Interim consolidated financial report as at September 30, 2018

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Fully paid up share capital as at 30 September 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

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

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

(*) Independent Directors

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

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

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

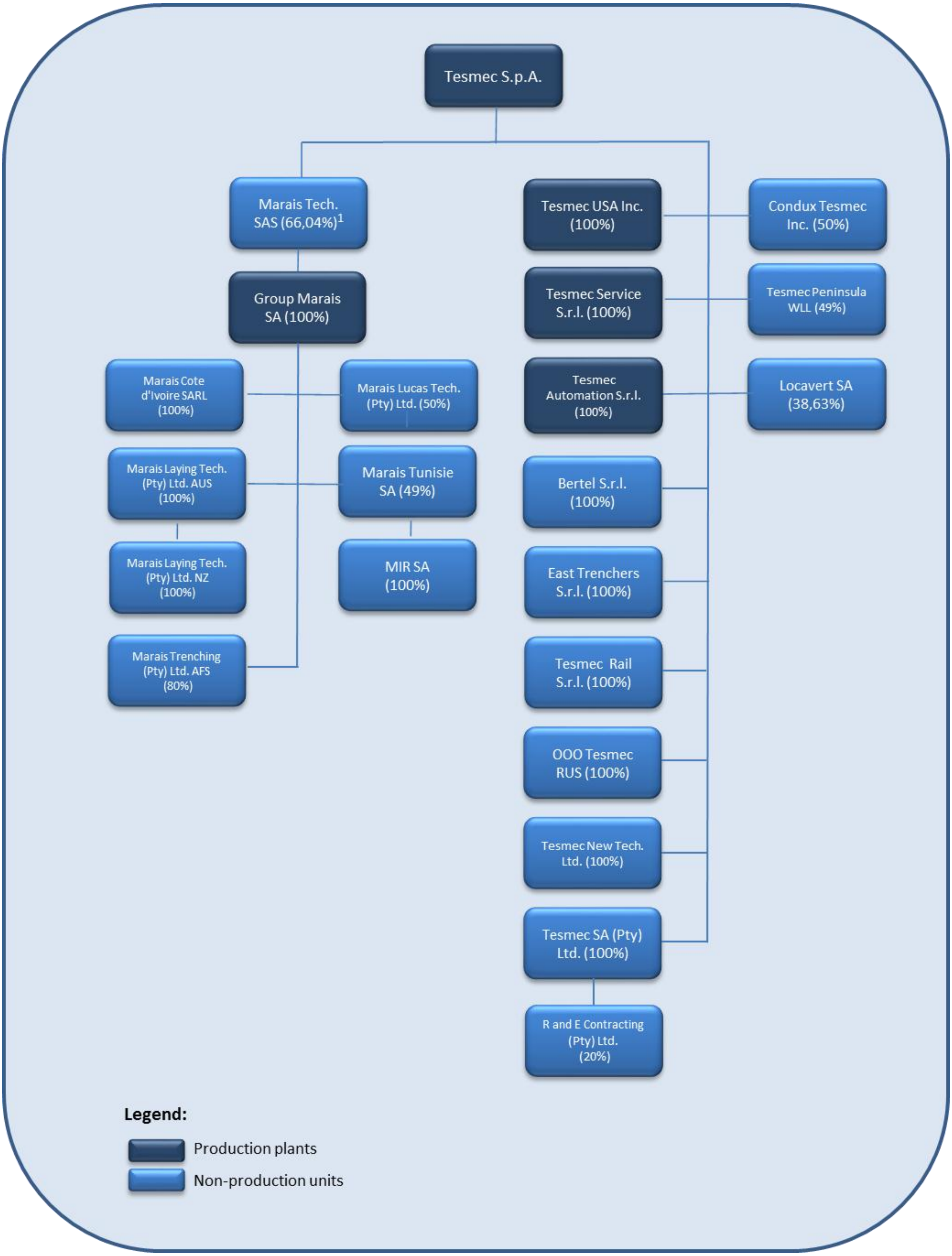
Chairman	Sergio Arnoldi
Members	Gioacchino Attanzio Gianluca Bolelli

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

Chairman	Gioacchino Attanzio
Members	Sergio Arnoldi Caterina Caccia Dominioni

Lead Independent Director	Gioacchino Attanzio
Director in charge of the internal control and risk management system	Caterina Caccia Dominioni
Manager responsible for preparing the Company’s financial statements	Gianluca Casiraghi
Independent Auditors	EY S.p.A.

GROUP STRUCTURE



(1) The remaining 33.96% is held by Simest S.p.A. Since Tesmec has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the shareholding of the Parent Company in Marais Technologies SAS is consolidated on an 100% basis.

INTERIM CONSOLIDATED REPORT ON OPERATIONS

(Not audited by the Independent Auditors)

1. Introduction

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

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

Founded in Italy in 1951 and managed by the Chairman and Chief Executive Officer Ambrogio Caccia Dominioni, the Group as from its listing on the Stock Exchange on 1 July 2010, pursued the stated objective of diversification of the types of products in order to offer a complete range of integrated solutions grouped into three main areas of business: Energy, Trencher and Rail. The structure has more than 850 employees and production plants located in Grassobbio (Bergamo), Endine Gaiano (Bergamo), Sirone (Lecco) and Monopoli (Bari) in Italy, Alvarado (Texas) in the USA and Durtal in France. 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 global macroeconomic context is going through a phase of turbulence related both to the European context, due to the tensions between the Italian Government and the European Commission, and to the world context, in the light of the trade war between the USA and China. However, macroeconomic data describes a consolidation of growth where the US economy is more vibrant, with an increasing GDP and an investment plan in line with the expansionary policies envisaged by the current government. China is experiencing a downturn due to trade tensions that are leading it to revise its current debt reduction estimates and look for ways to squeeze the economy. In the meantime, Europe is consolidating its growth forecasts. In particular, in Italy, the current cyclical phase remains characterised by a slowdown in industrial production, as opposed to the growth trend of the manufacturing index in the last three years, but accompanied by a recovery in exports. Positive signs come from the labour market with a recovery in employment and a significant reduction in unemployment.

The Stock Markets experienced a phase of reflection and, in particular, note the drop in the Italian index that loses about 24% of its capitalisation from May to date because of the political tensions in progress. The outlook remains uncertain in the coming months due to the tensions mentioned above, but the widening of the spread could be functional to the achievement of more conciliatory positions between Italy and Europe and the post-election phase of the mid-term elections could mitigate trade hostilities between the United States and China. In the short term, the dollar is expected to strengthen and the position to be rebalanced in the medium term. On the commodity front, Brent should stabilise its bullish phase, thus continuing to support investments in related sectors.

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 2,250 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;

- 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;

- 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.

- starting from 3 August 2018, Marco Paredi acts as Investor Relations Manager of the Company;

- 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 September 2018* under point c) net financial indebtedness.

4. Activity, reference market and operating performance for the first nine months of 2018

The consolidated financial statements of Tesmec have been prepared in accordance with International Financial Reporting Standards (hereinafter the "IFRS" or the "International Accounting Standards"), which were endorsed by the European Commission, in effect as at 31 December 2017. The following table shows the major economic and financial indicators of the Group as at September 2018 compared with the same period of 2017.

OVERVIEW OF RESULTS

30 September 2017	**Key income statement data** (Euro in millions)	**30 September 2018**
132.1	Operating Revenues	140.5
13.6	EBITDA	12.2
3.1	Operating Income	1.4
(1.8)	Group Net Profit	(0.8)
769	Annual average employees	866
31 December 2017	**Key financial position data** (Euro in millions)	**30 September 2018**
130.1	Net Invested Capital	135.4
44.8	Shareholders' Equity	42.6
85.3	Net Financial Indebtedness	92.9
15.8	Investments in property, plant and equipment and intangible assets	10.3

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. In the first nine months of 2018, revenues achieved directly with customers/end users came to Euro 22.3 million.

- Tesmec Service S.r.l., company 100% owned by Tesmec S.p.A. with registered office in Grassobbio (BG) and operating unit in Monopoli (BA) where it carries out its activity of design and construction of machinery for the maintenance of rolling stock. During the first nine months of 2018, the company continued production activities related to contracts in progress, recording revenues of Euro 15.9 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 was consolidated using the equity method and in the first three months of the year generated revenues totalling Euro 5.0 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. During the first nine months of 2018, the Group generated revenues totalling Euro 37.1 million, clearly recovering on the figure of Euro 33.5 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 nine months of 2018, revenues amounted to Euro 6.0 million.

- Tesmec Rail S.r.l., a company 100% owned by Tesmec S.p.A., completed the construction of the new production plant in Monopoli, where the production of rail vehicles will be concentrated. The transfer to the new production unit took place in October 2018.

5. Income statement

5.1 Consolidated income statement

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

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

	As at 30 September			
(Euro in thousands)	**2018**	**% of revenues**	**2017**	**% of revenues**
Revenues from sales and services	**140,493**	**100.0%**	**132,131**	**100.0%**
Cost of raw materials and consumables	(64,531)	-45.9%	(58,678)	-44.4%
Costs for services	(23,888)	-17.0%	(22,915)	-17.3%
Payroll costs	(36,365)	-25.9%	(33,412)	-25.3%
Other operating (costs)/revenues, net	(7,948)	-5.7%	(7,433)	-5.6%
Amortisation and depreciation	(10,797)	-7.7%	(10,463)	-7.9%
Development costs capitalised	4,186	3.0%	3,929	3.0%
Portion of losses/(gains) from the valuation of Joint Ventures using the equity method	297	0.2%	(38)	0.0%
Total operating costs	**(139,046)**	**-99.0%**	**(129,010)**	**-97.6%**
Operating income	**1,447**	**1.0%**	**3,121**	**2.4%**
Financial expenses	(5,054)	-3.6%	(8,110)	-6.1%
Financial income	2,194	1.6%	1,644	1.2%
Portion of losses/(gains) from the valuation of equity investments using the equity method	12	0.0%	63	0.0%
Pre-tax profit/(loss)	**(1,401)**	**-1.0%**	**(3,282)**	**-2.5%**
Income tax	644	0.5%	1,467	1.1%
Net profit/(loss) for the period	**(757)**	**-0.5%**	**(1,815)**	**-1.4%**
Profit/(loss) attributable to non-controlling interests	18	0.0%	25	0.0%
Group profit/(loss)	**(775)**	**-0.6%**	**(1,840)**	**-1.4%**

Revenues

Total revenues as at 30 September 2018 increased by 6.3% compared to those recorded in the same period of the previous financial year. The three business segments contributed to these results in different ways, with particularly significant growth in the Rail business.

	As at 30 September				
(Euro in thousands)	**2018**	**% of revenues**	**2017**	**% of revenues**	**2018 vs. 2017**
Sales of products	105,397	75.02%	95,409	72.21%	9,988
Services rendered	31,772	22.61%	30,474	23.06%	1,298
	137,169	**97.63%**	**125,883**	**95.27%**	**11,286**
Changes in work in progress	3,324	2.37%	6,248	4.73%	(2,924)
Total revenues from sales and services	**140,493**	**100.00%**	**132,131**	**100.00%**	**8,362**

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 by comparing the first nine months of 2018 with the same period of 2017, which indicates the growth of the Italian and African markets, partially balanced by the downtrends recorded in the European, BRIC and Others markets. In the BRIC and Others segment, note that the period of 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.

	As at 30 September	
(Euro in thousands)	**2018**	**2017**
Italy	33,441	23,422
Europe	22,115	25,676
Middle East	11,706	10,873
Africa	16,572	9,826
North and Central America	26,662	21,710
BRIC and Others	29,997	40,624
Total revenues	**140,493**	**132,131**

Operating costs

The *operating costs* amounted to Euro 139,046 thousand, an increase of 7.8% compared to the previous year, more than proportional with respect to the performance in revenues.

EBITDA

In terms of margins, EBITDA amounted to Euro 12,244 thousand, down by 9.9% compared to the figure recorded in the first nine months of 2017. EBITDA was impacted by the extra costs that emerged in the third quarter relating to Australian construction sites, which penalised the margin by approximately Euro 4,000 thousand; net of these costs EBITDA would have been approximately Euro 16 million.

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

	As at 30 September				
(Euro in thousands)	**2018**	**% of revenues**	**2017**	**% of revenues**	**2018 vs. 2017**
Operating income	1,447	1.0%	3,121	2.4%	(1,674)
+ Amortisation and depreciation	10,797	7.7%	10,463	7.9%	334
EBITDA (*)	**12,244**	**8.7%**	**13,584**	**10.3%**	**(1,340)**

(*****) 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

(Euro in thousands)	As at 30 September	
	2018	**2017**
Net financial income/expenses	(2,539)	(2,017)
Foreign exchange gains/losses	(371)	(4,561)
Fair value adjustment of derivative instruments	50	112
Portion of losses/(gains) from the valuation of equity investments using the equity method	12	63
Total net financial income/expenses	**(2,848)**	**(6,403)**

The net financial management recorded increased compared to the same period in 2017 by Euro 3,555 thousand, with the following changes reported:

- improvement by Euro 4,190 thousand deriving from the different USD/EUR exchange rate trend in the two periods of reference that resulted in the recording of net losses totalling Euro 371 thousand in the first nine months of 2018 (Euro 81 thousand realised and Euro 452 thousand unrealised) against a net loss of Euro 4,561 thousand in the first nine months of 2017 (Euro 97 thousand realised and Euro 4,658 thousand unrealised);
- increase in net cost of borrowing of Euro 522 thousand.

5.2 Income Statement by segment

Revenues by segment

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

(Euro in thousands)	As at 30 September				
	2018	**% of revenues**	**2017**	**% of revenues**	**2018 vs. 2017**
Energy	30,200	21.5%	44,836	33.9%	(14,636)
Trencher	94,157	67.0%	76,083	57.6%	18,074
Rail	16,136	11.5%	11,212	8.5%	4,924
Total Revenues	**140,493**	**100.0%**	**132,131**	**100.0%**	**8,362**

In the first nine months of 2018, the Group consolidated revenues of Euro 140,493, marking an increase of Euro 8,362 thousand compared to 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 +43.9% was recorded for the Rail segment, +23.8% for the Trencher segment, and a decrease of -32.6% for the Energy segment.

For Energy segment, the revenues were Euro 30,200 thousand as at 30 September 2018 in respect to Euro 44,836 thousand as at 30 September 2017, that however benefitted from an important order for the supply of stringing equipment for the Indonesian market, completed at the end of 2016, which had an impact on revenues mainly on the first quarter of 2017.

The considerable increase in revenues in the Trencher segment was balanced across the Group's various segments of reference; particular importance should be given to the performance of the American market, which generated sales of USD 14 million only in the third quarter.

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

EBITDA by segment

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

	As at 30 September				
(Euro in thousands)	**2018**	**% of revenues**	**2017**	**% of revenues**	**2018 vs. 2017**
Energy	2,274	7.5%	7,305	16.3%	(5,031)
Trencher	7,693	8.2%	4,815	6.3%	2,878
Rail	2,277	14.1%	1,464	13.1%	813
EBITDA (*)	**12,244**	**8.7%**	**13,584**	**10.3%**	**(1,340)**

(*****) 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 5,383 thousand in the first nine months of 2017 to Euro 7,693 thousand in 2018 is linked to the increase in business activities in the various reference sectors and to the fixed cost absorption. The result is impacted by extra costs on Australian construction sites of Euro 4,000 thousand, without considering these costs EBITDA would have been approximately Euro 12 million (12.4%);

- Rail: EBITDA increased from a value of Euro 1,834 thousand as at 30 September 2017 to a value of Euro 2,277 thousand as at 30 September 2018 related to the increase in volumes during the period;

- Energy: deterioration in EBITDA from Euro 8,042 thousand in the first nine months of 2017 to Euro 2,274 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 19 "Segment Reporting" of this report.

6. Summary of balance sheet figures as at 30 September 2018

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

(Euro in thousands)	**As at 30 September 2018**	**As at 31 December 2017**
USES		
Net working capital (1)	64,780	60,806
Fixed assets	67,981	68,386
Other long-term assets and liabilities	2,669	913
Net invested capital (2)	**135,430**	**130,105**
SOURCES		
Net financial indebtedness (3)	92,864	85,273
Shareholders' equity	42,566	44,832
Total sources of funding	**135,430**	**130,105**

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

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

A) Net working capital

The table below shows a breakdown of "Net Working Capital" as at 30 September 2018 and 31 December 2017:

(Euro in thousands)	**As at 30 September 2018**	**As at 31 December 2017**
Trade receivables	59,359	39,854
Work in progress contracts	8,436	6,768
Inventories	61,392	63,125
Trade payables	(52,861)	(39,479)
Other current assets/(liabilities)	(11,546)	(9,462)
Net working capital [1]	**64,780**	**60,806**

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

Net working capital amounted to Euro 64,780 thousand, marking an increase of Euro 3,974 thousand (equal to 6.5%) compared to 31 December 2017. This trend is mainly due to the increase in the item "Trade receivables" of Euro 19,505 thousand (equal to 48.9%) offset by the increase in the item "Trade payables" of Euro 13,382 thousand (equal to 3.9%) and to the increase in work in progress contracts due to the execution of contracts related to the Rail segment.

B) Fixed assets

The table below shows a breakdown of "Fixed assets" as at 30 September 2018 and 31 December 2017:

(Euro in thousands)	**As at 30 September 2018**	**As at 31 December 2017**
Intangible assets	17,022	18,340
Property, plant and equipment	46,986	46,102
Equity investments in associates	3,967	3,937
Other equity investments	6	7
Fixed assets	**67,981**	**68,386**

Total *fixed assets* posted a decrease of Euro 405 thousand following the sale of trencher machines and depreciations for the period, which offset the increase in costs associated with development of the new Monopoli production facility, which will operate in the Rail sector.

C) Net financial indebtedness

The table below shows a breakdown of "Net financial indebtedness" as at 30 September 2018 and 31 December 2017:

(Euro in thousands)	**As at 30 September 2018**	**of which with related parties and group**	**As at 31 December 2017**	**of which with related parties and group**
Cash and cash equivalents	(23,726)		(21,487)	
Current financial assets [1]	(7,332)	*(4,328)*	(12,450)	*(9,386)*
Current financial liabilities	73,437	*1,333*	79,022	*37*
Current portion of derivative financial instruments	1		85	
Current financial indebtedness [2]	**42,380**	***(2,995)***	**45,170**	***(9,349)***
Non-current financial liabilities	50,445	-	40,040	-
Non-current portion of derivative financial instruments	39		63	
Non-current financial indebtedness [2]	**50,484**	**-**	**40,103**	**-**
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	**92,864**	***(2,995)***	**85,273**	***(9,349)***

[1] Current financial assets as at 30 September 2018 and 31 December 2017 include the market value of equities that are considered as cash and cash equivalents.

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

In the first nine months of 2018, the Group’s net financial indebtedness increased by Euro 7,591 thousand compared to the figure at the end of 2017, while it decreased by Euro 658 thousand compared to the value registered in the first quarter of 2017 (in which it amounted to Euro 93,522 thousand).

The table below shows the breakdown of the following changes:

- decrease in current financial indebtedness of Euro 2,790 thousand due to the:
  - decrease in current financial liabilities of Euro 5,585 thousand, 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 3,600 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 2,879 thousand, mainly due to the repayment of the transaction described above with Simest S.p.A.;
- increase in medium/long-term financial indebtedness of Euro 10,381 thousand due to the issue of a new bond of Euro 10 million as described in paragraph *3.Significant events during the period*.

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 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, we specify that during the first nine months of 2018, no transactions took place with related parties of an atypical or unusual nature with no bearing on the company's normal operations or such as to harm the income statement, balance sheet or financial results of the Group.

For significant 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 nine months of 2018, including the employees of companies that are fully consolidated, is 866 persons compared to 769 in 2017 and 778 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 September 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

On 26 October 2018, the new production site in Monopoli (Bari) was opened, which will be the headquarters of the subsidiary Tesmec Rail S.r.l. and will have the objective of further enhancing the Group's activity in the rail business. The modern site will be active in the design, prototyping and manufacture of special railway machines, in particular, railway wagons for the installation and maintenance of the railway catenary wire system, multi-purpose unit, shunting locomotives and power units for passenger trains.

Business outlook

Based on the well balanced and geographically diversified total order backlog, revenues around Euro 200 million are expected for the 2018 year end, a recovery in the quarter of the marginality and the confirm of net financial position improvement thanks to the normalization of working capital and the improvement of the operating profitability. The recovery of margins will not be enough to cover the extra costs related to the Australian orders, which have affected the result of the third quarter, but will guarantee a performance on an annual basis in line with the closing of the previous year.

In detail, the Railway business will record a further growth thanks to new orders related to the technological solutions in the field of catenary and diagnostics; it will be supported by the new production capacity provided by the new production plant in Puglia which has now reached full operation. With reference to the Trencher segment, a strong growth across the several sectors is expected, from the mining and tunneling business, particularly in Australia and Africa, development in the fiber and renewable energy industry and the confirmation of projects in the pipeline segment, particularly in the United States. In the last quarter we expect the improvement of the Energy sector driven by the start of important international projects in the Energy Automation segment; the Stringing segment will contribute as usually to the achievement of company targets, but with an outlook focused mainly on 2019.

INTERIM REPORT ON OPERATIONS

Consolidated financial statements

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

(Euro in thousands)	Notes	30 September 2018	31 December 2017
NON-CURRENT ASSETS			
Intangible assets	6	17,022	18,340
Property, plant and equipment	7	46,986	46,102
Equity investments in associates evaluated using the equity method		3,967	3,937
Other equity investments		6	7
Financial receivables and other non-current financial assets		224	184
Derivative financial instruments	15	-	1
Deferred tax assets		11,628	10,451
Non-current trade receivables		10	161
TOTAL NON-CURRENT ASSETS		**79,843**	**79,183**
CURRENT ASSETS			
Work in progress contracts	8	8,436	6,768
Inventories	9	61,392	63,125
Trade receivables	10	59,359	39,854
of which with related parties:	10	*8,973*	*2,581*
Tax receivables		897	909
Other available-for-sale securities		2	2
Financial receivables and other current financial assets	11	7,330	12,448
of which with related parties:	11	*4,328*	*9,386*
Other current assets		12,108	9,413
Cash and cash equivalents		23,726	21,487
TOTAL CURRENT ASSETS		**173,250**	**154,006**
TOTAL ASSETS		**253,093**	**233,189**
SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS			
Share capital	12	10,708	10,708
Reserves / (deficit)	12	32,596	33,829
Group net profit / (loss)	12	(775)	(1,430)
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS		**42,529**	**43,107**
Capital and reserves / (deficit) attributable to non-controlling interests		19	1,707
Net profit / (loss) for the period attributable to non-controlling interests		18	18
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		**37**	**1,725**
TOTAL SHAREHOLDERS' EQUITY		**42,566**	**44,832**
NON–CURRENT LIABILITIES			
Medium/long-term loans	13	25,831	25,243
Bond issue	14	24,614	14,797
Derivative financial instruments	16	39	63
Employee benefit liability		3,592	3,656
Deferred tax liabilities		5,545	6,202
Provisions for risks and charges		55	24
Non-current trade payables		1	2
TOTAL NON-CURRENT LIABILITIES		**59,677**	**49,987**
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	15	73,437	79,022
of which with related parties:	15	*1,333*	*37*
Derivative financial instruments	16	1	85
Trade payables		52,861	39,479
of which with related parties:		*2,802*	*2,366*
Advances from customers		6,132	3,377
Income taxes payable		791	389
Provisions for risks and charges		3,078	3,321
Other current liabilities		14,550	12,697
TOTAL CURRENT LIABILITIES		**150,850**	**138,370**
TOTAL LIABILITIES		**210,527**	**188,357**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**253,093**	**233,189**

Consolidated income statement for the period ended 30 September 2018 and 2017

(Euro in thousands)	Notes	As at 30 September 2018	As at 30 September 2017
Revenues from sales and services	17	**140,493**	**132,131**
of which with related parties:		*15,590*	*12,915*
Cost of raw materials and consumables		(64,531)	(58,678)
of which with related parties:		*(310)*	*(1)*
Costs for services		(23,888)	(22,915)
of which with related parties:		*(326)*	*(199)*
Payroll costs		(36,365)	(33,412)
Other operating (costs)/revenues, net		(7,948)	(7,433)
of which with related parties:		*(3,733)*	*(1,573)*
Amortisation and depreciation		(10,797)	(10,463)
Development costs capitalised		4,186	3,929
Portion of losses/(gains) from the valuation of Joint Ventures using the equity method		297	(38)
Total operating costs	18	**(139,046)**	**(129,010)**
Operating income		**1,447**	**3,121**
Financial expenses		(5,054)	(8,110)
of which with related parties:		*(12)*	-
Financial income		2,194	1,644
of which with related parties:		*108*	*89*
Portion of losses/(gains) from the valuation of equity investments using the equity method		12	63
Pre-tax profit/(loss)		**(1,401)**	**(3,282)**
Income tax		644	1,467
Net profit/(loss) for the period		**(757)**	**(1,815)**
Profit/(loss) attributable to non-controlling interests		**18**	**25**
Group profit/(loss)		**(775)**	**(1,840)**
Basic and diluted earnings/(losses) per share		**(0.007)**	**(0.017)**

Consolidated statement of comprehensive income for the period ended 30 September 2018 and 2017

(Euro in thousands)	Notes	As at 30 September 2018	As at 30 September 2017
NET PROFIT/(LOSS) FOR THE PERIOD		**(775)**	**(1,840)**
Other components of comprehensive income			
Other components of comprehensive income that will be subsequently reclassified to net income/(loss) for the year:			
Exchange differences on conversion of foreign financial statements	12	1,049	(2,975)
Other components of comprehensive income that will not be subsequently reclassified to net income/(loss) for the year:			
Actuarial profit/(loss) on defined benefit plans		122	142
Income tax		(30)	(34)
	12	92	108
Total other income/(losses) after tax		**1,141**	**(2,867)**
Total comprehensive income (loss) after tax		**366**	**(4,707)**
Attributable to:			
Shareholders of Parent Company		348	(4,732)
Minority interests		18	25

Statement of consolidated cash flows for the period ended 30 September 2018 and 2017

		As at 30 September	
(Euro in thousands)	Notes	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		(757)	(1,815)
Adjustments to reconcile net income for the period with the cash flows generated by (used in) operating activities:			
Amortisation and depreciation	6-7	10,797	10,463
Provisions for employee benefit liability		170	77
Provisions for risks and charges / inventory obsolescence / doubtful accounts		679	423
Employee benefit payments		(112)	(222)
Payments of provisions for risks and charges		(249)	(116)
Net change in deferred tax assets and liabilities		(1,881)	(1,046)
Change in fair value of financial instruments	16	(107)	(193)
Change in current assets and liabilities:			
Trade receivables	10	(16,534)	2,964
of which with related parties:		*(6,354)*	*(2,197)*
Inventories	9	373	2,372
Trade payables		13,453	2,347
of which with related parties:		*437*	*174*
Other current assets and liabilities		(611)	(813)
of which with related parties:		-	*600*
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		**5,221**	**14,441**
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	7	(12,493)	(11,573)
Investments in intangible assets	6	(4,763)	(5,176)
(Investments) / disposals of financial assets		5,234	(2,497)
of which with related parties:		*5,128*	*(745)*
Proceeds from sale of property, plant and equipment and intangible assets	6-7	6,992	4,771
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		**(5,030)**	**(14,475)**
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	13-14	16,663	5,909
Repayment of medium/long-term loans	15	(12,623)	(19,065)
Net change in short-term financial debt	15	598	16,951
of which with related parties:		*1,342*	*(5)*
Changes in the consolidation area	12	(2,250)	42
Other changes	12	(391)	-
NET CASH FLOW GENERATED BY/ (USED IN) FINANCING ACTIVITIES (C)		**1,997**	**3,837**
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		**2,188**	**3,803**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		51	(310)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)		21,487	18,501
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		**23,726**	**21,994**
Additional information:			
Interest paid		3,509	4,221
Income tax paid		133	-

Statement of changes in consolidated shareholders' equity for the period ended 30 September 2018 and 2017

(Euro in thousands)	Share capital	Legal reserve	Share premium reserve	Reserve of treasury shares	Translation reserve	Other reserves	Net profit/(loss) for the period	Total shareholders' equity attributable to parent company shareholders	Total shareholders' equity attributable to non-controlling interests	Total shareholders' equity
Balance as at 1 January 2018	**10,708**	**2,141**	**10,915**	**(2,341)**	**3,185**	**19,929**	**(1,430)**	**43,107**	**1,725**	**44,832**
Net profit/(loss) for the period	-	-	-	-	-	-	(775)	(775)	18	(757)
First-time adoption of IFRS 9	-	-	-	-	-	(391)	-	(391)		(391)
Other profits/(losses)	-	-	-	-	1,049	92	-	1,141	(9)	1,132
Total comprehensive income/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**368**	**9**	**(16)**
Allocation of profit from the previous year	-	-	-	-	-	(1,430)	1,430	-	-	-
Change in the consolidation area	-	-	-	-	-	(553)	-	(553)	(1,697)	(2,250)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Balance as at 30 September 2018	**10,708**	**2,141**	**10,915**	**(2,341)**	**4,234**	**17,647**	**(775)**	**42,529**	**37**	**42,566**

(Euro in thousands)	Share capital	Legal reserve	Share premium reserve	Reserve of treasury shares	Translation reserve	Other reserves	Net profit/(loss) for the period	Total shareholders' equity attributable to parent company shareholders	Total shareholders' equity attributable to non-controlling interests	Total shareholders' equity
Balance as at 1 January 2017	**10,708**	**2,141**	**10,915**	**(2,341)**	**6,560**	**24,182**	**(3,944)**	**48,221**	**1,699**	**49,920**
Net profit/(loss) for the period	-	-	-	-	-	-	(1,840)	(1,840)	25	(1,815)
Other profits/(losses)	-	-	-	-	(2,975)	108	-	(2,867)	(4)	(2,871)
Total comprehensive income/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,707)**	**21**	**(4,686)**
Dividend distribution	-	-	-	-	-	(3,944)	3,944	-	-	-
Change in the consolidation area	-	-	-	-	-	(45)	-	(45)	3	(42)
Purchase of treasury shares			-	-	-	-	-	-	-	-
Balance as at 30 September 2017	**10,708**	**2,141**	**10,915**	**(2,341)**	**3,585**	**20,301**	**(1,840)**	**43,469**	**1,723**	**45,192**

Explanatory notes

Accounting policies adopted in preparing the consolidated financial statements as at 30 September 2018

1. Company information

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

2. Reporting standards

The interim consolidated report on operations as at 30 September 2018 was prepared in condensed form in accordance with International Financial Reporting Standards (IFRS), by using the methods for preparing interim financial reports provided by IAS 34 Interim financial reporting.

The accounting standards adopted in preparing the interim consolidated report on operations as at 30 September 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 interim condensed consolidated report on operations does not disclose all the information required in preparing the consolidated annual financial statements, it must be read together with the consolidated financial statements as at 31 December 2017.

The interim consolidated report on operations as at 30 September 2018 comprises 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 nine months of 2017 for the consolidated income statement, comprehensive income statement, statement of changes in shareholders' equity and statement of cash flows).

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

Disclosure of the interim consolidated report on operations of the Tesmec Group for the period ended 30 September 2018 was authorised by the Board of Directors on 31 October 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 period ended 30 September		End-of-period exchange rate as at 30 September	
	2018	2017	2018	2017
US Dollar	1.199	1.103	1.158	1.181
Bulgarian Lev	1.956	1.956	1.956	1.956
Russian Rouble	72.743	64.434	76.142	68.252
South African Rand	15.160	14.578	16.445	15.944
Renminbi	7.752	7.540	7.966	7.853
Qatari Riyal	4.363	4.016	4.214	4.297
Algerian Dinar	138.567	120.678	136.778	133.478
Tunisian Dinar	3.018	2.627	3.246	2.917
Australian Dollar	1.571	1.448	1.605	1.508
New Zealand Dollar	1.700	1.545	1.751	1.635
CFA Franc	655.957	655.957	655.957	655.957

3. Consolidation methods and area

As at 30 September 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 that 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 amortised 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 recognised 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 actualised 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 actualised 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 amortised 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 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 391 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 first-time adoption of the new standard are recognised 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 segment 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.

In the Trencher segment, the Group also considered the effects of the recognition of revenues from completed machinery not yet shipped to the customer (known as bill and hold) in view of the transaction price to be assigned to the specific Performance Obligation represented by the custody service: this service however is not relevant given the short time period in which it occurs.

Service contracts in Trencher segment 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. The Group has always adopted a separate accounting for the services in question, 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 rail segment concern the supply of customised 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.
This amendment is 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. This amendment is 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. This amendment is not relevant to the Group.

- **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 amendment is not relevant to the Group.

- **IFRS 16 Leases**

  IFRS 16 was published in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving 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 performance 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 2,250 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 number 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;

- 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 be exercised 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;

- 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.

- starting from 3 August 2018, Marco Paredi will act as Investor Relations Manager of the Company;

- 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 September 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 ended 30 June 2018 are shown in the table below:

(Euro in thousands)	01/01/2018	Increases due to purchases	Decreases	Amortisation	Exchange rate differences	30/09/2018
Development costs	14,299	4,308	-	(5,124)	47	13,530
Rights and trademarks	3,299	255	(56)	(893)	(1)	2,604
Assets in progress and advance payments to suppliers	742	200	(54)	-	-	888
Total intangible assets	**18,340**	**4,763**	**(110)**	**(6,017)**	**46**	**17,022**

As at 30 September 2018, *intangible assets* totalled Euro 17,022 thousand, down Euro 1,318 thousand on the previous year due to:

- *development costs* capitalised in the first nine months of 2018 of Euro 4,308 thousand, fully offset by amortisation for the period (Euro 5,124 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 ended 30 June 2018 are shown in the table below:

(Euro in thousands)	01/01/2018	Increases due to purchases	Decreases	Reclassifications	Depreciation	Exchange rate differences	30/09/2018
Land	2,977	-	-	-	(3)	7	2,981
Buildings	10,742	34	-	4,197	(337)	180	14,816
Plant and machinery	3,601	1,061	(2)	-	(750)	36	3,946
Equipment	1,658	493	(215)	3	(279)	1	1,661
Other assets	26,498	6,674	(6,665)	-	(3,411)	(171)	22,925
Assets in progress and advance payments to suppliers	626	4,231	-	(4,200)	-	-	657
Total property, plant and equipment	**46,102**	**12,493**	**(6,882)**	**-**	**(4,780)**	**53**	**46,986**

As at 30 September 2018, property, plant and equipment totalled Euro 46,986 thousand, up compared to the previous year by Euro 884 thousand.
The change is due to the increase in costs related to the development of the new Monopoli production facility, which will operate in the Rail segment. These costs, previously recorded as assets in progress, were subsequently reclassified as Buildings in that the production site was completed in September.

8. Work in progress contracts

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

(Euro in thousands)	30 September 2018	31 December 2017
Work in progress (Gross)	11,597	8,128
Advances from contractors	(3,161)	(1,360)
Work in progress contracts	**8,436**	**6,768**
Advances from contractors (Gross)	-	-
Work in progress (Gross)	-	-
Advances from contractors	**-**	**-**

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

9.Inventories

The following table provides a breakdown of Inventories as at 30 September 2018 compared to 31 December 2017:

(Euro in thousands)	30 September 2018	31 December 2017
Raw materials and consumables	38,677	36,220
Work in progress	13,663	12,919
Finished products and goods for resale	8,283	13,773
Advances to suppliers for assets	769	213
Total inventories	**61,392**	**63,125**

Inventories as at 30 December 2018 decreased by Euro 1,733 thousand compared to 31 December 2017 thanks to the sales reported in the first nine months of 2018.

10.Trade receivables

The following table provides a breakdown of Trade receivables as at 30 September 2018 and as at 31 December 2017:

(Euro in thousands)	30 September 2018	31 December 2017
Trade receivables from third-party customers	50,386	37,273
Trade receivables from associates, related parties and joint ventures	8,973	2,581
Total trade receivables	**59,359**	**39,854**

The increase in *trade receivables* (+48.9%) reflects the seasonal nature of the sales carried out in the last part of the period. 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 515 thousand.

The balance of trade receivables due from related parties increased by Euro 6,392 thousand mainly due to higher sales in the period.

11. Financial receivables and other current financial assets

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

(Euro in thousands)	30 September 2018	31 December 2017
Financial receivables from associates, related parties and joint ventures	4,328	9,386
Financial receivables from third parties	2,963	3,026
Other current financial assets	39	36
Total financial receivables and other current financial assets	**7,330**	**12,448**

The decrease in *current financial assets* from Euro 12,448 thousand to Euro 7,330 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 September 2018 and as at 31 December 2017:

(Euro in thousands)	30 September 2018	31 December 2017
Revaluation reserve	86	86
Extraordinary reserve	28,935	26,942
Change in the consolidation area	(553)	(225)
Severance indemnity valuation reserve	(471)	(563)
Network reserve	824	824
First-time adoption of IFRS 9	(391)	-
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)
Total other reserves	**17,647**	**19,929**

The *Revaluation reserve* is a reserve in respect of which tax has been deferred, 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 2,250 thousand and generated a loss of Euro 553 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-time 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 1,049 thousand as at 30 September 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 nine months of 2018, medium/long-term loans increased from Euro 25,243 thousand to Euro 25,831 thousand mainly due to the stipulation of new medium/long-term loans offset by reclassification in current financial indebtedness of the short-term portion of medium/long-term loans.

14.Bond issue

On 27 July 2018, a new bond issue was placed with professional investors in the amount of Euro 10 million. The 4.75% fixed rate bond issue 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 be exercised by 31 December 2018 - to increase the nominal value of the bond issue up to a maximum of Euro 15 million.

15. Interest-bearing financial payables (current portion)

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

(Euro in thousands)	**30 September 2018**	**31 December 2017**
Advances from banks against invoices and bills receivables	41,915	36,010
Other financial payables (short-term leases)	1,263	1,187
Payables due to factoring companies	6,497	3,886
Current account overdrafts	5,294	4,112
Short-term loans to third parties	329	3,289
Current portion of medium/long-term loans	16,557	22,997
Other short-term financial payables	1,582	135
Total interest-bearing financial payables (current portion)	**73,437**	**79,022**

The decrease in *current portion of medium/long-term loans* is due to the (i) greater advances on exports for Euro 5,905 thousand compensated from (ii) Euro 6,440 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).

16. Disclosure of derivative financial instruments

The following table shows a summary of the financial instruments, other than cash and cash equivalents, owned by the Group as at 30 September 2018:

(Euro in thousands)	Loans and receivables/financial liabilities measured at amortised cost	Guarantee deposits	Cash and cash equivalents	Available-for-sale financial assets	Fair value recognised in the income statement
Financial assets:					
Guarantee deposits	-	224	-	-	-
Trade receivables	10	-	-	-	-
Derivative financial instruments	-	-	-	-	-
Total non-current	**10**	**224**	**-**	**-**	**-**
Trade receivables	59,359	-	-	-	-
Financial receivables from related parties	4,328	-	-	-	-
Financial receivables from third parties	3,002	-	-	-	-
Other available-for-sale securities	-	-	-	2	-
Cash and cash equivalents	-	-	23,726	-	-
Total current	**66,689**	**-**	**23,726**	**2**	**-**
Total	**66,699**	**224**	**23,726**	**2**	**-**
Financial liabilities:					
Loans	24,611	-	-	-	-
Bond issue	24,614	-	-	-	-
Non-current portion of finance leases, net	1,220	-	-	-	-
Derivative financial instruments	-	-	-	-	39
Trade payables	1	-	-	-	-
Total non-current	**50,446**	**-**	**-**	**-**	**39**
Loans	16,557	-	-	-	-
Other financial payables (short-term leases)	1,263	-	-	-	-
Other short-term payables	55,617	-	-	-	-
Derivative financial instruments	-	-	-	-	1
Trade payables	52,861	-	-	-	-
Total current	**126,298**	**-**	**-**	**-**	**1**
Total	**176,744**	**-**	**-**	**-**	**40**

Management and types of risk

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

Interest rate risk

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

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

As at 30 September 2018, there were four 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 6.7 million, with a negative equivalent value of Euro 18 thousand. Moreover, there were four interest rate cap positions; the notional value of these positions was equal to Euro 6.2 million, with a negative equivalent value of Euro 22 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 September 2018, there were no forward contracts.

Credit risk

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

- medium/long-term loans 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. Existing loan contracts 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 September 2018, divided into the three levels defined above:

(Euro in thousands)	**Book value as at 30 September 2018**	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Derivative financial instruments	-	-	-	-
Total non-current	**-**	**-**	**-**	**-**
Other available-for-sale securities	2	-	-	2
Total current	**2**	**-**	**-**	**2**
Total	**2**	**-**	**-**	**2**
Financial liabilities:				
Derivative financial instruments	39	-	39	-
Total non-current	**39**	**-**	**39**	**-**

Derivative financial instruments	1	-	1	-
Total current	**1**	**-**	**1**	**-**
Total	**40**	**-**	**40**	**-**

17. Revenues from sales and services

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

	As at 30 September	
(Euro in thousands)	**2018**	**2017**
Sales of products	105,397	95,409
Services rendered	31,772	30,474
	137,169	**125,883**
Changes in work in progress	3,324	6,248
Total revenues from sales and services	**140,493**	**132,131**

In the first nine months of 2018, the Group consolidated revenues of Euro 140,493, marking an increase of Euro 8,362 thousand compared to 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 +43.9% was recorded for the Rail segment, +23.8% for the Trencher segment, and a decrease of -32.6% for the Energy segment.

For Energy segment, the revenues were Euro 30,200 thousand as at 30 September 2018 in respect to Euro 44,836 thousand as at 30 September 2017, that however benefitted from an important order for the supply of stringing equipment for the Indonesian market, completed at the end of 2016, which had an impact on revenues mainly on the first quarter of 2017.

The considerable increase in revenues in the Trencher segment was balanced across the Group's various segments of reference; particular importance should be given to the performance of the American market, which generated sales of USD 14 million only in the third quarter.

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

18. Operating costs

The item *operating costs* amounted to Euro 139,046 thousand, an increase of 7.8% compared to the previous year, a more than proportional increase with respect to the performance in revenues.

19. 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.

	As at 30 September							
	2018				2017			
(Euro in thousands)	**Stringing equipment**	**Trencher**	**Rail**	**Consolidated**	**Stringing equipment**	**Trencher**	**Rail**	**Consolidated**
Revenues from sales and services	30,200	94,157	16,136	140,493	44,836	76,083	11,212	132,131
Operating costs net of depreciation and amortisation	(27,926)	(86,464)	(13,859)	(128,249)	(37,531)	(71,268)	(9,747)	(118,546)
EBITDA	**2,274**	**7,693**	**2,277**	**12,244**	**7,305**	**4,815**	**1,465**	**13,585**
Amortisation and depreciation	(3,319)	(5,708)	(1,770)	(10,797)	(3,095)	(5,693)	(1,676)	(10,464)
Total operating costs	**(31,245)**	**(92,172)**	**(15,629)**	**(139,046)**	**(40,626)**	**(76,961)**	**(11,423)**	**(129,010)**
Operating income	**(1,045)**	**1,985**	**507**	**1,447**	**4,210**	**(878)**	**(211)**	**3,121**
Net financial income/(expenses)				(2,848)				(6,403)
Pre-tax profits				**(1,401)**				**(3,282)**
Income tax				644				1,467
Net profit/(loss) for the period				**(757)**				**(1,815)**
Profit/(loss) attributable to non-controlling interests				18				25
Group profit/(loss)				**(775)**				**(1,840)**

(*) 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 September 2018 and as at 31 December 2017:

	As at 30 September 2018					As at 31 December 2017				
(Euro in thousands)	Energy	Trencher	Rail	Not allocated	Consolidated	Energy	Trencher	Rail	Not allocated	Consolidated
Intangible assets	8,961	4,315	3,746	-	17,022	9,741	4,280	4,319	-	18,340
Property, plant and equipment	1,864	38,495	6,627	-	46,986	1,905	42,595	1,602	-	46,102
Financial assets	489	3,695	-	13	4,197	3,330	767	12	20	4,129
Other non-current assets	1,269	4,206	89	6,074	11,638	1,743	2,857	97	5,915	10,612
Total non-current assets	**12,583**	**50,711**	**10,462**	**6,087**	**79,843**	**16,719**	**50,499**	**6,030**	**5,935**	**79,183**
Work in progress contracts	-	-	8,436	-	8,436	-	-	6,768	-	6,768
Inventories	17,578	23,838	19,976	-	61,392	16,170	45,632	1,323	-	63,125
Trade receivables	8,289	45,958	5,112	-	59,359	6,889	31,508	1,457	-	39,854
Other current assets	1,879	4,210	4,460	9,788	20,337	1,686	2,211	2,779	16,096	22,772
Cash and cash equivalents	1,092	1,966	8,713	11,955	23,726	1,474	1,000	4,942	14,071	21,487
Total current assets	**28,838**	**75,972**	**46,697**	**21,743**	**173,250**	**26,219**	**80,351**	**17,269**	**30,167**	**154,006**
Total assets	**41,421**	**126,683**	**57,159**	**27,830**	**253,093**	**42,938**	**130,850**	**23,299**	**36,102**	**233,189**
Shareholders' equity attributable to parent company shareholders	-	-	-	**42,529**	**42,529**	-	-	-	**43,107**	**43,107**
Shareholders' equity attributable to non-controlling interests	-	-	-	**37**	**37**	-	-	-	**1,725**	**1,725**
Non-current liabilities	**1,122**	**5,842**	**3,390**	**49,323**	**59,677**	**1,100**	**7,832**	**1,266**	**39,789**	**49,987**
Current financial liabilities	1,022	10,700	3,484	58,232	73,438	542	7,220	2,782	68,563	79,107
Trade payables	8,796	33,796	10,269	-	52,861	9,178	25,763	4,538	-	39,479
Other current liabilities	1,478	8,927	5,902	8,244	24,551	1,127	6,793	1,420	10,444	19,784
Total current liabilities	**11,296**	**53,423**	**19,655**	**66,476**	**150,850**	**10,847**	**39,776**	**8,740**	**79,007**	**138,370**
Total liabilities	**12,418**	**59,265**	**23,045**	**115,799**	**210,527**	**11,947**	**47,608**	**10,006**	**118,796**	**188,357**
Total shareholders' equity and liabilities	**12,418**	**59,265**	**23,045**	**158,365**	**253,093**	**11,947**	**47,608**	**10,006**	**163,628**	**233,189**

20. Related party transactions

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

	As at 30 September 2018					As at 30 September 2017				
(Euro in thousands)	Revenues	Cost of raw materials	Costs for services	Other operating costs/revenues, net	Financial income and expenses	Revenues	Cost of raw materials	Costs for services	Other operating costs/revenues, net	Financial income and expenses
Associates:										
Locavert S.A.	131	-	-	-	-	778	-	-	-	-
SEP Semofor 77	-	-	-	-	-	-	-	-	-	-
Subtotal	**131**	**-**	**-**	**-**	**-**	**778**	**-**	**-**	**-**	**-**
Joint Ventures:										
Condux Tesmec Inc.	3,179	-	(9)	125	2	1,945	-	-	133	4
Tesmec Peninsula	87	(310)	(35)	-	38	-	-	(22)	53	85
Subtotal	**3,266**	**(310)**	**(44)**	**125**	**40**	**1,945**	**-**	**(22)**	**186**	**89**
Related parties:										
Ambrosio S.r.l.	-	-	-	(11)	-	-	-	-	(11)	-

TTC S.r.l.	-	-	(53)	-	-	-	-	(21)	-	-
CBF S.r.l.	-	-	-	-	-	-	-	-	-	-
Ceresio Tours S.r.l.	-	-	(5)	-	-	-	-	(5)	-	-
Dream Immobiliare S.r.l.	-	-	-	(1,727)	-	-	-	-	(1,684)	-
CONAI	-	-	-	-	-	-	-	-	-	-
FI.IND. S.p.A.	-	-	-	28	-	-	-	-	60	-
Lame Nautica S.r.l.	-	-	-	-	-	11	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	4,707	-	6	(1,824)	36	5,715	(1)	34	(124)	-
MTS4SERVICE USA LLC	7,337	-	-	(324)	20	4,359	-	-	-	-
Fintetis SARL	-	-	-	-	-	-	-	-	-	-
C2D	-	-	(230)	-	-	1	-	(185)	-	-
Comatel	149	-	-	-	-	106	-	-	-	-
Subtotal	**12,193**	**-**	**(282)**	**(3,858)**	**56**	**10,192**	**(1)**	**(177)**	**(1,759)**	**-**
Total	**15,590**	**(310)**	**(326)**	**(3,733)**	**96**	**12,915**	**(1)**	**(199)**	**(1,573)**	**89**

	30 September 2018				**31 December 2017**			
(Euro in thousands)	**Trade receivables**	**Current financial receivables**	**Current financial payables**	**Trade payables**	**Trade receivables**	**Current financial receivables**	**Current financial payables**	**Trade payables**
Associates:								
Locavert S.A.	339	-	-	-	95	-	-	-
R&E Contracting	-	165	-	-	-	-	-	-
Subtotal	**339**	**165**	**-**	**-**	**95**	**-**	**-**	**-**
Joint Ventures:								
Condux Tesmec Inc.	1,024	411	-	-	1,046	-	-	-
Tesmec Peninsula	59	2,000	1,333	-	17	1,930	37	979
Marais Tunisie	-	2	-	-	-	2	-	-
Marais Lucas	-	794	-	-	-	794	-	-
Subtotal	**1,083**	**3,207**	**1,333**	-	**1,063**	**2,726**	**37**	**979**
Related parties:								
Ambrosio S.r.l.	-	-	-	4	-	-	-	-
TTC S.r.l.	-	-	-	90	-	-	-	26
Ceresio Tours S.r.l.	-	-	-	1	-	-	-	-
Dream Immobiliare S.r.l.		759	-	453	-	1,162	-	-
Fi.ind.	-	-	-	-	27	-	-	-
M.T.S. Officine meccaniche S.p.A.	1,923	197	-	1,848	1,373	2,911	-	1,199
MTS4SERVICE USA LLC	5,447	-	-	336	10	1,387	-	119
Comatel	64	-	-	-	9	-	-	-
C2D	117	-	-	70	4	1,200	-	43
Subtotal	**7,551**	**956**	**-**	**2,802**	**1,423**	**6,660**	**-**	**1,387**
Total	**8,973**	**4,328**	**1,333**	**2,802**	**2,581**	**9,386**	**37**	**2,366**

21. Significant events occurring after the close of the financial period

Events occurring after the close of the financial period included:

On 26 October 2018, the new production site in Monopoli (Bari) was opened, which will be the headquarters of the subsidiary Tesmec Rail S.r.l. and will have the objective of further enhancing the Group's activity in the rail business. The modern site will be active in the design, prototyping and manufacture of special railway machines, in particular, railway wagons for the installation and maintenance of the railway catenary wire system, multi-purpose unit, shunting locomotives and power units for passenger trains.

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 September 2018.

2. We also certify that:

2.1 The Condensed Consolidated Financial Statements as at 30 September 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 nine months of the year and their impact on the condensed interim consolidated financial statements, together with a description of the main risks and uncertainties for the three remaining months of the financial period. The interim report on operations also includes a reliable analysis of information on significant transactions with related parties.

Grassobbio, 31 October 2018

Ambrogio Caccia Dominioni	Gianluca Casiraghi
Chief Executive Officer	Manager responsible for preparing the Company’s financial statements

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