



**Half-year Consolidated Financial Report at 30 June 2018**





Investor Relator

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**Tesmec S.p.A.**

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Fully paid up share capital as at 30 June 2018 Euro 10,708,400  
Milan Register of Companies no. 314026  
Tax and VAT code 10227100152

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## **COMPOSITION OF THE CORPORATE BODIES**

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

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

(\*) Independent Directors

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

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

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

Chairman	Sergio Arnoldi
Members	Giacchino Attanzio Gianluca Bolelli

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

Chairman	Giacchino Attanzio
Members	Sergio Arnoldi Caterina Caccia Dominioni

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**Lead Independent Director** Gioacchino Attanzio

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

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**Manager responsible for preparing the Company's financial statements** Gianluca Casiraghi

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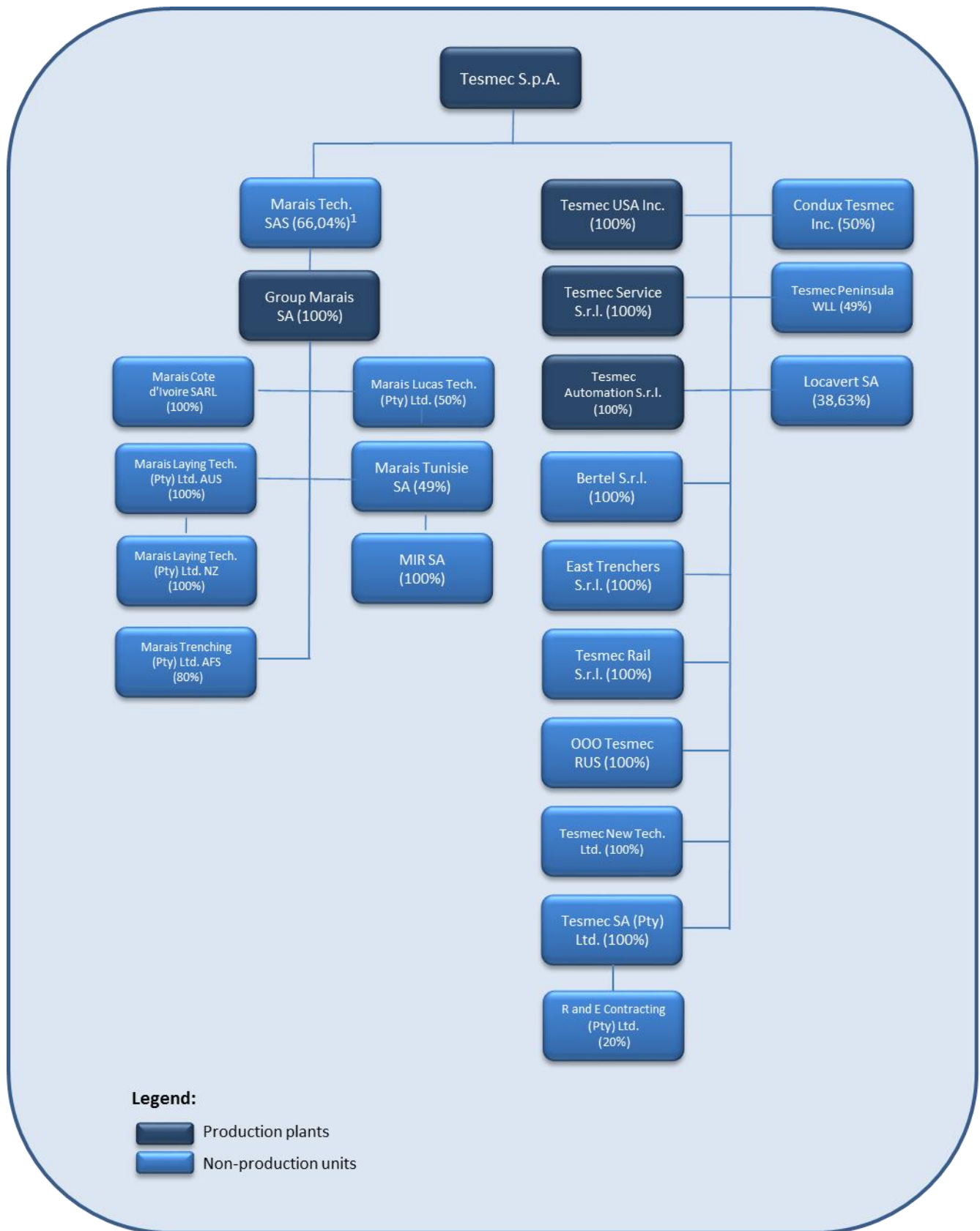
**Independent Auditors** EY S.p.A.

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## **GROUP STRUCTURE**

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<sup>(1)</sup> 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.

## **HALF-YEAR CONSOLIDATED FINANCIAL REPORT**

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## 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 works on surface mines 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 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 half 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 second quarter 2018. 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.

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 52.83% of share capital; Marais Technologies SAS is an international 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. The rating was confirmed on 29 July 2018;
- on 6 April 2018, the Ordinary Shareholders' Meeting of Tesmec met in single call and approved all items on the agenda. In detail, the Shareholders' Meeting approved the 2017 Financial Statements of the Parent Company Tesmec S.p.A., which closed with a Net Profit of Euro 1.9 million, up 20.9% compared to the Euro 1.6 million posted as at 31 December 2016, and resolved to allocate this Net Profit for the year to the Extraordinary reserve. The Shareholders' Meeting also resolved favourably on the First Section of the Report on Remuneration pursuant to Article 123-ter of Legislative Decree no. 58/98 and authorised also the Board of Directors, for a period of 18 months, to purchase, on the regulated market, ordinary shares of Tesmec until 10% of the share capital of the Company and within the limits of the distributable profits and of the available reserves resulting from the last financial statements duly approved by the Company or the subsidiary company making the purchase. The authorisation also includes the right to dispose of (in whole or in part and also in several times) the shares in the portfolio subsequently, even before having exhausted the maximum amount of shares purchasable and to possibly repurchase the shares to the extent that the treasury shares held by the Company and, if necessary, by the companies controlled by it, do not exceed the limit established by the authorisation. The quantity and the price at which transactions will be made will comply with the operating procedures laid down by the regulations. This authorisation replaces the last authorisation resolved by the Shareholders' Meeting on 28 April 2017 and expiring in October 2018. The resolution concerning authorisation to purchase treasury shares was passed with the favourable vote of the majority of the Tesmec shareholders at the shareholders' meeting other than the majority shareholder and therefore, pursuant to Article 44-bis of the Issuer Regulation, the shares that the Issuer will purchase in executing this resolution will be included in the share capital of the Issuer, on which the significant equity investment for the purpose of Article 106, paragraphs 1, 1-bis, 1-ter and 3 of the TUF will be calculated;
- on 3 May 2018, the Tesmec Board of Directors, subject to the favourable opinion of the Board of Statutory Auditors, appointed Gianluca Casiraghi as new Chief Financial Officer and Manager responsible for preparing the Company's financial statements. The Board of Directors also approved the launch of the programme to purchase treasury shares, the purpose, duration and counter value of which were established in the resolution of the shareholders' meeting dated 6 April 2018, while the maximum quantity was set as 10% of Share Capital. The Board of Directors also resolved that the maximum number of shares that may be purchased each day shall be no more than 25% of the average daily volume of "Tesmec" shares traded on the market;

- on 25 June 2018, Tesmec reported that within the scope of contract no. 61/2007 awarded in December 2016, the fitting out of 2 vehicles with measurement systems boasting high technological content was agreed upon with RFI - Rete Ferroviaria Italiana S.p.A., a company of the Ferrovie dello Stato Italiane Group responsible for the overall management of the national rail network. This investment is aimed at improving the checking and maintenance of the national rail network;
- it is confirmed that as at the date of this Report, all waivers requested in connection with the failure, at 31 December 2017, to comply with some financial covenants comprised in some medium-long term loans with Italian credit institutions were obtained and, as a result, the amounts regarding these loans were reclassified as described in paragraph 6. Summary of balance sheet figures as at 30 June 2018 under point c) net financial indebtedness.

#### 4. Activity, reference market and operating performance for the first six 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 in June 2018 and in June 2017.

OVERVIEW OF RESULTS		
30 June 2017	Key income statement data (Euro in millions)	30 June 2018
91.1	Operating Revenues	91.1
8.7	EBITDA	9.3
2.0	Operating Income	2.4
(1.8)	Group Net Profit	0.5
746	Annual average employees	831
31 December 2017	Key financial position data (Euro in millions)	30 June 2018
130.1	Net Invested Capital	136.5
44.8	Shareholders' Equity	44.4
85.3	Net Financial Indebtedness	92.1
15.8	Investments in property, plant and equipment and intangible assets	8.3

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

- Tesmec USA Inc., a company that is 100% owned by Tesmec S.p.A., is based in Alvarado (Texas) and operates in the Trencher segment and in the stringing equipment/rail sector (as from 2012). In the first six months of 2018, revenues achieved directly with customers/end users came to Euro 11.0 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 half of 2018, the company continued production activities related to contracts in progress, recording revenues of Euro 10.2 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 six months of the year generated revenues totalling Euro 3.2 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 an international leader in rental services and construction of machines for infrastructures in telecommunications, electricity and gas. The Group generated during the first half of 2018 revenues totalling Euro 26.7 million clearly recovering on the figure of Euro 21.1 million compared with same period in the previous year, also thanks to the development 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, integrated fault detectors and measurement devices for medium voltage power lines. During the first six months of 2018, revenues amounted to Euro 4.0 million;
- Tesmec Rail S.r.l., a company 100% owned by Tesmec S.p.A., has completed the construction of the new Monpoli plant in Monopoli, where the production of rail vehicles currently concentrated in two leased plants will be concentrated. The transfer to the new production unit is under way.

## 5. Income statement

### 5.1 Consolidated income statement

The comments provided below refer to the comparison of the consolidated income statement figures as at 30 June 2018 with those as at 30 June 2017.

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

<i>(Euro in thousands)</i>	Half-year ended 30 June			
	2018	% of revenues	2017	% of revenues
<b>Revenues from sales and services</b>	<b>91,099</b>	<b>100.0%</b>	<b>91,114</b>	<b>100.0%</b>
Cost of raw materials and consumables	(39,287)	-43.1%	(41,478)	-45.5%
Costs for services	(15,438)	-16.9%	(15,565)	-17.1%
Payroll costs	(24,371)	-26.8%	(23,671)	-26.0%
Other operating (costs)/revenues, net	(5,787)	-6.4%	(4,592)	-5.0%
Amortisation and depreciation	(6,963)	-7.6%	(6,708)	-7.4%
Development costs capitalised	3,052	3.4%	2,783	3.1%
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method	57	0.1%	117	0.1%
<b>Total operating costs</b>	<b>(88,737)</b>	<b>-97.4%</b>	<b>(89,114)</b>	<b>-97.8%</b>
<b>Operating income</b>	<b>2,362</b>	<b>2.6%</b>	<b>2,000</b>	<b>2.2%</b>
Financial expenses	(3,386)	-3.7%	(6,058)	-6.6%
Financial income	1,792	2.0%	1,471	1.6%
Portion of losses/(gains) from associated companies and non-operational Joint Ventures evaluated using the equity method	18	0.0%	40	0.0%
<b>Pre-tax profit/(loss)</b>	<b>786</b>	<b>0.9%</b>	<b>(2,547)</b>	<b>-2.8%</b>
Income tax	(251)	-0.3%	749	0.8%
<b>Net profit/(loss) for the period</b>	<b>535</b>	<b>0.6%</b>	<b>(1,798)</b>	<b>-2.0%</b>
Profit/(loss) attributable to non-controlling interests	(1)	0.0%	(26)	0.0%
<b>Group profit/(loss)</b>	<b>536</b>	<b>0.6%</b>	<b>(1,772)</b>	<b>-1.9%</b>

## Revenues

Total revenues as at 30 June 2018 were basically in line with those recorded in the first half of the previous year. The three business segments contributed to these results in different ways, with particularly significant growth in the Rail business.

<i>(Euro in thousands)</i>	Half-year ended 30 June				
	2018	% of revenues	2017	% of revenues	2018 vs. 2017
Sales of products	65,999	72.45%	67,306	73.87%	(1,307)
Services rendered	20,658	22.68%	18,898	20.74%	1,760
	<b>86,657</b>	<b>95.12%</b>	<b>86,204</b>	<b>94.61%</b>	<b>453</b>
Changes in work in progress	4,442	4.88%	4,910	5.39%	(468)
<b>Total revenues from sales and services</b>	<b>91,099</b>	<b>100.00%</b>	<b>91,114</b>	<b>100.00%</b>	<b>(15)</b>

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

## Revenues by geographic area

The Group's turnover continues to be produced almost predominantly abroad and in particular, in non-EU countries. The revenue analysis by area is indicated below, compared with the first half of 2018 and the first half of 2017, which indicates the growth of the Italian and North and Central America markets, partially balanced by the downtrends recorded in the European, BRIC and Others markets. In the BRIC and Others segment, note that the half-year 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/sales are organised.

<i>(Euro in thousands)</i>	Half-year ended 30 June	
	2018	2017
Italy	22,441	20,359
Europe	14,636	17,288
Middle East	6,111	5,147
Africa	8,992	7,482
North and Central America	14,538	12,856
BRIC and Others	24,381	27,982
<b>Total revenues</b>	<b>91,099</b>	<b>91,114</b>

## Operating costs

Operating costs amounted to Euro 88,737 thousand and decreased by 0.4% compared to the previous year, in line with the trend in revenues.

## EBITDA

In terms of margins, EBITDA amounts to Euro 9,325 thousand, up by 7.1% over the figure recorded in the first half of 2017. A restatement of the income statement figures representing the performance of EBITDA is provided below:

<i>(Euro in thousands)</i>	Half-year ended 30 June				
	2018	% of revenues	2017	% of revenues	2018 vs. 2017
Operating income	2,362	2.6%	2,000	2.2%	362
+ Amortisation and depreciation	6,963	7.6%	6,708	7.4%	255
<b>EBITDA (*)</b>	<b>9,325</b>	<b>10.2%</b>	<b>8,708</b>	<b>9.6%</b>	<b>617</b>



(\*) 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.

## Financial Management

<i>(Euro in thousands)</i>	Half-year ended 30 June	
	2018	2017
Net financial income/expenses	(1,649)	(1,535)
Foreign exchange gains/losses	18	(3,138)
Fair value adjustment of derivative instruments on exchange rates	37	86
Portion of losses/(gains) from associated companies and non-operational Joint Ventures evaluated using the equity method	18	40
<b>Total net financial income/expenses</b>	<b>(1,576)</b>	<b>(4,547)</b>

The net financial management recorded increased compared to the same period in 2017 by Euro 2,971 thousand, with the following changes reported:

- improvement by Euro 3,156 thousand due to the different USD/EUR exchange rate trend in the two periods of reference that resulted in the recording of net profits totalling Euro 18 thousand in the first half of 2018 (Euro -115 thousand realised and Euro 133 thousand unrealised) against a net loss of Euro 3,138 thousand in the first half of 2017;
- increase of net cost of borrowing of Euro 114 thousand.

## 5.2 Income Statement by segment

### Revenues by segment

The tables below show the income statement figures as at 30 June 2018 compared to those at 30 June 2017, broken down into three operating segments.

<i>(Euro in thousands)</i>	Half-year ended 30 June				
	2018	% of revenues	2017	% of revenues	2018 vs. 2017
Energy	20,784	22.8%	31,986	35.1%	(11,202)
Trencher	59,982	65.8%	51,277	56.3%	8,705
Rail	10,333	11.3%	7,851	8.6%	2,482
<b>Total Revenues</b>	<b>91,099</b>	<b>100.0%</b>	<b>91,114</b>	<b>100.0%</b>	<b>(15)</b>

In the first six months of 2018, the Group consolidated revenues of Euro 91,099 thousand, in line with the same period of the previous year. In percentage terms, this change is split disparately between the Group's three business areas. More specifically, an increase of +31.6% was recorded for the Rail segment, +17.0% for the Trencher segment, and a decrease of -35.0% for the Energy segment.

The decrease in revenues in the Energy segment is mainly attributable to the fact that revenues for the first half of 2017 benefited from a large order to supply stringing equipment for the Indonesian market, completed at the end of 2016 that in terms of turnover had an impact primarily on the first quarter of 2017.

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. In Kuwait, for example, as many as 12 Tesmec trenchers are at work, used in various infrastructure projects.

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, supplying integrated solutions on the catenary wire system and to the development phase of the production activities concerning the sizeable orders acquired at the end of 2016.

## EBITDA by segment

The tables below show the income statement figures as at 30 June 2018 compared to those at 30 June 2017, broken down into three operating segments:

<i>(Euro in thousands)</i>	Half-year ended 30 June				
	2018	% of revenues	2017	% of revenues	2018 vs. 2017
Energy	2,557	12.3%	5,542	17.3%	(2,985)
Trencher	5,211	8.7%	2,034	4.0%	3,177
Rail	1,557	15.1%	1,132	14.4%	425
<b>EBITDA</b>	<b>9,325</b>	<b>10.2%</b>	<b>8,708</b>	<b>9.6%</b>	<b>617</b>

(\*) 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.

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

- Trencher: improvement in EBITDA from Euro 2,034 thousand in the first half of 2017 to Euro 5,211 thousand in 2018 linked to the increase in business activities in the various reference sectors and to the fixed cost absorption;
- Rail: EBITDA increased from a value of Euro 1,132 thousand as at 30 June 2017 to a value of Euro 1,557 thousand as at 30 June 2018 thanks to the trend in sales volumes;
- Energy: deterioration in EBITDA from Euro 5,542 thousand in the first half of 2017 to Euro 2,557 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 that in items of turnover and margins, has mainly impacted the first quarter of 2017.

For more details on sector information, see the Explanatory note 18 "Segment Reporting" of this report.

## 6. Summary of balance sheet figures as at 30 June 2018

Information is provided below on the Group's main equity indicators as at 30 June 2018 compared to 31 December 2017. In particular, the following table shows the reclassified funding sources and uses from the consolidated balance sheet as at 30 June 2018 and as at 31 December 2017:

<i>(Euro in thousands)</i>	As at 30 June 2018	As at 31 December 2017
<b>USES</b>		
Net working capital <sup>(1)</sup>	64,859	60,806
Fixed assets	69,740	68,386
Other long-term assets and liabilities	1,908	913
<b>Net invested capital <sup>(2)</sup></b>	<b>136,507</b>	<b>130,105</b>
<b>SOURCES</b>		
Net financial indebtedness <sup>(3)</sup>	92,141	85,273
Shareholders' equity	44,366	44,832
<b>Total sources of funding</b>	<b>136,507</b>	<b>130,105</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

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

## A) Net working capital

The table below shows a breakdown of “Net Working Capital” as at 30 June 2018 and 31 December 2017:

<i>(Euro in thousands)</i>	As at 30 June 2018	As at 31 December 2017
Trade receivables	54,218	39,854
Work in progress contracts	8,948	6,768
Inventories	62,736	63,125
Trade payables	(48,704)	(39,479)
Other current assets/(liabilities)	(12,339)	(9,462)
<b>Net working capital <sup>(1)</sup></b>	<b>64,859</b>	<b>60,806</b>

<sup>(1)</sup> 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 64,859 thousand, marking an increase of Euro 4,053 thousand (equal to 6.7%) compared to 31 December 2017. This trend is mainly due to the increase in “Trade receivables” of Euro 14,364 thousand (36.0%) following the seasonal nature of sales concentrated in the last period of the first half of 2018.

## B) Fixed assets

The table below shows a breakdown of “Fixed assets” as at 30 June 2018 and 31 December 2017:

<i>(Euro in thousands)</i>	As at 30 June 2018	As at 31 December 2017
Intangible assets	17,802	18,340
Property, plant and equipment	48,212	46,102
Equity investments in associates	3,720	3,937
Other equity investments	6	7
<b>Fixed assets</b>	<b>69,740</b>	<b>68,386</b>

Total *fixed assets* posted an increase of Euro 1,354 thousand, due to the increase in costs connected with development of the new Monopoli production facility, which will operate in the Rail sector. The completion and implementation is expected in the third quarter of 2018. The new plant will allow the release of the two production sites for rent and to achieve production synergies and rationalization.

## C) Net financial indebtedness

Details of the breakdown of “Net financial indebtedness” as at 30 June 2018 and 31 December 2017 are as follows:

<i>(Euro in thousands)</i>	As at 30 June 2018	of which with related parties and group	As at 31 December 2017	of which with related parties and group
Cash and cash equivalents	(16,710)		(21,487)	
Current financial assets <sup>(1)</sup>	(7,676)	(3,701)	(12,450)	(9,386)
Current financial liabilities	74,816	1,376	79,022	37

Current portion of derivative financial instruments	(81)		82	
<b>Current financial indebtedness <sup>(2)</sup></b>	<b>50,349</b>	<b>(2,325)</b>	<b>45,167</b>	<b>(9,349)</b>
Non-current financial liabilities	41,741		40,040	
Non-current portion of derivative financial instruments	51		63	
<b>Non-current financial indebtedness <sup>(2)</sup></b>	<b>41,792</b>		<b>40,106</b>	
<b>Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006</b>	<b>92,141</b>	<b>(2,325)</b>	<b>85,273</b>	<b>(9,349)</b>

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

In the first six months of 2018, the Group's net financial indebtedness increased by Euro 6,868 thousand compared to the figure at the end of 2017, while it decreased compared to the value registered in the first quarter of 2018 of Euro 6,608 thousand (in which it amounted to Euro 98,749 thousand).

The table below shows the breakdown of the following changes:

- increase in current financial indebtedness of Euro 5,182 thousand due to the:
  - Euro 4,206 thousand decrease in current financial liabilities, of which: i) Euro 7,406 thousand for the loan operation carried out by Simest S.p.A. in Tesmec USA Inc. in 2010, expired on 30 June 2018, ii) Euro 4,282 thousand for medium/long-term payables that were reclassified in the medium/long-term financial indebtedness after obtaining the waivers, iii) reclassification of current financial indebtedness relating to the short-term portion of medium/long-term loans within 12 months;
  - decrease in current financial assets and cash and cash equivalents of Euro 9,551 thousand, mainly do to the repayment of the transaction described above with Simest S.p.A.;
- increase in non-current financial indebtedness of Euro 1,686 thousand mainly due to the stipulation of new medium/long-term loans offset by the reclassification of current financial indebtedness relating to the short-term portion of medium/long-term loans.

## 7. Management and types of financial risk

For the management of financial risks, please see Explanatory Notes 4 "Financial risk management policy" contained in the to the Annual Consolidated Financial Statements for 2017, where the Group's policies in relation to the management of financial risks are presented. The Group has not identified changes with respect to the risks identified in the financial statements for 2017. A brief summary of these is contained in the paragraph "Management and types of risks" of the Explanatory Notes to this report.

## 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 half-year of 2018, including the employees of companies that are fully consolidated, is 831 persons compared to 746 in the first half-year of 2017 and 778 units at the end of 2017. The increase is related to international growth with the strengthening of all markets in which Marais is a leader (Africa, Australia, New Zealand, etc.). It should be noted that 39 units refer to construction sites in Ivory Coast and Australia.

## 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, 30 June 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. In the period no purchases of treasury shares were made.

### Events occurring after the close of the financial period

Events occurring after the close of the financial period included:

- on 2 July 2018, the Tesmec Group signed a strategic contractual Joint Venture agreement with the company Saba Group International General Trading and Contracting Co. to jointly manage earth moving and trench excavation projects, to carry out within the entire territory of Kuwait. The first project already launched is South Al Mutlaa - Phase 2, whose value is approximately Euro 5.35 million, of which about Euro 3 million pertains to Tesmec for the rented supply of the trenchers, the sale of spare parts and the support of highly qualified Group personnel within the scope of the execution activities;
- on 27 July 2018, Tesmec successfully concluded placement of the "Tesmec S.p.A. 4.75% 2018-2024" bond issue of the nominal amount of Euro 10 million with professional investors. The 4.75% fixed rate Bond Issue, placed by Banca Finint, will expire on 30 June 2024 with half-yearly coupon and amortising repayment, and with a two-year pre-amortisation period. The Company has reserved the right, to exercise by 31 December 2018, to increase the nominal value of the Bond Issue up to a maximum of Euro 15 million;
- on 30 July 2018, Tesmec, through its subsidiary Tesmec Service, won a contract in France in the rail segment having a value for the Group of Euro 14.25 million. Tesmec will be in charge of vehicle design and definition of the work methodology for the RC2 consortium, which won the project, in addition to the supply of a 9-vehicle fleet. The end customer is the SNCF - Société Nationale des Chemins de fer Français group, which assigned the works to regenerate the railway catenary wire system between the Paris Austerlitz and Bretigny sur Orge stations on line C of the RER network. The works will commence in January 2020 and will be completed in December 2023;
- starting from 3 August 2018, Marco Paredi will act as Investor Relations Manager of the Company;
- on 1 August 2018 a new loan was signed for Euro 5,900 thousand to finance the construction of the Monopoli Plant and to purchase new equipment.

### Business outlook

Based on the well balanced and geographically diversified total order backlog, revenues around 200 million euros are expected, with an increase in margins thanks to efficiency improvements in the several businesses and consequent better absorption of fixed costs. An improvement in the net financial position is expected thanks to the normalization of working capital and the improvement of the operating profitability.

In detail, a further growth in the Railway business is expected thanks to the new technological solutions in the catenary and diagnostic field which are starting to gain recognition on the international market as well as on the domestic one. A positive push should also come from the construction of the new production plant in Puglia, which should be fully operational from the fourth quarter of 2018. With reference to the Trencher segment, a strong increase in the mining and tunneling business is expected, particularly in Australia. There are good prospects also in the United States thanks to the restarting of works, especially in the pipeline segment. Furthermore, the digging solutions of the Group will be increasingly used both in infrastructure projects and in telecom and fiber optic projects. In the second part of the year, we expect a growth of the Energy sector compared to the first half thanks to the start of important international projects both in the Stringing segment and in the Automation segment.



# **INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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Consolidated financial statements

## Consolidated statement of financial position as at 30 June 2018 and as at 31 December 2017

<i>(Euro in thousands)</i>	Notes	30 June 2018	31 December 2017
<b>NON-CURRENT ASSETS</b>			
Intangible assets	6	17,802	18,340
Property, plant and equipment	7	48,212	46,102
Equity investments in associates evaluated using the equity method		3,720	3,937
Other equity investments		6	7
Financial receivables and other non-current financial assets		241	184
Derivative financial instruments	15	-	1
Deferred tax assets		11,143	10,451
Non-current trade receivables		11	161
<b>TOTAL NON-CURRENT ASSETS</b>		<b>81,135</b>	<b>79,183</b>
<b>CURRENT ASSETS</b>			
Work in progress contracts	8	8,948	6,768
Inventories	9	62,736	63,125
Trade receivables	10	54,218	39,854
<i>of which with related parties:</i>	10	6,346	2,581
Tax receivables		769	909
Other available-for-sale securities		2	2
Financial receivables and other current financial assets	11	7,674	12,448
<i>of which with related parties:</i>	11	3,701	9,386
Other current assets		11,391	9,413
Derivative financial instruments		84	-
Cash and cash equivalents		16,710	21,487
<b>TOTAL CURRENT ASSETS</b>		<b>162,532</b>	<b>154,006</b>
<b>TOTAL ASSETS</b>		<b>243,667</b>	<b>233,189</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY</b>			
<b>SHAREHOLDERS</b>			
Share capital	12	10,708	10,708
Reserves / (deficit)	12	33,103	33,829
Group net profit / (loss)	12	536	(1,430)
<b>TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS</b>		<b>44,347</b>	<b>43,107</b>
Capital and reserves / (deficit) attributable to non-controlling interests		20	1,707
Net profit / (loss) for the period attributable to non-controlling interests		(1)	18
<b>TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS</b>		<b>19</b>	<b>1,725</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>44,366</b>	<b>44,832</b>
<b>NON-CURRENT LIABILITIES</b>			
Medium/long-term loans	13	26,914	25,243
Bond issue		14,827	14,797
Derivative financial instruments	15	51	63
Employee benefit liability		3,569	3,656
Deferred tax liabilities		5,872	6,202
Provisions for risks and charges		45	24
Non-current trade payables		1	2
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>51,279</b>	<b>49,987</b>
<b>CURRENT LIABILITIES</b>			
Interest-bearing financial payables (current portion)	14	74,816	79,022
<i>of which with related parties:</i>	14	1,376	37
Derivative financial instruments	15	3	85
Trade payables		48,704	39,479
<i>of which with related parties:</i>		1,833	2,366
Advances from customers		5,795	3,377
Income taxes payable		1,385	389
Provisions for risks and charges		3,313	3,321
Other current liabilities		14,006	12,697
<b>TOTAL CURRENT LIABILITIES</b>		<b>148,022</b>	<b>138,370</b>
<b>TOTAL LIABILITIES</b>		<b>199,301</b>	<b>188,357</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>243,667</b>	<b>233,189</b>



## Consolidated income statement for the half-year ended 30 June 2018 and 2017

<i>(Euro in thousands)</i>	Notes	Half-year ended 30 June	
		2018	2017
<b>Revenues from sales and services</b>	16	<b>91,099</b>	<b>91,114</b>
<i>of which with related parties:</i>		10,526	10,886
Cost of raw materials and consumables		(39,287)	(41,478)
<i>of which with related parties:</i>		(310)	-
Costs for services		(15,438)	(15,565)
<i>of which with related parties:</i>		(209)	(123)
Payroll costs		(24,371)	(23,671)
Other operating (costs)/revenues, net		(5,787)	(4,592)
<i>of which with related parties:</i>		(2,150)	(941)
Amortisation and depreciation		(6,963)	(6,708)
Development costs capitalised		3,052	2,783
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method		57	117
<b>Total operating costs</b>	17	<b>(88,737)</b>	<b>(89,114)</b>
<b>Operating income</b>		<b>2,362</b>	<b>2,000</b>
Financial expenses		(3,386)	(6,058)
<i>of which with related parties:</i>		(8)	-
Financial income		1,792	1,471
<i>of which with related parties:</i>		90	59
Portion of losses/(gains) from associated companies and non-operational Joint Ventures evaluated using the equity method		18	40
<b>Pre-tax profit/(loss)</b>		<b>786</b>	<b>(2,547)</b>
Income tax		(251)	749
<b>Net profit/(loss) for the period</b>		<b>535</b>	<b>(1,798)</b>
<b>Profit/(loss) attributable to non-controlling interests</b>		<b>(1)</b>	<b>(26)</b>
<b>Group profit/(loss)</b>		<b>536</b>	<b>(1,772)</b>
<b>Basic and diluted earnings/(losses) per share</b>		<b>0.005</b>	<b>(0.017)</b>

## Consolidated statement of comprehensive income for the half-year ended 30 June 2018 and 2017

<i>(Euro in thousands)</i>	Notes	Half-year ended 30 June	
		2018	2017
<b>NET PROFIT/(LOSS) FOR THE PERIOD</b>		<b>535</b>	<b>(1,798)</b>
<b><i>Other components of comprehensive income</i></b>			
<i>Other components of comprehensive income that will be subsequently reclassified to net income/(loss) for the year:</i>			
Exchange differences on conversion of foreign financial statements	12	722	(2,115)
<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		122	142
Income tax		(30)	(34)
	12	92	108
<b>Total other income/(losses) after tax</b>		<b>814</b>	<b>(2,007)</b>
<b>Total comprehensive income (loss) after tax</b>		<b>1,349</b>	<b>(3,805)</b>
<i>Attributable to:</i>			
Shareholders of Parent Company		1,358	(3,779)
Minority interests		(9)	(26)

## Statement of consolidated cash flows as at 30 June 2018 and 2017

<i>(Euro in thousands)</i>	Notes	Half-year ended 30 June	
		2018	2017
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net profit/(loss) for the period		535	(1,798)
<i>Adjustments to reconcile net income for the period with the cash flows generated by (used in) operating activities:</i>			
Amortisation and depreciation	6-7	6,963	6,708
Provisions for employee benefit liability		147	77
Provisions for risks and charges / inventory obsolescence / doubtful accounts		695	2,296
Employee benefit payments		(112)	(160)
Payments of provisions for risks and charges		(12)	(174)
Net change in deferred tax assets and liabilities		(1,027)	(970)
Change in fair value of financial instruments	15	(177)	(250)
<i>Change in current assets and liabilities:</i>			
Trade receivables	10	(12,102)	(3,138)
<i>of which with related parties:</i>		(3,704)	(5,836)
Inventories	9	(1,600)	(915)
Trade payables		9,254	8,510
<i>of which with related parties:</i>		(549)	52
Other current assets and liabilities		348	3,134
<b>NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)</b>		<b>2,912</b>	<b>13,320</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Investments in property, plant and equipment	7	(8,073)	(9,164)
Investments in intangible assets	6	(3,385)	(3,357)
(Investments) / disposals of financial assets		5,072	(1,643)
<i>of which with related parties:</i>		5,730	283
Proceeds from sale of property, plant and equipment and intangible assets	6-7	3,154	3,963
<b>NET CASH FLOW USED IN INVESTING ACTIVITIES (B)</b>		<b>(3,232)</b>	<b>(10,201)</b>
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>			
Disbursement of medium/long-term loans		2,964	2,747
Repayment of medium/long-term loans		(8,139)	(14,328)
Net change in short-term financial debt	14	2,504	12,741
<i>of which with related parties:</i>		1,399	(33)
Change in the consolidation area	12	(1,500)	57
Other changes	12	(315)	-
<b>NET CASH FLOW GENERATED BY/ (USED IN) FINANCING ACTIVITIES (C)</b>		<b>(4,486)</b>	<b>1,217</b>
<b>TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)</b>		<b>(4,806)</b>	<b>4,336</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)</b>		<b>29</b>	<b>(256)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)</b>		<b>21,487</b>	<b>18,501</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)</b>		<b>16,710</b>	<b>22,581</b>
<b>Additional information:</b>			
Interest paid		3,131	3,716
Income tax paid		88	63

## Statement of changes in consolidated shareholders' equity for the half-year ended 30 June 2018 and 2017

	Share capital	Legal reserve	Share premium reserve	Reserve of treasury shares	Translation reserve	Other reserves	Net profit/(loss) for the period	Total shareholders' equity attributable to parent company shareholders	Total shareholders' equity attributable to non-controlling interests	Total shareholders' equity
<i>(Euro in thousands)</i>										
<b>Balance as at 1 January 2018</b>	<b>10,708</b>	<b>2,141</b>	<b>10,915</b>	<b>(2,341)</b>	<b>3,185</b>	<b>19,929</b>	<b>(1,430)</b>	<b>43,107</b>	<b>1,725</b>	<b>44,832</b>
Net profit/(loss) for the period	-	-	-	-	-	-	536	536	(1)	535
First adoption IFRS 9	-	-	-	-	-	(315)	-	(315)	-	(315)
Other profits/(losses)	-	-	-	-	730	92	-	822	(8)	814
<b>Total comprehensive income/(loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,043</b>	<b>(9)</b>	<b>1,034</b>
Allocation of profit for the period	-	-	-	-	-	(1,430)	1,430	-	-	-
Dividend distribution	-	-	-	-	-	-	-	-	-	-
Change in the consolidation area	-	-	-	-	-	197	-	197	(1,697)	(1,500)
Other changes	-	-	-	-	-	-	-	-	-	-
<b>Balance as at 30 June 2018</b>	<b>10,708</b>	<b>2,141</b>	<b>10,915</b>	<b>(2,341)</b>	<b>3,915</b>	<b>18,473</b>	<b>536</b>	<b>44,347</b>	<b>19</b>	<b>44,366</b>

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

## **Explanatory notes**

### **Accounting policies adopted in preparing the consolidated financial statements as at 30 June 2018**

#### **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.

#### **2. Reporting standards**

The consolidated financial statements as at 30 June 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 30 June 2018 are those adopted for preparing the consolidated financial statements as at 31 December 2017 in compliance with IFRS, except as indicated in paragraph 4. New accounting standards, interpretations and amendments adopted by the Group.

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 30 June 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 half-year of 2017 for the consolidated income statement, consolidated comprehensive income statement, statement of changes in shareholders' equity and cash flow).

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

The issue of the half-year condensed consolidated financial statements of the Tesmec Group for the period ended 30 June 2018 was authorised by the Board of Directors on 3 August 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		End-of-period exchange rate	
	half-year ended 30 June		as at 30 June	
	2018	2017	2018	2017
US Dollar	1.219	1.074	1.166	1.141
Bulgarian Lev	1.956	1.956	1.956	1.956
Russian Rouble	71.718	62.259	73.158	67.545
South African Rand	14.762	14.272	16.048	14.920
Renminbi	7.742	7.401	7.717	7.376
Qatari Riyal	4.439	3.911	4.244	4.154
Algerian Dinar	139.573	117.867	137.133	123.026
Tunisian Dinar	2.973	2.513	3.052	2.776
Australian Dollar	1.572	1.425	1.579	1.485
New Zealand Dollar	1.693	1.524	1.725	1.555
CFA Franc	655.957	655.957	655.957	655.957

### 3. Consolidation methods and area

As at 30 June 2018, the changes that have taken place in the consolidation area in comparison with 31 December 2017 are 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. Following this operation, Tesmec S.p.A. holds 66.04%, while 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.

### 4. New accounting standards, interpretations and amendments adopted by the Group

With reference to the accounting standards in force from 1 January 2018, compared to those applicable for the financial year 2017, the only significant effect is related to the adoption of IFRS 9 "Financial instruments".

#### IFRS 9 Financial instruments

In July 2014, IASB issued the final version of IFRS 9 Financial Instruments which replaces "IAS 39 Financial Instruments: Recognition and measurement" and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the project on financial instrument accounting: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. With the exception of hedge accounting, the standard must be applied retrospectively but comparative information is not mandatory. As regards hedge accounting, in general, the standard applies in a prospective manner, with some limited exceptions.

The Group adopted the new standard from the date of entry into force, and does not show the comparative data. The Group ran a detailed analysis of the impact of all aspects covered by IFRS 9.

#### a) Classification and measurement

The Group has no significant impact on its financial statements and net equity following the application of the IFRS 9 recognition and measurement requirements. The Group continues measuring at fair value all financial assets currently measured at fair value.

The Group applied the option to present the fair value variations between the other components of the comprehensive income statement, meaning that the IFRS 9 will not have any significant impact.

Loans and trade receivables are held for collection on the contractual expiry of the cash flows referred to the collection of capital and interest. The Group has analysed contractual cash flow on these instruments and has concluded that they meet the criteria for measurement at their amortized cost, in compliance with IFRS 9. It has not therefore been necessary to reclassify these financial instruments.

*b) Derecognition of financial liabilities*

Under IFRS 9, the entity must derecognise financial liabilities (or part of them) from the financial statements if, and only if, the liability is extinguished, i.e. if the obligation set out in the contract is met, cancelled or expired. A substantial variation in the terms of an existing financial liability or part of it must be recognized as an extinction of the original liability and the recognition of a new one.

The terms for applying this new rule are considerably different if the actualized value of the financial flow under the new terms, including any commission paid net of commission received, and using the original interest rate, are at least 10% different from the actualized value of the remaining financial flows of the original financial liability (so-called "10% test"). If the exchange of debt instruments or the change in the terms are recognised as an extinction, any cost or commission sustained are recorded as income or losses associated with the extinction. If the exchange or modification are not recognised as extinction, any cost or commission sustained will adjust the accounting value of the liability and will be amortized over the remaining term of the liability in question.

Loans that have been renegotiated in periods prior to the introduction of IFRS 9 must have their repayment plans recalculated, starting from the date of the renegotiation and adapting the carrying value to the NPV (net present value) of the new conditions.

The Group had no material variations on its existing loans or part of them, therefore the Group had no significant impacts.

*c) Impairment*

IFRS 9 requires the Group to record expected credit losses on all bonds in its portfolio, loans and trade receivables referring to a period of either 12 months or the entire duration of the instrument's contract (e.g. lifetime expected loss). The Group applied the simplified approach, recognising expected credit loss on all receivables based on their residual contractual duration. The Group has defined an allowance matrix based on historical data related to credit losses, taking into consideration customer-specific and market-specific factors.

As far as the expected credit losses are concerned, the impact amounts to Euro 315 thousand, net of the related tax impact, directly recorded by the Group to opening equity reserves as of 1 January 2018, without restating comparative data.

For other debt financial assets (i.e., loans and debt securities at FVOCI), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group had no impact with reference to this.

*d) Hedge Accounting*

Not applicable for the Group.

▪ **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and amended in April 2016, introducing a new five-stage model that will apply to revenue from contracts with customers. IFRS 15 requires recognition of revenue for an amount that reflects the consideration the entity believes to be entitled in exchange for the transfer of goods or services to the customer. The new standard will replace all current requirements found in IFRS regarding the recognition of revenues. The standard is effective for annual periods beginning on or after 1 January 2018, with full retrospective or modified application.

The Group applied the new standard starting from the date of entry into force, using the *modified retrospective approach*, according to which it is not necessary to restate the comparative data; with this approach, the impacts arising from the application of the new standard are recognized through opening equity balances.

IFRS 15 had no significant impact on Group revenues and income statements.

During the assessment of the impacts coming from the introduction of the principle, the Group has identified the main types of revenues.

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 has considered regarding a possible Performance Obligation (for example, for the custody service) to which attribute a part of the transaction price: this service however is not relevant based on its short time period.

Service contracts in Trencher sector are satisfied "over time" because the customer simultaneously receives and consumes the benefits provided by the Group.

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 has performed specific considerations for the fees of some particular transport services (for example, for foreign customers), regarding the possible assumption of the role of Agent verifying the consistency with the new principle.

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, has not required any change following the introduction of IFRS 15.

#### ▪ **Amendment to IAS 40 Transfers of Investment Property**

The amendments clarify when an entity should transfer a property, including those under construction or development, in or out of the Investment property heading. The amendment states that a change of use occurs when the property meets, or ceases to meet, the definition of real estate property and there is evidence of a change of use. A simple change in management's intentions for the property's use is not sufficient to prove change of use. These amendments are not relevant to the Group.

#### ▪ **Amendment to IFRS 2 Classification and Measurement of Share-based Payment Transactions**

IASB issued amendments to IFRS 2 Share-based Payment dealing with three main areas: the effects of vesting conditions on the measurement of a cash-settled share based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Upon adoption, the entity shall apply the amendments without restating prior periods, but the retrospective application is allowed if chosen for all three amendments and other criteria are observed. These amendments are not relevant to the Group.

#### ▪ **Amendment to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**

The amendments deal with the problems created by introducing the new standard on financial instruments, IFRS 9, before introducing IFRS 17 Insurance contracts, which replaces IFRS 4. The changes introduce two options for entities that issue



insurance contracts: a temporary exemption from applying IFRS 9 and the overlay approach. These amendments are not relevant to the Group.

- **Amendment to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice**

The amendments clarify that an entity that is a venture capital organisation or other qualified entity can decide, at the time of the initial recognition and with reference to each individual investment, to measure their investments in joint ventures or associated companies at fair value on the income statement.

If an entity that does not qualify as an investment entity has a holding in an associated company or joint venture that is an investment entity, when applying the equity method the former entity can decide to maintain the fair value measurement applied by the investment entity (associate or joint venture) when measuring their own investments. This choice can be made separately for each associate or joint venture that is an investment entity up to the last of the following dates to occur: (a) the initial measurement of the holding in the associate or joint venture that is an investment entity; (b) when the associate or joint venture becomes an investment entity; or (c) when the associate or joint venture that is an investment entity becomes parent company for the first time. These amendments do not have any impact on the Group consolidated accounts.

- **Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters**

The short-term exemptions indicated in paragraphs E3-E7 of IFRS 1 have been deleted as having fulfilled their purpose. This change is effective from 1 January 2018. This amendment is not relevant to the Group.

- **IFRS 16 Leases**

IFRS 16 was published in January 2016 and replaces IAS 17 Leasing, IFRIC 4 Determining whether an agreement contains a lease, SIC-15 Operating Leases - Incentives and SIC-27. Evaluating the substance of transactions in the legal form of a lease. IFRS 16 defines the principles for the recognition, measurement, presentation and disclosure of leasing and requires lessees to recognise all lease contracts in the financial statements based on a single model similar to that used to account for finance leases in accordance with IAS 17. The standard provides for two exemptions for the recognition by lessees - leasing contracts related to the "low-value" assets (i.e., personal computers) and short-term leasing contracts (such as contracts maturing within 12 months or less).

As at the start of the lease contract, the lessee will post a liability of for lease payments (i.e. leasing liabilities) and an asset representing the right to use the underlying asset for the duration of the contract (i.e. right to use the asset). The lessees will have to account for the interest charges on the lease liabilities and the amortisation of the right of use separately.

Lessees will also have to re-measure the lease liability at certain events (for example: a change in the conditions of the lease, a change in future lease payments subsequent to changes in an index or a rate used to determine those payments). The lessee generally will recognise the amount of remeasurement of the leasing liabilities as an adjustment of the rights of use.

The recognition by IFRS 16 for lessors is substantially unchanged compared with today's recognition in accordance with IAS 17. Lessors will continue to classify all leases using the same classification principle set forth in IAS 17 and distinguishing between two types of leases: operating and financial leases.

IFRS 16 requires the lessees and lessors a more extensive disclosure than IAS 17.

IFRS 16 comes into effect for financial years beginning on 1 January 2019 or later. Early application is permitted, but not before the entity has adopted IFRS 15. The lessor can choose to apply the standard using a fully retrospective or a modified retrospective approach. The indications for transition set out in the standard permit certain facilitations. In 2018, the Group will continue to identify the potential impacts of IFRS 16 on its consolidated reports.

## 5. 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 52.83% of share capital; Marais Technologies SAS is an international 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. The rating was confirmed on 29 July 2018;
- on 6 April 2018, the Ordinary Shareholders' Meeting of Tesmec met in single call and approved all items on the agenda. In detail, the Shareholders' Meeting approved the 2017 Financial Statements of the Parent Company Tesmec S.p.A., which closed with a Net Profit of Euro 1.9 million, up 20.9% compared to the Euro 1.6 million posted as at 31 December 2016, and resolved to allocate this Net Profit for the year to the Extraordinary reserve. The Shareholders' Meeting also resolved favourably on the First Section of the Report on Remuneration pursuant to Article 123-ter of Legislative Decree no. 58/98 and authorised also the Board of Directors, for a period of 18 months, to purchase, on the regulated market, ordinary shares of Tesmec until 10% of the share capital of the Company and within the limits of the distributable profits and of the available reserves resulting from the last financial statements duly approved by the Company or the subsidiary company making the purchase. The authorisation also includes the right to dispose of (in whole or in part and also in several times) the shares in the portfolio subsequently, even before having exhausted the maximum amount of shares purchasable and to possibly repurchase the shares to the extent that the treasury shares held by the Company and, if necessary, by the companies controlled by it, do not exceed the limit established by the authorisation. The quantity and the price at which transactions will be made will comply with the operating procedures laid down by the regulations. This authorisation replaces the last authorisation resolved by the Shareholders' Meeting on 28 April 2017 and expiring in October 2018. The resolution concerning authorisation to purchase treasury shares was passed with the favourable vote of the majority of the Tesmec shareholders at the shareholders' meeting other than the majority shareholder and therefore, pursuant to Article 44-bis of the Issuer Regulation, the shares that the Issuer will purchase in executing this resolution will be included in the share capital of the Issuer, on which the significant equity investment for the purpose of Article 106, paragraphs 1, 1-bis, 1-ter and 3 of the TUF will be calculated;
- on 3 May 2018, the Tesmec Board of Directors, subject to the favourable opinion of the Board of Statutory Auditors, appointed Gianluca Casiraghi as new Chief Financial Officer and Manager responsible for preparing the Company's financial statements. The Board of Directors also approved the launch of the programme to purchase treasury shares, the purpose, duration and counter value of which were established in the resolution of the shareholders' meeting dated 6 April 2018, while the maximum quantity was set as 10% of Share Capital. The Board of Directors also resolved

that the maximum number of shares that may be purchased each day shall be no more than 25% of the average daily volume of “Tesmec” shares traded on the market;

- on 25 June 2018, Tesmec reported that within the scope of contract no. 61/2007 awarded in December 2016, the fitting out of 2 vehicles with measurement systems boasting high technological content was agreed upon with RFI - Rete Ferroviaria Italiana S.p.A., a company of the Ferrovie dello Stato Italiane Group responsible for the overall management of the national rail network. This investment is aimed at improving the checking and maintenance of the national rail network;
- it is confirmed that as at the date of this Report, all waivers requested in connection with the failure, at 31 December 2017, to comply with some financial covenants comprised in some medium-long term loans with Italian credit institutions were obtained and, as a result, the amounts regarding these loans were reclassified as described in paragraph 6. Summary of balance sheet figures as at 30 June 2018 under point c) net financial indebtedness.

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

### 6. Intangible assets

The breakdown and changes in “Intangible assets” for the period closed as at at 30 June 2018 are shown in the table below:

<i>(Euro in thousands)</i>	01/01/2018	Increases due to purchases	Decreases	Amortisation	Exchange rate differences	30/06/2018
Development costs	14,299	3,072	-	(3,284)	41	14,128
Rights and trademarks	3,299	135	(53)	(576)	(1)	2,804
Assets in progress and advance payments to suppliers	742	178	(50)	-	-	870
<b>Total intangible assets</b>	<b>18,340</b>	<b>3,385</b>	<b>(103)</b>	<b>(3,860)</b>	<b>40</b>	<b>17,802</b>

As at 30 June 2018, *intangible assets* totalled Euro 17,802 thousand, down Euro 538 thousand on the previous year due to:

- *development costs* capitalised in the first six months of 2018 for Euro 3,072 thousand, entirely offset by the amortisation for the period (Euro 3,284 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.

### 7. Property, plant and equipment

The breakdown and changes in “Property, plant and equipment” for the period closed as at as at 30 June 2018 are shown in the table below:

<i>(Euro in thousands)</i>	01/01/2018	Increases due to purchases	Decreases	Depreciation	Exchange rate differences	30/06/2018
Land	2,977	-	-	(2)	5	2,980
Buildings	10,742	6	-	(238)	144	10,654
Plant and machinery	3,601	377	(2)	(498)	26	3,504
Equipment	1,658	141	(44)	(235)	1	1,521
Other assets	26,498	4,963	(3,005)	(2,130)	15	26,341
Assets in progress and advance payments to suppliers	626	2,586	-	-	-	3,212
<b>Total property, plant and equipment</b>	<b>46,102</b>	<b>8,073</b>	<b>(3,051)</b>	<b>(3,103)</b>	<b>191</b>	<b>48,212</b>

As at 30 June 2018, property, plant and equipment totalled Euro 48,212 thousand, up compared to the previous year by Euro 2,110 thousand.

The change is due to the increase in costs connected with development of the new Monopoli production facility, which will operate in the Rail sector and which will be active in the third quarter of 2018.

## 8. Work in progress contracts

The following table sets forth the breakdown of work in progress contracts as at 30 June 2018 and as at 31 December 2017:

<i>(Euro in thousands)</i>	30 June 2018	31 December 2017
Work in progress (Gross)	12,580	8,128
Advances from contractors	(3,632)	(1,360)
<b>Work in progress contracts</b>	<b>8,948</b>	<b>6,768</b>
Advances from contractors (Gross)	-	-
Work in progress (Gross)	-	-
<b>Advances from contractors</b>	<b>-</b>	<b>-</b>

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

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

## 9. Inventories

The following table provides a breakdown of the "Inventories" item as at 30 June 2018 compared to 31 December 2017:

<i>(Euro in thousands)</i>	30 June 2018	31 December 2017
Raw materials and consumables	38,767	36,220
Work in progress	12,628	12,919
Finished products and goods for resale	10,879	13,773
Advances to suppliers for assets	462	213
<b>Total inventories</b>	<b>62,736</b>	<b>63,125</b>

Inventory as at 30 June 2018 is substantially in line with the figure at 31 December 2017, recording a decrease in finished products against an increase in raw materials.

## 10. Trade receivables

The following table sets forth the breakdown of trade receivables as at 30 June 2018 and as at 31 December 2017:

<i>(Euro in thousands)</i>	30 June 2018	31 December 2017
Trade receivables from third-party customers	47,872	37,273
Trade receivables from associates, related parties and joint ventures	6,346	2,581
<b>Total trade receivables</b>	<b>54,218</b>	<b>39,854</b>

The increase in *trade receivables* (+36.0%) reflects the seasonal nature of the sales carried out in the last part of the half-year. With particular reference to expected losses on receivables (ECL), based on the new IFRS 9, this has had an impact on the provision for doubtful debts of Euro 415 thousand.

The trade receivables from related parties increased by Euro 3,765 thousand mainly due to higher sales to the related company MTS4SERVICE USA L.L.C.

## 11. Financial receivables and other current financial assets

The following table provides a breakdown of financial receivables and other current financial assets as at 30 June 2018 and as at 31 December 2017:

<i>(Euro in thousands)</i>	30 June 2018	31 December 2017
Financial receivables from associates, related parties and joint ventures	3,701	9,386
Financial receivables from third parties	3,938	3,026
Other current financial assets	35	36
<b>Total financial receivables and other current financial assets</b>	<b>7,674</b>	<b>12,448</b>

The decrease in *current financial assets* from Euro 12,448 thousand to Euro 7,674 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.

## 12. Share capital and reserves

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

The following table provides a breakdown of Other reserves as at 30 June 2018 and as at 31 December 2017:

<i>(Euro in thousands)</i>	30 June 2018	31 December 2017
Revaluation reserve	86	86
Extraordinary reserve	28,935	26,942
Change in the consolidation area	197	(225)
Severance indemnity valuation reserve	(471)	(563)
Network reserve	824	824
First Adoption IFRS 9	(315)	-
Retained earnings/ (losses brought forward)	(6,735)	(3,087)
Bills charged directly to shareholders' equity on operations with entities under common control	(4,048)	(4,048)
<b>Total other reserves</b>	<b>18,473</b>	<b>19,929</b>

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

The *reserve for change 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 first adoption IFRS 9 refers to the net impact related to the application of the new standard. The Group has attributed the largest allowance applied to the decrease in equity reserves at January 1, 2018 without restating the comparative data.

The value of the difference from translation of financial statements has a positive impact on shareholders' equity of Euro 730 thousand as at 30 June 2018.

As a result of the resolution of 6 April 2018, with the approval of the 2017 financial statements, the Shareholders' Meeting of Tesmec S.p.A. decided to allocate the profit of the parent company of Euro 1,993 thousand to the extraordinary reserve.

### 13. Medium/long-term loans

During the first six months of 2018, medium-long term loans increased from Euro 25,243 thousand to Euro 26,914 thousand mainly due to the stipulation of new medium/long-term loans offset by reclassification in current financial indebtedness of the current portion of medium/long-term loans.

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

The following table provides details of this item as at 30 June 2018 and as at 31 December 2017:

<i>(Euro in thousands)</i>	30 June 2018	31 December 2017
Advances from banks against invoices and bills receivables	45,538	36,010
Other financial payables (short-term leases)	1,131	1,187
Payables due to factoring companies	4,695	3,886
Current account overdrafts	5,518	4,112
Financial payables due to SIMEST	-	7,406
Short-term loans to third parties	287	3,289
Current portion of medium/long-term loans	16,176	22,997
Other short-term financial payables	1,472	135
<b>Total interest-bearing financial payables (current portion)</b>	<b>74,816</b>	<b>79,022</b>

The decrease in *current portion of medium/long-term loans* is due to the (i) greater advances on exports for Euro 9,528 thousand compensated from (ii) Euro 14,227 thousand related to the decrease in the current portion of medium/long-term loans (of which Euro 7,406 thousand for the loan transaction carried out by Simest S.p.A. in Tesmec USA Inc. during 2010, which expired on 30 June 2018).

### 15. 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 30 June 2018:

<i>(Euro in thousands)</i>	Loans and receivables/financial liabilities measured at amortised cost	Guarantee deposits	Cash and cash equivalents	Available-for- sale financial assets	Fair value recognised in the income statement
<b>Financial assets:</b>					
Financial receivables	241	-	-	-	-
Trade receivables	11	-	-	-	-
Derivative financial instruments	-	-	-	-	-
<b>Total non-current</b>	<b>252</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Trade receivables	54,218	-	-	-	-
Financial receivables from related parties	3,701	-	-	-	-
Financial receivables from third parties	3,973	-	-	-	-
Other available-for-sale securities	-	-	-	2	-
Derivative financial instruments	-	-	-	-	84
Cash and cash equivalents	-	-	16,710	-	-

<b>Total current</b>	<b>61,892</b>	-	<b>16,710</b>	<b>2</b>	<b>84</b>
<b>Total</b>	<b>62,144</b>	-	<b>16,710</b>	<b>2</b>	<b>84</b>
<b>Financial liabilities:</b>					
Loans	25,424	-	-	-	-
Bond issue	14,827	-	-	-	-
Non-current portion of finance leases, net	1,490	-	-	-	-
Derivative financial instruments	-	-	-	-	51
Trade payables	1	-	-	-	-
<b>Total non-current</b>	<b>41,742</b>	-	-	-	<b>51</b>
Loans	16,462	-	-	-	-
Other financial payables (short-term leases)	1,131	-	-	-	-
Other short-term financial payables	57,223	-	-	-	-
Derivative financial instruments	-	-	-	-	3
Trade payables	48,704	-	-	-	-
<b>Total current</b>	<b>123,520</b>	-	-	-	<b>3</b>
<b>Total</b>	<b>165,262</b>	-	-	-	<b>54</b>

## Management and types of risk

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

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

### Interest rate risk

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

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

As at 30 June 2018, there were five 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 10.7 million, with a negative equivalent value of Euro 27 thousand. Moreover, there were four interest rate cap positions; the notional value of these positions was equal to Euro 6.8 million, with a negative equivalent value of Euro 27 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 30 June 2018, there were two forward cover contracts of the Euro/ZAR and Euro/USD exchange rate. The notional value of these positions was equal to Euro 2.4 million, with a positive equivalent value of Euro 84 thousand.

#### ***Credit risk***

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

From a commercial viewpoint, the Group is not exposed to 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 30 June 2018, divided into the three levels defined above:

<i>(Euro in thousands)</i>	<b>Book value as at 30 June 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets:</b>				
Other available-for-sale securities	2	-	-	2
Derivative financial instruments	84	-	84	-
<b>Total current</b>	<b>86</b>	<b>-</b>	<b>84</b>	<b>2</b>
<b>Total</b>	<b>86</b>	<b>-</b>	<b>84</b>	<b>2</b>
<b>Financial liabilities:</b>				
Derivative financial instruments	51	-	51	-
<b>Total non-current</b>	<b>51</b>	<b>-</b>	<b>51</b>	<b>-</b>
Derivative financial instruments	3	-	3	-
<b>Total current</b>	<b>3</b>	<b>-</b>	<b>3</b>	<b>-</b>
<b>Total</b>	<b>54</b>	<b>-</b>	<b>54</b>	<b>-</b>

## 16. Revenues from sales and services

The table below shows the breakdown of Revenues from sales and services as at 30 June 2018 and as at 30 June 2017:

<i>(Euro in thousands)</i>	<b>Half-year ended 30 June</b>	
	<b>2018</b>	<b>2017</b>
Sales of products	65,999	67,306
Services rendered	20,658	18,898
	<b>86,657</b>	<b>86,204</b>
Changes in work in progress	4,442	4,910
<b>Total revenues from sales and services</b>	<b>91,099</b>	<b>91,114</b>

In the first six months of 2018, the Group consolidated revenues of Euro 91,099 thousand, in line with the same period of the previous year. In percentage terms, this change is split disparately between the Group's three business areas. More specifically,

an increase of +31.6% was recorded for the Rail segment, +17.0% for the Trencher segment, and a decrease of -35.0% for the Energy segment.

The decrease in revenues in the Energy segment is mainly attributable to the fact that revenues for the first half of 2017 benefited from a large order to supply stringing equipment for the Indonesian market, completed at the end of 2016 that in terms of turnover had an impact primarily on the first quarter of 2017.

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. In Kuwait, for example, as many as 12 Tesmec trenchers are at work, used in various infrastructure projects.

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, supplying integrated solutions on the catenary wire system and to the development phase of the production activities concerning the sizeable orders acquired at the end of 2016.

## 17. Operating costs

The item operating costs amounted to Euro 88,737 thousand, a decrease of 0.4% compared to the previous year, in line with respect to the performance in revenues.

## 18. 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 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 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.

No operating segment has been aggregated in order to determine the indicated operating segments that are the subject of the reporting.

<i>(Euro in thousands)</i>	Half-year ended 30 June							
	2018				2017			
	Stringing equipment	Trencher	Rail	Consolidated	Stringing equipment	Trencher	Rail	Consolidated
Revenues from sales and services	20,784	59,982	10,333	91,099	31,986	51,277	7,851	91,114
Operating costs net of depreciation and amortisation	(18,227)	(54,771)	(8,776)	(81,774)	(26,444)	(49,243)	(6,719)	(82,406)
<b>EBITDA</b>	<b>2,557</b>	<b>5,211</b>	<b>1,557</b>	<b>9,325</b>	<b>5,542</b>	<b>2,034</b>	<b>1,132</b>	<b>8,708</b>
Amortisation and depreciation	(2,127)	(3,711)	(1,125)	(6,963)	(1,993)	(3,645)	(1,070)	(6,708)
<b>Total operating costs</b>	<b>(20,354)</b>	<b>(58,482)</b>	<b>(9,901)</b>	<b>(88,737)</b>	<b>(28,437)</b>	<b>(52,888)</b>	<b>(7,789)</b>	<b>(89,114)</b>
<b>Operating income</b>	<b>430</b>	<b>1,500</b>	<b>432</b>	<b>2,362</b>	<b>3,549</b>	<b>(1,611)</b>	<b>62</b>	<b>2,000</b>
Net financial income/(expenses)				(1,576)				(4,547)
<b>Pre-tax profit/(loss)</b>				<b>786</b>				<b>(2,547)</b>
Income tax				(251)				749
<b>Net profit/(loss) for the period</b>				<b>535</b>				<b>(1,798)</b>
Profit/(loss) attributable to non-controlling interests				(1)				(26)
<b>Group profit/(loss)</b>				<b>536</b>				<b>(1,772)</b>

(\*) 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, 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 30 June 2018 and as at 31 December 2017:

<i>(Euro in thousands)</i>	As at 30 June 2018					As at 31 December 2017				
	Energy	Trencher	Rail	Not allocated	Consolidated	Energy	Trencher	Rail	Not allocated	Consolidated
Intangible assets	9,277	4,423	4,102	-	17,802	9,741	4,280	4,319	-	18,340
Property, plant and equipment	1,882	41,946	4,384	-	48,212	1,905	42,595	1,602	-	46,102
Financial assets	3,066	877	12	12	3,967	3,330	767	12	20	4,129
Other non-current assets	1,304	3,400	90	6,360	11,154	1,743	2,857	97	5,915	10,612
<b>Total non-current assets</b>	<b>15,529</b>	<b>50,646</b>	<b>8,588</b>	<b>6,372</b>	<b>81,135</b>	<b>16,719</b>	<b>50,499</b>	<b>6,030</b>	<b>5,935</b>	<b>79,183</b>
Work in progress contracts	-	-	8,948	-	8,948	-	-	6,768	-	6,768
Inventories	17,787	23,627	21,322	-	62,736	16,170	45,632	1,323	-	63,125
Trade receivables	8,656	44,429	1,133	-	54,218	6,889	31,508	1,457	-	39,854
Other current assets	1,763	3,849	5,036	9,272	19,920	1,686	2,211	2,779	16,096	22,772
Cash and cash equivalents	1,423	1,875	5,095	8,317	16,710	1,474	1,000	4,942	14,071	21,487
<b>Total current assets</b>	<b>29,629</b>	<b>73,780</b>	<b>41,534</b>	<b>17,589</b>	<b>162,532</b>	<b>26,219</b>	<b>80,351</b>	<b>17,269</b>	<b>30,167</b>	<b>154,006</b>
<b>Total assets</b>	<b>45,158</b>	<b>124,426</b>	<b>50,122</b>	<b>23,961</b>	<b>243,667</b>	<b>42,938</b>	<b>130,850</b>	<b>23,299</b>	<b>36,102</b>	<b>233,189</b>
<b>Shareholders' equity attributable to parent company shareholders</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44,347</b>	<b>44,347</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43,107</b>	<b>43,107</b>

<b>Shareholders' equity attributable to non-controlling interests</b>	-	-	-	<b>19</b>	<b>19</b>	-	-	-	<b>1,725</b>	<b>1,725</b>
<b>Non-current liabilities</b>	<b>1,098</b>	<b>7,661</b>	<b>1,057</b>	<b>41,463</b>	<b>51,279</b>	<b>1,100</b>	<b>7,832</b>	<b>1,266</b>	<b>39,789</b>	<b>49,987</b>
Current financial liabilities	528	8,754	3,433	62,104	74,819	542	7,220	2,782	68,563	79,107
Trade payables	8,772	30,591	9,341	-	48,704	9,178	25,763	4,538	-	39,479
Other current liabilities	1,678	8,496	2,362	11,963	24,499	1,127	6,793	1,420	10,444	19,784
<b>Total current liabilities</b>	<b>10,978</b>	<b>47,841</b>	<b>15,136</b>	<b>74,067</b>	<b>148,022</b>	<b>10,847</b>	<b>39,776</b>	<b>8,740</b>	<b>79,007</b>	<b>138,370</b>
<b>Total liabilities</b>	<b>12,076</b>	<b>55,502</b>	<b>16,193</b>	<b>115,530</b>	<b>199,301</b>	<b>11,947</b>	<b>47,608</b>	<b>10,006</b>	<b>118,796</b>	<b>188,357</b>
<b>Total shareholders' equity and liabilities</b>	<b>12,076</b>	<b>55,502</b>	<b>16,193</b>	<b>159,896</b>	<b>243,667</b>	<b>11,947</b>	<b>47,608</b>	<b>10,006</b>	<b>163,628</b>	<b>233,189</b>

## 19. Related party transactions

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

	Half-year ended 30 June 2018					Half-year ended 30 June 2017				
	Revenues	Cost of raw materials	Costs for services	Other operating costs/revenues, net	Financial income and expenses	Revenues	Cost of raw materials	Costs for services	Other operating costs/revenues, net	Financial income and expenses
<i>(Euro in thousands)</i>										
<b>Associates:</b>										
Locavert S.A.	90	-	-	-	-	264	-	-	-	-
<b>Subtotal</b>	<b>90</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>264</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Joint Ventures:</b>										
Condux Tesmec Inc.	2,478	-	(9)	83	-	1,749	-	-	91	1
Tesmec Peninsula	40	(310)	(35)	-	26	-	-	(14)	53	58
<b>Subtotal</b>	<b>2,518</b>	<b>(310)</b>	<b>(44)</b>	<b>83</b>	<b>26</b>	<b>1,749</b>	<b>-</b>	<b>(14)</b>	<b>144</b>	<b>59</b>
<b>Related parties:</b>										
Ambrosio S.r.l.	-	-	-	(7)	-	-	-	-	(7)	-
TTC S.r.l.	-	-	-	-	-	-	-	(21)	-	-
Ceresio Tours S.r.l.	-	-	(3)	-	-	-	-	(3)	-	-
Dream Immobiliare S.r.l.	-	-	-	(1,169)	-	-	-	-	(1,126)	-
FI.IND	-	-	-	27	-	-	-	-	32	-
M.T.S. Officine meccaniche S.p.A.	3,708	-	5	(913)	36	8,792	-	34	16	-
MTS4SERVICE USA LLC	4,167	-	-	(171)	20	-	-	-	-	-
COMATEL	43	-	-	-	-	81	-	-	-	-
C2D	-	-	(167)	-	-	-	-	(119)	-	-
<b>Subtotal</b>	<b>7,918</b>	<b>-</b>	<b>(165)</b>	<b>(2,233)</b>	<b>56</b>	<b>8,873</b>	<b>-</b>	<b>(109)</b>	<b>(1,085)</b>	<b>-</b>
<b>Total</b>	<b>10,526</b>	<b>(310)</b>	<b>(209)</b>	<b>(2,150)</b>	<b>82</b>	<b>10,886</b>	<b>-</b>	<b>(123)</b>	<b>(941)</b>	<b>59</b>

	30 June 2018				31 December 2017			
	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>								
<b>Associates:</b>								
Locavert S.A.	421	-	-	-	95	-	-	-
R&E Contracting	-	120	-	-	-	-	-	-
<b>Subtotal</b>	<b>421</b>	<b>120</b>	-	-	<b>95</b>	-	-	-
<b>Joint Ventures:</b>								
Condux Tesmec Inc.	1,727	-	-	12	1,046	-	-	-
Tesmec Peninsula	52	1,986	1,376	-	17	1,930	37	979
Marais Tunisie	-	2	-	-	-	2	-	-
Marais Lucas	-	794	-	-	-	794	-	-
<b>Subtotal</b>	<b>1,779</b>	<b>2,782</b>	<b>1,376</b>	<b>12</b>	<b>1,063</b>	<b>2,726</b>	<b>37</b>	<b>979</b>
<b>Related parties:</b>								
Ambrosio S.r.l.	-	-	-	4	-	-	-	-
TTC S.r.l.	-	-	-	26	-	-	-	26
Ceresio Tours S.r.l.	-	-	-	1	-	-	-	-
Dream Immobiliare S.r.l.	-	799	-	539	-	1,162	-	-
Fi.ind.	-	-	-	-	27	-	-	-
M.T.S. Officine meccaniche S.p.A.	1,071	-	-	1,006	1,373	2,911	-	1,199
MTS4SERVICE USA LLC	3,075	-	-	179	10	1,387	-	119
Comatel	-	-	-	-	9	-	-	-
C2D	-	-	-	66	4	1,200	-	43
<b>Subtotal</b>	<b>4,146</b>	<b>799</b>	-	<b>1,821</b>	<b>1,423</b>	<b>6,660</b>	-	<b>1,387</b>
<b>Total</b>	<b>6,346</b>	<b>3,701</b>	<b>1,376</b>	<b>1,833</b>	<b>2,581</b>	<b>9,386</b>	<b>37</b>	<b>2,366</b>

## 20. Commitments and risks

The Group uses guarantees provided by primary banking institutions and insurance companies on behalf of the operating companies for the requirements relating to the execution of contracts in progress. In general, these are guarantees for the satisfactory performance of contracts (known as performance bonds) or guarantees issued upon receipt of payment by the contractor in the form of advance/down payment on contracts in progress (advanced payment bonds). As at 30 June the net book value of these guarantees was Euro 35,088 thousand.

## 21. Events occurring after the close of the financial period

Events occurring after the close of the financial period included:

- on 2 July 2018, the Tesmec Group signed a strategic contractual Joint Venture agreement with the company Saba Group International General Trading and Contracting Co. to jointly manage earth moving and trench excavation projects, to carry out within the entire territory of Kuwait. The first project already launched is South Al Mutlaa - Phase 2, whose value is approximately Euro 5.35 million, of which about Euro 3 million pertains to Tesmec for the rented supply of the trenchers, the sale of spare parts and the support of highly qualified Group personnel within the scope of the execution activities;
- on 27 July 2018, Tesmec successfully concluded placement of the "Tesmec S.p.A. 4.75% 2018-2024" bond issue of the nominal amount of Euro 10 million with professional investors. The 4.75% fixed rate Bond Issue, placed by Banca Finint, will expire on 30 June 2024 with half-yearly coupon and amortising repayment, and with a two-year pre-amortisation period. The Company has reserved the right, to exercise by 31 December 2018, to increase the nominal value of the Bond Issue up to a maximum of Euro 15 million;

- on 30 July 2018, Tesmec, through its subsidiary Tesmec Service, won a contract in France in the rail segment having a value for the Group of Euro 14.25 million. Tesmec will be in charge of vehicle design and definition of the work methodology for the RC2 consortium, which won the project, in addition to the supply of a 9-vehicle fleet. The end customer is the SNCF - Société Nationale des Chemins de fer Français group, which assigned the works to regenerate the railway catenary wire system between the Paris Austerlitz and Breigny sur Orge stations on line C of the RER network. The works will commence in January 2020 and will be completed in December 2023;
- starting from 3 August 2018, Marco Paredi will act as Investor Relations Manager of the Company;
- on 1 August 2018 a new loan was signed for Euro 5,900 thousand to finance the construction of the Monopoli Plant and to purchase new equipment.

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

1. The undersigned Ambrogio Caccia Dominioni and Gianluca Casiraghi, 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 Condensed Consolidated Financial Statements as at 30 June 2018.

2. We also certify that:

2.1 The Condensed Consolidated Financial Statements as at 30 June 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 refers to the important events that took place during the first six months of the financial period and their impact on the Condensed Consolidated Financial Statements, together with a description of the main risks and uncertainties for the six remaining months of the financial period. The interim report on operations also includes a reliable analysis of information on significant transactions with related parties.

Grassobbio, 3 August 2018

Ambrogio Caccia Dominioni

Chief Executive Officer

Gianluca Casiraghi

Manager responsible for  
preparing the Company's  
financial statements



## **INDEPENDENT AUDITOR'S REPORT**

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

To the Shareholders of  
Tescmec S.p.A.

### Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows and the related explanatory notes of Tescmec S.p.A. and its subsidiaries (the "Tescmec Group") as of 30 June 2018. The Directors of Tescmec S.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### Scope of Review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Tescmec Group as of June 30, 2018 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, August 8, 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*

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