TESMEC

Annual Financial Report 2018

Investor Relator
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Tesmec S.p.A.
Registered office: Piazza Sant’Ambrogio, 16 – 20123 Milan
Fully paid up share capital as at 31 December 2018: Euro 10,708,400
Milan Register of Companies no. 314026
Tax and VAT code: 10227100152

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NOTICE OF CALL

TESMEC S.P.A.

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CALL OF THE ORDINARY SHAREHOLDERS' MEETING

The shareholders are convened to the ordinary meeting at ("**Tesmec** S.p.A. ("Tesmec" or "**Company**") in Grassobbio (BG), Via Zanica 17/O, 24050, on 16 April 2019 at 2:30 p.m. in single call to discuss and deliberate on the following:

AGENDA

1. **Presentation of the Tesmec Group's consolidated financial statements and review and approval of the financial statements as at 31 December 2018 and relevant reports, including the Consolidated Disclosure of non-financial information; allocation of result for the period; related and consequent resolutions;**
2. **Consultation on the first section of report on remuneration pursuant to Article 123-ter paragraph 6 of Italian Legislative Decree no. 58/1998.**
3. **Proposal of authorisation to purchase and dispose of treasury shares, subject to the withdrawal of the resolution passed by the Shareholder's Meeting of 6 April 2018; related and consequent resolutions;**
4. **Appointment of the Board of Directors:**
   4.1 determination of the number of members of the Board of Directors;
   4.2 determination of the term of office;
   4.3 appointment of the Board of Directors;
   4.4 appointment of the Chairman of the Board of Directors;
   4.5 determination of the remuneration of the directors;
   4.6 related and consequent resolutions.
5. **Appointment of the Board of Statutory Auditors:**
   5.1 appointment of the Board of Statutory Auditors;
   5.2 appointment of the Chairman of the Board of Statutory Auditors;
   5.3 determination of the remuneration of the Board of Statutory Auditors;
   5.4 related and consequent resolutions.
6. **Assignment of the task of external audit for the 2019-2027 financial periods and determination of the related fees; related and consequent resolutions; related and consequent resolutions.**

Attending the Shareholders' Meeting

Pursuant to the law, those who have the right to vote may attend the Shareholder's Meeting. The right to attend and vote in the Shareholders' Meeting is certified by a notification to the Company, made by the intermediary, in favour of the person who has the right to vote, on the basis of evidences existing at the end of the accounting day of the seventh day of open market before the date scheduled for the Shareholders' Meeting in single call ("record date"), coincident with 5 April 2019. Therefore, those who will be the holders of the shares only after the record date mentioned above will be not entitled to attend and vote at the Shareholders' Meeting. The notification of the above intermediary must reach the Company by the end of the third open market day prior to the date set for the Shareholders' Meeting (i.e. 11 April 2019). The right to attend and vote in any event is unaffected if the notification is received by the Company after the said deadline provided that it is received by the start of the meeting works of this call.

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

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

The Company, pursuant to Article 135-*undecies* of Italian Legislative Decree no. 58/1998 ("TUF"), appointed Ms. Lucia Caccia Dominioni as the representative to whom holders of voting rights may grant a written proxy, free of charge for them and accompanied with voting instructions for all or part of the draft resolutions on the agenda, provided that she receives it no later than the end of the second day of open market before the date scheduled for the Shareholders' meeting in single call (i.e. not later than 12 April 2019), in accordance with the modalities specified and by means of the specific proxy form, with relevant voting instructions, available on the website of the Company www.tesmec.com and at the administrative office of the Company. The proxy thereby granted is effective only for those draft resolutions in relation to which voting instructions are given. The proxy and voting instructions can be withdrawn within the same deadline specified above (i.e. not later than 12 April 2019). There are no procedures for postal votes or by electronic means.

Right to ask questions
Pursuant to Article 127-*ter* of the Consolidated Law on Finance (TUF), those who have the right to vote are allowed to ask questions on the points on the agenda even before the meeting, by sending such questions, accompanied by the certification released by the intermediary proving their capacity as shareholders, by registered mail to the registered office or by e-mail to tesmecspa@pec.it. Questions received before the Shareholder's Meeting are answered at the latest during the meeting. The Company can provide a unified response to questions with the same content.
In order to facilitate the proper course of the Shareholder' Meeting and its preparation, the Shareholders are invited to submit the questions not later than the third day before the date scheduled for the Shareholders' meeting in single call (i.e. not later than 13 April 2019).

Additions to the agenda and submission of new draft resolutions
Pursuant to Article 126-*bis* of the Consolidated Law on Finance (TUF), the shareholders who, individually or jointly, represent at least one fortieth of the share capital with voting rights can request, within ten days from the publication of this notice (i.e. not later than 16 March 2019), additions to the agenda or submit new draft resolutions, specifying in the request the further arguments or the new draft resolutions proposed on points already on the agenda. The request must be submitted in writing by the proposing shareholders by registered mail to the registered office of the Company for the attention of the President or by e-mail to the address tesmecspa@pec.it, accompanied by the relevant certification released by the intermediary proving the ownership of the above mentioned fraction of share capital. Within the above-mentioned term and through the same modalities, any proposing shareholder must deliver to the Board of Directors a report on the points they propose to treat or the reasons underlying the further draft resolutions submitted on points already on the agenda. No addition to the agenda is allowed for those arguments on which the Shareholders' Meeting deliberates, in accordance with the law, upon proposals made by the directors or on the basis of a project or report prepared by them, other than those indicated under Article 125-ter, paragraph 1, of the Consolidated Law on Finance (TUF).

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

Presentation of lists for the appointment of the Boards of Directors and Statutory Auditors
The members of the Board of Directors and the Board of Statutory Auditors are appointed on the basis of lists presented by the Shareholders pursuant to the provisions, respectively, of Articles 14 and 22 of the Articles of Association (to which full reference is made). is made). is m is made). The Shareholders who, when the list is presented, own shares, on their own or together with others, with voting rights representing at least 4.5% of the subscribed and paid-up share capital in the Ordinary Shareholders' Meeting for the appointment of corporate officers, are entitled to present a list. Each Shareholder cannot present (either individually or jointly) or vote more than one list, albeit by proxy or through a trust. Each candidate can come up in one list under penalty of ineligibility.

The lists must be filed at the registered office, or sent to the Company by email to tesmecspa@pec.it (for the attention of Marco Paredi), at least 25 (twenty five) days before the date set for the Shareholders' Meeting i.e. no later than 22 March 2019. For a detailed explanation of the procedures and deadlines for presenting the lists, please refer to Articles 14 and 22 of the Articles of Association.

Lists will be made available to the public on the website www.tesmec.com section "Shareholders' Meetings", as well as in accordance with the modalities provided by law, by the Company without delay and any way at least 21 (twenty-one) days before the date set for the Shareholders' Meeting, i.e. 26 March 2019. With a special attention to the appointment of the Board of Statutory Auditors, note that, in the event in which, on 22 March 2019, only one list has been filed, or only lists presented by as many shareholders as those who - in accordance with the information provided and with the documents filed in compliance with the above - are related to one another pursuant to Article 144-*quinquies* of the Issuers' Regulation, the Company will give notice of it without delay and the shareholders may present lists of candidates for the appointment as auditor until the third day following that date, that is to say no later than 25 March 2019. In this case: (i) the minimum shareholding percentage required for presenting the lists will be 2.25% of the subscribed and paid-up share capital in the Ordinary Shareholders' Meeting for the appointment of corporate officers; (ii) the documents certifying the ownership of this shareholding when presenting the list must be filed no later than 26 March 2019 as provided by Article 22 of the Articles of Association.

Articles 14 and 22 of the Articles of Association specify that the Board of Directors and the Board of Statutory Auditors must be renewed in compliance with the regulations on gender balance set forth in Italian Law no. 120 of 12 July 2011 and with the applicable laws and regulations. Since this is the third application of the said provision, in accordance with this provision and Article 148, paragraph 1-*bis* of the Consolidated Law on Finance (TUF), a share of at least one-third of the Directors and Auditors elected is reserved to the less represented gender. Therefore, i) pursuant to Article 14 of the Articles of Association, the Shareholders who intend to present a list for the renewal of the Board of Directors containing a number of candidates equal to or greater than three are required to include a number of candidates belonging to the less represented gender equal to at least one-third of the candidates (rounding up, if necessary, to the higher integer); and ii) pursuant to Article 22 of the Articles of Association, the Shareholders who intend to present a list for the renewal of the Board of Statutory Auditors containing a number of candidates equal to or greater than three are required to include in the section of Standing Auditors a number of candidates belonging to the less represented gender equal to at least one-third of the candidates (rounding up, if necessary, to the higher integer), as well as one for each gender, should the section of alternate auditors contain two candidates.

For all matters not expressly indicated in this notice of call, refer to the Reports of the Board of Directors on the items on the agenda of the Shareholders' Meeting available in the appropriate section of the website www.tesmec.it (Section "Shareholders' Meetings").

The lists for which all the above provisions will not be observed will be considered as not presented. The Shareholders who intend to present a list can contact previously the Investor Relator of Tesmec, Marco Paredi, to acquire the required operating details.

Documents

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

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

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

Grassobbio, 6 March 2019

Tesmec S.p.A.

COMPOSITION OF THE CORPORATE BODIES

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

Chairman and Chief Executive Officer Ambrogio Caccia Dominioni

Vice Chairman Gianluca Bolelli

Directors Sergio Arnoldi (*)

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)

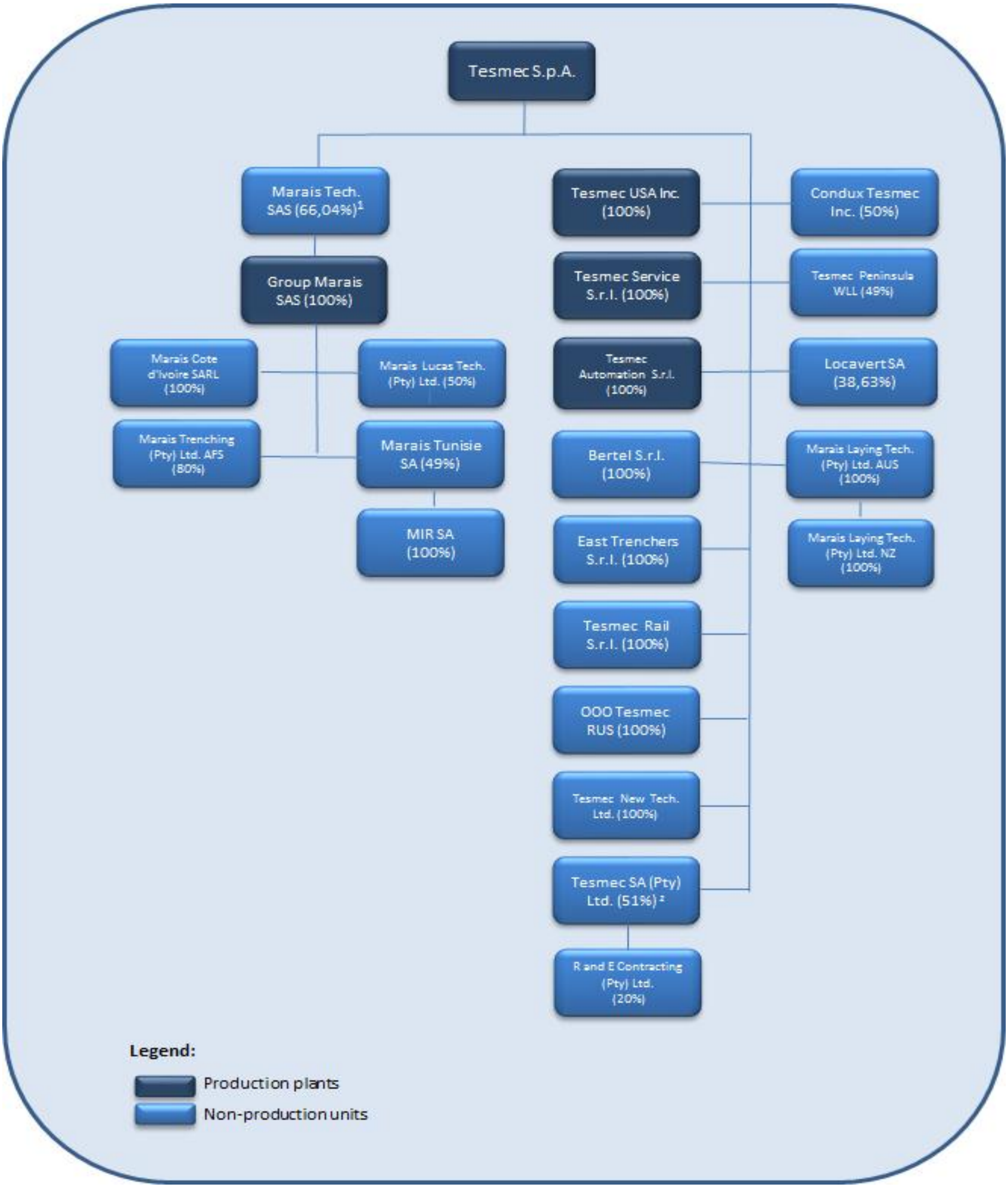
Chairman	Sergio Arnoldi
Members	Gioacchino Attanzio Gianluca Bolelli

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 it back from Simest S.p.A., for accounting purposes the shareholding of the Parent Company in Marais Technologies SAS is fully consolidated on a 100% basis.

(2) The remaining 49% 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 subsidiary Tesmec SA is consolidated on an 100% basis.

REPORT ON OPERATIONS

1. Introduction

The Tesmec S.p.A. Parent Company (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. 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 (Rock Hawg);
- 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.

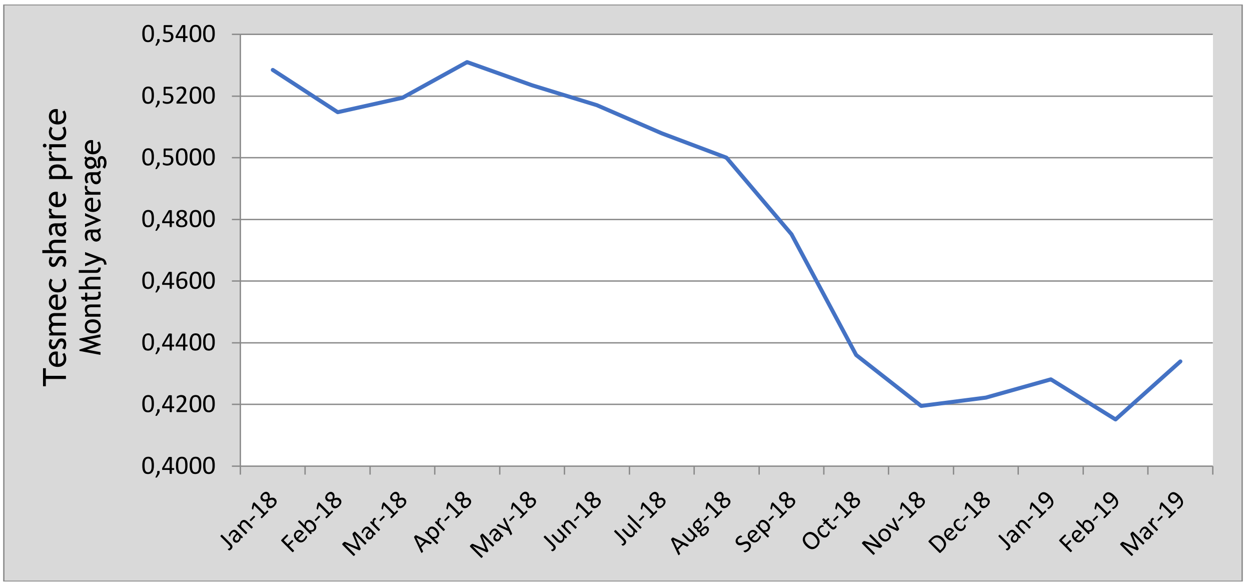
Rail segment

- 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. Tesmec on the Stock Exchange Market

As at 31 December 2018, the reference price of the Tesmec share was equal to Euro 0.4160 per share while at the date of this report it was equal to Euro 0.4380 per share. Market capitalisation as at 31 December 2018 amounted to Euro 44.5 million (around Euro 46.9 million at the date of this report). The following chart shows the listing price trend of the shares of the Parent Company from 1 January 2018 to March 2019:



Reference price as at 31 December 2018	0,4160
Reference price as at 5 March 2019	0,4380
Maximum price (18 January 2018) (1)	0,5700
Minimum price (31 October 2018) (1)	0,3810

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

3. Significant events occurred in the period and change in the corporate structure

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, previously 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. Daniel Rivard resigned from office in December 2018;

- 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 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 Consolidated Law on Finance (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. concerning 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;

- 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;

- 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. The merger between Tesmec Rail S.r.l. and Tesmec Service S.r.l. is planned for 2019 in order to fully exploit the potential of the new factory. During the 2018 financial period, a non-repayable subsidy of Euro 5,689 thousand was granted by the Apulia region.

- on 28 November 2018, a capital increase of Tesmec SA (Pty) Ltd. was subscribed and approved for Euro 6,000 thousand. This increase was subscribed for approximately Euro 2,940 thousand by Simest S.p.A. (Società Italiana per le Imprese all'Estero) and for the remainder of approximately Euro 3,060 thousand by Tesmec S.p.A.. As a result of this operation, Simest holds 49% of the share capital of Tesmec SA (Pty) Ltd. starting 28 November 2018. The contract signed with Simest includes an option by Tesmec S.p.A. to buyback the shareholding held by Simest by 30 June 2026; by virtue of this obligation, the shareholding recorded in the financial statements amounted to Euro 6,296 thousand, while the amount paid by Simest S.p.A. is recorded as a financial payable;

- on 3 May 2018, a capital increase of Marais Laying Tech. (Pty) Ltd. Australie totalling Euro 4,000 thousand was approved. This operation involves a payment of 49% by Simest S.p.A. (approved on 15 March 2018 and in the process of being paid up) and 51% by Tesmec S.p.A.. The agreement also envisages the commitment of Tesmec S.p.A. to purchase the share subscribed by Simest S.p.A. and the related obligation to sell Simest S.p.A. as at 30 June 2026. As at 31 December 2018, the portion of Tesmec S.p.A. and consequently the companies Marais Laying Tech. (Pty) Ltd. Australie and its subsidiary Marais Laying Tech. (Pty) Ltd. New Zeland are controlled by Tesmec S.p.A. instead of Group Marais SAS;

- it is confirmed that as at the date of this Report, only one financial covenant relating to the Net Financial Position/EBITDA ratio had not been complied with. However, this non-compliance only led to the short-term recognition of the residual medium/long-term portion of the loan outstanding with Istituto Bancario Cariparma, of Euro 444 thousand, for which the waiver is in the process of being released, and the provisional step-up of the interest rate of the "Minibond 2018-2024", issued for an amount of Euro 10 million.

4. Overview of the financial results

The consolidated financial statements of Tesmec have been prepared in accordance with International Financial Reporting Standards (hereinafter the "IFRS" or the "International Accounting Standards"), which were endorsed by the European Commission, in effect as at 31 December 2018. The following table shows a summary of the main profit and loss indicators in 2018 and in 2017 and the main financial indicators as at 31 December 2018 and as at 31 December 2017.

2018	OVERVIEW OF THE FINANCIAL RESULTS (consolidated figures)	2017
	Key income statement data (Euro in millions)	
194.6	Operating Revenues	175.6
18.9	EBITDA	20.7
9.7%	EBITDA %	11.8%
21.0	adj EBITDA	22.9
10.8%	adj EBITDA %	13.1%
0.0	Group Net Profit	(1.4)
	Tesmec S.p.A. (Euro in millions)	
4.3	Net income	2.0
	Key financial position data (Euro in millions)	
121.0	Net Invested Capital	130.1
43.3	Shareholders' Equity	44.8
77.7	Net Financial Indebtedness	85.3
13.8	Investments in property, plant and equipment and intangible assets	15.8
844	Annual average employees	784

5.Group performance

Macroeconomic framework

In recent months, the world economy has continued its growth, but at a rate that has shown the first signs of deterioration in various economies, both emerging and advanced. The uncertainties on the economic situation have had repercussions on international financial markets, with a decline in long-term yields and the fall in share prices. The global prospects are affected by the risks related to a negative outcome of the commercial negotiations between the United States and China, to the possible recurrence of financial tensions in emerging countries and to the critical points that are being generated regarding Brexit. In the Euro area, growth has weakened; industrial production decreased significantly in Germany, France and Italy. Inflation, although remaining on largely positive values, fell due to the slowdown in energy prices. The ECB reiterated its intention to pursue a significant monetary stimulus for a prolonged period and not to change interest rates during the 2019. In particular, Italy is experiencing a period of recession driven by a reduction in domestic demand, in particular of investments and household spending to a lesser extent. The investment plans of companies in the industry and services are more contained as a result of political uncertainty. The performance of Italian exports was still favorable in the second half of the year; the slowdown in global trade, however, influenced the prospective assessments of companies on foreign orders. On a currency level, the rise in the US dollar could slow down if the Federal Reserve slows down the rate hike to avoid an excessive deceleration of the economy. On the Sterling there is the situation of Brexit, which in the case of a "hard" and disorderly exit would lead to a fall; for the Yen, on the other hand, an appreciation is expected due to the aggressive monetary policies that will be introduced by the Bank of Japan. In conclusion, the estimates on crude oil are difficult to read but a price is expected around 60-70 dollars per turn.

5.1 General performance

The Group realised in 2018 revenues of Euro 194,611 thousand against a figure of Euro 175,559 thousand in 2017 recording an increase in the new business sectors concerning Railways and Trencher.

5.2 Performance by segment

- **Energy**
The machines and integrated systems for the construction, maintenance and streamlining of underground and aerial power lines recorded a decrease in revenues by Euro 10,330 thousand (-19.8%) from Euro 52,069 thousand as at 31 December 2017 to Euro 41,739 thousand as at 31 December 2018. In the 2017 financial period, revenues benefited from a large order to supply stringing equipment for the Indonesian market, which had an impact mainly on the first quarter of 2017. However, note the positive performance of the Energy Automation segment, which recorded growth driven by consolidation on the Italian market and by developments on the Russian market, which brought revenues from Euro 6.1 million to Euro 9.5 million.

- **Trencher**
Trenchers and systems for the construction of underground infrastructures such as gas pipelines, oil pipelines, water systems, trenches for laying cables and for earth moving works recorded an increase in revenues of Euro 19,407 thousand (+18.3%) from Euro 106,047 thousand as at 31 December 2017 to Euro 125,454 thousand as at 31 December 2018.

- **Rail**
Machines and integrated systems for the installation, maintenance and diagnostics of the railway catenary wire system, plus customised machines for special operations on the line recorded an increase in revenues by 57.2% compared to the previous year. Revenues as at 31 December 2018 amounted to Euro 27,418 thousand compared to Euro 17,443 thousand of the previous year. The improvement is due to the delivery of maintenance vehicles and to technological advances that the Group is pursuing in terms of Research & Development.

5.3 Management performance of the main subsidiary and associated companies

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

- Tesmec USA Inc., , a company that is 100% owned by Tesmec S.p.A., is based in Alvarado (Texas) and operates in the Trencher segment and in the rail sector. During 2018, the company generated revenues of Euro 28,795 thousand. These include service activities (rental without operator) of around 17.4%.

- Tesmec Service S.r.l., company 100% owned by Tesmec S.p.A. with registered office in Grassobbio (BG) and operating unit in Monopoli (BA), carries out its activity of design and construction of machinery for the maintenance of rolling stock. During the 2018 financial period, the company continued production activities related to the supply of 88 multipurpose ladder trucks for the maintenance of the Italian railway network and continued the production activities of the other contracts in progress, recording revenues of Euro 26,906 thousand with an increase of 70.7% compared to the same period last year; this increase is due to the start of activities of RFI and TSO. This result contributed to achieving a net profit of Euro 2,825 thousand, which confirms the positive trend of the company's results. In 2019, the company will be merged with Tesmec Rail S.r.l., thus focusing on the railway hub.

- Tesmec SA (Pty) LTD, with registered office in Johannesburg (South Africa) is 51% owned by Tesmec S.p.A. and 49% owned by Simest S.p.A. During the financial year, the company generated revenues of Euro 4,104 thousand.

- OOO Tesmec Rus, with registered office in Moscow (Russia), is 100% owned by Tesmec S.p.A. The Company mainly operates in the segment of Energy and streamlining of Power Networks. During 2018, the decline in energy investments on the Russian market continued; however, the company generated revenues of Euro 2,263 thousand (Euro 569 thousand in 2017).

- Condux Tesmec Inc, a joint venture that is 50% owned by Tesmec S.p.A. and 50% by US shareholder Condux International, which is based in Mankato (USA), active in selling products for the North American stringing equipment market. The company has been consolidated using the equity method and generated in 2018 revenues totalling Euro 5,920 thousand.

- Tesmec Peninsula WLL, a Joint Venture with registered office in Doha (Qatar) 49% owned by Tesmec S.p.A., is the hub through which the Tesmec Group is present on the Arabian peninsula. The company is consolidated using the equity method and was affected in 2018 by the crisis of infrastructure investments in the area due to low oil prices and generated revenues totalling Euro 4,349 thousand.

- Marais Technologies SAS, with registered office in Durtal (France), company 66.04% owned by Tesmec S.p.A. and 33.96% by Simest S.p.A. as at 31 December 2017, (with an option of Tesmec to repurchase this share at 30 June 2020., The French company, acquired on 8 April 2015, is the holding of an international group leader in the construction of machines for infrastructures and in services for telecommunications, electricity and gas. In the 2018 financial period, the Group generated consolidated revenues for Euro 51,378 thousand compared to Euro 47,150 thousand in 2017, up 9% compared to the previous year.

- 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 2018 financial period, it recorded revenues of Euro 8,981 thousand.

- Tesmec Rail S.r.l., company 100% owned by Tesmec S.p.A. with registered office in Monopoli (BA), carries out its activity of design and construction of machinery for the maintenance of rolling stock. During the 2018 financial period, it recorded revenues of Euro 823 thousand.

6. Income statement and balance sheet situation as at 31 December 2018

6.1 Consolidated income statement

The Group closed the financial period as at 31 December 2018 with a positive operating income of Euro 3,677 thousand (Euro 6,109 thousand in 2017) and with a net profit of Euro 44 thousand compared to a net loss of Euro 1,412 thousand as at 31 December 2017 mainly due to exchange rate differences (gains of Euro 210 thousand in 2018 compared to losses of Euro 4,676 thousand in 2017). The following table shows the trend of major economic indicators as at 31 December 2018 compared to 31 December 2017.

	Financial period ended 31 December 2018			
(Euro in thousands)	**2018**	**% of revenues**	**2017**	**% of revenues**
Revenues from sales and services	**194,611**	**100.0%**	**175,559**	**100.0%**
Cost of raw materials and consumables	(87,486)	-45.0%	(78,326)	-44.6%
Non-recurring cost of raw materials and consumables, net	(1,595)	-0.8%	-	0.0%
Costs for services	(32,581)	-16.7%	(30,453)	-17.3%
Non-recurring costs for services	-	0.0%	(403)	-0.2%
Payroll costs	(50,054)	-25.7%	(46,249)	-26.3%
Non-recurring payroll costs	(447)	-0.2%	-	0.0%
Other operating costs, net	(11,282)	-5.8%	(5,300)	-3.0%
Amortisation and depreciation	(15,245)	-7.8%	(14,633)	-8.3%
Development costs capitalised	7,592	3.9%	5,671	3.2%
Portion of losses from operational Joint Ventures evaluated using the equity method	164	0.1%	243	0.1%
Total operating costs	**(190,934)**	**-98.1%**	**(169,450)**	**-96.5%**
Operating income	**3,677**	**1.9%**	**6,109**	**3.5%**
Financial expenses	(3,932)	-2.0%	(4,217)	-2.4%
Financial income	284	0.1%	1,239	0.7%
Foreign exchange gains/losses	210	0.1%	(4,676)	-2.7%
Portion of losses from the valuation of equity investments using the equity method	67	0.0%	33	0.0%
Pre-tax profit/(loss)	**306**	**0.2%**	**(1,512)**	**-0.9%**
Imposte su Income taxl reddito	(262)	-0.1%	100	0.1%
Net profit/ (loss) for the period	**44**	**0.0%**	**(1,412)**	**-0.8%**
Profit attributable to non-controlling interests	16	0.0%	18	0.0%
Group profit/(loss)	**28**	**0.0%**	**(1,430)**	**-0.8%**

Revenues

Total revenues as at 31 December 2018 increased by 10.9%.

	Financial period ended 31 December 2018				
(Euro in thousands)	**2018**	**% of revenues**	**2017**	**% of revenues**	**2018 vs. 2017**
Energy	41,739	21.4%	52,069	29.7%	(10,330)
Trencher	125,454	64.5%	106,047	60.4%	19,407
Rail	27,418	14.1%	17,443	9.9%	9,975
Total revenues	**194,611**	**100.0%**	**175,559**	**100.0%**	**19,052**

a) 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 2018 period and the 2017 period, which indicates the growth of the Italian and Middle Eastern markets, partially balanced by the downtrends recorded in the African market, BRIC and Others. It is emphasised that the segmentation by geographic area is determined by the country where the customer is located, regardless of where project activities are organised.

	Financial period ended 31 December 2018	
(Euro in thousands)	**2018**	**2017**
Italy	49,306	33,767
Europe	34,465	33,819
Middle East	17,314	8,993
Africa	10,178	11,205
North and Central America	33,266	34,009
BRIC and Others	50,082	53,766
Total revenues	**194,611**	**175,559**

Operating costs net of depreciation and amortisation

	Financial period ended 31 December 2018			
(Euro in thousands)	**2018**	**2017**	**2018 vs. 2017**	**% change**
Cost of raw materials and consumables	(87,486)	(78,326)	(9,160)	11.7%
Non-recurring cost of raw materials and consumables, net	(1,595)	-	(1,595)	100.0%
Costs for services	(32,581)	(30,453)	(2,128)	7.0%
Non-recurring costs for services	-	(403)	403	-100.0%
Payroll costs	(50,054)	(46,249)	(3,805)	8.2%
Non-recurring payroll costs	(447)	-	(447)	100.0%
Other operating costs, net	(11,282)	(5,300)	(5,982)	112.9%
Development costs capitalised	7,592	5,671	1,921	33.9%
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method	164	243	(79)	-32.5%
Total operating costs net of depreciation and amortisation	**(175,689)**	**(154,817)**	**(20,872)**	**13.5%**

The table shows an increase in operating costs of Euro 20,872 thousand (+13.5%) in a more than proportional way compared to the increase in sales (+10.9%). Among the cost items, note that the costs for raw materials include non-recurring costs relating to an accident at an Australian site of Euro 1,595 thousand. In compliance with the accounting standards of reference and, in particular, with the provisions of paragraph 33 of IAS 37, according to which potential assets are recognised in the

financial statements only if potentially certain, at 31 December 2018 the Group recorded among its income only the repayment portion already confirmed to date by the insurance counterparty for the first Euro 287 thousand. The additional repayment shares that the Group reasonably believes to be certain given the insurance securities will therefore be recorded in the financial statements only when they are actually recognised.
Moreover, payroll costs include non-recurring costs of Euro 447 thousand represented by reorganisation costs both in Italy and abroad.

Other operating (costs)/revenues, net includes the positive effect of the tax credit for significant research and development expenses incurred by the Group in Italy and France during the financial period for the expansion of the offer in the new sectors for automation, maintenance of existing power lines and service activities, which were combined with the renewal of the product range in all of Trencher's business areas. In particular, with reference to the tax credit on Research and Development activities in Italy, this is recorded on the basis of the provisions of the 2017 Budget Law (Italian Law 232/16) which changed the regulations of the tax benefit, introduced by the "Decreto Destinazione Italia" (Italian Law Decree no. 145/2013) as amended by Italian 2015 Stability Law (Italian Law 190/2014). As a whole, the value of the tax credit for the entire Tesmec Group both in Italy and in France amounted to Euro 3,661 thousand for 2018 (of which Euro 2,894 thousand pertaining to 2018) and to Euro 5,335 thousand for 2017. The benefit was recorded in “other operating (costs)/revenues, net”, and suspended for the portion directly attributable to capitalised research and development projects.

Operating costs include Euro 4,000 thousand in extra costs relating to the Australian subsidiary Marais Laying Technologies ("MLT") in relation to specific orders that have not proved to be profitable and for which reference should be made to what is specified below.
Net of this impact, operating costs would have been Euro 171,689 thousand, an increase of 9.8% compared to 31 December 2017. Therefore, net of the extra costs of Euro 4,000 thousand, there would have been a less than proportional increase in costs compared to the increase in revenues.

EBITDA

In terms of margins, EBITDA amounted to Euro 18,922 thousand, which represents 9.7% of the sales for the period, compared to 11.8% recorded in 2017.

As described in the previous paragraph, the 2018 financial period includes a component of net non-recurring costs for raw materials of Euro 1,595 thousand, in addition to Euro 447 thousand for non-recurring payroll costs. Without considering these effects, the EBITDA for 2018 would have been 10.8% whereas during 2017, it would have been 13.1%. Note that in 2017 non-recurring costs included rental costs of Euro 1,800 thousand relating to the new lease contract at the end of 2016 and Euro 403 thousand of non-recurring consultancy costs.
They were separately shown when calculating the EBITDA.

	Financial period ended 31 December				
(Euro in thousands)	**2018**	**% of revenues**	**2017**	**% of revenues**	**2018 vs. 2017**
Operating income	3,677	1.9%	6,109	3.5%	(2,432)
+ Amortisation and depreciation	15,245	7.8%	14,633	8.3%	612
EBITDA (*)	**18,922**	**9.7%**	**20,742**	**11.8%**	**(1,820)**
+ Non-recurring costs and revenues and rental expenses	2,042	1.0%	2,203	1.3%	(161)
adj EBITDA (*)	**20,964**	**10.8%**	**22,945**	**13.1%**	**(1,981)**

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

As described above, 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 23 million.

The extra costs in question refer to expenses, mainly relating to personnel, incurred for carrying out site activities in Australia by the subsidiary Marais Laying Tech. Australie in 2018. More specifically, these expenses are consequent upon the need to make up for the delays achieved in relation to the terms and conditions set out in the contract for the implementation of the projects. The speed of execution was lower than expected as a result of an inadequate organisation of the sites, as well as in having to operate in a different type of soil from that envisaged in the estimate and not suited in some stretches to the machines used. This situation required the placement of additional workforce compared to what was estimated. The consumption of materials (teeth, chains, etc.) and fuel was higher than expected.) Unforeseen maintenance costs were also incurred.

Operating Income

	Financial period ended 31 December				
(Euro in thousands)	**2018**	**% of revenues**	**2017**	**% of revenues**	**2018 vs. 2017**
Stringing equipment	(56)	0.0%	3,675	2.1%	(3,731)
Trencher	2,295	1.2%	2,385	1.4%	(90)
Rail	1,438	0.7%	49	0.0%	1,389
Total operating income	**3,677**	**1.9%**	**6,109**	**3.5%**	**(2,432)**

The operating income as at 31 December 2018 stood at Euro 3,677 thousand (1.9% of revenues) down compared to Euro 6,109 thousand (3.5% of revenues) achieved as at 31 December 2017.

Financial Management

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Net financial expenses	(3,702)	(3,125)
Realised foreign exchange losses	(177)	(1,544)
Unrealised foreign exchange gains/losses	387	(3,132)
Fair value adjustment of derivative instruments	54	147
Portion of losses/(gains) from the valuation of equity investments using the equity method	67	33
Total net financial income/expenses	**(3,371)**	**(7,621)**

The net financial management increased compared to the same period in 2017 by Euro 4,250 thousand, mainly due to:

- Euro 4,886 thousand related to the effects of the different USD/EUR exchange rate trend in the two periods of reference that resulted in the recording of net profits totalling Euro 210 thousand in 2018 (Euro -177 thousand realised and Euro 387 thousand unrealised) against a net loss of Euro 4,676 thousand in 2017.

Net result

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Net profit (loss)	**44**	**(1,412)**
% Effect on revenues	0.02%	-0.80%
Profit attributable to non-controlling interests	16	18
Group net profit/(net loss)	**28**	**(1,430)**
% Effect on revenues	0.01%	-0.81%

Results for the period amounted to Euro 44 thousand (Euro -1,412 thousand in 2017) after deducting negative taxes totalling Euro 262 thousand (positive taxes totalling Euro 100 thousand in 2017).

Net of the portion pertaining to non-controlling interests, the net result is Euro 28 thousand.

Profitability ratios

		Financial period ended 31 December	
Ratio	*Composition*	**2018**	**2017**
Return on sales (R.O.S.)	Operating income / Net revenues	1.9%	3.6%
Return on investment (R.O.I.)	Operating income / Invested capital	3.0%	4.9%
Return on equity (R.O.E.)	Net income / Shareholders' equity	0.1%	-0.1%
Invested capital turnover	Net revenues / Net invested capital	1.61	1.35
Working capital turnover	Net revenues / Net working capital	3.98	2.88
Debt ratio / Adj. EBITDA	Net financial indebtedness / Adj. EBITDA	3.71	3.72
Debt ratio / EBITDA	Net financial indebtedness / EBITDA	4.11	4.11
Debt ratio	Net financial indebtedness / Shareholders' equity	1.79	1.91

The table above shows concisely the main trends that characterised the financial statements of the Group as at 31 December 2018 compared to 31 December 2017. The ratios reflect the worsening of margins but an improvement of efficiency of working capital generated both by the increase in revenues and by the reduction in working capital.
The debt ratios were stable compared to the previous year in terms of margins and improved compared to shareholders' equity.

6.2 Income Statement by segment

Revenues by segment

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

	Financial period ended 31 December				
(Euro in thousands)	**2018**	**% of revenues**	**2017**	**% of revenues**	**2018 vs. 2017**
Energy	41,739	21.4%	52,069	29.7%	(10,330)
Trencher	125,454	64.5%	106,047	60.4%	19,407
Rail	27,418	14.1%	17,443	9.9%	9,975
Total revenues	**194,611**	**100.0%**	**175,559**	**100.0%**	**19,052**

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

Operating costs by segment

	Financial period ended 31 December				
(Euro in thousands)	**2018**	**% of revenues**	**2017**	**% of revenues**	**2018 vs. 2017**
Energy	41,795	21.5%	48,394	27.6%	(6,599)
Trencher	123,159	63.3%	103,662	59.0%	19,497
Rail	25,980	13.3%	17,394	9.9%	8,586
Total operating costs	**190,934**	**98.1%**	**169,450**	**96.5%**	**21,484**

Operating costs, depreciation and amortisation including, were up 12.7% compared to the prior period in a more than proportional way compared to the sales trend (10.9), for the reasons already set out in paragraph 6.1 above.

The tables below show the EBITDA as at 31 December 2018 compared to those at 31 December 2017, broken down into three operating segments:

	Financial period ended 31 December				
(Euro in thousands)	2018	% of revenues	2017	% of revenues	2018 vs. 2017
Energy	4,818	11.5%	8,010	15.4%	(3,192)
Trencher	9,982	8.0%	10,304	9.7%	(322)
Rail	4,122	15.0%	2,428	13.9%	1,694
EBITDA (1)	**18,922**	**9.7%**	**20,742**	**11.8%**	**(1,820)**

(*) 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.

Margins decreased in absolute terms by Euro 1,820 thousand (from Euro 20,742 thousand in 2017 to Euro 18,922 thousand in 2018) and in percentage terms to 9.7% in 2018 from 11.8% in 2017. This result is the combined effect of trends that can be explained better segment by segment:

- Energy: the margin, in percentage terms on revenues fell to 11.5% in 2018, compared to 15.4% recorded in 2017. The difference is mainly due to the volume effect since in 2017 revenues benefited from a large order to supply stringing equipment for the Indonesian market, completed at the end of 2016 that in terms of turnover had an impact primarily on the first quarter of 2017. Note also that this margin was impacted by the costs incurred for the launch of new products, the return of which is expected in future years.

- Trencher: the margin, in percentage terms on revenues fell to 8.0% in 2018, compared to 9.7% recorded in 201 due to the extra costs relating to the Australian subsidiary Marais Laying Technologies (“MLT”) of Euro 7 thousand, in relation to specific orders that have not proved to be profitable as described above, and the performance of the French subsidiary. Note that the application of IAS 37 determined a "cut-off" effect, equal to Euro 1,595 thousand, pending the recognition of the insurance refund.

- Rail: the margin, in percentage terms on revenues fell to 15.0% in 2018, compared to 13.9% recorded in 2017 advanced revenues in the period generated a positive absorption of overhead costs, generating a positive adj EBITDA of Euro 4,122 thousand against Euro 2,428 thousand of the same period last year.

6.3 Balance sheet and financial profile

The financial position of the Company as at 31 December 2018 compared to 31 December 2017 is briefly shown in the table below.

	Financial period ended 31 December	
(Euro in thousands)	2018	2017
USES		
Net working capital (1)	48,897	60,806
Fixed assets	67,314	68,386
Other long-term assets and liabilities	4,804	913
Net invested capital (2)	**121,015**	**130,105**
SOURCES		
Net financial indebtedness (3)	77,677	85,273
Shareholders' equity	43,338	44,832
Total sources of funding	**121,015**	**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

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Trade receivables	52,562	39,854
Work in progress contracts	11,023	6,768
Inventories	62,576	63,125
Trade payables	(54,350)	(39,479)
Other current liabilities	(22,914)	(9,462)
Net working capital (1)	**48,897**	**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.

The Net working capital of Euro 48,897 thousands decreased by 19.6 % compared to 31 December 2017 despite the 10.9% increase in sales achieved during the same period. This trend reflects the effects of a more efficient management of working capital and is mainly due to the increase in "trade receivables" of Euro 12,708 thousand offset by the total increase in "trade payables" and "Other current liabilities" for a net amount of Euro 28,323 thousand.

B) Fixed assets

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Intangible assets	17,998	18,340
Property, plant and equipment	45,337	46,102
Equity investments in associates	3,976	3,937
Other equity investments	3	7
Fixed assets	**67,314**	**68,386**

Total *Fixed assets* recorded a decrease of Euro 1,072 thousand attributable to new net investments of Euro 22,596 thousand offset by decreases of Euro 8,776 thousand and depreciations and amortisation of Euro 15,245 thousand.

C) Other medium to long-term assets and liabilities

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Financial receivables and other non-current financial assets	1,922	185
Non-current trade receivables	831	161
Deferred tax assets	11,816	10,451
Employee benefit liability	(3,770)	(3,656)
Non-current trade payables	(1)	(2)
Deferred tax liabilities	(5,927)	(6,202)

Non-recurring provisions for risks and charges	(67)	(24)
Other long-term assets	**4,804**	**913**

Medium to long-term assets and liabilities increased by Euro 3,891 thousand from a balance of Euro 913 thousand as at 31 December 2017 to a balance of Euro 4,804 thousand as at 31 December 2018 mainly due to the adjustment of tax receivables related to the tax losses of the subsidiaries Tesmec Usa, Bertel and Marais Laying Australie.

D) Net financial indebtedness

	Financial period ended 31 December			
(Euro in thousands)	**2018**	***of which with related parties and group***	**2017**	***of which with related parties and group***
Cash and cash equivalents	(42,793)		(21,487)	
Current financial assets [(1)]	(10,391)	*(4,373)*	(12,450)	*(9,386)*
Current financial liabilities	80,504	*2,325*	79,022	*37*
Current portion of derivative financial instruments	-		85	
Current financial indebtedness (2)	**27,320**	***(2,048)***	**45,170**	***(9,349)***
Non-current financial liabilities	50,322	-	40,040	-
Non-current portion of derivative financial instruments	35		63	
Non-current financial indebtedness (2)	**50,357**	**-**	**40,103**	**-**
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	**77,677**	***(2,048)***	**85,273**	***(9,349)***

[(1)] Current financial assets as at 31 December 2018 and 31 December 2017 include the market value of shares that are considered cash and cash equivalents.
[(2)] Current and non-current financial indebtedness is not identified as an accounting measure under IFRS. The valuation criteria applied by the Group may not necessarily be the same as those adopted by other groups and therefore the balances obtained by the Group may not necessarily be comparable therewith.

Net indebtedness as at 31 December 2018 stood at Euro 77,677 thousand (Euro 85,273 thousand as at 31 December 2017) decreasing by Euro 7,596 thousand.
The table below shows the breakdown of the following changes:

- decrease in current financial indebtedness of Euro 17,850 thousand due to the:
  - increase in current financial liabilities of Euro 1,482 thousand mainly related for Euro 9,888 thousand to the reclassification of short-term portions of medium/long-term loans offset by refunds for the period of Euro 17,166 thousand;
  - increase in current financial assets and cash and cash equivalents of Euro 21,306 thousand thanks to improved financial management;
- increase in non-current financial indebtedness of Euro 10,254 thousand deriving from the activation of new loans of Euro 20,181 thousand offset by the reclassification in the current financial indebtedness described in the previous paragraph of Euro 9,888 thousand.

E) Shareholders' Equity

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Share capital	10,708	10,708
Reserves	32,567	33,829
Profit (loss) for the period	28	(1,430)
Non-controlling interests	35	1,725
Shareholders' equity	**43,338**	**44,832**

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

In the 2018 financial period, the major changes were due to the decrease for change in the consolidation area of Euro 2,250 thousand relating to the acquisition of 13.21% of Marais Technologies SAS offset by the increase in the translation reserve of Euro 1,150 thousand.

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

	Financial period ended 31 December	
(Euro in thousands)	**Shareholders' Equity**	**Net result**
Amounts resulting from the financial statements of Tesmec S.p.A.	**51,719**	**4,330**
Consolidation adjustments		
a) Equity investments evaluated using the equity method	2,055	231
b) Difference between book value and assets of consolidated equity investments	(4,896)	
c) Results from consolidated equity investments	(4,077)	(4,077)
d) Translation reserve		
e) Elimination of dividends distributed by Companies of the Group	(244)	(244)
f) Elimination of intra-group items	(1,254)	(212)
Net effect of consolidation adjustments	*(8,416)*	*(4,302)*
Amounts attributable to the Group	**43,303**	**28**

F) Investments

Investments include capitalisations relevant to development projects (Euro 8,213 thousand) that refer to strategic activities as a result of which Tesmec manages to maintain its technological leadership position on traditional markets and increase the range of offered products and services (railway market, new generation trenchers, management of the electric system) plucking up the high level of internationalisation of its sales network. Note also the increase of Euro 4,534 thousand related to the development of the new Monopoli production facility that will operate in the Rail segment.

7. Regulatory framework of reference

The Group, producer and distributor of machinery and integrated systems for stringing equipment and trencher, is subject, in the various countries where it operates, to several law and regulatory provisions, as well as national or international technical standards, applicable to companies operating in the same segment. The provisions on the protection of the environment take on particular importance.
The enactment of further regulatory provisions applicable to the Group or to its products or rather changes to the laws and regulations currently in force in areas where the Group operates, even internationally, could force the Tesmec Group to adopt stricter standards or influence its freedom of action in its areas of activity.
These factors could result in adjustment costs of production structures or of product characteristics, or even limit the operations of the Group with a subsequent negative effect on its activity and on its economic and financial situation.
Therefore, any change to the standards or regulatory criteria currently in force, as well as the occurrence of exceptional or unforeseeable circumstances, could force the Group to incur extraordinary expenses in environmental matters. These expenses could be significant and thus have adverse effects on the activity and the economic and financial situation of the Group. For more details on the subject of safety, environment and work, reference is made to the relevant paragraph.

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

In this paragraph, we outline the risk factors and uncertainties that may significantly affect the activity of the Tesmec Group. In particular, some information tending to illustrate the aims and policies of the Group on price risk, financial risk management, as well as tending to indicate the degree of exposure to credit risk, liquidity risk and cash-flow variation risks are set out below. This description is valid for the Tesmec Group, even if the risk management policy is decided by the Parent Company.

Tesmec implemented a mechanism for constantly monitoring these risks in order to prevent their potential negative effects and take the actions necessary to contain them.

Management and types of risk

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

Type of risks and hedging instruments used

Exchange rate risk

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

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

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

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

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

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 structure of the balance sheet assets, in order to keep a very sound balance sheet structure.
Forms of financing most commonly used are represented by:

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

Risks related to transactions with suppliers

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.

9. Human Resources, Training and Industrial Relations

1) Strategy

The management of Human Resources is undergoing a rapid phase of change that goes through:

- process digitalisation
- new models of work organisation
- change of the workforce through an impact of automation and robotics on activities and processes

The strategic objectives for a new way of thinking are:

- speed of execution
- different and positive approach
- openness to new technologies
- opening up to the external network
- full involvement of the organisation
- more flexible communication line

2) Employees

In 2018, the Tesmec Group consolidated and strengthened the process of growth of labour force both nationally and internationally, strengthening and expanding its investment in the Rail segment.

In June 2018, the new production site in Monopoli of the subsidiary Tesmec Rail was completed with the objective of further enhancing the Group's activity in the rail business.

The new and modern site deals with 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. The entire production line with the highest standards in terms of energy saving and environmental protection is characterised by a high level of efficiency and automation and a highly advanced production process from the technological point of view, with a consequent significant increase in production capacity.
The investment allowed the introduction of new technologies related to process automation and the improvement of industrial processes such as:

- vertical warehouses;
- new department logistics to improve the supply flows to the assembly lines;
- the tranship wagon for handling the finished machine on the railway lines;
- automated and remotely connected access controls with all company offices;
- audio and video conference systems that make it possible to make an increasingly greater impact on the world of work by contributing to the digitalisation, experimentation and prototyping of work activities.

The investment also began to create a pool of skills and professionalism through the drive to increase employment by 45 people in the period from December 2017 to December 2018, by using the following types of contracts:

- 38% of the resources were recruited through the "Jobs Act a tutele crescenti" (Jobs Act with increasing protection) with an open-term contract, since they are highly professional and seniority resources in the engineering and electronics sector and software experts and assembly personnel in the mechanical-electrical sector.
- the remaining 62% was hired on a temporary basis, with regard to both experts and engineers, as they still have to develop their professional skills with regard to technical and technological knowledge of the rail segment and business processes.

The professional growth of resources within the production processes and development is essential to create a HUB of excellence of the rail division in Full Maintenance Service.

During 2018, the Tesmec Group, through segment meetings, seminars and training, consolidated the process of *Cross Innovation (technology, skills, cultures) that allowed us to improve the process of management integration and organisation of the Tesmec Group at international level through the* Global Integration Project that recorded the following activities:

1) placement of an Integration Manager for the Marais Group, with the objectives of introducing new methods, aligning processes, improving information flows and creating synergies between the various business functions;
2) placement of several Country Manager Directors for Marais Australia, Marais New Zealand, Tesmec USA and Group Marais, in order to define a new line of management that was more synergistic and functional with the Parent Company;
3) placement of a new General Manager in Tesmec Russ to manage the launch of a new cost saving platform and the business plan of the SMT project;
4) new models of Responsibility Matrix for all foreign Companies;
5) completing the alignment of Group policies.

Human capital, a key factor in the Company's growth, focuses on value and the ability to create value by looking for skills and talent in human resources that are key to meeting the challenges of the future.
Tesmec pursues a growth strategy that can be summarised as "Glocal", i.e. being global but having at the same time a local presence in the major areas of the planet to better interpret the needs of individual markets.

The 2018 figures of the Tesmec Group show an improvement for what concerns:

3) average turnover rate of new hires was 19.35% (11.45% in 2017). With regard to Italy, this average rate was 15.56%;
4) average stability rate within two years was 86.33% (83.20% in 2017). For Italy, it was 84.66%;

On the other hand, the stability rate within five years of 67.12% was worse than 2017 in which it amounted to 71.78%, due to pension outflows. On the other hand, in Italy, this rate for 2018 was 74.51%.

During the 2018 financial period, the Group had an average of 844 employees (784 in 2017), showing an increase especially in the Rail segment to which we allocated part of our investments in Human Resources. The following changes occurred in the average workforce employed by the Group in 2018 compared to 2017:

	Financial period ended 31 December			
(average no. of employees)	**2018**	**2017**	**2018 vs. 2017**	**%**
Tesmec S.p.A.	343	331	12	3.63%
Tesmec Service S.r.l.	45	52	(7)	-13.46%
Tesmec USA, Inc.	83	76	7	9.21%
Tesmec SA (Pty) LTD	16	15	1	6.67%
OOO Tesmec RUS	5	6	(1)	-16.67%

Bertel S.r.l.	-	-	-	100.00%
Tesmec Automation S.r.l.	56	51	5	9.80%
Tesmec Rail S.r.l.	15	-	15	100.00%
Tesmec New Technology Beijing LTD	3	3	-	0.00%
Marais Group	149	152	(3)	-1.97%
Marais Laying Technologies (Pty) Ltd. Australie	32	21	11	52.38%
Marais Laying Technologies (Pty) Ltd. Nouvelle Zelande	72	58	14	24.14%
Marais Cote d'Ivoire	24	18	6	33.33%
Marais Trenching (Pty) Ltd. AFS	1	1	-	0.00%
Total	**844**	**784**	**60**	**7.65%**

There was an overall increase of 7.65% in Human Resources in 2018, with an average of 60 people, in relation to the pursuit of the company strategy in the search for new technology business (Rail) in the precise figure of HC as Full Total Employees. In 2018, 45 resources were hired in the Monopoli Industrial hub and the international growth in the acquisition of contracting and rental projects for both Tesmec and Marais (Africa, Australia, New Zealand, Kuwait, Qatar) enabled us to acquire skills in the management and maintenance of the sites.

3) Level of education and seniority

The average age of the employees of the Group is 41 years. The figure breaks down into Italian companies with an average age of 42 years (workers 42 years, employees 40 of which 41 for women) and foreign companies with an average age of 41 years (workers 39, employees 43 of which 42 for women).

The increase in the workforce in the Rail and Automation business further increased the professional and schooling value of the Tesmec Group, with the introduction of personnel with technical skills in the field of electronics and mechatronics.
Projections of employee age profiles for 2018 showed compared to 2017 an increased percentage of age groups from 25 to 34 years old, due to the need to create a pool of young people who are resourceful and suitable for an increasingly digital approach.

AGE	2018	2017
< 24	5%	5%
25-34	26.1%	25%
35-44	27.7%	31%
45-54	26.8%	27%
>55	14.4%	14%

4) Digital Transformation

The Tesmec Group undertook a path of innovation in its organisational and management processes and in the qualification of human resources, through the strengthening of skills and the attraction of young talents with high potential. The digital transformation of processes cannot leave a targeted qualification of human resources out of consideration.
This process serves to better face the competitive challenges of the next few years and to take full advantage of the opportunities arising from the new production paradigms of digital transformation, which requires new roles and skills to be developed within the organisation or to be sought outside it.
The cross tool for all the Business Units of the Group to pursue these objectives is the DT-LAB (Digital Transformation - Living Academy for Business) which will act as a pool of training and innovation projects oriented towards the 4.0 scenario.

The purposes of the DT-LAB project are:

- promotion of a widespread business culture on "Enterprise 4.0";
- attraction of talents and employer branding;
- re-engineering and efficiency of business processes;
- evaluation of new business models;
- cooperation in the field of Technology Transfer and Collaborative Research.

The 4.0 development and approach are leading to changes in Business models, the introduction of new Smart Products, innovative R&D management and a truly integrated and adaptive Supply Chain with suppliers and customers. In particular, traditional industrial processes are evolving and transforming with the aim of creating smarter factories. To face with this change, in 2018 Tesmec launched the first Master called "Speeder 4.0 - *How to drive the* digital transformation of Tesmec", namely, a training course for 20 Young Talents selected from all the BUs and different business functions, to help them grow by developing their knowledge and skills, including managerial skills, thus promoting the company's digital transformation 4.0.

5) Employer Branding

In 2018, a number of projects were consolidated and launched to enhance business principles as an element of attractiveness in the external recruiting phase:

A) Goals

- strengthen the identity of the company;
- improve awareness & attraction;
- turn Tesmec an “Employer of Choice”;
- improve engagement & retention.

B) Target

- graduates in mechanical, electronic, digital, managerial, economic and linguistic fields;
- with or without work experience;
- Interest in developing their own skills in an innovative, technologically advanced and growing context.

Partnerships were carried out with the Technical Institutes of the Italian territory through the Recruitment and Employer Branding Programme with the aim to promote knowledge of the company among fifth-grade students in order to foster a breeding ground for excellent candidates. Presentations and Vocational Guidance were made in the main technical and professional institutes of the territory, from which the best candidates were then selected through Assessment Centres in the company.

Tesmec defined a model of company values that should inspire all personnel to continue to improve, innovate and increase their sense of belonging within the Tesmec Group. These values are summarised in the word SPEED (Safety, Performance, Empowerment, Engagement, aDaptability).

In 2018, the "Speed Awards" initiative was confirmed, a campaign to encourage and enhance personnel skills, aimed at involving people more closely within the company. Each employee put a colleague forward as a candidate, who may also belong to a different department/office, by filling in the appropriate form “*Speed Award 2018 - Speed People”*, to order:

1.High accelerator Speed

- best Special Idea;
- best Project Speed;
- best Individual Performance.

2.Development Innovation Project

- best engineering contribution to active and strategic innovation in the technical field;
- best seniority for professionalism and competence in the manufacturing environment.

3. High people speed

- best Culture Speed;
- team Integration.

6) Innovation awards

During 2018, Tesmec's innovation award was further expanded, giving space to the philosophy of change through a new way of thinking "Premio Digital Mindset" (Digital Mindset Award).

7) Corporate social responsibility: Sustainability report

During 2018, Tesmec opted for the social responsibility project at the financial statement level for the whole Group with the aim to describe not only the performance of an organisation, but also the way in which it manages the most important aspects, in terms of principles, values, policies and management systems.
Therefore, an organisation can define its own strategic guidelines in the economic, environmental and social environment, by preparing a sustainability plan (3-5 years) starting from the dimensions through which it develops its concept of sustainability:

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

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

Tesmec placed the employees at the centre of its strategies for growth and development, taking full advantage of the potential of welfare initiatives by enhancing the use of the company's Flexible Benefit platform, financing an annual fee for employees. There is a fundamental paradigm shift at the basis of this company attitude: the traditional labour pact based on work and salary exchange is evolving towards a new pact based on work and wellbeing exchange. It is a happy and virtuous convergence of interests that creates the conditions for a consistent development of company welfare

"Welfare means putting in place a series of tools aimed in a segmented way at the company population to motivate people"

Tesmec is also working with trade union organisations on the work-life balance. It is an issue that has a lot to do with keeping people "engaged" because it is clear that more engaged people are also more willing to produce better, perform better and be more committed to the company. So, within this cloud we find the need to make people feel good, which means creating well-being both in the organisation and in people's lives - not as two non-communicating elements but as a whole. Creating well-being means allowing people, through a series of services and supports, to live a better work experience and this in turn increases people's motivation and sense of engagement. In this perspective, our Company decided to continue to finance for the 2018 financial period the Welfare Plan with a new Flexible Benefits plan for all employees that envisaged through a dedicated Web Platform an increase and improvement of services and conventions for different types of services aimed at increasing personal well-being, support to family life as well as social security and health coverage.

9) Resource training and professional development

The already extensive training offered by the Group extended further through the year offering training courses aimed at strengthening individual skills and improving the performance of each employee. In this regard, it will be necessary to obviously guarantee compulsory training as well as specific growth trends that each manager will have to provide for his/her sector in relation to its requirements as well as in relation to the peculiarities of each figure.

The strategic guidelines are:

Training: investing in product and market knowledge and expertise; awareness and multiculturalism, managerial leadership and resource management; search for new markets and networks; problem solving and decision making;

Coaching: tool at the service of change as a strategy for accelerating change.

Mentoring: placement and search for new Opinion Leaders.

Recruiting*: recruitment and selection of personnel with a Mindset and Digital skills*(Big Data Architect, Cloud Service Specialist, Digital Marketing Specialist, Digital Strategic)

10) Health, safety and environment

The Company considers the protection of the workers' health and safety and the protection of the environment of fundamental importance and pursues these goals in compliance with all current specific regulations, as well as with the structuring of a service inside each factory that manages and controls the subjects at issue. The service is coordinated by the QHSE manager in collaboration with the appointed RSPP.
As a result of the above, in 2018 the company was awarded 14001 and 18001 certifications, which lay down the implementation of an effective integrated system in the areas of Quality, Safety and the Environment.
The involvement of all employees, increased awareness and dissemination of the "safety culture" are considered to be decisive aspects for the achievement of the objectives of protection of the workers. Training is considered to be an important instrument, and is planned according to a precise timetable, based on strict technical standards and in compliance with the Italian State-Region Conference of 21/12/2011, implementing Article 37 of Italian Legislative Decree 81/2008.
During 2018, the internal service activities in order to prevent and protect against risks continued, through inspections on a quarterly basis of all production site departments, checking that the improvement actions had been started. All this within the system of procedures for managing aspects impacting on safety and the environment, now widespread in all the functions involved. At the same time and in accordance with the new Safety and Environment System, a mechanism called FIND & FIX was implemented to maximise the sharing and resolution of unsafe situations for people and the environment.
The search for solutions to implement in order to eliminate or reduce risks is shared with the business departments that must implement these specific measures to ensure their acceptance by the workers and efficient application.
During 2018 as well, the significant indicators (including frequency and severity) of occupational safety and health were monitored on a regular basis with statistical trend analyses, by reporting that the results achieved in previous years were maintained.
A precise system of environmental and safety authorisation was set up, assigned to the operating managers of the factories; they were trained through specific courses relating to Italian Legislative Decree 81/2008 for ASPPs or managers.
This led to greater involvement by the persons appointed to organise the work, with equal consideration for the aspects relating to environmental protection and workplace health and safety with respect to the production aspects.
There is still a great deal of attention paid to the prior assessment of all possible sources of risk to the health and safety of workers, including through the regularly monitoring of the working environments; the results show compliance with regulatory standards.
With regard to social responsibility and local territory matters, the company is committed to maintaining a high level of safety and environmental protection.
The current Organisational Model (Italian Legislative Decree 231/2001) is complete with the part relating to offences in violation of accident-prevention regulations and with regard to environmental crimes. It is kept updated.

10. Related party transactions

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

Significant related-party transactions.

During the 2018 financial period, relations continued with the related party MTS and its American subsidiary MTS4 Service based on the agreements signed on 27 October 2017, which involved the sale of a further 15 trencher machines for a total of Euro 9.6 million, revenues from ancillary services of Euro 0.3 million and costs for rental activities of Euro 3.2 million.

As at 31 December 2018, a total of 31 machines were sold in 2017 and 2018 for a total value of Euro 23.1 million, of which Euro 21.3 million collected, revenues from ancillary services amounted to Euro 0.3 million and costs for rental activities totalled Euro 3.8 million, of which Euro 1.6 million paid.

During the 2018 financial period, no other significant related-party transactions were carried out. For the supplemental information requested by CONSOB Communication No. 6064293 of 28 July 2006 on related-party transactions, refer to note 38 of the consolidated financial statements of the Tesmec Group and to note 34 of the financial statements of the Parent Company.

11. Parent Company management performance

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

Income statement

The income statement of the Parent Company in 2018 compared with that of the prior financial period is summarised below:

	Financial period ended 31 December			
(Euro in thousands)	**2018**	**% of revenues**	**2017**	**% of revenues**
Revenues from sales and services	**93,078**	**100.0%**	**90,949**	**100.0%**
Cost of raw materials and consumables	(49,471)	-53.2%	(51,018)	-56.1%
Costs for services	(14,402)	-15.5%	(16,340)	-18.0%
Payroll costs	(19,077)	-20.5%	(18,604)	-20.5%
Other operating (costs)/revenues, net	(1,602)	-1.7%	3,808	4.2%
Amortisation and depreciation	(4,298)	-4.6%	(4,635)	-5.1%
Development costs capitalised	2,578	2.8%	2,766	3.0%
Total operating costs	**(86,272)**	**-92.7%**	**(84,023)**	**-92.4%**
Operating income	**6,806**	**7.3%**	**6,926**	**7.6%**
Financial expenses	(4,433)	-4.8%	(8,879)	-9.8%
Financial income	3,263	3.5%	3,603	4.0%
Pre-tax profit	**5,636**	**6.1%**	**1,650**	**1.8%**
Imposte sul reddito	(1,306)	-1.4%	343	0.4%
Net profit for the period	**4,330**	**4.7%**	**1,993**	**2.2%**

Revenues from *goods sales* refer to income deriving from the transfer of stringing machines and equipment and trenchers, these revenues increased by 2.3%.

Other operating (costs)/revenues, net includes the positive effect of the tax credit for significant research and development expenses incurred by the Parent Company Tesmec S.p.A. for the expansion of the offer in the new sectors for automation, maintenance of existing power lines and service activities, which were combined with the renewal of the product range in all of Trencher's business areas. The total value of the tax credit amounted to Euro 1,999 thousand for the 2018 financial period (of which Euro 1,757 thousand pertaining to 2018) and to Euro 4,002 thousand for the 2017 financial period.

The table below illustrates the performance of EBITDA that decreased by 4.0% compared to the previous financial period:

	Financial period ended 31 December				
(Euro in thousands)	**2018**	**% of revenues**	**2017**	**% of revenues**	**2018 vs. 2017**
Operating income	6,806	7.3%	6,926	7.6%	(120)
+ Amortisation and depreciation	4,298	4.6%	4,635	5.1%	(337)
EBITDA	**11,104**	**11.9%**	**11,561**	**12.7%**	**(457)**

(*) 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.

Operating profit

Operating Profit equal to Euro 6,806 thousand in 2018, decreased by 1.7% compared to 2017 as a result of the trends already described in the comment on EBITDA and of additional amortisation related to investments in research and development of the current year.

Net result
Results for the period amounted to Euro 4,330 thousand (Euro 1,993 thousand in 2017) after deducting negative taxes totalling Euro 1,306 thousand (positive taxes totalling Euro 343 thousand in 2017).

Balance sheet and financial profile
The financial position of the Company as at 31 December 2018 compared to 31 December 2017 is briefly shown below.

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
USES		
Net working capital [(1)]	32,598	32,042
Fixed assets	70,390	57,957
Other long-term assets and liabilities	3,751	(1,367)
Net invested capital (2)	**106,739**	**88,632**
SOURCES		
Net financial indebtedness [(3)]	55,020	40,907
Shareholders' equity	51,719	47,725
Total sources of funding	**106,739**	**88,632**

[(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.

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

Working capital

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Trade receivables	28,869	27,367
Inventories	34,528	35,554
Trade payables	(25,584)	(25,198)
Other current assets/(liabilities)	(5,215)	(5,681)
Net working capital (1)	**32,598**	**32,042**

[(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.

The Working capital compared to net revenues decreased from 35.2% reported in 2017 to 35.0% in 2018. This result was affected by the increase in trade receivables of Euro 1,502 thousand and by the decrease in inventories of Euro 1,026 thousand partially offset by the decrease in other current assets/(liabilities) of Euro 466 thousand.

Fixed assets

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Intangible assets	6,041	6,375

Property, plant and equipment	8,291	9,130
Equity investments in subsidiaries	54,317	40,711
Equity investments in associates	1,738	1,738
Other equity investments	3	3
Fixed assets	**70,390**	**57,957**

The increase in equity investments in subsidiaries is due to the increase in equity investment in Marais Technologies SAS (Euro 2,250 thousand), in Tesmec SA (Euro 5,935 thousand), and in Marais Laying Tech. Australia (Euro 1,924 thousand) relating to the operations described in the paragraph *3.Significant events occurred during the period and development of the company structure*.

Net financial indebtedness

	31 December			
(Euro in thousands)	**2018**	***of which with related parties and group***	**2017**	***of which with related parties and group***
Cash and cash equivalents	(10,560)		(11,815)	
Current financial assets [1]	(36,967)	*(34,612)*	(45,836)	*(42,901)*
Current financial liabilities	57,350	*2,339*	63,859	*2,077*
Current portion of derivative financial instruments	-		82	
Current financial indebtedness (2)	**9,823**	***(32,273)***	**6,290**	***(40,824)***
Non-current financial liabilities	45,162		34,554	
Non-current portion of derivative financial instruments	35		63	
Non-current financial indebtedness (2)	**45,197**	-	**34,617**	-
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	**55,020**	***(32,273)***	**40,907**	***(40,824)***

(1) Current financial assets as at 31 December 2018 and 31 December 2017 include the market value of shares that are considered cash and cash equivalents.
(2) Current and non-current financial indebtedness is not identified as an accounting measure under IFRS. The valuation criteria applied by the Group may not necessarily be the same as those adopted by other groups and therefore
the balance obtained by the Group may not necessarily be comparable therewith.

Net indebtedness stood at Euro 55,020 thousand as at 31 December 2018 from Euro 40,907 thousand as at 31 December 2017. The change in non-current financial indebtedness includes Euro 16.432 thousand due to new loans obtained during the period offset by the reclassification of short-term portion of medium/long-term loans of Euro 5,823 thousand.

Shareholders' Equity

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

12. Corporate governance and self-regulatory code of conduct

The Tesmec Group conforms to the Self-regulatory Code of Conduct of listed companies approved in March 2006 and subsequently amended, updated in July 2015 and updated again in December 2018, by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., with additions and adjustments resulting from the characteristics of the Group.,
The "Report on corporate governance and ownership structures" contains a general description of the corporate governance system adopted by the Group and shows the information on ownership structure and compliance to the Self-regulatory Code of Conduct, including the main governance practices applied and the characteristics of the system of risk management and internal audit in relation to the process of financial reporting. The aforesaid Report is enclosed with the financial statements and subject to the same advertising terms provided for the financial statements, and it is available on the following website www.tesmec.com, in the Investors/Governance section.
For the information relating to corporate offices covered by the Directors of the Company, we make reference to what is reported in the *Report on corporate governance and ownership structures*. For the members of the Board of the Statutory

Auditors, the complete and updated list of the corporate offices is published by CONSOB on its website, pursuant to Article 144-quinquiesdecies of the Issuer Regulation.

13. Places where the Company operates

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

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

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

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

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

- on March 13, 2019, the waiver requested from the Cariparma Banking Institute was obtained in relation to the failure to comply with the financial covenant relating to the Net Financial Position / EBITDA ratio envisaged on the m / l term loan in place with this Institute.

15. Business outlook

Based on the current order backlog and thanks to developments in the energy/telecommunications, mining and rail segments, in 2019 the Group expects revenues to increase, a substantial recovery in margins, an improvement in Net Financial Indebtedness and a recovery in the dividend distribution policy. The main drivers of development in the Energy segment will be related to the implementation of integrated solutions focused on special projects managed with new laying methods and the launch of certified products for the creation of Smart Grid. In the Trencher segment, growth will come from the development of the value chain for the 5G, FTTx and mining segments. Finally, the railway segment will be positively affected by the start-up of projects related to new systems for diagnostics and maintenance on a web platform.

16. Other information

Management and co-ordination activities

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

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

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

Treasury shares and shares of parent companies

On 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 6 April 2018) to the date of the period covered by this report, 31 December 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.

Equity investments held by Directors and Statutory Auditors

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

Tesmec shares held by directors and statutory auditors

Board of Directors and Auditors

Name	Shareholding	Role	Number of shares held at the beginning of the 2018 financial period	Number of shares purchased	Number of shares sold	Number of shares held at the end of the 2018 financial period
Ambrogio Caccia Dominioni	Direct	Chairman and Chief Executive Officer	155,800	-	-	155,800
Gianluca Bolelli	Direct	Vice Chairman	101,000	-	-	101,000
Caterina Caccia Dominioni	Direct	Director	9,500	-	-	9,500
Lucia Caccia Dominioni	Direct	Director	9,500	-	-	9,500
Stefano Chirico	Direct	Statutory Auditor	11,492	-	-	11,492

Italian Legislative Decree 231/01

The Company adopted an Organisational Model aimed at ensuring fair and transparent conditions in running the company business, to protect all holders of interest of the Company, tailored on the specificity of Tesmec S.p.A.
Following the entry into force of Italian Law 179/2017 on Whistleblowing (amending Article 6 of Italian Legislative Decree 231/01) on 3 August 2018, the Board of Directors resolved to update the Company's Model by inserting the paragraph "Reports of irregularities" and updating the paragraph "Function of the disciplinary system" included in the General Part of the Model. The Special Part was also approved at the same venue following updates deemed to be non-substantial (simplification of the website to search for reference lists).

Information on Significant Companies outside the EU

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

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

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

Information pursuant to Italian Law 124/2017

Italian Law no. 124 of August 4 introduced, starting with the 2018 financial statements, certain transparency requirements of persons who receive "subsidies, contributions, paid assignments and, in any case, economic advantages of any kind" from public administrations and from a series of similar subjects with whom they have economic relations.
In view of the fact that this provision raised questions of interpretation and application that are still unresolved, the Group carried out the necessary in-depth studies and, also in the light of the most recent guidelines, considers that the following elements are not part of the legal requirement of publication:

- amounts received as consideration for public works, services and supplies;

- remunerated tasks that are part of the typical business activity of the company;
- the general measures available to all enterprises within the general structure of the reference system defined by the State (for example: ACE);
- selective economic advantages received under an aid scheme, available to all enterprises meeting certain conditions, based on predetermined general criteria (for example: contributions to research and development projects and tax reliefs);
- public resources from public bodies in other countries (European or non-European) and from the European institutions;
- training contributions received from interprofessional funds (for example: Fondimpresa and Fondirigenti); in that funds in the form of associations and the legal status of private-law entities, which are financed by contributions paid by the enterprises themselves.

With regard to Tesmec S.p.A. and its Italian subsidiaries, the only information given is that relating to grants falling within the category of donations and ad hoc public aid, i.e. not granted under a general scheme:

Beneficiary party	Disbursing Subject	Allowed contribution	Reason
Tesmec Rail S.r.l.	Apulia Region	Euro 5,689,070	Investment aid for large enterprises

These amounts are also recorded in the National State Aid Register to which reference is made.

Information pursuant to EU Regulation 2016/679 on General Data Protection Regulation – GDPR

Starting from May 2018, Tesmec Group has applied the Regulation on the protection of personal data (EU Regulation 2016/679 on General Data Protection Regulation - GDPR).

The GDPR is intended to ensure that the processing of personal data carried out by the company complies with the principles of lawfulness, correctness, transparency, non-excessiveness and protection of confidentiality.

Tesmec has complied with the new European standards by adapting its compliance standards, namely through:

1) the update of the Information on the website www.tesmec.com which can be consulted in the Privacy section;
2) the establishment of the Treatment Activity Register;
3) the revision of the existing procedural set and the introduction of new procedures provided by the GDPR.

For this last purpose, the Tesmec procedural set consists of:

- Policy named "Use of information tools, the corporate network, e-mail and related data processing", which codifies the rules of conduct to be respected in the use of the IT tools and company devices supplied and defines suitable control methods;
- "Data Retention" procedure, which defines the guidelines on the storage of personal data, with particular reference to the duration of the processing;
- "Data Protection Impact Assessment" process instructions, which, in application of the "Privacy by Design" principle, represent the tool to be used for risk assessment in the event of new activities and/or changes to pre-existing activities that involve data processing personal;
- "Data Brench Notification" process instructions, which establishes the rules for notifying the supervisory authorities in the event of violation of personal data.

17. Consolidated Disclosure of non-financial information 2018 in accordance with Italian Legislative Decree no. 254/2016

17.1 Methodological note

17.1.1 Purpose of this section

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

This consolidated Disclosure of non-financial information (also "DNF" or "Disclosure"), referring to the financial period ended the 31st December 2018, is the commitment of the Tesmec Group to report on the non-financial impacts of its actions, in compliance with the provisions of the Decree, on an annual basis. Tesmec has chosen to integrate the Disclosure into its 2018 Report on Operations.

17.1.2 Boundary of the consolidated Disclosure of non-financial information

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

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

For the following companies, the areas relating to human resources, human rights and anti-corruption/compliance are reported:

- OOO Tesmec RUS
- Tesmec New Technology (Beijing) Ltd
- Marais Trenching AFS

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

The companies Marais Technologies SAS, Bertel S.r.l. and East Trenchers S.r.l. are also excluded from the reporting boundary because in for 2018 they had zero employees and turnover with an impact of less than 1%, therefore with no impact for non-financial reporting purposes.

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

17.1.3 Reference guidelines and reporting process

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

Tesmec Group identified the Chief Financial Officer, also the Responsible for preparing the Company's financial statements, as the Manager in charge of preparing the DNF with the task of managing the process of collecting and aggregating the data and information required for preparing the DNF. Under his coordination, an internal working group was set up, representing the main business functions, in order to collect the information required for the DNF, verify and validate it, and store the supporting documents to ensure their traceability.

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

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

17.1.4 Materiality analysis

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

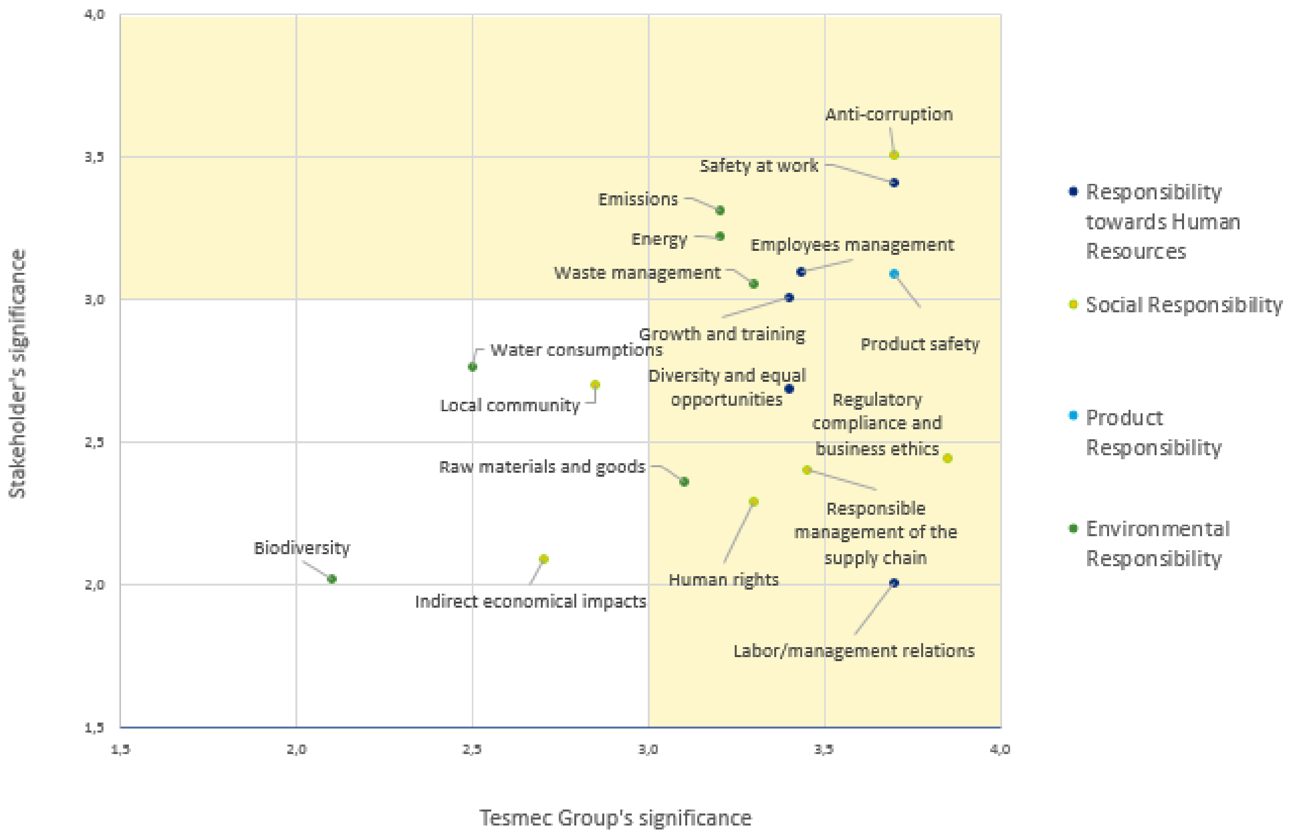
The process for determining material aspects has beencarried out by evaluating the topics that are considered relevant by Tesmec maintaining the management's perspective unchanged, which was collected for materiality analysis of the year 2017 and updating the Stakeholder's perspective. The updating process considered a benchmark analysis that included an in-depth analysis of comparable companies, the media, segment trends and sustainability macro-trends in order to bring out the aspects considered most significant, both for Tesmec Group and its Stakeholders, and which will be reported in this Disclosure.

The integration of the Stakeholder assessment considered by comparing the benchmark analysis was carried out by analysing the sustainability reports published by companies operating in the same sector of the Tesmec Group or carrying out similar activities, in order to identify the issues that they deal with most. Moreover, articles related to the Tesmec Group's activities were searched and selected using keywords related to the areas covered in the consolidated Disclosure of non-financial information for the year 2017 and 2018. A study of the sector trends was also carried out to identify the main sustainability aspects relevant for the various stakeholders in relation to the business segment. Finally, macro-trends relating to the world of sustainability contained in documents published by highly relevant sources such as, for example, the Dow Jones Sustainability Index and the World Economic Forum Risk Report were considered.

The evaluation of the list of potentially material aspects was therefore updated from the point of view of Stakeholders by mathematically combining the results of the above analysis with the evaluation that management carried out in 2017 from the perspective of its Stakeholders.

The management's perspective, which is unchanged from the previous year, considered the direct participation of the representatives of the companies included in the boundary of reference for the consolidated Disclosure of non-financial information (CFO, Head of Health, Safety and Environment, Head of Product development and Marketing, Purchasing Manager, Group Controller, Director in charge of the Internal control and Risk management system, Human Resources Manager and Investor Relator). A questionnaire was distributed to them containing a series of aspects relating to six macro areas: Governance, Collectivity, Economic responsibility, Product liability, Social responsibility and Environmental responsibility. Each aspect was assessed by assigning a score, in order to bring out those relevant and related to the Group's economic, compliance, environmental and social impacts, including also issues relating to personnel.

The results of these analyses were aggregated and rationalised on the basis of the aspects defined by the GRI Standards and the regulatory requirements of Italian Legislative Decree 254/2016 in order to construct the materiality matrix that considers in the x-axis the average values of each aspect relevant for Tesmec and in the y-axis the average values of each relevant aspect according to Stakeholders. Moreover, it was verified that the relevant GRI aspects had not been excluded from the assessment. A threshold was then set that made it possible to identify the material aspects that, once submitted for management approval, were subject to reporting. Aspects higher than 3 (defined as "materiality threshold"), on a scale from 0 to 4, for both axes, are considered material for Tesmec. Finally, the material aspects were related to the areas of the Decree, the aspects of the GRI Standards and the related disclosures and are represented in the table below "Concordance table between the TESMEC material aspects and the GRI Standards".



Concordance table between Tesmec material aspects and the GRI Standards

Aspect	Material aspects	Topic-specific GRI Reference standards	PERIMETER OF IMPACTSI	
			Internal impacts	External impacts
Anti-corruption	Anti-corruption	Anti-Corruption (GRI 205)	All the group	Consultants, agents, and partners
Human Resources	Employees management	Organisational profile (GRI 102)	All the group	
		Employment (GRI 401)		
	Labor/management relations	Minimum notice periods regarding operational changes (GRI 402)	All the group	
	Safety at work	Occupational Health and Safety (GRI 403)	All the group	Suppliers
	Growth and training	Training and workshops (GRI 404)	All the group	
	Diversity and Equal Opportunities	Diversity and Equal Opportunity (GRI 405)	All the group	
Human rights	Human rights	Non-discrimination (GRI 406)	All the group	Suppliers
Environment	Energy	Energy (GRI 302)	All the group	Suppliers
	Emissions	Emissions (GRI 305)	All the group	Suppliers
	Waste management	Effluent and waste (GRI 306)	All the group	Suppliers
	Raw materials and goods	Materials (GRI 301)	All the group	Suppliers
Social	Regulatory compliance and business ethics	Environmental and socioeconomic compliance (GRI 307; GRI 419)	All the group	

	Product safety	Customer health and safety (GRI 416)	All the group	Sales network (dealers and authorised agents)
	Responsible management of the Supply Chain	Supplier Social and Environmental Assessment (GRI 308, GRI 414)	All the group	Suppliers

With regard to the materiality analysis related to the 2017 consolidated Disclosure of non-financial information, the "Governance" aspect is reported across all the material aspects of the Group and the "Innovation, Research and Development" aspect was not considered because not directly related to the areas of non-financial reporting, while the following new aspects related to "Raw materials and materials" and "Regulatory compliance and business ethics" were considered relevant.

Reporting is not extended to the external boundary.

17.1.5 Adopted calculation methods

Only CO_2 emissions were taken into account for the calculation of greenhouse gas emissions. CO_2 emissions are calculated by multiplying the GJ of energy by the emission factors deriving from the technical literature in force. In particular, DEFRA (Department for Environment, Food & Rural Affairs) data, updated in 2018, was used for fossil fuels.

The emission factors used to convert energy into tonnes of CO_2 are the following:

Category / fuel		
Electricity (Location based)	kWh	Country specific EF - gCO_2 (Source: Terna international comparisons on 2016 Enerdata figures)
Electricity (Market based)	kWh	Country specific EF - gCO_2 (Source: AIB - Association of issuing Bodies, 2017 European Residual Mix – report). Where not available, the emission factors used for the location-based calculation were used
Natural Gas	1 tonne natural gas	2.741 tCO_2
Diesel	1 tonne diesel oil	3.087 tCO_2
Petrol	1 tonne Petrol	2.984 tCO_2
LPG	1 tonne LPG	2.933 tCO_2

For the purposes of the requirements of the 403-2 standard, the day on which the event occurred was also taken into account in the calculation of the lost days, taking into account the so-called "calendar days", and the lost days related to injuries while travelling to/from work were also included in the calculation. With regard to the calculation of the hours worked, where the data was not available, estimates have been used.

Accident rate calculation method	
Frequency index	(Number of injuries/total number of hours worked) x 1,000,000
Severity index	(Number of days lost due to injuries at work/total number of workable hours) x 1,000
Index of occupational diseases	(Number of occupational diseases/total number of hours worked) x 1,000,000
Rate of absenteeism	Number of days of absenteeism/total number of workable hours

For the purposes of the 306-2 standard, the production of municipal waste was excluded from the calculation.

17.2 Mission and values of the Tesmec Group

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

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

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

With its Code of Ethics, Tesmec defines at Group level the ethical and social responsibility of all participants in the entrepreneurial organisation. An ethical approach to business is essential to ensure the reliability of the Company and Group's behaviour towards Stakeholders and, more generally, towards the entire civil and economic context in which the Company and the Group operate. The compliance with the Group's Code of Ethics by all company representatives is of fundamental importance for the proper operation, reliability and reputation of the Company and of the Group itself.

In particular, the values of Tesmec are:

- Enhancement of human resources and personal integrity
- Confidentiality
- Responsibility towards the community
- Fighting corruption and conflicts of interest
- Protection of human rights and safety of people
- Protection of the environment and quality standards
- Fair competition
- Protection of Intellectual Property
- Transparency
- Fairness in the management of contracts

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

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

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

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

17.3 Compliance and Anti-Corruption

The following table shows the material aspects relating to compliance and anti-corruption. It should be noted that the Management of Tesmec identified the main risks, generated or suffered, related to the aspects of the Decree and deriving from the business activities, identifying the appropriate prevention and mitigation actions. These risks will be listed in specific tables for each chapter of this document.

MATERIAL ASPECTS RELATED TO IDENTITY AND GOVERNANCE	MAIN RELATED RISKS ("Main risks and uncertainties" of the Report on Operations)
Regulatory compliance and business ethics **Anti-corruption**	Risks related to offences involving corruption Risks related to corporate crimes Risks related to non-compliance or violation of the reference legislation or applicable regulations Reputational risk deriving from recognised non-compliance events Possible unethical/illegal behaviour by the BoD, Top Management and employees

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

17.3.1 Policies, management systems and organisational models

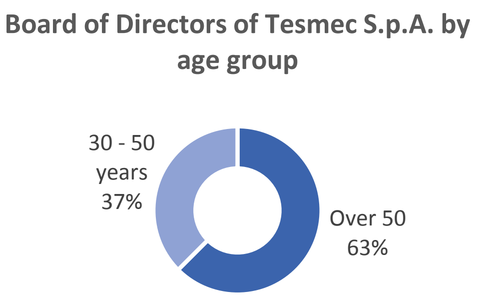
Corporate Governance Structure

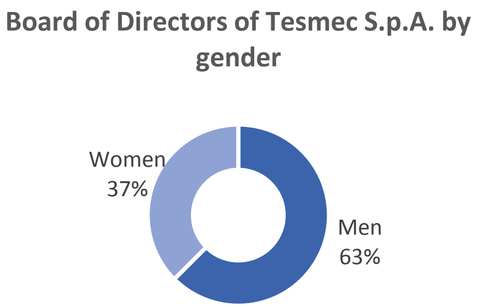
The Corporate Governance structure adopted by Tesmec is based on the recommendations and regulations contained in the Self-Regulatory Code of Conduct adopted by the Corporate Governance Committee of the listed companies, in the belief that, on the one hand, having a structured system of rules allows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

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

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

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





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

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

Management systems and organisational models

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

- Integrated Quality, Health, Safety and Environment System: 9001:2015; ISO 14001:2015 and OHSAS 18001 for Tesmec S.p.A.
- Organisational, Management and Control Model pursuant to Italian Legislative Decree 231/2001 for Tesmec S.p.A. and Tesmec Service S.r.l.
- ISO 9001:2015 for Tesmec Automation S.r.l. and Tesmec Service S.r.l.

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

The Management of Tesmec S.p.A. also approved specific policies on Environment, Health and Safety, as the companies Groupe Marais SAS and Tesmec USA, Inc. approved their own policies. However, the Group is progressively harmonising its policies with a view to making processes and systems more efficient.

The aspects related to the Environment, Health and Safety at work are also included in the Special Parts of Models 231 of Tesmec S.p.A. and Tesmec Service S.r.l., i.e. Offences relating to Health and Safety at Work and Environmental Offences; the relevant Special Parts identify specific sensitive areas with reference to offences envisaged by Italian Legislative Decree no. 231/2001.

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

The most material aspects for the Decree (Anti-Corruption, Human and Social Resources, Environment, including Safety at Work) are managed at a high level centrally by the respective functions (Corporate Legal Counsel, HR Manager, QHSE Manager, Purchasing Manager), supported operationally by reference figures in the various Countries in which the Group operates.

Risk management

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

The importance of risk control in achieving the Company's objectives makes it of primary importance to define a preliminary analysis system that is adequately structured in order to strive for a high level of operating performance. Responsibility for risk management and control activities lies with the Chief Executive Officer, who is responsible for coordinating risk identification activities and monitoring their correct management. The Board of Directors of Tesmec S.p.A. also appointed the Director in charge of the Internal Control and Risk Management System, who is responsible for identifying and managing business risks.

The Company appoints the Internal Audit function as staff for the Board of Directors, reporting directly to the Control and Risk Committee, responsible for coordinating and assessing the compliance of the business processes with rules and regulations, he periodically reports to the control bodies on its activities, without prejudice to the responsibility of the Board of Statutory Auditors pursuant to Article 2403 of the Italian Civil Code, which carries out checks on what may have a significant impact on the financial statements, including in terms of potential liabilities; the Board of Statutory Auditors issues formal certification of these checks by means of special minutes.

The Company has also identified concrete ways of coordinating and improving the efficiency of the activities of the parties involved in the internal control and risk management system, envisaging joint meetings between them. In particular, the meetings of the Control and Risk Committee are usually attended by the members of the Board of Statutory Auditors, the Director in charge of the internal control and risk management system, the Internal Audit Function Manager and the manager responsible for preparing the company's financial statements.

With regard to the monitoring of risks relating to the Environment, Health, Safety and Compliance, during the year the Control and Risk Committee organised periodic meetings to share and review the Safety and Environment Reports and the six-monthly and annual reports of the Supervisory Body.

In order to obtain the integrated OHSAS 18001, ISO 14001 and ISO 9001 certifications of Tesmec S.p.A., in 2018 a risk assessment activity was carried out in the field of health, safety and environment.
The overall commitment of the Tesmec Group to strengthening its risk management activity also emerges from the safety and environmental risk assessment activities carried out by Groupe Marais SAS which, despite not having implemented systems certified according to ISO standards, has made every effort to map as much as possible the activities subject to safety and environmental risks both with regard to sites and with regard to the activities carried out at repair shops, proposing remedial actions to be taken.

Anti-Corruption

Tesmec is actively committed to preventing and fighting corruption through a control unit that is an integral part of the Internal Control System. Legality, honesty, integrity, fairness and transparency are some of the general principles on which the Code of Ethics of the Group and the management of the business activities are based upon. At Group level, the fight against corruption is the responsibility of any person acting in the name or on behalf of Tesmec.

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

The first control unit to mitigate the risk of corruption both with regard to the Public Administration and among private individuals is represented by the Organisational, Management and Control Model pursuant to Italian Legislative Decree 231/2001 to ensure the prevention of the commission of the offences envisaged by the aforementioned decree.

In October 2018, the update of the Group Anti-Corruption Policy was approved.

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

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

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

The prohibition is not limited to cash payments only, but includes, for corruption purposes:
- gifts, expenses and hospitality to third parties;
- contributions such as donations, sponsorships, etc;
- commercial activities, employment or investment opportunities;
- confidential information that could be used to trade in regulated securities and products;
- personal discounts or credits;
- care or support for family members;
- other advantages or benefits.

During 2018, there were no cases of both active and passive corruption.

17.4 Management of human resources and human rights

The relevant aspects related to the management of human resources are summarised in the following table, together with the main risks identified by Tesmec's management.
The Human Resources Department of Tesmec S.p.A. acts as a coordinator for the corresponding local functions, but each Group company has its own management as a result of the needs arising from specific local legislation.
The data concerning the issues raised in the 2018 materiality analysis were collected and processed centrally by the Human Resources Department of Tesmec S.p.A. with the support of its local contacts, by sending questionnaires in Excel format.
The following pages describe the policies, the management system and the results achieved.

RELEVANT ASPECTS RELATED TO HUMAN RESOURCES and HUMAN RIGHTS	MAIN RELATED RISKS (cf. § "Main risks and uncertainties" of the Report on Operations)
Growth and training **Employees management** **Safety at work** **Human rights** **Labor/management relations** **Diversity and equal opportunities**	Risk of increased turnover and loss of personnel with high professional seniority and difficulty in integrating skills Risk of not being able to find resources on the market with skills integrated with the ability to digitize the company Risk of increased injuries Risk of increased work-related stress Risk of injury for personnel on secondment due to difficulties in monitoring compliance with health and safety standards at customer sites Dangers to persons in the vicinity of the workplace due to interference with personnel from other companies or external personnel in the same workplace

17.4.1 Policies, management systems and organisational models

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

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

At Group level, even if Tesmec does not have a formalised single policy for the human resources aspect (given the diversity of the global, contractual and regulatory aspects of personnel management), the principles and guidelines contained in the Code of Ethics inspire the entire Group. In fact, it affirms the fundamental commitments according to which the Group companies safeguard and promote the value of human resources in order to increase the wealth of expertise of each employee encouraging the respect for a person's physical, moral and cultural integrity. Moreover, the SPEED values (Safety and ethics, Empowerment for continuous improvement, Enthusiasm passion, commitment, and self-motivation and ADaptability) shared by Tesmec are fundamental to increase awareness and knowledge of the principles that unite the human resources of all Group companies.

The elements that characterised Tesmec's personnel management system in 2018 are reported below:

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

Tesmec is aware that some operations carried out as part of its activity can present risks for the environment and the people. In addition to the commitments valid for the entire Group for the protection of the environment and safety in the workplace, Tesmec S.p.A. implemented an integrated Policy for the Health and Safety of workers and for the Environment, following the achievement in 2018 of integrated certification on Quality, Safety and Environment.

Lastly, the Italian companies of the Tesmec Group adopted a uniform set of Company Regulations that regulate company behaviour and conduct of the personnel, by inspiring also the principles of foreign companies.

Human rights

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

However, in order to avoid as much as possible that isolated cases could violate human rights, Tesmec envisaged in its Code of Ethics, among the fundamental ethical principles of reference, also that of "Enhancement of human resources and personal integrity", refusing any form of discrimination in terms of age, sex, nationality, sexuality, health status, marital status, race, political opinions, religious beliefs, etc. and any form of forced or irregular labour and exploitation of child labour, with the relevant mechanism for strengthening the culture and the penalty system that derive from it.

No cases of discrimination were registered during 2018, with the exception of one case currently under investigation concerning Tesmec USA.

Despite the reporting, monitoring and control system envisaged by the Code of Ethics for the protection of human rights, the Group is aware that the aspect could be important for the supply chain and that specific assessments to this effect could be carried out in the coming years, also after Tesmec S.p.A. obtained integrated certification in the field of Health and Safety in 2018. (OHSAS 18001) (see below § 5.1).

17.4.2 Non-financial results and indicators

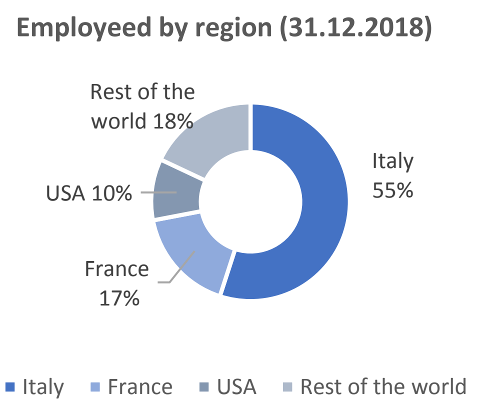
Composition and characteristics

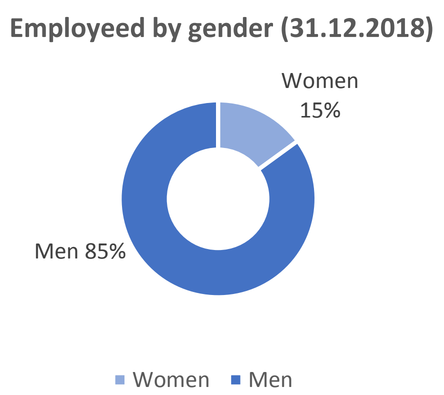
The Tesmec Group had 832 employees at 31 December 2018. There was an overall increase of 5% in Human Resources at 31 December 2018 compared to 31 December 2017.
The commitment to establish stable and lasting relations is confirmed by the high percentage of employees hired with an open-term labour contract (96% of the total).

	Number of employees as at 31 December by type of (permanent and temporary) contract, gender and region									
	Type of Contract	**2016**			**2017**			**2018**		
		Men	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
ITALY	Permanent	290	63	353	323	75	398	358	79	437
	Temporary	9	7	16	14	3	17	23	2	25
	Total Italy	**299**	**70**	**369**	**337**	**78**	**415**	**381**	**81**	**462**
FRANCE	Permanent	121	13	134	132	17	149	122	14	136
	Temporary	-	-	-	-	-	-	2	1	3
	Total France	**121**	**13**	**134**	**132**	**17**	**149**	**124**	**15**	**139**
USA	Permanent	56	10	66	70	11	81	70	11	81
	Temporary	-	-	-	-	-	-	-	-	-
	Total USA	**56**	**10**	**66**	**70**	**11**	**81**	**70**	**11**	**81**
REST OF THE WORLD	Permanent	70	9	79	130	15	150	129	17	146
	Temporary	-	-	-	5	-	-	4	-	4
	Total Rest of the World	**70**	**9**	**79**	**135**	**15**	**150**	**133**	**17**	**150**
TOTAL TESMEC GROUP	**Permanent**	**537**	**95**	**632**	**655**	**118**	**773**	**679**	**121**	**800**
	Temporary	**9**	**7**	**16**	**19**	**3**	**22**	**29**	**3**	**32**
	Total TESMEC GROUP	**546**	**102**	**648**	**674**	**121**	**795**	**708**	**124**	**832**

The geographical distribution of Group employees: 55% employed in Italy, 17% in France, 10% in North America and the remaining 18% in the rest of the world.

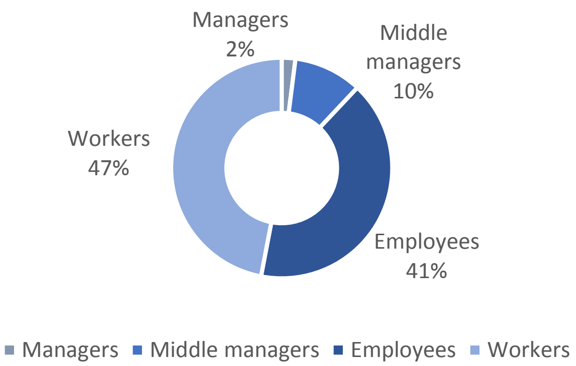
85% of the personnel are male.



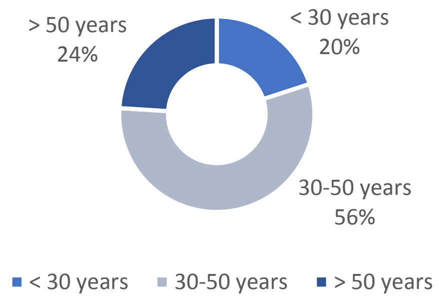


	Type of Contract	2016			2017			2018		
		Number of employees as at 31 December by type of contract (full-time and temporary) and gender								
		Men	Women	Total	Men	Women	Total	Men	Women	Total
TOTAL TESMEC GROUP	Full-Time	544	89	633	672	108	780	680	111	791
	Temporary	2	13	15	2	13	15	28	13	41
	Total Italy	**546**	**102**	**648**	**674**	**121**	**795**	**708**	**124**	**832**

Employees by employment category (31.12.2018)



Employees as at 31 December by type of contract and age group (31.12.2018)*



*It is specified that Tesmec USA, Inc. was not taken into account for the calculation of this index due to local regulatory restrictions.

The professional category most represented is that of workers (47% of the total), followed by employees (41% of the total), middle managers (10% of the total), and managers (2% of the total).

56% of the Group's employees belong to the age group between 30 and 50 years, 24% of employees are over 50 years of age and 20% of employees are under 30 years of age.

Employment category	Number of employees by type of contract and gender as at 31 December								
	2016			2017			2018		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	13	-	13	13	-	13	16	1	17
Middle managers	46	3	49	54	7	61	70	11	81
Employees	207	85	292	282	99	381	248	96	344
Workers	280	14	294	325	15	340	374	16	390
Total	**546**	**102**	**648**	**674**	**121**	**795**	**708**	**124**	**832**

Employment category	Number of employees by type of contract and age group as at 31 December 20181			
	2018			
	<30 years	30 years	>50 years	Total
Managers	-	8	8	16
Middle managers	10	45	21	76
Employees	75	183	58	316
Workers	66	183	94	343
Total	**151**	**419**	**181**	**751**

Employment category	Number of employees belonging to protected categories as at 31 December								
	2016			2017			2018		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	-	-	-	-	-	-	-	-	-
Middle managers	-	-	-	-	-	-	-	-	-
Employees	2	-	**2**	2	-	**2**	2	-	**2**
Workers	9	1	**10**	8	1	**9**	11	1	**12**
Total	**11**	**1**	**12**	**10**	**1**	**11**	**13**	**1**	**14**

[1]It is specified that Tesmec USA, Inc. was not taken into account for the calculation of this index due to local regulatory restrictions.

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

In 2018, the number of external workers of the Tesmec Group has been 78 (figure referring to all the reported companies, with the exception of Tesmec USA, Inc. for which no 2018 figures are available).

The use of coordinated and continued collaboration contracts takes place as part of the development of new product technologies whereas the use of internships, especially in Italy, takes place as part of the collaboration with technical institutes or collaboration relations with public institutions.

Training programmes

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

- welcoming and introduction onto the team through orientation programmes and personal tutors;
- achieving and sharing the results of the organisation;
- transparency, consistency and access to information necessary to perform the job;

stimulating and guiding the collaborators so that they contribute to the organisational targets, beyond the mere scope of their work.

Training activities were consolidated also in 2018, favouring active methods to support the processes of fitting into the company or into highly professional roles.

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

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

In this regard, it is necessary to guarantee the compulsory training as well as specific courses for employees' growth that each manager must provide to his sector in relation to the requirements as well as in relation to the peculiarities of each figure. Personnel training for all the Group's Italian companies is recorded in the INAZ software by the Human Resources Department of Tesmec S.p.A. in order to keep track of all training events organised both internally and with the support of external professionals.

The following table shows the average training hours for employees of companies within the reporting boundary of the Tesmec Group, broken down by type of contract and gender:

Employment category	Average hours of training per employee, broken down by type of contract and gender			
	2017	2018		
	Total	Men	Women	Total
Managers	0.2	0.9	0.0	0.8
Middle managers	2.6	2.3	5.8	2.8
Employees	4.7	3.2	2.9	3.1
Workers	15.5	17.2	18.6	17.3
Total	9.1	10.5	5.2	9.7

As shown in the table above, the average number of hours of training is higher for the category of workers (17.3 hours per employee).
The opportunity to qualify and enhance human resources also includes training programmes aimed at updating those who use new technologies, new organisational processes, as well as training the skills suitable for programming and multidisciplinary engineering of products and processes in new ways (hard skills and soft skills).
Tesmec places the employees at the centre of its strategies for growth and development, favouring the increase of their well-being and of an ideal work-life balance. With this in mind, it was decided to strengthen the Welfare Plan for Italian companies from 2017 onwards, a plan already active in 2016 with reference to management incentive, with a new Flexible Benefits plan for all employees opting for II level contracts and envisages using a set of different types of services aimed at increasing personal well-being, support to family life as well as social security and health coverage.
The benefits for full-time workers are also paid to part-time workers; the difference in the payment of benefits is defined by the different level of position in the company hierarchy.

Hiring and Turnover outbound

In 2018 and 2017, the following turnover indexes were recorded, broken down by age group, gender and geographical area.

New employees and turnover	Hiring*		Turnover*	
	2017	2018	2017	2018
Age group				
<30	49%	48%	11%	35%
30-50	28%	23%	8%	16%
>50	19%	10%	21%	11%
Gender				
Man	30%	24%	12%	18%
Woman	26%	21%	10%	20%
Geographic area				
Italy	21%	21%	10%	11%
France	27%	17%	18%	24%
United States	35%	35%	16%	35%
Rest of the world	76%	49%	12%	48%
Total	**30%**	**25%**	**12%**	**20%**

The data collected at the Tesmec Group level, considering the specified exclusions, show that in 2018 there was a greater incidence of hiring for employees under 30 years of age (48%), compared to the rates recorded respectively for the other age groups. At the same time, there was a higher turnover in the under-30s age group (35%). Moreover, hiring is evenly distributed by male gender (24%) and by female gender (21%) compared to the respective headcount totals.

Specifically, the following is a breakdown in absolute terms of the inbound and outbound turnover rates for 2017 and 2018.

Hiring:

2018	Italy			France			USA*			Rest of the world*		
Age group	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total (without age group)**	**Men**	**Women**	**Total**
<30	22	5	27	6	-	6	N/A	N/A		17	3	20
30-50	53	8	61	10	4	14	N/A	N/A	28	16	1	17
>50	9	1	10	4	-	4	N/A	N/A		3	1	4

2017	Italy			France			USA*			Rest of the world*		
Age group	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total (without age group)**	**Men**	**Women**	**Total**
<30	17	3	20	13	2	15	N/A	N/A	-	15	5	20
30-50	34	11	45	16	4	20	N/A	N/A	28	35	1	36
>50	20	2	22	5	-	5	N/A	N/A	-	6	-	6

Turnover:

2018	Italy			France			USA*			Rest of the world*		
Age group	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total (without age group)**	**Men**	**Women**	**Total**
<30	4	2	6	10	1	11	N/A	N/A	-	18	4	22
30-50	24	7	31	15	3	18	N/A	N/A	28	13	3	16
>50	13	1	14	4	-	4	N/A	N/A	-	2	-	2

2017	Italy			France			USA*			Rest of the world*		
Age group	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total (without age group)**	**Men**	**Women**	**Total**
<30	2	1	3	6	0	6	N/A	N/A	-	3	-	3
30-50	11	3	14	9	2	11	N/A	N/A	13	5	-	5
>50	19	5	24	9	0	9	N/A	N/A	-	2	-	2

***** For the purposes of calculating hiring and turnover rates by age group and gender, the figure for the United States has been excluded due to the restrictions imposed by local regulations : the number indicated in the table corresponds to the total number of employees hired and resigned without the specific age bracket of reference.
It was not possible to include the total figure for the New Zealand-based company.
Finally, note that the rates were calculated on the basis of the number of employees for the respective reporting year (e.g. 2018 turnover out of total employees as at 31 December 2018).

Health and Safety at work

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

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

For Italian companies, the responsibility for ensuring a safe working environment in compliance with current regulations, and therefore, the carrying-out of activities concerning the application of laws that regulate Health and Safety at work, is assigned to the Employer in the first place and, to all other persons involved in the organisation of safety (Prevention and Protection

Service Manager, Managers and Heads etc.). The periodic updating of the procedures as a consequence of any new regulation or organisational change always falls on the Employer, whether of the Parent Company or of the subsidiary companies.

With a view to continuous improvement, an operating procedure is also being implemented at the offices of the Group's Italian companies which, with the support of the Group's QHSE Manager (Quality, Health, Safety and Environment Manager), invites Tesmec employees to follow through three distinct phases the detailed reporting of any injury that may have occurred in the workplace. This procedure is aimed at obtaining a greater awareness of the causes of accidents in the workplace and at disseminating, through publication in a place accessible to all, the report of the event with the relative remedy action, where provided for, in order to raise awareness of the business culture in risk prevention and reduce the probability of occurrence of the event in the near future.

The Tesmec Group is also aware of the risks relating to the "Health and Safety" area concerning the personnel on secondment and to the work at the sites in which they operate. Therefore, following the principle of continuous improvement also indicated in the Group's Code of Ethics, Tesmec is preparing manuals of conduct for personnel on secondment at the site, with the aim of monitoring as much as possible the main risks related to the service activities carried out at these workplaces, in compliance with the regulations of the country of reference and of the other companies operating within the same site.

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

Injuries are divided into two categories:
- at work;
- while travelling to/from work.

In 2018, there were 28 injuries, 5 of which while travelling to/from work, for which Tesmec was not responsible, i.e. without any legal involvement by the Company. With regard to the breakdown of injuries by region, there were 16 cases in Italy (4 while travelling to/from work) and 12 in France (1 while travelling to/from work). The Group's frequency index for 2018 is 20.37, while the severity index is 0.58.

The following rates only take into account injuries that have resulted in days lost beyond the day on which the event occurred (i.e. minor accidents, e.g. first-aid and limitation to work, are not taken into account).

In 2018, there was one case of occupational disease in France.

Accidents and accident rates (employees)		2016	2017	2018		
		Total	Total	Man	Woman	Total
Italy	Frequency index	14.99	13.36	21.47	15.43	20.47
	Severity index	0.25	0.25	0.48	0.12	0.42
	Occupational disease index	N/A	N/A	-	-	-
	Rate of absenteeism	N/A	N/A	0.24%	0.33%	0.26%
France	Frequency index	28.24	59.36	49.97	39.91	48.94
	Severity index	1.03	1.46	2.01	0.8	1.88
	Occupational disease index	N/A	N/A	4.54	-	4.08
	Rate of absenteeism	N/A	N/A	0.80%	0.24%	0.74%
Rest of the World[1-2] *(including US)*	Frequency index	N/A	5.42	-	-	-
	Severity index	N/A	0.02	-	-	-
	Occupational disease index	N/A	N/A	-	-	-
	Rate of absenteeism	N/A	N/A	0.02%	0.13%	0.03%

[1] For 2017, for Tesmec SA (Pty), the workable hours were taken into account.
[2] For 2018, Marais Cote d'Ivoire SARL the workable hours and the hours worked were estimated; while for Tesmec USA, Inc. the male/female breakdown was estimated.

In 2018, there were also 7 injuries involving external workers.

Frequency index (external workers)	2018		
	Man	Woman	Total
Italy [1]	-	-	-
France	60.81	-	54.32
Rest of the World [2] (including US)	41.7	-	39.27

[1] Figures for Italy refer only to the companies Tesmec S.p.A. and Tesmec Automation S.r.l.
[2] Note that for Marais NZ Ltd an estimate was made to calculate the hours worked by external workers.

17.5 Responsible management of environmental impacts

The aspects related to environmental management are summarised in the following table, together with the main risks identified by Tesmec Management.
As from August 2018, the figure of the QHSE Manager (Quality, Health, Safety and Environment Manager) was included in the team of Tesmec S.p.A. with the task of coordinating at Group level the areas relating to Quality, Environment and Health and Safety, adopting the necessary measures to reduce the related risks. There is also the figure of the RSPP with reference to all the Italian companies of the Tesmec Group, as well as the ASPP for each Italian factory; in support of the above-mentioned business functions, Tesmec also avails itself of the services of an external consultant for certain issues relating to the "Environment" area concerning Italian companies. The Purchasing Office of Tesmec S.p.A., supported at the level of each branch by the local managers, collected and processed the data required for the purposes of this consolidated Disclosure of non-financial information, by sending questionnaires in Excel format.

The following pages describe the policies, the management system and the results achieved.

RELEVANT ASPECTS RELATED TO THE ENVIRONMENT	**MAIN RELATED RISKS** ("Main risks and uncertainties" of the Report on Operations)
Energy **Emissions** **Raw materials and materials** **Waste management**	Increase of costs related to energy supply Non-compliance with environmental laws and regulations Amendments of the regulations with sanction risks Environmental pollution with compulsory reclamation Lack of development due to demand for green technology, lack of suppliers able to guarantee environmental requirements, increased costs of natural resources Obsolete technologies and processes even in the face of legal requirements or other restrictive measures, lack of know-out and availability of external resources Hazards arising from actual or proposed changes in the organisation as a result of incorrect management of changes to existing processes or introduction of new machines

17.5.1 Policies, management systems and organisational models

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

The Management is aware that some operations carried out as part of its activity can present risks for the environment; such as hazards arising from actual or proposed changes in the organisation as a result of incorrect management of changes to existing processes or introduction of new machines.

To date, environmental commitments are not formalised in a single document valid for all Group companies, but are fully applied in the Code of Ethics at Group level, according to which the environment is a primary asset to be protected for present and future generations; in line with this principle, the Company and the Group plan their own activities seeking for the best possible balance between economic initiatives and environmental requirements: for example, in 2018 specific sensors were implemented in various areas at the Grassobbio site to monitor and improve the tracking of energy consumption.

During the year, Tesmec S.p.A. obtained the environmental certification ISO 14001, an important goal achieved with the aim of protecting the environment in which Tesmec operates. The certification and the related system aims at an in-depth knowledge of the environmental aspects (emissions, use of resources, etc.) that Tesmec S.p.A. must effectively manage, in accordance with the legislative framework and the applicable requirements, assessing the importance of their impacts. The system has also made it possible to define a company policy, to establish specific environmental responsibilities and to keep the procedures and records envisaged by the requirements of the regulation up to date.

A formalised HSE policy is already present in the American subsidiary Tesmec USA, Inc. and in the French company Groupe Marais SAS, but it is the company's intention to transfer these principles to its Italian and foreign subsidiaries in the coming years, with a view to global integration in the management of environmental issues.

The certification obtained by Tesmec S.p.A. in the Environment sector is part of a wider integrated certification project that Tesmec S.p.A. obtained in 2018, also in the Health and Safety (OHSAS 18001) and Quality (ISO 9001:2015) sectors. The entire system is equipped with Health and Safety and Quality Policies.

Tesmec's short-term objective is to obtain ISO 14001 and OHSAS 45001 certifications for the factories of the Italian company Tesmec Automation S.r.l. as well.

Therefore, the Management of Tesmec S.p.A. defines, also through the Environmental Policy, drawn up as part of the integrated certification of Tesmec S.p.A., its commitment to always keep in mind the aspect of the protection of the environmental heritage when defining company choices and objectives and to the constant improvement of the following essential aspects:

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

The Management of Tesmec S.p.A. is constantly engaged in defining and implementing the management system so as to ensure that all workers can work in the best possible conditions and become aware of the importance of protecting the company's assets, including the protection of the environment and safety in the workplace.

The advanced technologies developed by Tesmec are always focused on improving performance, respecting the environment and Tesmec, therefore, is committed to reducing greenhouse gas emissions and developing projects for energy efficiency. The machines produced have the objective of reducing the environmental impact to a minimum: low emissions and high efficiency motors, automated controls that optimise operations and reduce errors, minimised deforestation through the use of stringing equipment demountable and transportable by helicopter, reduced excavation sections by the trenchers that allow recycling of excavated material, etc.

The use of more and more advanced technologies allows Tesmec a continuous improvement and a greater attention to the environment in which the Group operates.

17.5.2 Non-financial results and indicators

Energy

For the protection of the environment, Tesmec S.p.A. is implementing a monitoring system as per ENEA directives to check consumption and define energy saving solutions and procedures.
In the last quarter of 2018, an energy monitoring system was implemented that, through specific sensors and a dedicated software, will allow a timely measurement and analysis of different energy consumption (such as gas consumption, electricity, etc.). This project aims to obtain a better measurement of consumption and thus allow a better energy efficiency.

The following table shows the Group's energy consumption for 2018 and 2017:

Energy consumption (GJ)	2017	2018
Natural gas	18,466	19,290
Diesel oil	32,596	58,479
Petrol	-	232
LPG	154	763
Electricity consumed	19,730	19,667
of which: electricity purchased	16,253	16,047
of which: electricity self-produced and consumed	3,477	3,620
Self-produced and sold electricity	-	702
Total consumption	**70,946**	**98,431**

In 2018, Groupe Marais SAS considered the Durtal factory as well as the main production workshops (known as repair shops) in the quantification of electricity consumption, while as regards the calculation of electricity of Tesmec SA, the figure for the year 2018 was estimated on the basis of the consumption of previous years.

Note that for 2018, the Company Tesmec S.p.A. produced 1,200,365 kWh from photovoltaic renewable energies, of which 194,925 kWh were sold to the electricity network.

Note also that the increase in the consumption of LPG in 2018 was due to its reporting by Tesmec Usa, Inc., in view of the refinement of the data collection process.

With regard to the increase in diesel consumption compared to 2017, the consumption of the resource by the Australian company had a considerable impact in 2018 because it recorded an increase in excavation activities mainly in sites larger than the previous year. Unlike 2017, the year in which most minor projects were undertaken, mostly relating to the construction of sites for the production of solar energy and for which there was lower consumption of diesel oil. Finally, the diesel consumption index clearly increased also due to the higher consumption of this resource by the company based in Côte d'Ivoire, in that in 2018 it carried out more subcontracting activities with refuelling costs at its own expense compared to 2017, the year in which machine rental activities prevailed.

Emissions into the atmosphere

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

Tesmec calculates its "carbon footprint" in terms of CO_2, reporting:

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

Scope 2 emissions were calculated in accordance with the Location-based and Market-based method.

As can be seen from the table below, the total emissions of Scope 1 and Scope 2 increased in 2018 compared to the previous year. This change is mainly due to the increased use of primary fuels (e.g. diesel and LPG) and to an improvement in the data collection system by the companies belonging to the reporting boundary, which made more accurate information available.

Emissions (tCO2)	2017	2018
Direct emissions - scope 1		
emissions from natural gas consumption	1,032	1,093
emissions from diesel oil consumption	2,398	4,219
emissions from petrol consumption	-	16
emissions from LPG consumption	10	49
Total scope 1	**3,440**	**5,377**

Indirect emissions - scope 2		
Emissions from electricity consumption - *location based*	1,780	1,518
Emissions from electricity consumption - *market based*1	1,894	1,843
Total scope 1 and scope 2 (market based)	**5,334**	**7,220**

[1] In addition to the data reported in 2017 DNF, the Scope 2 emissions - market based for 2017 were reported, calculated according to the methodology described in the section "Adopted calculation methods".

Waste

With reference to the nature of the activities described in the above paragraphs, the Tesmec Group produces mainly non-hazardous waste.

As can be seen from the table below, for the year 2018, 319 tonnes of hazardous waste were produced, of which about 80% was sent for recycling.

With regard to the production of non-hazardous waste, about 70% of the total produced in 2018 was recycled, while about 30% was sent to landfill.

The figure for the year 2018 is higher than for the year 2017 because the calculation for 2017 did not include the figure relating to the production of waste of the French company Groupe Marais SAS, not available.

	Total waste by type and method of disposal		
	Unit of measurement	From 1 January to 31 December 2017	From 1 January 2018 to 31 December 2018
Type of waste and method of disposal		Total	Total
Total hazardous waste	**t**	**127.6**	**319.4**
- Of which reused	t	-	-
- Of which recycled	t	105.9	255.3
- Of which composted	t	-	-
- Of which recovered, including energy recovery	t	-	41.4
- Of which dumped	t	5.6	6.5
- Of which burned	t	15.8	15.9
- Other	t	-	-
Temporary storage and/or last year's storage	t	0.3	0.3
Total non-hazardous waste	**t**	**1,079.4**	**1,130.7**
- Of which reused	t	-	-
- Of which recycled	t	691.1	781.7
- Of which composted	t	1	2
- Of which recovered, including energy recovery	t	10	11.5
- Of which dumped	t	377.3	335.5
- Of which burned	t	-	-
Other	t	-	-
Temporary storage and/or last year's storage	t	-	-
Total Waste	**t**	**1,207.1**	**1,450.1**

Raw materials and materials

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

The raw materials most used (in terms of quantity) by the production companies (Tesmec S.p.A., Tesmec USA, Inc., Groupe Marais SAS) are semi-finished products in steel and aluminium (sheets, tubes, rounds) and semi-finished products in nylon (rings and plates) as well as hydraulic oil and lubricants. Tesmec Service S.r.l. and Tesmec Automation S.r.l. do not purchase semi-finished products made of steel, aluminium or nylon as a relevant raw material.

In total, 866 tonnes of steel and ferrous materials were purchased in 2017, whereas in 2018 the purchase of 1,667 tonnes is broken down as follows: semi-finished steel and aluminium products (sheets, tubes, rounds), semi-finished nylon products (rings and plates), hydraulic oil and lubricants. These purchases refer to Tesmec S.p.A., Tesmec USA, Inc. and Groupe Marais SAS, whereas Tesmec Service S.r.l. is included for the purchase of hydraulic oil and lubricants.

Purchase of materials (tonnes)	2018
Semi-finished steel products (sheets, tubes, rounds)	1,306.5
Semi-finished aluminium products (sheets, tubes, rounds)	53.5
Semi-finished nylon products (rings, plates)	73.1
Hydraulic oil and lubricants	234.0
Total	**1,667.1**

Moreover, in terms of the high quantity of purchases on an annual basis, for the purposes of a more complete representation, the elements purchased from Tesmec S.p.A. listed below have been considered:

- welded frames;
- welded wagon carrier trucks;
- capstans;
- cabins;
- conveyors;
- diesel engines;
- reduction gears and couplers;
- pumps and hydraulic motors;
- pneumatic components;
- electrical components;
- electronic components;
- axles and railway wheels;
- cranes and lifting platforms;
- teeth and excavation pockets;
- track chains.

17.6 Responsible management of the supply chain and product safety

The relevant aspects related to the management of suppliers and of the product are summarised in the following table, together with the main risks identified by Tesmec management.

The data concerning these issues were collected and processed by the Purchasing Manager of Tesmec S.p.A. in collaboration with the representatives of the Technical Office of Tesmec S.p.A. and the representatives of the local purchasing offices of the various companies involved in the consolidation area. The Purchasing Manager is permanently present at the Purchasing Office of Tesmec S.p.A. at the premises of Grassobbio and coordinates centrally the purchases for the premises of Endine and Sirone, where there are additional resources to support the Central Office. The Purchasing Manager of Tesmec S.p.A. also holds a power of attorney within certain financial limits for the purchases of Italian companies with registered offices in Monopoli, namely Tesmec Service S.r.l. and Tesmec Rail S.r.l. The Purchasing Manager of Tesmec S.p.A. coordinates with the other foreign premises of the Group on a continuous basis, with a view to organisational efficiency and, where possible, to obtain incentives deriving from the possibility of creating economies of scale.
The Purchasing Office of Tesmec S.p.A., supported at the level of each branch by the local managers, has collected and processed the data required for the purposes of this consolidated Disclosure of non-financial information, by sending questionnaires in Excel format.

The following pages describe the policies, the management system and the results achieved.

RELEVANT ASPECTS RELATED TO PRODUCT AND SUPPLY CHAIN	MAIN RELATED RISKS ("Main risks and uncertainties" of the Report on Operations)
Product safety **Responsible management of the supply chain**	Reputational risk for negative externalities transferred to suppliers Risk of loss of competitiveness Possible late and/or inadequate response to customer returns and expected levels of satisfaction Non conformity of product labelling Possible critical issues arising from after-sales service Negative advertising, intentional alteration of services by third parties, accidents involving contractors and suppliers

17.6.1 Policies, management systems and organisational models

The development and production of machines focus on efficiency (including energy efficiency), safety and product quality, from the mechanical design of individual components to the analysis of materials and components and strict quality controls in itinere and post-production.

The machines are equipped with logical, electrical and electronic controls to increase efficiency and reduce consumption and to allow easy and correct use of the machines and analysis devices; moreover, all Tesmec products are designed with the aim of protecting and increasing the safety of the operator.

The Recysoil® machine sold by Groupe Marais SAS is an example of an innovative product as it has the main advantage of recovering the waste material from road/soil breakage and reusing it immediately on site, thus reducing the impact of transporting waste/waste material.

The development of a Tesmec product - from conception to application on site - is a process that implies investments and involves the attention of different offices including, for example, the Technical Office, Production, Quality and Safety, and After-Sales Service.

Product development involves not only the Group companies, but innovation also expands the horizon towards the search of partnerships with suppliers leaders in their sector, pushing research into industrial products towards the technological renewal of components, mechanisms and electronics aimed at improving the performance of finished products.

Experimental development includes implementations and field tests coordinated and managed by specialised engineers. The attention to the machine or the equipment does not end with the finished product, but continues throughout its entire life cycle, through on-site inspections, direct on-site support, continuous reporting and monitoring activities by the technical staff present both remotely and in all countries where Tesmec machines are operating.

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

Tesmec S.p.A, Tesmec Service S.r.l., Tesmec Automation S.r.l. and Tesmec USA, Inc. obtained the ISO 9001:2015 certifications in compliance with the updates of the standard. All the systems are coordinated at Group level by the QHSE Manager who, at the level of the individual branch, is supported by the reference managers. Moreover, the Tesmec Code of Ethics also includes among the Group's fundamental principles the quality of products as an intrinsic value of the Tesmec trademark both in terms of its safety and compliance with the highest quality and regulatory standards.

With regard to the supply chain, the Group bases its conduct in relations with suppliers and all partners on principles of transparency, equality, loyalty and free competition. Tesmec recognises the strategic importance of its suppliers inspiring all negotiations in full compliance with all the values set out in the Code of Ethics adopted by the Group.

At Group level, no other policies were formalised with regard to the management of relations with suppliers or products in that the Code of Ethics guarantees the protection of such relations.

17.6.2 Non-financial results and indicators

Supply chain

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

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

The main services/goods purchased are:

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

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

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

Moreover, for the qualification of the new suppliers of Tesmec S.p.A., if considered strategic for the product they supply, Tesmec carries out a qualification process before establishing the collaboration that includes, for example, inspections at the premises of the supplier, collection of any certifications held by the supplier, samples and tests on products that will be purchased by it.

At present, there are no specific environmental or social requirements used in the qualification of a new supplier, except for those aspects related to safety and protection at work both during the collection of documents and during the visit to the supplier's premises, assessing elements such as the technical and professional suitability of the examined company, the regularity of contributions and remuneration for employees, the existence of a structure dedicated to safety at work, etc. However, with regard to the evaluation of existing suppliers, starting in 2019, in accordance with the provisions of the integrated certification on health, safety and the environment obtained by Tesmec S.p.A., specific questionnaires will be implemented for suppliers considered strategic, i.e. key suppliers for all Tesmec S.p.A. plants.

Product quality and safety

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

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

Conformity with the Machinery Directive (CE mark) is required for all products (where applicable), including those outside the EU, in order to ensure maximum coverage of the safety assessment. Therefore, the product is above the safety requirement in markets with lower safety requirements. Each machine and equipment is accompanied by a manual explaining the main risks that can be incurred due to incorrect use of the product.

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

In the event that technical problems and/or non-conformities are reported, despite the tests carried out, the Company, through its Technical Offices and after-sales service, promptly intervenes to avoid any non-conformities that emerged, especially those related to product safety, and takes action to resolve the problems.

The process of reporting non-conformities primarily involves the After-Sales Office, which appoints a person in charge of the Technical Office or a person in charge of an After-Sales Service to verify what has been brought to its attention and understand the subsequent steps to be taken to resolve the non-conformities.

The Tesmec Group is constantly focused on:

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

In 2018, no non-conformities were found with regard to product safety.

17.7 GRI Content Index

All disclosures in the GRI Content Index refer to the 2016 GRI Standards.

GRI Standard Title	GRI disclosure number	GRI Disclosure Title	Page of the Disclosure	Omissions
GRI 102: General Disclosures 2016 - Organisational Profile	102-1	Name of the organisation	46	
	102-2	Activities, brands, products, and services	49, 50, 61	
	102-3	Location of headquarters	49	
	102-4	Number of Countries in which the organisation operates, names of Countries in which the organisation operates or that are particularly important for the purposes of sustainability issues mentioned in the Social Responsibility Report	46, 49	
	102-5	Ownership and legal form	51, 52	
	102-8	Information on employees and other workers	54 – 59	
	102-9	Supply chain	64 – 69	
GRI 102: General Disclosures - Strategy	102-15	Key impacts, risks and opportunities	48, 49, 50, 52, 53, 61, 66	
GRI 102: General Disclosures 2016 - Ethics and integrity	102-16	Values, principles, standards, and norms of behaviour	49 – 53	
GRI 102: General Disclosures 2016 - Governance	102-18	Governance structure	51, 52	
GRI 102: General Disclosures - Reporting practice	102-45	Entities included in the consolidated financial statements	46	
	102-46	Defining report content and topic boundaries	48, 49	
	102-47	List of material topics	47 – 49	
	102-50	Reporting period	46	
	102-52	Reporting cycle	46	
	102-55	GRI content index	69 - 71	
	102-56	External assurance	Independent Auditor's Report	
Topic: Anti-corruption				
GRI 103: Management Approach	103 – 1, 2, 3	Explanation of the material aspect and impact boundary. Management approach for each material aspect and evaluation of this material aspect	48, 49, 50 - 53	
GRI 205: Anti-corruption - 2016	205-3	Confirmed incidents of corruption and actions taken	53	
Topic: Materials				
GRI 103: Management Approach	103 – 1, 2, 3	Explanation of the material aspect and impact boundary. Management approach for each material aspect and evaluation of this material aspect	48, 49, 64 – 68	
GRI 301: Materials - 2016	301-1	Materials used by weight or volume	64, 65	
Topic: Energy				
GRI 103: Management Approach	103 – 1, 2, 3	Explanation of the material aspect and impact boundary. Management approach for each material aspect and evaluation of this material aspect	48, 49, 61, 62	
GRI 302: Energy - 2016	302-1	Energy consumption within the organisation	62, 63	
Topic: Emissions				
GRI 103: Management Approach	103 – 1, 2, 3	Explanation of the material aspect and impact boundary. Management approach for each material aspect and evaluation of this material aspect	48, 49, 61, 62	

GRI 305: Emissions - 2016	305-1	Direct (Scope 1) GHG emissions	63, 64	
	305-2	Energy indirect (Scope 2) GHG emissions	63, 64	
Topic: Waste and waste water				
GRI 103: Management Approach	103 – 1, 2, 3	Explanation of the material aspect and impact boundary. Management approach for each material aspect and evaluation of this material aspect	48, 49, 61, 62	
GRI 306: Waste and waste water - 2016	306-2	Waste by type and disposal method	64	
Topic: Environmental compliance				
GRI 103: Management Approach	103 – 1, 2, 3	Explanation of the material aspect and impact boundary. Management approach for each material aspect and evaluation of this material aspect	48, 49, 61, 62	
GRI 307: Environmental compliance -2016	307-1	Cases of non-compliance with environmental laws and regulations	In 2018, there were no cases of non-compliance with environmental regulations and laws that led to fines or penalties.	
Topic: Supplier Environmental Assessment				
GRI 103: Management Approach	103 – 1, 2, 3	Explanation of the material aspect and impact boundary. Management approach for each material aspect and evaluation of this material aspect	48, 49, 65 – 68	
GRI 308: Supplier Environmental Assessment - 2016	308-1	New suppliers that were screened using environmental criteria.	67	
Topic: Employment				
GRI 103: Management Approach	103 – 1, 2, 3	Explanation of the material aspect and impact boundary. Management approach for each material aspect and evaluation of this material aspect	48, 49, 53 – 54	
GRI 401: Employment - 2016	401-1	New employee hires and employee turnover	58, 59	
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	57, 58	
Topic: Industrial relations				
GRI 103: Management Approach	103 – 1, 2, 3	Explanation of the material aspect and impact boundary. Management approach for each material aspect and evaluation of this material aspect	48, 49, 53 - 55	
GRI 402: Labor/Management relations - 2016	402-1	Minimum notice periods regarding operational changes	The minimum period, where present, is defined by local regulations and, where envisaged, by the CCNL (Contratto Collettivo Nazionale di Lavoro, Collective National Labour Agreement).	
Topic: Occupational Health and Safety				
GRI 103: Management Approach	103 – 1, 2, 3	Explanation of the material aspect and impact boundary. Management approach for each material aspect and evaluation of this material aspect	48, 49, 53, 54	
GRI 403: Occupational Health and Safety - 2016	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	59, 60	
Topic: Training and education				
GRI 103: Management Approach	103 – 1, 2, 3	Explanation of the material aspect and impact boundary.	48, 49, 53 – 55, 59, 60	

		Management approach for each material aspect and evaluation of this material aspect		
GRI 404: Training and education - 2016	404-1	Average hours of training per year per employee	57, 58	
Topic: Diversity and equal opportunities				
GRI 103: Management Approach	103 – 1, 2, 3	Explanation of the material aspect and impact boundary. Management approach for each material aspect and evaluation of this material aspect	48, 49, 53 – 55	
GRI 405: Diversity and equal opportunities - 2016	405-1	Diversity of governance bodies and employees	51, 55 - 58	
Topic: Non-discrimination				
GRI 103: Management Approach	103 – 1, 2, 3	Explanation of the material aspect and impact boundary. Management approach for each material aspect and evaluation of this material aspect	48, 49, 53 – 55	
GRI 406: Non-discrimination - 2016	406-1	Incidents of discrimination and corrective actions taken	54, 55	
Topic: Supplier Social Assessment				
GRI 103: Management Approach	103 – 1, 2, 3	Explanation of the material aspect and impact boundary. Management approach for each material aspect and evaluation of this material aspect	48, 49, 65 – 67	
GRI 414: Supplier Social Assessment - 2016	414-1	New suppliers that were screened using social criteria	67	
Topic: Customer Health and Safety				
GRI 103: Management Approach	103 – 1, 2, 3	Explanation of the material aspect and impact boundary. Management approach for each material aspect and evaluation of this material aspect	48, 49, 65 – 67	
GRI 416: Customer Health and Safety - 2016	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	67, 68	
Topic: Socio-economic compliance				
GRI 103: Management Approach	103 – 1, 2, 3	Explanation of the material aspect and impact boundary. Management approach for each material aspect and evaluation of this material aspect	48 – 50, 65, 66	
GRI 419: Socio-economic compliance - 2016	419-1	Non-compliance with laws and regulations in the social and economic area	In 2018, there were no cases of non-compliance with social and economic regulations and laws that led to fines or penalties.	

INDEPENDENT AUDITOR'S REPORT

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Building a better working world

Independent auditors' report on the consolidated disclosure of non-financial information in accordance with Article 3, par. 10, of Legislative Decree 254/2016 and with Article 5 of CONSOB Regulation adopted with Resolution n. 20267 of January 2018 (Translation from the original Italian text)

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

We have been appointed to perform a limited assurance engagement pursuant to Article 3, paragraph 10, of Legislative Decree 30 December 2016, n. 254 (hereinafter "Decree") and article 5 of CONSOB Regulation adopted with Resolution 20267/2018, on the consolidated disclosure of non-financial information of Tesmec S.p.A. and its subsidiaries (hereinafter the "Group") for the year ended on 31st December 2018, in accordance with article 4 of the Decree, presented in the specific section of the Management Report and approved by the Board of Directors on 5th March 2019 (hereinafter "DNF").

Responsibilities of Directors and Board of Statutory Auditors for the DNF

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

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

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

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

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

Auditors' independence and quality control

We are independent in accordance with the ethics and independence principles of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, based on fundamental principles of integrity, objectivity, professional competence and diligence,

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confidentiality and professional behavior. Our audit firm applies the International Standard on Quality Control 1 (ISQC Italia 1) and, as a result, maintains a quality control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

Auditors' responsibility

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

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

In particular, we have performed the following procedures:

1. analysis of the relevant matters in relation to the activities and characteristics of the Group reported in the DNF, in order to assess the reasonableness of the selection process applied in accordance with the provisions of article 3 of the Decree and considering the reporting standard applied;

2. analysis and evaluation of the criteria for identifying the consolidation area, in order to evaluate its compliance with the provisions of the Decree;

3. understanding of the following aspects:

   - Group's management and organization business model, with reference to the management of the matters indicated in the article 3 of the Decree;
   - policies adopted by the Group related to the matters indicated in the article 3 of the Decree, results achieved and related key performance indicators;
   - main risks, generated or suffered related to the matters indicated in the article 3 of the Decree.

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

4. understanding of the processes that lead to the generation, detection and management of significant qualitative and quantitative information included in the DNF.

In particular, we have conducted interviews and discussions with the management of Tesmec S.p.A. and with the personnel of Groupe Marais SAS and we have performed limited documentary evidence procedures, in order to collect information about the processes and procedures that support the collection, aggregation, processing and transmission of non-financial data and information to the management responsible for the preparation of the DNF.

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

- at Group level
  a) with reference to the qualitative information included in the DNF, and in particular to the business model, policies implemented and main risks, we carried out inquiries and acquired supporting documentation to verify its consistency with the available evidence;
  b) with reference to quantitative information, we have performed both analytical procedures and limited assurance procedures to ascertain on a sample basis the correct aggregation of data.
- For the site of Durtal of Groupe Marais SAS, that we have selected based on its activity, relevance to the consolidated performance indicators and location, we have carried out a site visit during which we have had discussions with management and have obtained evidence about the appropriate application of the procedures and the calculation methods used to determine the indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the DNF of the Tesmec Group for the year ended on 31st December 2018 has not been prepared, in all material aspects, in accordance with the requirements of articles 3 and 4 of the Decree and the GRI Standards, with regard to the selection of GRI Standards specified in the paragraph "Methodological note" of the DNF.

Other Information

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

Milan, 15th March 2019

EY S.p.A.
Signed by: Massimiliano Vercellotti, partner

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

DRAFT RESOLUTION OF ALLOCATION OF PROFIT OR LOSS FOR THE PERIOD

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

Dear Shareholders,

This report shows the draft resolutions that the Board of Directors of Tesmec S.p.A. (hereinafter referred to as “**Tesmec**” or the “**Company**”) intends to submit for your approval in relation to the points on the agenda of the ordinary shareholders' meeting that will be held on 16 April 2019, 14.30 am, in single call at Tesmec headquarters in Via Zanica 17/O, Grassobbio (BG).

1. Presentation of the Tesmec Group’s consolidated financial statements and review and approval of the financial statements as at 31 December 2018 and relevant reports, including the consolidated Disclosure of non-financial information; allocation of result for the period; related and consequent resolutions;

Dear Shareholders,

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

The draft financial statements were approved by the Board of Directors of the Company on 5 March 2019.

The directors' report will be made available to the public, together with the draft financial statements of Tesmec as at 31 December 2018, the consolidated financial statements of the Tesmec Group as at 31 December 2018, the certification of the Manager responsible for preparing the Company’s financial reports, the report of the Board of Statutory Auditors and the Independent Auditors’ Report, at the registered office and Borsa Italiana S.p.A. (“**Borsa Italiana**”), as well as on the *website* of the Company: www.tesmec.com and in accordance with to the other modalities prescribed by Consob within the terms provided by the regulations in force.

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

You are invited to approve the financial statements as at 31 December 2018 of Tesmec that ended with a profit of Euro 4,330,954.95.

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

- assign the profit for the year of Euro 4,330,954.95 to the extraordinary reserve.

Grassobbio, 6 March 2019

TESMEC S.p.A.

The Chairman of the Board of Directors
Ambrogio Caccia Dominioni

CONSOLIDATED FINANCIAL STATEMENTS OF THE TESMEC GROUP

Consolidated statement of financial position

		31 December	
(Euro in thousands)	**Notes**	**2018**	**2017**
NON-CURRENT ASSETS			
Intangible assets	6	17,998	18,340
Property, plant and equipment	7	45,337	46,102
Equity investments in associates evaluated using the equity method	8	3,976	3,937
Other equity investments		3	7
Financial receivables and other non-current financial assets	9	1,922	184
Derivative financial instruments	20	-	1
Deferred tax assets	27	11,816	10,451
Non-current trade receivables		831	161
TOTAL NON-CURRENT ASSETS		**81,883**	**79,183**
CURRENT ASSETS			
Work in progress contracts	10	11,023	6,768
Inventories	11	62,576	63,125
Trade receivables	12	52,562	39,854
of which with related parties:		2,712	2,581
Tax receivables	13	932	909
Other available-for-sale securities		1	2
Financial receivables and other current financial assets	14	10,390	12,448
of which with related parties:		4,373	9,386
Other current assets	15	13,249	9,413
Derivative financial instruments	20	-	-
Cash and cash equivalents	16	42,793	21,487
TOTAL CURRENT ASSETS		**193,526**	**154,006**
TOTAL ASSETS		**275,409**	**233,189**
SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS			
Share capital	17	10,708	10,708
Reserves	17	32,567	33,829
Group net profit / (loss)	17	28	(1,430)
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS		**43,303**	**43,107**
Non controlling interest in capital and reserves		19	1,707
Net profit / (loss) for the period attributable to non-controlling interests		16	18
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		**35**	**1,725**
TOTAL SHAREHOLDERS' EQUITY		**43,338**	**44,832**
NON–CURRENT LIABILITIES			
Medium/long-term loans	18	25,671	25,243
Bond issue	19	24,651	14,797
Derivative financial instruments	20	35	63
Employee benefit liability	21	3,770	3,656
Deferred tax liabilities	27	5,927	6,202
Non-recurring provisions for risks and charges		67	24
Non-current trade payables		1	2
TOTAL NON-CURRENT LIABILITIES		**60,122**	**49,987**
CURRENT LIABILITIES			
Payables to banks and other financial institutions	22	80,504	79,022
of which with related parties:		*2,325*	*37*
Derivative financial instruments	20	-	85
Trade payables	23	54,350	39,479
of which with related parties:		*2,377*	*2,366*
Advances from customers		4,145	3,377
of which with related parties:		*55*	-
Income taxes payable	24	1,295	389
Provisions for risks and charges	25	3,152	3,321
Other current liabilities	26	28,503	12,697
TOTAL CURRENT LIABILITIES		**171,949**	**138,370**
TOTAL LIABILITIES		**232,071**	**188,357**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**275,409**	**233,189**

Consolidated income statement

(Euro in thousands)	Notes	Financial period ended 31 December 2018	2017
Revenues from sales and services	28	**194,611**	**175,559**
of which with related parties:		*17,338*	*21,665*
Cost of raw materials and consumables	29	(87,486)	(78,326)
of which with related parties:		*(310)*	*(1,924)*
Non-recurring cost of raw materials and consumables, net		(1,595)	-
Costs for services	30	(32,581)	(30,453)
of which with related parties:		*(148)*	*(330)*
Non-recurring costs for services		-	(403)
Payroll costs	31	(50,054)	(46,249)
Non-recurring payroll costs	31	(447)	-
Other operating costs, net	32	(11,282)	(5,300)
of which with related parties:		*(5,077)*	*(2,346)*
Depreciations	33	(15,245)	(14,633)
Development costs capitalised	34	7,592	5,671
Portion of losses from operational Joint Ventures evaluated using the equity method		164	243
Total operating costs		**(190,934)**	**(169,450)**
Operating income		**3,677**	**6,109**
Financial expenses	35	(5,991)	(10,239)
of which with related parties:		*(29)*	-
Financial income	36	2,553	2,585
of which with related parties:		*134*	*108*
Portion of losses from associated companies and non-operational Joint Ventures evaluated using the equity method		67	33
Pre-tax profit/(loss)		**306**	**(1,512)**
Income tax	27	(262)	100
Net profit/ (loss) for the period		**44**	**(1,412)**
Profit attributable to non-controlling interests		**16**	**18**
Group profit/(loss)		**28**	**(1,430)**
Basic and diluted earnings/(losses) per share		**0.003**	**(0.134)**

Consolidated statement of comprehensive income

(Euro in thousands)	Notes	Financial period ended 31 December 2018	2017
NET INCOME FOR THE PERIOD		**44**	**(1,412)**
Other components of comprehensive income:			
Other components of comprehensive income that will be subsequently reclassified to net income for the year:			
Exchange differences on conversion of foreign financial statements	17	1,139	(3,371)
Other components of comprehensive income that will not be subsequently reclassified to net income for the year:			
First-time adoption of IFRS 9	17	(641)	-
Income tax		150	-
		(491)	-
Actuarial profit on defined benefit plans	21	84	(111)
Income tax		(20)	27
		64	(84)
Total other income/(losses) after tax		**712**	**(3,455)**
Total comprehensive income (loss) after tax		**756**	**(4,867)**
Attributable to:			
Shareholders of Parent Company		751	(4,889)
Non controlling interests		5	22

Statement of consolidated cash flows

(Euro in thousands)	Notes	Financial period ended 31 December 2018	2017
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		44	(1,412)
Adjustments to reconcile net income for the period with the cash flows generated by operating activities:			
Amortisation and depreciation	33	15,245	14,633
Provisions for employee benefit liability	21	408	178
Provisions for risks and charges / inventory obsolescence / doubtful accounts		1,037	780
Employee benefit payments	21	(210)	(313)
Payments/use of provisions for risks and charges		(367)	(408)
Net change in deferred tax assets and liabilities	27	(1,521)	(835)
Change in fair value of financial instruments	20	(112)	(167)
Change in current assets and liabilities:			
Trade receivables	12	(13,774)	11,019
of which with related parties:		*(186)*	*(1,746)*
Inventories	10-11	(3,083)	(2,412)
Trade payables	23	14,924	8,728
of which with related parties:		*11*	*2,276*
Other current assets and liabilities		12,932	(2,926)
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		**25,523**	**26,865**
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	7	(14,052)	(14,793)
Investments in intangible assets	6	(8,544)	(7,851)
(Investments) / disposals of financial assets		438	(3,710)
of which with related parties:		*5,013*	*(67)*
Proceeds from sale of property, plant and equipment and intangible assets	6-7	8,776	6,882
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		**(13,382)**	**(19,472)**
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	18	20,181	12,521
Repayment of medium/long-term loans	18	(17,166)	(28,856)
Net change in short-term financial debt	18	8,472	12,402
of which with related parties:		*2,288*	*6*
Purchase of treasury shares		-	-
Dividend distribution		-	-
Change in the consolidation area	17	(2,250)	(221)
NET CASH FLOW GENERATED BY/ (USED IN) FINANCING ACTIVITIES (C)		**9,237**	**(4,154)**
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		**21,378**	**3,239**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		(72)	(253)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	16	21,487	18,501
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		**42,793**	**21,487**
Additional information:			
Interest paid		4,433	4,684
Income tax paid		566	217

Statement of changes in consolidated shareholders' equity

(Euro in thousands)	Share capital	Legal reserve	Share premium reserve	Reserve of Treasury Shares	Translation reserve	Other reserves	Result for the period	Total shareholders' equity attributable to parent company shareholders	Total shareholders' equity attributable to non-controlling interests	Total shareholders' equity
Balance as at 1 January 2017	**10,708**	**2,141**	**10,915**	**(2,341)**	**6,560**	**24,182**	**(3,944)**	**48,221**	**1,699**	**49,920**
Profit/(loss) for the period	-	-	-	-	-	-	(1,430)	(1,430)	18	(1,412)
Other profits/(losses)	-	-	-	-	(3,375)	(84)	-	(3,459)	*4*	(3,455)
Total comprehensive income/(loss)								**(4,889)**	**22**	**(4,867)**
Allocation of profit for the period	-	-	-	-	-	(3,944)	3,944	-	-	**-**
Change in the consolidation area	-	-	-	-	-	(225)	-	(225)	4	**(221)**
Balance as at 31 December 2017	**10,708**	**2,141**	**10,915**	**(2,341)**	**3,185**	**19,929**	**(1,430)**	**43,107**	**1,725**	**44,832**
Profit/(loss) for the period	-	-	-	-	-	-	28	28	16	44
First-time adoption of IFRS 9						(491)		(491)		(491)
Other profits/(losses)	-	-	-	-	1,150	64	-	1,214	(11)	1,203
Total comprehensive income/(loss)								**751**	**5**	**756**
Allocation of profit for the period	-	-	-	-	-	(1,430)	1,430	-	-	**-**
Change in the consolidation area	-	-	-	-	-	(555)	-	(555)	(1,695)	**(2,250)**
Balance as at 31 December 2018	**10,708**	**2,141**	**10,915**	**(2,341)**	**4,335**	**17,517**	**28**	**43,303**	**35**	**43,338**

Explanatory notes

Accounting policies adopted in preparing the consolidated financial statements as at 31 December 201

1. Company information

The Tesmec S.p.A. Parent Company (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.

The publication of Tesmec's consolidated financial statements for the period ended 31 December 2018 was authorised by means of the resolution of the Board of Directors on 5 March 2019.

2. Reporting standards

The consolidated financial statements of the Tesmec Group as at 31 December 2018 comprise the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated cash-flow statement, statement of changes in consolidated shareholders' equity and the related explanatory notes. These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and approved by the European Union according to the text published on the Official Journal of the European Communities (OJEC) and in effect as at 31 December 2017 and on the basis of the provisions issued in implementation of Article 9 of Italian Legislative Decree no. 38/2005. These IFRS principles also include all revised international accounting standards ("IAS") and all of the interpretations of the *International Financial Reporting Interpretation Committee* ("IFRIC"), previously called *Standing Interpretations Committee* ("SIC").

The reference accounting standards adopted in the current yearly consolidated financial statements are consistent with those used for preparing the yearly consolidated financial statements of the Group for the period ended 31 December 2017, also prepared according to the international accounting standards, with the exception of the principles and interpretations of new application, explained in note 3.2.
The financial statements and relevant explanatory notes are presented in Euro and all values are rounded to the nearest thousand, unless otherwise indicated.

Business continuity

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

2.1 Adopted financial statement reporting formats

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

- in the consolidated income statement, it was decided to present a cost analysis by using a classification based on their nature;
- the statement of comprehensive income includes the result for the period and, by homogenous categories, the income and expenses that, under IFRS, are recognised directly in shareholders' equity;
- in the consolidated statement of financial position, it was decided to represent current and non-current assets and current and non-current liabilities classified separately, in accordance with IAS 1;
- the statement of changes in consolidated shareholders' equity occurred during the period are represented through a table that reconciles the opening and closing balances of each item of the Group shareholders' equity;
- the statement of consolidated cash flows represents the financial flows by dividing them into operating, investing and financing activities. In particular, financial flows from operating activities are represented, in accordance with IAS 7, using the indirect method, whereby net profit or loss for the year is adjusted by the effects of non-monetary

transactions, by any deferral or provision of prior or future operating receipts or payments, and by revenue or cost elements connected with financial flows from investing or financing activities.

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

2.2 Consolidation methods and area

The consolidated financial statements are prepared on the basis of the draft financial statements approved by the Boards of Directors. The financial statements of subsidiaries are prepared using the same accounting policies of the Parent Company. Subsidiaries are fully consolidated from the date of acquisition, i.e. from the date on which the Group acquires the control, and they are no longer consolidated on the date on which the control is transferred outside the Group.
All balances and intra-group transactions, including any unrealised gains and losses arising from relations between companies of the Tesmec Group are completely written off.
Acquisitions of subsidiaries are recorded in accordance with the purchase method that involves the allocation of costs of the business combination at fair values of assets, liabilities and contingent liabilities acquired at the date of acquisition and the entry of the results of the acquired Company from the date of acquisition until the close of the financial period.
Non-controlling interests represent the portion of the profit or loss and equity related to net assets not held by the Group and are shown in a separate item of the consolidated income statement, of the consolidated statement of comprehensive income and of the consolidated statement of financial position, separately from profit and equity attributable to Group shareholders.
Associated companies are those in which the Group holds at least 20% of the voting rights or exercises a significant influence, but not control or joint control, on financial and operating policies. Equity investments in associates are evaluated using the equity method. Profit or loss attributable to Parent Company shareholders is recognised in the consolidated financial statements from the date on which the significant influence began and until the date on which it ceases.
Joint ventures are defined in accordance with IAS 31 as a contractual agreement whereby two or more parties undertake an economic activity subject to joint control. The equity investments acquired or sold during the financial period are consolidated using equity method for the period in which the joint control was exercised.

On 31 December 2018, the consolidation area changed with respect to that as at 31 December 2017:

- on 3 May 2018, a capital increase of Marais Laying Tech. (Pty) Ltd. Australie totalling Euro 4,000 thousand was approved. This operation involves a payment of 49% by Simest S.p.A. (approved on 15 March 2018 and in the process of being paid up) and 51% by Tesmec S.p.A.. The agreement also envisages the commitment of Tesmec S.p.A. to purchase the share subscribed by Simest S.p.A. and the related obligation to sell Simest S.p.A. as at 30 June 2026. As at 31 December 2018, the portion of Tesmec S.p.A. and consequently the companies Marais Laying Tech. (Pty) Ltd. Australie and its subsidiary Marais Laying Tech. (Pty) Ltd. New Zeland are controlled by Tesmec S.p.A. instead of Group Marais SAS.

SUBSIDIARIES

(full consolidation method, by making clear the portion of equity and of non-controlling interests)

Name	Registered office	Currency	Share capital Currency unit	Percentage held Directly	Percentage held Indirectly
Tesmec USA, Inc.	Alvarado (Texas)	US Dollar	31,200,000	100.00%	-
TESMEC Service S.r.l.	Grassobbio - BG – (Italy)	Euro	100,000	100.00%	-
TESMEC SA (Pty) Ltd	Johannesburg (South Africa)	South African Rand	93,901,000	100.00%	-
Tesmec Automation S.r.l.	Grassobbio - BG – (Italy)	Euro	10,000	100.00%	-
Bertel S.r.l.	Milan (Italy)	Euro	500,000	100.00%	-
East Trenchers S.r.l.	Milan (Italy)	Euro	100,000	100.00%	-
OOO TESMEC RUS	Moscow (Russia)	Russian Rouble	450,000	100.00%	-
Tesmec New Technology Beijing Ltd.	Beijing (China)	Euro	200,000	100.00%	-
Tesmec Rail S.r.l.	Monopoli - BA - (Italy)	Euro	10,000	100.00%	-

Marais Technologies SA	Durtal (France)	Euro	3,785,760	100.00%	-
Group Marais SA	Durtal (France)	Euro	3,700,000	-	100.00%
Marais Trenching (Pty) Ltd. AFS	Pretoria (South Africa)	South African Rand	500,000	-	80.00%
Marais Laying Technologies (Pty) Ltd. Australie	Sydney (Australia)	Australian Dollar	3,060,100	100.00%	
Marais Laying Technologies (Pty) Ltd. Nouvelle Zelande	Auckland (New Zealand)	New Zealand Dollar	100	-	100.00%
Marais Cote d'Ivoire	Abidjan (Ivory Coast)	CFA Franc	6,500,000	-	100.00%

ASSOCIATED COMPANIES

(consolidated with the equity method)

Name	Registered office	Currency	Share capital Currency unit	Percentage held Directly	Percentage held Indirectly
Locavert SA	Bouillargues (France)	Euro	403,735	39.00%	-
R and E contracting Ltd	Pretoria (South Africa)	South African Rand	1,000	20.00%	-
MIR SA	Tunis (Tunisia)	Tunisian Dinar	300,000	-	49.00%

JOINT VENTURES

(consolidated with the equity method)

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

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

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

Translation of foreign currency financial statements and of foreign currency items

The consolidated financial statements are presented in Euro, which is the functional and presentation currency adopted by the Headquarter. Each company of the Group defines its functional currency, which is used to evaluate the items included in each financial statement. Foreign currency transactions are initially recognised using the exchange rate (referring to the functional currency) which is applicable on the transaction date. Monetary assets and liabilities in foreign currency are reconverted in the functional currency at the exchange rate in force at the end of the reporting period.
All exchange-rate differences are recognised in the income statement.
Non-monetary items, measured at their historical cost in foreign currency, are translated by using the exchange rates in force on the date of initial recognition of the transaction.
The conversion into Euro of the financial statements of the foreign companies being consolidated is carried out according to the current exchange-rate method, which contemplates using the exchange rate in force at the end of the reporting period for the translation of the financial items and the average exchange rate of the year for the income statement items.
Exchange-rate differences deriving from translation are directly posted to equity and separately recorded in a special fair-value reserve. On disposal of a foreign company, accumulated exchange-rate differences posted to equity with regard to that particular foreign company are recognised in the income statement.
The exchange rates used to determine the value in Euros of the financial statements of subsidiary companies expressed in foreign currency (exchange rate to 1 Euro) are shown below:

	Average exchange rate for the period ended 31 December		End-of-period exchange rate as at 31 December	
	2018	2017	2018	2017
US Dollar	1.1810	1.129	1.1450	1.199
Russian Rouble	74.0416	65.888	79.7153	69.392
South African Rand	15.6186	15.043	16.4594	14.805
Renminbi	7.8081	7.626	7.8751	7.804
Qatari Riyal	4.2987	4.111	4.1678	4.366
Algerian Dinar	137.6525	125.311	135.4881	137.834
Tunisian Dinar	3.1106	2.730	3.4302	2.974
Australian Dollar	1.5797	1.473	1.6220	1.535
New Zealand Dollar	1.7065	1.590	1.7056	1.685
CFA Franc	655.957	655.957	655.957	655.957

3.Accounting standards

3.1 Basis of prepration

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of EC Regulation No. 1606/2002 of the European Parliament and Council of July 19, 2002 and in accordance with Article 9 of Legislative Decree No. 38/2005.
The consolidated financial statements have been prepared on a historical cost basis, except for items that have been measured at fair value in accordance with IFRS (investment properties, available-for-sale, financial assets and contingent consideration). The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.
There are no financial assets held to maturity.
The consolidated financial statements provide comparative information in respect of the previous period. In addition, the accounting policies adopted in the consolidated Financial Statements as at 31 December 2018 were applied in the same way also to all the periods of comparison.
The consolidated financial statements are presented in Euro; all values are rounded to the nearest thousand, unless otherwise indicated.

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Tesmec S.p.A. and its subsidiaries as at 31 December 2018.
Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.
If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3.3 Significant accounting principles

Business combinations and goodwill

Business combinations are recorded by using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred at fair value at the date of acquisition and the amount of any minority interest in the acquired company. For each business combination, the purchaser must consider any minority interest in the acquired company at fair value or in proportion to the share of the minority interest in the identifiable net assets of the acquired company. Acquisition costs are paid and classified among administrative expenses.
When the Group acquires a business, it must classify or designate the acquired financial assets or the liabilities assumed in accordance with the contract terms, the economic conditions and other relevant conditions existing at the date of acquisition. This includes the verification to establish whether an embedded derivative must be separated from the host contract. If the business combination is carried out in several stages, the purchaser must recalculate the fair value of the previously held equity investment measured at equity and recognise any resulting profit or loss in the income statement.
Each contingent consideration must be recognised by the purchaser at fair value at the date of acquisition. The fair value change in the contingent consideration classified as asset or liability will be recognised in accordance with IAS 39, in the income statement or in the statement of the other components of comprehensive income. If the contingent consideration is classified in the shareholders' equity, its value must not be recalculated until its discharge is recorded as opposed to shareholders' equity.
The goodwill is initially measured at cost that arises as surplus between the sum of the paid consideration and the amount recognised for the minority shares compared to identifiable net assets acquired and liabilities undertaken by the Group. If the consideration is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognised in the income statement.
After initial recognition, goodwill is measured at cost, net of any accumulated impairment loss. For impairment loss verification, the goodwill acquired in a business combination must be allocated, from the date of acquisition, to each cash-flow generating unit of the Group that is expected to benefit from the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to such units.
If the goodwill has been allocated to the financial-flow generating unit and the entity disposes of part of the assets of such unit, the goodwill associated to the asset disposed of must be included in the book value of the asset when the profit or loss deriving from the divestment is determined. The goodwill associated with the asset disposed of must be determined on the basis of the values related to the asset disposed of and of the retained part of the financial-flow generating unit.

Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Intangible assets with definite lives

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

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

Research and Development costs
Research costs are posted to the income statement when they are borne.
Development costs borne with regard to a particular project concerning the development of new excavating machines, stringing equipment and/or railway machines, of their significant individual components and/or of significant customisations that materialise in new models included in the catalogue, are capitalised only when the Group can show the ability to complete the technical work in order to make it available for use or for sale, its intention to complete the said asset in order to use it or transfer it to third parties, the ways in which it will generate probable future economic benefits, the availability of technical, financial or other type of resources to complete the development, its ability to reliably consider the cost attributable to the asset during its development and the existence of a market for the products and services deriving from the asset or usefulness for internal purposes. Capitalised development costs include only expenses borne that can be directly charged to the development process.
During the period of development, the asset is annually reviewed in order to recognise any impairment loss. After the initial recognition, development costs are measured at cost decreased by any accumulated amortisation or loss. The amortisation of the asset starts when the development is complete and the asset is available for use. It is amortised with reference to the period in which the connected project is expected to generate revenues for the Group, estimated on average over five years. If the projects to which such assets refer are abandoned or the related machines are no longer included in the catalogue, specific impairment indicators are recognised, and therefore the asset is tested for impairment and written down for any impairment loss recognised as previously described for intangible assets with definite lives.

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

Property, plant and equipment

Property, plant and equipment acquired separately, with the exception of the land and buildings item, are recorded at historical cost, including directly imputable additional costs necessary for putting the asset into operation for the use for which it was

acquired. This cost includes the charges for replacing part of the machines and plants when they are borne, if complying with the recognition criteria.
Property, plant and equipment acquired by means of business combinations are recorded at fair value on the date of acquisition.
Maintenance and repair costs, which are not likely to enhance and/or extend the residual life of the assets, are paid during the financial period in which they are borne, otherwise they are capitalised.
Property, plant and equipment are stated net of the related accumulated depreciation and any impairment loss determined as described below. The depreciation is calculated on a straight-line basis according to the estimated useful life of the asset for the company, which is reviewed every year and any change, if necessary, is applied prospectively.

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

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

If significant parts of property, plant and equipment have different useful lives, these components are recorded separately. Lands, both without construction and belonging to buildings, are recorded separately and are not depreciated since they have an unlimited useful life.
The Group, based on the considerations made, established that the temporarily leased Trencher machines can be depreciated on a pro-rata basis according to actual use. In particular, they are depreciated at an annual 20% rate during the lease period. In the event that these trenchers are not leased temporarily during the reporting period, the depreciation process is suspended. Instead for Trenchers machines totally addressed to lease activity, due to it is necessary a usual replacement of significative parts of these machines, the group depreciate separately the following components, on the base of their useful life:

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

The book value of property, plant and equipment is subject to an impairment test when events or changed circumstances indicate that the book value cannot be recovered. If there is an indication of this type and, in the event that the book value exceeds the estimated realisable value, assets are written down so as to reflect their realisable value. The realisable value of property, plant and equipment is represented by the net sales price and the usage value, whichever is higher.
When defining the usage value, the expected future financial flows are discounted back using a pre-tax discount rate that reflects the current market estimate of the cost of money placed in relation to the timescale and specific risks of the asset. In relation to assets that do not generate fully independent financial flows, the realisable value is determined in relation to the financial-flow generating unit to which the asset belongs. Impairment losses are recorded in the income statement among costs for amortisation, depreciation and write-downs. These impairment losses are reversed if the reasons that generated them no longer exist.
At the time of sale or when there are no future economic benefits, expected from the use of an asset, it is written off from the financial statements and any loss or profit (calculated as the difference between the transfer value and the book value) is posted to the income statement in the year of the aforesaid writing off.

Leases

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

Contracts with the Group as lessor

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

Impairment of assets

At the end of each reporting period, the Group considers the possible existence of impairment loss indicators of intangible assets with definite lives, of property, plant and equipment and of financial lease assets. If these indicators exist, an impairment test is carried out.
The recoverable value is determined as the fair value of an asset or financial-flow generating unit net of sales costs and its usage value, whichever is higher, and is determined by single asset, with the exception of the case in which this asset generates financial flows that are not widely independent from those generated by other assets or groups of assets, in which case the Group estimates the recoverable value of the clash-flow generating unit to which the asset belongs.
When determining the usage value, the Group discounts back the present value of future estimated financial flows, by using a pre-tax discount rate that reflects the market evaluations on the time value of money and specific risks of the asset.
In order to estimate the usage value, the future financial flows are derived from the business plans approved by the Board of Directors, which represent the best estimate made by the Group on the economic conditions laid down in the plan period. The projections of the plan cover normally a period of three financial periods; the long-term growth rate used in order to estimate the terminal value of the asset or of the unit is normally lower than the average long-term growth rate of the segment, country or market of reference. Future financial flows are estimated by referring to the current conditions: therefore, estimates do not consider benefits deriving from future restructuring for which the Group has not yet committed itself or future investments for improving or optimising the asset or the unit.
If the book value of an asset or financial-flow generating unit is greater than its recoverable value, this asset was impaired and consequently amortised until its recoverable value is reached.
Impairment losses incurred by operating assets are recognised in the income statement in the categories of cost consistent with the function of the asset that showed the impairment loss. At the end of each reporting period, the Group also considers the possible existence of elements indicating a decrease in impairment losses previously recognised and, if these indicators exist, it estimates the recoverable value again. The value of an asset previously written down can be restored only if there were changes in the estimates used for determining the recoverable value of the asset after the last recognition of an impairment loss. In this case, the book value of the asset is set to the recoverable value, however without the possibility for the value thus increased to exceed the book value that would have been determined, net of amortisation, if no impairment had been recognised in previous years. Each reversal of impairment loss is recognised as an income in the income statement; after recognising a reversal of impairment loss, the amortisation rate of the asset is adjusted in future periods, in order to distribute the changed book value, net of any residual value, on a straight-line basis over the remaining useful life.

Equity investments in joint ventures

The Group holds investments in jointly controlled companies classified as joint ventures. From 2012 on the base of the operative phase of two distributive joint ventures (Condux Tesmec and Tesmec Peinsula) the results of the same have been classified in the operative components of the operative Income. With the acquisition of Group Marais two new joint ventures (Marais Tunisie SA, Marais Luca Technology Pty Ltd.) entered in the consildated area of the Group. Considering the kind of activity and effective operative phase of them, their result has been registered in the non-operative components of the the income, together with the other results of the other related companies.
A joint venture is a contractual agreement whereby two or more parties undertake an economic activity subject to joint control; a jointly-controlled company is a joint venture that involves the establishment of a separate company in which each shareholder has an equity investment. The Group consolidates the equity investment in the joint venture with the equity method. After applying the equity method, the Group determines whether it is necessary to record any additional impairment loss with reference to the net equity investment. In this case the Group calculates the amount of the loss as difference between the recoverable value of the joint venture and the inscription value of the same in its proper balance sheet, emerging that difference in “Portion of gains/(losses) from associated companies and operational Joint Ventures evaluated using the equity method”.
The joint venture draws up the financial statements of the same financial period of the parent company and applies homogeneous accounting policies. Any lack of homogeneity in the applied accounting policies are corrected by adjustments.
When the Group brings or sells assets to the joint venture, the recognition of profit or loss shares deriving from the operation reflects the contents of the operation itself. When the Group purchases goods or services from the joint venture, it does not recognise its own profit share deriving from the operation until it sells such asset or service to an independent third party. The result of the income statement of the joint ventures that offer an operational contribution was included in the Group’s Operating Income.

Equity investments in associates

An associate is a company over which the Group exercises a significant influence and is not classifiable as subsidiary or joint venture.
The Group consolidates its equity investments in associates with the equity method.
The application of the equity method implies the entry in the balance sheet of the cost increased by the changes following the acquisition of the net asset of the associate in the portion attributable to the Group. After applying the equity method, the Group determines whether it is necessary to record any additional impairment loss with reference to the net equity investment. In this case the Group calculates the amount of the loss as difference between the recoverable value of the associate company and the inscription value of the same in its proper balance sheet, emerging that difference in "Portion of gains/(losses) from associated companies and non-operational Joint Ventures evaluated using the equity method".
The income statement reflects the Group's share of the Company's operating result. If a company recognises adjustments directly posted to the shareholders' equity, the Group recognises its share and shows it in the statement of changes in shareholders' equity, if applicable. Any unrealised profit and loss deriving from transactions between the Group and the subsidiary is written off in proportion to the equity investment.
In case the draw-up date of the balance sheet of some associated company is not in line with that of the Group, for the purposes of the Group's consolidated financial statements, the companies will prepare interim closing accounts on dates next to the end of the reporting period of the Group. The accounting policies used comply with those used by the Group, for transactions and events of the same nature and in similar circumstances.

Financial assets and other non-current assets

These assets are measured according to the amortised cost approach by using the effective discount rate method net of any provision for impairment.
The amortised cost is calculated taking into consideration any discount or purchase premium and includes the commissions that are part and parcel of the effective interest rate and of the transaction costs.
Receivables falling due after one year, interest bearing or paying interests lower than the market, are discounted by using interest rates in line with market references.

Financial assets derecognized from Group statement of financial position when:

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

Inventories

Inventories are measured at the purchase and/or production cost, whichever lower, calculated by using the weighted average cost method, and the net realisable value. The purchase cost is inclusive of additional expenses; the cost of production includes directly attributable costs and a share of indirect costs, reasonably attributable to the products. The net estimated realisable value consists of the estimated sales prices less the estimated completion costs and the costs estimated to make the sale.
Write-down allowances are allocated for materials, finished products, spare parts and other supplies considered obsolete or slow-moving, taking into account their future expected usefulness or their realisable value.

Construction contracts

The construction contracts are activity deriving from the contract. A work order is a contract specifically negotiated for the construction of an asset according to the instructions of the company commissioning the work, which defines in advance the design and specifications.
Work order revenues include the considerations initially agreed with the company commissioning the work, in addition to variations in the commissioned work and to price changes provided for in the contract that can be measured reliably.
When the work order result can be measured reliably, work order revenues and costs are recognised as sales and as costs on the basis of the percentage of completion; the work in progress is calculated by referring to the costs of the work order borne until the end of the reporting period as a percentage of total costs estimated for each work order.
The costs borne in relation to future activities of the work order are excluded from the work order costs when calculating the work in progress and are recorded as inventories.
Total estimated costs for each work order are reviewed periodically, and when the costs of the work order are expected to be greater than its total revenues, the expected loss is recognised immediately as a cost.

Trade receivables and other current assets

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.
Other current assets are initially recorded at *fair value*, which generally corresponds to the nominal value and subsequently measured at amortised cost and reduced in case of impairment losses.
These financial assets are subsequently measured recognizing a specific allowance for expected credit losses ('ECL'). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.
For trade receivables, the Group applies a simplified approach in calculating ECLs using a provision matrix that is based on its historical experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Other receivables and other financial assets

They are recorded initially at fair value and subsequently measured according to the amortised cost.
A financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) is written off from the financial statements when:

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

If the Group has transferred the rights to receive financial flows from an asset and has not transferred or retained substantially all the risks and benefits or has not lost control over it, the asset is recognised in the financial statements of the Group to the extent of its residual involvement in the asset itself. The residual involvement that takes the form of a guarantee on the transferred asset is measured at the initial book value of the asset or the maximum value of the consideration that the Group could be obliged to pay, whichever lower.
If the residual involvement takes the form of an option issued and/or purchased on the transferred asset (including the cash-settled options or the like), the measure of the involvement of the Group corresponds to the amount of the transferred asset that the Group may repurchase; however, in case of a put option issued on an asset measured at fair value (including the cash-settled options or with similar provisions), the measure of the residual involvement of the Group is limited to the fair value of the transferred asset or the exercise price of the option, whichever lower.

Cash and cash equivalents

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

Loans

Loans are initially stated at fair value of the amount received, net of any related loan acquisition costs.
After initial statement, loans are valued using the amortised cost approach, applying the effective interest rate method.
Any profit or loss is recorded in the income statement when the liability is discharged, in addition to using the amortisation process.

Treasury shares

The repurchased treasury shares are recognised at cost and deducted from shareholders' equity. The purchase, sale or cancellation of treasury shares does not give rise to any profit or loss in the income statement. The difference between the acquisition value and the consideration, in case of transfer, is recognised in share premium reserve. The voting rights related to the treasury shares are cancelled as well as the right to receive dividends. In case of exercise of share options during the period, these are met with treasury shares.

Trade payables and other payables

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

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

Provisions for risks and charges

Provisions for risks and charges are made when the Group must face up a current liability (legal or implicit) that is the result of a past event; an outflow of resources is likely to meet this obligation and it is possible to make a reliable estimate of its amount. When the Group believes that a provision for risks and charges will be partially or totally reimbursed, for example in the case of risks covered by insurance policies, the compensation is recognised separately in the assets only if it is practically certain. In this case, the cost of any provision is stated in the income statement net of the amount recognised for the compensation.
If the discounting back effect of the value of money is significant, provisions are discounted back using a pre-tax discount rate that reflects, if appropriate, the specific risks of the liabilities. When discounting back is carried out, the increase in the provision due to the passage of time is recognised as a financial expense.
The Group makes provisions for product guarantees in relation to the guarantee contractually granted to its customers on the sold machines. These provisions are calculated on the basis of the historical incidence of costs for product guarantee borne in past financial periods, of the period of validity of the granted guarantees and benchmarked again in relation to the amount of revenues of the period to which they refer, and revised annually.

Employee benefit liability

Post employment benefits are defined on the basis of plans, even though not yet formalised, which are classified as "defined contribution" and "defined benefit" in relation to their characteristics.
The Italian legislation (Article 2120 of the Italian Civil Code) establishes that, at the date on which each employee rescinds the employment contract with the company, he/she receives an allowance called TFR (severance indemnity). The calculation of this allowance is based on some items forming the yearly pay of the employee for each year of work (properly revalued) and on the length of the employer-employee relationship. According to the Italian civil law, this allowance is reflected in the financial statements according to a calculation method based on the allowance accrued by each employee at the reporting date, if all employees rescind the employment contract on that date.
The IFRIC of the IASB dealt with the TFR matter, as defined by the Italian legislation, and concluded that, in accordance with IAS 19, it must be calculated according to a method called Projected Unit Credit Method (the so-called PUCM) in which the amount of the liability for the acquired benefits must reflect the expected resignation date and must be discounted back.
The Group's net liability deriving from defined benefit plans is calculated separately for each plan by estimating the amount of the future benefit that the employees acquired in exchange for the work carried out in the current financial period and in prior financial periods; this benefit is discounted back to calculate the present value. As provided by the revised version of IAS 19, actuarial gains and losses are recorded in full in the comprehensive income statement in the period in which they arise. The evaluation of liabilities is made by an independent actuary.
The Group has no other defined benefit pension plan.
The Group's liability deriving from defined-contribution plans is limited to the payment of contributions to the State or to an asset or legally separate entity (so-called fund), and is determined on the basis of the contributions due.

Government grants

Government grants are recognised in the financial statements when there exists a reasonable certainty that the company will meet all the conditions for receiving the contributions and that the contributions will be received. When the contributions are related to cost components, they are recognised as revenues, but are allocated systematically across the financial periods in order to be proportionate to the costs that they intend to compensate. If a contribution is related to an asset, the asset and the contribution are recognised for their nominal values and they are gradually discharged to the income statement, on a straight-line basis, along the expected useful life of the asset of reference.
If the Group receives a non-monetary contribution, the asset and contribution are recognised at their nominal value and discharged to the income statement, on a straight-line basis, along the expected useful life of the asset of reference. In case of loans or similar forms of assistance supplied by government entities or similar institutions that have an interest rate lower than the current market rate, the effect related to the favourable interest rate is considered as an additional government grant.

Financial instruments

The financial instruments are initially recognised at fair value and, after initial recognition, measured in relation to the classification, as required by IAS 39.
For financial assets, this treatment is differentiated among the following categories:

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

- available-for-sale financial assets.

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

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

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

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

Derivative financial instruments

Derivative financial instruments are used solely with the intent to hedge financial risks relating to exchange-rate changes on commercial transactions in foreign currency and interest rate risks on interest-bearing loans and borrowings.
In accordance with IAS 39, hedging derivative financial instruments can be recorded according to the methods established for hedge accounting only when:

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

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

Fair value hedge – if a financial derivative is designated as a hedge of the exposure to changes in the present value of a balance-sheet asset or liability that may affect the income statement, the profit or loss arising from the future evaluation of the present value of the hedging instrument is recognised in the income statement, as well as the profit or loss on the item being hedged.
Cash flow hedge – if a financial derivative is designated as a hedge of the exposure to changes in cash flows of a balance-sheet asset or liability or of a highly probable expected transaction and that may affect the income statement, the effective portion of profits or losses on the financial instrument is recognised in equity; the accumulated profit or loss is reversed from equity and recorded in the income statement in the same period in which the transaction to be hedged is recognised; the profit or loss associated with a hedging, or with an ineffective hedging, are recorded in the income statement when the ineffectiveness is recognised.
If the conditions for the application of hedge accounting do not apply, the effects deriving from the fair value measurement of the derivative financial instrument are booked directly to the income statement.

Revenues from contracts with customers

The recognition of revenues from contracts with customers is based on the following five steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations, represented by the contractual promises to transfer goods and/or services to a customer; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligation identified on the basis of the 'stand alone' selling price of each item of goods or each service; (v) recognition of the revenue when the relative performance obligation has been fulfilled, or at the time of transfer to the customer of the goods or services promised; the transfer is considered complete when the customer obtains control of the goods or services, which may continue over time, or at a specific point in time.
Revenues are recognised at the *fair value* of the consideration received or receivable, net of returns, discounts and volume rebates.

Revenues from contracts with customers are therefore recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Generally, control of the asset is transferred to the customer on delivery. More specifically, with reference to sales with CIF condition, control of the asset is transferred to the end customer, and therefore the revenues are recognised, when the asset is handed over at the broadside of the ship.

With regard to any machine completed and not yet shipped to the customer (*bill and hold*) for reasons that do not depend on the Group, revenues are recognised if the following conditions established by paragraph B81 of IFRS 15:

- the reason for the bill-and-hold arrangement must be substantive (for example, the customer has requested the arrangement);
- the product must be identified separately as belonging to the customer;
- the product currently must be ready for physical transfer to the customer;
- the Group cannot have the ability to use the product or to direct it to another customer.

With reference to the sales of goods to the *Joint ventures*, if, at the reporting date, the *Joint venture* has not sold the asset to the end customer, the margin achieved with it, following the application of the equity method by the Tesmec Group in the consolidated financial statements, is reversed in relation to the amount of shares held in the capital of the company.

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

The allocation of revenues relative to services partially rendered are recognised for the portion matured, if it is possible to reliably determine stage of completion and there is no significant uncertainty about the amount and existence of the income.

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

Furthermore, the Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g.: warranties). Tesmec Group provides after-sales services concerning the machines sold and these standard warranties on quality are accounted for under IAS 37 “Provisions, contingent liabilities and contingent assets”. If these services are requested after the expiry of the warranty period, the service is contractually regulated by agreements with the counterpart. Revenues are recognised based on the time and components used by the technicians during repair operations.

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Costs

Costs are recognised in the period when they relate to goods services sold or consumed during the same period or when it is not possible to identify their future use.

Labour costs comprise remuneration paid, provisions made to pension funds, accrued holidays, national insurance and social security contributions in compliance with national contracts of employment and current legislation.

Operating lease payments are recognised in the income statement over the length of the contract.

Financial income and expenses

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

Determining the fair value of financial instruments

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

Dividends

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

Income tax

Current taxation

Taxes reflect an estimate of the tax burden, determined by applying the laws and regulations in force in the Countries where the Tesmec Group carries on its activity. Taxable income for tax purposes differs from the pre-tax profit or loss indicated in the income statement, because it excludes positive and negative components that will be taxable or deductible in other financial periods and excludes items that will never be taxable or deductible. Current tax liabilities are calculated by using the rates in force or substantially approved at the end of the reporting period.
Current tax liabilities are recorded in the current liabilities net of any paid tax advances.

Deferred taxes

Deferred taxes are calculated on the temporary differences resulting at the end of the reporting period among the tax values used as a reference for assets and liabilities and the values indicated in the financial statements.
Deferred tax assets are recognised for all the temporary deductible differences and for retained tax assets and liabilities, insofar as the existence of appropriate future tax profits that can apply the use of the temporary deductible differences and of the retained tax assets and liabilities is likely.
The value to be stated in the financial statements for deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient income for tax purposes will be available in the future for this tax credit to be used totally or partially. Deferred tax assets not recognised are reviewed every year at the end of the reporting period and are recognised to the extent that the pre-tax profit is probably sufficient to allow the recovery of these deferred tax assets.
Deferred tax assets and liabilities are measured based on tax rates that are expected to be applied to the financial period in which such assets are sold or such liabilities are discharged, considering the rates in force and those already issued or substantially issued at the end of the reporting period.
Deferred tax assets and liabilities are recognised directly in the income statement, with the exception of those relating to items recognised directly in equity, in which case the related deferred taxes are also accounted for consistently without booking to the income statement.
Deferred tax assets and liabilities are offset, if there is a legal right to offset current tax assets against current tax liabilities, and the deferred taxes refer to the same tax entity and to the same tax authority.
Assets for deferred tax assets and liabilities for deferred tax liabilities are classified as non-current assets and liabilities.

Value added tax

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

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

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

Earnings per share

The basic earnings per share are calculated by dividing the Group’s economic result by the weighted average of the outstanding shares during the period. For the purposes of the calculation of the diluted earnings per share, the weighted average of the outstanding shares is modified by assuming the conversion of all the potential dilutive shares. The net result is also adjusted to take account of the effects, net of tax, of the conversion.
The diluted earnings per share coincide with the basic earnings, since there are no outstanding shares or options other than ordinary shares.

3.4 Changes and new principles and interpretations

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". Several other amendments and interpretations are applied for the first time in 2018, but have no impact on the Group's consolidated financial statements. The Group has not adopted in advance any other principle, interpretation or modification published but not yet in force.

- **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 (modified approached). 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.

- **IFRIC 22 Foreigcn Currency Transactions and Advance Considerations**

  The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

New and amended standards and interpretations not yet applicable
New and amended standards and interpretations approved by the European Union but not yet applicable are listed and briefly described below:

- **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 carried out an analysis of the impacts of IFRS 16 which, as of 1 January 2019, would lead to an increase in fixed assets, due to the right to use the related assets among the Group's activities, and a related increase in the Net Financial Debt of approximately Euro 21 million (mainly due to the increase in lease liabilities) and an improvement in the Group's EBITDA of approximately Euro 3.5 million. This derives from the change in the accounting of leasing expenses classified as operating leases pursuant to IAS 17.

- **IFRIC 23 Uncertainty over Income Tax Treatments**

  The Interpretation provides indications on how to consider uncertainties on applying tax legislation. In determining the income taxes to recognize in the financial statements, an entity must consider the probability that the tax authority may or may not accept the treatment adopted by the entity. If the aforementioned acceptance is considered to be improbable, the entity must reflect the uncertainties in determining current and deferred taxes, using one of the following methods: the most likely amount method and the expected value method. An entity shall review the estimates of the uncertainties if new information becomes available or if the circumstances change. These provisions will take effect from financial years starting on or after 1 January 2019 and the Group expects no significant impact.

3.5 Accounting estimates and significant judgements

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

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

Deferred tax assets

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

Contingencies

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

Employee benefits

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

Development costs

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

Impairment of non-current assets

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

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

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

4. Financial risk management policy

The Group is exposed in varying degrees to financial risks related to the core business. In particular, the Group is exposed at the same time to the market risk (interest-rate risk and exchange-rate risk), liquidity risk and credit risk.
The management of financial risks (mainly interest-rate risks) is carried out by the Group on the basis of guidelines defined by the Board of Directors. The purpose is to guarantee a liability structure always in equilibrium with the structure of the balance sheet assets, in order to keep a very sound balance sheet structure.
Forms of financing most commonly used are represented by:

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

The average cost of indebtedness is benchmarked to the trend of the 3-month Euribor rates plus a spread that depends on the financial instrument used and on the rating of the Company.
The Group uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The Group does not apply the Cash Flow Hedge Accounting with reference to such positions in that they do not meet the requirements provided in this regard by the IFRS.
The trading of derivative instruments with speculative purposes is not contemplated.

Management of the exchange-rate risk

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

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

As at 31 December 2018, there were seven 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 11.59 million, with a negative equivalent value of Euro 35 thousand.

As at 31 December 2017, there were eleven positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 21.6 million, with a negative equivalent value of Euro 87 thousand.

The short-term portion of interest bearing financial payables (current portion), which is mainly used to finance working capital requirements, is not subject to interest-rate risk hedging.
The cost of bank borrowing is benchmarked to the Euribor/Libor rate plus a spread that depends on the type of credit line used and is the same by type of line. The applied margins can be compared to the best market standards. The interest rate risk to which the Company is exposed is mainly originated from existing financial payables.

The main sources of exposure of the Group to the interest-rate risk refer to existing interest bearing medium/long-term financial payables (current portion) and interest bearing short-term financial payables and to the existing derivative instruments. In particular, the potential impacts on the income Statement of the 2019 financial period (compared to 2018) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 2018 financial period.
- potential change in fair value of existing derivative instruments.

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

The Group estimated the potential impacts on the Income Statement and on Shareholders' Equity of the 2019 financial period (compared to 2018 calculated) produced by a simulation of the change in the term structure of the interest rates, by using internal measurement models, based on the general acceptance approach. In particular:

- for loans, these impacts were estimated by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates, applied only to the cash flows to be settled during the 2019 financial period (compared to 2018);
- for derivative instruments, by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates.

With reference to the situation as at 31 December 2018, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2019 financial period of Euro 134 thousand, offset by an increase of Euro 48 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 13 thousand, offset by a decrease of Euro 9 thousand in the collected spread for the existing derivatives.

With reference to the situation as at 31 December 2017, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2018 financial period of Euro 245 thousand, offset by an increase of Euro 85 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 22 thousand, offset by a decrease of Euro 19 thousand in the collected spread for the existing derivatives.

	Interests					
	31 December 2018			**31 December 2017**		
(Euro in thousands)	**Residual debt**	**Impact on the IS +100 bps**	**Impact on the IS -30 bps**	**Residual debt**	**Impact on the IS +100 bps**	**Impact on the IS -30 bps**
Borrowings/Bond issue	127,970*	(134)	13	119,578*	(245)	22
Total Loans	**127,970***	**(134)**	**13**	**119,578***	**(245)**	**22**
(Euro in thousands)	**Notional**	**Impact on the IS +100 bps**	**Impact on the IS -30 bps**	**Notional**	**Impact on the IS +100 bps**	**Impact on the IS -30 bps**
Derivative instruments hedging cash flows	11,593	48	(9)	21,563	85	(19)
Total Derivative instruments	**11,593**	**48**	**(9)**	**21,563**	**85**	**(19)**
Total		**(86)**	**4**		**(160)**	**3**

(*) The residual debt is considered before amortised costs

	Fair value sensitivity of derivatives								
	Financial period ended 31 December 2018								
(Euro in thousands)	**Notional value**	**Net FV**	**Net FV +100 bps**	**Net FV +100 bps**	**Impact on IS +100 bps**	**Impact on SE +100 bps**	**Net FV - 30 bps**	**Net FV - 30 bps**	**Impact on IS - 30 bps**	**Impact on SE - 30 bps**
Derivative instruments hedging cash flows	11,593	(35)	44	78	78	-	(50)	(16)	(16)	-

Total	**11,593**	**(35)**	**44**	**78**	**78**	**-**	**(50)**	**(16)**	**(16)**	**-**

	Financial period ended 31 December 2017									
(Euro in thousands)	**Notional value**	**Net FV**	**Net FV +100 bps**	**Net FV +100 bps**	**Impact on IS +100 bps**	**Impact on SE +100 bps**	**Net FV - 30 bps**	**Net FV - 30 bps**	**Impact on IS - 30 bps**	**Impact on SE - 30 bps**
Derivative instruments hedging cash flows	21,563	(89)	124	211	211	-	(128)	(41)	(41)	-
Total	**21,563**	**(89)**	**124**	**211**	**211**	**-**	**(128)**	**(41)**	**(41)**	**-**

With reference to the situation as at 31 December 2018, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 78 thousand, with an impact on the Income statement of the 2019 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 16 thousand, with an impact only on the Income statement of the 2019 financial period.

With reference to the situation as at 31 December 2017, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 211 thousand, with an impact on the Income statement of the 2018 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 41 thousand, with an impact only on the Income statement of the 2018 financial period.

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

Management of liquidity risk

The Group has a much parcelled out customer structure being mostly end-consumers. Moreover, most of the contemplated forms of collection include advance payments of the supply or a deposit not less than 30% of the sale.
This structure zeroes the credit risk; the validity of this approach is endorsed by the low amount of receivables at the end of the financial period compared to the amount of annual sales.
There are no significant concentrations of credit risk exposure in relation to individual debtors to be reported.

The stratification of existing liabilities with reference to 2018 and to 2017 financial periods, with regard to financial instruments, by residual maturity, is set out below.

Maturity	**31 December 2018**						
	Financial payables		**Bonds**		**Trade payables**	**Financial instruments**	**Total**
	Capital	**Interests**	**Capital**	**Interests**			
(Euro in thousands)	**a**	**b**	**c**	**d**	**e**	**f**	**g=a+b+c+d+e+f**
Within 12 months	77,008	995	-	1,388	54,350	28	**133,769**
Between one and two years	13,271	718	1,250	1,391	-	8	**16,638**
Between two and three years	5,402	463	17,500	1,298	-	-	**24,663**
Between three and five years	3,984	456	5,000	415	-	-	**9,855**
Between five and seven years	430	295	1,250	30	-	-	**2,005**
After more than 7 years	2,875	72	-	-	-	-	**2,947**
Total	**102,970***	**2,999**	**25,000***	**4,522**	**54,350**	**36**	**189,877**

Maturity	**31 December 2017**						
	Financial payables		**Bonds**		**Trade payables**	**Financial instruments**	**Total**
	Capital	**Interests**	**Capital**	**Interests**			
(Euro in thousands)	**a**	**b**	**c**	**d**	**e**	**f**	**g=a+b+c+d+e+f**
Within 12 months	80,873	1,296	-	913	39,479	74	**122,635**

Between one and two years	12,033	653	-	913	-	20	**13,619**
Between two and three years	10,309	347	-	915	-	(5)	**11,566**
Between three and five years	1,362	47	15,000	913	-	(1)	**17,321**
Between five and seven years	-	-	-	-	-	-	**-**
After more than 7 years	-	-	-	-	-	-	**-**
Total	**104,577***	**2,343**	**15,000***	**3,654**	**39,479**	**88**	**165,141**

(*) The residual debt is considered before amortised costs.

The estimate of expected future expenses implicit in loans and of expected future differentials implicit in derivative instruments was determined on the basis of the term structure of interest rates in Euro existing at the reporting dates (31 December 2018 and 31 December 2017).

Management of the exchange-rate risk

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

The potential impacts on the Income Statement of the 2019 financial period (compared to 2018) referable to the exchange-rate risk are determined by the revaluation/write-down of asset and liability items in foreign currency.

The Group estimated the potential impacts on the income statement of the 2019 financial period (compared to 2018 calculated) produced by a shock of the exchange-rate market, by using internal measurement models, based on the general acceptance approach.

	2018 Exposure in foreign currency (USD)			**2018 Sensitivity**	
Exposure with regard to equity items	**Assets (USD/000)**	**Liabilities (USD/000)**	**Equity (USD/000)**	**Income statement EUR/USD exchange rate +5% (EUR/000)**	**Income statement EUR/USD exchange rate -5%(EUR/000)**
Trade receivables	3,634	-	3,634	(159)	159
Financial receivables	16,855	-	16,855	(736)	736
Trade payables	-	(62)	(62)	3	(3)
Total gross exposure with regard to equity items	**20,489**	**(62)**	**20,427**	**(892)**	**892**
Derivative instruments	-	-	-	-	-

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

Exposure with regard to equity items	2018 Exposure in foreign currency (ZAR)			2018 Sensitivity	
	Assets (ZAR/000)	Liabilities (ZAR/000)	Equity (ZAR/000)	Income statement EUR/ZAR exchange rate +5% (EUR/000)	Income statement EUR/ZAR exchange rate -5% (EUR/000)
Trade receivables	36,091	-	36,091	(110)	110
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	**36,091**	**-**	**36,091**	**(110)**	**110**
Derivative instruments	-	-	-	-	-

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

Exposure with regard to equity items	2018 Exposure in foreign currency (AUD)			2018 Sensitivity	
	Assets (AUD/000)	Liabilities (AUD/000)	Net (AUD/000)	Income statement EUR/AUD exchange rate +5% (EUR/000)	Income statement EUR/AUD exchange rate -5% (EUR/000)
Trade receivables	4,334	-	4,334	(134)	134
Financial receivables	600	(14)	586	(18)	18
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	**4,934**	**(14)**	**4,920**	**(152)**	**152**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2017 Exposure in foreign currency (AUD)			2017 Sensitivity	
	Assets (AUD/000)	Liabilities (AUD/000)	Net (AUD/000)	Income statement EUR/AUD exchange rate +5% (EUR/000)	Income statement EUR/AUD exchange rate -5% (EUR/000)
Trade receivables	1,954	-	1,954	(64)	64
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	**1,954**	**-**	**1,954**	**(64)**	**64**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2018 Exposure in foreign currency (CNY)			2018 Sensitivity	
	Assets (CNY/000)	Liabilities (CNY/000)	Net (CNY/000)	Income statement EUR/CNY exchange rate +5% (EUR/000)	Income statement EUR/CNY exchange rate -5% (EUR/000)
Trade receivables	9,152	-	9,152	(58)	58
Trade payables	-	(613)	(613)	4	(4)
Total gross exposure with regard to equity items	**9,152**	**(613)**	**8,539**	**(54)**	**54**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2018 Exposure in foreign currency (CNY)			2018 Sensitivity	
	Assets (CNY/000)	Liabilities (CNY/000)	Net (CNY/000)	Income statement EUR/CNY exchange rate +5% (EUR/000)	Income statement EUR/CNY exchange rate -5% (EUR/000)
Trade receivables	-	-	-	-	-
Financial receivables	50,000	-	50,000	(31)	31
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	**50,000**	**-**	**50,000**	**(31)**	**31**
Derivative instruments	-	-	-	-	-

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

Disclosures - categories of financial assets and liabilities

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

(Euro in thousands)	Loans and receivables/payables	Guarantee deposits	Cash and cash equivalents	Available-for-sale financial assets	Fair value recognised in the income statement
Financial assets:					
Financial receivables	184	-	-	-	-
Derivative financial instruments	-	-	-	-	1
Trade receivables	161	-	-	-	-
Total non-current	**345**	**-**	**-**	**-**	**1**
Trade receivables	52,562	-	-	-	-
Financial receivables from related parties	4,373	-	-	-	-
Financial receivables from third parties	6,017	-	-	-	-
Other available-for-sale securities	-	-	-	1	-
Cash and cash equivalents	-	-	42,793	-	-
Total current	**62,952**	**-**	**42,793**	**1**	**-**
Total	**63,297**	**-**	**42793**	**1**	**1**

Financial liabilities:					
Loans	24,584	-	-	-	-
Non-current portion of finance leases, net	1,087	-	-	-	-
Bond issue	24,651	-	-	-	-
Derivative financial instruments	-	-	-	-	35
Trade payables	1	-	-	-	-
Total non-current	**50,323**	**-**	**-**	**-**	**35**
Loans	15,920	-	-	-	-
Other financial payables (short-term leases)	1,183	-	-	-	-
Other short-term payables	63,401	-	-	-	-
Derivative financial instruments	-	-	-	-	-
Trade payables	54,350	-	-	-	-
Total current	**134,854**	**-**	**-**	**-**	**-**
Total	**185,177**	**-**	**-**	**-**	**35**

Disclosures: hierarchy levels of fair value measurement

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

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

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

(Euro in thousands)	**Book value as at 31 December 2018**	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Other available-for-sale securities	1	-	-	1
Total current	**1**	**-**	**-**	**1**
Total	**1**	**-**	**-**	**1**
Financial liabilities:				
Derivative financial instruments	35	-	35	-
Total non-current	**35**	**-**	**35**	**-**
Derivative financial instruments	-	-	-	-
Total current	**-**	**-**	**-**	**-**
Total	**35**	**-**	**35**	**-**

5. Significant events occurred during the period

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

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, previously 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. Daniel Rivard resigned from office in December 2018;

- 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 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 Consolidated Law on Finance (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. concerning 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;

- 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;

- 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. The merger between Tesmec Rail S.r.l. and Tesmec Service S.r.l. is planned for 2019 in order to fully exploit the potential of the new factory. During the 2018 financial period, a non-repayable subsidy of Euro 5,689 thousand was granted.

- on 28 November 2018, a capital increase of Tesmec SA (Pty) Ltd. was subscribed and approved for Euro 6,000 thousand. This increase was subscribed for approximately Euro 2,940 thousand by Simest S.p.A. (Società Italiana per le Imprese all'Estero) and for the remainder of approximately Euro 3,060 thousand by Tesmec S.p.A.. As a result of this operation, Simest holds 49% of the share capital of Tesmec SA (Pty) Ltd. starting 28 November 2018. The contract signed with Simest includes an option by Tesmec S.p.A. to buyback the shareholding held by Simest by 30 June 2026; by virtue of this obligation, the shareholding recorded in the financial statements amounted to Euro 6,296 thousand, while the amount paid by Simest S.p.A. is recorded as a financial payable;

- on 3 May 2018, a capital increase of Marais Laying Tech. (Pty) Ltd. Australie totalling Euro 4,000 thousand was approved. This operation involves a payment of 49% by Simest S.p.A. (approved on 15 March 2018 and in the process of being paid up) and 51% by Tesmec S.p.A.. The agreement also envisages the commitment of Tesmec S.p.A. to purchase the share subscribed by Simest S.p.A. and the related obligation to sell Simest S.p.A. as at 30 June 2026. As at 31 December 2018, the portion of Tesmec S.p.A. and consequently the companies Marais Laying Tech. (Pty) Ltd.

Australie and its subsidiary Marais Laying Tech. (Pty) Ltd. New Zeland are controlled by Tesmec S.p.A. instead of Group Marais SAS;

- it is confirmed that as at the date of this Report, only one financial covenant relating to the Net Financial Position/EBITDA ratio had not been complied with. However, this non-compliance only led to the short-term recognition of the residual medium/long-term portion of the loan outstanding with Istituto Bancario Cariparma, of Euro 444 thousand, for which the waiver is in the process of being released, and the provisional step-up of the interest rate of the "Minibond 2018-2024", issued for an amount of Euro 10 million.

Information pursuant to Italian Law 124/2017

Italian Law no. 124 of August 4 introduced, starting with the 2018 financial statements, certain transparency requirements of persons who receive "subsidies, contributions, paid assignments and, in any case, economic advantages of any kind" from public administrations and from a series of similar subjects with whom they have economic relations.

In view of the fact that this provision raised questions of interpretation and application that are still unresolved, the Group carried out the necessary in-depth studies and, also in the light of the most recent guidelines, considers that the following elements are not part of the legal requirement of publication:

- amounts received as consideration for public works, services and supplies;
- remunerated tasks that are part of the typical business activity of the company;
- the general measures available to all enterprises within the general structure of the reference system defined by the State (for example: ACE);
- selective economic advantages received under an aid scheme, available to all enterprises meeting certain conditions, based on predetermined general criteria (for example: contributions to research and development projects and tax reliefs);
- public resources from public bodies in other countries (European or non-European) and from the European institutions;
- training contributions received from interprofessional funds (for example: Fondimpresa and Fondirigenti); in that funds in the form of associations and the legal status of private-law entities, which are financed by contributions paid by the enterprises themselves.

With regard to Tesmec S.p.A. and its Italian subsidiaries, the only information given is that relating to grants falling within the category of donations and ad hoc public aid, i.e. not granted under a general scheme:

Beneficiary party	Disbursing Subject	Allowed contribution	Reason
Tesmec Rail S.r.l.	Apulia Region	Euro 5,689,070	Investment aid for large enterprises

These amounts are also recorded in the National State Aid Register to which reference is made.

COMMENTS ON THE MAIN ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

Non-current assets

6. Intangible assets

The breakdown of *Intangible assets* as at 31 December 2018 and as at 31 December 2017 is indicated in the table below:

	31 December					
	2018			**2017**		
(Euro in thousands)	**Historical cost**	**Accum. depr.**	**Net value**	**Historical cost**	**Accum. depr.**	**Net value**
Development costs	52,854	(37,913)	14,941	57,442	(43,143)	14,299
Rights and trademarks	8,635	(6,349)	2,286	8,502	(5,203)	3,299
Other intangible assets	55	(27)	28	-	-	-
Assets in progress and advance payments to suppliers	743	-	743	742	-	742
Total intangible assets	**62,287**	**(44,289)**	**17,998**	**66,686**	**(48,346)**	**18,340**

The following table shows the changes in intangible assets for the period ended 31 December 2018:

(Euro in thousands)	**01/01/2018**	**Increases due to purchases**	**Decreases**	**Depreciations**	**Exchange rate differences**	**31/12/2018**
Development costs	14,299	8,213	(41)	(7,595)	65	14,941
Rights and trademarks	3,266	275	(54)	(1,201)	-	2,286
Other intangible assets	33	-	-	(5)	-	28
Assets in progress and advance payments to suppliers	742	56	(55)	-	-	743
Total intangible assets	**18,340**	**8,544**	**(150)**	**(8,801)**	**65**	**17,998**

As at 31 December 2018, intangible assets net of amortisation totalled Euro 17,998 thousand, down Euro 342 thousand due to the following effects:

- *development costs capitalised* of Euro 8,213 thousand, which were fully offset by amortisation for the period. 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;
- amortisation for the period totalling Euro 8,801 thousand, of which Euro 7,595 thousand relating to development costs capitalised.

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

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

7. Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2018 and as at 31 December 2017 is indicated in the table below:

	31 December					
	2018			2017		
(Euro in thousands)	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Land	3,132	(147)	2,985	3,122	(145)	2,977
Buildings	21,625	(6,354)	15,271	16,469	(5,727)	10,742
Plant and machinery	17,062	(12,425)	4,637	14,912	(11,311)	3,601
Equipment	7,770	(6,011)	1,759	7,599	(5,941)	1,658
Other assets	41,533	(21,694)	19,839	45,656	(19,158)	26,498
Assets in progress and advance payments to suppliers	846	-	846	626	-	626
Total property, plant and equipment	**91,968**	**(46,631)**	**45,337**	**88,384**	**(42,282)**	**46,102**

The following table shows the changes in property, plant and equipment for the period ended 31 December 2018:

(Euro in thousands)	01/01/2018	Increases due to purchases	Decreases	Reclassifications	Depreciations	Exchange rate differences	31/12/2018
Land	2,977	1	-	-	(2)	9	2,985
Buildings	10,742	170	-	4,619	(499)	239	15,271
Plant and machinery	3,601	2,029	(11)	-	(1,031)	49	4,637
Equipment	1,658	865	(345)	1	(418)	(2)	1,759
Other assets	26,498	6,147	(8,270)	-	(4,494)	(42)	19,839
Assets in progress and advance payments to suppliers	626	4,840	-	(4,620)	-	-	846
Total property, plant and equipment	**46,102**	**14,052**	**(8,626)**	**-**	**(6,444)**	**253**	**45,337**

As at 31 December 2018, property, plant and equipment totalled Euro 45,337 thousand, down compared to the previous year by Euro 765 thousand. The change is due both to changes in trencher machines registered in the fleet - which was capitalised for Euro 6,147 thousand, following the drawing-up of new lease contracts offset by the sale of trencher machines and by depreciations for the period for a total of Euro 12,764 thousand - and to the construction of the new production plant of the subsidiary Tesmec Rail S.r.l. in Monopoli (BA) of Euro 4,534 thousand.

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

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

8. Equity investments in associates evaluated using the equity method

The breakdown of equity investments in associates evaluated using the equity method as at 31 December 2018 and 2017 is indicated in the table below:

	31 December	
(Euro in thousands)	**2018**	**2017**
Associated companies:		
Locavert SA	550	451
R&E Contracting	-	5
Subtotal	**550**	**456**
Joint Ventures:		
Condux Tesmec Inc	3,124	3,316
Tesmec Peninsula WLL	133	-
Marais Tunisie SA	169	165
Subtotal	**3,426**	**3,481**
Total Equity investments in associates evaluated using the equity method	**3,976**	**3,937**

Following the application of the equity method to investments - accounting standard adopted by the Group on the Joint Ventures - the margin achieved by Tesmec S.p.A. on the machines sold to them and not yet transferred to third-party customers as at 31 December 2018 was reversed against the value of the investment (if not sufficient, by creating a relevant covering provision).

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

	31 December 2018							
(Euro in thousands)	**% held**	**Revenues**	**Net result**	**Assets**	**Liabilities**	**Shareholders' Equity**	**Equity investment value in the Consolidated Financial Statements**	**Value of provision for risks due to losses**
Associated companies:								
Locavert SA	38.63%	557	99	760	211	550	550	-
R&E Contracting	20.00%	18	(44)	10	48	(38)	-	38
Joint Ventures:								
Condux Tesmec Inc.	50.00%	2,960	(79)	4,246	1,067	3,179	3,124	-
Tesmec Peninsula	49.00%	2,131	244	3,127	2,932	195	133	
Marais Tunisie SA	49.00%	87	27	286	86	200	169	-
Marais Lucas Technologies Pty Ltd.	50.00%	-	(16)	198	1,945	(1,747)	-	1,791

The values of the equity investments were tested for impairment. The key assumptions used by Management are estimates of future business plans. The flows of expected earnings cover a period of three years subsequent to those of reference of the impairment test and they are based on plans submitted to the Board of Directors on 21 December 2018.
The discount rate used (WACC), defined as the weighted average cost of capital, net of taxes, was differentiated according to the country of reference, the values of which are positioned in a range between 7% and 10%. Cash flows beyond the three years were extrapolated using a growth rate of 1%.
The results of the impairment test showed that as at 31 December 2018, the recoverable amount of the CGU exceeds the book value.

The results underwent also a sensitivity analysis in order to consider the possible effects of changes in the key assumptions underlying the impairment process. This analysis involved a reasonably possible change in the expected growth rate of about +/- 1%, the discount rate used of about +/- 2%, and the EBIT value resulting from the Plan of about +/- 10%.

9. Financial receivables and other non-current assets

The following table sets forth the breakdown of financial receivables and other non-current assets as at 31 December 2018 and 2017:

	31 December	
(Euro in thousands)	**2018**	**2017**
Guarantee deposits	669	183
Financial receivables from third parties	1,253	1
Total financial receivables and other non-current financial assets	**1,922**	**184**

Financial receivables and other non-current financial assets compared to the previous financial year increased by Euro 1,738 thousand related to the recognition of financial receivables from third parties generated by the sale of trencher machines.

Current assets

10. Work in progress contracts

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

	31 December	
(Euro in thousands)	**2018**	**2017**
Work in progress (Gross)	13,873	8,128
Advances from contractors	(2,850)	(1,360)
Work in progress contracts	**11,023**	**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.
The increase was due to the new amount of work in progress contracts that exceeded the invoicing flow.

11. Inventories

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

	31 December	
(Euro in thousands)	**2018**	**2017**
Raw materials and consumables	37,174	36,220
Work in progress	11,377	12,919
Finished products and goods for resale	13,459	13,773
Advances to suppliers for assets	566	213
Total inventories	**62,576**	**63,125**

The measurement bases of inventories with regard to raw materials and consumables, work in progress, finished goods and merchandise remained unchanged compared to the prior financial period.
In total, inventories decreased by 0.9% or Euro 549 thousand due to higher sales during the period.
The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2018 and 2017 are indicated below:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Value as at 1 January	5,325	5,332
Provisions	106	230
Uses	(67)	(41)
Exchange rate differences	73	(196)
Total provisions for inventory obsolescence	**5,437**	**5,325**

The value of the provisions for inventory obsolescence is in line with the previous financial year.
The adequacy of the provision is assessed on a regular basis to constantly monitor the actual level of inventories recovered through sales.

12. Trade receivables

The table below shows the breakdown of trade receivables as at 31 December 2018 and 2017:

	31 December	
(Euro in thousands)	**2018**	**2017**
Trade receivables from third-party customers	49,850	37,273
Trade receivables from related parties	2,712	2,581
Total trade receivables	**52,562**	**39,854**

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

Trade receivables as at 31 December 2018 amounted to Euro 52,562 thousand up by Euro 12,708 thousand compared to the 2017 financial period.

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

The changes in the provisions for doubtful accounts for the financial periods ended 31 December 2018 and 2017 are indicated in the table below:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Value as at 1 January	2,295	2,964
First-time adoption of IFRS 9	641	-
Provisions	697	444
Uses	(1,223)	(1,056)
Exchange rate differences	(4)	(57)
Total provisions for doubtful accounts	**2,406**	**2,295**

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

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

The impact of the first-time adoption of IFRS 9, amounting to Euro 641 thousand, was charged directly to shareholders' equity (known as modified approach).

13. Tax receivables

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

	31 December	
(Euro in thousands)	**2018**	**2017**
IRAP receivables	156	77
IRES receivables	774	701
Other direct income taxes	2	131
Total tax receivables	**932**	**909**

The item Tax receivables increased compared to the previous financial year of Euro 23 thousand mainly due to the increase in higher IRES receivables of the Parent Company Tesmec S.p.A..

14. Financial receivables and other current financial assets

The following table sets forth the breakdown of Financial receivables and other current financial assets as at 31 December 2018 and as at 31 December 2017:

	31 December	
(Euro in thousands)	**2018**	**2017**
Financial receivables from related parties	4,373	9,386
Financial receivables from third parties	5,986	3,026
Other current financial assets	31	36
Total financial receivables and other current financial assets	**10,390**	**12,448**

The *decrease in* current financial assets from Euro 12,448 thousand to Euro 10,390 thousand is mainly due to the reduction in financial receivables from related parties of Euro 5,013 thousand, relating to transactions with the companies M.T.S. Officine meccaniche S.p.A. (of Euro 2,911 thousand) and its subsidiary MTS 4 SERVICE USA L.L.C. (of Euro 1,387 thousand).
The increase in financial receivables from third parties is due to the recognition of the contribution granted by the Apulia region, which will be disbursed during the 2019 financial year.

15. Other current assets

The following table sets forth the breakdown of other current assets as at 31 December 2018 and as at 31 December 2017:

	31 December	
(Euro in thousands)	**2018**	**2017**
Prepaid expenses	1,638	706
Accrued income	12	-
VAT credit	6,795	3,098
Other receivables	532	331
Advance to suppliers for services	415	357
Other tax receivables	3,857	4,921
Total other current assets	**13,249**	**9,413**

Other current assets were considered receivable and therefore were not subject to value adjustment.
VAT credit, which amounted to Euro 6,795 thousand as at 31 December 2018, increased by Euro 3,697 thousand compared to 31 December 2017 in relation to the increase in sales for the period and, as a result, to more purchases of materials.
Other tax receivables includes the tax credit recognised for significant research and development expenses incurred by the Group in both Italy and France for the 2016, 2017 and 2018 financial periods. In particular, with reference to the tax credit on Research and Development activities in Italy, this is recorded on the basis of the provisions of the 2017 Budget Law (Italian Law 232/16) which changed the regulations of the tax benefit, introduced by the "Decreto Destinazione Italia" (Italian Law Decree no. 145/2013) as amended by Italian 2015 Stability Law (Italian Law 190/2014. 190/2014). As a whole, the value of the tax credit for the entire Tesmec Group both in Italy and in France amounted to Euro 2,894 thousand for 2018 and to Euro 5,335 thousand for 2017.

16. Cash and cash equivalents

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

	31 December	
(Euro in thousands)	**2018**	**2017**
Bank and post office deposits	42,764	21,469
Cash on hand	25	11
Other cash	4	7
Total cash and cash equivalents	**42,793**	**21,487**

Cash and cash equivalents are deposited in current deposits and they are remunerated at a floating rate related to the Euribor trend. The balance as at 31 December amounted to Euro 42,793 thousand and increased by Euro 21,306 thousand.
The stated values are subject to a non-significant risk of change in value. The book value of cash and cash equivalents is deemed to be aligned to their fair value at the end of the reporting period.
The Group believes that the credit risk related to cash and cash equivalents is limited since it mainly represents deposits divided across domestic and international banking institutions.

17. Shareholders' Equity

Share capital and reserves

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

The following table sets forth the breakdown of *Other reserves* as at 31 December 2018 and 2017:

	31 December	
(Euro in thousands)	**2018**	**2017**
Revaluation reserve	86	86
Extraordinary reserve	28,935	26,942
Change in the consolidation area	(555)	(225)
Reserve for first-time adoption of IFRS 9	(491)	
Severance indemnity valuation reserve	(498)	(563)
Network reserve	824	824
Losses brought forward	(6,736)	(3,087)
Bills charged directly to shareholders' equity on operations with entities *under common control*	(4,048)	(4,048)
Total other reserves	**17,517**	**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 against a reduction in shareholders' equity attributable to non-controlling interests of Euro 1,697 thousand. As required by IAS 27, the resulting loss of Euro 555 thousand was recognised directly in the consolidation reserve.

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

The value of translation difference had a positive impact on Shareholders' Equity of Euro 1,150 thousand as at 31 December 2018.

As a result of the resolution of 6 March 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.

Non–current liabilities

18. Medium/long-term loans

Medium/long-term loans include medium-long term loans from banks, payables towards other providers of finance and payables towards leasing companies for tangible fixed assets recorded in the separate financial statements in accordance with the financial leasing accounting method. The following table shows the breakdown thereof as at 31 December 2018 and as at 31 December 2017, with separate disclosure of total loan and current portion:

	31 December			
(Euro in thousands)	**2018**	**of which current portion**	**2017**	**of which current portion**
Banca Nazionale del Lavoro	-	-	923	923
Simest UGF	424	283	707	283
Banca Intesa San Paolo	-	-	118	118
ICCREA BANCA/BCC	1,639	465	2,104	2,104
Banca Carige S.p.A.	-	-	582	582
Credit Agricole Cariparma	1,318	1,318	2,195	2,195
Banca Monte dei Paschi di Siena	1,932	1,104	3,035	1,104
Banca Intesa San Paolo	379	379	880	501
Banco di Desio e della Brianza	650	457	1,098	448
Creval	85	85	1,088	1,003
BPER Banca	2,286	1,004	3,272	986
Banca del Mezzogiorno - Mediocredito Centrale (MCC)	2,495	998	3,493	3,493
Banco di Desio e della Brianza	-	-	41	41
Unipol Banca	563	563	1,227	664
UBI Banca	338	338	1,140	801
Deutsche Bank	745	372	1,118	372
Banca Popolare di Sondrio	1,964	747	2,694	730
Banco BPM 03838209 loan	2,061	327	2,382	321
Banco BPM 06052885 loan	2,962	474	3,424	463
Banco BPM 03922416 loan	1,774	273	-	-
Banco di Desio e della Brianza	1,246	745	-	-
Credito Adesso Creval	740	493	1,233	493
Coamerica	2,598	2,598	2,739	2,739
Pret senior	2,090	1,045	3,135	1,045
ICCREA BANCA/BCC	1,000	1,000	2,333	1,333

BPI	125	50	175	50
ADEME	233	-	100	-
Banque Populaire du Sud	-	-	7	7
Wetppac Business Bank - New Zeland	34	20	54	13
Wetppac Business Bank -Australie	434	111	566	117
National Australian Bank Limited	392	98	-	-
BOQ Equipment Finance Limited	478	110	-	-
UBI Banca	2,402	232	-	-
Mutuo Chiro Banca Pop Cassinate	-	-	26	26
Mutuo BCC Anagni	55	44	97	42
Total interest-bearing medium/long-term financial payables	**33,442**	**15,733**	**41,986**	**22,997**
Less current portion	(15,733)		(22,997)	
Non-current portion of interest-bearing medium/long-term financial payables	**17,709**		**18,989**	
Medium/long-term loan due to Simest	6,875	-	11,406	7,406
Less current portion	-		(7,406)	
Medium/long-term loan due to Simest	**6,875**		**4,000**	
Total medium/long-term loans	**24,584**	**15,733**	**22,989**	**30,403**
Non-current portion of finance leases	2,270	1,183	3,441	1,187
Less current portion	(1,183)		(1,187)	
Non-current portion of finance leases, net	**1,087**		**2,254**	
Total current portion		**16,916**		**31,590**
Medium/long-term loans	**25,671**		**25,243**	

ICCREA-BCC, BNL, Comerica, Cariparma, Banca del Mezzogiorno, Banca Popolare di Bergamo, Deutsche Bank and Ubi Banca loan contracts contain financial covenant provisions. In particular, they require that certain parameters, calculated on the basis of the financial statements of the Group and of the financial statements of Tesmec USA, have to be met; they are verified on a semi-annual and annual basis.

In general, covenants are based on the observance of the following relations:

- Net Financial Position/EBITDA
- Net Financial Position/Shareholders' equity
- Effective Net Worth
- Debt Service Coverage Ratio

Based on the results of the financial statements of the Company and the Tesmec Group, only one financial covenant relating to the Net Financial Position/EBITDA ratio has not been met. However, this non-compliance only led to the short-term recognition of the residual medium/long-term portion of the loan outstanding with Istituto Bancario Cariparma, of Euro 444 thousand, for which the waiver is in the process of being released, and the provisional step-up of the interest rate of the "Minibond 2018-2024", issued for an amount of Euro 10 million.

Finally, note that during 2018 new medium to long term loans were opened for a value of Euro 20,181 thousand.

The average cost of indebtedness is benchmarked to the trend of the 3-month Euribor rates plus a spread applied depending also on the type of the financial instrument used.

The table below shows the figures relevant to the outstanding loans of the Company as at 31 December 2018, by indicating the portion due within one year, within 5 years and after more than 5 years:

Description	Maturity	Residual value as at 31 December 2018	Portion within 12 months	Portion within 5 years	Portion after more than 5 years
Simest UGF	04-Feb-20	424	283	141	-
ICCREA BANCA/BCC	27-Mar-22	1,639	465	1,174	-

Credit Agricole Cariparma	26-Mar-20	1,318	1,318	-	-
Banca Monte dei Paschi di Siena	30-Sep-20	1,932	1,104	828	-
Banca Intesa San Paolo	30-Sep-19	379	379	-	-
Banco di Desio e della Brianza	10-May-20	650	457	193	-
Creval	05-Jan-19	85	85	-	-
BPER Banca	18-Mar-21	2,286	1,004	1,282	-
Banca del Mezzogiorno - Mediocredito Centrale (MCC)	30-Jun-21	2,495	998	1,497	-
Unipol Banca	31-Oct-19	563	563	-	-
UBI Banca	11-May-19	338	338	-	-
Deutsche Bank	28-Nov-20	745	372	373	-
Banca Popolare di Sondrio	31-Jul-21	1,964	747	1,217	-
Banco BPM 03838209 loan	31-Dec-24	2,061	327	1,372	362
Banco BPM 06052885 loan	31-Dec-24	2,962	474	1,972	516
Banco BPM 03922416 loan	30-Jun-25	1,774	273	1,092	409
Banco di Desio e della Brianza	10-Aug-20	1,246	745	501	-
Credito Adesso Creval	30-Apr-20	740	493	247	-
Coamerica	01-May-19	2,598	2,598	-	-
Pret senior	01-Apr-20	2,090	1,045	1,045	-
ICCREA BANCA/BCC	20-Sep-19	1,000	1,000	-	-
BPI	30-Jun-21	125	50	75	-
Ademe	01-Aug-22	233	-	233	-
Wetppac Business Bank - New Zeland	27-Jul-20	34	20	14	-
Wetppac Business Bank -Australie	01-Nov-21	434	111	323	-
National Australian Bank Limited	01-Dec-22	392	98	294	-
BOQ Equipment Finance Limited	30-Sep-20	478	110	368	-
UBI Unione Banche Italiane	01-Nov-22	2,402	232	1,928	242
Mutuo BCC Anagni	27-Mar-20	55	44	11	-
Total		**33,442**	**15,733**	**16,180**	**1,529**

Net financial indebtedness

As required by CONSOB Communication of 28 July 2006 and in compliance with CESR Recommendation of 10 February 2005 "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses", the Group's net financial indebtedness is as follows:

	31 December			
(Euro in thousands)	**2018**	***of which with related parties and group***	**2017**	***of which with related parties and group***
Cash and cash equivalents	(42,793)		(21,487)	
Current financial assets (1)	(10,391)	*(4,373)*	(12,450)	*(9,386)*
Current financial liabilities	80,504	*2,325*	79,022	*37*
Current portion of derivative financial instruments	-		85	
Current financial indebtedness (2)	**27,320**	***(2,048)***	**45,170**	***(9,349)***
Non-current financial liabilities	50,322		40,040	
Non-current portion of derivative financial instruments	35		63	
Non-current financial indebtedness (2)	**50,357**	**-**	**40,103**	**-**
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	**77,677**	***(2,048)***	**85,273**	***(9,349)***

[1] Current financial assets as at 31 December 2018 and 31 December 2017 include the market value of shares that are considered cash and cash equivalents.
[2] Current and non-current financial indebtedness is not identified as an accounting measure under IFRS. The valuation criteria applied by the Group may not necessarily be the same as those adopted by other groups and therefore the balances obtained by the Group may not necessarily be comparable therewith.

Net indebtedness as at 31 December 2018 stood at Euro 77,677 thousand (Euro 85,273 thousand as at 31 December 2017) decreasing by Euro 7,596 thousand.
The table below shows the breakdown of the following changes:

- decrease in current financial indebtedness of Euro 17,850 thousand due to the:
  - increase in current financial liabilities of Euro 1,482 thousand mainly related for Euro 9,888 thousand to the reclassification of short-term portions of medium/long-term loans offset by refunds for the period of Euro 17,166 thousand.
  - increase in current financial assets and cash and cash equivalents of Euro 21,306 thousand thanks to improved financial management;
- increase in non-current financial indebtedness of Euro 10,254 thousand deriving from the activation of new loans of Euro 20,181 thousand offset by the reclassification in the current financial indebtedness described in the previous paragraph of Euro 9,888 thousand.

This table shows the comparison between the book value and the fair value of the financial instruments as at 31 December 2018:

(Euro in thousands)	**Book value as at 31 December 2018**	**Fair value**
Financial liabilities:		
Loans	65,156	68,772
Non-current portion of finance leases, net	2,270	2,322
Total	**67,426**	**71,094**

19. Bond issue

The item relating to the *bond issue* amounted to Euro 24,651 thousand and increased by Euro 9,854 thousand compared to the previous year.
This change relates to the new "Tesmec S.p.A. 4.75% 2018-2024" bond issue of Euro 10 million placed on 27 July 2018 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. As described in the previous paragraph, a provisional step-up of one percentage point of the interest rate is in progress on the latter loan.

20. Derivative financial instruments

The Group signed some contracts related to derivative financial instruments whose contractual characteristics and related fair value as at 31 December 2018 and 2017 are shown in the table below:

Counterparts	**Type**	**Debt interest rate (fixed)**	**Credit interest rate (variable)**	**Start date**	**Maturity date**	**Notional principal**	**Fair Value (Euro/000) as at 31 December**	
							2018	**2017**
BNL	IRS	1.15% 1st year; 1.65; 1.65% 2nd year; 2% 3rd year; 2.60% five following years	3-month Euribor	01/01/2011	31/05/2018	-		(19)
Veneto Banca	IRS	Fixed interest rate 1.09%	6-month Euribor	31/12/2013	31/12/2018	-	-	(5)
Cariparma	IRS	Fixed interest rate 0.34%	6-month Euribor	07/05/2015	26/03/2020	1,333,333	(8)	(18)

Iccrea	CAP	Interest rate for the period 0.75%	6-month Euribor	27/09/2015	27/09/2020	1,500,000	-	1
Monte dei Paschi di Siena	CAP	Interest rate for the period 0.61%	6-month Euribor	31/12/2016	30/09/2020	1,944,444	(12)	(25)
Comerica	IRS	Fixed interest rate 1.74%	USD-Libor-BBA	12/01/2015	07/01/2018	3,022,312	-	(3)
Banco Popolare	IRS	Fixed interest rate 0.06%	6-month Euribor	03/10/2016	15/12/2020	1,375,000	(5)	(7)
Banca Popolare di Milano	IRS	Fixed interest rate 0.12%	3-month Euribor	31/01/2017	30/04/2021	2,383,227	(4)	(1)
Deutsche Bank	CAP	Fixed interest rate 0.00%	3-month Euribor	20/01/2017	30/11/2020	750,000	-	(1)
BPER	CAP	Interest rate for the period 0.15%	3-month Euribor	18/12/2017	18/03/2021	2,307,180	(6)	(11)
Banca Popolare di Milano	FORWARD SPOT	-	-	21/12/2017	30/04/2018	-		(58)
Assets for derivative instruments within the financial period							**-**	**-**
Assets for derivative instruments beyond the financial period							**-**	**1**
Liabilities for derivative instruments within the financial period							**-**	**(85)**
Liabilities for derivative instruments beyond the financial period							**(35)**	**(63)**

The Group uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The transactions for interest-rate risk hedging are limited to medium to long-term loans.
The Group does not account for these financial instruments according to the methods established for hedge accounting since they do not meet all the requirements provided on this matter by the international accounting standards. Therefore, the changes in fair value of the financial instruments are attributed to the income statement during the financial period under review.
The financial management of the Group does not envisage the trading of derivative instruments with speculative purposes.

21. Employee benefit liability

The Group has no defined benefit pension plans in the strict sense. However, the severance indemnity fund allocated by the Parent Company and Italian subsidiaries required by Article 2120 of the Italian Civil Code, in terms of recognition in the financial statements, falls under this type and as such was accounted for, as shown in the applied accounting policies.
The following table shows the changes for the period ended 31 December 2018 and 31 December 2017 of employee benefits:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Present value of the liability at the beginning of the period	3,656	3,680
Financial expense	47	(24)
Benefits accrued	361	202
Benefits paid	(210)	(313)
Loss (profit)	(84)	111
Present value of the liability at the end of the period	**3,770**	**3,656**

With the adoption of the IFRS, the severance indemnity is considered a defined-benefit liability to be accounted for in accordance with IAS 19 and, as a result, the relevant liability is measured based on actuarial techniques.
The main assumptions used in determining the present value of the severance indemnity are shown below:

Economic and financial technical bases

(Euro in thousands)	Financial period ended 31 December	
	2018	**2017**
Annual discount rate	1.55%	2.00%
Inflation rate	1.50%	1.50%
Expected turnover rate of employees	2.62%	3.00%
Advance rate	3.00%	2.00%

The sensitivity analyses are shown below by using an annual discount rate of +0.5% and -0.5% compared to the annual discount rate used on the valuation date.

(Euro in thousands)	Discount rate	
	0.50%	**-0.50%**
Effect on the aggregate current cost of the service and of the financial expenses	43	21
Reported value for liabilities with respect to defined benefit plans	1,851	2,044

Technical and demographic bases

(Euro in thousands)	Financial period ended 31 December	
	2018	**2017**
Mortality	2004 ISTAT tables	2004 ISTAT tables
Disability	INPS tables	INPS tables
Retirement age	67 N/F	67 N/F

Frequency of turnover and advances on severance indemnity

(Euro in thousands)	Financial period ended 31 December	
	2018	**2017**
Advance frequency %	0.87%	1.83%
Turnover frequency %	22.58%	22.60%

Workforce

The average number of employees by company, expressed in terms of full-time employees is shown in the following table:

(average no. of employees)	Financial period ended 31 December			
	2018	**2017**	**2018 vs. 2017**	**%**
Tesmec S.p.A.	343	331	12	3.63%
Tesmec Service S.r.l.	45	52	(7)	-13.46%
Tesmec USA, Inc.	83	76	7	9.21%
Tesmec SA (Pty) LTD	16	15	1	6.67%
OOO Tesmec RUS	5	6	(1)	-16.67%
Bertel S.r.l.	-	-	-	100.00%
Tesmec Automation S.r.l.	56	51	5	9.80%
Tesmec Rail S.r.l.	15	-	15	100.00%
Tesmec New Technology Beijing LTD	3	3	-	0.00%
Marais Group	149	152	(3)	-1.97%
Marais Laying Technologies (Pty) Ltd. Australie	32	21	11	52.38%

Marais Laying Technologies (Pty) Ltd. Nouvelle Zelande	72	58	14	24.14%
Marais Cote d'Ivoire	24	18	6	33.33%
Marais Trenching (Pty) Ltd. AFS	1	1	-	0.00%
Total	**844**	**784**	**60**	**7.65%**

The average number of employees as at 31 December 2018 shows the growing trend of the Group.

Current liabilities

22. Interest-bearing financial payables (current portion)

The following table sets forth the breakdown of *Interest bearing financial payables (current portion)* for the 2018 and 2017 financial periods:

	31 December	
(Euro in thousands)	**2018**	**2017**
Advances from banks against invoices and bills receivables	47,923	36,010
Other financial payables (short-term leases)	1,184	1,187
Payables due to factoring companies	11,275	3,886
Current account overdrafts	1,824	4,112
Financial payables due to SIMEST	-	7,406
Short-term loans to third parties	187	3,289
Current portion of medium/long-term loans	15,733	22,997
Other short-term financial payables	2,378	135
Total interest-bearing financial payables (current portion)	**80,504**	**79,022**

Interest-bearing financial payables (current portion) increased by Euro 1,482 thousand, mainly due a greater use of the export advance lines against a lower current portion of long-term loans and the closure of the debt with Simest S.p.A. relating to the financing transaction in Tesmec USA Inc .
The increase in payables due to factoring companies is due to the increased use of "reverse factoring" for third suppliers.

23. Trade payables

The breakdown of *Trade payables* as at 31 December 2018 and as at 31 December 2017, respectively, is indicated in the table below:

	31 December	
(Euro in thousands)	**2018**	**2017**
Trade payables due to third-parties	51,973	37,113
Trade payables due to related parties	2,377	2,366
Total trade payables	**54,350**	**39,479**

Trade payables as at 31 December 2018 increased by Euro 14,871 thousand, 37.7% compared to the previous financial period as a result of a higher volume of purchases due to the increase in sales.
This figure includes payables related to the normal course of business by the Group, in particular the purchase of raw materials and outsourced works.
Note also that there are no payables with maturity exceeding five years at the above dates.

24. Income taxes payable

The breakdown of *Income taxes payable* as at 31 December 2018 and as at 31 December 2017, respectively, is indicated in the table below:

	31 December	
(Euro in thousands)	**2018**	**2017**
Current IRES tax liabilities	828	271
Current IRAP tax liabilities	344	104
Other current taxes	123	14
Total income taxes payable	**1,295**	**389**

IRES and IRAP taxes payable as at 31 December 2018 includes the net payable due by the Group for the payment of direct income taxes.

25. Provisions for risks and charges

Provisions for risks and charges mainly refers to the product guarantee fund and partially to the adjustment of the value of consolidated investments by using the equity method. With reference to the guarantee fund, the calculation is based on a historical, statistical and technical analysis of the interventions under guarantee carried out on sales in prior financial periods and includes both the cost of labour and that for spare parts used.
Changes in *provisions for risks and charges* as at 31 December 20178 and as at 31 December 2017 are indicated below:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Value as at 1 January	3,321	3,704
Provisions	234	106
Reclassifications	(55)	(213)
Uses	(362)	(236)
Exchange-rate differences	14	(40)
Value as at 31 December	**3,152**	**3,321**

26. Other current liabilities

The following table sets forth the breakdown of *other current liabilities* as at 31 December 2018 and as at 31 December 2017:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Due to social security	1,895	1,968
Due to INAIL (National Insurance Institute for Industrial Accidents)	242	219
Due to trade funds	200	172
Due to employees and collaborators	4,090	4,068
Guarantee deposits payable	(265)	593
Due to others	3,133	1,573
Accrued expenses and liabilities	17,075	1,242
Other current taxes	2,133	2,862
Total other current liabilities	**28,503**	**12,697**

Other current liabilities increased compared to the prior financial period of Euro 15,806 thousand and refers to the increase in accrued expenses and liabilities of Euro 15,833 thousand.

27. Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2018 and 2017:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Deferred tax assets	11,816	10,451
Deferred tax liabilities	5,927	6,202

The breakdown of net deferred taxes as at 31 December 2018 and 2017 is shown in the following table by type by listing the items that present underlying temporary differences:

	31 December		**31 December**		**Financial period ended 31 December**	
	Statement of financial position		**Shareholders' equity**		**Income statement**	
(Euro in thousands)	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Deferred tax assets						
Reversals of intangible assets	36	48		-	(12)	(7)
Obsolescence fund	1,230	1,232	(42)	(9)	40	(134)
Unrealised exchange-rate losses	1,021	938		-	83	468
Tax effect on UCC gain reversals	151	199		-	(48)	(42)
Tax effect on intercompany margin adjustments	1,077	1,066	9	(25)	2	(32)
Deferred tax assets Tesmec USA	2,163	2,610	(504)	137	57	(830)
Deferred tax assets Bertel for tax losses	974	1,272	184	12	(482)	503
Deferred tax assets Marais Group	3,598	2,100	221	-	1,277	(400)
Other temporary differences	1,566	986	566	(587)	14	(123)
Total deferred tax assets	**11,816**	**10,451**	**434**	**(472)**	**931**	**(597)**
Deferred tax liabilities						
Unrealised exchange-rate gains	(1,401)	(1,269)		(7)	(132)	186
Difference of value - USA building	(155)	(154)	(6)	30	5	119
Capitalisation of Development costs Tesmec USA	(286)	(330)	(15)	113	59	398
Deferred tax liabilities Tesmec USA	(879)	(869)	(39)	135	29	198
Profits allocated to network reserve	(218)	(218)		-	-	-
Tax effect on intercompany margin adjustments	(5)	(27)	(9)	(46)	31	18
Deferred tax liabilities of Marais Group	(2,954)	(3,311)	122	-	235	521
Other temporary differences	(29)	(24)	(4)	6	(1)	(3)
Total deferred tax liabilities	**(5,927)**	**(6,202)**	**49**	**231**	**226**	**1,437**
Net effect on Shareholders' Equity						
Net balance deferred wealth taxes	**5,889**					
Represented in the income statement as follows:						
Deferred tax assets	**931**					
Deferred tax liabilities	**226**					
Deferred tax liabilities, net	**1,157**					

The change in deferred tax assets is mainly attributable to the recoverable tax losses of the Australian subsidiary Marais Laying Trenching (Pty) LTD.

Current taxation

Profit before taxes and the allocation for income taxes for the financial periods as at 31 December 2018 and 2017 are summarised below:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Consolidated pre-tax profits	**306**	**(1,512)**
Current taxation:		
Italy	(1,304)	(224)
USA	(13)	(8)
Rest of the world	(102)	(508)
Deferred tax (liabilities)/assets		
Italy	(580)	897
USA	184	(718)
Rest of the world	1,553	661
Total Income taxes	**(262)**	**100**

The reconciliation between the nominal tax rate established by the Italian legislation and the effective tax rate resulting from the consolidated financial statements is set below:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Profit before tax	**306**	**(1,512)**
IRES tax rate in force during the period	24.00%	24.00%
Theoretical tax charge	**(73)**	**363**
Irap	**(492)**	**(208)**
Permanent tax differences	168	265
Effect of different tax rate for foreign companies	135	(320)
Total difference	**303**	**(55)**
Total tax charge as per income statement	**(262)**	**100**

Comments to the main items in the income statement

28. Revenues from sales and services

In the 2018 and 2017 financial periods, revenues from sales and services amounted to Euro 194,611 thousand and Euro 175,559 thousand, respectively. The breakdown is set below:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Sales of products	143,571	125,536
Services rendered	45,786	43,186
	189,357	**168,722**
Changes in work in progress	5,254	6,837
Total revenues from sales and services	**194,611**	**175,559**

The Group realised in 2018 revenues of Euro 194,611 thousand against a figure of Euro 175,559 thousand in 2017 up by 10.9%. The trend of the three segments is shown below:

- **Energy**
  The machines and integrated systems for the construction, maintenance and streamlining of underground and aerial power lines recorded a decrease in revenues by Euro 10,330 thousand (-19.8%) from Euro 52,069 thousand as at 31 December 2017 to Euro 41,739 thousand as at 31 December 2018. In the 2017 financial period, revenues benefited from a large order to supply stringing equipment for the Indonesian market, which had an impact mainly on the first quarter of 2017. However, note the positive performance of the Energy Automation segment, which recorded growth driven by consolidation on the Italian market and by developments on the Russian market, which brought revenues from Euro 6.1 million to Euro 9.5 million.

- **Trencher**
  Trenchers and systems for the construction of underground infrastructures such as gas pipelines, oil pipelines, water systems, trenches for laying cables and for earth moving works recorded an increase in revenues of Euro 19,407 thousand (+18.3%) from Euro 106,047 thousand as at 31 December 2017 to Euro 125,454 thousand as at 31 December 2018. The important growth of the sector took place in a balanced manner in all the various reference segments of the Group; however, particular emphasis must be placed on the performance of the American market, the development of the Kuwaiti market and the confirmation of Marais' growth path.

- **Rail**
  Machines and integrated systems for the installation, maintenance and diagnostics of the railway catenary wire system, plus customised machines for special operations on the line recorded an increase in revenues by 57.2% compared to the previous year. Revenues as at 31 December 2018 amounted to Euro 27,418 thousand compared to Euro 17,443 thousand of the previous year. The improvement is due to the delivery of maintenance vehicles and to technological advances that the Group is pursuing in terms of Research & Development.

29. Cost of raw materials and consumables

For the financial periods as at 31 December 2018 and 31 December 2017, cost of raw materials and consumables amount to Euro 89,081 thousand and Euro 78,326 thousand, respectively.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Cost for the purchase of raw materials and consumables	87,372	74,640
Change in inventories	1,709	3,686
Total cost of raw materials and consumables	**89,081**	**78,326**

Cost of raw materials and consumables increased by Euro 10,755 thousand (13.7%) slightly more than proportionally than the increase in sales volumes (+10.9%). Note that these costs include non-recurring costs relating to an accident at an Australian site of Euro 1,595 thousand. In compliance with the accounting standards of reference and, in particular, with the provisions of paragraph 33 of IAS 37, according to which potential assets are recognised in the financial statements only if potentially certain, at 31 December 2018 the Group recorded among its income only the repayment portion already confirmed to date by the insurance counterparty for the first Euro 287 thousand. The additional repayment shares that the Group reasonably believes to be certain given the insurance securities will therefore be recorded in the financial statements only when they are actually recognised.

30. Costs for services

The table below shows the breakdown of *costs for services* that amounted in 2018 and in 2017 to Euro 32,581 thousand and Euro 30,856 thousand, respectively.

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Transport, customs and incidental expenses	6,508	6,682
Outsourced work service	5,178	4,454
External production services	185	74
Services for legal, tax, technical and other consultancy	5,992	5,929
Banking services	800	782
Insurance	1,019	636
Energy, water, gas, telephone expenses and postage	1,668	1,518
Board and lodging expenses and travelling allowance	4,431	4,029
Directors' and Auditors' fees	1,047	891
Advertising and other selling expenses	906	1,277
Maintenance services	1,427	1,288
Commissions and additional expenses	2,050	1,971
Other general expenses	1,370	1,325
Total costs for services	**32,581**	**30,856**

The increase in costs for services (+5.6%) is due to the increase in *outsourced work service* of Euro 724 thousand in relation to the increase in revenues and to the increase in insurance costs considering the increase in activities at the construction sites. There was also a general reduction in costs following a policy of optimisation and cost containment.

31. Payroll costs

During the financial periods ended 31 December 2018 and 31 December 2017, payroll costs amounted to Euro 50,501 thousand and Euro 46,249 thousand, respectively, up by 9.2%.

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Wages and salaries	34,244	34,615
Social security charges	13,669	9,434
Employee severance indemnity	1,363	1,095
Other personnel costs	1,225	1,105
Total payroll costs	**50,501**	**46,249**

The 9.2% increase in this item is related to the increase in service activities in Group revenues, in relation to the pursuit of the company strategy in the search for new technology businesses (Rail), and in international growth with the strengthening in all markets in which Marais is the leader (Africa, Australia, New Zealand, etc.)

32. Other operating (costs)/revenues

During the financial periods ended 31 December 2018 and 31 December 2017, other net operating (costs)/revenues amounted to Euro 11,282 thousand and Euro 5,300 thousand, respectively.

The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Provisions for risks and other net provisions	1,394	245
Rents	8,080	3,639
Hiring	4,000	5,336
Other lease and rental expenses	1,030	737
Sundry taxes	812	491
Other revenues	(4,304)	(6,076)
Other	270	928
Total other operating revenues, net	**11,282**	**5,300**

Other operating (costs)/revenues, net increased by Euro 5,982 thousand.
The item other revenues includes the value of the tax credit for 2018 of Euro 3,661 thousand (of which Euro 2,894 thousand for 2018), compared to Euro 5,335 thousand for 2017.

33. Amortisation and depreciation

During the financial periods ended 31 December 2018 and 31 December 2017, depreciation and amortisation amounted to Euro 15,245 thousand and Euro 14,633 thousand, respectively, with a 4.2% increase.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Amortisation of intangible assets	8,801	8,042
Depreciation of property, plant and equipment	6,444	6,591
Total amortisation and depreciation	**15,245**	**14,633**

34. Development costs capitalised

Development costs capitalised for the financial periods ended 31 December 2018 and 31 December 2017 amounted to Euro 7,592 thousand and Euro 5,671 thousand, respectively.
The Group continued to develop the projects for the launch of new models and new functionalities of own products, which are requested from the markets, in order to maintain its leader sector position.

35. Financial expenses

During the financial periods ended 31 December 2018 and 31 December 2017, financial expenses amounted to Euro 5,991 thousand and Euro 10,239 thousand. The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Bank interests expense	478	453
Interests payable for factoring and billing discounts	354	206
Interests payable on interest-bearing medium/long-term loans and borrowings	2,339	2,618
Interests payable on advance loans on exports	275	187
Other sundry financial expenses	375	647
Financial expenses on lease contracts	107	94
Realised foreign exchange losses	886	2,475
Unrealised foreign exchange losses	1,173	3,547
Fair value adjustment of derivative instruments	4	12
Total financial expenses	**5,991**	**10,239**

Financial expenses shows a decrease compared to the previous financial year of Euro 4,248 thousand as a result of:

- decrease in *foreign exchange losses (realised and unrealised)* of Euro 3,963 thousand due to the exchange rate used on the date of collection compared to the one used on the invoice date and to the adjustment to the exchange rate in effect as at 31 December 2018 of the currency items.
- decrease in *interest rates payable on interest-bearing loans and borrowings* of Euro 279 thousand.

36. Financial income

During the financial periods ended 31 December 2018 and 31 December 2017, financial income amounted to Euro 2,553 thousand and Euro 2,585 thousand, respectively.

The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Interests from banks	48	37
Realised foreign exchange gains	709	931
Unrealised foreign exchange gains	1,560	415
Fair value adjustment of derivative instruments	58	159
Sundry income	178	1,043
Total financial income	**2,553**	**2,585**

Financial income is substantially in line with the previous financial period.

37. Segment Reporting

For management purposes, Tesmec Group is organised into strategic business units identified based on the goods and services provided, and presents three operating segments for disclosure purposes:

Energy segment

- machines and integrated systems for overhead and underground stringing of power lines and fibre optic cables; integrated solutions for the streamlining, management and monitoring of low, medium and high voltage power lines (smart grid solutions).

Trencher segment

- high-efficiency crawler trenching machines for excavation with a set section for the construction of infrastructures for the transmission of data, raw materials and gaseous and liquid products in the various segments: energy, farming, chemical and public utilities, crawler machines for working in the mines, surface works and earth moving works (RockHawg);
- specialised consultancy and excavation services on customer request;
- multi-purpose site machinery (Gallmac).

Rail segment

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

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

	31 December									
	2018					2017				
(Euro in thousands)	Energy	Trencher	Rail	Not allocated	Consolidated	Energy	Trencher	Rail	Not allocated	Consolidated
Intangible assets	9,674	4,258	4,066	-	17,998	9,741	4,280	4,319	-	18,340
Property, plant and equipment	2,005	35,354	7,978	-	45,337	1,905	42,595	1,602	-	46,102
Financial assets	3,123	2,329	1	448	5,901	3,330	767	12	20	4,129
Other non-current assets	1,271	4,146	92	7,138	12,647	1,743	2,857	97	5,915	10,612
Total non-current assets	**16,073**	**46,087**	**12,137**	**7,586**	**81,883**	**16,719**	**50,499**	**6,030**	**5,935**	**79,183**
Work in progress contracts			11,023	-	11,023	-	-	6,768	-	6,768
Inventories	16,920	43,444	2,212	-	62,576	16,170	45,632	1,323	-	63,125
Trade receivables	11,370	34,605	6,587	-	52,562	6,889	31,508	1,457	-	39,854
Other current assets	2,397	3,859	8,953	9,363	24,572	1,686	2,211	2,779	16,096	22,772
Cash and cash equivalents	880	1,487	18,517	21,909	42,793	1,474	1,000	4,942	14,071	21,487
Total current assets	**31,567**	**83,395**	**47,292**	**31,272**	**193,526**	**26,219**	**80,351**	**17,269**	**30,167**	**154,006**
Total assets	**47,640**	**129,482**	**59,429**	**38,858**	**275,409**	**42,938**	**130,850**	**23,299**	**36,102**	**233,189**
Shareholders' equity attributable to parent company shareholders	-	-	-	**43,303**	**43,303**	-	-	-	**43,107**	**43,107**
Shareholders' equity attributable to non-controlling interests	-	-	-	**35**	**35**	-	-	-	**1,725**	**1,725**
Non-current liabilities	**1,153**	**5,834**	**3,047**	**50,088**	**60,122**	**1,100**	**7,832**	**1,266**	**39,789**	**49,987**
Current financial liabilities	986	7,045	8,604	63,869	80,504	542	7,220	2,782	68,563	79,107
Trade payables	12,896	28,653	12,801	-	54,350	9,178	25,763	4,538	-	39,479
Other current liabilities	1,688	9,898	17,592	7,917	37,095	1,127	6,793	1,420	10,444	19,784
Total current liabilities	**15,570**	**45,596**	**38,997**	**71,786**	**171,949**	**10,847**	**39,776**	**8,740**	**79,007**	**138,370**
Total liabilities	**16,723**	**51,430**	**42,044**	**121,874**	**232,071**	**11,947**	**47,608**	**10,006**	**118,796**	**188,357**
Total shareholders' equity and liabilities	**16,723**	**51,430**	**42,044**	**165,212**	**275,409**	**11,947**	**47,608**	**10,006**	**163,628**	**233,189**

(Euro in thousands)	Financial period ended 31 December							
	2018				2017			
	Energy	Trencher	Rail	Consolidated	Energy	Trencher	Rail	Consolidated
Revenues from sales and services	41,739	125,454	27,418	194,611	52,069	106,047	17,443	175,559
Operating costs net of depreciation and amortisation	(36,921)	(115,472)	(23,296)	(175,689)	(44,059)	(95,743)	(15,015)	(154,817)
EBITDA	**4,818**	**9,982**	**4,122**	**18,922**	**8,010**	**10,304**	**2,428**	**20,742**
Depreciations	(4,874)	(7,687)	(2,684)	(15,245)	(4,335)	(7,919)	(2,379)	(14,633)
Total operating costs	**(41,795)**	**(123,159)**	**(25,980)**	**(190,934)**	**(48,394)**	**(103,662)**	**(17,394)**	**(169,450)**
Operating income	**(56)**	**2,295**	**1,438**	**3,677**	**3,675**	**2,385**	**49**	**6,109**
Net financial expenses				(3,371)				(7,621)
Pre-tax profit/(loss)				**306**				**(1,512)**
Income tax				(262)				100
Net profit/ (loss) for the period				**44**				**(1,412)**
Profit attributable to non-controlling interests				16				18
Group profit/(loss)				**28**				**(1,430)**

It should be noted that non-current unallocated assets mainly refer to the value of deferred tax assets recorded in the consolidated financial statements of the Group. Current unallocated assets relate to current account ratios and short-term financial receivables from related parties.

Management monitors the operating income of its business units separately for the purpose of making decisions on resource, allocation and performance assessment. Segment performance is assessed 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.

38. Related party transactions

The following table gives details of economic and equity transactions with related parties. The companies listed below have been identified as related parties as they are linked directly or indirectly to the current shareholders:
In particular, for the financial period ended 31 December 2018, the breakdown of each related party is indicated below:

	31 December					31 December			
	2018					2017			
(Euro in thousands)	**Trade receivables**	**Current financial receivables**	**Current financial payables**	**Trade payables**	**Advances from customers**	**Trade receivables**	**Current financial receivables**	**Current financial payables**	**Trade payables**
Associates:									
Locavert S.A.	43	-	-	3	-	95	-	-	-
R&E Contracting (Pty) Ltd.	-	180	-	-	-	-	-	-	-
Subtotal	**43**	**180**	**-**	**3**	**-**	**95**	**-**	**-**	**-**
Joint Ventures:									
Condux Tesmec Inc.	394	656	-	-	-	1,046	-	-	-
Tesmec Peninsula	174	2,022	1,995	-	-	17	1,930	37	979
Marais Tunisie	-	1	-	-	-	-	2	-	-
Marais Lucas	-	794	-	-	-	-	794	-	-
Subtotal	**568**	**3,473**	**1,995**	**-**	**-**	**1,063**	**2,726**	**37**	**979**
Related parties:									
Ceresio Tours S.r.l.	-	-	-	4	-	-	-	-	-
Dream Immobiliare S.r.l.	-	720	-	273	-	-	1,162	-	-
Fi.ind.	27	-	-	-	-	27	-	-	-
TTC S.r.l.	-	-	-	113	-	-	-	-	26
M.T.S. Officine meccaniche S.p.A.	145	-	330	1,459	-	1,373	2,911	-	1,199
MTS4SERVICE USA LLC	1,874	-	-	525	55	10	1,387	-	119
Comatel	55	-	-	-	-	9	-	-	-
C2D	-	-	-	-	-	4	1,200	-	43
Subtotal	**2,101**	**720**	**330**	**2,374**	**55**	**1,423**	**6,660**	**-**	**1,387**
Total	**2,712**	**4,373**	**2,325**	**2,377**	**55**	**2,581**	**9,386**	**37**	**2,366**

(Euro in thousands)	Financial period ended 31 December 2018					Financial period ended 31 December 2017				
	Revenues	Cost of raw materials	Costs for services	Other operating costs/revenues, net	Financial income and expenses	Revenues	Cost of raw materials	Costs for services	Other operating costs/revenues, net	Financial income and expenses
Associates:										
Locavert S.A.	(145)	-	(3)	-	-	696	-	-	-	-
Subtotal	**(145)**	**-**	**(3)**	**-**	-	**696**	**-**	**-**	**-**	**-**
Joint Ventures:										
Condux Tesmec Inc.	3,515	-	(9)	170	9	3,152	(9)	-	175	6
Tesmec Peninsula	250	(310)	(35)	-	50	-	(1,013)	(78)	53	102
Marais Tunisie Sa	-	-	-	-	-	-	-	-	-	-
Subtotal	**3,765**	**(310)**	**(44)**	**170**	59	**3,152**	**(1,022)**	**(78)**	**228**	**108**
Related parties:	-	-	-	-	-					
Ambrosio S.r.l.	-	-	-	(14)	-	-	-	-	(14)	-
Ceresio Tours S.r.l.	-	-	(8)	-	-	-	-	(8)	(1)	-
Dream Immobiliare S.r.l.	-	-	-	(2,085)	-	-	-	-	(2,242)	-
Fi.ind.	-	-	-	54	-	-	-	-	86	-
TTC S.r.l.	-	-	(99)	-	-	180	-	(21)	-	-
Lame Nautica S.r.l.	-	-	-	-	-	14	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	5,849	-	6	(2,693)	26	9,644	(902)	34	(277)	37
MTS4SERVICE USA LLC	7,649	-	-	(509)	20	7,978	-	-	(127)	10
Comatel	220	-	-	-	-	-	-	-	-	-
C2D	-	-	-	-	-	1	-	(257)	1	2
Subtotal	**13,718**	**-**	**(101)**	**(5,247)**	46	**17,817**	**(902)**	**(252)**	**(2,574)**	**49**
Total	**17,338**	**(310)**	**(148)**	**(5,077)**	**105**	**21,665**	**(1,924)**	**(330)**	**(2,346)**	**157**

- Locavert S.A.: the French associate purchases normally trenchers/spare parts for rental business and carrying-out of excavation works at market prices and terms of payment;
- Condux Tesmec Inc.: the JV purchases stringing machines and equipment for sale on the American market at market prices and terms of payment;
- Tesmec Peninsula WLL: the JV operates on the Saudi Arabian market supplying trencher machinery produced by the Group as well as on-site and after-sale support services. The income and cost items relate to the normal marketing activities of trenching machines;
- Dream Immobiliare S.r.l.: following the lease contract executed in 2016, Other operating (costs)/revenues, net includes the rentals for the Grassobbio building of Euro 2,085 thousand.
- M.T.S. Officine meccaniche S.p.A. and MTS4SERVICE USA L.L.C: revenues amounting to Euro 5,894 thousand and Euro 7,649 thousand, respectively, are mainly related to the operation started in 2017 and the sale of semi-finished products.
- C2D: following the transaction described in paragraph 5. Significant events occurred during the period, the company C2D, as at 31 December 2018, is no longer a related party.

Relationships with the related party MTS Officine meccanica S.p.A. continued during the 2018 financial year and with its American subsidiary MTS 4 Service USA LLC, based on the agreements entered into on October 27, 2017. The continuation of these agreements involved the sale of a further 15 trencher machines for a total of Euro 9,570 thousand, revenues for accessory services for Euro 254 thousands and costs for the rental business for Euro 3,212 thousand.

The remaining Euro 3,674 thousand of revenues relate to the sale of semi-finished products, for which the Tesmec Group is a historic supplier of MTS Officine Meccaniche S.p.A.
As at 31 December 2018, a total of 31 machines were sold in 2017 and 2018 for a total value of Euro 23,133 thousand, of

which Euro 21,290 thousand was collected, revenues for services amounted to Euro 254 thousand while costs for rental activities total Euro 3,843 thousand, of which Euro 1,645 thousand is paid.

39. Fees paid to Directors, Auditors, Operating Manager and executives with strategic responsibilities

Year 2018:

Board of Directors				
Name and Surname	**Role**	Fees (in Euro)	**Bonus and other fees (in Euro)**	Total fees **(in Euro)**
Ambrogio Caccia Dominioni	Chairman and Chief Executive Officer	480,000	-	480,000
Gianluca Bolelli	Vice Chairman	83,200	-	83,200
Sergio Arnoldi	Director	20,800	-	20,800
Gioacchino Attanzio	Director	30,000	-	30,000
Caterina Caccia Dominioni	Director	52,000	-	52,000
Guido Giuseppe Maria Corbetta	Director	20,000	-	20,000
Lucia Caccia Dominioni	Director	20,000	-	20,000
Paola Durante	Director	20,000	-	20,000

Board of Statutory Auditors				
Name and Surname	**Role**	Fees (in Euro)	**Bonus and other fees (in Euro)**	Total fees **(in Euro)**
Simone Cavalli	Chairman	41,237	-	41,237
Stefano Chirico	Standing Auditor	26,468	-	26,468
Alessandra De Beni	Standing Auditor	26,000	-	26,000

Fees paid to executives with strategic responsibilities in the 2018 financial period amounted to Euro 352 thousand (Euro 363 thousand in the 2017 financial year).

40. Legal disputes

Tesmec S.p.A., after winning the case at first instance, was summoned before the Court of Appeal of Lion by the former French distributor of the Trencher segment, who had already sued Tesmec S.p.A. for unjustified termination of the distribution agreement and alleged violation of territorial exclusivity. The case was postponed after the hearing for discussion held on 12 December 2018.

In March 2018, Tesmec carried out the arbitration award obtained at the China International Economic and Trade Arbitration Commission of Beijing (CIETAC) and obtained the payment of more than Euro 1.3 million (principal, interest, legal costs) on the current account of the execution Judge treasury at the Beijing Court for a receivable claimed from a trading company. Due to the restrictions imposed by the current currency rules, the Judge was identified as the "trustee" to receive the payment made by the Chinese counterparty and then pay into the Tesmec account. Before the Judge could order the transfer, the counterparty filed an application for seizure of the sums, granted by the Judge against the filing of counterclaim for compensation for alleged damages for which the Chinese counterparty is seeking refund, jointly and severally, from Tesmec and a Chinese company that at the time was responsible for certain import procedures. From the analysis of the legal documents, the counterclaim is groundless. Nevertheless, the Chinese Execution Judge, having a wide discretionary power, validated the seizure of the sums from the Court's treasury until the outcome of the judgement.
In the meantime, in connection with the arbitration ruling, Tesmec activated also the recovery of the credit of the remaining supply contract, unpaid for Euro 491 thousand, taking legal action in the Beijing ordinary court. The proceedings are currently pending.

Tesmec was summoned to appear before the Court of Alabama for a claim for damages occurred in August 2013. Tesmec is involved as a provider of a rope. During the year, an agreement was reached between the insurance companies to compensate the main claimant, while negotiations are underway to define a minority position. Legal costs are fully covered by the policy.

41. Positions or transactions resulting from atypical and/or unusual operations

Note that, pursuant to Consob Communication no. DEM/6064293 of 28 July 2006, in 2017 the Company did not carry out any atypical and/or unusual operation, as defined by the Communication itself.

42. Commitments and risks

They include sureties, guarantees and third-party assets with the Group. For the financial periods as at 31 December 2018 and 2017, they are summarised as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Sureties	42,392	37,826
Total commitments and risks	**42,392**	**37,826**

The recorded value concerns sureties provided by Tesmec S.p.A. through primary banking institutions in favour of customers. The increase is mainly due to the orders of the newly set up Rail sector.
On the basis of the specific characteristics of the segments in which the Company works, Tesmec did not make any provision for contingent liabilities in the memorandum accounts. Risks and future expenses are reasonably hedged by funds specifically accounted for in the financial statements.

43. Reporting pursuant to Article 149-duodecies of CONSOB Issuer Regulation

The following table shows the fees charged for the 2018 and 2017 financial periods for auditing services and for services other than audit rendered by the Independent Auditors.

(Euro in thousands)	**Independent Auditors that supplied the service**	**Receiver**	**Accrued amount 2018**	**Accrued amount 2017**
Audit of the financial statements and consolidated financial statements	EY S.p.A.	Tesmec S.p.A. Parent Company	161	121
	Rete EY	Subsidiaries and Joint Ventures	212	178
Limited half-year auditing	EY S.p.A.	Tesmec S.p.A. Parent Company	28	28
Limited auditing of Non-Financial Information	EY S.p.A.	Tesmec S.p.A. Parent Company	23	-
Certification services (1)	EY S.p.A.	Tesmec S.p.A. Parent Company	149	-
Other services (2)	EY S.p.A.	Tesmec S.p.A. Parent Company	49	5
Total			**602**	**332**

(1) The auditing services on a voluntary basis have been provided to the Parent Company in relation to the review of the research and development tax credit assessment table and to the French subsidiary for auditing the consolidated financial statements French prepared on a voluntary basis.

(2) The item refers to activities aimed at signing Tax Declarations and supporting the identification of areas of intervention for regulatory adjustments.

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

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

The significant events occurred after the close of the financial period include:
on March 13, 2019, the waiver requested from the Cariparma Banking Institute was obtained in relation to the failure to comply with the financial covenant relating to the Net Financial Position / EBITDA ratio envisaged on the m / l term loan in place with this Institute.

Certificate of the Consolidated financial statements pursuant to Article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 as amended

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 consolidated financial statements during the 2018 financial period.

2. We also certify that:

2.1 the consolidated financial statements as at 31 December 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.

2.2the directors' report includes a reliable analysis of the business trend and operating result as well as of the situation of the issuer and of its consolidated companies, together with a description of the main risks and uncertainties they incur.

Milan, 5 March 2019

Ambrogio Caccia Dominioni
Chief Executive Officer

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

INDEPENDENT AUDITOR'S REPORT

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Tesmec S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Tesmec Group (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, the consolidated statement of comprehensive income, statement of changes in consolidated shareholders' equity and statement of consolidated cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of Tesmec S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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Key Audit Matter	Audit Response
Revenue recognition: terms and conditions of product sales Sales transactions are based upon shipping terms that can vary by region and that include, in some cases, the transfer of ownership to the buyer prior to the actual delivery of the product. Revenue recognition criteria for such transactions require the assessment of sales contractual terms and the fulfillment of relevant obligations. The assessment of sales terms and conditions and their application to revenue recognition has been deemed a key audit matter, considering the dissimilarity and complexity of certain contractual terms applied to sales transactions. The Group disclosed the criteria applied to revenue recognition for product sales in note 3.3 "Significant accounting policies - Revenues from contract with customer" to the consolidated financial statements.	Our audit procedures in response to this key audit matter included, among others: • gaining an understanding of the Group process related to revenue recognition in accordance with applicable financial reporting standards; • assessing the process and identifying the key controls implemented by the Group for revenue recognition; • performing tests of key controls, including those related to the application of contractual terms; • performing substantive procedures to address revenue recognition at year-end, where the risks of ownership are transferred to the buyer prior to the actual delivery of the product. Lastly, we verified the adequacy of the disclosures in the notes to the consolidated financial statements.
Compliance with financial covenants provided in financial loan contracts The Group's net financial indebtedness amounts to Euro 77,7 million. Certain medium/long-term loan contracts contain financial covenant provisions that, in one circumstance, have not been met at 31 December 2018; accordingly, the Group reclassified to current liabilities the medium/long-term portion of such loan, amounting to Euro 0,4 million. After the balance sheet date, the Group obtained from the related financing credit institution the waiver for the application of such financial covenant provisions. The accounting treatment of the non-compliance with such covenants and related disclosure have been deemed a key audit matter	Our audit procedures in response to this key audit matter included, among others: • corroborating the financial statement presentation of financial liabilities in accordance with the applicable covenants terms based on the criteria provided in the financial loan contracts; • assessing loan contracts and relevant communications between Management and the financing credit institutions that issued the covenants waiver. Lastly, we verified the adequacy of the disclosure in the notes to the consolidated financial statements.

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considering the current and potential impacts of their non-compliance on the net financial indebtedness.

The Group disclosed its financial covenant provisions, the potential impacts of their non-compliance and the waiver obtained in notes 18 "Medium/long-term loans" and 44 "Significant events occurred after the close of the financial period" to the consolidated financial statements.

Related parties transactions

During the current year the Group completed significant transactions with a related party under a multi-year agreement signed during previous year, and concerning:

(i) the sale of certain machines produced by Tesmec Group;
(ii) the supply to the related party of related logistics and maintenance services;
(iii) the option given to the Tesmec Group to use such machines sold under short-term leasing agreements.

The considerations provided under such agreement are determined based on the Group's list prices and other terms and conditions applied to third parties.

Under this agreement, the Group recognized in 2018 (i) Euro 9,6 million of revenues from machines sold; (ii) Euro 0,3 million of revenues from related services and (iii) Euro 3,2 million of rental costs.

Considering the materiality of the transaction with such related party and the underlying economic and financial terms, we deemed that this area represents a key audit matter.

The Group disclosed transactions with related party in note 38 "Related party transactions" to the consolidated financial statements.

Our audit procedures in response to this key audit matter included, among others:

- assessing the application of the Group internal policy for transactions with related parties;
- performing testing of sales occurred during the financial year;
- performing testing of rent expenses occurred during the financial year;
- assessing the terms and conditions applied.

Lastly, we verified the adequacy of the disclosures in the notes to the consolidated financial statements.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Tesmec S.p.A. or to cease operations or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

However, future events or conditions may cause the Group to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by International Standards on Auditing (ISA Italia), regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Tesmec S.p.A., in the general meeting held on 23 February 2010, engaged us to perform the audits of the separate and consolidated financial statements for each of the years ending 31 December 2010 to 31 December 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Tesmec S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Tesmec Group as at 31 December 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Tesmec Group as at 31 December 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Tesmec Group as at 31 December 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Tesmec S.p.A. are responsible for the preparation of the consolidated disclosure of non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that the consolidated disclosure of non-financial information has been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such consolidated disclosure of non-financial information is subject to a separate compliance report signed by us.

Milan, 15 March 2019

EY S.p.A.
Signed by: Massimiliano Vercellotti, partner

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

FINANCIAL STATEMENTS OF TESMEC S.P.A.

Statement of financial position

(in Euro)	Notes	31 December 2018	31 December 2017
NON-CURRENT ASSETS			
Intangible assets	5	6,040,891	6,375,603
Property, plant and equipment	6	8,291,463	9,130,186
Equity investments in subsidiaries		54,317,079	40,710,726
Equity investments in associates	7	1,737,511	1,737,511
Other equity investments		2,808	2,808
Financial receivables and other non-current financial assets	8	4,935,426	1,500
of which with related parties:		*4,500,000*	-
Derivative financial instruments	17	51	868
Deferred tax assets	24	2,362,557	2,226,676
TOTAL NON-CURRENT ASSETS		**77,687,786**	**60,185,878**
CURRENT ASSETS			
Inventories	9	34,528,364	35,554,942
Trade receivables	10	28,868,628	27,367,015
of which with related parties:		*9,633,764*	*10,558,344*
Tax receivables		-	41,296
Other available-for-sale securities		1,584	2,109
Financial receivables and other current financial assets	11	36,967,374	45,833,610
of which with related parties:		*34,611,691*	*42,900,998*
Other current assets	12	4,154,477	4,851,572
of which with related parties:		*907,321*	*485,186*
Cash and cash equivalents	13	10,559,249	11,814,793
TOTAL CURRENT ASSETS		**115,079,676**	**125,465,337**
TOTAL ASSETS		**192,767,462**	**185,651,215**
SHAREHOLDERS' EQUITY			
Share capital	14	10,708,400	10,708,400
Reserves	14	36,679,870	35,022,921
Net profit for the period	14	4,330,955	1,993,903
TOTAL SHAREHOLDERS' EQUITY		**51,719,225**	**47,725,224**
NON–CURRENT LIABILITIES			
Medium/long-term loans	15	20,510,913	19,757,092
Bond issue	16	24,651,431	14,796,615
Derivative financial instruments	17	34,877	63,462
Employee benefit liability	18	1,943,584	2,137,736
Deferred tax liabilities	24	1,603,152	1,458,739
TOTAL NON-CURRENT LIABILITIES		**48,743,957**	**38,213,644**
CURRENT LIABILITIES			
Payables to banks and other financial institutions	19	57,350,698	63,858,564
of which with related parties:		*2,339,124*	*2,076,510*
Derivative financial instruments	17	-	81,759
Trade payables	20	25,584,467	25,197,870
of which with related parties:		*1,382,821*	*3,144,263*
Advances from customers		1,300,022	2,845,942
Income taxes payable	21	768,691	171
Provisions for risks and charges	22	310,000	250,000
Other current liabilities	23	6,990,402	7,478,041
of which with related parties:		*1,040,083*	*436,260*
TOTAL CURRENT LIABILITIES		**92,304,280**	**99,712,347**
TOTAL LIABILITIES		**141,048,237**	**137,925,991**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**192,767,462**	**185,651,215**

Income statement

(in Euro)	Notes	Financial period ended 31 December 2018	2017
Revenues from sales and services	25	**93,078,838**	**90,949,729**
of which with related parties:		*25,725,158*	*24,858,321*
Cost of raw materials and consumables	26	(49,471,096)	(51,017,644)
of which with related parties:		*(1,679,369)*	*(4,052,453)*
Costs for services	27	(14,402,217)	(15,937,659)
of which with related parties:		*(210,934)*	*(46,496)*
Non-recurring costs for services		-	(402,500)
Payroll costs	28	(18,922,214)	(18,604,045)
Non-recurring payroll costs	28	(154,740)	-
Other operating costs, net	29	(1,602,448)	3,808,196
of which with related parties:		(2,307,151)	*(817,501)*
Depreciations	30	(4,298,004)	(4,635,395)
Development costs capitalised	31	2,578,376	2,765,555
Total operating costs		**(86,272,343)**	**(84,023,492)**
Operating income		**6,806,495**	**6,926,237**
Financial expenses	32	(4,432,699)	(8,878,658)
of which with related parties:		*(98,034)*	*(69,395)*
Financial income	33	3,263,597	3,603,205
of which with related parties:		*1,601,142*	*1,291,486*
Pre-tax profit		**5,637,393**	**1,650,784**
Income tax	24	(1,306,439)	343,119
Net profit for the period		**4,330,954**	**1,993,903**

Comprehensive income statement

		Financial period ended 31 December	
(in Euro)	**Notes**	**2018**	**2017**
NET PROFIT FOR THE PERIOD		**4,330,954**	**1,993,903**
Other components of comprehensive income:			
Other components of comprehensive income that will not be subsequently reclassified to net income for the year:			
First-time adoption of IFRS 9	14	(515,000)	-
Imposte sul reddito		123,600	-
		(391,400)	-
Actuarial profit on defined benefit plans	18	(71,639)	(25,925)
Imposte sul reddito		17,193	6,223
		(54,446)	(19,702)
Total other income/(losses) after tax		**(54,446)**	**(19,702)**
Total comprehensive income (loss) after tax		**4,276,508**	**1,974,201**

Cash flow statement

(in Euro)	Notes	Financial period ended 31 December 2018	2017
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		4,330,954	1,993,903
Adjustments to reconcile net income for the period with the cash flows generated by (used in) operating activities:			
Depreciations	30	4,298,004	4,635,395
Provisions for employee benefit liability	18	27,790	32,844
Provisions for risks and charges / inventory obsolescence / doubtful accounts		160,000	-
Employee benefit payments	18	(150,303)	(277,003)
Payments/use of provisions for risks and charges		-	(100,000)
Net change in deferred tax assets and liabilities	24	114,939	(423,411)
Change in fair value of financial instruments	17	(109,527)	(132,732)
Change in current assets and liabilities:			
Trade receivables	10	(3,562,533)	7,642,554
of which with related parties:		*924,580*	*(5,580,858)*
Inventories	9	926,578	427,716
Trade payables	20	386,597	5,590
of which with related parties:		*(1,761,442)*	*(1,547,075)*
Other current assets and liabilities		1,019,272	(1,473,392)
of which with related parties:		*181,678*	*(82,537)*
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		**7,441,771**	**12,331,464**
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	6	(2,015,505)	(1,389,253)
Investments in intangible assets	5	(2,832,377)	(3,113,003)
(Investments) / disposals of financial assets		(9,673,518)	(6,749,681)
of which with related parties:		*12,789,307*	*(1,551,693)*
Proceeds from sale of property, plant and equipment and intangible assets	5-6	1,723,313	1,467,703
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		**(12,798,087)**	**(9,784,234)**
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	15	16,432,227	11,219,375
Repayment of medium/long-term loans	15	(12,873,931)	(24,230,228)
Net change in short-term financial debt	19	542,476	7,754,008
of which with related parties:		*262,614*	*2,066,617*
Dividend distribution		-	-
Purchase of treasury shares		-	-
NET CASH FLOW GENERATED BY/ (USED IN) FINANCING ACTIVITIES (C)		**4,100,772**	**(5,256,845)**
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		**(1,255,544)**	**(2,709,615)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	13	11,814,793	14,524,408
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		**10,559,249**	**11,814,793**
Additional information:			
Interest paid		3,109,656	4,021,468
Income tax paid		147,635	183,527

Statement of changes in shareholders' equity

(in Euro)	Share capital	Legal reserve	Share premium reserve	Reserve of Treasury Shares	Other reserves	Profit for the period	Total shareholders' equity
Balance as at 1 January 2017	**10,708,400**	**2,141,680**	**10,915,101**	**(2,340,969)**	**22,639,490**	**1,647,917**	**45,711,619**
Net profit for the period	-	-	-	-		1,993,903	1,993,903
Allocation of profit for the period	-	-	-		1,647,917	(1,647,917)	-
Other changes	-	-	-	-	19,702	-	19,702
Balance as at 31 December 2017	**10,708,400**	**2,141,680**	**10,915,101**	**(2,340,969)**	**24,307,109**	**1,993,903**	**47,725,224**
							-
Net profit for the period	-	-	-	-	-	4,330,955	4,330,955
Allocation of profit for the period	-	-	-	-	1,993,903	(1,993,903)	-
First-time adoption of IFRS 9	-	-	-	-	(391,400)	-	(391,400)
Other changes	-	-	-	-	54,446	-	54,446
Balance as at 31 December 2018	**10,708,400**	**2,141,680**	**10,915,101**	**(2,340,969)**	**25,964,058**	**4,330,955**	**51,719,225**

Explanatory notes

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

1. Company information

The Tesmec S.p.A. Parent Company (hereinafter "Parent Company", "Tesmec" or "Company") is a legal entity organised in accordance with the legal system of the Italian Republic. The ordinary shares of Tesmec are listed on the MTA STAR Segment of the Milan Stock Exchange as from 1 July 2010. The registered office of the Company is in Milan in Piazza S. Ambrogio no. 16.

The publication of Tesmec's financial statements for the period ended 31 December 2018 was authorised by means of the resolution of the Board of Directors on 5 March 2018.

2. Reporting standards

The financial statements of Tesmec S.p.A. as at 31 December 2018 comprise the statement of financial position, income statement, statement of comprehensive income, cash-flow statement, statement of changes in shareholders' equity and the related explanatory notes. These financial statements are prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and approved by the European Union according to the text published in the Official Journal of the European Communities (OJEC) and in effect as at 31 December 2018.) These IFRS principles also include all revised international accounting standards ("IAS") and all of the interpretations of the *International Financial Reporting Interpretation Committee* ("IFRIC"), previously called *Standing Interpretations Committee* ("SIC").

The reference accounting standards adopted in the current yearly financial statements are consistent with those used for preparing the yearly financial statements of the Company for the period ended 31 December 2017, also prepared according to the international accounting standards, with the exception of the principles and interpretations of new application, explained in note 2.3.

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

Business continuity

These financial statements were prepared on a going concern basis, in that the Directors have checked that there are no financial, operational or other indicators that could report critical issues regarding the ability of the Company and of the Group to meet its obligations in the foreseeable future. Risks and uncertainties relating to the business are described in the relevant sections of the Report on Operations.
A description of how the Company manages financial risks is provided in the section Management of financial risks of these Explanatory notes.

2.1 Adopted financial statement reporting formats

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

- In the income statement, it was decided to present a cost analysis by using a classification based on their nature.
- The statement of comprehensive income includes the result for the period and, by homogenous categories, the income and expenses that, under IFRS, are recognised directly in shareholders' equity.
- In the statement of financial position, it was decided to represent current and non-current assets and current and non-current liabilities classified separately, in accordance with IAS 1.
- The statement of changes in shareholders' equity occurred during the period are represented through a table that reconciles the opening and closing balances of each item of the shareholders' equity of the Company.
- The statement of cash flows represents the financial flows by dividing them into operating, investing and financing activities. In particular, financial flows from operating activities are represented, in accordance with IAS 7, using the indirect method, whereby net profit or loss for the year is adjusted by the effects of non-monetary transactions, by any deferral or provision of prior or future operating receipts or payments, and by revenue or cost elements connected with financial flows from investing or financing activities.

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

2.2 Significant accounting principles

Basis of prepration

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of EC Regulation No. 1606/2002 of the European Parliament and Council of July 19, 2002 and in accordance with Article 9 of Legislative Decree No. 38/2005.The financial statements have been prepared on a historical cost basis, except for items that have been measured at fair value in accordance with IFRS (investment properties, available-for-sale, financial assets and contingent consideration).

The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

There are no financial assets held to maturity.

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

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

Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Business combinations and goodwill

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

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

Each contingent consideration must be recognised by the purchaser at fair value at the date of acquisition. The fair value change in the contingent consideration classified as asset or liability will be recognised in accordance with IAS 39, in the income

statement or in the statement of the other components of comprehensive income. If the contingent consideration is classified in the shareholders' equity, its value must not be recalculated until its discharge is recorded as opposed to shareholders' equity. The goodwill is initially measured at cost that arises as surplus between the sum of the paid consideration and the amount recognised for the minority shares compared to identifiable net assets acquired and liabilities undertaken by the Group. If the consideration is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognised in the income statement.
After initial recognition, goodwill is measured at cost, net of any accumulated impairment loss. For impairment loss verification, the goodwill acquired in a business combination must be allocated, from the date of acquisition, to each cash-flow generating unit of the Group that is expected to benefit from the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to such units.
If the goodwill has been allocated to the financial-flow generating unit and the entity disposes of part of the assets of such unit, the goodwill associated to the asset disposed of must be included in the book value of the asset when the profit or loss deriving from the divestment is determined. The goodwill associated with the asset disposed of must be determined on the basis of the values related to the asset disposed of and of the retained part of the financial-flow generating unit.

Intangible assets are recorded in the assets at purchase cost when it is likely that the use of the asset will generate future economic benefits and when the cost of the asset can be measured reliably. Intangible assets acquired by means of business combinations are recorded at fair value at the date of acquisition, if this value can be measured reliably. Intangible assets with definite lives are amortised on a straight-line basis over their estimated useful life and submitted to impairment test whenever there is a possible impairment loss. The residual useful life is reviewed at the end of each financial period or more frequently, if necessary. Changes in the expected estimated useful life or in the ways in which future economic benefits related to the intangible asset are achieved by the Company are recognised by changing the period and/or the method of amortisation and treated as changes in accounting estimates. Amortisation charges of intangible assets with definite lives are recognised in the income statement in the category of cost consistent with the function of the intangible asset.
Intangible assets with indefinite lives are tested annually for impairment losses on an individual basis or in terms of cash-generating unit.
Profits or losses deriving from the disposal of an intangible asset are measured as the difference between the net income and the book value of the asset and are recognised in the income statement upon disposal.
The estimate of the useful life of intangible assets with definite lives is set below:

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

Research and Development costs
Research costs are posted to the income statement when they are borne.
Development costs borne with regard to a particular project concerning the development of new excavating machines, stringing equipment and/or railway machines, of their significant individual components and/or of significant customisations that materialise in new models included in the catalogue, are capitalised only when the Company can show the ability to complete the technical work in order to make it available for use or for sale, its intention to complete the said asset in order to use it or transfer it to third parties, the ways in which it will generate probable future economic benefits, the availability of technical, financial or other type of resources to complete the development, its ability to reliably consider the cost attributable to the asset during its development and the existence of a market for the products and services deriving from the asset or usefulness for internal purposes. Capitalised development costs include only expenses borne that can be directly charged to the development process.
During the period of development, the asset is annually reviewed in order to recognise any impairment loss. After the initial recognition, development costs are measured at cost decreased by any accumulated amortisation or loss. The amortisation of the asset starts when the development is complete and the asset is available for use. It is amortised with reference to the period in which the connected project is expected to generate revenues for the Company, estimated on average over five years. If the projects to which such assets refer are abandoned or the related machines are no longer included in the catalogue, specific impairment indicators are recognised, and therefore the asset is tested for impairment and written down for any impairment loss recognised as previously described for intangible assets with definite lives.

Rights and trademarks
The purchase costs of the rights and trademarks are amortised over a period of time during the useful life of the acquired asset, which was determined in five years.

Property, plant and equipment

Property, plant and equipment acquired separately, with the exception of the land and buildings item, are recorded at historical cost, including directly imputable additional costs necessary for putting the asset into operation for the use for which it was acquired. This cost includes the charges for replacing part of the machines and plants when they are borne, if complying with the recognition criteria.
Property, plant and equipment acquired by means of business combinations are recorded at fair value on the date of acquisition.
Maintenance and repair costs, which are not likely to enhance and/or extend the residual life of the assets, are paid during the financial period in which they are borne, otherwise they are capitalised.
Property, plant and equipment are stated net of the related accumulated depreciation and any impairment loss determined as described below. The depreciation is calculated on a straight-line basis according to the estimated useful life of the asset for the company, which is reviewed every year and any change, if necessary, is applied prospectively.
The estimate of the useful life of the main classes of property, plant and equipment is set below:

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

If significant parts of property, plant and equipment have different useful lives, these components are recorded separately. Lands, both without construction and belonging to buildings, are recorded separately and are not depreciated since they have an unlimited useful life.
The Company, based on the considerations made, established that temporarily leased Trencher machines can be depreciated on a pro-rata basis according to actual use. In particular, they are depreciated at an annual 20% rate during the lease period. In the event that these trenchers are not leased temporarily during the reporting period, the depreciation process is suspended.
The book value of property, plant and equipment is subject to an impairment test when events or changed circumstances indicate that the book value cannot be recovered. If there is an indication of this type and, in the event that the book value exceeds the estimated realisable value, assets are written down so as to reflect their realisable value. The realisable value of property, plant and equipment is represented by the net sales price and the usage value, whichever is higher.
When defining the usage value, the expected future financial flows are discounted back using a pre-tax discount rate that reflects the current market estimate of the cost of money placed in relation to the timescale and specific risks of the asset. In relation to assets that do not generate fully independent financial flows, the realisable value is determined in relation to the financial-flow generating unit to which the asset belongs. Impairment losses are recorded in the income statement among costs for amortisation, depreciation and write-downs. These impairment losses are reversed if the reasons that generated them no longer exist.
At the time of sale or when there are no future economic benefits, expected from the use of an asset, it is written off from the financial statements and any loss or profit (calculated as the difference between the transfer value and the book value) is posted to the income statement in the year of the aforesaid writing off.

Leases

Contracts with the Company as lessee

Lease contracts are classified as Financial or Operating Lease at the beginning of the Lease contract.
Financial lease contracts, which substantially transfer to the Group all the risks and benefits deriving from the ownership of the leased asset, are capitalised on the starting date of the lease at fair value of the leased asset or at present value of the lease payments, if lower. Lease payments are prorated between principal and interests in order to obtain the application of a constant interest rate on the residual balance of the debt. Financial expenses are posted directly to the income statement.
Capitalised leased assets are amortised during the period of time of the estimated useful life of the asset or the period of validity of the lease contract, whichever is shorter, if the reasonable certainty that the Company will obtain the ownership of the asset at the end of the contract does not exist.
Lease contracts in which the lessor substantially retains all risks and benefits related to the ownership of the asset are classified as operating leases.

Contracts with the Company as lessor

If the Company signs lease contracts that substantially transfer to the customers all the risks and benefits deriving from the ownership of the leased asset, the revenues concerning the transfer of the asset are recognised in the financial statements and

are recorded on the starting date of the lease at the fair value of the leased asset or at the present value of the lease payments, if lower. Moreover, a borrowing that corresponds to the present value of the lease payments still due is recorded in the balance sheet. Financial expenses are posted directly to the income statement.
Lease contracts in which the Group substantially retains all risks and benefits related to the ownership of the asset are classified as operating leases.

Impairment of assets
At the end of each reporting period, the Company considers the possible existence of impairment loss indicators of intangible assets with definite lives, of property, plant and equipment and of financial lease assets. If these indicators exist, an impairment test is carried out.
The recoverable value is determined as the fair value of an asset or financial-flow generating unit net of sales costs and its usage value, whichever is higher, and is determined by single asset, with the exception of the case in which this asset generates financial flows that are not widely independent from those generated by other assets or groups of assets, in which case the Company estimates the recoverable value of the cash-flow generating unit to which the asset belongs.
When determining the usage value, the Company discounts back the present value of future estimated financial flows, by using a pre-tax discount rate that reflects the market evaluations on the time value of money and specific risks of the asset.
In order to estimate the usage value, the future financial flows are derived from the business plans approved by the Board of Directors, which represent the best estimate made by the Group on the economic conditions laid down in the plan period. The projections of the plan cover normally a period of three financial periods; the long-term growth rate used in order to estimate the terminal value of the asset or of the unit is normally lower than the average long-term growth rate of the segment, country or market of reference. Future financial flows are estimated by referring to the current conditions: therefore, estimates do not consider benefits deriving from future restructuring for which the Company has not yet committed itself or future investments for improving or optimising the asset or the unit.
If the book value of an asset or financial-flow generating unit is greater than its recoverable value, this asset was impaired and consequently amortised until its recoverable value is reached.
Impairment losses incurred by operating assets are recognised in the income statement in the categories of cost consistent with the function of the asset that showed the impairment loss. At the end of each reporting period, the Company also considers the possible existence of elements indicating a decrease in impairment losses previously recognised and, if these indicators exist, it estimates the recoverable value again. The value of an asset previously written down can be restored only if there were changes in the estimates used for determining the recoverable value of the asset after the last recognition of an impairment loss. In this case, the book value of the asset is set to the recoverable value, however without the possibility for the value thus increased to exceed the book value that would have been determined, net of amortisation, if no impairment had been recognised in previous years. Each reversal of impairment loss is recognised as an income in the income statement; after recognising a reversal of impairment loss, the amortisation rate of the asset is adjusted in future periods, in order to distribute the changed book value, net of any residual value, on a straight-line basis over the remaining useful life.

Equity investments in subsidiaries, associates and in joint ventures
Equity investments in subsidiaries, associates and companies subject to joint control (not classified as held for sale) are recorded in accordance with the method of cost, converted in Euro at historical exchange rates if referring to equity investments in foreign companies whose financial statements are drawn up in a currency other than Euro, in accordance with IAS 27. The initial cost is equal to the costs incurred for the purchase or constitution or it is defined by experts in case of acquisitions through contributions.
When there is an indication that the equity investment may have suffered an impairment, its recoverable value is estimated, in accordance with the method specified in IAS 36 "Impairment of Assets", in order to determine the eventual loss to be posted to the income statement.

Financial assets and other non-current assets
These assets are measured according to the amortised cost approach by using the effective discount rate method net of any provision for impairment.
The amortised cost is calculated taking into consideration any discount or purchase premium and includes the commissions that are part and parcel of the effective interest rate and of the transaction costs.
Receivables falling due after one year, interest bearing or paying interests lower than the market, are discounted by using interest rates in line with market references.
Financial assets are derecognised from the Company's statement of financial position when:

- rights to receive financial flows from the asset are paid off; or
- the Group has transferred to a third Pary the right to receive financial flows from asset or it has assumed the contractual obligation to transfer them totally and without any delays and (a) it has transferred substantially all risks and benefits related to the ownership of the financial asset, or (b) it has not substantially transferred all risks and benefits of the activity, but it has transferred the control of the same.

Inventories
Inventories are measured at the purchase and/or production cost, whichever lower, calculated by using the weighted average cost method, and the net realisable value. The purchase cost is inclusive of additional expenses; the cost of production includes directly attributable costs and a share of indirect costs, reasonably attributable to the products. The net estimated realisable value consists of the estimated sales prices less the estimated completion costs and the costs estimated to make the sale.
Write-down allowances are allocated for materials, finished products, spare parts and other supplies considered obsolete or slow-moving, taking into account their future expected usefulness or their realisable value.

Construction contracts

The construction contracts are activity deriving from the contract. A work order is a contract specifically negotiated for the construction of an asset according to the instructions of the company commissioning the work, which defines in advance the design and specifications.
Work order revenues include the considerations initially agreed with the company commissioning the work, in addition to variations in the commissioned work and to price changes provided for in the contract that can be measured reliably.
When the work order result can be measured reliably, work order revenues and costs are recognised as sales and as costs on the basis of the percentage of completion; the work in progress is calculated by referring to the costs of the work order borne until the end of the reporting period as a percentage of total costs estimated for each work order.
The costs borne in relation to future activities of the work order are excluded from the work order costs when calculating the work in progress and are recorded as inventories.
Total estimated costs for each work order are reviewed periodically, and when the costs of the work order are expected to be greater than its total revenues, the expected loss is recognised immediately as a cost.

Trade receivables and other current assets

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.
Other current assets are initially recorded at *fair value*, which generally corresponds to the nominal value and subsequently measured at amortised cost and reduced in case of impairment losses.
These financial assets are subsequently measured recognizing a specific allowance for expected credit losses ('ECL'). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.
For trade receivables, the Company applies a simplified approach in calculating ECLs using a provision matrix that is based on its historical experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Other receivables and other financial assets
They are recorded initially at fair value and subsequently measured according to the amortised cost.
A financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) is written off from the financial statements when:

- the rights to receive financial flows from the asset terminated;
- the Group has transferred to a third Party the right to receive the financial flows from the asset or it has undertaken the contractual obligation to pay them in full and without delay to a third party and (a) it has transferred substantially all the risks and benefits of the ownership of the financial asset or (b) did not transfer substantially all the risks and benefits of the asset, but transferred their control.

If the Company has transferred the rights to receive financial flows from an asset and has not transferred or retained substantially all the risks and benefits or has not lost control over it, the asset is recognised in the financial statements of the Group to the extent of its residual involvement in the asset itself. The residual involvement that takes the form of a guarantee on the transferred asset is measured at the initial book value of the asset or the maximum value of the consideration that the Company could be obliged to pay, whichever lower.
If the residual involvement takes the form of an option issued and/or purchased on the transferred asset (including the cash-settled options or the like), the measure of the involvement of the Group corresponds to the amount of the transferred asset that the Company may repurchase; however, in case of a put option issued on an asset measured at fair value (including the cash-settled options or with similar provisions), the measure of the residual involvement of the Group is limited to the fair value of the transferred asset or the exercise price of the option, whichever lower.

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

Loans
Loans are initially stated at fair value of the amount received, net of any related loan acquisition costs.
After initial statement, loans are valued using the amortised cost approach, applying the effective interest rate method.
Any profit or loss is recorded in the income statement when the liability is discharged, in addition to using the amortisation process.

Treasury shares
The repurchased treasury shares are recognised at cost and deducted from shareholders' equity. The purchase, sale or cancellation of treasury shares does not give rise to any profit or loss in the income statement. The difference between the acquisition value and the consideration, in case of transfer, is recognised in share premium reserve. The voting rights related to the treasury shares are cancelled as well as the right to receive dividends. In case of exercise of share options during the period, these are met with treasury shares.

Trade payables and other payables
Payables are measured at nominal value.
Given the granted terms of payment, when a financial operation is configured, payables measured with the amortised cost approach are submitted to the discounting back of the nominal value to be paid, recording the discount as a financial charge.
Payables in foreign currency are aligned with the exchange rate at the end of the financial period and profits or losses deriving from the adjustment are posted to the income statement in unrealised exchange profits/losses.

Provisions for risks and charges
Provisions for risks and charges are made when the Company must face up a current liability (legal or implicit) that is the result of a past event; an outflow of resources is likely to meet this obligation and it is possible to make a reliable estimate of its amount.
When the Company believes that a provision for risks and charges will be partially or totally reimbursed, for example in the case of risks covered by insurance policies, the compensation is recognised separately in the assets only if it is practically certain. In this case, the cost of any provision is stated in the income statement net of the amount recognised for the compensation.
If the discounting back effect of the value of money is significant, provisions are discounted back using a pre-tax discount rate that reflects, if appropriate, the specific risks of the liabilities. When discounting back is carried out, the increase in the provision due to the passage of time is recognised as a financial expense.
The Company makes provisions for product guarantees in relation to the guarantee contractually granted to its customers on the sold machines. These provisions are calculated on the basis of the historical incidence of costs for product guarantee borne in past financial periods, of the period of validity of the granted guarantees and revised annually.

Employee benefit liability
Post employment benefits are defined on the basis of plans, even though not yet formalised, which are classified as "defined contribution" and "defined benefit" in relation to their characteristics.
The Italian legislation (Article 2120 of the Italian Civil Code) establishes that, at the date on which each employee rescinds the employment contract with the company, he/she receives an allowance called TFR (severance indemnity). The calculation of this allowance is based on some items forming the yearly pay of the employee for each year of work (properly revalued) and on the length of the employer-employee relationship. According to the Italian civil law, this allowance is reflected in the financial statements according to a calculation method based on the allowance accrued by each employee at the reporting date, if all employees rescind the employment contract on that date.
The IFRIC of the IASB dealt with the TFR matter, as defined by the Italian legislation, and concluded that, in accordance with IAS 19, it must be calculated according to a method called Projected Unit Credit Method (the so-called PUCM) in which the amount of the liability for the acquired benefits must reflect the expected resignation date and must be discounted back.
The Company's net liability deriving from defined benefit plans is calculated separately for each plan by estimating the amount of the future benefit that the employees acquired in exchange for the work carried out in the current financial period and in prior financial periods; this benefit is discounted back to calculate the present value. As provided by the revised version of IAS 19, actuarial gains and losses are recorded in full in the comprehensive income statement in the period in which they arise. The evaluation of liabilities is made by an independent actuary. The Company has no other defined benefit pension plan.
The Company's liability deriving from defined-contribution plans is limited to the payment of contributions to the State or to an asset or legally separate entity (so-called fund), and is determined on the basis of the contributions due.
Government grants

Government grants are recognised in the financial statements when there is a reasonable certainty that the company will meet all the conditions for receiving the contributions and that the contributions will be received. When the contributions are related to cost components, they are recognised as revenues, but are allocated systematically across the financial periods in order to be proportionate to the costs that they intend to compensate. If a contribution is related to an asset, the asset and the contribution are recognised for their nominal values and they are gradually discharged to the income statement, on a straight-line basis, along the expected useful life of the asset of reference.
If the Company receives a non-monetary contribution, the asset and contribution are recognised at their nominal value and discharged to the income statement, on a straight-line basis, along the expected useful life of the asset of reference. In case of loans or similar forms of assistance supplied by government entities or similar institutions that have an interest rate lower than the current market rate, the effect related to the favourable interest rate is considered as an additional government grant.

Financial instruments
The financial instruments are initially recognised at fair value and, after initial recognition, measured in relation to the classification, as required by IAS 39.
For financial assets, this treatment is differentiated among the following categories:

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

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

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

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

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

Derivative financial instruments
Derivative financial instruments are used solely with the intent to hedge financial risks relating to exchange-rate changes on commercial transactions in foreign currency and interest rate risks.
In accordance with IAS 39, hedging derivative financial instruments can be recorded according to the methods established for hedge accounting only when:

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

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

Fair value hedge – if a financial derivative is designated as a hedge of the exposure to changes in the present value of a balance-sheet asset or liability that may affect the income statement, the profit or loss arising from the future evaluation of the present value of the hedging instrument is recognised in the income statement, as well as the profit or loss on the item being hedged.
Cash flow hedge – if a financial derivative is designated as a hedge of the exposure to changes in cash flows of a balance-sheet asset or liability or of a highly probable expected transaction and that may affect the income statement, the effective portion of profits or losses on the financial instrument is recognised in equity; the accumulated profit or loss is reversed from equity and recorded in the income statement in the same period in which the transaction to be hedged is recognised; the profit or loss associated with a hedging, or with an ineffective hedging, are recorded in the income statement when the ineffectiveness is recognised.
If the conditions for the application of hedge accounting do not apply, the effects deriving from the fair value measurement of the derivative financial instrument are booked directly to the income statement.

Revenues from contracts with customers

The recognition of revenues from contracts with customers is based on the following five steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations, represented by the contractual promises to transfer goods and/or services to a customer; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligation identified on the basis of the 'stand alone' selling price of each item of goods or each service; (v) recognition of the revenue when the relative performance obligation has been fulfilled, or at the time of transfer to the customer of the goods or services promised; the transfer is considered complete when the customer obtains control of the goods or services, which may continue over time, or at a specific point in time.
Revenues are recognised at the *fair value* of the consideration received or receivable, net of returns, discounts and volume rebates.

Revenues from contracts with customers are therefore recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

Generally, control of the asset is transferred to the customer on delivery. More specifically, with reference to sales with CIF condition, control of the asset is transferred to the end customer, and therefore the revenues are recognised, when the asset is handed over at the broadside of the ship.

With regard to any machine completed and not yet shipped to the customer (*bill and hold*) for reasons that do not depend on the Company, revenues are recognised if the following conditions established by paragraph B81 of IFRS 15:

- the reason for the bill-and-hold arrangement must be substantive (for example, the customer has requested the arrangement);
- the product must be identified separately as belonging to the customer;
- the product currently must be ready for physical transfer to the customer;
- the Company cannot have the ability to use the product or to direct it to another customer.

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

The allocation of revenues relative to services partially rendered are recognised for the portion matured, if it is possible to reliably determine stage of completion and there is no significant uncertainty about the amount and existence of the income.

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

Furthermore, the Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g.: warranties). Tesmec provides after-sales services concerning the machines sold and these standard warranties on quality are accounted for under IAS 37 "Provisions, contingent liabilities and contingent assets". If these services are requested after the expiry of the warranty period, the service is contractually regulated by agreements with the counterpart. Revenues are recognised based on the time and components used by the technicians during repair operations.

Generally, the Company receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Costs

Costs are recognised in the period when they relate to goods services sold or consumed during the same period or when it is not possible to identify their future use.

Labour costs comprise remuneration paid, provisions made to pension funds, accrued holidays, national insurance and social security contributions in compliance with national contracts of employment and current legislation.

Operating lease payments are recognised in the income statement over the length of the contract.

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

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

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

Income tax
Current taxation
Taxes reflect an estimate of the tax burden, determined by applying the laws and regulations in force in the countries where the Tesmec Company carries on its activity. Taxable income for tax purposes differs from the pre-tax profit or loss indicated in the income statement, because it excludes positive and negative components that will be taxable or deductible in other financial periods and excludes items that will never be taxable or deductible. Current tax liabilities are calculated by using the rates in force or substantially approved at the end of the reporting period.
Current tax liabilities are recorded in the current liabilities net of any paid tax advances.

Deferred taxes
Deferred taxes are calculated on the temporary differences resulting at the end of the reporting period among the tax values used as a reference for assets and liabilities and the values indicated in the financial statements.
Deferred tax assets are recognised for all the temporary deductible differences and for retained tax assets and liabilities, insofar as the existence of appropriate future tax profits that can apply the use of the temporary deductible differences and of the retained tax assets and liabilities is likely.
The value to be stated in the financial statements for deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient income for tax purposes will be available in the future for this tax credit to be used totally or partially. Deferred tax assets not recognised are reviewed every year at the end of the reporting period and are recognised to the extent that the pre-tax profit is probably sufficient to allow the recovery of these deferred tax assets.
Deferred tax assets and liabilities are measured based on tax rates that are expected to be applied to the financial period in which such assets are sold or such liabilities are discharged, considering the rates in force and those already issued or substantially issued at the end of the reporting period.
Deferred tax assets and liabilities are recognised directly in the income statement, with the exception of those relating to items recognised directly in equity, in which case the related deferred taxes are also accounted for consistently without booking to the income statement.
Deferred tax assets and liabilities are offset, if there is a legal right to offset current tax assets against current tax liabilities, and the deferred taxes refer to the same tax entity and to the same tax authority.
Assets for deferred tax assets and liabilities for deferred tax liabilities are classified as non-current assets and liabilities.

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

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

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

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

2.3 Changes and new principles and interpretations

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". Several other amendments and interpretations are applied for the first time in 2018, but have no impact on the Company's financial statements. The Company has not adopted in advance any other principle, interpretation or modification published but not yet in force.

- **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 (modified approach). 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.

e) 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.

f) 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 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 Company..

- **IFRIC 22 Foreigcn Currency Transactions and Advance Considerations**

  The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Company's consolidated financial statements.

New and amended standards and interpretations not yet applicable
New and amended standards and interpretations approved by the European Union but not yet applicable are listed and briefly described below:

- **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 Company carried out an analysis of the impacts of IFRS 16 which, as of 1 January 2019, would lead to an increase in fixed assets, due to the right to use the related assets among the Company's activities, and a related increase in the 'Net financial debt of around Euro 16 million (mainly due to the increase in lease liabilities) and an improvement in the Company's EBITDA of around Euro 2.3 million. This derives from the change in the accounting of leasing expenses classified as operating leases pursuant to IAS 17.

- **IFRIC 23 Uncertainty over Income Tax Treatments**

  The Interpretation provides indications on how to consider uncertainties on applying tax legislation. In determining the income taxes to recognize in the financial statements, an entity must consider the probability that the tax authority may or may not accept the treatment adopted by the entity. If the aforementioned acceptance is considered to be improbable, the entity must reflect the uncertainties in determining current and deferred taxes, using one of the following methods: the most likely amount method and the expected value method. An entity shall review the estimates of the uncertainties if new information becomes available or if the circumstances change. These provisions will take effect from financial years starting on or after 1 January 2019 and the Company expects no significant impact.

2.4 Discretionary assessment and significant accounting estimates

The preparation of financial statements and interim reports in accordance with generally accepted accounting standards requires management to make accounting estimates based on complex or subjective judgements, past experience and assumptions deemed reasonable and realistic based on the information available at the time. The use of these accounting estimates affects the book value of contingent assets and liabilities at the end of the reporting period as well as the amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based.
Summarized below are those accounting estimates used in the preparation of financial statements and interim reports that are considered critical because they require management to make a large number of subjective judgements, assumptions and estimates regarding matters that are inherently uncertain. Changes in the conditions underlying such judgements, assumptions and estimates may have a significant effect on future results.

Deferred tax assets

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

Contingencies

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

Employee benefits

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

Development costs

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

Impairment of non-current assets

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

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

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

3. Management of financial risks

Tesmec S.p.A. is exposed in varying degrees to financial risks related to the core business. In particular, the Company is exposed at the same time to the market risk (interest-rate risk and exchange-rate risk), liquidity risk and credit risk.
The management of financial risks (mainly interest-rate risks) is carried out by the Company on the basis of guidelines defined by the Board of Directors. The purpose is to guarantee a liability structure always in equilibrium with the structure of the balance sheet assets, in order to keep a very sound balance sheet structure.
Forms of financing most commonly used are represented by:

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

The average cost of indebtedness is benchmarked to the trend of the 3-month Euribor rates plus a spread that depends on the financial instrument used and on the rating of the Company.
Tesmec S.p.A. uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The Company does not apply the Cash Flow Hedge Accounting with reference to such positions, in that they do not meet the requirements provided in this regard by the IFRS standards.
The trading of derivative instruments with speculative purposes is not contemplated.

Management of the exchange-rate risk
Exchange-rate risk sensitivity of Tesmec S.p.A. is managed appropriately taking into consideration the overall exposure: within the general optimisation policy of financial resources, the Company pursues an equilibrium resorting to less expensive forms of financing.

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

As at 31 December 2018, there were seven 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 11.59 million, with a negative equivalent value of Euro 35 thousand.

As at 31 December 2017, there were ten positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in *interest bearing financial payables (current portion)* due to fluctuating market rates. The notional value of these positions was equal to Euro 18.6 million, with a negative equivalent value of Euro 84 thousand.
The short-term portion of interest bearing financial payables (current portion), which is mainly used to finance working capital requirements, is not subject to interest-rate risk hedging.
The cost of bank borrowing is benchmarked to the Euribor/Libor rate plus a spread that depends on the type of credit line used and is the same by type of line. The applied margins can be compared to the best market standards. The interest rate risk to which the Company is exposed is mainly originated from existing financial payables.

The main sources of exposure of the Company to the interest-rate risk refer to existing interest bearing medium/long-term financial payables (current portion) and interest bearing short-term financial payables and to the existing derivative instruments. In particular, the potential impacts on the income Statement of the 2019 financial period (compared to 2018) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 2018 financial period.
- potential change in fair value of existing derivative instruments.

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

The Company estimated the potential impacts on the Income Statement and on Shareholders' Equity of the 2019 financial period (compared to 2018 calculated) produced by a simulation of the change in the term structure of the interest rates, by using internal measurement models, based on the general acceptance approach. In particular:

- for loans, these impacts were estimated by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates, applied only to the cash flows to be settled during the 2019 financial period (compared to 2018);
- for derivative instruments, by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates.

With reference to the situation as at 31 December 2018, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2019 financial period of Euro 98 thousand, offset by an increase of Euro 48 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 6 thousand, more than offset by a decrease of Euro -9 thousand in the collected spread for the existing derivatives.

With reference to the situation as at 31 December 2017, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2017 financial period of Euro 210 thousand, offset by an increase of Euro 70 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 12 thousand, offset by a decrease of Euro 15 thousand in the collected spread for the existing derivatives.

	Interests					
	31 December 2018			31 December 2017		
(Euro in thousands)	**Residual debt**	**Impact on the IS +100 bps**	**Impact on the IS -30 bps**	**Residual debt**	**Impact on the IS +100 bps**	**Impact on the IS -30 bps**
Borrowings/Bond issue	102,185*	(98)	6	98,912*	(210)	12
Total Loans	**102,185***	**(98)**	**6**	**98,912***	**(210)**	**12**
(Euro in thousands)	**Notional**	**Impact on the IS +100 bps**	**Impact on the IS -30 bps**	**Notional**	**Impact on the IS +100 bps**	**Impact on the IS -30 bps**
Derivative instruments hedging cash flows	11,593	48	(9)	18,541	70	(15)
Total Derivative instruments	**11,593**	**48**	**(9)**	**18,541**	**70**	**(15)**
Total		**(50)**	**(3)**		**(140)**	**(3)**

(*) The residual debt is considered before amortised costs.

	Fair value sensitivity of derivatives									
	Financial period ended 31 December 2018									
(Euro in thousands)	**Notional value**	**Net FV**	**Net FV +100 bps**	**Net FV +100 bps**	**Impact on IS +100 bps**	**Impact on SE +100 bps**	**Net FV - 30 bps**	**Net FV - 30 bps**	**Impact on IS -30 bps**	**Impact on SE - 30 bps**
Derivative instruments hedging cash flows	11,593	(35)	44	78	78	-	(50)	(16)	(16)	-
Total	**11,593**	**(35)**	**44**	**78**	**78**	**-**	**(50)**	**(16)**	**(16)**	**-**
	Financial period ended 31 December 2017									
(Euro in thousands)	**Notional value**	**Net FV**	**Net FV +100 bps**	**Net FV +100 bps**	**Impact on IS +100 bps**	**Impact on SE +100 bps**	**Net FV - 30 bps**	**Net FV - 30 bps**	**Impact on IS -30 bps**	**Impact on SE - 30 bps**
Derivative instruments hedging cash flows	18,541	(84)	119	203	203	-	(123)	(39)	(39)	-
Total	**18,541**	**(84)**	**119**	**203**	**203**	**-**	**(123)**	**(39)**	**(39)**	**-**

With reference to the situation as at 31 December 2018, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 78 thousand, with an impact on the Income statement of the 2019 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 16 thousand, with an impact only on the Income statement of the 2019 financial period.

With reference to the situation as at 31 December 2017, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 203 thousand, with an impact on the Income statement of the 2018 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 39 thousand, with an impact only on the Income statement of the 2017 financial period.

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

Credit risk management

The Company has a much parcelled out customer structure being mostly end-consumers. Moreover, most of the contemplated forms of collection include advance payments of the supply or a deposit not less than 30% of the sale.
This structure zeroes the credit risk; the validity of this approach is endorsed by the low amount of receivables at the end of the financial period compared to the amount of annual sales.
There are no significant concentrations of credit risk exposure in relation to individual debtors to be reported.

Management of liquidity risk

The Company manages the liquidity risk by controlling strictly the elements forming the working capital and in particular trade receivables and payables.
The Company tends to obtain upstream a good cash generation in relation to sales and then use it for paying the suppliers without compromising the short-term balance of the treasury and avoid problems and tensions in current liquidity.

The stratification of existing liabilities with reference to 2018 and to 2017 financial periods, with regard to financial instruments, by residual maturity, is set out below.

Maturity	31 December 2018						
	Financial payables		Bonds		Trade payables	Financial instruments	Total
	Capital	Interests	Capital	Interests			
(Euro in thousands)	a	b	c	d	e	f	g=a+b+c+d+e+f
Within 12 months	56,466	761	-	1,388	25,958	28	**84,601**
Between one and two years	10,780	590	1,250	1,391	-	8	**14,019**
Between two and three years	4,259	356	17,500	1,298	-	-	**23,413**
Between three and five years	2,663	377	5,000	415	-	-	**8,455**
Between five and seven years	143	292	1,250	30	-	-	**1,715**
After more than 7 years	2,875	72	-	-	-	-	**2,947**
Total	**77,186***	**2,448**	**25,000***	**4,522**	**25,958**	**36**	**135,150**

Maturity	31 December 2017						
	Financial payables		Bonds		Trade payables	Financial instruments	Total
	Capital	Interests	Capital	Interests			
(Euro in thousands)	a	b	c	d	e	f	g=a+b+c+d+e+f
Within 12 months	65,686	1,011	-	913	25,198	72	**92,880**
Between one and two years	8,649	536	-	913	-	20	**10,118**
Between two and three years	8,525	281	-	915	-	(5)	**9,716**

Between three and five years	1,052	21	15,000	913	-	(1)	**16,985**
Between five and seven years	-	-	-	-	-	-	**-**
After more than 7 years	-	-	-	-	-	-	**-**
Total	**83,912***	**1,849**	**15,000***	**3,654**	**25,198**	**86**	**129,699**

(*) The residual debt is considered before amortised costs.

The estimate of expected future expenses implicit in loans and of expected future differentials implicit in derivative instruments was determined on the basis of the term structure of interest rates in Euro existing at the reporting dates (31 December 2018 and 31 December 2017).

Management of the exchange-rate risk

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

The potential impacts on the Income Statement of the 2019 financial period (compared to 2018 when available) referable to the exchange-rate risk are determined by the revaluation/write-down of asset and liability items in foreign currency.

The Company estimated the potential impacts on the income statement of the 2019 financial period (compared to 2018 calculated) produced by a shock of the exchange-rate market, by using internal measurement models, based on the general acceptance approach.

	2018 Exposure in foreign currency (USD)			2018 Sensitivity	
Exposure with regard to equity items	**Assets (USD/000)**	**Liabilities (USD/000)**	**Equity (USD/000)**	**Income statement EUR/USD exchange rate +5% (EUR/000)**	**Income statement EUR/USD exchange rate -5%(EUR/000)**
Trade receivables	3,302	-	3,302	(144)	144
Trade payables	-	(48)	(48)	2	(2)
Financial receivables	16,855		16,855	(736)	736
Total gross exposure with regard to equity items	**20,157**	**(48)**	**20,109**	**(878)**	**878**
Derivative instruments	-	-	-	-	-

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

Exposure with regard to equity items	2018 Exposure in foreign currency (ZAR)			2018 Sensitivity	
	Assets (ZAR/000)	Liabilities (ZAR/000)	Equity (ZAR/000)	Income statement EUR/ZAR exchange rate +5% (EUR/000)	Income statement EUR/ZAR exchange rate -5% (EUR/000)
Trade receivables	36,091	-	36,091	(110)	110
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	**36,091**	**-**	**36,091**	**(110)**	**110**
Derivative instruments					

Exposure with regard to equity items	2017 Exposure in foreign currency (ZAR)			2017 Sensitivity	
	Assets (ZAR/000)	Liabilities (ZAR/000)	Equity (ZAR/000)	Income statement EUR/ZAR exchange rate +5% (EUR/000)	Income statement EUR/ZAR exchange rate -5% (EUR/000)
Trade receivables	72,324		72,324	(244)	244
Trade payables			-	-	-
Total gross exposure with regard to equity items	**72,324**	**-**	**72,324**	**(244)**	**244**
Derivative instruments	-	30,000	30,000	(101)	101

Exposure with regard to equity items	2018 Exposure in foreign currency (AUD)			2018 Sensitivity	
	Assets (AUD/000)	Liabilities (AUD/000)	Net (AUD/000)	Income statement EUR/AUD exchange rate +5% (EUR/000)	Income statement EUR/AUD exchange rate -5%(EUR/000)
Trade receivables	4,334	-	4,334	(134)	134
Trade payables	-	(14)	(14)	-	-
Financial receivables	600	-	600	(18)	18
Total gross exposure with regard to equity items	**4,934**	**(14)**	**4,920**	**(152)**	**152**
Derivative instruments					

Exposure with regard to equity items	2017 Exposure in foreign currency (AUD)			2017 Sensitivity	
	Assets (AUD/000)	Liabilities (AUD/000)	Net (AUD/000)	Income statement EUR/AUD exchange rate +5% (EUR/000)	Income statement EUR/AUD exchange rate -5%(EUR/000)
Trade receivables	1,954	-	1,954	(64)	64
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	**1,954**	**-**	**1,954**	**(64)**	**64**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2018 Exposure in foreign currency (CNY)			2018 Sensitivity	
	Assets (CNY/000)	Liabilities (CNY/000)	Net (CNY/000)	Income statement EUR/CNY	Income statement EUR/CNY

				exchange rate +5% (EUR/000)	exchange rate -5%(EUR/000)
Trade receivables	9,152	-	9,152	(58)	58
Trade payables	-	(613)	(614)	4	(4)
Total gross exposure with regard to equity items	**9,152**	**(613)**	**8,538**	**(54)**	**54**
Derivative instruments					

	2018 Exposure in foreign currency (RUB)			2018 Sensitivity	
Exposure with regard to equity items	**Assets (RUB/000)**	**Liabilities (RUB/000)**	**Net (RUB/000)**	**Income statement EUR/RUB exchange rate +5% (EUR/000)**	**Income statement EUR/RUB exchange rate -5% (EUR/000)**
Trade receivables	-	-	-	-	-
Trade payables	-	-	-	-	-
Financial receivables	50,000	-	50,000	(31)	31
Total gross exposure with regard to equity items	**50,000**	**-**	**50,000**	**(31)**	**31**
Derivative instruments	-	-	-	-	-

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

Disclosures - categories of financial assets and liabilities

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

(Euro in thousands)	**Loans and receivables/payables**	**Guarantee deposits**	**Cash and cash equivalents**	**Available-for-sale financial assets**	**Fair value recognised in the income statement**
Financial assets:					
Financial receivables from third parties	435	-	-	-	-
Financial receivables from related parties	4,500	-	-	-	-
Derivative financial instruments	-	-	-	-	0
Total non-current	**4,935**	**-**	**-**	**-**	**0**
Trade receivables	28,869	-	-	-	-
Financial receivables from related parties	34,612	-	-	-	-
Financial receivables from third parties	2,355	-	-	-	-
Other available-for-sale securities	-	-	-	2	-
Cash and cash equivalents	-	-	10,559	-	-
Total current	**65,836**	**-**	**10,559**	**2**	**-**
Total	**70,771**	**-**	**10,559**	**2**	**0**
Financial liabilities:					

Loans	19,805	-	-	-	-
Other financial payables (long-term leases)	706	-	-	-	-
Bond issue	24,651	-	-	-	-
Derivative financial instruments	-	-	-	-	35
Total non-current	**45,162**	**-**	**-**	**-**	**35**
Loans	9,932	-	-	-	-
Other financial payables (short-term leases)	744	-	-	-	-
Financial payables to related parties	2,339	-	-	-	-
Other short-term payables	44,336	-	-	-	-
Derivative financial instruments	-	-	-	-	-
Trade payables	25,584	-	-	-	-
Total current	**82,935**	**-**	**-**	**-**	**-**
Total	**128,098**	**-**	**-**	**-**	**35**

Disclosures: hierarchy levels of fair value measurement

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

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

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

(Euro in thousands)	**Book value as at 31 December 2018**	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Other available-for-sale securities	2	-	-	2
Total current	**2**	**-**	**-**	**2**
Total	**2**	**-**	**-**	**2**
Financial liabilities:				
Derivative financial instruments	35	-	35	-
Total non-current	**35**	**-**	**35**	**-**
Derivative financial instruments	-	-	-	-
Total current	**-**	**-**	**-**	**-**
Total	**35**	**-**	**35**	**-**

4. Significant events occurred 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, previously 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. Daniel Rivard resigned from office in December 2018;

- 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 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 Consolidated Law on Finance (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 2 July 2018, the Tesmec Group signed a strategic contractual Joint Venture agreement with the company Saba Group International General Trading and Contracting Co. concerning 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;

- on 28 November 2018, a capital increase of Tesmec SA (Pty) Ltd. was subscribed and approved for Euro 6,000 thousand. This increase was subscribed for approximately Euro 2,940 thousand by Simest S.p.A. (Società Italiana per le Imprese all'Estero) and for the remainder of approximately Euro 3,060 thousand by Tesmec S.p.A.. As a result of this operation, Simest holds 49% of the share capital of Tesmec SA (Pty) Ltd. starting 28 November 2018. The contract signed with Simest includes an option by Tesmec S.p.A. to buyback the shareholding held by Simest by 30 June 2026; by virtue of this obligation, the shareholding recorded in the financial statements amounted to Euro 6,296 thousand, while the amount paid by Simest S.p.A. is recorded as a financial payable;

- on 3 May 2018, a capital increase of Marais Laying Tech. (Pty) Ltd. Australie totalling Euro 4,000 thousand was approved. This operation involves a payment of 49% by Simest S.p.A. (approved on 15 March 2018 and in the process of being paid up) and 51% by Tesmec S.p.A.. The agreement also envisages the commitment of Tesmec S.p.A. to purchase the share subscribed by Simest S.p.A. and the related obligation to sell Simest S.p.A. as at 30 June 2026. As at 31 December 2018, the portion of Tesmec S.p.A. and consequently the companies Marais Laying Tech. (Pty) Ltd. Australie and its subsidiary Marais Laying Tech. (Pty) Ltd. New Zeland are controlled by Tesmec S.p.A. instead of Group Marais SAS;
- it is confirmed that as at the date of this Report, only one financial covenant relating to the Net Financial Position/EBITDA ratio had not been complied with. However, this non-compliance only led to the short-term recognition of the residual medium/long-term portion of the loan outstanding with Istituto Bancario Cariparma, of Euro 444 thousand, for which the waiver is in the process of being released, and the provisional step-up of the interest rate of the "Minibond 2018-2024", issued for an amount of Euro 10 million.

COMMENTS ON THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

Non-current assets

5. Intangible assets

The breakdown of *Intangible assets* as at 31 December 2018 and as at 31 December 2017 is indicated in the table below:

	31 December					
	2018			2017		
(Euro in thousands)	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Development costs	22,432	(16,596)	5,836	32,725	(26,631)	6,094
Rights and trademarks	2,903	(2,698)	205	2,815	(2,533)	282
Assets in progress and advance payments to suppliers	-	-	-	-	-	-
Total intangible assets	**25,335**	**(19,294)**	**6,041**	**35,540**	**(29,164)**	**6,376**

The following table shows the changes in intangible assets for the period ended 31 December 2018:

(Euro in thousands)	01/01/2018	Increases	Decreases	Reclassifications	Depreciations	31/12/2018
Development costs	6,094	2,744	-	-	(3,002)	5,836
Rights and trademarks	282	88	-	-	(165)	205
Assets in progress and advance payments to suppliers	-	-	-	-	-	-
Total intangible assets	**6,376**	**2,832**	**-**	**-**	**(3,167)**	**6,041**

As at 31 December 2018, intangible assets net of amortisation totalled Euro 6,041 thousand, down Euro 335 thousand on the previous year.
Increases for the period totalled Euro 2,832 thousand and consist in development costs capitalised related to the development of new products and equipment that are expected to generate positive cash flows in future financial periods.

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

(Euro in thousands)	01/01/2017	Increases	Decreases	Reclassifications	Depreciations	31/12/2017
Development costs	5,979	3,111	-	-	(2,996)	6,094
Rights and trademarks	454	-	(95)	111	(188)	282
Assets in progress and advance payments to suppliers	111	-	-	(111)	-	-
Total intangible assets	**6,544**	**3,111**	**(95)**	**-**	**(3,184)**	**6,376**

6. Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2018 and as at 31 December 2017 is indicated in the table below:

	31 December					
	2018			2017		
(Euro in thousands)	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Land	1,250	-	1,250	1,250	-	1,250
Buildings	3,358	(497)	2,861	3,257	(399)	2,858
Plant and machinery	10,995	(9,090)	1,905	10,830	(8,386)	2,444
Equipment	3,872	(3,454)	418	3,651	(3,277)	374
Other assets	3,238	(1,903)	1,335	3,586	(1,904)	1,682
Assets in progress and advance payments to suppliers	522	-	522	522	-	522
Total property, plant and equipment	**23,235**	**(14,944)**	**8,291**	**23,096**	**(13,966)**	**9,130**

The following table shows the changes in property, plant and equipment for the period ended 31 December 2018:

(Euro in thousands)	01/01/2018	Increases	Decreases	Reclassifications	Depreciations	31/12/2018
Land	*1,250*	-	-	-	-	*1,250*
Buildings	*2,858*	*102*	-	-	*(99)*	*2,861*
Plant and machinery	*2,444*	*193*	*(2)*	-	*(730)*	*1,905*
Equipment	*374*	*411*	*(180)*	-	*(187)*	*418*
Other assets	*1,682*	*1,310*	*(1,542)*	-	*(115)*	*1,335*
Assets in progress and advance payments to suppliers	*522*	-	-	-	-	*522*
Total property, plant and equipment	***9,130***	***2,016***	***(1,724)***	**-**	***(1,131)***	***8,291***

As at 31 March 2018, property, plant and equipment totalled Euro 8,290 thousand, a decrease of Euro 840 thousand compared to the previous year, mainly due to the effect of the sale of machines previously recorded in the trencher fleet.

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

(Euro in thousands)	01/01/2017	Increases	Decreases	Reclassifications	Depreciations	31/12/2017
Land	1,250	-	-	-	-	1,250
Buildings	2,958	-	-	-	(100)	2,858
Plant and machinery	2,960	288	-	-	(804)	2,444
Equipment	595	197	(127)	(70)	(221)	374
Other assets	2,278	905	(1,245)	70	(326)	1,682
Assets in progress and advance payments to suppliers	522	-	-	-	-	522
Total property, plant and equipment	**10,563**	**1,390**	**(1,372)**	**-**	**(1,451)**	**9,130**

7. Equity investments in subsidiaries, associates and joint ventures.

The breakdown of *Equity investments in subsidiaries, associates and joint ventures* as at 31 December 2018 and 2017 is indicated in the table below:

(Euro in thousands)	31 December 2018	2017
Subsidiaries:		
Tesmec USA, Inc.	21,261	21,261
Tesmec Service S.r.l.	3,596	3,596
Tesmec SA	6,296	361
East Trenchers S.r.l. (2)	145	145
Tesmec Automation S.r.l.	3,026	2,526
OOO Tesmec RUS	11	11
Tesmec New Technology (Beijing) LTD	200	200
Marais Technologies SA	10,814	8,564
Marais Laying Tech. (Pty) Ltd. Australie	1,923	-
Bertel S.r.l.	4,035	4,035
Tesmec Rail S.r.l.	3,010	12
Total equity investments in subsidiaries	**54,317**	**40,711**

Equity investments in subsidiaries increased overall of Euro 13,107 thousand as a result of the following operations:

- Tesmec SA: on 29 November 2018, a capital increase of Tesmec SA (Pty) Ltd. was subscribed and approved for Euro 6,000 thousand. This increase was subscribed for approximately Euro 2,940 thousand by Simest S.p.A. (Società Italiana per le Imprese all'Estero) and for the remainder of approximately Euro 3,060 thousand by Tesmec S.p.A.. As a result of this operation, Simest holds 49% of the share capital of Tesmec SA (Pty) Ltd. starting 29 November 2018. The contract signed with Simest includes an option by Tesmec S.p.A. to buyback the shareholding held by Simest by 30 June 2026; by virtue of this obligation, the shareholding recorded in the financial statements amounted to Euro 6,296 thousand, while the amount paid by Simest S.p.A. is recorded as a financial payable;
- Tesmec Automation S.r.l.: the increase of Euro 500 thousand is related to the conversion of the financial receivable in capital reserve;
- on 31 January 2018, Tesmec S.p.A. purchased a further 13.21% stake in the share capital of Marais Technologies SAS at the price of Euro 2,250 thousand. Following this transaction, Tesmec owns 66.04%, while the remaining 33.95% is held by Simest S.p.A.;
- Marais Laying Tech. (Pty) Ltd. Australie: on 3 May 2018, a capital increase of Marais Laying Tech. (Pty) Ltd. Australie totalling Euro 4,000 thousand was approved. This operation involves a payment of 49% by Simest S.p.A. and 51% by Tesmec S.p.A. The agreement also envisages the commitment of Tesmec S.p.A. to purchase the share subscribed by Simest S.p.A. and the related obligation to sell Simest S.p.A. as at 30 June 2026. As at 31 December 2018, the portion of Tesmec S.p.A. and consequently the companies Marais Laying Tech. (Pty) Ltd. Australie and its subsidiary Marais Laying Tech. (Pty) Ltd. New Zeland are controlled by Tesmec S.p.A. instead of Group Marais SAS;
- Tesmec Rail S.r.l.: during the 2018 financial period, Tesmec S.p.A. allocated a total amount of Euro 2,998 thousand to shareholders' equity in order to cover the financial requirements necessary to start the industrial investment.

The following table shows the main financial statements items of subsidiaries:

	31 December 2018						
(Euro in thousands)	% held	Revenues	Net result	Assets	Liabilities	Shareholders' Equity	Book value
Subsidiaries:							
Tesmec USA, Inc.	100.00%	28,795	(413)	49,316	28,236	21,080	21,261
Tesmec Service S.r.l.	100.00%	26,906	2,825	42,789	37,143	5,646	3,596
Tesmec SA	100.00%	4,104	(106)	8,709	3,420	5,289	6,296
East Trenchers S.r.l. (2)	100.00%	-	(3)	35	1	34	145
Tesmec Automation S.r.l.	100.00%	8,981	(646)	15,194	14,924	270	3,026

OOO Tesmec RUS	100.00%	2,263	(133)	2,487	2,977	(490)	11
Tesmec New Technology (Beijing) LTD	100.00%	772	(200)	637	1,371	(734)	200
Marais Technologies SA	100.00%	-	91	20,795	5,477	15,318	10,814
Marais Laying Tech. (Pty) Ltd. Australie	100.00%	14,894	(4,853)	9,239	12,277	(3,038)	1,923
Bertel S.r.l.	100.00%	97	(342)	3,809	3,567	242	4,035
Tesmec Rail S.r.l.	100.00%	823	454	16,419	12,957	3,462	3,010

The values of the equity investments were tested for impairment. The key assumptions used by Management are estimates of future business plans. The flows of expected earnings cover a period of three years subsequent to those of reference of the impairment test and they are based on plans submitted to the Board of Directors on 21 December 2018.
The discount rate used (WACC), defined as the weighted average cost of capital, net of taxes, was differentiated according to the country of reference, the values of which are positioned in a range between 7% and 10%. Cash flows beyond the three years were extrapolated using a growth rate of 1%.
The results of the impairment test showed that as at 31 December 2018, the recoverable amount of the CGU exceeds the book value.

The results underwent also a sensitivity analysis in order to consider the possible effects of changes in the key assumptions underlying the impairment process. This analysis involved a reasonably possible change in the expected growth rate of about +/- 1%, the discount rate used of about +/- 2%, and the EBIT value resulting from the Plan of about +/- 10%.

The breakdown of equity investments in associates and joint ventures as at 31 December 2018 and 2017 is indicated in the table below:

	31 December	
(Euro in thousands)	**2018**	**2017**
Associated companies:		
Locavert SA	52	52
Subtotal	**52**	**52**
Joint Ventures:		
Condux Tesmec Inc	956	956
Tesmec Peninsula	730	730
Subtotal	**1,686**	**1,686**
Total equity investments in associates	**1,738**	**1,738**

The following table shows the main financial statements items of associated companies and joint ventures:

	31 December						
	2018						
(Euro in thousands)	**% held**	**Revenues**	**Net result**	**Assets**	**Liabilities**	**Shareholders' Equity**	**Book value**
Associated companies:							
Locavert SA	38.63%	557	99	760	211	550	52
Joint Ventures:							
Condux Tesmec Inc.	50.00%	2,960	(79)	4,246	1,067	3,179	956
Tesmec Peninsula	49.00%	2,131	244	3,127	2,932	195	730

As at 31 December 2018, values of equity investments in associate companies were impaired as described in the previous paragraph.
The results of the impairment test showed that as at 31 December 2018, the recoverable amount of these equity investments exceeds the book value.

8. Financial receivables and other non-current financial assets

The following table sets forth the breakdown of the item *Financial receivables and other non-current assets* as at 31 December 2018 and 2017:

	31 December	
(Euro in thousands)	**2018**	**2017**
Financial receivables from third-party customers	435	2
Financial receivables from related parties	4,500	-
Total financial receivables and other non-current financial assets	**4,935**	**2**

As at 31 December 2018, financial receivables and other non-current financial assets totalled Euro 4,935 thousand, up Euro 4,933 thousand on the previous year.
This increase is due to a medium/long-term loan granted to the subsidiary Tesmec Service S.r.l. of Euro 5,000 thousand.

Current assets

9. Inventories

The following table sets forth the breakdown of *Inventories* as at 31 December 2018 and 2017:

	31 December	
(Euro in thousands)	**2018**	**2017**
Advances to Suppliers	8	-
Raw materials and consumables	20,042	20,238
Work in progress	5,917	5,792
Finished products and goods for resale	8,561	9,525
Total inventories	**34,528**	**35,555**

The measurement bases of inventories remained unchanged compared to the prior financial period. The item as a whole decreased by 2.9% thanks to the increase in revenues.

The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2018 and 2017 are indicated below:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Value as at 1 January	3,090	3,033
Provisions	100	57
Uses	-	-
Total provisions for inventory obsolescence	**3,190**	**3,090**

The value of the provisions for inventory obsolescence is unchanged compared to the prior financial period. The adequacy of the provision is assessed on a regular basis to constantly monitor the actual level of inventories recovered through sales.

10. Trade receivables

The table below shows the breakdown of trade receivables as at 31 December 2018 and 2017:

	31 December	
(Euro in thousands)	**2018**	**2017**
Trade receivables from third-party customers	19,235	16,809
Trade receivables from related parties	9,634	10,558
Total trade receivables	**28,869**	**27,367**

For terms and conditions relating to receivables from related parties, refer to note 34.

Trade receivables as at 31 December 2018 amounted to Euro 28,869 thousand, up by Euro 1,502 thousand compared to the 2017 financial period.
The balance of trade receivables is shown net of provisions for doubtful accounts. This provision was calculated in an analytical manner by dividing the receivables in classes depending on the level of risk, by country and customer, and by applying to each class an expected percentage of loss derived from historical experience.

The changes in the provisions for doubtful accounts for the financial periods ended 31 December 2018 and 2017 are indicated in the table below:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Value as at 1 January	985	1,834
First-time adoption of IFRS 9	515	-
Provisions	-	-
Uses	(539)	(849)
Total provisions for doubtful accounts	**961**	**985**

Uses and provisions related to the provisions for doubtful accounts are included in "other operating (costs)/revenues, net" of the income statement.
The impact of the first-time adoption of IFRS 9, amounting to Euro 515 thousand, was charged directly to shareholders' equity (known as modified approach).

11. Financial receivables and other current financial assets

The following table sets forth the breakdown of *Financial receivables and other current financial assets* as at 31 December 2018 and as at 31 December 2017:

	31 December	
(Euro in thousands)	**2018**	**2017**
Financial receivables from related parties	34,612	42,901
Other current financial assets	2,355	2,933
Total financial receivables and other current financial assets	**36,967**	**45,834**

The decrease in *financial receivables and current financial assets* (Euro 8,867 thousand) is due for Euro 8,289 thousand to the increase in credit positions relating to specific contracts signed with the related parties on which an interest rate is applied and repayable within 12 months. The main financial receivables and related interest rate applied are set below:

- Tesmec USA, Inc of Euro 14,028 thousand with annual interest rate of 3.75% or 6-month Euribor rate + spread of 2% applicable depending on the nature of the transaction;
- Tesmec Service S.r.l. of Euro 500 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3.5%;
- Tesmec SA (Pty) Ltd. of Euro 2,065 thousand with interest rate equivalent to 8.5%;

- Tesmec Service S.r.l. of Euro 6,114 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3.5%;
- Bertel S.p.A. of Euro 3,494 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3%;

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

12. Other current assets

The following table sets forth the breakdown of other current assets as at 31 December 2018 and as at 31 December 2017:

	31 December	
(Euro in thousands)	**2018**	**2017**
Prepaid expenses	426	380
VAT credit	213	(72)
Other tax receivables	2,096	3,728
Other receivables	166	171
Receivables from subsidiaries	907	485
Advance to suppliers for services	346	160
Total other current assets	**4,154**	**4,852**

Other current assets is considered receivable and therefore not subject to value adjustment; the item decreased by Euro 698 thousand compared to the previous financial period. This decrease is mainly due to the item "other tax receivables" of Euro 1,632 thousand due to the lower tax credit on research and development costs recorded for the 2018 financial period. As at 31 December 2018, this tax credit amounted to Euro 3,460 thousand, while in 2017 it amounted to Euro 4,561 thousand.

13. Cash and cash equivalents

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

	31 December	
(Euro in thousands)	**2018**	**2017**
Bank and post office deposits	10,555	11,809
Cash on hand	3	4
Other cash	1	2
Total cash and cash equivalents	**10,559**	**11,815**

Cash and cash equivalents are invested in short-term bank deposits and they are remunerated at a floating rate related to the Euribor trend. The balance as at 31 December 2018 amounted to Euro 10,559 thousand and decreased of Euro 1,256 thousand. The stated values can be readily converted into cash and are subject to a non-significant risk of change in value. The book value of cash and cash equivalents is deemed to be aligned to their fair value at the end of the reporting period.

The Company believes that the credit risk related to cash and cash equivalents is limited since it mainly represents deposits divided across domestic and international banking institutions.

14. Shareholders' Equity

Share capital and reserves

The share capital amounts to Euro 10,708 thousand, fully paid up, and comprises 107,084,000 shares with a par value of Euro 0.1 per share.
The following table sets forth the breakdown of *Other reserves* as at 31 December 2018 and 2017:

	31 December	
(Euro in thousands)	**2018**	**2017**
Revaluation reserve	86	86
Extraordinary reserve	28,935	26,942
Reserve for first-time adoption of IFRS 9	(391)	-
Severance indemnity valuation reserve	(291)	(346)
Network reserve	754	754
Retained earnings/(losses brought forward)	2,490	2,490
Bills charged directly to shareholders' equity on operations with entities *under common control*	(5,619)	(5,619)
Total other reserves	**25,964**	**24,307**

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

As at 31 December 2018, *Extraordinary reserve* increased by a total of Euro 1,993 thousand as a result of the decision for the allocation of the 2017 net income.

The Reserve for First Time Adoption is mainly related to the application of the principle of continuity of values within extraordinary operations concluded among companies "under common control" with a subsequent write-off of the higher values recognised in the transaction with the Shareholders' Equity as a balancing entry.

The first-time adoption IFRS 9 refers to the net impact related to the application of the new standard. The Company attributed the largest allowance related to doubtful accounts applied to the decrease in equity reserves as at 1 January 2018 without restating the comparative data.

The Shareholders' Equity is therefore divided according to the origin, the possibility of usage, the related distributability and the actual usage in the 3 previous financial periods

				Summary of uses in the last 3 periods	
Nature/description	**Amount (Euro/000)**	**Possibility of usage**	**Amount available**	**to cover losses**	**for other reasons**
Share capital	10,708	B			
Equity's reserves:					
Share premium reserve	10,915	A, B, C (*)	10,915	-	-
Reserve of Treasury Shares	(2,341)				
Earnings reserves:					
Legal reserve	2,142	B			
Revaluation reserve	86	A, B, C	86	-	-
Extraordinary reserve	28,935	A, B, C	28,935	-	-
Reserve for First Time Adoption	(5,619)				
Reserve for first-time adoption of IFRS 9	(391)				
Severance indemnity valuation reserve	(291)				

Network reserve	754				
Retained earnings	2,490	B			
Profit for the period	4,331				
Total	**51,719**		**39,936**	**-**	**-**

(*) Pursuant to Article 2431 of the Italian Civil Code, the whole amount of this reserve is distributable only if the legal reserve has reached the limit established in Article 2430 of the Italian Civil Code. 2430. That level is reached as at 31 December 2018.

Legend:
A: To increase shareholders' equity
B: To cover losses
C: To distribute to shareholders

Following the resolution of 6 April 2018, the Shareholders' Meeting approved the allocation of 2017 profits of Euro 1,993 thousand entirely to the extraordinary reserve.

Non–current liabilities

15. Medium/long-term loans

Medium/long-term loans include medium-long term loans from banks, payables towards other providers of finance and payables towards leasing companies for tangible fixed assets recorded in the separate financial statements in accordance with the financial leasing accounting method.
The following table shows the breakdown thereof as at 31 December 2018 and as at 31 December 2017, with separate disclosure of total loan and current portion:

	31 December			
(Euro in thousands)	**2018**	**of which current portion**	**2017**	**of which current portion**
Banca Nazionale del Lavoro	-	-	923	923
Simest UGF	424	283	707	283
Banca Intesa San Paolo	-	-	118	118
ICCREA BANCA/BCC	1,639	465	2,104	2,104
Banco BPM	1,774	273	-	-
Banca Carige S.p.A.	-	-	582	582
Credit Agricole Cariparma	1,318	1,318	2,195	2,195
Banca Monte dei Paschi di Siena	1,932	1,104	3,035	1,104
Banca Intesa San Paolo	379	379	880	501
Banco di Desio e della Brianza	650	457	1,098	448
Creval	85	85	1,088	1,003
BPER Banca	2,286	1,004	3,272	986
Banco di Desio e della Brianza	1,246	745	-	-
Simest UGF	2,875	-	-	-
Banca del Mezzogiorno - Mediocredito Centrale (MCC)	2,495	998	3,493	3,493
Banco di Desio e della Brianza	-	-	41	41
Unipol Banca	563	563	1,227	664
UBI Banca	338	338	1,140	801
Deutsche Bank	745	372	1,118	372
Banca Popolare di Sondrio	1,964	747	2,694	730
Banco BPM	2,061	327	2,382	321

Banco BPM	2,962	474	3,424	463
Total interest-bearing medium/long-term financial payables	**25,736**	**9,932**	**31,521**	**17,132**
Less current portion	(9,932)		(17,132)	
Non-current portion of interest-bearing medium/long-term financial payables	**15,804**		**14,389**	
Medium/long-term loan due to Simest	11,406	7,406	11,406	7,406
Less current portion	(7,406)		(7,406)	
Medium/long-term loan due to Simest	**4,000**		4,000	
Total medium/long-term loans	**19,804**	**17,338**	**18,389**	**24,538**
Non-current portion of finance leases	1,451	744	1,962	594
Less current portion	(744)		(594)	
Non-current portion of finance leases, net	**707**		**1,368**	
Total current portion		**18,082**		**25,132**
Medium/long-term loans	**20,511**		**19,757**	

Some loan contracts contain certain financial covenant clauses. In particular, they require that certain parameters, calculated on the basis of the financial statements of the Group, have to be met; they are verified on a semi-annual and annual basis.

In general, covenants are based on the observance of the following relations:

- Net Financial Position/EBITDA
- Net Financial Position/Shareholders' equity

Based on the results of the financial statements of the Company and the Tesmec Group, only one financial covenant relating to the Net Financial Position/EBITDA ratio has not been met. However, this non-compliance only led to the short-term recognition of the residual medium/long-term portion of the loan outstanding with Istituto Bancario Cariparma, of Euro 444 thousand, for which the waiver is in the process of being released, and the provisional step-up of the interest rate of the "Minibond 2018-2024", issued for an amount of Euro 10 million.

Finally, note that during 2018 new medium to long term loans were opened for a value of Euro 16,432 thousand.

The average cost of indebtedness is benchmarked to the trend of the 3-month Euribor rates plus a spread applied depending also on the type of the financial instrument used.

The table below shows the figures relevant to the outstanding loans of the Company as at 31 December 2018, by indicating the portion due within one year, within 5 years and after more than 5 years:

Description	Maturity	Residual value as at 31 December 2018	Portion within 12 months	Portion within 5 years	Portion after more than 5 years
Simest UGF	04-Feb-20	424	283	141	-
Credit Agricole Cariparma	26-Mar-20	1,318	1,318	-	-
ICCREA BANCA/BCC	27-Mar-22	1,639	465	1,174	-
Banco BPM	30-Jun-25	1,774	273	1,092	409
Banca Monte dei Paschi di Siena	30-Sep-20	1,932	1,104	828	-
Banca Intesa San Paolo	30-Sep-19	379	379	-	-
Banco di Desio e della Brianza	10-May-20	650	457	193	-
Creval	05-Jan-19	85	85	-	-
BPER Banca	18-Mar-21	2,286	1,004	1,282	-
Banco di Desio e della Brianza	30-Apr-21	1,246	745	501	-
Simest UGF	15-Dec-20	2,875	-	2,875	-
Banca del Mezzogiorno - Mediocredito Centrale (MCC)	30-Jun-21	2,495	998	1,497	-
Unipol Banca	31-Oct-19	563	563	-	-
UBI Banca	11-May-19	338	338	-	-

Deutsche Bank	28-Nov-20	745	372	373	-
Banca Popolare di Sondrio	31-Jul-21	1,964	747	1,217	-
Banco BPM 03838209 loan	31-Dec-24	2,061	327	1,373	361
Banco BPM 06052885 loan	31-Dec-24	2,962	474	1,969	519
Total		**25,736**	**9,932**	**14,515**	**1,289**

Net financial indebtedness

As required by CONSOB Communication of 28 July 2006 and in compliance with CESR Recommendation of 10 February 2005 "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses", the Company's net financial indebtedness is as follows:

	31 December			
(Euro in thousands)	**2018**	***of which with related parties and group***	**2017**	***of which with related parties and group***
Cash and cash equivalents	(10,560)		(11,815)	
Current financial assets [(1)]	(36,967)	*(34,612)*	(45,836)	*(42,901)*
Current financial liabilities	57,350	*2,339*	63,859	*2,077*
Current portion of derivative financial instruments	-		82	
Current financial indebtedness (2)	**9,823**	*(32,273)*	**6,290**	*(40,824)*
Non-current financial liabilities	45,162		34,554	
Non-current portion of derivative financial instruments	35		63	
Non-current financial indebtedness (2)	**45,197**	-	**34,617**	-
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	***55,020***	***(32,273)***	***40,907***	***(40,824)***

[(1)] Current financial assets as at 31 December 2018 and 31 December 2017 include the market value of shares that are considered cash and cash equivalents.
[(2)] Current and non-current financial indebtedness is not identified as an accounting measure 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.

Net indebtedness stood at Euro 55,020 thousand as at 31 December 2018 from Euro 40,907 thousand as at 31 December 2017 and increased by Euro 14,113 thousand due to the combined effect of the following changes:

- for the short-term portion, there was a total increase of Euro 3,533 thousand relating to the reclassification of the short-term portion of Euro 5,832 thousand of medium/long-term loans;
- increase in the long-term portion of Euro 10,580 thousand deriving from the activation of new loans of Euro 16,432 thousand offset by the reclassification in the current financial indebtedness described in the paragraph.

This table shows the comparison between the book value and the fair value of the financial instruments as at 31 December 2018:

(Euro in thousands)	**Book value**	**Fair value**
Financial liabilities:		
Loans	54,389	57,822
Non-current portion of finance leases, net	1,451	1,484
Total	**55,840**	**59,307**

16. Bond issue

The item relating to the *bond issue* amounted to Euro 24,651 thousand and increased by Euro 9,854 thousand compared to the previous year.

This change relates to the new "Tesmec S.p.A. 4.75% 2018-2024" bond issue of Euro 10 million placed on 27 July 2018 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. As described in the previous paragraph, a provisional step-up of one percentage point of the interest rate is in progress on the latter loan.

17. Derivative financial instruments

The Company signed some contracts related to derivative financial instruments whose contractual characteristics and related fair value as at 31 December 2018 and 2017 are shown in the table below:

Counterparts	Type	Debt interest rate (fixed)	Credit interest rate (variable)	Start date	Maturity date	Notional principal	Fair Value (Euro/000) as at 31 December	
							2018	2017
BNL	IRS	1.15% 1st year; 1.65; 1.65% 2nd year; 2% 3rd year; 2.60% five following years	3-month Euribor	01/01/2011	31/05/2018	-	-	(19)
Intesa San Paolo	IRS	Fixed interest rate 1.09%	6-month Euribor	31/12/2013	31/12/2018	-	-	(5)
Cariparma	IRS	Fixed interest rate 0.34%	6-month Euribor	07/05/2015	26/03/2020	1,333,333	(8)	(18)
Iccrea	CAP	Interest rate for the period 0.75%	6-month Euribor	27/09/2015	27/09/2020	1,500,000	-	1
Monte dei Paschi di Siena	CAP	Interest rate for the period 0.61%	6-month Euribor	31/12/2016	30/09/2020	1,944,444	(12)	(25)
Banco Popolare	IRS	Fixed interest rate 0.06%	6-month Euribor	03/10/2016	15/12/2020	1,375,000	(5)	(7)
Banca Popolare di Milano	IRS	Fixed interest rate 0.12%	3-month Euribor	31/01/2017	30/04/2021	2,383,227	(4)	(1)
Deutsche Bank	CAP	Fixed interest rate 0.00%	3-month Euribor	20/01/2017	30/11/2020	750,000	-	(1)
BPER	CAP	Interest rate for the period 0.15%	3-month Euribor	18/12/2017	18/03/2021	2,307,180	(6)	(11)
Banca Popolare di Milano	FORWARD SPOT	-	-	21/12/2017	30/04/2018	-	-	(58)
Assets for derivative instruments within the financial period							**-**	**-**
Assets for derivative instruments beyond the financial period							**-**	**1**
Liabilities for derivative instruments within the financial period							**-**	**(82)**
Liabilities for derivative instruments beyond the financial period							**(35)**	**(63)**

Tesmec S.p.A. uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The transactions for interest-rate risk hedging are mainly related to medium-term loans. The exchange-rate hedging transactions are related to commercial transactions.

The Company does not account for these financial instruments according to the methods established for hedge accounting since they do not meet all the requirements provided on this matter by the international accounting standards. Therefore, the changes in fair value of the financial instruments are attributed to the income statement during the financial period under review.

The financial management of the Company does not envisage the trading of derivative instruments with speculative purposes.

18. Employee benefit liability

The Company has no defined benefit pension plans in the strict sense. However, the severance indemnity fund required by Article 2120 of the Italian Civil Code, in terms of recognition in the financial statements, falls under this type and as such was accounted for, as shown in the applied accounting policies.
The following table shows the changes for the period ended 31 December 2018 and 31 December 2017 of employee benefits:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Present value of the liability at the beginning of the period	2,138	2,526
Financial expense	28	33
Transfers	-	(118)
Benefits paid	(150)	(277)
Financial loss (profit)	(72)	(26)
Demographic loss (profit)	-	-
Present value of the liability at the end of the period	**1,944**	**2,138**

With the adoption of the IFRS, the severance indemnity is considered a defined-benefit liability to be accounted for in accordance with IAS 19 and, as a result, the relevant liability is measured based on actuarial techniques.
The main assumptions used in determining the present value of the severance indemnity are shown below:

Economic and financial technical bases

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Annual discount rate	1.55%	2.00%
Inflation rate	1.50%	1.50%
Expected turnover rate of employees	2.62%	3.00%
Advance rate	3.00%	2.00%

The sensitivity analyses are shown below by using an annual discount rate of +0.5% and -0.5% compared to the annual discount rate used on the valuation date.

	Discount rate	
(Euro in thousands)	**0.50%**	**-0.50%**
Effect on the aggregate current cost of the service and of the financial expenses	43	21
Reported value for liabilities with respect to defined benefit plans	1,851	2,044

Technical and demographic bases

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Mortality	2004 ISTAT tables	2004 ISTAT tables
Disability	INPS tables	INPS tables
Retirement age	67 N/F	67 N/F

Frequency of turnover and advances on severance indemnity

(Euro in thousands)	Financial period ended 31 December	
	2018	2017
Advance frequency %	0.87%	1.83%
Turnover frequency %	22.58%	22.60%

Workforce

The average number of employees by category, expressed in terms of full-time employees is shown in the following table:

(average no. of employees)	Financial period ended 31 December	
	2018	2017
Managers	6	6
Executives, employees and equated	172	171
Workers	165	154
Total	**343**	**331**

The average number of employees as at 31 December 2018 is substantially in line with the previous financial period.

Current liabilities

19. Interest-bearing financial payables (current portion)

The following table sets forth the breakdown of *Interest bearing financial payables (current portion)* for the 2018 and 2017 financial periods:

(Euro in thousands)	31 December	
	2018	2017
Advances from banks against invoices and bills receivables	39,525	30,216
Other financial payables (short-term leases)	744	594
Financial payables due from affiliated companies	2,339	2,077
Payables due to factoring companies	4,811	3,534
Financial payables due to SIMEST	-	7,406
Short-term loans to third parties	-	2,900
Current portion of medium/long-term loans	9,932	17,132
Total interest-bearing financial payables (current portion)	**57,351**	**63,859**

The current portion of medium/long-term loans decreased by Euro 6,508 thousand mainly as a result of the repayment of Euro 7,406 thousand relating to the loan transaction carried out by Simest S.p.A. in Tesmec USA Inc. in 2010 and expired on 30 June 2018, and a lower current portion of medium/long-term loans, against a greater use of the advance on export credit lines.

20. Trade payables

The breakdown of *Trade payables* as at 31 December 2018 and as at 31 December 2017, respectively, is indicated in the table below:

(Euro in thousands)	31 December 2018	2017
Trade payables due to third-parties	24,201	22,054
Trade payables due to related parties	1,383	3,144
Total trade payables	**25,584**	**25,198**

Trade payables as at 31 December 2018 is in line with the previous financial period.
This figure includes payables related to the normal course of business of the Company, in particular the purchase of raw materials and outsourced works.
Note also that there are no payables with maturity exceeding five years at the above dates.

21. Income taxes payable

The breakdown of *Income taxes payable* as at 31 December 2018 and as at 31 December 2017, respectively, is indicated in the table below:

(Euro in thousands)	31 December 2018	2017
Current IRES tax liabilities	661	-
Current IRAP tax liabilities	108	-
Total income taxes payable	**769**	**-**

Domestic tax consolidation

The Company opted for the domestic tax consolidation system provided by Article 117 et sequitur of the Consolidated Act on Income Tax with the subsidiary Tesmec Service S.r.l. for the 2018/2020 three-year period and with the subsidiaries Tesmec Automation S.r.l., East Trenchers S.r.l., Bertel S.r.l. and Tesmec Rail S.r.l. for the 2017/2019 three-year period.
Consequently, in addition to the Parent Company Tesmec S.p.A., the investees Tesmec Service S.r.l., Tesmec Automation S.r.l., East Trenchers S.r.l., Bertel S.r.l. and Tesmec Rail S.r.l. are included in the tax consolidation for the 2018 financial year.,Tesmec Automation S.r.l., East Trenchers S.r.l.,
Specific consolidation agreements were signed with each subsidiary opting for the domestic tax consolidation system, which regulate the timing and the methods for exchanging the information required to carry out the tax consolidation, the timing and methods for transferring resources among companies resulting from group taxation, as well as the methods for recognising the tax benefit to the companies that transfer, as part of the group taxation, tax losses, surpluses of non-deductible interest expenses and excess deduction to aid economic growth (A.C.E.).

These financial statements were affected by this institute in the following items:

- “Other current assets” of the statement of financial position, which includes the receivable of Euro 874 thousand from the following subsidiaries for the 2018 IRES tax pertaining to the latter:

2018 IRES tax Tesmec Service S.r.l.	Euro	717 thousand
2018 IRES tax Tesmec Rail S.r.l.	Euro	157 thousand
Total	Euro	874 thousand

- "Other current liabilities" of the statement of financial position, which includes the payable of Euro 1,040 thousand to the subsidiaries indicated below in connection with the recognition of the tax benefits deriving from the use of the tax losses transferred to the tax consolidation (including those remaining from the previous year 2017, carried forward in that not used in that period):

Benefit for the use of residual 2017 tax loss Tesmec Automation S.r.l.	Euro	346 thousand
Benefit for the use of residual 2017 tax loss Bertel S.r.l.	Euro	164 thousand
Benefit for the use of residual 2017 tax loss East Trenchers S.r.l..	Euro	1 thousand
Benefit for the use of residual 2017 tax loss Tesmec Automation S.r.l..	Euro	1 thousand

Benefit for the use of residual 2018 tax loss Tesmec Automation S.r.l.	Euro	407 thousand
Benefit for the use of residual 2018 tax loss Bertel S.r.l.	Euro	120 thousand
Benefit for the use of residual 2018 tax loss East Trenchers S.r.l.	Euro	1 thousand
Total	Euro	1,040 thousand

- "Income tax" of the statement of financial position, which includes the income from tax consolidation of Euro 64 thousand relating to the use in 2018 of the residual tax loss carried forward from 2017 (already transferred by the parent company to the tax consolidation).

The tax result for the 2018 financial year referring to the tax consolidation consists, in summary, of the following:

	Financial period ended 31 December
(Euro in thousands)	**2018**
Tax income (loss) of the consolidating company Tesmec S.p.A.	3,688
Tax income (loss) of the consolidated company Tesmec Service s.r.l.	2,990
Tax income (loss) of the consolidated company Tesmec Automation s.r.l.	(1,696)
Tax income (loss) of the consolidated company Bertel S.r.l.	(499)
Tax income (loss) of the consolidated company East Trenchers S.r.l.	(4)
Tax income (loss) of the consolidated company Tesmec Rail S.r.l.	651
Total consolidated tax income (loss)	**5,130**

22. Provisions for risks and charges

Provisions for risks and charges mainly refers to the product guarantee fund. The calculation is based on a historical, statistical and technical analysis of the interventions under guarantee carried out on sales in prior financial periods and includes both the cost of labour and that for spare parts used.
Changes in the *Provisions for risks and charges* as at 31 December 2018 and 2017 are indicated below:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Value as at 1 January	250	350
Provisions	60	-
Uses	-	(100)
Value as at 31 December	**310**	**250**

23. Other current liabilities

The following table sets forth the breakdown of *Other current liabilities* as at 31 December 2018 and 2017:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Due to social security	2,684	3,397
Due to INAIL (National Insurance Institute for Industrial Accidents)	244	191
Due to trade funds	189	165
Due to employees and collaborators	2,537	3,012
Due to others	11	157
Payables due to related parties	1,040	436

Accrued expenses and liabilities	285	120
Total other current liabilities	**6,990**	**7,478**

Other current liabilities decreased compared to the prior financial period of Euro 488 thousand and refers to the decrease in Due to employees and collaborators of Euro 475 thousand and to Due to social security of Euro 713 thousand.

24. Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2018 and 2017:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Deferred tax assets	2,363	2,227
Deferred tax liabilities	1,603	1,459

The breakdown of net deferred taxes as at 31 December 2018 and 2017 is shown in the following table by type by listing the items that present underlying temporary differences.

	31 December		**31 December**		**Financial period ended 31 December**	
	Statement of financial position		**Shareholders' equity**		**Income statement**	
(Euro in thousands)	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Deferred tax assets						
Reversals of intangible assets	36	48	-	-	(12)	(7)
Obsolescence fund	890	862	-	-	28	-
Unrealised exchange-rate losses	1,021	938	-	-	83	468
Tax effect on UCC gain reversals	151	199	-	-	(48)	(42)
Provision for bad debts	190	77	113	-	-	(202)
Other temporary differences	75	103	-	-	(28)	19
Total deferred tax assets	**2,363**	**2,227**	**113**	**-**	**23**	**236**
Deferred tax liabilities						
Unrealised exchange-rate gains	(1,401)	(1,269)	-	-	(132)	179
Profits allocated to network reserve	(199)	(199)	-	-	-	-
Other temporary differences	(3)	9	(17)	(6)	5	8
Total deferred tax liabilities	**(1,603)**	**(1,459)**	**(17)**	**(6)**	**(127)**	**187**
Net effect on Shareholders' Equity						
Net balance deferred wealth taxes	**760**	**768**				
Represented in the income statement as follows:						
Deferred tax assets	**23**	**236**				
Deferred tax liabilities	**(127)**	**187**				
Deferred tax liabilities, net	**(104)**	**423**				

Current taxation

Profit before taxes and the allocation for income taxes for the financial periods as at 31 December 2018 and 2017 are summarised below:

(Euro in thousands)	Financial period ended 31 December	
	2018	**2017**
Pre-tax profits	**5,637**	**1,651**
Current taxation	1,202	80
Deferred tax liabilities/assets	104	(423)
Total taxes	**1,306**	**(343)**

The reconciliation between the nominal tax rate established by the Italian legislation and the effective tax rate resulting from the financial statements is set below:

(Euro in thousands)		Financial period ended 31 December		
		2018		
		IRES	**IRAP**	**TOTAL**
Profit before tax	**A**	**5,637**	**5,637**	
Difference in taxable income between IRES and IRAP	B		1,732	
	C=A+B	5,637	7,369	
Nominal rate (%)	D	24.0%	3.9%	
Theoretical taxes	**E=C*D**	**1,353**	**287**	**1,640**
Tax effect on permanent differences	F	(398)	(25)	(423)
Tax effect on temporary differences	G	(35)	-	(35)
Tax effect on the re-absorption of temporary differences	H	(35)	(6)	(41)
Tax effect on deductible differences recognised in IFRS 9 reserve	I	11	-	11
Current taxation posted to the income statement	**L=E+F+G+H+I**	**896**	**256**	**1,152**
Deferred tax liabilities	M	127	-	127
Deferred tax assets	N	(26)	3	(23)
Taxes related to prior financial periods	O	59	44	103
Foreign income taxes	P	12	-	12
Income from tax consolidation	Q	(65)		
Aggregate tax posted to the income statement	**R=L+M+N+O+P+Q**	**1,003**	**303**	**1,306**

Comments to the main items in the income statement

25. Revenues from sales and services

In the 2018 and 2017 financial periods, revenues from sales and services amounted to Euro 93,079 thousand and Euro 90,950 thousand with an increase of 2.3%. The breakdown is set below:

	Financial period ended 31 December	
(Euro in thousands)	2018	2017
Sales of products	87,865	87,917
Services rendered	5,214	3,033
Total revenues from sales and services	**93,079**	**90,950**
Changes in work in progress	-	-
Total revenues from sales and services	**93,079**	**90,950**

Revenues from *sales of goods* refer to transfer of machines and equipment for Energy, Trenchers and Rail.

26. Cost of raw materials and consumables

For the financial periods as at 31 December 2018 and 2017, cost of raw materials and consumables amounted to Euro 49,471 thousand and Euro 51,018 thousand, respectively. The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	2018	2017
Cost for the purchase of raw materials and consumables	48,437	50,591
Change in inventories	1,034	427
Total cost of raw materials and consumables	**49,471**	**51,018**

Cost of raw materials and consumables decreased in inverse proportion to the increase in sales volumes due to the different margins of the sectors affected by the decline in revenues.

27. Costs for services

The table below shows the breakdown of *Costs for services* that amounted in 2018 and in 2017 to Euro 14,402 thousand and Euro 16,340 thousand, respectively.

	Financial period ended 31 December	
(Euro in thousands)	2018	2017
Transport, customs and incidental expenses	2,462	3,389
Outsourced work service	2,086	2,713
Services for legal, tax, technical and other consultancy	3,177	3,232
External production services	47	74
Banking services	518	527
Insurance	305	274
Energy, water, gas, telephone expenses and postage	807	832
Board and lodging expenses and travelling allowance	797	740
Directors' and Auditors' fees	970	819
Advertising and other selling expenses	493	930
Maintenance services	378	323
Commissions and additional expenses	1,549	1,625

Other general expenses	813	862
Total costs for services	**14,402**	**16,340**

The item decreased by Euro 1,938 thousand compared to the previous financial period, however, non-recurring costs of Euro 403 thousand were included in the 2017 financial period. However, there was a general reduction in costs following a policy of optimisation and cost containment.

28. Payroll costs

During the financial periods ended 31 December 2018 and 2017, payroll costs amounted to Euro 19,077 thousand and Euro 18,838 thousand, respectively, up by 2.5%, mainly for the adjustment plans of the technical departments in line with the increased complexity of the offer of the Company.

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Wages and salaries	14,377	13,762
Social security charges	3,706	3,891
Employee severance indemnity	864	842
Other personnel costs	130	109
Total payroll costs	**19,077**	**18,604**

The item contains non-recurring costs of Euro 155 thousand relating to reorganisation costs. The average composition of staff is given in Note 17.

29. Other operating (costs)/revenues, net

During the financial periods ended 31 December 2018 and 31 December 2017, *other net operating (costs)/revenues* amounted to Euro 1,802 thousand and Euro -3,808 thousand, respectively.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Provisions for risks and other net provisions	160	-
Rents	2,068	2,268
Hiring	1,623	620
Other lease and rental expenses	47	53
Sundry taxes	94	102
Losses	-	5
Other revenues	(921)	(2,002)
Income for Research and Development tax credits	(1,757)	(4,002)
Contingent assets/liabilities	(111)	(1,178)
Other expenses	399	326
Total other operating revenues, net	**1,602**	**(3,808)**

Other operating (costs)/revenues, net decreased by Euro 5,410 thousand compared to the previous financial period due to:

- the lower income for tax credit on research and development costs of Euro 2,245 thousand. As described above, other operating (costs)/revenues, net includes the positive effect of the tax credit for significant research and development expenses incurred by the Company during the period for the expansion of the offer in the new sectors for automation, maintenance of existing power lines and service activities, which were combined with the renewal of the product range in all of Trencher's business areas;

- increase in rental costs of Euro 1,003 thousand relating to the lease contracts signed with the related party M.T.S. Officine meccaniche S.p.A., as part of the operation started in 2017.

30. Amortisation and depreciation

During the financial periods ended 31 December 2018 and 2017, depreciation and amortisation amounted to Euro 4,298 thousand and Euro 4,635 thousand, respectively.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Amortisation of intangible assets	3,167	3,184
Depreciation of property, plant and equipment	1,131	1,451
Total amortisation and depreciation	**4,298**	**4,635**

31. Development costs capitalised

Development costs capitalised for the financial periods ended 31 December 2018 and 31 December 2017 amounted to Euro 2,578 thousand and Euro 2,766 thousand, respectively.
During the financial period, the increase in the item is related to the development of projects for the launch of new models and new functions requested by the markets in which the Company operates.
The percentage incidence on revenues of development costs capitalised decreased from 3.0% for the 2017 financial period to 2.8% for the 2018 financial period.

32. Financial expenses

During the financial periods ended 31 December 2018 and 2017, financial expenses amounted to Euro 8,879 thousand and Euro 4,433 thousand, respectively, with a decrease of Euro 4,446 thousand.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2018**	**2017**
Interests payable for factoring and billing discounts	151	130
Interests payable on interest-bearing medium/long-term loans and borrowings	2,191	2,423
Interests payable on advance loans on exports	228	182
Other sundry financial expenses	235	609
Financial expenses on lease contracts	76	64
Realised foreign exchange losses	784	2,289
Unrealised foreign exchange losses	765	3,167
Fair value adjustment of derivative instruments	3	15
Total financial expenses	**4,433**	**8,879**

The item *financial expenses* improved by Euro 4,446 thousand mainly as a result of the decrease in the item *foreign exchange losses (realised and unrealised)* of Euro 3,907 thousand due to the exchange rate used on the date of collection compared to the one used on the invoice date and to the adjustment to the exchange rate in effect as at 31 December 2018 of the currency items, mainly due to the depreciation of US Dollar.

33. Financial income

During the financial periods ended 31 December 2018 and 2017, financial income amounted to Euro 3,264 thousand and Euro 3,603 thousand, respectively.
The breakdown of the item is as follows:

(Euro in thousands)	Financial period ended 31 December	
	2018	2017
Interests from banks	2	2
Realised foreign exchange gains	635	929
Unrealised foreign exchange gains	969	410
Fair value adjustment of derivative instruments	55	127
Sundry income	1,603	2,135
Total financial income	**3,264**	**3,603**

Financial income decreased by Euro 339 thousand mainly due to:

- increase in *foreign exchange gain (realised and unrealised)* of Euro 265 thousand due to a more favourable USD/EUR exchange rate trend;

offset by

- decrease in *sundry income* of Euro 532 thousand related to interests accrued on financial receivables due from subsidiaries and associated companies.

34. 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:

(Euro in thousands)	31 December 2018							31 December 2017					
	Financial receivables and other non-current financial assets	Trade receivables	Current financial receivables	Other current assets	Current financial payables	Trade payables	Other current liabilities	Trade receivables	Current financial receivables	Other current assets	Current financial payables	Trade payables	Other current liabilities
Subsidiaries:													
Tesmec USA Inc.	-	1,221	14,028	-	-	9	-	2,012	12,124	-	1,574	18	-
Tesmec Service S.r.l.	4,500	1,376	500	717	3	4	-	1,889	5,053	467	-	3	34
East Trencher S.r.l.	-	-		-	11	-	3	-	-	-	9	-	5
Tesmec SA	-	127	2,065	33	-	-	-	369	4,516	18	-	-	-
Tesmec RUS	-	852	627	-	-	-	-	556	259	-	-	4	-
Tesmec Automation S.r.l.	-	78	6,114	-	-	11	754	99	5,367	-	-	-	285
Tesmec New Technology (Beijing)	-	1,162	-	-	-	78	-	837	-	-	-	24	-
Marais Technologies	-	59	1,830	-	-		-	32	1,830	-	-	-	-
Group Marais SAS	-	872	2,186	-	-	545	-	1,239	-	-	457	1,175	-
Marais Laying Tech. Ltd. AUS	-	2,781	370	-	-	-	-	1,359	-	-	-	-	-
Marais Laying Tech. Ltd. NZ	-	251	-	-	-	-	-	208	-	-	-	-	-
Marais Cote d'Ivoire	-	7	-	-	-	-	-	4	-	-	-	-	-
Bertel S.r.l.	-	30	3,494	-	-	-	283	31	3,499	-	-	-	112
Tesmec Rail S.r.l.	-	1	-	157	-	-	-	101	1,663	-	-	-	-
Subtotal	**4,500**	**8,819**	**31,214**	**907**	**14**	**647**	**1,040**	**8,736**	**34,311**	**485**	**2,040**	**1,224**	**436**
Associates:													
Locavert S.A.	-	43	-	-	-	3	-	95	-	-	-	-	-
Subtotal	**-**	**43**	**-**	**-**	**-**	**3**	**-**	**95**	**-**	**-**	**-**	**-**	**-**

Joint Ventures:													
Condux Tesmec Inc.	-	394	656	-	-	-	-	1,046	-	-	-	-	-
Tesmec Peninsula	-	174	2,022	-	1,996	-	-	17	1,930	-	37	979	-
Subtotal	**-**	**568**	**2,678**	**-**	**1,996**	**-**	**-**	**1,063**	**1,930**	**-**	**37**	**979**	**-**
Related parties:													
Ambrosio S.r.l.	-	-	-	-	-	5	-	-	-	-	-	-	-
Dream Immobiliare S.r.l.	-	-	720	-	-	273	-	623	1,162	-	-	-	-
TTC S.r.l.	-	-	-	-	-	113	-	-	-	-	-	25	-
Fi.ind.	-	26	-	-	-	-	-	27	-	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	-	146	-	-	329	342	-	-	2,911	-	-	901	-
MTS4SERVICE USA LLC	-	32	-	-	-	-	-	10	1,387	-	-	-	-
Comatel	-	-	-	-	-	-	-	4	-	-	-	15	-
C2D	-	-	-	-	-	-	-	-	1,200	-	-	-	-
Subtotal	**-**	**204**	**720**	**-**	**329**	**733**	-	**664**	**6,660**	**-**	**-**	**941**	**-**
Total	**4,500**	**9,634**	**34,612**	**907**	**2,339**	**1,383**	**1,040**	**10,558**	**42,901**	**485**	**2,077**	**3,144**	**436**

	Financial period ended 31 December					Financial period ended 31 December				
	2018					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
Subsidiaries:										
Tesmec USA, Inc.	3,373	(42)	-	86	260	3,923	(32)	(18)	79	338
Tesmec Service S.r.l.	6,155	(4)	16	370	168	3,461	(15)	72	465	61
East Trencher S.r.l.	-	-	-	3	-	-	-	-	3	
Tesmec SA	2,871	-	(3)	3	389	1,309	-	(34)	10	340
Tesmec RUS	292	-	(3)	1	26	275	(29)	(30)	2	20
Tesmec Automation S.r.l.	29	-	-	140	209	235	1	20	362	173
Tesmec New Technology (Beijing)	512	(175)	(3)	1	-	673	-	3	2	-
Tesmec Rail S.r.l.	14	-	1	12	5	-	-	-	-	-
Marais Technologies	-	-		-	27	-	-	-	14	18
Group Marais SAS	2,681	(1,149)	(71)	30	-	1,988	(2,053)	(44)	68	(3)
Marais Laying Tech. Ltd. AUS	1,492	-	-	15	-	1,894	-	2	5	-
Marais Laying Tech. Ltd. NZ	37	-	-	5	-	64	-	-	1	-
Marais Cote d'Ivoire	-	-	-	3	-	-	-	3	-	-
Bertel S.r.l.	-	-	-	3	120	-	-	7	85	116
Tesmec Rail S.r.l.	-	-	-	-	-	-	-	74	7	3
Subtotal	**17,456**	**(1,370)**	**(63)**	**672**	**1,204**	**13,822**	**(2,128)**	**55**	**1,103**	**1,066**
Associates:										
Locavert S.A.	(145)	-	(3)	-	-	696	-	-	-	-
Bertel S.p.A.	-	-		-	-	-	-	-	-	-
Subtotal	**(145)**	**-**	**(3)**	**-**	**-**	**696**	**-**	**-**	**-**	**-**
Joint Ventures:										
Condux Tesmec Inc.	3,515	-	(9)	170	253	3,152	(9)	-	175	6
Tesmec Peninsula	250	(309)	(35)	-	50	-	(1,013)	(78)	53	102
Subtotal	**3,765**	**(309)**	**(44)**	**170**	**303**	**3,152**	**(1,022)**	**(78)**	**228**	**108**
Related parties:										

Ambrosio S.r.l.	-	-	-	(14)	-	-	-	-	(14)	-
Ceresio Tours S.r.l.	-	-	(8)	-	-	-	-	(8)	(1)	-
Dream Immobiliare S.r.l.	-	-	-	(2,085)	-	-	-	-	(2,242)	-
TTC S.r.l.	-	-	(99)	-	-	-	-	(21)	-	-
Lame Nautica S.r.l.	-	-	-	-	-	13	-	-	-	-
Fi.ind.	-	-	-	54	-	-	-	-	86	-
M.T.S. Officine meccaniche S.p.A.	4,649	-	6	(1,104)	(23)	7,175	(902)	6	20	36
MTS4SERVICE USA LLC	-	-	-	-	19	-	-	-	-	10
C2D	-	-	-	-	-	-	-	-	2	2
Subtotal	**4,649**	**-**	**(101)**	**(3,149)**	**(4)**	**7,188**	**(902)**	**(23)**	**(2,149)**	**48**
Total	**25,725**	**(1,679)**	**(211)**	**(2,307)**	**1,503**	**24,858**	**(4,052)**	**(46)**	**(818)**	**1,222**

- Tesmec USA Inc.: Tesmec USA Inc: Revenues and Costs of materials refer to mutual sales transactions concerning machines and spare parts. Financial income refers to the remuneration of a current account balance that reported during the year an indebtedness situation of Tesmec USA towards Tesmec S.p.A.;
- Tesmec SA (Pty) LTD: Revenues refer to the sales of trencher machines subsequently resold from the South African subsidiary. Financial income refers to the remuneration of a current account balance that reported during the year an indebtedness situation of Tesmec SA towards Tesmec S.p.A.;
- Tesmec RUS: Revenues refer to the sale of stringing equipment machines and spare parts;
- Locavert S.A.: the French associate purchases normally trenchers/spare parts for rental business and carrying-out of excavation works at market prices and terms of payment;
- Condux Tesmec Inc.: the JV purchases stringing machines and equipment for sale on the American market at market prices and terms of payment;
- Tesmec Peninsula WLL: the JV operates on the Saudi Arabian market supplying trencher machinery produced by the Group as well as on-site and after-sale support services. The income and cost items relate to the normal marketing activities of trenching machines;
- Dream Immobiliare S.r.l.: the item Other operating (costs)/revenues includes the rentals for the Grassobbio building;
- M.T.S. Officine meccaniche S.p.A.: revenues are mainly related to the operation started in 2017 and the sale of semi-finished products;
- C2D: following the transaction described in paragraph 4. *Significant events occurred during the period*, the company C2D, as at 31 December 2018, is no longer a related party.

Relationships with the related party MTS Officine meccanica S.p.A. continued during the 2018 financial year and with its American subsidiary MTS 4 Service USA LLC, based on the agreements entered into on 27 October 2017. The continuation of these agreements involved the sale of a further 4 trencher machines for a total of 932 thousand Euro, revenues for accessory services for 105 Euro thousands and costs for the rental business for Euro 1,118 thousand.

The remaining Euro 3,612 thousand of revenues refer to the sale of semi-finished products, for which the Tesmec group is a historic supplier of MTS Officine meccanica S.p.A.

As at 31 December 2018, a total of 8 machines were sold in 2017 and 2018, for a total value of Euro 4,183 thousand, and the revenues for services amounted to Euro 105 thousand, while the costs for the rental business total at Euro 1,118 thousand, of which Euro 578 thousand was paid.

35. Fees paid to Directors, Auditors, Operating Manager and executives with strategic responsibilities

Year 2018:

Board of Directors				
Name and Surname	**Role**	Fees **(in Euro)**	**Bonus and other fees (in Euro)**	Total fees **(in Euro)**
Ambrogio Caccia Dominioni	Chairman and Chief Executive Officer	480,000	-	480,000
Gianluca Bolelli	Vice Chairman	83,200	-	83,200
Sergio Arnoldi	Director	20,800	-	20,800
Gioacchino Attanzio	Director	30,000	-	30,000
Caterina Caccia Dominioni	Director	52,000	-	52,000
Guido Giuseppe Maria Corbetta	Director	20,000	-	20,000
Lucia Caccia Dominioni	Director	20,000	-	20,000
Paola Durante	Director	20,000	-	20,000

Board of Statutory Auditors				
Name and Surname	**Role**	Fees **(in Euro)**	**Bonus and other fees (in Euro)**	Total fees **(in Euro)**
Simone Cavalli	Chairman	41,237	-	41,237
Stefano Chirico	Standing Auditor	26,468	-	26,468
Alessandra De Beni	Standing Auditor	26,000	-	26,000

Fees paid to executives with strategic responsibilities in the 2018 financial period amounted to Euro 352 thousand (Euro 363 thousand in the 2017 financial year).

36. Summary statement of considerations to the Independent Auditors and to the entities belonging to its network

Pursuant to Article 149 duodecies of the Consob Issuer Regulation (Resolution no. 11971/1999 and subsequent amendments), the following table shows the considerations accrued in the financial statements ended 31 December 2018 and 2017 for audit services and for other services rendered to the Company by Reconta Ernst & Young and by the entities belonging to the EY network.

(Euro in thousands)	**Independent Auditors that supplied the service**	**Receiver**	**Accrued amount**	
			2018	**2017**
Audit of the financial statements and consolidated financial statements	EY S.p.A.	Tesmec S.p.A. Parent Company	161	121
Limited half-year auditing	EY S.p.A.	Tesmec S.p.A. Parent Company	28	28
Limited auditing of Non-Financial Information	EY S.p.A.	Tesmec S.p.A. Parent Company	23	-
Certification services (1)	EY S.p.A.	Tesmec S.p.A. Parent Company	100	-
Other services (2)	EY S.p.A.	Tesmec S.p.A. Parent Company	5	5
Total			**317**	**154**

(1) The auditing services on a voluntary basis have been provided to the Parent Company in relation to the review of the research and development tax credit assessment table and to the French subsidiary for auditing the consolidated financial statements French prepared on a voluntary basis.

(2) The item refers to activities aimed at signing Tax Declarations and supporting the identification of areas of intervention for regulatory adjustments.

37. Positions or transactions resulting from atypical and/or unusual operations

Note that, pursuant to Consob Communication no. DEM/6064293 of 28 July 2006, in 2018 the Company did not carry out any atypical and/or unusual operation, as defined by the Communication itself.

38. Commitments and risks

They include sureties, guarantees and third-party assets with the Company. For the financial periods as at 31 December 2018 and 2017, they are summarised as follows:

	31 December	
(Euro in thousands)	**2018**	**2017**
Sureties	94,701	80,899
Total commitments and risks	**94,701**	**80,899**

The recorded value concerns sureties provided by Tesmec S.p.A. through primary banking institutions in favour of customers and its subsidiaries. The increase is mainly due to the orders of the newly set up Rail sector.
On the basis of the specific characteristics of the segments in which the Company works, Tesmec did not make any provision for contingent liabilities in the memorandum accounts. Risks and future expenses are reasonably hedged by funds specifically accounted for in the financial statements.

Significant events occurred after the close of the financial period

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

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

- on March 13, 2019, the waiver requested from the Cariparma Banking Institute was obtained in relation to the failure to comply with the financial covenant relating to the Net Financial Position / EBITDA ratio envisaged on the m / l term loan in place with this Institute.

Certificate of the Separate financial statements pursuant to Article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 as amended

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 financial statements during the 2017 financial period.

2. We also certify that:

2.1 the financial statements as at 31 December 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;
- provide a true and fair view of the financial position, the results of the operations and of the cash flows of the issuer.

2.2the directors’ report includes a reliable analysis of the business trend and operating result as well as of the situation of the issuer, together with a description of the main risks and uncertainties they incur.

Milan, 5 March 2019

Ambrogio Caccia Dominioni
Chief Executive Officer

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

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

TESMEC S.p.A.
Registered office in Milan, Piazza S. Ambrogio no. 16
Subscribed and paid-up share capital Euro 10,708,400
Tax code and registration number at the
Milan Register of Companies no. 10227100152
Economic and Administrative Register (REA) no. 1360673

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF TESMEC S.P.A. PURSUANT TO ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE 58/1998 AND OF ARTICLE 2429 OF THE ITALIAN CIVIL CODE

Dear Shareholders,

During the financial period ended 31 December 2018, the Board of Statutory Auditors of Tesmec S.p.A. carried out the supervision activities required by law in accordance with the principles of conduct of the Board of Statutory Auditors recommended by the Italian Accounting Profession Council (CNDCEC), by attending the meetings of the company's Bodies, carrying out periodic audits and meeting the managers of the Independent Auditors Reconta Ernst & Young S.p.A. (the "Independent Auditors"), the members of the Control and Risk Committee, the members of the Supervisory Body set up pursuant to Italian Legislative Decree 231/2001, the key representatives of the different business functions and the Manager responsible for preparing the Company's financial statements for an exchange of information on activities and programs.

Pursuant to Article 153 of Italian Legislative Decree 58/1998 (the "Consolidated Law on Finance (T.U.F.)") and of Article 2429, paragraph 3 of the Italian Civil Code, taking also into account the instructions given by CONSOB with communication no. DEM/1025564 of 6 April 2001, and subsequent amendments and supplements, we report the following:

- we supervised the observance of the law and of the articles of association;
- we obtained from the Directors, on a regular periodicity, information on management performance and business outlook as well as on the business carried on and on the major economic and financial operations performed during the financial period, also through subsidiaries, verifying that they comply with the law and with the articles of association and that they are not clearly imprudent or reckless, in potential conflict of interest, in contrast with the resolutions passed by the Shareholders' Meeting or such as to compromise the integrity of the company assets;
- we received from the Board of Directors, within the timeframe set by the law, the half-yearly financial report and the quarterly interim reports on operations;
- we verified the correct application of the criteria and procedures adopted by the Board of Directors to ascertain the independence of its members on the basis of the methods provided by law and by the Self-Regulatory Code of Conduct;
- we obtained information and supervised, to the extent of our authority, compliance with the principles of correct administration and the adequacy of the organisational structure and of the instructions given by the Company to the subsidiaries pursuant to Article 114, paragraph 2, of the Consolidated Law on Finance, by means of direct observations, collecting information from department heads and meetings with the Independent Auditors, with the manager responsible for preparing the Company's financial statements and with the Head of Internal Control in order to exchange relevant data and information.

- we obtained information and supervised, to the extent of our authority, also pursuant to Article 19 of Italian Legislative Decree 39/2010, the adequacy and effectiveness of the internal control system and risk management, as well as the activity carried out by the relevant manager responsible for preparing the Company's financial statements and the company's administrative-accounting system, the reliability of the latter in correctly representing operating performance, by obtaining information from the persons in charge of their respective functions, examining company documents and the work carried out by the Independent Auditors, the attendance at the meetings of the Control and Risk Committee and meetings with the Manager responsible for preparing the Company’s financial statements, and Executive Director in charge of supervising the functionality of the internal control system;
- there are no atypical and/or unusual operations with third parties, companies of the Group or related parties to report, nor have we received information from the Board of Directors, Independent Auditors or Control and Risk Committee on the subject;
- during the meeting of 1° March 2018, the Board of Directors of Tesmec S.p.A. stated that the subsidiaries companies Tesmec USA Inc and Marais Laying Technology (Pty) Ltd are "strategically important subsidiaries";
- we have ascertained that the information flows provided by the subsidiaries outside the European Union are adequate to conduct the auditing of annual and interim accounts as provided by Article 15 of the Market Regulation adopted with CONSOB Resolution no. 20249 of 28 December 2017;
- the Directors illustrated, in the accompanying report on operations both on the financial statements of Tesmec S.p.A. and on the consolidated financial statements of the Tesmec Group as well as in the relevant explanatory notes, ordinary operations carried out during the financial period with related parties or companies of the group. We refer to those documents, to the extent of our authority, and in particular for that which concerns the description of the characteristics of the operations and relevant economic and financial effects. In particular, during the 2018 financial period, relations continued with the related party MTS – Officine Meccaniche di Precisione S.p.A and its American subsidiary MTS4 Service USA LLC based on the agreements signed on 27 October 2017. With reference to such operations, with the help of the Board of Directors and of the Control and Risk Committee we verified the existence of and compliance with procedures designed to ensure that they are concluded at market conditions and conforming to the normal management of the company. In this regard, we also supervised the compliance with the principles indicated in the CONSOB Regulation containing provisions on related party transactions adopted with resolution no. 17221 of 12 March 2010, as subsequently amended (the “OPC Regulation”), of the subsequent Procedure for Related Party Transactions, adopted by the Board of Directors on 11 November 2010 and updated last version on 1 March 2018 in order to take in force of the regulation introduced by the Market Abuse Regulation;
- he Directors have adequately described in the explanatory notes to the financial statements the main assumptions used in the performance of the impairment test for some assets of the financial statements together with the sensitivity analysis performed;
- during the financial period, the Company carried out transactions on Treasury shares;
- no complaints were received ex Article 2408 of the Italian Civil Code nor statements from third parties;
- we supervised the observance of the regulations established by Legislative Decree 254/2016, examining the Consolidated Non-financial Statement, also ascertaining compliance with the provisions that govern its preparation pursuant to the aforementioned Decree;
- based on the information received from the Independent Auditors, additional audit services for Euro 44

thousand are currently being provided by the Independent Auditors EY for the Parent Company's subsidiaries to support the identification of areas of intervention for regulatory adjustments;

- we received confirmation of the independence of the Independent Auditors, in charge of the external audit pursuant the EU Reg. 537/2014 and no situations compromising this independence, or the occurrence of incompatibility were reported;
- we received from the Independent Auditors the additional report pursuant to art. 11 of EU Reg. 537/2014 dated 15 March 2019 from the examination of which no aspects that should be highlighted in this report have emerged, and which will be transmitted to the Board of Directors as required by current legislation;
- we supervised the effectiveness of the external audit process by examining with the Independent Auditors the audit plan and by discussing the activities carried out;
- the Independent Auditors issued, on 15 March 2019, pursuant to art. 14 of Legislative Decree 39/2010 and of art. 10 of EU Regulation 537/2014, the Reports on the separate and consolidated financial statements as of 31 December 2018.

  With regards to opinions and attestations in the audit reports, the Independent Auditors have:

  - issued an opinion which shows that the financial and consolidated financial statements of Tesmec S.p.A. provide a truthful and correct representation of the equity and financial situation of the Company and of the Group as of 31 December 2018, and of the economic results and cash flows for the year ended on that date in accordance with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued in implementation of art. 9 of Legislative Decree 38/2005;

  - issued a consistency opinion which shows that the management reports accompanying the financial statements and the consolidated financial statements as of 31 December 2018 and some specific information contained in the "Report on corporate governance and ownership structure" as indicated in the art. 123 - bis, paragraph 4 of the T.U.F. whose responsibility is the responsibility of the Company's Directors, are drawn up in compliance with the law;

  - declared, as regards any significant errors in the Management Report, based on the knowledge and understanding of the company and the related context acquired during the audit, that they have nothing to report;

- On 15 March 2019 the Independent Auditors also issued the Report on the Consolidated Non-Financial Statement pursuant to Italian Legislative Decree no. 254/2016, in accordance with art. 3, paragraph 10 of Legislative Decree 254/2016 and with art. 5 of Consob Regulation No. 20267 of 18 January 2018. The Independent Auditors' Report certifies that there are no remarks on the Tesmec Group's Non-financial Statement, referring to the financial period ended 31 December 2018, and that it has been prepared in all significant aspects in accordance with the requirements of articles 3 and 4 of the aforementioned Decree and of the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by GRI - Global Reporting Initiative ("GRI Standards");
- during the meetings held with the Independent Auditors pursuant to Article 150, paragraph 3, of the Consolidated Law on Finance, no relevant issues emerged that would require any particular comments;

- during the financial period, we issued the opinions required by the Board of Statutory Auditors pursuant to the law;
- we took note of the preparation of the Report on Remuneration ex Articles 123-ter of the Consolidated Law on Finance and 84-quarter of the Issuers' Regulation and we have no special observations to make;
- we verified that the independence requirements of the Statutory Auditors remain valid, as already ascertained before the appointment, on the basis of the methods provided by law and by the Self-Regulatory Code of Conduct; we have also complied with the limit on the number of tasks required by the Article of Associations and Art. 144-terdicies of the Consob Issuers Regulation 11971, fulfilling, if required, during the year the relevant Consob disclosure obligations;
- during the financial period, we attended the Shareholders' meeting for the approval of the balance sheet, and 12 meetings of the current Board of Directors. During the same period, the Board of Statutory Auditors met 11 times including 6 in joint session with the Control and Risk Committee;
- we have tested and evaluated the information and periodic press releases issued by the Company to the public, as well as the obligations to notify Consob;
- we supervised the concrete methods of implementing corporate governance regulations of the Self-Regulatory Code of Conduct for the Corporate Governance of listed companies, whose adoption was approved by the Board of Directors during the meeting of 23 February 2010. As described in the section of the Report of the Board of Directors, the Group adheres to the Code of Conduct for listed companies approved in March 2006 (as amended in March 2010, December 2011, July 2014, July 2015 and July 2018) by the Committee for the Corporate Governance Committee and promoted by Borsa Italiana S.p.A. with additions and amendments related to the characteristics of the Group. Adherence to the rules laid down by the said code has been verified by us and has been the subject of the Report on Corporate Governance and Ownership Structure attached to the budget and subject to the same terms of advertising as applied to the financial statement;
- we verified, through direct audits and information received from the Independent Auditors and the Manager responsible for preparing the Company's financial statements, compliance with the rules of laws concerning the preparation and layout of the consolidated financial statements of the Tesmec Group, of the financial statements of Tesmec S.p.A. and of the report on operations. Moreover, nothing reported to the supervisory authorities or worth mentioning in this report was revealed by our supervisory activity;
- the Company adopted an Organizational Model in compliance with the Italian Legislative Decree n. 231/2001 (the "Organizational Model 231"), of which the Code of Ethics is an integral part; the aim is to prevent the offenses listed in the Decree and consequently the extension of the administrative liability to the Company. On 13 August 2018, the Company approved the New Organizational Model 231 updated with the integration of the provisions relating to the Whistleblowing offense (which amends Article 6 of Legislative Decree 231/01) following the entry into force of Law No. 179/2017 on the subject On the same date, the Board of Administration also resolved to update the Company's model by inserting the paragraph "Reporting irregularities" and updating the paragraph "Function of the disciplinary system" included in the General Part of the Model. The Special Section was also approved at the same place following updates deemed in any case not substantial (simplification of the website to search for reference lists).
- The Board of statutory auditors met the Supervisory Board during the year for the reciprocal exchange of information on the activity carried out, as well as having read the annual report of the same dated 23 February 2018 in which no reprehensible facts or violations of the Model adopted by the Company, or acts or conduct

that violate the provisions contained in Legislative Decree 231/2001;

- on 25 May 2018 the EU Regulation 679/2016 (c.d. General Data Protection Regulation) became effective. Tesmec has complied with the new European standards by adapting its compliance rules by updating the privacy information available on its website, by establishing the Treatment Activities Register and by adjusting the existing procedural set; from the analyzes carried out by the Board and from the information acquired, no elements emerged in order not to consider such a system as a whole adequate, effective and with effective operations;
- in compliance with the Law 124/2017, Tesmec has provided in the explanatory notes to the financial statements the mandatory information required for the subjects who receive subsidies, contributions, paid assignments and, in any case, economic advantages of any kind from public administrations;
- the Directors, in the paragraph called “Main risks and uncertainties to which the Tesmec Group is exposed” on the Report on operations, point out the risk factors or uncertainties that may significantly affect the activity of the Tesmec Group. In particular, some information tending to illustrate the aims and policies of the Group on the management of the exchange-rate, price and financial risk, as well as tending to indicate the degree of exposure to credit risk, liquidity risk and cash-flow variation risks is provided.

Considering all the above, we find no reasons not to approve - to the extent of our authority - the financial statements as of 31 December 2018, or to make observations on the proposal for appropriation of the profit for the year, including the proposal for dividend distribution, contained in the report on management performance prepared by the Board of Directors.

We also inform you that, with the approval of the financial statements for the year ended 31 December 2018, the statutory audit assignment for the nine-year period 2010-2018 to Ernst & Young S.p.A. Therefore, Tesmec carried out the procedure for the selection of the new legal auditing company to be entrusted with the relevant assignment for the financial years 2019-2027, in compliance with the current legislation.
As an Internal Control and Audit Committee, on 28 February 2019 we issued our reasoned recommendation prepared pursuant to art. 13, paragraph 1 of Legislative Decree n. 135 of 17 July 2016 and of art. 16 of the regulation (EU) n. 537/2014.

We thank you for the trust placed in us. We remind you that with the approval of the financial statements as at 31 December 2018 the offices of the Board of Statutory Auditors expire and we invite the Shareholders' Meeting to take care of them.

Grassobbio, 18 March 2019

The Board of Statutory Auditors

Simone Cavalli - Chairman

Alessandra De Beni - Statutory Auditor

Stefano Chirico - Statutory Auditor

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

INDEPENDENT AUDITOR'S REPORT

Building a better
working world

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Tesmec S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Tesmec S.p.A. (the Company), which comprise the statement of financial position as at 31 December 2018, and the income statement, the comprehensive income statement, the statement of changes in shareholders' equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
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Key Audit Matter	Audit Response
Revenue recognition: terms and conditions of product sales Sales transactions are based upon shipping terms that can vary by region and that include, in some cases, the transfer of ownership to the buyer prior to the actual delivery of the product. Revenue recognition criteria for such transactions require the assessment of sales contractual terms and the fulfillment of relevant obligations. The assessment of sales terms and conditions and their application to revenue recognition has been deemed a key audit matter, considering the dissimilarity and complexity of certain contractual terms applied to sales transactions. The Company disclosed the criteria applied to revenue recognition for product sales in note 2.2 "Significant accounting policies - Revenues from contract with customer" to the financial statements.	Our audit procedures in response to this key audit matter included, among others: • gaining an understanding of the Company process related to revenue recognition in accordance with applicable financial reporting standards; • assessing the process and identifying the key controls implemented by the Company for revenue recognition; • performing tests of key controls, including those related to the application of contractual terms; • performing substantive procedures to address revenue recognition at year-end, where the risks of ownership are transferred to the buyer prior to the actual delivery of the product. Lastly, we verified the adequacy of the disclosures in the notes to the financial statements.
Compliance with financial covenants provided in financial loan contracts The Company's net financial indebtedness amounts to Euro 55 million. Certain medium/long-term loan contracts contain financial covenant provisions that, in one circumstance, have not been met at 31 December 2018; accordingly, the Company reclassified to current liabilities the medium/long-term portion of such loan, amounting to Euro 0,4 million. After the balance sheet date, the Company obtained from the related financing credit institution the waiver for the application of such financial covenant provisions. The accounting treatment of the non-compliance with such covenants and related disclosure have been deemed a key audit matter	Our audit procedures in response to this key audit matter included, among others: • corroborating the financial statement presentation of financial liabilities in accordance with the applicable covenants terms based on the criteria provided in the financial loan contracts; • assessing loan contracts and relevant communications between Management and the financing credit institutions that issued the covenants waiver. Lastly, we verified the adequacy of the disclosure in the notes to the financial statements.

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considering the current and potential impacts of their non-compliance on the net financial indebtedness.

The Company disclosed its financial covenant provisions, the potential impacts of their non-compliance and the waiver obtained in notes 15 “Medium/long-term loans” and 39 “Significant events occurred after the close of the financial period” to the financial statements.

Related parties transactions

During the current year the Company completed significant transactions with a related party under a multi-year agreement signed during previous year, and concerning:

(i) the sale of certain machines produced by Tesmec;

(ii) the supply to the related party of related logistics and maintenance services;

(iii) the option given to the Tesmec to use such machines sold under short-term leasing agreements.

The considerations provided under such agreement are determined based on the Company's list prices and other terms and conditions applied to third parties.

Under this agreement, the Company recognized in 2018 (i) Euro 0,9 million of revenues from machines sold; (ii) Euro 0,1 million of revenues from related services and (iii) Euro 1,1 million of rental costs.

Considering the materiality of the transaction with such related party and the underlying economic and financial terms, we deemed that this area represents a key audit matter.

The Company disclosed transactions with related party in note 34 “Related party transactions” to the financial statements.

Our audit procedures in response to this key audit matter included, among others:

- assessing the application of the Company internal policy for transactions with related parties;
- performing testing of sales occurred during the financial year;
- performing testing of rent expenses occurred during the financial year;
- assessing the terms and conditions applied.

Lastly, we verified the adequacy of the disclosures in the notes to the financial statements.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

However, future events or conditions may cause the Company to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by International Standards on Auditing (ISA Italia), regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Tesmec S.p.A., in the general meeting held on 23 February 2010, engaged us to perform the audits of the separate and consolidated financial statements for each of the years ending 31 December 2010 to 31 December 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Tesmec S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Tesmec S.p.A. as at 31 December 2018, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Tesmec S.p.A. as at 31 December 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Tesmec S.p.A. as at 31 December 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Milan, 15 March 2019

EY S.p.A.
Signed by: Massimiliano Vercellotti, partner

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

ENCLOSURES

Enclosure A

List of investments held as at 31 December 2018 by Tesmec S.p.A. and statement of changes during the financial period.
The following is the list of investments held as at 31 December 2018, which includes, under Article 126 of Consob Regulation no. 11971/99, the investments held in companies with unlisted shares or in limited liability companies, in more than 10% of the capital.

CHANGES IN INVESTMENTS MADE DURING FINANCIAL PERIOD ENDED 31 DECEMBER 2018

	31 December 2017			**Increases**		**Decreases**		**Other changes**	**31 December 2018**		
Company	Quantity	%	Value	Quantity	Cost	Quantity	Cost	Write-down Revaluation	Quantity	%	Value
Subsidiaries consolidated											
Tesmec USA Inc.	10,450,000	67.00%(1)	21,261,434	5,150,000	-	-	-	-	15,600,000	100.00%	21,261,434
Tesmec Service S.r.l.	100,000	100.00%	3,595,882	-	-	-	-	-	100,000	100.00%	3,595,882
OOO Tesmec Rus	10,590	100.00%	10,590	-	-	-	-	-	10,590	100.00%	10,590
Tesmec SA (Pty) Ltd.	1000	100.00%	360,816	93,900,000	5,934,969	-	-	-	93,901,000	100.00%	6,295,785
East Trenchers S.r.l. (2)	100,000	100.00%	145,000	-	-	-	-	-	100,000	100.00%	145,000
Tesmec Automation S.r.l.	10,000	100.00%	2,525,600	-	500,000	-	-	-	10,000	100.00%	3,025,600
Tesmec France EURL	3,000	100.00%	-	-	-	-	-	-	3,000	100.00%	-
Tesmec New Technology (Beijing)	200,000	100.00%	200,000	-	-	-	-	-	200,000	100.00%	200,000
Marais Technologies S.A.	328,566	52.83% (2)	8,563,664	50,010	2,250,000	-	-	-	378,576	66.04% (2)	10,813,664
Marais Laying Tech. (Pty) Ltd. AUS	-	-	-	3,060,000	1,923,724	-	-	-	3,060,000	100.00%	1,923,724
Bertel S.r.l.	200,000	100.00%	4,035,400	-	-	-	-	-	200,000	100.00%	4,035,400
Tesmec Rail S.r.l.	10,000	100.00%	12,340	-	2,997,660	-	-	-	10,000	100.00%	3,010,000
Total			**40,710,726**		**13,606,353**		-	-			**54,317,079**
Associates consolidated under the equity method											
Tesmec Peninsula WLL	346,125	49.00%	729,748	-	-	-	-	-	346,125	49.00%	729,748
Locavert S.A.	20,525	38.63%	52,000	-	-	-	-	-	20,525	38.63%	52,000
Condux Tesmec Inc.	250	50.00%	955,763	-	-	-	-	-	250	50.00%	955,763
Total			**1,737,511**				**-**				**1,737,511**

(1) As at 31 December 2018, the remaining 33% is held by Simest S.p.A. Since Tesmec has an obligation to buy it back from Simest S.p.A., on 30 June 2018 Tesmec S.p.A. repurchased this portion, thereby acquiring 100% control of the company.

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

www.tesmec.com

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