Interim consolidated financial report as at September 30, 2019

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Tesmec S.p.A.
Registered office: Piazza Sant'Ambrogio, 16 – 20123 Milan
Fully paid-up share capital as at 30 September 2019 Euro 10,708,400
Milan Register of Companies no. 314026
Tax and VAT code: 10227100152

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COMPOSITION OF THE CORPORATE BODIES

Board of Directors (in office until the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2021)

Chairman and Chief Executive Officer	Ambrogio Caccia Dominioni
Vice Chairman	Gianluca Bolelli
Directors	Caterina Caccia Dominioni Lucia Caccia Dominioni Paola Durante (*) Simone Andrea Crolla (*) Emanuela Teresa Basso Petrino (*) Guido Luigi Traversa (*)

(*) 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 2021)

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

Members of the Control and Risk, Sustainability and Related Party Transactions Committee (in office until the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2021)

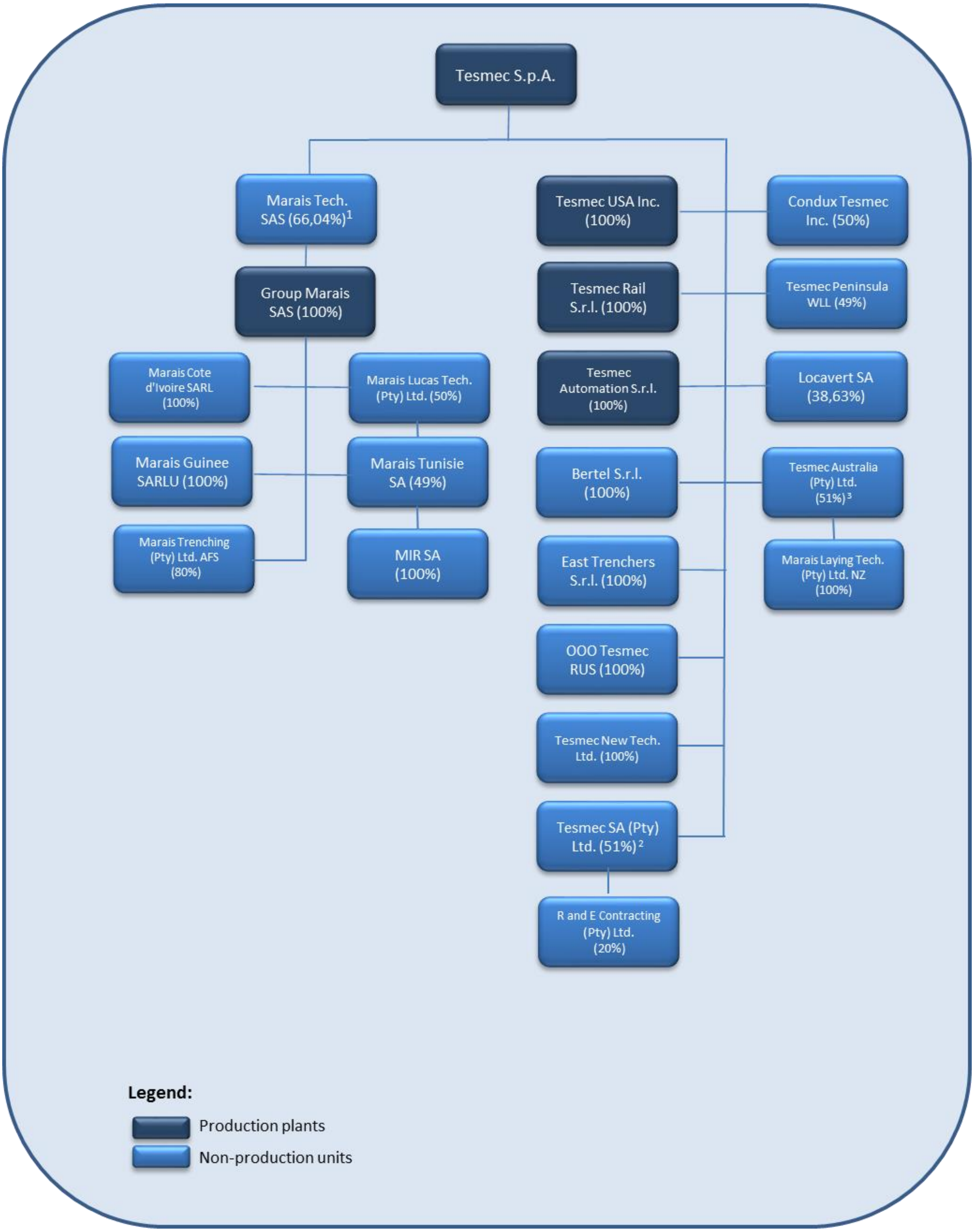
Chairman	Emanuela Teresa Basso Petrino
Members	Simone Andrea Crolla Guido Luigi Traversa

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 2021)

Chairman	Simone Andrea Crolla
Members	Emanuela Teresa Basso Petrino Caterina Caccia Dominioni

Lead Independent Director	Paola Durante
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	Deloitte & Touche S.p.A.

GROUP STRUCTURE



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

(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 a 100% basis.

(3) 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 Australia (Pty) Ltd. is consolidated on a 100% basis.

INTERIM CONSOLIDATED REPORT ON OPERATIONS

(Not audited by the Independent Auditors)

1. Introduction

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

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

Founded in Italy in 1951 and managed by the Chairman and Chief Executive Officer Ambrogio Caccia Dominioni, the Group as from its listing on the Stock Exchange on 1 July 2010, pursued the stated objective of diversification of the types of products in order to offer a complete range of integrated solutions grouped into three main areas of business: Energy, Trencher and Rail. The structure has more than 850 employees and production plants located in Grassobbio (Bergamo), Endine Gaiano (Bergamo), Sirone (Lecco) and Monopoli (Bari) in Italy, Alvarado (Texas) in the USA and Durtal in France. Furthermore, after the reorganisation of the Automation sector, Tesmec Automation has 3 additional operating units available in Fidenza, Padua and Patrica (Frosinone). The Group has a global commercial structure, with a direct presence on different continents, through foreign companies and sales offices in the USA, South Africa, Russia, Qatar, China and France.

Through the different types of product, the Group is able to offer:

Energy segment

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

Trencher segment

- high-efficiency crawler trenching machines for excavation with a set section for the construction of infrastructures for the transmission of data, raw materials and gaseous and liquid products in the various segments: energy, farming, chemical and public utilities;
- crawler trenching machines for works on surface mines and earth moving works (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. Macroeconomic Framework

Over the last few months the global economy continued to record a contraction in international trade and a slowdown in growth; therefore the risks associated with the international trade tensions, the slowing of the economy in China and uncertainty about the UK's exit from the European Union (Brexit), remain high. The Central Banks, given the uncertainties on the growth prospects, have cut long-term yields. In the Euro area the contraction of German industry is marked, particularly vulnerable to world trade, but the weakening is extended to other sectors and countries. The risk that the unfavorable cyclical phase will lead to a prolonged decrease in inflation foreseen by financial markets, businesses and households is increasing. The Governing Council of the ECB, confirming the assessments already expressed in previous months, has adopted a broad package of expansive measures, with broad consensus, albeit with different assessments on individual instruments. The measures implemented are necessary and appropriate to counter cyclical risks and weak price prospects. In Italy, the economic cycle also remains weak and stable, reflecting manufacturing trends, partially offset by services and a modest recovery in construction. The risk remains that the unfavorable trend in the industry is transmitted to the other sectors of the economy; however, despite the contraction, exports have moderately grown and the current account surplus has widened. The new duties announced by the US administration against the European Union, will cover a relatively limited share of Italian exports to the United States, but the indirect effects could be significant. Purchases by foreign investors of Italian public securities also continued in relation to the trend of the Italian securities differential towards German ones. The slowdown in energy prices and the weakness of the economic cycle hold back inflation and expectations of its growth remain low. By 2020, the Italian Government is planning a net debt of almost one percentage point of GDP higher than expected in the trend framework; the deficit would remain unchanged at the level estimated for the current year; the expected drop in interest expenditure would offset the decline in the primary surplus. The exchange rate of the euro against the dollar rose to an average of 1.11 dollars and, over the same period, the price of Brent oil fell to around 60 dollars per barrel in line with the weakening of the cyclical phase and growth prospects in the presence of oversupply.

3. Significant events during the period

The following significant events occurred during the period:

- on 22 March 2019, Simest S.p.A. paid its share of Euro 1,843 thousand in Marais Laying Tech. (Pty) Ltd. as per agreements signed in 2018.

  Following this payment, the company Marais Laying Tech. (Pty) Ltd. and its subsidiary Marais Laying Tech. (Pty) Ltd. New Zealand are 51% controlled by Tesmec S.p.A. and the remaining 49% by Simest S.p.A.

  Since Tesmec S.p.A. has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the shareholdings are consolidated on a 100% basis.

  Subsequently, on August 14, 2019, the company Marais Laying Tech. (Pty) Ltd. changed its name to Tesmec Australia (Pty) Ltd.;

- on 1 May 2019, Tesmec Service S.r.l. was merged into Tesmec Rail S.r.l.;

- on 16 April 2019, the Ordinary Shareholders’ Meeting of Tesmec met in single call and approved all items on the agenda. In detail, the Shareholders’ Meeting approved the 2018 financial statements of the parent Tesmec S.p.A., which closed with a Net Profit of Euro 4,331 thousand and resolved to allocate this Net Profit for the year to 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 6 April 2018 and expiring in October 2019. The resolution concerning authorisation to purchase treasury shares was passed with the favourable vote of the majority of the Tesmec shareholders at the shareholders’ meeting other than the majority shareholder and therefore, pursuant to Article 44-bis of the Issuer Regulation, the shares that the Issuer will purchase in executing this resolution will be included in the share capital of the Issuer, on which the significant equity investment for the purpose of Article 106, paragraphs 1, 1-bis, 1-ter and 3 of the TUF will be calculated;

- on 16 April 2019, the Shareholders' Meeting of Tesmec S.p.A. resolved to:
  - appoint the new Board of Directors that will remain in office until the shareholders' meeting that will be called to approve the financial statements for the year ended 31 December 2021, composed of Gianluca Bolelli, Caterina Caccia Dominioni, Lucia Caccia Dominioni, Paola Durante, Simone Andrea Crolla, Emanuela Teresa Basso Petrino and Guido Luigi Traversa as well as Ambrogio Caccia Dominioni who was confirmed as Chairman of the Board of Directors;
  - appoint the new Board of Statutory Auditors that will also remain in office until the shareholders' meeting called to approve the 2021 financial statements, composed of Statutory Auditors Simone Cavalli (Chairman), Alessandra De Beni and Stefano Chirico and Alternate Auditors Attilio Marcozzi and Stefania Rusconi;
  - assign the task of external audit for the 2019-2027 financial periods to Deloitte & Touche S.p.A.;

- on 16 April 2019, the Board of Directors confirmed Ambrogio Caccia Dominioni as the Chief Executive Officer and Gianluca Bolelli as Vice Chairman.

  The Board of Directors decided to appoint:

  - the directors Simone Andrea Crolla (Chairman), Emanuela Teresa Basso Petrino and Caterina Caccia Dominioni as members of the new Remuneration and Appointments Committee;
  - the directors Emanuela Teresa Basso Petrino (Chairman), Simone Andrea Crolla and Guido Traversa as members of the Control and Risk, Sustainability and Related Party Transactions Committee;
  - Caterina Caccia Dominioni as director in charge of the internal control and risk management system;
  - the Independent Director Paola Durante as lead independent director;
  - Lorenzo Pascali (Chairman), Giampaolo Grasso and Stefano Chirico as members of the Supervisory Body that will remain in office until the shareholders' meeting that will be called to approve the financial statements for the year ended 31 December 2021;

- on 23 April 2019, 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;

- with reference to an ongoing dispute with a French former distributor, on 14 February 2019, the Lyon Court of Appeal, significantly reviewing the favourable judgement in first instance, ordered Tesmec to pay Euro 2.1 million for various reasons, including the alleged violation of the exclusivity clause and the alleged unjustified breach of the distribution contract. On 22 July 2019, the appeal to the Court of Cassation was filed, and in parallel, on 20 August 2019, the action for repeal before the Lyon Court of Appeal was filed. With reference to this case, no provision has been made for risks, having obtained the opinion of the legal advisors appointed to assist Tesmec, according to whom the Company's position is founded since there are reasonable expectations in this regard that the correct behaviour of the Company will be recognised and that the judgement in first instance will be confirmed;

- with regard to the dispute started by Tesmec before the Beijing Ordinary Court for the payment of Euro 491 thousand, on 8 July 2019 the company was informed that the competent jurisdiction is that of the international arbitration court CIETAC, which has already issued a favourable arbitration award as for the previous contracts.

  This judgement is certainly to be considered "positive" since the activation of a second CIETAC arbitration that has already analysed in the first proceedings the case of a contract on cross-appeal, recognising the performance of the supply of Tesmec, will probably lead to the confirmation of the analysis already carried out by the Board with order of CMCEC to pay the main amount plus penalties;

- on 9 July 2019, the company Marais Guinée SARLU, 100% owned by Group Marais SA, was set up. The company is based in Conakry (Guinea) and its purpose is the construction of energy telecommunications networks, electricity etc., sale and rental of Trencher machines and mining excavation works.

4. Activity, reference market and operating performance for the first nine months of 2019

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 30 September 2019. The following table shows the major economic and financial indicators of the Group as at September 2019 compared with the same period of 2018 and with 31 December 2018.

30 September 2018	OVERVIEW OF RESULTS **Key income statement data** (Euro in millions)	30 September 2019
140.5	Operating Revenues	144.2
12.2	EBITDA	17.4
1.4	Operating Income	3.9
(0.8)	Group Net Profit	0.7
866	Average headcount for the period	900
31 December 2018	**Key financial position data** (Euro in millions)	**30 September 2019**
121.0	Net Invested Capital	160.6
43.3	Shareholders' Equity	45.0
77.7	Net Financial Indebtedness	115.6
13.8	Investments in property, plant and equipment, intangible assets and rights of use	13.8

The same indicators are shown below, in continuity with the accounting standards applied in previous years and highlighting the effect due to the first-time adoption of IFRS 16 as from 1 January 2019 in order to allow a correct comparison with the figures as at 30 September 2018:

EFFECT OF FIRST-TIME ADOPTION OF IFRS 16

Key income statement data (Euro in millions)	30 September 2019 before adoption of IFRS 16	Effect of IFRS 16	30 September 2019
Operating Revenues	144.2	-	144.2
EBITDA	14.7	2.7	17.4
Operating Income	3.7	0.2	3.9
Group Net Profit	1.0	(0.3)	0.7
Key financial position data (Euro in millions)	**30 September 2019 before adoption of IFRS 16**	**Effect of IFRS 16**	**30 September 2019**
Net Invested Capital	160.6	(0.0)	160.6
Shareholders' Equity	45.3	(0.3)	45.0
Net Financial Indebtedness	97.8	17.8	115.6
Investments in property, plant and equipment, intangible assets and rights of use	12.2	1.6	13.8

In relation to existing loans, the covenants are contractually calculated on an annual basis in accordance with the previous accounting standards and are therefore not affected by the new provisions of IFRS 16. Consequently, the above table shows the net financial indebtedness and EBITDA calculated on the basis of the previous accounting standards in relation to the figures as at 30 September 2019.

The information on the operations of the main subsidiaries in the reference period is shown. In order to better reflect the production volume of the individual subsidiaries, the following turnover values are reported at an aggregate level, including intercompany transactions:

- Tesmec USA Inc., a company that is 100% owned by Tesmec S.p.A. and based in Alvarado (Texas), operates in the Trencher segment and in the stringing equipment/rail sector. In the first nine months of 2019, revenues achieved directly with customers/end users came to Euro 27.4 million.

- 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. (with an option of Tesmec S.p.A. to repurchase this shareholding interest). In the first nine months, the company generated revenues of Euro 5.1 million.

- Condux Tesmec Inc, a joint venture that is 50% owned by Tesmec S.p.A. and 50% by American shareholder Condux, which is based in Mankato (USA), has been active since June 2009 in selling products for the North American stringing equipment market. The company was consolidated using the equity method and in the first three months of the year generated revenues totalling Euro 4.2 million.

- 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. (with an option of Tesmec S.p.A. to repurchase this shareholding interest). The French company is the holding company of an international group, leader in rental services and construction of machines for infrastructures in telecommunications, electricity and gas. As a whole, the Marais companies (including Marais Australia and Marais New Zealand controlled by Tesmec S.p.A.) generated revenues of Euro 33.9 million in the first nine months of 2019.

- Tesmec Automation S.r.l., a company 100% owned by Tesmec S.p.A., with registered office in Grassobbio (BG) and specialised in the design and sale of sensors, integrated fault detectors and measurement devices for medium voltage power lines. During the first nine months of 2019, revenues amounted to Euro 7.9 million.

- Tesmec Rail S.r.l., a 100% subsidiary of Tesmec S.p.A., operates in the Rail sector; on 1 May 2019, the company incorporated Tesmec Service S.r.l. and on 19 June 2019 rented a business unit of Advanced Measuring Group S.r.l. (AMG). In the first nine months, the company generated revenues of Euro 21.9 million.

5. Income statement

5.1 Consolidated income statement

The comments provided below refer to the comparison of the consolidated income statement figures as at 30 September 2019 with those as at 30 September 2018.
Among the cost items, note that non-recurring other operating (costs)/revenues, net include non-recurring revenues relating to the insurance refund paid for an accident that occurred at an Australian site in 2018 of Euro 1,318 thousand and that had an economic impact in 2018. Note that in the 2018 financial year the insurance refund of Euro 287 thousand was allocated; the total amount recognised is therefore Euro 1,605 thousand (amount collected in July 2019).
Non-recurring costs of Euro 214 thousand (costs for services of Euro 189 thousand and other operating costs of Euro 25 thousand) relating to reorganisation costs in the Marais Group are also present.

The main profit and loss figures for the first six months of 2019 and 2018 are presented in the table below:

	As at 30 September			
(Euro in thousands)	**2019**	**% of revenues**	**2018**	**% of revenues**
Revenues from sales and services	**144,208**	**100.0%**	**140,493**	**100.0%**
Cost of raw materials and consumables	(63,248)	-43.9%	(64,531)	-45.9%
Costs for services	(26,224)	-18.2%	(23,888)	-17.0%
Non-recurring costs for services	(189)	-0.1%	-	0.0%
Payroll costs	(38,695)	-26.8%	(36,365)	-25.9%
Other operating (costs)/revenues, net	(5,035)	-3.5%	(7,948)	-5.7%
Non-recurring other operating (costs)/revenues, net	1,293	0.9%	-	0.0%
Amortisation and depreciation	(13,506)	-9.4%	(10,797)	-7.7%
Development costs capitalised	5,225	3.6%	4,186	3.0%
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method	75	0.1%	297	0.2%
Total operating costs	**(140,304)**	**-97.3%**	**(139,046)**	**-99.0%**
Operating income	**3,904**	**2.7%**	**1,447**	**1.0%**

Financial expenses	(4,704)	-3.3%	(5,054)	-3.6%
Financial income	2,149	1.5%	2,194	1.6%
Portion of losses/(gains) from associated companies and non-operational Joint Ventures evaluated using the equity method	5	0.0%	12	0.0%
Pre-tax profit/(loss)	**1,354**	**0.9%**	**(1,401)**	**-1.0%**
Income tax	(630)	-0.4%	644	0.5%
Net profit/(loss) for the period	**724**	**0.5%**	**(757)**	**-0.5%**
Profit/(loss) attributable to non-controlling interests	8	0.0%	18	0.0%
Group profit/(loss)	**716**	**0.5%**	**(775)**	**-0.6%**

Revenues

Total revenues as at 30 September 2019 increased by 2.6% compared to those recorded in the same period of the previous year. The three business segments contributed to these results in different ways, with particularly significant growth in the Rail business.

	As at 30 September				
(Euro in thousands)	**2019**	**% of revenues**	**2018**	**% of revenues**	**2019 vs 2018**
Sales of products	104,198	72.26%	105,397	75.02%	(1,199)
Services rendered	28,838	20.00%	31,772	22.61%	(2,934)
Changes in work in progress	11,172	7.75%	3,324	2.37%	7,848
Total revenues from sales and services	**144,208**	**100.00%**	**140,493**	**100.00%**	**3,715**

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

Revenues by geographic area

The Group's turnover continues to be produced almost predominantly abroad and in particular, in non-EU countries. The revenue analysis by area is indicated below, compared with the first nine months of 2019 and the first nine months of 2018, which indicates the growth of the Italian market and of North and Central America, partially balanced by the downtrends recorded in the African and Middle-Eastern markets. It is emphasised that the segmentation by geographic area is determined by the country where the customer is located, regardless of where project activities/sales are organised.

	As at 30 September	
(Euro in thousands)	**2019**	**2018**
Italy	35,915	33,441
Europe	28,347	22,115
Middle East	9,826	11,706
Africa	12,828	16,572
North and Central America	28,873	26,662
BRIC and Others	28,419	29,997
Total revenues	**144,208**	**140,493**

Operating costs

Operating costs amounted to Euro 140,304 thousand and increased by 0.9% compared to the previous year, less than the trend in revenues.

EBITDA

In terms of margins, EBITDA amounted to Euro 17,410 thousand, up by 42.2% compared to the figure recorded in the first nine months of 2018. The change is mainly due to the first-time adoption of IFRS 16: without considering the application of IFRS 16, the Group's EBITDA would be equal to Euro 14,723 thousand (with an improvement of 20.2% compared to the first nine months of 2018, on a like-for-like basis).
Among the cost items, note that non-recurring other operating (costs)/revenues, net include non-recurring revenues relating to the insurance refund paid for an accident that occurred at an Australian site in 2018 of Euro 1,318 thousand and that had an economic impact in 2018. Note that in the 2018 financial year the first part of the insurance refund of Euro 287 thousand was allocated; the total amount recognised is therefore Euro 1,605 thousand (amount collected in July 2019).

Non-recurring costs of Euro 214 thousand (costs for services of Euro 189 thousand and other operating costs of Euro 25 thousand) relating to reorganisation costs in the Marais Group are also present.
A restatement of the income statement figures representing the performance of EBITDA is provided below with separate recognition of non-recurring costs and revenues:

	As at 30 September				
(Euro in thousands)	**2019**	**% of revenues**	**2018**	**% of revenues**	**2019 vs 2018**
Operating income	3,904	2.7%	1,447	1.0%	2,457
+ Amortisation and depreciation	13,506	9.4%	10,797	7.7%	2,709
EBITDA (*)	**17,410**	**12.1%**	**12,244**	**8.7%**	**5,166**
+ Non-recurring costs and revenues	(1,104)	-0.8%	-	0.0%	(1,104)
adj EBITDA (*)	**16,306**	**11.3%**	**12,244**	**8.7%**	**4,062**

(*****) The interim consolidated report on operations includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance of the Tesmec Group. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the Group's historical accounting data and are determined in accordance with the provisions of the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 as per CONSOB Communication no. 92543 of 3 December 2015. The following Alternative Performance Measures are presented in this table of the Interim consolidated report on operations:

EBITDA: is represented by the operating income including amortisation/depreciation and can be directly inferred from the consolidated income statement

Since the results for the period and their comparison with the comparative results may include unusual or non-recurring items with effects that might not allow a correct interpretation of the Group's profitability in the period compared with that of the corresponding period of the previous year, the following alternative performance measure is also presented.

adj EBITDA (or adjusted EBITDA): is represented by EBITDA net of unusual or non-recurring items that can be grouped as follows:
- non-recurring net costs for raw materials incurred in 2018 and related insurance refund recognised in the first nine months of 2019;
- corporate reorganisation costs.

Financial Management

	As at 30 September	
(Euro in thousands)	**2019**	**2018**
Net financial income/expenses	(3,830)	(2,539)
Foreign exchange gains/losses	1,256	(371)
Fair value adjustment of derivative instruments on exchange rates	19	50
Portion of losses/(gains) from associated companies and non-operational Joint Ventures evaluated using the equity method	5	12
Total net financial income/expenses	**(2,550)**	**(2,848)**

The net financial management recorded increased compared to the same period in 2018 by Euro 298 thousand, with the following changes reported:

- improvement by Euro 1,627 thousand of foreign exchange gains/losses that resulted in the recording of net profits totalling Euro 1,256 thousand in the first nine months of 2019 (Euro 1,053 thousand realised and Euro 203 thousand unrealised) against net losses of Euro 371 thousand in the first nine months of 2018; The change is mainly related to the trend of the USD/Euro exchange rate in the two periods of reference;

- overall worsening of Euro 1,291 thousand in net financial income and expenses resulting for Euro 360 thousand from higher interest expense on medium/long-term loans, and for Euro 562 thousand from the recognition of financial expenses recorded in the first nine months of 2019 against the first-time adoption of IFRS 16 from 1 January 2019 and therefore not recorded in the first nine months of 2018.

5.2 Income Statement by segment

Revenues by segment

The tables below show the income statement figures as at 30 September 2019 compared to those as at 30 September 2018, broken down into three operating segments.

	As at 30 September				
(Euro in thousands)	**2019**	**% of revenues**	**2018**	**% of revenues**	**2019 vs 2018**
Energy	31,481	21.8%	30,200	21.5%	1,281
Trencher	89,398	62.0%	94,157	67.0%	(4,759)
Rail	23,329	16.2%	16,136	11.5%	7,193
Total Revenues	**144,208**	**100.0%**	**140,493**	**100.0%**	**3,715**

In the first nine months of 2019, the Group recorded consolidated revenues of Euro 144,208 thousand, an increase of Euro 3,715 thousand compared to Euro 140,493 thousand in the same period of the previous year. In percentage terms, this increase represents a positive difference of 2.6%, which is split unevenly between the Group’s three business areas. More specifically, an increase of +44.6% was recorded for the Rail segment, +4.2% for the Energy segment, and a decrease of -5.1% for the Trencher segment.

With regard to the Energy segment, revenues as at 30 September 2019 amounted to Euro 31,481 thousand, an increase of 4.2% compared to Euro 30,200 thousand as at 30 September 2018; in particular, in the first nine months of 2019, the Energy-Automation segment achieved revenues of Euro 7,971 thousand, an increase of 29.5% compared to Euro 6,157 thousand as at 30 September 2018, in line with the growth prospects for the year for this segment.

Revenues in the Trencher segment decreased by 5.1% compared to 30 September 2018. The decrease is due to the performance of the Australian market, where the Group focused on a smaller number of projects following the reorganisation that took place on site and the implementation of the new business model that led to the redefinition of the contractual logic. However, this decrease will be offset by the opportunities expected in the last three months of the year in the various reference segments. During the period, the performance of the American market and the start of business in the mining and 5G sectors in the key Countries: USA, Africa, United Kingdom and France.

The Rail segment recorded revenues as at 30 September 2019 of Euro 23,329 thousand, an increase of 44.6% compared to Euro 16,136 thousand recorded as at 30 September 2018. The improvement is due to the performance of the existing contracts with RFI and with TEM FERRO on the French market.

EBITDA by segment

The tables below show the income statement figures as at 30 September 2019 compared to those as at 30 September 2018, broken down into three operating segments:

(Euro in thousands)	As at 30 September				
	2019	% of revenues	2018	% of revenues	2019 vs 2018
Energy	3,785	12.0%	2,274	7.5%	1,511
Trencher	9,781	10.9%	7,693	8.2%	2,088
Rail	3,844	16.5%	2,277	14.1%	1,567
EBITDA	**17,410**	**12.1%**	**12,244**	**8.7%**	**5,166**

(*****) The interim consolidated report on operations includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance of the Tesmec Group. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the Group's historical accounting data and are determined in accordance with the provisions of the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 as per CONSOB Communication no. 92543 of 3 December 2015. The following Alternative Performance Measures are presented in this table of the Interim consolidated report on operations:

EBITDA: is represented by the operating income including amortisation/depreciation and can be directly inferred from the consolidated income statement

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

- Energy: EBITDA increased from Euro 2,274 thousand as at 30 September 2018 to Euro 3,785 thousand as at 30 September 2019 thanks to the trend in sales volumes, from the Energy-Automation segment, in particular;
- Trencher: improvement in EBITDA from Euro 7,693 thousand in the first nine months of 2018 to Euro 9,781 thousand in 2019 is mainly related to the performance of the American and European market and the launch of the Mining segment and 5G;
- Rail: improvement in EBITDA from Euro 2,277 thousand in the first nine months of 2018 to Euro 3,844 thousand in 2019 is related to the increase in business activities, to a different mix of revenues which allowed a better absorption of fixed costs.

For more details on sector information, see the Explanatory note 19 “Segment Reporting” of this report.

6. Summary of balance sheet figures as at 30 September 2019

Information is provided below on the Group's main equity indicators as at 30 September 2019 compared to 31 December 2018. In particular, the following tables show the reclassified funding sources and uses from the consolidated balance sheet as at 30 September 2019 and as at 31 December 2018:

(Euro in thousands)	As at 30 September 2019	As at 31 December 2018
USES		
Net working capital (1)	70,114	48,897
Fixed assets	86,964	67,314
Other long-term assets and liabilities	3,500	4,804
Net invested capital (2)	**160,578**	**121,015**
SOURCES		
Net financial indebtedness (3)	115,584	77,677
Shareholders' equity	44,994	43,338
Total sources of funding	**160,578**	**121,015**

The interim consolidated report on operations includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance of the Tesmec Group. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the Group's historical accounting data and are determined in accordance with the provisions of the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 as per CONSOB Communication no. 92543 of 3 December 2015. The following Alternative Performance Measures are presented in this table of the Interim consolidated report on operations:

[1] The **net working capital** is calculated as current assets net of current liabilities excluding financial assets and financial liabilities.
[2] The **net invested capital** is calculated as net working capital plus fixed assets and other long-term assets less long-term liabilities.
[3] The **net financial indebtedness** is calculated as the sum of cash and cash equivalents, current financial assets including available-for-sale securities, non-current financial liabilities, fair value of hedging instruments and other non-current financial assets.

A) Net working capital

The table below shows a breakdown of "Net Working Capital" as at 30 September 2019 and 31 December 2018:

(Euro in thousands)	As at 30 September 2019	As at 31 December 2018
Trade receivables	63,648	52,562
Work in progress contracts	20,766	11,023
Inventories	72,269	62,576
Trade payables	(58,211)	(54,350)
Other current assets/(liabilities)	(28,358)	(22,914)
Net working capital [1]	**70,114**	**48,897**

The interim consolidated report on operations includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance of the Tesmec Group. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the Group's historical accounting data and are determined in accordance with the provisions of the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 as per CONSOB Communication no. 92543 of 3 December 2015. The following Alternative Performance Measures are presented in this table of the Interim consolidated report on operations:

[1] The **net working capital** is calculated as current assets net of current liabilities excluding financial assets and financial liabilities.

Net working capital amounted to Euro 70,114 thousand, marking an increase of Euro 21,217 thousand (equal to 43.4%) compared to 31 December 2018. This trend is mainly due to the increase in "Work in progress contracts" of Euro 9,743 thousand (88.4%) related to the orders of the Rail segment and in "Inventories" of Euro 9,693 thousand necessary to cover the sales expected in the coming months of the year, offset by the increase in "Trade payables" of Euro 3,861 thousand.

B) Fixed assets

The table below shows a breakdown of "Fixed assets" as at 30 September 2019 and 31 December 2018:

(Euro in thousands)	As at 30 September 2019	As at 31 December 2018
Intangible assets	19,635	17,998
Property, plant and equipment	45,640	45,337
Rights of use	17,505	-
Equity investments in associates	4,181	3,976
Other equity investments	3	3
Fixed assets	**86,964**	**67,314**

Total *fixed assets* recorded a net increase of Euro 19,650 thousand mainly due to the increase in "Rights of use" of Euro 17,505 thousand. This item represents the effect of the recognition of a right of use, as envisaged by IFRS 16, for contracts previously accounted for as operating leases in line with the provisions of IAS 17.

C) Net financial indebtedness

The table below shows a breakdown of "Net financial indebtedness" as at 30 September 2019 and 31 December 2018:

(Euro in thousands)	**As at 30 September 2019**	**of which with related parties and group**	**As at 31 December 2018**	**of which with related parties and group**
Cash and cash equivalents	(20,062)		(42,793)	
Current financial assets [(1)]	(11,400)	(3,920)	(10,391)	(4,373)
Current financial liabilities	79,050	1,853	80,504	2,325
Current financial liabilities from rights of use	3,066		-	
Current portion of derivative financial instruments	6		-	
Current financial indebtedness [(2)]	**50,660**	***(2,067)***	**27,320**	***(2,048)***
Non-current financial liabilities	50,153	-	50,322	-
Non-current financial liabilities from rights of use	14,758		-	
Non-current portion of derivative financial instruments	13		35	
Non-current financial indebtedness [(2)]	**64,924**	**-**	**50,357**	**-**
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	**115,583**	***(2,067)***	**77,677**	***(2,048)***
Current financial liabilities from rights of use	(3,066)		-	
Non-current financial liabilities from rights of use	(14,758)		-	
Net financial indebtedness prior to IFRS 16	**97,760**	***(2,067)***	**77,677**	***(2,048)***

The interim consolidated report on operations includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance of the Tesmec Group. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the Group's historical accounting data and are determined in accordance with the provisions of the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 as per CONSOB Communication no. 92543 of 3 December 2015. The following Alternative Performance Measures are presented in this table of the Interim consolidated report on operations:

[(1)] **Current financial assets** as at 30 September 2019 and 31 December 2018 include the market value of shares that are considered cash and cash equivalents.

[(2)] **Current and non-current financial indebtedness** are 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.

[(3)] Since the **CONSOB communication** mentioned above was published in 2006, it does not provide an explicit indication of right-of-use liabilities. The inclusion of the latter is considered to be in line with the express intention, underlying the accounting standard IFRS 16, to provide a single model for the recognition and measurement of lease contracts for the lessee.

In the first nine months of 2019, the Group's net financial indebtedness increased by Euro 37,907 thousand compared to the figure at the end of 2018; this increase of Euro 17,824 thousand refers to the mere application of the new IFRS 16 and therefore represents a notional debt. Without the application of IFRS 16, net financial indebtedness as at 30 September 2019 amounted to Euro 97,760 thousand, an increase of Euro 20,083 thousand compared to the end of 2018, mainly due to the increase in net working capital to support growth.

The table below shows the breakdown of the changes:

- increase in current financial indebtedness of Euro 23,340 thousand due to the:
  - decrease in current financial liabilities of Euro 1,454 thousand mainly due to (i) Euro 3,066 thousand relating to the increase due to the recognition of financial payables for rights of use in accordance with IFRS 16 and (ii) Euro 3,328 thousand relating to the decrease in advances on export;
  - decrease in current financial assets and cash and cash equivalents of Euro 22,731 thousand;
- increase in medium/long-term financial indebtedness of Euro 14,567 thousand relating to the recognition of financial payables for rights of use in accordance with IFRS 16 of Euro 14,758 thousand.

7. Management and types of financial risk

For the management of financial risks, please see Explanatory Note 4 "Financial risk management policy" contained in the Annual Consolidated Financial Statements for 2018, where the Group's policies in relation to the management of financial risks are presented. The Group has not identified changes with respect to the risks identified in the financial statements for 2018. A brief summary of these is contained in the paragraph “Management and types of risks” of the Explanatory Notes to this report.

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

In compliance with the Consob communications of 20 February 1997, 27 February 1998, 30 September 1998, 30 September 2002 and 27 July 2006, we specify that during the first nine months of 2019, no transactions took place with related parties of an atypical or unusual nature with no bearing on the company's normal operations or such as to harm the income statement, balance sheet or financial results of the Group.

For significant intra-group and related party information, please see the paragraph “Related party transactions” in the Explanatory Notes.

9. Group Employees

The average number of Group employees in the first nine months of 2019, including the employees of companies that are fully consolidated, is 900 persons compared to 866 in the first nine months of 2018.

10. Other information

Treasury shares

On 16 April 2019, the Shareholders’ Meeting authorised the treasury share buy-back plan; the authorisation was granted for a period of 18 months; the authorisation of 16 April 2019 replaces the last authorisation resolved by the Shareholders’ Meeting on 6 April 2018 and expiring in October 2019. The plan set the maximum quantity as 10% of Share Capital; from the launch of the buy-back plan resolved on 10 January 2012 to the date of the period covered by this report, 30 September 2019, a total of 4,711,879 shares (4.40% of Share Capital) have been purchased at an average price of Euro 0.5543 (net of commissions) for a total equivalent value of Euro 2,612 thousand.

Events occurring after the reporting period

Events occurring after the reporting period included:

- on 18 October 2019, the subsidiary Tesmec Rail S.r.l. signed a contract for a total value of Euro 8 million with the Czech Group Elektrizace železnic Praha a.s. (“ELZEL”) for the supply of multipurpose railway boogie vehicles for line maintenance, as well as for full maintenance service (FMS) activities with a duration of 6 years. In detail, the Tesmec Group will supply 4 boogie vehicles complete with signalling system, model OCPD001-CZ, for the maintenance of catenary wire systems, manufactured in compliance with the highest safety standards currently in force in the European Union, according to the EN14033 standard. These are multifunctional, versatile and multipurpose vehicles, equipped with an on-board technological subsystem for running in train mode (maximum speed 140 km/h), thus able to ensure the operation of passenger trains throughout the country without requiring the interruption of the railway line. The vehicles are equipped with a platform, terrace and crane with integrated polygonator to ensure that work is carried out more safely, efficiently and quickly. The contract also provides for the supply of diagnostic systems capable of detecting the height and polygonation of the catenary wire for the certification of the activities carried out. The vehicles will be delivered between January and June 2020.

Business outlook

The development of integrated and green solutions related to new stringing methods, the implementation of certified solutions in the field of smart grids and cybersecurity, the creation of proper value chains in the 5G, FTTH and mining segments and the new diagnostic and maintenance systems are driving the Group towards the confirmation of the forecasted targets for the year. A significant turnover growth is expected in the last quarter of the year compared to the previous year, which allows the improvement of the economic-financial index at the end of the period. This growth is linked to the Group's main activities related to the infrastructure sectors and connected to digital technologies. In particular, in Energy segments, we highlight the consolidation of the new stringing products and the opportunities in the field of Energy Automation related to participation in highly innovative projects. The integration process of the Tesmec/Marais sales network and the efficiency actions undertaken since last year will support the improvement of the profitability indicators. Therefore, the Group believes that the proper actions have been undertaken to achieve important economic and financial targets over the next twelve months.

INTERIM REPORT ON OPERATIONS

Consolidated financial statements

Consolidated statement of financial position as at 30 September 2019 and as at 31 December 2018

(Euro in thousands)	Notes	30 September 2019	31 December 2018
NON-CURRENT ASSETS			
Intangible assets	6	19,635	17,998
Property, plant and equipment	7	45,640	45,337
Rights of use	8	17,505	-
Equity investments in associates evaluated using the equity method		4,181	3,976
Other equity investments		3	3
Financial receivables and other non-current financial assets		1,834	1,922
Derivative financial instruments	16	2	-
Deferred tax assets		12,314	11,816
Non-current trade receivables		437	831
TOTAL NON-CURRENT ASSETS		**101,551**	**81,883**
CURRENT ASSETS			
Work in progress contracts	9	20,766	11,023
Inventories	10	72,269	62,576
Trade receivables	11	63,648	52,562
of which with related parties:	11	*2,510*	*2,712*
Tax receivables		915	932
Other available-for-sale securities		2	1
Financial receivables and other current financial assets	12	11,398	10,390
of which with related parties:	12	*3,920*	*4,373*
Other current assets		9,743	13,249
Cash and cash equivalents		20,062	42,793
TOTAL CURRENT ASSETS		**198,803**	**193,526**
TOTAL ASSETS		**300,354**	**275,409**
SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS			
Share capital	13	10,708	10,708
Reserves / (deficit)	13	33,528	32,567
Group net profit / (loss)	13	716	28
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS		**44,952**	**43,303**
Capital and reserves / (deficit) attributable to non-controlling interests		34	19
Net profit / (loss) for the period attributable to non-controlling interests		8	16
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		**42**	**35**
TOTAL SHAREHOLDERS' EQUITY		**44,994**	**43,338**
NON–CURRENT LIABILITIES			
Medium/long-term loans	14	25,430	25,671
Bond issue	16	24,723	24,651
Non-current financial liabilities from rights of use	16	14,758	-
Derivative financial instruments	16	13	35
Employee benefit liability		4,164	3,770
Deferred tax liabilities		5,964	5,927
Provisions for risks and charges		83	67
Other non-current liabilities		875	-
Non-current trade payables		1	1
TOTAL NON-CURRENT LIABILITIES		**76,011**	**60,122**
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	15	79,050	80,504
of which with related parties:	15	*1,853*	*2,325*
Current financial liabilities from rights of use	16	3,066	-
Derivative financial instruments	16	6	-
Trade payables		58,211	54,350
of which with related parties:		*2,903*	*2,377*
Advances from customers		4,758	4,145
of which with related parties:		*20*	*55*
Income taxes payable		1,646	1,295
Provisions for risks and charges		2,862	3,152
Other current liabilities		29,750	28,503
TOTAL CURRENT LIABILITIES		**179,349**	**171,949**
TOTAL LIABILITIES		**255,360**	**232,071**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**300,354**	**275,409**

Consolidated income statement for the period ended 30 September 2019 and 2018

		As at 30 September	
(Euro in thousands)	**Notes**	**2019**	**2018**
Revenues from sales and services	17	**144,208**	**140,493**
of which with related parties:		*12,049*	*15,590*
Cost of raw materials and consumables		(63,248)	(64,531)
of which with related parties:		*(9)*	*(310)*
Costs for services		(26,224)	(23,888)
of which with related parties:		*(82)*	*(326)*
Non-recurring costs for services		(189)	-
Payroll costs		(38,695)	(36,365)
Other operating (costs)/revenues, net		(5,035)	(7,948)
of which with related parties:		*(2,724)*	*(3,733)*
Non-recurring other operating (costs)/revenues, net		1,293	-
Amortisation and depreciation		(13,506)	(10,797)
Development costs capitalised		5,225	4,186
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method		75	297
Total operating costs	18	**(140,304)**	**(139,046)**
Operating income		**3,904**	**1,447**
Financial expenses		(4,704)	(5,054)
of which with related parties:		*(200)*	*(12)*
Financial income		2,149	2,194
of which with related parties:		*68*	*108*
Portion of losses/(gains) from associated companies and non-operational Joint Ventures evaluated using the equity method		5	12
Pre-tax profit/(loss)		**1,354**	**(1,401)**
Income tax		(630)	644
Net profit/(loss) for the period		**724**	**(757)**
Profit/(loss) attributable to non-controlling interests		**8**	**18**
Group profit/(loss)		**716**	**(775)**
Basic and diluted earnings/(losses) per share		**0.007**	**(0.007)**

Consolidated statement of comprehensive income for the period ended 30 September 2019 and 2018

		As at 30 September	
(Euro in thousands)	**Notes**	**2019**	**2018**
NET PROFIT/(LOSS) FOR THE PERIOD		**724**	**(757)**
Other components of comprehensive income			
Other components of comprehensive income that will be subsequently reclassified to net income/(loss) for the year:			
Exchange differences on conversion of foreign financial statements	13	1,135	722
Other components of comprehensive income that will not be subsequently reclassified to net income/(loss) for the year:			
Actuarial profit/(loss) on defined benefit plans		(265)	122
Income tax		62	(30)
	13	(203)	92
Total other income/(losses) after tax		**932**	**814**
Total comprehensive income (loss) after tax		**1,656**	**57**
Attributable to:			
Shareholders of Parent Company		1,649	1,358
Non-controlling interests		7	(9)

Statement of consolidated cash flows for the period ended 30 September 2019 and 2018

		As at 30 September	
(Euro in thousands)	Notes	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit/(loss) for the period		724	(757)
Adjustments to reconcile net income for the period with the cash flows generated by (used in) operating activities:			
Amortisation and depreciation	6-7	13,506	10,797
Provisions for employee benefit liability		268	170
Provisions for risks and charges / inventory obsolescence / doubtful accounts		1,323	679
Employee benefit payments		(139)	(112)
Payments of provisions for risks and charges		(73)	(249)
Net change in deferred tax assets and liabilities		(340)	(1,881)
Change in fair value of financial instruments	16	(18)	(107)
Change in current assets and liabilities:			
Trade receivables	11	(11,677)	(16,534)
of which with related parties:	*11*	*167*	*(6,354)*
Inventories	10	(19,044)	373
Trade payables		3,698	13,453
of which with related parties:		*526*	*437*
Other current assets and liabilities		6,030	(611)
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		**(5,742)**	**5,221**
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	7	(7,083)	(12,493)
Investments in intangible assets	6	(7,844)	(4,763)
Investments in Rights of use	8	(1,658)	-
(Investments) / disposals of financial assets		(942)	5,234
of which with related parties:		*453*	*5,128*
Proceeds from sale of property, plant and equipment, intangible assets and rights of use	6-7-8	2,783	6,992
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		**(14,744)**	**(5,030)**
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	16	7,089	16,663
Recognition of financial liabilities from rights of use		1,658	-
Repayment of medium/long-term loans	16	(6,140)	(12,623)
Repayment of Financial liabilities from rights of use		(2,113)	-
Net change in short-term financial debt	15	(3,036)	598
of which with related parties:		*(472)*	*1,342*
Change in the consolidation area	13	-	(2,250)
Other changes	13	-	(391)
NET CASH FLOW GENERATED BY/ (USED IN) FINANCING ACTIVITIES (C)		**(2,542)**	**1,997**
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		**(23,028)**	**2,188**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		297	51
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)		42,793	21,487
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		**20,062**	**23,726**
Additional information:			
Interest paid		3,737	3,509
Income tax paid		609	133

Statement of changes in consolidated shareholders' equity for the period ended 30 September 2019 and 2018

(Euro in thousands)	Share capital	Legal reserve	Share premium reserve	Reserve of treasury shares	Translation reserve	Other reserves	Net profit/(loss) for the period	Total shareholders' equity attributable to parent company shareholders	Total shareholders' equity attributable to non-controlling interests	Total shareholders' equity
Balance as at 1 January 2019	**10,708**	**2,141**	**10,915**	**(2,341)**	**4,335**	**17,517**	**28**	**43,303**	**35**	**43,338**
Net profit/(loss) for the period	-	-	-	-	-	-	716	716	8	724
Other profits/(losses)	-	-	-	-	1,136	(203)	-	933	(1)	932
Total comprehensive income/(loss)								**1,649**	**7**	**1,656**
Allocation of profit for the period	-	-	-	-	-	28	(28)	-	-	-
Balance as at 30 September 2019	**10,708**	**2,141**	**10,915**	**(2,341)**	**5,471**	**17,342**	**716**	**44,952**	**42**	**44,994**

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

Explanatory notes

Accounting policies adopted in preparing the interim consolidated report on operations as at 30 September 2019

1. Company information

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

2. Reporting standards

The interim consolidated report on operations as at 30 September 2019 was prepared in condensed form in accordance with International Financial Reporting Standards (IFRS), by using the methods for preparing interim financial reports provided by IAS 34 Interim financial reporting.

The accounting standards adopted in preparing the interim consolidated report on operations as at 30 September 2019 are those adopted for preparing the consolidated financial statements as at 31 December 2018 in compliance with IFRS, except as indicated in paragraph 4. New accounting standards, interpretations and amendments adopted by the Group.

It should be noted that the preparation of the interim consolidated report on operations requires Directors to make estimates and assumptions that affect the values of revenues, costs, assets and liabilities in the financial statements and the information regarding potential assets and liabilities on the date of the condensed consolidated financial statements. In the event that in future these estimates and assumptions, which are based on the Directors' best assessments, should deviate from actual circumstances, they will be amended appropriately at the time the circumstances change. It should also be noted that some measurement processes relating to the estimate of revenues and progress of job orders, the calculation of any impairment of non-current assets and the estimate of adjustment funds of current assets are generally carried out in full only when the annual financial statements are prepared, when all of the information that may be required is available, unless - for what concerns the calculation of any impairment of non-current assets - there are impairment indicators that require the immediate measurement of any impairment loss.

More precisely, the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows are drawn up in extended form and are in the same format adopted for the consolidated financial statements as at 31 December 2018. The explanatory notes to the financial statements indicated below are in condensed form and therefore do not include all the information required for annual financial statements. In particular, as provided by IAS 34, in order to avoid repeating already disclosed information, the notes refer exclusively to items of the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated shareholders' equity and the statement of consolidated cash flows whose breakdown or change, with regard to amount, type or unusual nature, are significant to understanding the economic and financial situation of the Group.

In the interim consolidated report on operations, the income statement and cash flow statement data for the period is compared with that for the same period of the previous year. The net financial position and the items of the consolidated statement of financial position as at 30 September 2019 are compared with the corresponding final data as at 31 December 2018.

Since the interim consolidated report on operations does not disclose all the information required in preparing the consolidated annual financial statements, it must be read together with the consolidated financial statements as at 31 December 2018.

The interim consolidated report on operations as at 30 September 2019 comprises the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated shareholders' equity, statement of consolidated cash flows and related explanatory notes. Comparative figures are disclosed as required by IAS 34 (31 December 2018 for the statement of financial position and the first nine months of 2018 for the consolidated income statement, comprehensive income statement, statement of changes in shareholders' equity and statement of cash flows).

The interim consolidated report on operations as at 30 September 2019 was prepared on a going concern basis and is presented in Euro. All values are rounded to the nearest thousand, unless otherwise indicated.

Disclosure of the interim consolidated report on operations of the Tesmec Group for the period ended 30 September 2019 was authorised by the Board of Directors on 31 October 2019.

Translation of foreign currency financial statements and of foreign currency items

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

	Average exchange rates for the period ended 30 September		End-of-period exchange rate as at 30 September	
	2019	2018	2019	2018
US Dollar	1.124	1.199	1.089	1.158
Russian Rouble	73.085	72.743	70.756	76.142
South African Rand	16.132	15.160	16.558	16.445
Renminbi	7.714	7.752	7.778	7.966
Qatari Riyal	4.090	4.363	3.964	4.214
Algerian Dinar	134.004	138.567	131.340	136.778
Tunisian Dinar	3.325	3.018	3.128	3.246
Australian Dollar	1.608	1.571	1.613	1.605
New Zealand Dollar	1.693	1.700	1.738	1.751
CFA Franc	655.957	655.957	655.957	655.957
GNF Franc	10,266.98	10,756.75	10,028.77	10,424.19

3. Consolidation methods and area

As at 30 September 2019, the consolidation area changed with respect to that as at 31 December 2018:

- on 22 March 2019, Simest S.p.A. paid its share of Euro 1,843 thousand in Marais Laying Tech. (Pty) Ltd. as per agreements signed in 2018.
  Following this payment, the company Marais Laying Tech. (Pty) Ltd. and its subsidiary Marais Laying Tech. (Pty) Ltd. New Zealand are 51% controlled by Tesmec S.p.A. and the remaining 49% by Simest S.p.A.
  Since Tesmec S.p.A. has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the shareholdings are consolidated on a 100% basis;
  Subsequently, on August 14, 2019, the company Marais Laying Tech. (Pty) Ltd. changed its name to Tesmec Australia (Pty) Ltd.;

- on 1 May 2019, Tesmec Service S.r.l. was merged into Tesmec Rail S.r.l.;

- on 9 July 2019, the company Marais Guinée SARLU, 100% owned by Group Marais SA, was set up. The company is based in Conakry (Guinea) and its purpose is the construction of energy telecommunications networks, electricity etc., sale and rental of Trencher machines and mining excavation works.

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

Accounting standards, amendments and IFRS interpretations applied as from 1 January 2019

The following accounting standards, amendments and IFRS interpretations were applied by the Group for the first time on 1 January 2019:

- **Impacts of applying IFRS 16 - Leases**

As from 1 January 2019, the new international accounting standard IFRS 16 "Leases" came into force; it defines a single model for the recognition of lease contracts, eliminating the distinction between operating and finance leases and based on the recognition by the lessee of an asset representing the right of use of the asset as a contra entry to a liability representing the obligation to make lease payments ("lease liability").
The accounting of the new standard envisages in short, for the lessee:

- in the balance sheet: the recognition of an asset representing the right of use and a lease liability representing the obligation to make lease payments;
- in the income statement: operating costs include the recognition of depreciation of the right-of-use asset and the financial section includes interest expense accrued on lease liability; the income statement also includes lease payments that meet short-term and low-value requirements and variable payments linked to the use of the asset, not included in the determination of the right of use/lease liability, as allowed by the standard;

On first-time adoption of the new standard, Tesmec adopted the "modified retrospective approach" method that:

- envisages the retrospective restatement of values in shareholders' equity as at 1 January 2019 without making a restatement of the previous years being compared;
- allows the non-application of IFRS 16 to leases for which the residual term to 1 January 2019 is less than 12 months for all types of assets and "low value";
- recognised a right-of-use asset equal to an amount corresponding to lease liabilities and any prepaid expenses incurred in years prior to 1 January 2019;
- renewal or early termination options have been analysed, where present, for the purpose of determining the overall duration of the contract.

The adoption of IFRS 16 introduced some elements of professional judgement that involve the definition of accounting policies and the use of assumptions and estimates, for example, in relation to the determination of the lease term.
During the second quarter of 2019, in the light of the above and following a more in-depth and precise analysis of the Group's contracts, the value of lease liabilities and the corresponding assets for rights of use was reduced by Euro 2,129 thousand compared to the calculations included as at 31 March 2019.
However, it should be noted that the adjustment to this standard may include any changes assessed both in the light of clarifications by the IASB and in the light of actual industry practice.

As at 30 September 2019, the adoption of the new standard had a significant impact on the Group's balance sheet, income statement and cash flows:

i. an increase in fixed assets for the right to use the assets among assets of Euro 17,505 thousand;
ii. an impact on net financial indebtedness deriving from the increase in financial liabilities for lease liabilities of Euro 17,824 thousand;
iii. an increase in EBITDA of Euro 2,687 thousand, and to a lesser extent of EBIT, due to the reversal of rents currently included in operating costs, and a simultaneous increase in depreciation of Euro 2,462 thousand;
iv. a negative change in the net result of Euro 309 thousand that includes the effect of the recognition of financial expenses and income taxes.

The existing loan agreements and bond issues provide for the calculation of the covenants based on net financial indebtedness calculated prior to the application of IFRS 16.

The following table shows the impact on the Group's balance sheet as at 30 September 2019:

(Euro in thousands)	**As at 30 September 2019**
NON-CURRENT ASSETS	
Rights of use	
- of which rights of use - Buildings	15,646
- of which rights of use - Motor vehicles	928
- of which rights of use - Hardware	831
- of which rights of use - Plant and machinery	100
Deferred tax assets	27
TOTAL NON-CURRENT ASSETS	**17,532**
CURRENT ASSETS	
Other current assets	(17)
TOTAL CURRENT ASSETS	**(17)**
TOTAL ASSETS	**17,515**
SHAREHOLDERS' EQUITY	
Group net profit / (loss)	(309)
TOTAL SHAREHOLDERS' EQUITY	**(309)**
NON–CURRENT LIABILITIES	
Medium/long-term loans	14,758
TOTAL NON-CURRENT LIABILITIES	**14,758**
CURRENT LIABILITIES	
Interest-bearing financial payables (current portion)	3,066
TOTAL CURRENT LIABILITIES	**3,066**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**17,515**

The discount rate used for applying the new standard IFRS 16 is the Group's marginal lending rate on 1 January 2019. The measurement also excludes, as allowed by the standard, short-term leases and leases of low-value assets. For the Group, the effect of the application of the new standard mainly concerned operating leases relating to property, plant and equipment: such as buildings, motor vehicles and trucks, plant and machinery and IT equipment.
The adoption of IFRS 16 resulted in the recognition as at 30 September 2019 of greater Fixed assets for rights of use of Euro 17,505 thousand and lease liabilities of Euro 17,824 thousand segmented between current and non-current. Without considering the application of IFRS 16, the Group's financial indebtedness would have amounted to Euro 97,759 thousand.

The economic effects on the first nine months of 2019 are shown below:

(Euro in thousands)	As at 30 September 2019
Other operating (costs)/revenues, net	2,687
Amortisation and depreciation	(2,462)
Financial expenses	(562)
TOTAL PRE-TAX EFFECT ON THE RESULT FOR THE PERIOD	**(337)**
Income tax	28
TOTAL EFFECT ON THE RESULT FOR THE PERIOD	**(309)**

The adoption of IFRS 16 resulted in an improvement in the Group's EBITDA in the first nine months of 2019 of Euro 2,687 thousand and a worsening of the net result for the period of Euro 309 thousand.
Without considering the application of IFRS 16, the Group's EBITDA would have amounted to Euro 14,660 thousand.

- On 12 October 2017, the IASB issued an amendment to ***IFRS 9 "Prepayment Features with Negative Compensation"***. This document specifies that the instruments that envisage early repayment could comply with the Solely Payments of Principal and Interest ("SPPI") test even if the "reasonable additional compensation" to be paid in the event of early repayment is a "negative compensation" for the lender. The adoption of this amendment did not have any effect on the Group's interim consolidated report on operations.

- On 7 June 2017, the IASB issued the interpretation ***"Uncertainty over Income Tax Treatments (IFRIC Interpretation 23)"***. The interpretation deals with the issue of uncertainties on the tax treatment of income taxes. In particular, interpretation requires an entity to analyse uncertain tax treatments (individually or as a whole, depending on their characteristics) on the assumption that the tax authority will examine the tax position in question, with full knowledge of all relevant information. If the entity believes that it is not probable for the tax authority to accept the followed tax treatment, the entity will reflect the effect of the uncertainty in measuring its current and deferred income taxes. Moreover, the document does not contain any new disclosure requirement but emphasises that an entity will have to determine whether it will be necessary to disclose information on management considerations and on the uncertainty relating to tax accounting in accordance with IAS 1.
  The new standard was applied beginning on or after 1 January 2019. The adoption of this amendment did not have any effect on the Group's interim consolidated report on operations.

- On 12 December 2017, the IASB issued the document ***"Annual Improvements to IFRSs 2017–2015 Cycle"***, which implements the amendments to the standards as part of their annual process of improvement. The main amendments refer to:
  - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that when an entity obtains control of a business that represents a joint operation, it must re-measure the previously held interest in that business. On the other hand, this process is not envisaged in the event of joint control being obtained.
  - IAS 12 Income Taxes: the amendment clarifies that all tax effects related to dividends (including payments on financial instruments classified as equity) should be accounted for in a manner consistent with the transaction that generated those profits (income statement, OCI or shareholders' equity).
  - IAS 23 Borrowing costs: the amendment clarifies that in the case of loans that remain in place even after the qualifying asset in question is ready for use or sale, they become part of the set of loans used to calculate financing costs.

  The adoption of this amendment did not have any effect on the Group's interim consolidated report on operations.

- On 7 February 2018, the IASB issued the document ***"Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)"***. The document clarifies how an entity should recognise an amendment (i.e. a curtailment or settlement) in a defined benefit plan. The amendments require the entity to update its assumptions and re-measure the net liability or asset arising from the plan. The amendments clarify that after the occurrence of such an event, an entity uses updated assumptions to measure the current service cost and interest for the rest of the reporting period following the event. The adoption of this amendment did not have any effect on the Group's interim consolidated report on operations.

- On 12 October 2017, the IASB issued the document ***"Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)"***. This document clarifies the need to apply IFRS 9, including the requirements of impairment, to other long-term interests in associate companies and joint ventures that are not accounted for under the equity method. The adoption of this amendment did not have any effect on the Group's interim consolidated report on operations.

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

At the date of this Report, the competent bodies of the European Union have not yet completed the approval process required for the adoption of the amendments and standards described below.

- On 18 May 2017, the IASB issued the standard **IFRS 17 – Insurance Contracts** that will replace standard IFRS 4 – Insurance Contracts.
  The aim of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations arising from issued insurance contracts. The IASB developed the standard to eliminate inconsistencies and weaknesses in existing accounting policies by providing a single principle-based framework to take account of all types of insurance contracts, including reinsurance contracts that an insurer holds.

  The new standard also includes presentation and disclosure requirements to improve comparability between entities in this sector.

  The new standard measures an insurance contract on the basis of a General Model, or its simplified version, called the Premium Allocation Approach ("PAA").

  The main features of the General Model are:
  - estimates and assumptions of future cash flows are always current;
  - the measurement reflects the time value of money;
  - the estimates envisage an extensive use of observable information on the market;
  - there is a current and explicit measurement of the risk;
  - the expected profit is deferred and aggregated in groups of insurance contracts at the time of initial recognition; and,
  - the expected profit is recognised during the contractual hedging period, taking into account the adjustments resulting from changes in the assumptions relating to the cash flows for each group of contracts.

  The PAA approach involves measuring the liability for the residual coverage of a group of insurance contracts provided that, at the time of initial recognition, the entity expects the liability to reasonably represent an approximation of the General Model. Contracts with a coverage period of one year or less are automatically eligible for the PAA approach. The simplifications resulting from the application of the PAA method do not apply to the measurement of liabilities for outstanding claims, which are measured using the General Model. However, it is not necessary to discount those cash flows if it is expected that the balance to be paid or received will occur within one year of the date on which the claim occurred.

  The entity must apply the new standard to insurance contracts issued, including reinsurance contracts issued, reinsurance contracts held and also investment contracts with a discretionary participation feature (DPF).

  The standard is effective beginning on 1 January 2021 but earlier application is permitted only for entities applying IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers. The directors do not expect a significant effect on the Group's interim consolidated report on operations through the adoption of this standard.

- On 22 October 2018, the IASB issued the document ***"Definition of a Business (Amendments to IFRS 3)"***. The document provides some clarifications regarding the definition of business for the purposes of the correct application of IFRS 3. In particular, the amendment clarifies that while a business usually produces an output, the presence of an output is not strictly necessary to identify a business in the presence of an acquired set of activities/processes and assets. However, it clarifies that to be considered a business, an acquired set of activities/processes and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. To this end, the IASB replaced the term "ability to create outputs" with "contribute to the ability to create outputs" in order to clarify that a business can exist even without the presence of all the inputs and processes necessary to create an output.

The amendment also added an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is a business or not. If the test is successful, the acquired set of activities/processes and assets is not a business and the standard does not require further testing. If the test fails, the entity must carry out further analyses of the acquired activities/processes and assets to identify the presence of a business. To this end, the amendment added a number of illustrative examples to IFRS 3 in order to help entities understand the practical application of the new definition of business in specific cases. The amendments are effective for business combinations and acquisitions of assets beginning on or after 1 January 2020, but earlier application is permitted.

The directors do not expect effects on the Group's interim consolidated report on operations through the adoption of this amendment.

- On 31 October 2018, IASB issued the document ***"Definition of Material (Amendments to IAS 1 and IAS 8)"***. The document introduced a change in the definition of "material" contained in IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. This amendment aims at making the definition of "material" more specific and introduced the concept of "obscured information" alongside the concepts of omitted or incorrect information already present in the two standards being amended. The amendment clarifies that information is "obscured" if it has been described in such a way that it has an effect on primary readers of financial statements similar to that which would have resulted had the information been omitted or misstated.
  The amendments introduced by the document apply to all operations after 1 January 2020.

  The directors do not expect a significant effect on the Group's interim consolidated report on operations through the adoption of this amendment.

- On 11 September 2014, the IASB issued an amendment to ***IFRS 10 and to IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***. The document was issued in order to resolve the current conflict between IAS 28 and IFRS 10.
  According to the provisions of IAS 28, the gain or loss resulting from the sale or transfer of a non-monetary asset to a joint venture or associate in exchange for a share in the capital of the latter is limited to the shareholding in the joint venture or associate by other investors extraneous to the transaction. In contrast, IFRS 10 requires the recording of the entire gain or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling stake in it, including in this case also the sale or transfer of a subsidiary to a joint venture or associate. The amendments introduced require that for a sale/transfer of an asset or a subsidiary to a joint venture or associate, the measure of the gain or loss to be recognised in the financial statements of the seller/transferor depends on whether the assets or subsidiary sold/transferred constitute a business, under the meaning of IFRS 3. If the assets or the subsidiary sold/transferred represent a business, the entity must recognise the gain or loss on the entire investment held; otherwise, the portion of the gain or loss related to the share still held by the entity must be eliminated. At the moment, IASB has suspended the application of this amendment. The directors do not expect a significant effect on the Group's interim consolidated report on operations through the adoption of these changes.

5. Significant events during the period

The following significant events occurred during the period:

- on 22 March 2019, Simest S.p.A. paid its share of Euro 1,843 thousand in Marais Laying Tech. (Pty) Ltd. as per agreements signed in 2018.

  Following this payment, the company Marais Laying Tech. (Pty) Ltd. and its subsidiary Marais Laying Tech. (Pty) Ltd. New Zealand are 51% controlled by Tesmec S.p.A. and the remaining 49% by Simest S.p.A.

  Since Tesmec S.p.A. has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the shareholdings are consolidated on a 100% basis.

  Subsequently, on August 14, 2019, the company Marais Laying Tech. (Pty) Ltd. changed its name to Tesmec Australia (Pty) Ltd.;

- on 1 May 2019, Tesmec Service S.r.l. was merged into Tesmec Rail S.r.l.;

- on 16 April 2019, the Ordinary Shareholders' Meeting of Tesmec met in single call and approved all items on the agenda. In detail, the Shareholders' Meeting approved the 2018 financial statements of the parent Tesmec S.p.A., which closed with a Net Profit of Euro 4,331 thousand and resolved to allocate this Net Profit for the year to 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 6 April 2018 and expiring in October 2019. The resolution concerning authorisation to purchase treasury shares was passed with the favourable vote of the majority of the Tesmec shareholders at the shareholders' meeting other than the majority shareholder and therefore, pursuant to Article 44-bis of the Issuer Regulation, the shares that the Issuer will purchase in executing this resolution will be included in the share capital of the Issuer, on which the significant equity investment for the purpose of Article 106, paragraphs 1, 1-bis, 1-ter and 3 of the TUF will be calculated;

- on 16 April 2019, the Shareholders' Meeting of Tesmec S.p.A. resolved to:
  - appoint the new Board of Directors that will remain in office until the shareholders' meeting that will be called to approve the financial statements for the year ended 31 December 2021, composed of Gianluca Bolelli, Caterina Caccia Dominioni, Lucia Caccia Dominioni, Paola Durante, Simone Andrea Crolla, Emanuela Teresa Basso Petrino and Guido Luigi Traversa as well as Ambrogio Caccia Dominioni who was confirmed as Chairman of the Board of Directors;
  - appoint the new Board of Statutory Auditors that will also remain in office until the shareholders' meeting called to approve the 2021 financial statements, composed of Statutory Auditors Simone Cavalli (Chairman), Alessandra De Beni and Stefano Chirico and Alternate Auditors Attilio Marcozzi and Stefania Rusconi;
  - assign the task of external audit for the 2019-2027 financial periods to Deloitte & Touche S.p.A.;

- on 16 April 2019, the Board of Directors confirmed Ambrogio Caccia Dominioni as the Chief Executive Officer and Gianluca Bolelli as Vice Chairman.

  The Board of Directors decided to appoint:
  - the directors Simone Andrea Crolla (Chairman), Emanuela Teresa Basso Petrino and Caterina Caccia Dominioni as members of the new Remuneration and Appointments Committee;
  - the directors Emanuela Teresa Basso Petrino (Chairman), Simone Andrea Crolla and Guido Traversa as members of the Control and Risk, Sustainability and Related Party Transactions Committee;
  - Caterina Caccia Dominioni as director in charge of the internal control and risk management system;
  - the Independent Director Paola Durante as lead independent director;
  - Lorenzo Pascali (Chairman), Giampaolo Grasso and Stefano Chirico as members of the Supervisory Body that will remain in office until the shareholders' meeting that will be called to approve the financial statements for the year ended 31 December 2021;

- on 23 April 2019, 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;

- with reference to an ongoing dispute with a French former distributor, on 14 February 2019, the Lyon Court of Appeal, significantly reviewing the favourable judgement in first instance, ordered Tesmec to pay Euro 2.1 million for various reasons, including the alleged violation of the exclusivity clause and the alleged unjustified breach of the distribution contract. On 22 July 2019, the appeal to the Court of Cassation was filed, and in parallel, on 20 August 2019, the action for repeal before the Lyon Court of Appeal was filed. With reference to this case, no provision has been made for risks, having obtained the opinion of the legal advisors appointed to assist Tesmec, according to whom the Company's position is founded since there are reasonable expectations in this regard that the correct behaviour of the Company will be recognised and that the judgement in first instance will be confirmed;

- with regard to the dispute started by Tesmec before the Beijing Ordinary Court for the payment of Euro 491 thousand, on 8 July 2019 the company was informed that the competent jurisdiction is that of the international arbitration court CIETAC, which has already issued a favourable arbitration award as for the previous contracts.

  This judgement is certainly to be considered "positive" since the activation of a second CIETAC arbitration that has already analysed in the first proceedings the case of a contract on cross-appeal, recognising the performance of the supply of Tesmec, will probably lead to the confirmation of the analysis already carried out by the Board with order of CMCEC to pay the main amount plus penalties;

- on 9 July 2019, the company Marais Guinée SARLU, 100% owned by Group Marais SA, was set up. The company is based in Conakry (Guinea) and its purpose is the construction of energy telecommunications networks, electricity etc., sale and rental of Trencher machines and mining excavation works.

5.1 Effect of the lease of the AMG business unit

As described above, on 19 June 2019, Tesmec Rail S.r.l. finalised the contract for the lease agreement of the business unit of Advanced Measuring Group S.r.l. (AMG) for a lease payment of Euro 250 thousand per year.

The lease agreement provides for an option to purchase the business unit for a total price of Euro 1,250 thousand, including the lease payments already paid, to be exercised from the fourth year of the lease.

The lease agreement was recognised by virtue of the purchase option and as from 1 July 2019 as the purchase of the business unit, thus recording the identifiable assets and liabilities and the difference emerging with respect to the total value. The differential amounted to Euro 1,230 thousand and has been provisionally allocated among Assets in progress and advance payments to suppliers in that, as provided by IFRS 3, within 12 months after the transaction (i.e. July 2020), the recognition of the acquisition will be completed through the final allocation of the arising differential.

Assets and liabilities at fair value are broken down below:

Book values of the acquired company *(Euro in thousands)*	**Lease of the business unit** **AMG**
Assets	
Property, plant and equipment	20
Total assets	**20**
Liabilities	
Employee benefit liability	69
Total liabilities	**69**
Fair value of net assets acquired	**(49)**
Consideration for the acquisition	**1,181**
Difference between consideration paid and net assets acquired	**1,230**

6. Intangible assets

The breakdown and changes in "Intangible assets" for the period ended 30 September 2019 are shown in the table below:

(Euro in thousands)	01/01/2019	Increases due to purchases	Decreases	Amortisation	Reclassifications	Exchange rate differences	30/09/2019
Development costs	14,941	5,807	-	(5,333)	-	74	15,489
Rights and trademarks	2,286	251	(43)	(900)	-	-	1,594
Other intangible assets	28	-	-	(3)	-	-	25
Assets in progress and advance payments to suppliers	743	1,786	-	-	(2)	-	2,527
Total intangible assets	**17,998**	**7,844**	**(43)**	**(6,236)**	**(2)**	**74**	**19,635**

As at 30 September 2019, *intangible assets* totalled Euro 19,635 thousand, up Euro 1,637 thousand on the previous year. The change mainly refers to development costs, which increased by Euro 5,807 thousand in the first nine months of 2019, and amortisation for the period of Euro 5,333 thousand. These costs are related to projects for the development of new products and equipment that are expected to generate positive cash flows in future years.

The increase in assets in progress and advance payments to suppliers includes Euro 1,230 thousand for the differential generated by the lease of the AMG business unit described in paragraph *5.1 Effect of the lease of the AMG business unit.* As envisaged by IFRS 3, within 12 months after the transaction (i.e. July 2020), the recognition of the transaction will be completed through the final allocation of the emerging differential.

7. Property, plant and equipment

The breakdown and changes in "Property, plant and equipment" for the period ended 30 September 2019 are shown in the table below:

(Euro in thousands)	01/01/2019	Increases due to purchases	Decreases	Depreciations	Reclassifications	Exchange rate differences	30/09/2019
Land	2,985	-	-	-	-	10	2,995
Buildings	15,271	304	-	(466)	-	271	15,380
Plant and machinery	4,637	127	(40)	(745)	-	46	4,025
Equipment	1,759	346	(46)	(429)	(12)	-	1,618
Other assets	19,839	6,304	(2,459)	(3,168)	18	347	20,881
Assets in progress and advance payments to suppliers	846	2	(103)	-	(4)	-	741
Total property, plant and equipment	**45,337**	**7,083**	**(2,648)**	**(4,808)**	**2**	**674**	**45,640**

As at 30 September 2019, property, plant and equipment totalled Euro 45,620 thousand, up compared to the previous year by Euro 283 thousand.
The change is mainly due to the increase in trencher machines registered in the fleet of Euro 5,521 thousand, following the drawing-up of new lease contracts, depreciations for the period of Euro 2,739 thousand and the sale of Euro 2,405 thousand.

8. Rights of use

The breakdown and changes in "Rights of use" for the period ended 30 September 2019 are shown in the table below:

(Euro in thousands)	IFRS 16 FTA	Other changes	Increases	Decreases	Depreciations	Exchange rate differences	30/09/2019
Buildings - rights of use	19,094	(2,140)	642	(92)	(1,852)	(6)	15,646
Motor vehicles - rights of use	1,215	11	113	-	(410)	(1)	928
Hardware - rights of use	95	11	903	-	(178)	-	831
Operating machinery - rights of use	129	(11)	-	-	(22)	4	100
Total rights of use	**20,533**	**(2,129)**	**1,658**	**(92)**	**(2,462)**	**(3)**	**17,505**

The item rights of use refers to the accounting required by IFRS 16 for operating leases as from 1 January 2019, as described in paragraph “4. New accounting standards, interpretations and amendments adopted by the Group”.
As at 30 September 2019, these assets amounted to Euro 17,505 thousand.
The adoption of IFRS 16 introduced some elements of professional judgement that involve the definition of accounting policies and the use of assumptions and estimates, for example, in relation to the determination of the lease term.
During the second quarter of 2019, in the light of the above and following a more in-depth and precise analysis of the Group's contracts, the value of lease liabilities and the corresponding assets for rights of use was reduced by Euro 2,129 thousand.
However, it should be noted that the adjustment to this standard may include any changes assessed both in the light of clarifications by the IASB and in the light of actual industry practice.
The increases for the period mainly refer to lease contracts signed during the period.

9. Work in progress contracts

The following table sets forth the breakdown of Work in progress contracts as at 30 September 2019 and as at 31 December 2018:

(Euro in thousands)	30 September 2019	31 December 2018
Work in progress (Gross)	25,092	13,873
Advances from contractors	(4,326)	(2,850)
Work in progress contracts	**20,766**	**11,023**

“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.

10. Inventories

The following table provides a breakdown of Inventories as at 30 September 2019 compared to 31 December 2018:

(Euro in thousands)	30 September 2019	31 December 2018
Raw materials and consumables	42,526	37,174
Work in progress	17,183	11,377
Finished products and goods for resale	11,611	13,459
Advances to suppliers for assets	949	566
Total inventories	**72,269**	**62,576**

Compared to 31 December 2018, *inventories* recorded an increase of Euro 9,693 thousand thanks to an increased supply in order to be able to cope with the expected sales for the coming months of the year.

11. Trade receivables

The following table provides a breakdown of "Trade receivables" as at 30 September 2019 and as at 31 December 2018:

(Euro in thousands)	30 September 2019	31 December 2018
Trade receivables from third-party customers	61,138	49,850
Trade receivables from associates, related parties and joint ventures	2,510	2,712
Total trade receivables	**63,648**	**52,562**

Trade receivables increased by Euro 11,086 thousand compared to 31 December 2018 thanks to sales in the last part of the period.

12. Financial receivables and other current financial assets

The following table provides a breakdown of financial receivables and other current financial assets as at 30 September 2019 and as at 31 December 2018:

(Euro in thousands)	30 September 2019	31 December 2018
Financial receivables from associates, related parties and joint ventures	3,920	4,373
Financial receivables from third parties	7,433	5,986
Other current financial assets	45	31
Total financial receivables and other current financial assets	**11,398**	**10,390**

The increase in *current financial assets* from Euro 10,390 thousand to Euro 11,398 thousand is due to the recognition of the escrow account described in the previous paragraph *5. Significant events during the period*.

13. Share capital and reserves

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

The following table provides a breakdown of Other reserves as at 30 September 2019 and as at 31 December 2018:

(Euro in thousands)	30 September 2019	31 December 2018
Revaluation reserve	86	86
Extraordinary reserve	33,265	28,935
Change in the consolidation area	-	(555)
Reserve for first-time adoption of IFRS 9	(491)	(491)
Severance indemnity valuation reserve	(701)	(498)
Network reserve	824	824
Retained earnings/(losses brought forward)	(15,641)	(10,784)
Total other reserves	**17,342**	**17,517**

The *revaluation reserve* is a reserve in respect of which tax has been deferred, set up in accordance with Italian Law 72/1983.

The value of the difference from translation of financial statements has a positive impact on shareholders' equity of Euro 1,134 thousand as at 30 September 2019.

As a result of the resolution of 16 April 2019, with the approval of the 2018 financial statements, the Shareholders' Meeting of Tesmec S.p.A. decided to allocate the profit of the parent company of Euro 4,331 thousand to the extraordinary reserve.

14. Medium/long-term loans

During the first nine months of 2019, medium/long-term loans increased from Euro 25,671 thousand to Euro 25,430 thousand mainly due to the stipulation of new medium/long-term loans offset by reclassification in current financial indebtedness of the short-term portion of medium/long-term loans.

15. Interest-bearing financial payables (current portion)

The following table provides details of this item as at 30 September 2019 and as at 31 December 2018:

(Euro in thousands)	**30 September 2019**	**31 December 2018**
Advances from banks against invoices and bills receivables	44,595	47,923
Other financial payables (short-term leases)	659	1,183
Payables due to factoring companies	12,224	11,275
Current account overdrafts	1,917	1,825
Financial payables due to SIMEST	4,000	-
Short-term loans to third parties	410	187
Current portion of medium/long-term loans	13,392	15,733
Other short-term financial payables	1,853	2,378
Total interest-bearing financial payables (current portion)	**79,050**	**80,504**

The decrease in the item *interest-bearing financial payables (current portion)* of Euro 1,454 thousand is mainly due to lower export advances of Euro 3,328 thousand and lower current portion of medium/long-term loans of Euro 2,341 thousand, partially offset by the increase in payables to SIMEST of Euro 4,000 thousand relating to the loan transaction carried out in Marais Technologies SAS in 2015 and expiring on 30 June 2020.

16. 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 and owned by the Group as at 30 September 2019:

(Euro in thousands)	**Loans and receivables/financial liabilities measured at amortised cost**	**Guarantee deposits**	**Cash and cash equivalents**	**Available-for-sale financial assets**	**Fair value recognised in the income statement**
Financial assets:					
Financial receivables	1,834	-	-	-	-
Trade receivables	437	-	-	-	-
Derivative financial instruments	-	-	-	-	2
Total non-current	**2,271**	**-**	**-**	**-**	**2**

Trade receivables	63,648	-	-	-	-
Financial receivables from third parties	11,398	-	-	-	-
Other available-for-sale securities	-	-	-	2	-
Cash and cash equivalents	-	-	20,062	-	-
Total current	**75,046**	**-**	**20,062**	**2**	**-**
Total	**77,317**	**-**	**20,062**	**2**	**2**
Financial liabilities:					
Loans	23,940	-	-	-	-
Non-current portion of finance leases, net	1,490	-	-	-	-
Bond issue	24,723	-	-	-	-
Non-current financial liabilities from rights of use	14,758	-	-	-	-
Derivative financial instruments	-	-	-	-	13
Non-current trade payables	1	-	-	-	-
Total non-current	**64,912**	**-**	**-**	**-**	**13**
Loans	13,802	-	-	-	-
Other financial payables (short-term leases)	659	-	-	-	-
Other short-term financial payables	64,589	-	-	-	-
Current financial liabilities from rights of use	3,066	-	-	-	-
Derivative financial instruments	-	-	-	-	6
Trade payables	58,211	-	-	-	-
Total current	**140,327**	**-**	**-**	**-**	**6**
Total	**205,239**	**-**	**-**	**-**	**19**

Management and types of risk

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

Interest rate risk

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

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

As at 30 September 2019, there were three positions of interest rate swap derivatives hedging the risk related to the potential increase in interest-bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 3.1 million, with a negative equivalent value of Euro 11 thousand. Moreover, there were five interest rate cap positions; the notional value of these positions was equal to Euro 5.6 million, with a negative equivalent value of Euro 6 thousand.

Exchange rate risk

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

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

With regard to net exposure that is mainly represented by receivables in US dollars of Tesmec S.p.A., the only hedging instrument adopted is the purchasing of forwards on the US currency. However, these hedges are carried out only for one part of the total exposure in that the timing of the inflow of the receipts in dollars is difficult to predict at the level of each sales invoice. Besides, for a good part of the sales in dollars, the Group uses the production of the American factory with costs in US dollars by creating in this way a sort of natural hedging of the currency exposure.

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

i) selling trenchers produced in Italy in Middle Eastern countries;

ii) selling stringing machines produced in Italy in the USA where purchases are in euro, and sales in US dollars.

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

Credit risk

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

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

Price risk

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

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

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

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

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

Liquidity/cash flow variation risks

Financial requirements and related risks (mainly interest rate risks, liquidity and exchange rate risks) are managed by the Group based on guidelines defined by the Group General Management and approved by the Chief Executive Officer of the Parent Company.

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

Forms of financing most commonly used are represented by:

- medium/long-term loans with multi-year redemption plan, to cover the investments in fixed assets and to finance expenses related to several development projects;
- short-term loans, advances on export, transfers of trade receivables, to finance the working capital.

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

Risks related to transactions with suppliers

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

Disclosures: hierarchy levels of fair value measurement

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

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

The following table shows the assets and liabilities that are measured at fair value as at 30 September 2019, divided into the three levels defined above:

(Euro in thousands)	**Book value as at 30 September 2019**	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Derivative financial instruments	2	-	2	-
Total non-current	**2**	**-**	**2**	**-**
Other available-for-sale securities	2	-	-	2
Total current	**2**	**-**	**-**	**2**
Total	**4**	**-**	**2**	**2**
Financial liabilities:				
Derivative financial instruments	13	-	13	-
Total non-current	**13**	**-**	**13**	**-**
Derivative financial instruments	6	-	6	-
Total current	**6**	**-**	**6**	**-**
Total	**19**	**-**	**19**	**-**

17. Revenues from sales and services

The table below shows the breakdown of Revenues from sales and services as at 30 September 2019 and as at 30 September 2018:

(Euro in thousands)	As at 30 September 2019	2018
Sales of products	104,198	105,397
Services rendered	28,838	31,772
Changes in work in progress	11,172	3,324
Total revenues from sales and services	**144,208**	**140,493**

In the first nine months of 2019, the Group recorded consolidated revenues of Euro 144,208 thousand, an increase of Euro 3,715 thousand compared to Euro 140,493 thousand in the same period of the previous year. In percentage terms, this increase represents a positive difference of 2.6%, which is split unevenly between the Group's three business areas. More specifically, an increase of +44.6% was recorded for the Rail segment, +4.2% for the Energy segment, and a decrease of -5.1% for the Trencher segment.

With regard to the Energy segment, revenues as at 30 September 2019 amounted to Euro 31,481 thousand, an increase of 4.2% compared to Euro 30,200 thousand as at 30 September 2018; in particular, in the first nine months of 2019, the Energy-Automation segment achieved revenues of Euro 7,971 thousand, an increase of 29.5% compared to Euro 6,157 thousand as at 30 September 2018, in line with the growth prospects for the year for this segment.

Revenues in the Trencher segment decreased by 5.1% compared to 30 September 2018. The decrease is due to the performance of the Australian market, where the Group focused on a smaller number of projects following the reorganisation that took place on site and the implementation of the new business model that led to the redefinition of the contractual logic. However, this decrease will be offset by the opportunities expected in the last three months of the year in the various reference segments. During the period, the performance of the American market and the start of business in the mining and 5G sectors in the key Countries: USA, Africa, United Kingdom and France.

The Rail segment recorded revenues as at 30 September 2019 of Euro 23,329 thousand, an increase of 44.6% compared to Euro 16,136 thousand recorded as at 30 September 2018. The improvement is due to the performance of the existing contracts with RFI and with TEM FERRO on the French market.

18. Operating costs

Operating costs amounted to Euro 140,304 thousand and increased by 0.9% compared to the previous year, less than the trend in revenues.

19. Segment Reporting

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

Energy segment

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

Trencher segment

- high-efficiency crawler trenching machines for excavation with a set section for the construction of infrastructures for the transmission of data, raw materials and gaseous and liquid products in the various segments: energy, farming, chemical and public utilities;
- crawler trenching machines for working in the mines, surface works and earth moving works (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.

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

	As at 30 September							
	2019				2018			
(Euro in thousands)	**Energy**	**Trencher**	**Rail**	**Consolidated**	**Energy**	**Trencher**	**Rail**	**Consolidated**
Revenues from sales and services	31,481	89,398	23,329	144,208	30,200	94,157	16,136	140,493
Operating costs net of depreciation and amortisation	(27,696)	(79,617)	(19,485)	(126,798)	(27,926)	(86,464)	(13,859)	(128,249)
EBITDA	**3,785**	**9,781**	**3,844**	**17,410**	**2,274**	**7,693**	**2,277**	**12,244**
Amortisation and depreciation	(4,405)	(6,671)	(2,430)	(13,506)	(3,319)	(5,708)	(1,770)	(10,797)
Total operating costs	**(32,101)**	**(86,288)**	**(21,915)**	**(140,304)**	**(31,245)**	**(92,172)**	**(15,629)**	**(139,046)**
Operating income	**(620)**	**3,110**	**1,414**	**3,904**	**(1,045)**	**1,985**	**507**	**1,447**
Net financial income/(expenses)				(2,550)				(2,848)
Pre-tax profit/(loss)				**1,354**				**(1,401)**
Income tax				(630)				644
Net profit/(loss) for the period				**724**				**(757)**
Profit/(loss) attributable to non-controlling interests				8				18
Group profit/(loss)				**716**				**(775)**

(*****) The interim consolidated report on operations includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance of the Tesmec Group. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the Group's historical accounting data and are determined in accordance with the provisions of the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 as per CONSOB Communication no. 92543 of 3 December 2015. The following Alternative Performance Measures are presented in this table of the Interim consolidated report on operations:

EBITDA: is represented by the operating income including amortisation/depreciation and can be directly inferred from the consolidated income statement.

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

The following table shows the consolidated statement of financial position by operating segment as at 30 September 2019 and as at 31 December 2018:

	As at 30 September 2019					As at 31 December 2018				
(Euro in thousands)	**Energy**	**Trencher**	**Rail**	**Not allocated**	**Consolidated**	**Energy**	**Trencher**	**Rail**	**Not allocated**	**Consolidated**
Intangible assets	9,061	4,547	6,027	-	19,635	9,674	4,258	4,066	-	17,998
Property, plant and equipment	1,916	35,651	8,073	-	45,640	2,005	35,354	7,978	-	45,337
Rights of use	7,699	9,232	574	-	17,505	-	-	-	-	-
Financial assets	3,171	2,333	1	515	6,020	3,123	2,329	1	448	5,901
Other non-current assets	1,327	5,025	153	6,246	12,751	1,271	4,146	92	7,138	12,647
Total non-current assets	**23,174**	**56,788**	**14,828**	**6,761**	**101,551**	**16,073**	**46,087**	**12,137**	**7,586**	**81,883**
Work in progress contracts	-	-	20,766	-	20,766			11,023	-	11,023
Inventories	19,284	50,034	2,678	273	72,269	16,920	43,444	2,212	-	62,576
Trade receivables	9,532	40,311	11,461	2,344	63,648	11,370	34,605	6,587	-	52,562

Other current assets	1,894	3,562	6,569	10,033	22,058	2,397	3,859	8,953	9,363	24,572
Cash and cash equivalents	1,390	1,198	7,262	10,212	20,062	880	1,487	18,517	21,909	42,793
Total current assets	**32,100**	**95,105**	**48,736**	**22,862**	**198,803**	**31,567**	**83,395**	**47,292**	**31,272**	**193,526**
Total assets	**55,274**	**151,893**	**63,564**	**29,623**	**300,354**	**47,640**	**129,482**	**59,429**	**38,858**	**275,409**
Shareholders' equity attributable to parent company shareholders	**-**	**-**	**-**	**44,952**	**44,952**	**-**	**-**	**-**	**43,303**	**43,303**
Shareholders' equity attributable to non-controlling interests	**-**	**-**	**-**	**42**	**42**	**-**	**-**	**-**	**35**	**35**
Non-current liabilities	**2,161**	**8,285**	**6,357**	**59,208**	**76,011**	**1,153**	**5,834**	**3,047**	**50,088**	**60,122**
Current financial liabilities	2,770	7,301	9,577	62,474	82,122	986	7,045	8,604	63,869	80,504
Trade payables	11,583	36,682	9,946	-	58,211	12,896	28,653	12,801	-	54,350
Other current liabilities	1,326	7,859	17,660	12,171	39,016	1,688	9,898	17,592	7,917	37,095
Total current liabilities	**15,679**	**51,842**	**37,183**	**74,645**	**179,349**	**15,570**	**45,596**	**38,997**	**71,786**	**171,949**
Total liabilities	**17,840**	**60,127**	**43,540**	**133,853**	**255,360**	**16,723**	**51,430**	**42,044**	**121,874**	**232,071**
Total shareholders' equity and liabilities	**17,840**	**60,127**	**43,540**	**178,847**	**300,354**	**16,723**	**51,430**	**42,044**	**165,212**	**275,409**

20. Related party transactions

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

	As at 30 September 2019					**As at 30 September 2018**				
(Euro in thousands)	**Revenues**	**Cost of raw materials**	**Costs for services**	**Other operating costs/revenues, net**	**Financial income and expenses**	**Revenues**	**Cost of raw materials**	**Costs for services**	**Other operating costs/revenues , net**	**Financial income and expenses**
Associates:										
Locavert S.A.	617	(9)	-	-	6	131	-	-	-	-
Subtotal	**617**	**(9)**	**-**	**-**	**6**	**131**	**-**	**-**	**-**	**-**
Joint Ventures:										
Condux Tesmec Inc.	2,153	-	-	133	8	3,179	-	(9)	125	2
Tesmec Peninsula	270	-	-	-	34	87	(310)	(35)	-	38
Subtotal	**2,423**	**-**	**-**	**133**	**42**	**3,266**	**(310)**	**(44)**	**125**	**40**
Related parties:										
Ambrosio S.r.l.	-	-	-	(8)	(1)	-	-	-	(11)	-
TTC S.r.l.	-	-	(79)	-	-	-	-	(53)	-	-
Ceresio Tours S.r.l.	-	-	(6)	-	-	-	-	(5)	-	-
Dream Immobiliare S.r.l.	-	-	-	(970)	(174)	-	-	-	(1,727)	-
FI.IND	-	-	-	28	-	-	-	-	28	-
M.T.S. Officine meccaniche S.p.A.	7,417	-	3	(1,422)	(5)	4,707	-	6	(1,824)	36
MTS4SERVICE USA LLC	1,510	-	-	(485)	-	7,337	-	-	(324)	20
COMATEL	82	-	-	-	-	149	-	-	-	-
C2D	-	-	-	-	-	-	-	(230)	-	-
Subtotal	**9,009**	**-**	**(82)**	**(2,875)**	**(180)**	**12,193**	**-**	**(282)**	**(3,858)**	**56**
Total	**12,049**	**(9)**	**(82)**	**(2,724)**	**(132)**	**15,590**	**(310)**	**(326)**	**(3,733)**	**96**

(Euro in thousands)	As at 30 September 2019					31 December 2018				
	Trade receivables	Current financial receivables	Current financial payables	Trade payables	Advances from customers	Trade receivables	Current financial receivables	Current financial payables	Trade payables	Advances from customers
Associates:										
Locavert S.A.	487	-	-	-	-	43	-	-	3	-
R&E Contracting	-	179	-	-	-	-	180	-	-	-
Subtotal	**487**	**179**	**-**	**-**	**-**	**43**	**180**	**-**	**3**	**-**
Joint Ventures:										
Condux Tesmec Inc.	1,052	218	-	-	-	394	656	-	-	-
Tesmec Peninsula	234	2,126	1,853	-	-	174	2,022	1,995	-	-
Marais Tunisie	-	2	-	-	-	-	1	-	-	-
Marais Lucas	-	794	-	173	-	-	794	-	-	-
Subtotal	**1,286**	**3,140**	**1,853**	**173**	**-**	**568**	**3,473**	**1,995**	**-**	**-**
Related parties:										
TTC S.r.l.	-	-	-	42	-	-	-	-	113	-
Ceresio Tours S.r.l.	-	-	-	1	-	-	-	-	4	-
Dream Immobiliare S.r.l.	-	601	-	267	-	-	720	-	273	-
Ambrosio S.r.l.	-	-	-	4	-	-	-	-	-	-
Fi.ind.	-	-	-	-	-	27	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	731	-	-	1,991	-	145	-	330	1,459	-
MTS4SERVICE USA LLC	6	-	-	284	20	1,874	-	-	525	55
Comatel	-	-	-	-	-	55	-	-	-	-
Subtotal	**737**	**601**	**-**	**2,589**	**20**	**2,101**	**720**	**330**	**2,374**	**55**
Total	**2,510**	**3,920**	**1,853**	**2,762**	**20**	**2,712**	**4,373**	**2,325**	**2,377**	**55**

At the date of this report, the company C2D was no longer a related party.

21. Significant events occurring after the end of the reporting period

Events occurring after the reporting period included:

- on 18 October 2019, the subsidiary Tesmec Rail S.r.l. signed a contract for a total value of Euro 8 million with the Czech Group Elektrizace železnic Praha a.s. ("ELZEL") for the supply of multipurpose railway boogie vehicles for line maintenance, as well as for full maintenance service (FMS) activities with a duration of 6 years. In detail, the Tesmec Group will supply 4 boogie vehicles complete with signalling system, model OCPD001-CZ, for the maintenance of catenary wire systems, manufactured in compliance with the highest safety standards currently in force in the European Union, according to the EN14033 standard. These are multifunctional, versatile and multipurpose vehicles, equipped with an on-board technological subsystem for running in train mode (maximum speed 140 km/h), thus able to ensure the operation of passenger trains throughout the country without requiring the interruption of the railway line. The vehicles are equipped with a platform, terrace and crane with integrated polygonator to ensure that work is carried out more safely, efficiently and quickly. The contract also provides for the supply of diagnostic systems capable of detecting the height and polygonation of the catenary wire for the certification of the activities carried out. The vehicles will be delivered between January and June 2020.

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

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

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

   of the administrative and accounting procedures adopted to prepare the Interim consolidated report on operations as at 30 September 2019.

2. We also certify that:

2.1 the Interim consolidated report on operations as at 30 September 2019:

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

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

Grassobbio, 31 October 2019

Ambrogio Caccia Dominioni

Chief Executive Officer

Gianluca Casiraghi

Manager responsible for preparing the Company's financial statements www.tesmec.com

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