018 compared to 31 December 2017:

(Euro in thousands)	31 March 2018	31 December 2017
Raw materials and consumables	37,642	36,220
Work in progress	11,004	12,919
Finished products and goods for resale	12,502	13,773
Advances to suppliers for assets	244	213
Total inventories	**61,392**	**63,125**

Inventories decreased by Euro 1,733 thousand compared to 31 December 2017 due to sales in the first quarter of 2018.

9. Trade receivables

The following table sets forth the breakdown of trade receivables as at 31 March 2018 and as at 31 December 2017:

(Euro in thousands)	31 March 2018	31 December 2017
Trade receivables from third-party customers	48,405	37,273
Trade receivables from associates, related parties and joint ventures	5,184	2,581
Total trade receivables	**53,589**	**39,854**

The increase in trade receivables (+34.5%) reflects the trend of sales for the quarter, which were particularly concentrated in March.

10. Financial receivables and other current financial assets

The following table provides a breakdown of financial receivables and other current financial assets as at 31 March 2018 and as at 31 December 2017:

(Euro in thousands)	31 March 2018	31 December 2017
Financial receivables from related parties	7,489	9,386
Financial receivables from third parties	2,976	3,026
Other current financial assets	40	36
Total financial receivables and other current financial assets	**10,505**	**12,448**

The decrease in current financial assets from Euro 12,448 thousand to Euro 10,505 thousand is mainly due to the decrease in credit positions relating to specific contracts signed with related parties on which an interest rate is applied and repayable within 12 months.

11. Share capital and reserves

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

The following table provides a breakdown of other reserves as at 31 March 2018 and as at 31 December 2017:

(Euro in thousands)	31 March 2018	31 December 2017
Revaluation reserve	86	86
Extraordinary reserve	26,942	26,942
Change in the consolidation area	197	(225)
Severance indemnity valuation reserve	(563)	(563)
Network reserve	824	824
Retained earnings/(losses brought forward)	(4,742)	(3,087)
Bills charged directly to shareholders' equity		
on operations with entities under common control	(4,048)	(4,048)
Total other reserves	**18,696**	**19,929**

The revaluation reserve is a suspended taxation reserve, set up in accordance with Italian Law 72/1983.

The reserve for changes in the consolidation area includes the effect deriving from the acquisition of 13.21% of Marais Technologies SAS. The price paid to acquire the investment amounted to Euro 1,500 thousand and generated a gain of Euro 197 thousand, which was recognised directly in the consolidation reserve, with a reduction in shareholders' equity attributable to non-controlling interests of Euro 1,697 thousand.

The value of the difference from translation of financial statements has a negative impact on shareholders' equity of Euro 547 thousand as at 31 March 2018.

As at 31 March 2018, the increase in retained earnings/(losses brought forward) is due to the 2017 result that was allocated by the Shareholders' Meeting on 6 April 2018.

12. Medium/long-term loans

During the first three months of 2018, medium-long term loans increased from Euro 25,243 thousand to Euro 25,324 thousand mainly due to the reclassification in current financial indebtedness of the current portion of medium/long-term loans.

13. Interest-bearing financial payables (current portion)

The following table provides details of this item as at 31 March 2018 and as at 31 December 2017:

(Euro in thousands)	31 March 2018	31 December 2017
Advances from banks against invoices and bills receivables	44,281	36,010
Other financial payables (short-term leases)	1,502	1,187
Payables due to factoring companies	4,749	3,886
Current account overdrafts	5,919	4,112
Financial payables due from SIMEST	7,406	7,406
Short-term loans to third parties	331	3,289
Current portion of medium/long-term loans	19,119	22,997
Other short-term financial payables	1,392	135
Total interest-bearing financial payables (current portion)	**84,699**	**79,022**

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

14. Disclosure of derivative financial instruments

The following table shows a summary of financial instruments, other than cash and cash equivalents, owned by the Group as at 31 March 2018:

(Euro in thousands)	Loans and receivables/financial liabilities measured at amortised cost	Guarantee deposits	Cash and cash equivalents	Available-for-sale financial assets	Fair value recognised in the income statement
Financial assets:					
Financial receivables	182	-	-	-	-
Derivative financial instruments	-	-	-	-	1
Trade receivables	10	-	-	-	-
Total non-current	**192**	**-**	**-**	**-**	**1**
Trade receivables	53,589	-	-	-	-
Financial receivables from related parties	7,489	-	-	-	-
Financial receivables from third parties	2,976	-	-	-	-
Other current financial assets	40	-	-	-	-
Other available-for-sale securities	-	-	-	2	-
Cash and cash equivalents	-	-	15,790	-	-
Total current	**64,094**	**-**	**15,790**	**2**	**-**
Total	**64,286**	**-**	**15790**	**2**	**1**
Financial liabilities:					
Loans	23,702	-	-	-	-
Other financial payables (net leases)	1,622	-	-	-	-

Bond issue	14,812	-	-	-	-
Derivative financial instruments	-	-	-	-	58
Trade payables	2	-	-	-	-
Total non-current	**40,138**	**-**	**-**	**-**	**58**
Loans	19,450	-	-	-	-
Other financial payables (short-term leases)	1,502	-	-	-	-
Financial payables to related parties	1,284	-	-	-	-
Other short-term payables	62,463	-	-	-	-
Derivative financial instruments	-	-	-	-	153
Trade payables	39,706	-	-	-	-
Total current	**124,405**	**-**	**-**	**-**	**153**
Total	**164,543**	**-**	**-**	**-**	**211**

Management and types of risk

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

Interest rate risk

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

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

As at 31 March 2017, there were six positions of interest rate swap derivatives 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 11.5 million, with a negative equivalent value of Euro 35 thousand. Moreover, there were four interest rate cap positions; the notional value of these positions was equal to Euro 9.3 million, with a negative equivalent value of Euro 33 thousand.

Exchange rate risk

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

The main transaction currencies used for the Group's sales are the euro and the US dollar. The Group believes that if the exchange rate fluctuations of these two currencies are low, there is no risk to operating margins, insofar as the sale price could be adapted on each occasion to the exchange rate. However, if the US dollar were to depreciate significantly against the euro, we cannot exclude negative effects on margins to the extent that a good portion of sales in US dollars concerns the productions of Italian factories that operate with costs in the Eurozone.
With regard to net exposure that is mainly represented by receivables in US dollars of Tesmec S.p.A., the only hedging instrument adopted is the purchasing of forwards on the US currency. 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 Eastern countries;
ii) selling stringing machines produced in Italy in the USA where purchases are in euro, and sales in US dollars.

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

As at 31 March 2018, there was one forward spot contract on the Euro/ZAR exchange rate. The notional value of this position was equal to Euro 2.1 million, with a negative countervalue of Euro 142 thousand.

Credit risk

For the Group, credit risk is closely linked to the sale of products on the market. In particular, the extent of the risk depends on both technical and commercial factors and the purchaser's solvency.
From a commercial viewpoint, the Group is not exposed to 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 receive absolute guarantees on 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 assortment 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

Financial requirements and related risks (mainly interest rate risks, liquidity and exchange rate risks) are managed by the Group based on 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 composition of balance sheet assets, in order to maintain a very sound balance sheet structure.
Forms of financing most commonly used are represented by:

- interest-bearing financial payables with multi-year 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 the 3/6-month Euribor rates for medium to long-term loans. Some interest rate hedges have been set in place for floating medium/long-term loans. Loan contracts signed with ICCREA-BCC, BNL and Comerica contain certain financial covenant clauses.

Risks related to transactions with suppliers

Tesmec Group adopts a purchasing policy aimed at diversifying the suppliers of components that have unique characteristics in terms of purchased volumes or high added value. However, the termination for any reason of these supply relations could imply for the Group provisioning problems for these raw materials, semi-finished and finished goods, in relation to the quantity and time suitable for ensuring the continuity of production, or purchasing could lead to time issues in order to achieve quality standards already acquired with the old supplier.

Disclosures: hierarchy levels of fair value measurement

In relation to financial instruments measured at fair value, the following table shows the classification of such instruments on the basis of the hierarchy of levels required by IFRS 13, which reflects the significance of the inputs used in measuring the fair value. The levels are broken down as follows:

- level 1 - quoted prices without adjustment recorded in an active market for measured assets or liabilities;
- level 2 - inputs other than quoted prices included within level 1 that are observable in the market, either directly (as in the case of prices) or indirectly (i.e. when derived from the prices);
- level 3 - inputs that are not based on observable market data.

The following table shows the assets and liabilities that are measured at fair value as at 31 March 2018, divided into the three levels defined above:

(Euro in thousands)	Book value as at 31 March 2018	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
Total current	**2**	**-**	**-**	**2**
Total	**3**	**-**	**1**	**2**
Financial liabilities:				
Derivative financial instruments	58	-	58	-
Total non-current	**58**	**-**	**58**	**-**
Derivative financial instruments	153	-	**153**	-
Total current	**153**	**-**	**153**	**-**
Total	**211**	**-**	**211**	**-**

15. Revenues from sales and services

The table below shows the breakdown of Revenues from sales and services as at 31 March 2018 and as at 31 March 2017:

	Quarter ended 31 March	
(Euro in thousands)	**2018**	**2017**
Sales of products	33,035	39,636
Services rendered	11,697	7,452
Total revenues from sales and services	**44,732**	**47,088**
Changes in work in progress	2,013	2,700
Total revenues from sales and services	**46,745**	**49,788**

In the first three months of 2018, the Group recorded consolidated revenues of Euro 46,745 thousand, a decrease of Euro 3,043 thousand compared to Euro 49,788 thousand in the same period of the previous year. In percentage terms, this decrease represents a negative change of 6.1%, which is split disparately between the Group’s three business areas. More specifically, an increase of +36.7% was recorded for the Trencher segment, +18.4% for the Rail segment, and a decrease of -57.8% for the Energy segment.

The considerable increase in revenues for the Trencher segment confirms the Group's strategy of focusing on service and project management activities in key areas such as the Middle East and Australia-New Zealand.

For the Rail segment, revenues improved compared to the same period of the previous year due to technological advances that the Group is pursuing in terms of Research & Development.

The decrease in revenues in the Energy segment is mainly attributable to the fact that revenues for the first quarter of 2017 benefited from a large, one-off order to supply stringing equipment for the Indonesian market. Furthermore, note that the Automation segment is progressively increasing its contribution to the Group's turnover, following the consolidation process and development of intelligent networks (smart grids).

16. Operating costs

The item *operating costs* amounted to Euro 43,973 thousand, a decrease of 7.0% compared to the previous year, more than proportional with respect to the performance in revenues (-6.1%).

17. Segment Reporting

For management purposes, Tesmec Group is organised into strategic business units identified based on the goods and services provided, 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;
- multi-purpose 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 that are the subject of the reporting.

	Quarter ended 31 March							
	2018				2017			
(Euro in thousands)	**Energy**	**Trencher**	**Rail**	**Consolidated**	**Energy**	**Trencher**	**Rail**	**Consolidated**
Revenues from sales and services	9,242	33,367	4,136	46,745	21,877	24,417	3,494	49,788
Operating costs net of depreciation and amortisation	(8,015)	(29,175)	(3,478)	(40,668)	(17,938)	(23,624)	(2,599)	(44,161)
EBITDA	**1,227**	**4,192**	**658**	**6,077**	**3,939**	**793**	**895**	**5,627**
Depreciation	(1,024)	(1,742)	(539)	(3,305)	(889)	(1,702)	(511)	(3,102)
Total operating costs	**(9,039)**	**(30,917)**	**(4,017)**	**(43,973)**	**(18,827)**	**(25,326)**	**(3,110)**	**(47,263)**
Operating income	**203**	**2,450**	**119**	**2,772**	**3,050**	**(909)**	**384**	**2,525**
Net financial income/(expenses)				(1,470)				(1,467)
Pre-tax profit				**1,302**				**1,058**
Income tax				(178)				(292)
Net profit for the period				**1,124**				**766**
Profit / (loss) attributable to non-controlling interests				1				(62)
Group profit				**1,123**				**828**

(*) EBITDA is represented by the operating income including amortisation/depreciation. The EBITDA thus defined represents a measurement used by Company management to monitor and assess the operating performance. EBITDA is not recognised as a measure of performance by 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 calculation criterion applied by the Group may not be in line with the criterion adopted by others and is therefore not comparable.

Management, monitors separately the results achieved by the business units in order to make decisions on resource on allocation and performance assessment. Segment performance is assessed based on operating income.
Group financial management (including financial income and charges) and income tax are managed at Group level and are not allocated to the individual operating segments.

The following table shows the consolidated statement of financial position by business segment as at 31 March 2018 and as at 31 December 2017:

	As at 31 March 2018					As at 31 December 2017				
(Euro in thousands)	Stringing equipment	Trencher	Rail	Not allocated	Consolidated	Stringing equipment	Trencher	Rail	Not allocated	Consolidated
Intangible assets	9,516	4,309	4,182	-	18,007	9,741	4,280	4,319	-	18,340
Property, plant and equipment	1,838	41,562	2,427	-	45,827	1,905	42,595	1,602	-	46,102
Financial assets	3,087	784	12	20	3,903	3,330	767	12	20	4,129
Other non-current assets	1,373	2,726	99	5,988	10,186	1,743	2,857	97	5,915	10,612
Total non-current assets	**15,814**	**49,381**	**6,720**	**6,008**	**77,923**	**16,719**	**50,499**	**6,030**	**5,935**	**79,183**
Work in progress contracts	-	-	**9,168**	-	9,168	-	-	6,768	-	6,768
Inventories	17,217	41,714	2,461	-	61,392	16,170	45,632	1,323	-	63,125
Trade receivables	8,102	44,092	1,395	-	53,589	6,889	31,508	1,457	-	39,854
Other current assets	1,869	2,495	3,574	11,454	19,392	1,686	2,211	2,779	16,096	22,772
Cash and cash equivalents	1,378	1,436	2,195	10,781	15,790	1,474	1,000	4,942	14,071	21,487
Total current assets	**28,566**	**89,737**	**9,625**	**22,235**	**159,331**	**26,219**	**80,351**	**17,269**	**30,167**	**154,006**
Total assets	**44,380**	**139,118**	**16,345**	**28,243**	**228,086**	**42,938**	**130,850**	**23,299**	**36,102**	**233,189**
Shareholders' equity attributable to Parent Company shareholders	**-**	**-**	**-**	**43,880**	**43,880**	**-**	**-**	**-**	**43,107**	**43,107**
Shareholders' equity attributable to non-controlling interests	**-**	**-**	**-**	**23**	**23**	**-**	**-**	**-**	**1,725**	**1,725**
Non-current liabilities	**1,125**	**7,583**	**1,294**	**39,774**	**49,776**	**1,100**	**7,832**	**1,266**	**39,789**	**49,987**
Current financial liabilities	781	9,066	3,187	71,818	84,852	542	7,220	2,782	68,563	79,107
Trade payables	7,714	26,483	5,509	-	39,706	9,178	25,763	4,538	-	39,479
Other current liabilities	1,658	7,460	1,417	8,482	19,017	1,127	6,793	1,420	10,444	19,784
Total current liabilities	**10,153**	**43,009**	**10,113**	**80,300**	**143,575**	**10,847**	**39,776**	**8,740**	**79,007**	**138,370**
Total liabilities	**11,278**	**50,592**	**11,407**	**120,074**	**193,351**	**11,947**	**47,608**	**10,006**	**118,796**	**188,357**
Total shareholders' equity and liabilities	**11,278**	**50,592**	**11,407**	**163,977**	**237,254**	**11,947**	**47,608**	**10,006**	**163,628**	**233,189**

18. Related party transactions

The following table gives details of economic and equity transactions with related parties. The companies listed below have been identified as related parties as they are linked directly or indirectly to the current shareholders:

	Quarter ended 31 March 2018					Quarter ended 31 March 2017				
(Euro in thousands)	**Revenues**	**Cost of raw materials**	**Costs for services**	**Other operating costs/revenues, net**	**Financial income and expenses**	**Revenues**	**Cost of raw materials**	**Costs for services**	**Other operating costs/revenues, net**	**Financial income and expenses**
Associates:										
Locavert S.A.	32	-	-	-	-	203	-	-	-	-
Subtotal	**32**	**-**	**-**	**-**	**-**	**203**	**-**	**-**	**-**	**-**
Joint Ventures:										
Condux Tesmec Inc.	970	-	1	40		793	-	-	46	1
Tesmec Peninsula	-	(310)	(35)	-	13	-	-	-	-	27
Subtotal	**970**	**(310)**	**(34)**	**40**	**13**	**793**	**-**	**-**	**46**	**28**
Related parties:										
Ambrosio S.r.l.	-	-	-	(3)	-	-	-	-	(4)	-
Ceresio Tours S.r.l.	-	-	(1)	-	-	-	-	(1)	-	-
Dream Immobiliare S.r.l.	-	-	-	(611)	-	-	-	-	(568)	-
Fi.Ind.	-	-	-		-	-	-	-	32	-
TTC S.r.l.	-	-	-	-	-	-	-	(21)	-	-
M.T.S. Officine meccaniche S.p.A.	2,806	(30)	1	(349)	20	3,222	-	2	(1)	-
MTS4SERVICE USA LLC	1,508	-	-	(170)	13	-	-	-	-	-
Comatel	10	-	-	-	-	-	-	-	-	-
C2D	-	-	(70)	-	-	-	-	-	-	-
Subtotal	**4,324**	**(30)**	**(70)**	**(1,133)**	**33**	**3,222**	**-**	**(20)**	**(541)**	**-**
Total	**5,326**	**(340)**	**(104)**	**(1,093)**	**46**	**4,218**	**-**	**(20)**	**(495)**	**28**

(Euro in thousands)	31 March 2018				31 December 2017			
	Trade receivables	Current financial receivables	Current financial payables	Trade payables	Trade receivables	Current financial receivables	Current financial payables	Trade payables
Associates:								
Locavert S.A.	113	-	-	-	95	-	-	-
Subtotal	**113**	**-**	**-**	**-**	**95**	**-**	**-**	**-**
Joint Ventures:								
Condux Tesmec Inc.	859	-	-	1	1,046	-	-	-
Tesmec Peninsula	14	1,879	1,284	35	17	1,930	37	979
R&E Contracting	-	114	-	-	-	-	-	-
Marais Tunisie	-	2	-	-	-	2	-	-
Marais Lucas	-	794	-	-	-	794	-	-
Subtotal	**873**	**2,789**	**1,284**	**36**	**1,063**	**2,726**	**37**	**979**
Related parties:								
Ambrosio S.r.l.	-	-	-	4	-	-	-	-
Ceresio Tours S.r.l.	-	-	-	1	-	-	-	-
Dream Immobiliare S.r.l.	-	1,104	-	401	-	1,162	-	-
Fi.ind.	-	-	-	-	27	-	-	-
TTC S.r.l.	-	-	-	26	-	-	-	26
M.T.S. Officine meccaniche S.p.A.	2,659	2,209	-	305	1,373	2,911	-	1,199
MTS4SERVICE USA LLC	1,525	1,387	-	169	10	1,387	-	119
Comatel	10	-	-	-	9	-	-	-
C2D	4	-	-	38	4	1,200	-	43
Subtotal	**4,198**	**4,700**	**-**	**944**	**1,423**	**6,660**	**-**	**1,387**
Total	**5,184**	**7,489**	**1,284**	**980**	**2,581**	**9,386**	**37**	**2,366**

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

1. The undersigned, Ambrogio Caccia Dominioni, as Chief Executive Officer and Manager responsible for preparing the Company's financial statements[1] of Tesmec S.p.A., hereby certifies, also taking into consideration the provisions of Article 154-*bis*, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998:

   - the adequacy in relation to the characteristics of the business and
   - the actual application

   of the administrative and accounting procedures for preparing the Interim Condensed Consolidated Financial Statements as at 31 March 2018.

2. We also certify that:

2.1 the Interim Condensed Consolidated Financial Statements as at 31 March 2018:

- have been prepared in accordance with IFRS as endorsed by the European Union, as provided by the Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspond to the amounts shown in the Company's accounts, books and records;
- give a true and fair view of the financial position, the results of the operations and of the cash flows of the issuer and of its consolidated companies.

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

Grassobbio, 3 May 2018

Ambrogio Caccia Dominioni

Chief Executive Officer and
Manager responsible for
preparing the Company's
financial statements

[1] The Chief Executive Officer, Ambrogio Caccia Dominioni, in the absence of the Manager responsible for preparing the Company's financial statements, who will take office effective 15 June 2018, declares pursuant to Article 154-*bis*, paragraph 2, of Italian Legislative Decree no. 58/1998 ("Consolidated Finance Law") that the information contained in this Report corresponds to the accounting entries, books and records.

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