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TESMEC

Annual Financial Report 2020

Investor Relator
Marco Paredi
Tel: +39.035.4232840 - Fax: +39.035.3844606
email: ir@tesmec.com

Tesmec S.p.A.
Registered Office: Piazza Sant'Ambrogio, 16 – 20123 Milan
Fully paid-up share capital as at 31 December 2020 Euro 15,702,162
Milan Register of Companies no. 314026
Tax and VAT code: 10227100152

Website: www.tesmec.com
Switchboard: +39.035.4232911

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NOTICE OF CALL

TESMEC S.P.A.

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CALL OF THE ORDINARY SHAREHOLDERS' MEETING

The persons legitimately entitled to attend and exercise voting rights are convened to the ordinary Shareholders' Meeting of Tesmec S.p.A. ("**Tesmec**" or "**Company**") at Notary Practice SNPZ Notai a Milano, in Milan, Piazza della Repubblica, 28, on 22 April 2021 at 10:30 on single call, to discuss and deliberate on the following:

AGENDA

1. **Approval of the financial statements as at 31 December 2020 and presentation of the Tesmec Group's consolidated financial statements and relevant reports, including the consolidated non-financial statement; allocation of result for the period; related and consequent resolutions.**
   - **1.1 Approval of the financial statements as at 31 December 2020 and the Board of Directors' report on operations;**
   - **1.2 Allocation of profit or loss for the period.**
2. **Resolutions regarding the report on the policy of remuneration and compensation paid pursuant to Article 123-*ter* of Legislative Decree 58/1998 and Article 84-*quater* of CONSOB Regulation no. 11971/1999; related and consequent resolutions.**
   - **2.1 Binding vote on the remuneration policy relating to 2021 illustrated in the first section of the report;**
   - **2.2 Consultation on the second section of the report regarding the fees paid in 2020 or relating to them.**
3. **Authorisation to purchase and dispose of treasury shares; related and consequent resolutions.**

Additional information regarding the COVID-19 (Coronavirus) health emergency

In compliance with what is permitted by Article 106, paragraph of the "Cura Italia" (Heal Italy) Decree, as subsequently extended, in respect of the fundamental principles for the protection of health, Shareholders cannot physically take part in the Shareholders' Meeting and they may attend exclusively through the designated representative pursuant to Article 135-*undecies* of the Consolidated Law on Finance (T.U.F.), in compliance with the legal provisions and the legislation in force, as better specified below in this call notice in the paragraph "Participation in the Shareholders' Meeting and conferral of the proxy to the designated representative".

Information in the share capital at the date of the call notice

The share capital of Tesmec totals Euro 15,702,162.00 represented by 606,460,200 ordinary shares with no nominal value. The shares are registered, indivisible, freely transferable and, pursuant to Article 9 of the Articles of Association, each share gives the right to one vote in the ordinary and extraordinary Shareholders' Meetings of the Company. At the time of this notice of call, the Company holds 4,711,879 treasury share.

Right to attend and vote at the Shareholders' Meeting

Pursuant to the law, those who have the right to vote may attend the Shareholder's Meeting. The right to attend and vote in the Shareholders' Meeting - which, as better specified below in this call notice in the paragraph "Participation in the Shareholders' Meeting and conferral of the proxy to the Designated Representative", may take place exclusively through the designated representative - is certified by a notification to the Company, issued by the intermediary, in favour of the person who has the right to vote, on the basis of the evidence at the end of the accounting day of the seventh day of open market before the date scheduled for the Shareholders' Meeting in single call ("record date"), coinciding with Tuesday, 13 April 2021. Therefore, those who are the holders of the shares only after the record date mentioned above will be not entitled to attend and vote at the Shareholders' Meeting. The notification of the above intermediary must reach the Company by the end of the third open market day prior to the date set for the Shareholders' Meeting (i.e. Monday, 19 April 2021). The right to attend and vote in any event is unaffected if the notification is received by the Company after the said deadline provided that it is received by the start of the proceedings of the Shareholders' Meeting forming the object of this call.

The directors, statutory auditors, representatives of the independent auditors, the notary, the Designated Representative and the other subjects allowed to participate in the Shareholders' Meeting pursuant to the law and the Articles of Association, other than those who are entitled to vote, may take part in the Shareholders' Meeting also, or exclusively, through the use of remote connection systems that guarantee the identification of the participants and their participation, in observance of the applicable provisions in force, according to the methods communicated by the Company to the aforementioned subjects.

In consideration of the method in which the Shareholders' Meeting will be held, it shall be considered traditionally called and held at the offices of Notary Practice SNPZ Notai a Milano, in Milan, Piazza della Repubblica, 28.

There are no procedures for postal votes or by electronic means.

Participation in the Shareholders' Meeting and conferral of proxy to the Designated Representative

Taking into account the measures taken to deal with the exceptional emergency situation resulting from the COVID-19 epidemic, pursuant to the provisions of the "Cura Italia" (Heal Italy) Decree, the Shareholders' Meeting will be attended by those entitled to vote without access to the Shareholders' Meeting venues. In fact, the Company chose to avail itself of the right set forth in Article 106, paragraph 4, of the "Cura Italia" (Heal Italy) Decree, as subsequently extended, which enables companies with listed shares to set forth, in the call notice, that the Shareholders' Meeting can only be attended through the designated representative pursuant to Article 135-*undecies* of the Consolidated Law on Finance (T.U.F.). Consequently, the Company assigned an engagement to [Computershare S.p.A. – with registered office in Via Lorenzo Mascheroni no. 19, 20145 - Milan (MI) – to represent the Shareholders pursuant to Article 135-*undecies* of the Consolidated Law on Finance (T.U.F.) and the provisions of the "Cura Italia" (Heal Italy) Decree (the "**Designated Representative**"). All those with the right to attend and vote who intend to take part in the Shareholders' Meeting must therefore confer, as per mandatory requirements, the appropriate proxy to the Designated Representative.

Conferral of proxies to the Designated Representative pursuant to Article 135-undecies of the Consolidated Law on Finance (T.U.F.)

The proxy pursuant to Article 135-*undecies* of the Consolidated Law on Finance (T.U.F.) may be conferred, at no expense for the delegating party (with the exception of any postage expenses), through the specific form, prepared by said Designated Representative in agreement with the Company, and made available, with the associated instructions for compilation and transmission, on the Company's website at the address www.tesmec.com (Governance / Shareholders' Meetings section) in the section dedicated to this Shareholders' Meeting as well as at the Company's registered office and/or administrative office.

The proxy form to be notified to the Designated Representative with the relevant voting instructions together with an identity document and any documentation proving signing powers must be sent by following the instructions on the form itself and on the Company website before the second open market day before the Shareholders' Meeting (i.e. by Tuesday **20 April 2021**) and the conferral of the proxy may be revoked within the aforementioned deadline and using the same methods.

The proxy thereby granted is effective only for those draft resolutions in relation to which voting instructions are given.

Conferral of proxies and sub-proxies to the Designated Representative pursuant to Article 135-undecies of the Consolidated Law on Finance (T.U.F.)

It should also be noted that, pursuant to the "Cura Italia" (Heal Italy) Decree, as subsequently extended, the Designated Representative, in derogation of Article 135-*undecies*, paragraph 4, of the Consolidated Law on Finance (T.U.F.), may also be assigned ordinary proxies or sub-proxies in accordance with Article 135-*novies* of the Consolidated Law on Finance (T.U.F.), by following the instructions indicated in the form available on the Company's website at the address www.tesmec.com (Governance / Shareholders' Meetings section) in the section dedicated to this Shareholders' Meeting as well as at the Company's registered office and/or administrative office.

Those who do not avail themselves of the proxy right pursuant to Article 135-*undecies* of the Consolidated Law on Finance (T.U.F.), alternatively, can confer ordinary proxies or sub-proxies pursuant to Article 135-*novies* of the Consolidated Law on Finance (T.U.F.), with the associated written voting instructions, exclusively by using the appropriate proxy/sub-proxy form to be notified to the Designated Representative with the associated voting instructions, together with an identity document and any documentation proving signing powers by following the instructions on the form itself and on the Company website before 12.00 on Wednesday **21 April 2021**, notwithstanding that the Designated Representative may accept the proxies and/or instructions even after the aforementioned deadline and before the opening of Shareholders' Meeting proceedings), and the conferral of the proxy may be revoked within the aforementioned deadline and according to the same methods.

The proxy thereby granted is effective only for those draft resolutions in relation to which voting instructions are given.

For any clarifications regarding the conferral of the proxy to the Designated Representative (and, in particular, regarding the compilation of the proxy form and the voting instructions and their transmission), as well as for requesting the proxy form, the Designated Representative will be available for clarifications or information at the number +39 011 092 3200 or via e-mail at the address sedeto@computershare.it.

The Company reserves the right to supplement and/or modify the instructions reported above, in consideration of any needs that arise as a result of the current epidemiological emergency (COVID-19) and its developments which are unforeseeable at present.

Right to pose questions before the Shareholders' Meeting

Pursuant to Article 127-*ter* of the Consolidated Law on Finance (T.U.F.), those who hold voting rights at the Shareholders' Meeting can submit questions on the items on the agenda including before the Shareholders' Meeting, by sending them to the e-mail address tesmecspa@pec.it. Requesting parties must provide the information that allows their identification and the appropriate documentation proving that they are entitled to exercise the voting right, issued by the depositary intermediary or, where lacking, the references of the communication issued by the intermediary with an indication of the intermediary itself. Questions received before the Shareholder's Meeting are answered at the latest during the meeting. The Company can provide a unified response to questions with the same content.

Those who intend to avail themselves of said right, must send their questions to the Company by the fifth open market day prior to the date set for the Shareholders' Meeting on single call (i.e. by Thursday 15 April 2021).

Additions to the agenda and submission of new draft resolutions

Pursuant to Article 126-*bis* of the Consolidated Law on Finance (T.U.F.), the Shareholders who, including jointly, represent at least one fortieth of the share capital with voting rights can request, within ten days from the publication of this notice, additions to the agenda, specifying in the request the further arguments or the new draft resolutions proposed on items already on the agenda. The request must be submitted in writing by the proposing Shareholders by e-mail to the address tesmecspa@pec.it, accompanied by the relevant communication issued by the intermediary proving the ownership of the above-mentioned fraction of share capital. Within the above-mentioned term of ten days and using the same methods, any proposing Shareholder must deliver to the Board of Directors a report that outlines the reason for the draft resolutions on new items that they propose be discussed or the reason for the additional draft resolutions submitted on items already on the agenda. No addition to the agenda is allowed for those arguments on which the Shareholders' Meeting resolves, in accordance with the law, upon proposals made by the directors or on the basis of a project or report prepared by them, other than those indicated under Article 125-*ter*, paragraph 1, of the Consolidated Law on Finance (T.U.F.)

For any addition to the agenda or the submission of additional draft resolutions on items already on the agenda of the Shareholders' Meeting, a notice is given through the same modalities used for the publication of this notice, at least fifteen days before the date scheduled for the Shareholders' Meeting (i.e. by Wednesday 7 April 2021). On the same date, the Company provides the public, according to the methods set out in Article 125-*ter*, paragraph 1, of the Consolidated Law on Finance (T.U.F.), with the additional draft resolutions on the items already on the agenda, the reports presented by Shareholders, as well as any assessments by the Board of Directors.

Documents

The documents relating to the items on the agenda of the Shareholders' Meeting, including therein the reports containing the draft resolutions on the same, will be made available to the public within the terms provided by law through the filing at the administrative office in Grassobbio (BG), Via Zanica 17/O of the Company and on the website of Borsa Italiana S.p.A., in the centralised storage mechanism eMarketStorage which can be consulted at the address www.emarketstorage.it, and will also be available on the Company's website www.tesmec.com, "*Shareholders' Meetings* section, in accordance with the terms of the legislation in force, with the Shareholders and the parties legitimately entitled to vote able to obtain a copy of them. As a result of the restrictions issued by the competent Authorities, notification is provided to the Shareholders that access to the Company's registered office and/or administrative office may be allowed with the methods and terms to be defined.

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

Grassobbio, 12 March 2021

Tesmec S.p.A.

COMPOSITION OF THE CORPORATE BODIES

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

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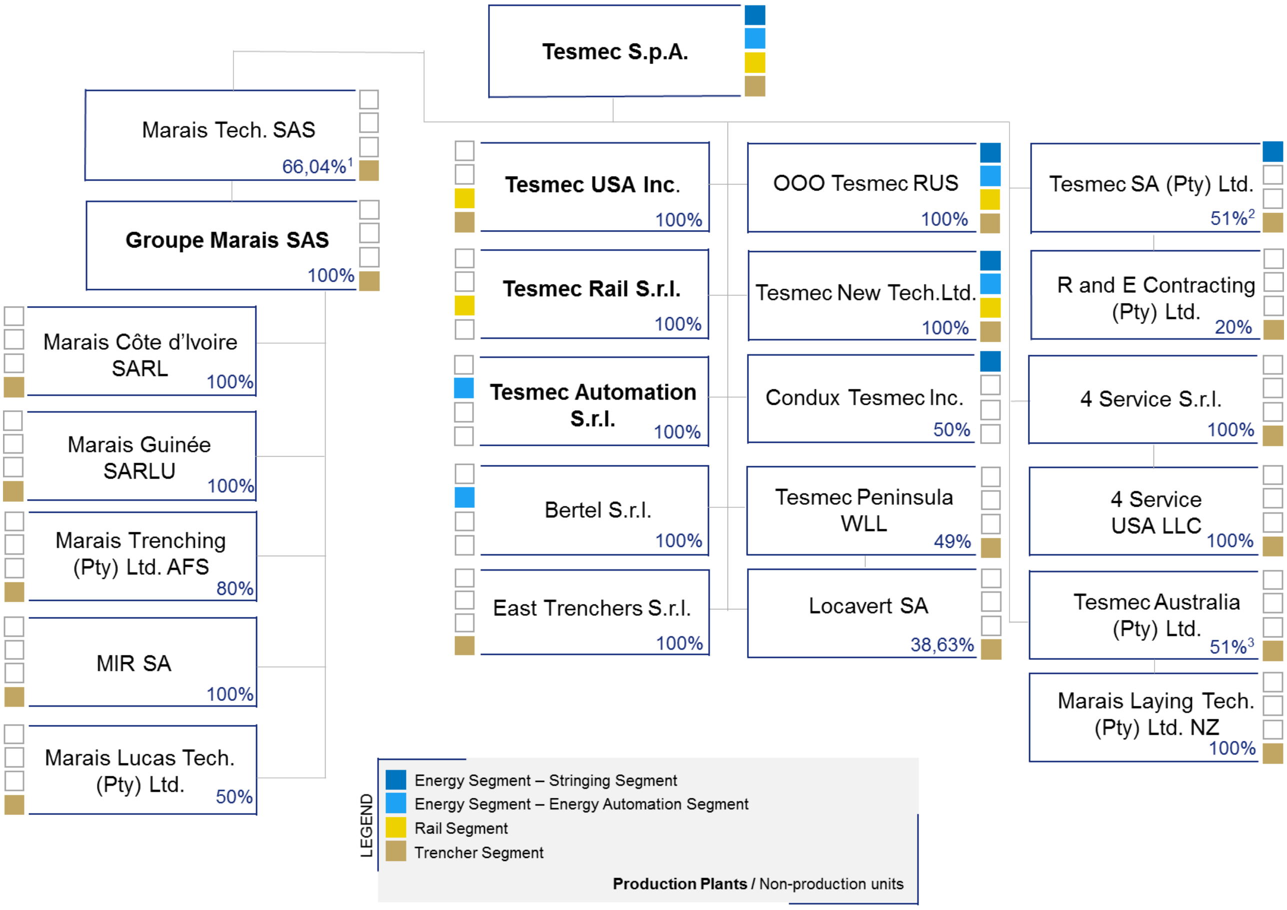
Lead Independent Director	Paola Durante
Director in charge of the internal control and risk management system	Caterina Caccia Dominioni
Manager responsible for preparing the Company's financial statements	Marco Paredi
Independent Auditors	Deloitte & Touche S.p.A.

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 in Marais Technologies SAS is consolidated on a 100% basis.

(2) The remaining 49% is held by Simest S.p.A. Since Tesmec has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the shareholding in Tesmec SA is consolidated on an 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 in Tesmec Australia (Pty) Ltd. is consolidated on a 100% basis.

REPORT ON OPERATIONS

1. Introduction

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

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, has 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 900 employees and has 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, France, Australia, New Zealand and Ivory Coast.

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);
- rental of trencher machines;
- 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.

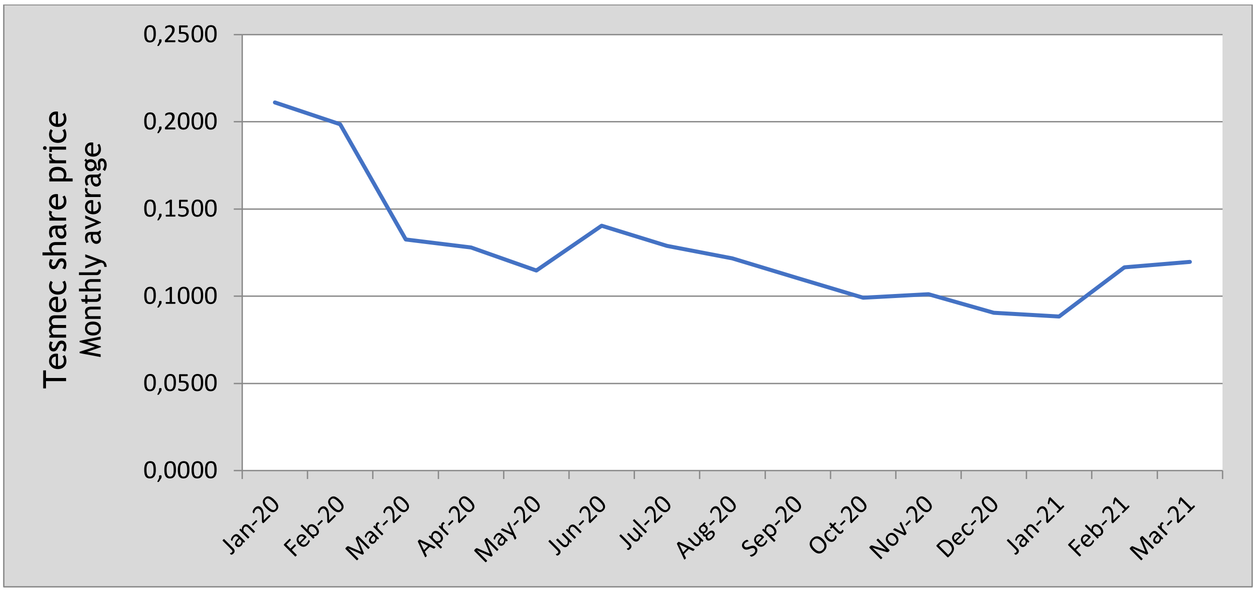
Rail segment

- 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 or rental of machinery to the supply of know-how relating to the use of systems and optimisation of work, to all pre- and post-sales services related to machinery and the increase in site efficiency.

2. Tesmec on the Stock Exchange Market

As at 31 December 2020, the reference price of the Tesmec share was equal to Euro 0.0802 per share while market capitalisation as at 31 December 2020 amounted to Euro 48.6 million, as a result of the completion of the share capital increase to support the 2020-2023 business plan. At the date of this report, the reference price is Euro 0.1230 per share, and the capitalisation is approximately Euro 74.6 million. The following chart shows the listing price trend of the shares of the Parent Company from 1 January 2020 to March 2021:



Reference price as at 31 December 2020	0.0802
Reference price as at 11 Mach 2021	0.1230
Maximum price (15 January 2020) (1)	0.2177
Minimum price (8 December 2020) (1)	0.0750

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

3. Macroeconomic Framework

Global economic activity, after a higher than expected recovery in the summer months, slowed down in the fourth quarter, affected by the new pandemic wave, especially in advanced countries. The recurrence of the pandemic between October and December and the consequent strengthening of the containment measures in many countries resulted in a new slowdown in the global economy in the last quarter of 2020. The launch of the vaccination campaigns has had a positive effect on the longer term prospects, but the timing of large-scale distribution and administration of vaccines, on which the effects of the recovery on the economic cycle will depend, is still uncertain.

As a whole, in 2020, world trade contracted by 9%. Consumer inflation in the main advanced economies remains below pre-pandemic levels. Long-term inflation expectations on the financial markets increased after positive news on the effectiveness of vaccines, which led to more favourable assessments on growth in the medium term. According to the OECD forecasts released in December, the global product should return to expand by 4.2% in 2021, exceeding the pre-pandemic levels by the end of the year. The projections were affected by the continued support for expansionary economic policies in the international context and a large-scale vaccination by the end of the current year. Therefore, the recovery could be slowed down by the effects of further recurrences of infections if these are not supported by new tax supporting measures.

According to the most recent indicators, in the Eurozone economic activity weakened in the last part of the year, with the recurrence of infection and the tightening of containment measures. In December, Eurosystem experts projected that GDP would fall by 7.3% in 2020, while in the following three years it would grow by 3.9%, 4.2% and 2.1%. At the meeting of 10 December, the Governing Council of the ECB expansively recalibrated the monetary policy instruments to help preserve favourable financing conditions in the face of the effects of the pandemic on the economy and on prices, which are expected to last longer than previously assumed. On the same date, the European Council reached an agreement on the EU budget and on the instrument for the recovery of the European Union: the *Next Generation EU* (NGEU), whose financial resources for the entire period are over one thousand billion. To encourage economic recovery, on 18 December the Presidency of the Council of the EU and the negotiators of the European Parliament reached a provisional agreement on the basis of which, after ratification, the Member States will be able to request a 13% pre-financing of the requested funds, subject to approval of *the Recovery and Resilience Plan*.

The conditions on the international financial markets gradually improved as a result of the elimination of uncertainty over the outcome of the US elections and the widespread optimism on the effectiveness of some vaccines. However, prices remain vulnerable to pandemic developments. Long-term rates remained at low or slightly negative levels in the main advanced economies where monetary policies remained highly accommodating. Share prices have risen since November in all the main advanced countries. From the end of the first ten days of October, the Euro strengthened by 4.3% against the dollar and, in the future, expectations of further strengthening prevail. Since the end of October, oil prices have risen, reaching values close to USD 50 dollars per barrel. The dissemination of encouraging news on vaccines, the overcoming of uncertainty over the outcome of the US elections and the stability of Asian demand contributed to this. In fact, in China, where infections have almost disappeared since last spring, indices show an expansion in all sectors.

In Italy, growth in the summer months of 2020 was higher than expected, indicating a significant resilience in our economy. However, in the fourth quarter as a whole, activity declined again with the recurrence of the pandemic. Based on available information, the decline in GDP in the fourth quarter is currently estimated at around a central value of -3.5% on the previous period. This trend appears to be consistent with those of a number of important indicators that are available on a very timely basis, such as the decline, albeit limited, in the consumption of gas for industrial and use and electricity, and the sharp decline, over the entire period, in motorway traffic. The recurrence of the pandemic required new measures to restrict economic activity and personal mobility, albeit far less intense than those applied in the spring: the activities suspended by the measures in force since 24 October 2020 represent a share of total added value of around 4%, compared with 28% in the spring. The economic information available so far, both qualitative and quantitative, suggests that the decline in activity was strong in services and marginal in manufacturing.

According to the usual quarterly surveys of the Bank of Italy, the second wave of the pandemic, which spread in Italy in the autumn, had an impact on the ratings of companies with regard to the general economic situation: evaluations became less favourable, although they remained far from the low levels reached in the first half of the year. 77% of companies strictly operating in the industrial sector report current production levels that are still lower than those prior to the onset of the epidemic, and the time required for full recovery is currently estimated at 15 months on average. In this context, companies envisage an increase in investment spending in the current year.

In October-November, exports of goods to non-EU markets slowed down, and in October sales to EU countries stagnated. However, the indices on foreign orders of manufacturing companies are around the threshold compatible with an expansion in sales. On average, in 2020, Italy's exports and overall price competitiveness are estimated to have worsened, albeit modestly, especially on markets outside the Union, reflecting the appreciation of the nominal euro exchange rate. The trading surplus benefited from low oil prices, while the higher purchases of healthcare products contributed to reducing the non-energy surplus.

However, as regards the labor market, the latest available data indicates an increase in the number of applications for the redundancy fund (CIG, Cassa Integrazione Guadagni) and a slowdown in job creation. The drop in temporary work, more responsive to cyclical conditions, is estimated to have been offset by the stability of permanent employment supported by the extension of the freeze on terminations. The number of hours of wage support increased again in the autumn, but remained well below the levels reached during the health emergency in the spring. In this context, household spending weakened in the final part of the year and the propensity to save remained high. However, fears of infection, rather than restrictive measures, are still holding back consumption.

Banks continued to meet the demand for funds from businesses. Overall, supply conditions remained relaxed, also thanks to monetary policy and government measures in support of liquidity. Unlike the other main countries of the Eurozone, the trend in lending to non-financial companies remains strong, still driven by the extensive use by companies of loans covered by public guarantees. As from the end of the first ten days of October, the yields of Italian government bonds decreased on all maturities. The decline was mainly driven by the reduction in the sovereign risk premium. The volatility of share prices decreased and, after initial declines related to renewed fears of the increase in infections in October, share prices showed strong increases in November.

In response to the worsening of the health emergency, in the last quarter of 2020, the Government launched further expansionary measures to support households and businesses. The worsening of the macroeconomic scenario and the measures to support the economy led to a significant deterioration of the public accounts in the year as a whole. Based on preliminary December data, the debt-to-GDP ratio is estimated to have increased by more than 20 percentage points to around 156% in 2020. The budget measures for the three-year period from 2021 to 2023, approved at the end of December in Parliament, increases the GDP deficit by 1.4% in 2021 and by 0.6% in 2022, and reduces it by 0.2% in 2023. Expansionary measures are envisaged for Euro 38 billion in 2021, Euro 40 billion in 2022 and Euro 33 billion in 2023, almost three quarters of which are spending increases. An additional expansionary impulse with respect to the provisions included in the measures should come from the additional measures that will have to be defined as part of the European Union's recovery instrument, the *Next Generation EU* (NGEU).

The outlook remains highly dependent on both the evolution of the pandemic and the measures taken to counteract the increase in infections and to mitigate its impact on economic activity. The Bank of Italy's baseline projection assumes that, after the second wave of infections last autumn, the epidemic will gradually come under control in the first half of this year and that the health emergency will be completely overcome by 2022, thanks mainly to the vaccination campaign. Based on

these assumptions, the product, still weak at the beginning of the year, is estimated to grow significantly from the spring, coinciding with the assumed improvement in the health situation. On average, after declining by 9.2% in 2020, GDP should expand by 3.5% this year, 3.8% next year and 2.3% in 2023, returning to pre-pandemic levels during 2023.
Product growth could be higher if supported by faster progress in infection control in the coming months, which could favour a faster recovery in household consumption. However, continuing support measures as long as necessary and making effective use of the European funds made available under the NGEU remain essential.

3. Effects of the COVID-19 pandemic

As is well known, since January 2020, the national and international scenario was characterised by the spread of the COVID-19 virus (known as Coronavirus) and by the consequent restrictive measures for its containment. In Italy, through specific Italian Decrees of the President of the Council of Ministers (DPCM), a state of emergency was declared, currently in force until 31 January 2020. The Group has taken prompt actions to monitor and manage the situation with great attention, applying all health and safety protocols in full compliance with the provisions of the Ministry of Health. These circumstances, extraordinary in nature and extent, had direct and indirect impact on operating activities. Since the early days of the health emergency, the Group has been committed to fight it trying to ensure the business continuity of its offices and plants but at the same time ensuring the safety of its staff, customers and suppliers. The main actions adopted concerned the incentive to smart working, the business travels restriction, the increase of spaces in the workplace and measures to avoid occasions of large gatherings. Frequent cleaning and sanitisation of the premises have been guaranteed and Group employees and collaborators have been periodically updated, through internal communications, on the protocols to be adopted which, with the evolution of the epidemic, have become increasingly stringent. These measures have always been adopted in full compliance with government provisions and, in compliance with the Authority's requirements, the Group stopped its operations in the factories of Grassobbio, Endine, Sirone, Fidenza and Padua from March 23 to May 4, and in plants in Patrica and Monopoli from 23 March to 12 April. Operations in Durtal (France) were suspended from March 17 to April 20, in compliance with the provisions of the French government, while the Alvarado (USA) plant had no interruptions. In Australia and New Zealand, where the Group does not have production plants but where it operates in several job sites, the activities were stopped from March 19 to May 15 and from March 25 to April 27, respectively.

The progressive slowdown in the spread of infections has made it possible to restart, after the adoption of a prevention and safety protocol which has been agreed with occupational health specialists and union representatives. In compliance with this protocol, the Group carried out an extended sanitisation of its premises, bought the necessary individual protection devices, such as masks, gloves, screens and protective barriers and changed some of its internal procedures, such as the methods of access to facilities, where the measurement of body temperature before entry is required, and the organization of areas and work shifts to better guarantee social distancing measures. The implementation of smart working continues to be encouraged and investments have been integrated to allow activities to be carried out remotely.

In this difficult context, the Group has also adopted some initiatives to protect the welfare of employees and support its local community. The Group's production activities are carried out in some of the provinces of Italy that have suffered the most dramatic consequences of the current pandemic. To this end, a number of solidarity actions have been taken such as: a specific insurance cover in case of hospitalisation for COVID-19, the creation of "Banca ore solidali" (Solidarity Bank) and "Fondo Solidale Tesmec Family" (Tesmec Family Solidarity Fund) to collect contributions and leave hours voluntarily donated by employees to their colleagues in difficult situations due to COVID-19, the introduction of the figure of the "company factotum", a service to provide some personal assistance to employees in this difficult period, and a fund raising: "Abitare la cura - Coronavirus: una mano per alleggerire gli ospedali" (Living the cure - Coronavirus: a hand to relieve hospitals) aimed to finance the hospitals in the province of Bergamo.

For the purposes of disclosure set out in the communications from ESMA, CONSOB and IOSCO[1], in terms of the impact of the COVID-19 pandemic on operating activities, it is important to note that, with regards to the overall decrease in income statement figures recognised as at 31 December 2020 compared to the same period of the previous year, the Group cannot identify which and how much of it is directly attributable to the pandemic: overall impact on the income statement figures and results is shown below, to which the pandemic certainly contributed primarily – if not exclusively.

The COVID-19 pandemic had a significant impact on the performance of the first six months of 2020. The various containment measures caused delays in the supply chain, production and consequently sales of the period, especially in March. These critical issues continued in April as well, during which the interruption of the operating activity continued, resulting in a slowdown in the commercial activity, and were finally resolved in the first days of May. Therefore, the Group reached full operation during the month of June and the first results from the restarting of the activities were confirmed with the growth of turnover and

1 ESMA - "Implications of the COVID-19 outbreak on the half-yearly financial reports" (May 2020) and "European common enforcement priorities for 2020 IFRS annual financial reports" (October 2020); CONSOB - "Emphasis Matter" 6/2020 of 9 April 2020 and 8/2020 of 16 July 2020 and "Emphasis Matter" 1/2021 of 16 February 2021; IOSCO - "Statement on Importance of Disclosure about COVID-19" of 29 May 2020.

improvement in margins in the second quarter compared to the first quarter. On the basis of what is known to date, the Group believes that the impacts of this situation will not have consequences in the medium term.

In the last quarter of the year, despite the worsening of the pandemic and the consequent restrictive measures adopted in Italy and in some countries where Tesmec operates, the Group managed to confirm the results expected and announced to the market during the share capital increase due to the fact that there were no interruptions to operational activities and that in any case operates in strategic sectors for the economy.

In the light of the additional Italian Decree of the President of the Council of Ministers (DPCM) introduced as containment measures to the spread of COVID-19 and the constant monitoring by the Authorities of the free movement of goods and people, the Group cannot exclude that in the very short term there may be slowdowns in production and service activities without, however, affecting the overall forecasts relating to the 2020-2023 Business Plan in the medium to long term. In fact, the short-term objectives and the Plan are based on the assumption that the pandemic situation does not entail the adoption of new restrictive measures similar to those imposed in the first part of 2020 and a significant worsening of the international macroeconomic scenario.

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

The main significant events that occurred during the period are reported below:

- on 10 January 2020, the Board of Directors of Tesmec S.p.A., with the approval of the Board of Statutory Auditors and in compliance with the requirements of honourable standing and professionalism envisaged by the regulations in force and by the Articles of Association, appointed Marco Paredi, formerly Investor Relations Manager, also Manager responsible for preparing the Company's financial statements of Tesmec pursuant to Article 154-bis of Italian Legislative Decree no. 58/1998;

- on 13 March 2020, the Board of Directors of Tesmec S.p.A. approved a transaction of greater importance with the related parties TTC S.r.l. and MTS-Officine Meccaniche di Precisione S.p.A. The operation consisted of the signing of a shareholder loan of up to Euro 7 million, payable in one or more tranches at the Company's request, with a duration of 36 months and bearing interest at an annual rate of 2%. The Loan is promptly designed to provide the Group with a reserve to face the lack of funds related to the slowdown in production and commercial activities due to the health emergency resulting from the spread of the COVID-19 virus; As at 31 December 2020, Euro 3.3 million of this loan was used.

- on 25 March 2020, Tesmec S.p.A., in compliance with the provisions of the Italian Decree of the President of the Council of Ministers "Further implementing provisions of Italian Decree Law no. 6 of 23 February 2020, containing urgent measures on the containment and management of the epidemiological emergency of COVID-19 applicable throughout Italy", published on 22 March 2020 in the Official Gazette of the Italian Republic (the "Italian Decree of the President of the Council of Ministers"), announced that as from 26 March 2020 the operating activities of specific production lines that were not included in the list of those considered essential or in the chain of those connected to them by the Italian Decree of the President of the Council of Ministers were temporarily suspended. On the other hand, the Company's administrative and commercial activities of the Italian companies continued to be operational and functional, albeit slowing down, through the use of smart working and in compliance with all the most stringent protocols aimed at preserving the health, safety and security of employees, collaborators, suppliers and customers;

- on 6 April 2020, the company Marais Laying New Zealand received a non-refundable government grant of NZD 0.6 million (equal to Euro 0.5 million) to cover expenses arising from the health emergency;

- on 20 April 2020, BPI France issued the certificate to Groupe Marais to obtain the loan guaranteed by the State amounting to Euro 7.7 million to be disbursed by a pool of seven financial institutions. As at 31 December, this loan was fully disbursed;

- on 21 April 2020, Cerved Rating Agency, the Italian rating agency specialised in assessing creditworthiness of non-financial companies, communicated the “B1.2” solicited rating of the Company. The evaluation confirms the solvency of the Tesmec Group and its qualification as "investment grade" and is the result of an in-depth analysis 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;

- on 23 April 2020, Tesmec S.p.A., after receiving the favourable opinion of the control and risks committee acting as the Committee for related party transactions of the Company, purchased from the related party MTS - Officine Meccaniche di Precisione S.p.A. 100% of the share capital of 4 Service S.r.l., a company operating in the trencher rental business, for Euro 9.4 million. MTS converted its receivable relating to the payment of the consideration into a future capital increase of Tesmec, in relation to the Shareholder's Meeting resolution of 21 May 2020 further described;

- on 1 May 2020, the SBA "Small Business Administration" approved the disbursement of the loan of USD 1.4 million to Tesmec USA. This operation falls within the regulatory scope of the *paycheck protection programme* and for approximately USD 0.8 million was recognised as at 31 December 2020 as a non-repayable government grant, against costs for salaries paid in the period covered by the programme;

- on 18 May 2020, Tesmec S.p.A. signed a loan agreement for a total amount of Euro 10 million granted by Intesa Sanpaolo through the "Garanzia Italia" instrument, put in place by the Liquidity Decree to support the Italian companies affected by the COVID-19 emergency and which has Sace as guarantor;

- on 21 May 2020, the Ordinary Shareholders' Meeting of Tesmec met in single call and approved all items on the agenda. In detail, the Shareholders' Meeting approved the 2019 financial statements of the Parent Company Tesmec S.p.A., which closed with a Net Profit of Euro 4,232 thousand and resolved to allocate this Net Profit for the year to the Extraordinary Reserve. The Shareholders' Meeting also resolved in favour of the First Section of the Report on Remuneration pursuant to Article 123-ter of Italian Legislative Decree no. 58/98 and also revoked the authorisation to purchase Tesmec ordinary shares on the regulated market resolved by the Shareholders' Meeting of 16 April 2019;

- on 21 May 2020, the Shareholders' Meeting of Tesmec S.p.A., in the extraordinary part of the Meeting, resolved to:
  - amend the Articles of Association to eliminate the indication of the nominal value of the shares and to adapt it to the regulatory provisions on gender quotas;
  - assign the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, the proxy to increase the share capital for a maximum total amount not exceeding Euro 50 million, including any share premium, against payment and partially subscribed, in one or more tranches, but with the right of the Board of Directors to establish the inseparability of individual tranches of use of the proxy, with or without warrant, also with the exclusion of the right of option pursuant to Article 2441, paragraphs 4 and 5, of the Italian Civil Code and of the proxy, pursuant to Article 2420-ter of the Italian Civil Code, within the same maximum amount, to issue bonds, convertible or otherwise, with or without warrant, also by excluding the right of option pursuant to Article 2441 of the Italian Civil Code;

- on 29 June 2020, the Board of Directors of Tesmec Automation S.r.l., with the prior favourable opinion of the Control and Risk, Sustainability and Related Party Transaction Committee, resolved the purchase of the factory located in Patrica (FR), to carry out subsequently the expansion and restructuring of its existing part.
  The operation was finalised on 7 July 2020 at a price of Euro 1 million. Note also that the Patrica factory was belonged to the related party Dream Immobiliare S.r.l. and is currently leased by Tesmec Automation S.r.l. on the basis of a 12-year contract expiring in 2028;

- in July, the parent company Tesmec S.p.A. finalised obtaining the new financing that will be disbursed during the year for an additional total amount of Euro 32.5 million, then disbursed by ICCREA, CdP (Cassa Depositi e Prestiti S.p.A.), Deutsche Bank and Sparkasse through Garanzia Italia, the instrument from the "Liquidity Decree" implemented to support Italian companies hit by the COVID-19 emergency. Overall, during the 2020 financial year, the Group obtained new credit lines for a total of Euro 70 million demonstrating the confirmed support of the banking system to recovery and to supporting the Group's medium and long-term plans;

- on 3 September 2020, the Board of Directors of Tesmec S.p.A. approved the guidelines of the 2020-2023 business plan and resolved the amount of the share capital increase under option of a maximum total of Euro 35 million expected by the end of 2020;

on 15 December 2020, the Capital Increase was successfully concluded through the issue of 499,376,200 new ordinary shares for a total value of Euro 34,956,334, of which Euro 4,993,762 was allocated to capital. Following this operation, the new Share Capital amounts to Euro 15,702,162; excluding the related cost the shareholders' equity of the Company and the Group increased by Euro 33.3 million;

- on 16 December 2020, the subsidiary Tesmec Rail S.r.l. received notice of the effectiveness of the final award of the 3rd lot of the tender called by RFI - Rete Ferroviaria Italiana S.p.A., a company of the Ferrovie dello Stato Italiane Group responsible for the overall management of the national railway network, for the supply and Full Maintenance Service of work trucks for territorial diagnostics on yards, nodes and interconnections. The total value of the awarded lot, net of the discount offered, amounts to approximately Euro 49.8 million and the supply of 4 work trucks for territorial diagnostics on yards, nodes and interconnections will be completed within approximately 3 and a half years and will also include a full maintenance service (FMS). This is the result of the path undertaken in recent years by the Tesmec Group for the development of high-tech railway systems. Following the communication of the effectiveness of the final award, Tesmec Rail will formalise and send the remaining documentation to then enter into the contract;

4.1 Effects of the acquisition of the company 4 Service S.r.l.

As explained in more detail in the information document relating to related party transactions published on 21 April 2020 and available in the Investor Relations-Governance section on the website www.tesmec.com, the transaction is part of the Group's broader strategy of concentrating in a single organisation all the management of the business rental that was carried out by 4 Service S.r.l. (new company, incorporated in the first half of the year through transfer of the rental business unit of the related party MTS – Officine Meccaniche di Precisione S.p.A. transferred its rental business) and by Tesmec USA Inc. In fact, the possibility of renting trenchers represents a synergic critical success factor for the Group's customers since it allows to offer to customers the maximum operational advantage by having at their disposal, when and where necessary, the machine best suited to the type of work to be carried out, with important savings in time - and costs - of execution of the planned works and leaving the possibility to postpone the purchase to a later date.

The payable due for the consideration of the transaction, amounting to Euro 9.4 million, was converted into a share capital increase of Tesmec as agreed by the counterparty at the time of the acquisition by Tesmec.

The net economic, capital and financial effects deriving from the acquisition of the company 4 Service S.r.l. and of the related subsidiary 4 Service USA LLC. on the date of acquisition are illustrated below.

Accounting for business combination

Based on the reference accounting standards, acquisitions fall under the larger context of business combinations and the area of application of IFRS 3 "Business Combinations". It must also be noted that the transaction in question is a specific type of business combination that involves businesses under common control, both before and after the combination, i.e. *a business combination in which all of the combining entities or business are ultimately controlled by the same party or parties both before and after the business combination and that control is not transitory*. Those types of combinations are excluded from the scope of application of IFRS 3. As a result, lacking specific references to IFRS standards or interpretations, the generally accepted principles should be applied. In particular, it is reasonable to consider that the selection of the most appropriate accounting standard to apply should be carried out based on the provisions of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Pursuant to that accounting standard, the fair value criterion was identified for recognition of the net assets transferred at the time of the transaction, deeming that such criterion reflects the economic substance of the transaction. In that sense, the economic substance consists of generating added value for the interested parties, which takes the form of significant increases in cash flows following the transaction as compared to the scenario before the transaction, which are made possible by the achievement of synergies between the Tesmec Group and 4 Service. Therefore, the choice of the recognition criterion privileged recognising the net assets transferred at the time of the transaction at fair value, in accordance with the acquisition method set out in IFRS 3. The recognition of the transaction is provisional as the process of determining the fair value of the net assets acquired has not been completed. This should be finalised within 12 months from the acquisition date, as permitted by IFRS 3. Therefore, for the purposes of preparing the 2020 financial report, the higher value of the net assets transferred was temporarily allocated to property, plant and equipment for the part already recorded under this item in the financial statements of 4 Service (Euro 2.8 million) and to Goodwill for the residual part (Euro 129 thousand); any adjustments deriving from the completion of the purchase price allocation will be included in the consolidated financial statements of the Tesmec Group as soon as that process is completed, within 12 months from the acquisition date, as permitted by IFRS 3.

That approach is confirmed by the considerations set out in the Assirevi preliminary guideline ("OPI") no. 1, which comments on the "Accounting treatment of business combinations under common control in separate and consolidated financial statements".

The breakdown of assets and liabilities of 4 Service S.r.l., including the consolidation of the US subsidiary 4 Service USA, Inc. (as a whole considered as the "4 Service Group") acquired at their book value and their restated value, according to that illustrated above, to take account of their fair value is shown below.

(Euro in thousands)	**4 Service Group**	**Adjustment to the Acquisition situation**	**Notes**	**Adjusted 4 Service Group**
NON-CURRENT ASSETS				
Intangible assets	13	(13)	a)	-
Property, plant and equipment	18,285			18,285
Rights of use	-	5,176	b)	5,176
Deferred tax assets	1,503	6	c)	1,509
TOTAL NON-CURRENT ASSETS	**19,801**	**5,169**		**24,970**
CURRENT ASSETS				
Trade receivables	2,227	-		2,227
Other current assets	1,249	(1,193)	b)	56
Cash and cash equivalents	266	-		266
TOTAL CURRENT ASSETS	**3,742**	**(1,193)**		**2,549**
TOTAL ASSETS	**23,543**	**3,976**		**27,519**
SHAREHOLDERS' EQUITY				
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS				
Share capital	1,000	-		1,000
Reserves / (deficit)	7,954	(124)		7,830
Group net profit / (loss)	444	(3)		441
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS	**9,398**	**(127)**		**9,271**
Capital and reserves / (deficit) attributable to non-controlling interests	-	-		-
Net profit / (loss) for the period attributable to non-controlling interests	-	-		-
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**-**	**-**		**-**
TOTAL SHAREHOLDERS' EQUITY	**9,398**	**(127)**		**9,271**
NON-CURRENT LIABILITIES				
Non-current financial liabilities from rights of use	-	3,073	b)	3,073
Deferred tax liabilities	1,693			1,693
TOTAL NON-CURRENT LIABILITIES	**1,693**	**3,073**		**4,766**
CURRENT LIABILITIES				
Interest-bearing financial payables (current portion)	7,832	-		7,832
Current financial liabilities from rights of use	-	1,030	b)	1,030
Trade payables	4,561	-		4,561
Other current liabilities	59	-		59
TOTAL CURRENT LIABILITIES	**12,452**	**1,030**		**13,482**
TOTAL LIABILITIES	**14,145**	**4,103**		**18,248**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**23,543**	**3,976**		**27,519**

In determining the fair value of acquired assets and liabilities, the main differences identified refer to:

a) write-down of intangible fixed assets of Euro 13 thousand relating to start-up and expansion costs;

b) recognition of right of use assets of Euro 5,176 thousand and financial liabilities from non-current rights of use of Euro 3,073 thousand and current rights of use of Euro 1,030 thousand relating to lease contracts existing at the date of acquisition and therefore recognised according to IFRS 16. This recognition generated a reduction in other current assets of Euro 1,193 thousand represented by the adjustment of prepaid expenses;

c) deferred tax assets of Euro 6 thousand of the entries made when measuring the assets and liabilities acquired.

The net financial indebtedness of the entities acquired on the acquisition date is equal to Euro 12,201 thousand as detailed below.

(Euro in thousands)	**23 April 2020**
Cash and cash equivalents	266
Current financial assets	-
Current financial liabilities (which of related parties)	7,832
Current financial liabilities from rights of use	1,030
Current portion of derivative financial instruments	-
Current financial indebtedness	**9,128**
Non-current financial liabilities	-
Non-current financial liabilities from rights of use	3,073
Non-current portion of derivative financial instruments	-
Non-current financial indebtedness	**3,073**
Net financial indebtedness pursuant to CONSOB Communication no. DEM/6064293/2006	**12,201**

The difference between the total consideration of the acquisition and the net value of the acquired assets and liabilities measured at fair value on the basis of the provisional data available at the date of acquisition was recognised as follows:

(Euro in thousands)	**Provisional Goodwill calculation**
Total consideration of the acquisition	9,400
4 Service Group shareholders’ equity	9,271
Difference provisionally allocated to Goodwill	**129**

In accordance with the Related Party Transactions Procedure, the Control and Risks, Sustainability and Related Party Transactions Committee expressed a favorable opinion on its completion, having considered, among other things, the Company's interest in the execution, as well as the substance economic, also through the support of an opinion issued by an independent expert on 14 April 2020. With regard to the definition of the total consideration for the acquisition, equal to Euro 9.4 million, it is noted that this consideration was set within a range of values estimated by an additional expert appointed by the Board of Directors of Tesmec and reflects the valuation derived from the application of the market multiples method of comparable listed companies and the method of comparable transaction multiples using EBITDA as a reference parameter 2019. Upon completion of the acquisition, the corresponding payable was recognized in the futur account o capital increase of the Company, as provided for in the agreements with the related MTS as part of the capital increase of Euro 33.3 million, which ended in December 2020 with the full subscription of the shares offered.

5. Overview of the financial results and Group performance

The consolidated financial statements of Tesmec have been prepared in accordance with *International Financial Reporting Standards* (hereinafter the "IFRS" or the "International Accounting Standards"), endorsed by the European Commission, in effect as at 31 December 2020. The following table shows a summary of the profit and loss indicators achieved in 2020 and in 2019 and the main financial position indicators as at 31 December 2020 and as at 31 December 2019.

OVERVIEW OF THE FINANCIAL RESULTS				
31 December 2019		**Key income statement data** (Euro in millions)	31 December 2020 pro-forma (*)	31 December 2020
200.7		Operating Revenues	172.8	170.7
27.4		EBITDA	22.9	21.0
8.4		Operating Income	(0.7)	(0.9)
3.0		Group Net Profit	(6.5)	(6.8)
925		Number of employees	878	
31 December 2019 pro-forma (*)	**31 December 2019**	**Key financial position data** (Euro in millions)	**31 December 2020**	
175.1	164.2	Net Invested Capital	173.8	
44.2	46.2	Shareholders' Equity	69.4	
130.9	118.0	Net Financial Indebtedness	104.4	
19.9	19.9	Net investments in property, plant and equipment, intangible assets and rights of use	36.9	

* Data not audited

5.1 General performance

In 2020, the Group achieved total revenues on a pro-forma basis of Euro 172,819 thousand compared to Euro 200,666 thousand in 2019, recording a decrease of 13.9%.

5.2 Performance by segment

- **Energy**
  With regard to the Energy segment, revenues amounted to Euro 43,812 thousand, down by 1.0% compared to the figure of Euro 44,244 thousand as at 31 December 2019. In particular, the Stringing segment recorded revenues of Euro 30,291 thousand, compared to Euro 31,936 thousand as at 31 December 2019, with a reduction in turnover due to the slowdown and stoppage of production activities from March to the first days of May. The Energy-Automation segment achieved revenues of Euro 13,521 thousand compared to Euro 12,308 thousand as at 31 December 2019, recovering in the third quarter the gap due to the slowdown in the production and transport blocks of the first half of the year and confirming the expectations of the fourth quarter.

- **Trencher**
  Pro-forma revenues of the Trencher segment amounted to Euro 102,608 thousand, down by 18.1% compared to Euro 125,306 thousand as at 31 December 2019. This performance was affected by the slowdown in logistics and lease activities as well as by the stoppage of production and transport in the first half of the year. During the third quarter, the impact was stabilised thanks to the return to full operations, which enabled the Group to achieve the targets announced for the fourth quarter, despite the uncertainty generated in the US due to the political instability related to the election of the new President of the United States of America.

- **Rail**
  The Rail segment recorded revenues of Euro 26,399 thousand, down by 15.2% compared to Euro 31,116 thousand as at 31 December 2019. This trend is essentially due to the slowdown in activities and the temporary closure of the Monopoli plant in March and April. During the third quarter, production levels remained fully operational, ensuring a better performance than in the previous year, while the fourth quarter recorded a performance in line with the

outlook for the period, but characterised by the fulfilment of orders with lower margins that impacted the results for the period.

5.3 Management performance of the main subsidiary and associated companies

The information on the operations of the main subsidiary and associated companies in the reference period is shown. In order to provide a clearer picture of the production volume of the individual subsidiaries, the following turnover values are reported at the aggregate level, also including inter-company transactions:

- Tesmec USA Inc., a company that is 100% owned by Tesmec S.p.A., is based in Alvarado (Texas) and operates in the Trencher segment and in the rail sector. During 2020, the company generated revenues of Euro 33,953 thousand. These include service activities (rental without operator) of around 15.9%.

- Tesmec Rail S.r.l., a 100% subsidiary of Tesmec S.p.A., with registered office in Monopoli (BA), operates in the Rail sector. During the 2020 financial period, it recorded revenues of Euro 23,483 thousand.

- 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 option to repurchase this interest for Tesmec S.p.A.). During the financial period, the company generated revenues of Euro 2,497 thousand.

- Condux Tesmec Inc, a joint venture that is 50% owned by Tesmec S.p.A. and 50% by US shareholder Condux International, which is based in Mankato (USA), active in selling products for the North American stringing equipment market. The company was consolidated using the equity method and in 2020 generated revenues totalling Euro 14,194 thousand.

- Marais Technologies SAS, with registered office in Durtal (France), company 66.04% owned by Tesmec S.p.A. and 33.96% by Simest S.p.A. as at 31 December 2020, (with option to repurchase this interest for Tesmec at 31 March 2021). The French company, acquired on 8 April 2015, is the holding of an international group leader in the construction of machines for infrastructures and in services for telecommunications, electricity and gas. In the 2020 financial period, the Group generated consolidated revenues of Euro 41,119 thousand.

- Tesmec Automation S.r.l., a company 100% owned by Tesmec S.p.A., with registered office in Grassobbio (BG), specialised in the design and sale of integrated fault detectors and measurement sensors and devices for medium voltage power lines. During the 2020 financial period, it recorded revenues of Euro 13,374 thousand.

- 4 Service S.r.l. is a wholly-owned subsidiary of Tesmec S.p.A., based in Milan, which operates in the trencher rental business together with its subsidiary 4 Service USA, Inc., based in Alvarado (Texas). The 4 Service Group, acquired on 23 April 2020, generated consolidated revenues of Euro 10,849 thousand, the contribution on a pro-forma basis being Euro 13,873 thousand.

6. Income statement and balance sheet situation as at 31 December 2020

6.1 Alternative performance measures

In this section, a number of Alternative Performance Measures not envisaged by IFRS (non-GAAP measures) and used by the directors in order to allow a better assessment of the Group's operating performance are illustrated. 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.

In this Report on Operations, the following Alternative Performance Measures, which are not audited and should not be interpreted as indicators of the Group's future performance, are represented:

- EBITDA: is represented by the operating income including amortisation/depreciation and can be directly inferred from the consolidated income statement.
- Net working capital: is calculated as current assets net of current liabilities excluding financial assets and financial liabilities and can be directly deduced from the consolidated statement of financial position.
- Net invested capital: is calculated as net working capital plus fixed assets and other long-term assets less non-current liabilities and can be directly deduced from the consolidated statement of financial position.

- Net financial indebtedness: is calculated pursuant to CONSOB No. DEM/6064293/2006 Communication as the sum of cash and cash equivalents, current financial assets, non-current financial liabilities and fair value of hedging instruments. 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. This indicator can also be directly deduced from the consolidated statement of financial position.
- Proforma results: have been prepared for illustrative purposes only, and have been obtained by making appropriate proforma adjustments to historical data to retroactively reflect the effects of the 4Service Group purchase transaction, as if this had occurred, instead of on 23 April 2020, January 1, 2020 for the proforma economic results and December 31, 2019 for the proforma balance sheet data.

6.2 Consolidated income statement

The comments provided below refer to the comparison of the consolidated income statement figures as at 31 December 2020, also on a pro-forma basis, with those as at 31 December 2019.
The Group closed the financial period as at 31 December 2020 with a negative operating income on a pro-forma basis of Euro 654 thousand (Euro 8,374 thousand in 2019) and with a net loss of Euro 6,479 thousand on a pro-forma basis compared to a net profit of Euro 2,981 thousand as at 31 December 2019. The following table shows the trend of major economic indicators as at 31 December 2020 compared to 31 December 2019.

	Financial period ended 31 December					
(Euro in thousands)	**2020 pro-forma (*)**	**% of revenues**	**2020**	**% of revenues**	**2019**	**% of revenues**
Revenues from sales and services	**172,819**	**100.0%**	**170,655**	**100.0%**	**200,666**	**100.0%**
Cost of raw materials and consumables	(78,446)	-45.4%	(77,418)	-45.4%	(88,037)	-43.9%
Costs for services	(30,235)	-17.5%	(30,156)	-17.7%	(35,375)	-17.6%
Payroll costs	(47,690)	-27.6%	(48,519)	-28.4%	(52,611)	-26.2%
Other operating (costs)/revenues, net	131	0.1%	131	0.1%	(4,668)	-2.3%
Amortisation and depreciation	(23,519)	-13.6%	(21,842)	-12.8%	(19,075)	-9.5%
Development costs capitalised	5,787	3.3%	5,787	3.4%	7,233	3.6%
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method	499	0.3%	499	0.3%	241	0.1%
Total operating costs	**(173,473)**	**-100.4%**	**(171,518)**	**-100.5%**	**(192,292)**	**-95.8%**
Operating income	**(654)**	**-0.4%**	**(863)**	**-0.5%**	**8,374**	**4.2%**
Financial expenses	(5,949)	-3.4%	(5,857)	-3.4%	(5,722)	-2.9%
Financial income	1,169	0.7%	1,169	0.7%	710	0.4%
Foreign exchange gains/losses	(3,345)	-1.9%	(3,616)	-2.1%	808	0.4%
Portion of losses/(gains) from the valuation of equity investments using the equity method	129	0.1%	129	0.1%	24	0.0%
Pre-tax profit/(loss)	**(8,650)**	**-5.0%**	**(9,038)**	**-5.3%**	**4,194**	**2.1%**
Income tax	2,171	1.3%	2,227	1.3%	(1,213)	-0.6%
Net profit/(loss) for the period	**(6,479)**	**-3.7%**	**(6,811)**	**-4.0%**	**2,981**	**1.5%**
Profit/(loss) attributable to non-controlling interests	17	0.0%	17	0.0%	14	0.0%
Group profit/(loss)	**(6,496)**	**-3.8%**	**(6,828)**	**-4.0%**	**2,967**	**1.5%**

* data not audited

Revenues

Total revenues as at 31 December 2020 on a pro-forma basis decreased by 13.9% compared to those recorded in the same period of the previous year. This decrease is significantly affected by the slowdown in production and commercial activities in the first half of the year following the COVID-19 health emergency and shows a different contribution from the three business segments.

(Euro in thousands)	Financial period ended 31 December						
	2020 pro-forma (*)	**% of revenues**	**2020**	**% of revenues**	**2019**	**% of revenues**	**2020 pro-forma vs 2019**
Sales of products	136,343	78.9%	134,957	79.1%	149,696	74.6%	(13,353)
Services rendered	39,764	23.0%	38,986	22.8%	42,599	21.2%	(2,835)
Changes in work in progress	(3,288)	-1.9%	(3,288)	-1.9%	8,371	4.2%	(11,659)
Total revenues from sales and services	**172,819**	**100.0%**	**170,655**	**100.0%**	**200,666**	**100.0%**	**(27,847)**

* data not audited

a) Revenues by geographic area

The Group's turnover is mainly produced abroad by 81.1%, in particular in non-EU countries. The revenue analysis by area is indicated below by comparing the 2020 period and the 2019 period, which indicates the growth of the European market, partially balanced by the decreases recorded in the Italian, BRIC and Others 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.

(Euro in thousands)	Financial period ended 31 December		
	2020 pro-forma (*)	**2020**	**2019**
Italy	32,701	32,701	47,985
Europe	57,326	57,326	40,040
Middle East	9,699	9,699	13,921
Africa	11,786	11,786	17,883
North and Central America	34,916	32,752	41,603
BRIC and Others	26,391	26,391	39,234
Total revenues	**172,819**	**170,655**	**200,666**

* data not audited

Operating costs net of depreciation and amortisation

(Euro in thousands)	Financial period ended 31 December				
	2020 pro-forma (*)	**2020**	**2019**	**2020 pro-forma vs 2019**	**% change**
Cost of raw materials and consumables	(78,446)	(77,418)	(88,037)	9,591	-10.9%
Costs for services	(30,235)	(30,156)	(35,375)	5,140	-14.5%
Payroll costs	(47,690)	(48,519)	(52,611)	4,921	-9.4%
Other operating (costs)/revenues, net	131	131	(4,668)	4,799	-102.8%
Development costs capitalised	5,787	5,787	7,233	(1,446)	-20.0%
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method	499	499	241	258	107.1%
Total operating costs net of depreciation and amortisation	**(149,954)**	**(149,676)**	**(173,217)**	**23,263**	**-13.4%**

* data not audited

The table shows a decrease in operating costs on a pro-forma basis of Euro 23,263 thousand (-13.4%), in line with the decrease in sales (-13.9%).

Other operating costs/revenues, net includes the positive effect of the tax credit for significant research and development expenses incurred by the Group in Italy and France during the financial period for the expansion of the offer in the new sectors for automation, maintenance of existing power lines and service activities, which were combined with the renewal of the product range in all of Trencher's business areas. In particular, with reference to the tax credit on Research and Development activities in Italy, this is recorded on the basis of the provisions of the 2017 Budget Law (Italian Law 232/16) which changed the regulations of the tax benefit, introduced by the "Destination Italy" Decree (Italian Law Decree no. 145/2013) as amended by Italian 2015 Stability Law (Italian Law 190/2014). The overall value of the benefit deriving from the tax credit for the entire Tesmec Group both in Italy and in France amounted to Euro 1,860 thousand for 2020 whereas it amounted to Euro 2,542 thousand for 2019, also in relation to the change in regulations with regard to calculation methods. The benefit was recorded in “other operating costs/revenues, net”, and suspended for the portion directly attributable to capitalised research and development projects.

EBITDA

In terms of margins, pro-forma EBITDA amounts to Euro 22,865 thousand, which represents 13.2% of the sales for the period, compared to 13.7% recorded in 2019. The Group, after having faced a first half of the year characterised by a contraction in margins due to the reduction in turnover following the COVID-19 health emergency and having started the necessary actions to contain costs and make the corporate structure more efficient, achieved the expected and announced margins during the third and fourth quarters; in particular, the performance of the last quarter was affected by the fulfilment of some orders with lower margins.

	Financial period ended 31 December						
(Euro in thousands)	**2020 pro-forma (*)**	**% of revenues**	**2020**	**% of revenues**	**2019**	**% of revenues**	**2020 pro-forma vs 2019**
Operating income	(654)	-0.4%	(863)	-0.5%	8,374	4.2%	(9,028)
+ Amortisation and depreciation	23,519	13.6%	21,842	12.8%	19,075	9.5%	4,444
EBITDA	**22,865**	**13.2%**	**20,979**	**12.3%**	**27,449**	**13.7%**	**(4,584)**

* data not audited

Financial Management

	Financial period ended 31 December		
(Euro in thousands)	**2020 pro-forma (*)**	**2020**	**2019**
Net financial income/expenses	(4,618)	(4,526)	(5,039)
Realised foreign exchange gains/losses	(2,602)	(2,602)	(74)
Unrealised foreign exchange gains/losses	(743)	(1,014)	882
Fair value adjustment of derivative instruments	(162)	(162)	27
Portion of losses/(gains) from the valuation of equity investments using the equity method	129	129	24
Total net financial income/expenses	**(7,996)**	**(8,175)**	**(4,180)**

* data not audited

The recognised pro-forma net financial management decreased compared to the same period of the previous financial period by Euro 3,816 thousand; we report the following changes:

- overall improvement of Euro 421 thousand in net financial income and expenses, of which Euro 571 thousand was due to higher interest income from customers;
- worsening by Euro 4,153 thousand of foreign exchange gains/losses that resulted in the recording of net losses totalling Euro 3,345 thousand in the 2020 financial period (Euro 743 thousand unrealised and Euro 2,602 thousand realised) against net profit of Euro 808 thousand in the 2019 financial period due to the negative performance of the US dollar and the uncertainty in the USA.

Net result

(Euro in thousands)	Financial period ended 31 December		
	2020 pro-forma (*)	2020	2019
Net profit (loss)	**(6,479)**	**(6,811)**	**2,981**
% Effect on revenues	-3.75%	-3.99%	1.49%
Profit/(loss) attributable to non-controlling interests	17	17	14
Group net profit/(net loss)	**(6,496)**	**(6,828)**	**2,967**
% Effect on revenues	-3.76%	-4.00%	1.48%

* data not audited

The pro-forma profit for the period amounted to a negative Euro 6,479 thousand (Euro 2,981 thousand in 2019) after deducting positive taxes totalling Euro 2,171 thousand (negative taxes totalling Euro 1,213 thousand in 2019).
Net of the portion attributable to non-controlling interests, the negative net result is Euro 6,496 thousand.

Profitability ratios

Ratio	*Composition*	Financial period ended 31 December		
		2020 pro-forma (*)	2020	2019
Return on sales (R.O.S.)	Operating income / Net revenues	-0.4%	-0.5%	4.2%
Return on investment (R.O.I.)	Operating income / Invested capital	-0.4%	-0.5%	5.1%
Return on equity (R.O.E.)	Net income / Shareholders' equity	-9.4%	-9.8%	6.4%
Invested capital turnover	Net revenues / Net invested capital	0.99	0.98	1.22
Working capital turnover	Net revenues / Net working capital	2.69	2.66	2.75
Debt ratio / EBITDA	Net financial indebtedness / EBITDA	4.56	4.97	4.30
Debt ratio	Net financial indebtedness/Shareholders' equity	1.50	1.50	2.56

* data not audited

The table above summarises the main trends that characterised the financial statements of the Group as at 31 December 2020 compared to 31 December 2019.

6.3 Income Statement by segment

Revenues by segment

The tables below show the income statement figures as at 31 December 2020 compared to those as at 31 December 2019, broken down into the three operating segments.

(Euro in thousands)	Financial period ended 31 December						
	2020 pro-forma (*)	% of revenues	2020	% of revenues	2019	% of revenues	2020 pro-forma vs 2019
Energy	43,812	25.4%	43,812	25.7%	44,244	22.0%	(432)
Trencher	102,608	59.4%	100,444	58.9%	125,306	62.4%	(22,698)
Rail	26,399	15.3%	26,399	15.5%	31,116	15.5%	(4,717)
Total revenues	**172,819**	**100.0%**	**170,655**	**100.0%**	**200,666**	**100.0%**	**(27,847)**

* data not audited

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

Operating costs by segment

(Euro in thousands)	Financial period ended 31 December						
	2020 pro-forma (*)	**% of revenues**	**2020**	**% of revenues**	**2019**	**% of revenues**	**2020 pro-forma vs 2019**
Energy	44,465	25.7%	44,465	26.1%	44,789	22.3%	(324)
Trencher	102,371	59.2%	100,416	58.8%	117,853	58.7%	(15,482)
Rail	26,637	15.4%	26,637	15.6%	29,650	14.8%	(3,013)
Total operating costs	**173,473**	**100.4%**	**171,518**	**100.5%**	**192,292**	**95.8%**	**(18,819)**

* data not audited

Pro-forma operating costs, including depreciation and amortisation, were down 9.8% compared to the prior period in a less than proportional way compared to the sales trend (13.9%), for the reasons already set out in paragraph 6.2 above.

The tables below show the EBITDA as at 31 December 2020 compared to that as at 31 December 2019, broken down into the three operating segments:

(Euro in thousands)	Financial period ended 31 December						
	2020 pro-forma (*)	**% of revenues**	**2020**	**% of revenues**	**2019**	**% of revenues**	**2020 pro-forma vs 2019**
Energy	5,246	12.0%	5,246	12.0%	5,590	12.6%	(344)
Trencher	14,399	14.0%	12,513	12.5%	16,646	13.3%	(2,247)
Rail	3,220	12.2%	3,220	12.2%	5,213	16.8%	(1,993)
EBITDA	**22,865**	**13.2%**	**20,979**	**12.3%**	**27,449**	**13.7%**	**(4,584)**

* data not audited

Margins decreased in absolute terms by Euro 4,584 thousand (from Euro 27,449 thousand in 2019 to Euro 22,865 thousand in 2020 on a pro-forma basis) by decreasing in percentage terms to 13.2% in 2020 from 13.7% in 2019. This result is the combined effect of trends that can be explained better segment by segment:

- Energy: the margin, as a percentage of revenue, fell to 12.0% in 2020 on a pro-forma basis, compared to 12.6% recorded in 2019. In particular, the Energy-Automation segment achieved revenues of Euro 13,521 thousand, an increase of 9.8% compared to Euro 12,309 thousand as at 31 December 2019, in line with the growth prospects for the year for this segment.

- Trencher: the margin, as a percentage of revenue, rose to 14.0% in 2020 on a pro-forma basis, compared to 13.3% recorded in 2019. The performance was also achieved thanks to the high-margin rental activities of the 4 Service Group, which made it possible to absorb the decline in sales due to COVID-19.

- Rail: the margin, as a percentage of revenue, fell to 12.2% in 2020 on a pro-forma basis, compared to 16.8% recorded in 2019. The worsening is attributable to the fulfilment of orders with lower margins.

Operating Income

(Euro in thousands)	Financial period ended 31 December						
	2020 pro-forma (*)	**% of revenues**	**2020**	**% of revenues**	**2019**	**% of revenues**	**2020 pro-forma vs 2019**
Stringing equipment	(653)	-0.4%	(653)	-0.4%	(545)	-0.3%	(108)
Trencher	237	0.1%	28	0.0%	7,453	3.7%	(7,216)

Rail	(238)	-0.1%	(238)	-0.1%	1,466	0.7%	(1,704)
Total operating income	**(654)**	**-0.4%**	**(863)**	**-0.5%**	**8,374**	**4.2%**	**(9,028)**

* data not audited

The pro-forma operating income as at 31 December 2020 stood at a negative Euro 654 thousand (-0.4% of revenues) down compared to Euro 8,374 thousand (4.2% of revenues) achieved as at 31 December 2019.

6.4 Balance sheet and financial profile

The financial position of the Group as at 31 December 2020 compared to 31 December 2019 is briefly shown in the table below.

	Financial period ended 31 December		
(Euro in thousands)	**2020**	**2019**	**2019 pro-forma (*)**
USES			
Net working capital	64,256	73,023	64,674
Fixed assets	99,530	86,947	106,314
Other long-term assets and liabilities	10,032	4,219	4,074
Net invested capital	**173,818**	**164,189**	**175,062**
SOURCES			
Net financial indebtedness	104,370	118,037	130,880
Shareholders' equity	69,448	46,152	44,182
Total sources of funding	**173,818**	**164,189**	**175,062**

* data not audited

A) Net working capital

	Financial period ended 31 December		
(Euro in thousands)	**2020**	**2019**	**2019 pro-forma (*)**
Trade receivables	60,415	67,929	68,606
Work in progress contracts	11,216	16,320	16,320
Inventories	74,386	69,924	69,924
Trade payables	(61,385)	(57,514)	(57,514)
Other current assets/(liabilities)	(20,376)	(23,636)	(32,662)
Net working capital	**64,256**	**73,023**	**64,674**

* data not audited

The Net working capital of Euro 64,256 thousand is substantially in line compared to 31 December 2019 pro-forma. This trend is mainly due to the increase in the item “Inventories" of Euro 4,462 thousand (equal to 6.4%) arising from invoicing delays originated during the period of lockdown, related to the decrease in the item "Trade receivables" of Euro 8,191 thousand (equal to 11.9%), due to lower invoicing volumes. Lastly, the item "Other current assets/(liabilities)" as at 31 December 2019 on a pro-forma basis included the total consideration of the acquisition of the 4Service Group, equal to Euro 9,400 thousand, which was converted into a payment for a future share capital increase at the acquisition date.
Net working capital is expected to be reabsorbed during 2021 in relation to the normal trend of rail supplies.

B) Fixed assets

(Euro in thousands)	Financial period ended 31 December		
	2020	**2019**	**2019 pro-forma (*)**
Intangible assets	22,487	20,419	21,478
Property, plant and equipment	49,831	42,397	56,584
Rights of use	22,825	20,144	24,265
Equity investments in associates	4,384	3,984	3,984
Other equity investments	3	3	3
Fixed assets	**99,530**	**86,947**	**106,314**

* data not audited

Total *fixed assets* recorded a net decrease of Euro 6,784 thousand compared to 31 December 2019 pro-forma mainly for the disposal of some trencher machines from the fleet no longer used for rental activities.

C) Other medium to long-term assets and liabilities

(Euro in thousands)	Financial period ended 31 December		
	2020	**2019**	**2019 pro-forma (*)**
Financial receivables and other non-current financial assets	5,197	2,749	2,749
Non-current trade receivables	1,302	516	516
Deferred tax assets	16,446	11,889	13,383
Employee benefit liability	(4,660)	(4,451)	(4,451)
Other long-term liabilities	(625)	(625)	(625)
Deferred tax liabilities	(7,628)	(5,771)	(7,410)
Non-recurring provisions for risks and charges	-	(88)	(88)
Other long-term assets and liabilities	**10,032**	**4,219**	**4,074**

* data not audited

Medium to long-term assets and liabilities increased by Euro 5,958 thousand from Euro 4,074 thousand as at 31 December 2019 pro-forma to Euro 10,032 thousand as at 31 December 2020. This change is mainly generated by the increase in non-current financial receivables of Euro 2,448 thousand and by the increase in deferred tax assets of Euro 3,063 thousand.

D) Net financial indebtedness

(Euro in thousands)	Financial period ended 31 December					
	2020	***of which with related parties and group***	**2019**	***of which with related parties and group***	**2019 pro-forma (*)**	***of which with related parties and group***
Cash and cash equivalents	(70,426)		(17,935)		(20,012)	
Current financial assets	(13,777)	*(3,691)*	(12,083)	*(4,072)*	(12,083)	*(4,072)*
Current financial liabilities	85,799	*2,788*	79,764	*2,158*	79,764	*2,158*
Current financial liabilities from rights of use	5,218		4,135		5,178	
Current portion of derivative financial instruments	1		6		6	
Current financial indebtedness	**6,815**	***(903)***	**53,887**	***(1,914)***	**52,853**	***(1,914)***
Non-current financial liabilities	80,530	*3,263*	48,737	*-*	59,208	*10,471*

Non-current financial liabilities from rights of use	16,855		15,407		18,813	
Non-current portion of derivative financial instruments	170		6		6	
Non-current financial indebtedness	**97,555**	***3,263***	**64,150**	-	**78,027**	**10,471**
Net financial indebtedness pursuant to CONSOB Communication no. DEM/6064293/2006	**104,370**	***2,360***	**118,037**	***(1,914)***	**130,880**	***8,557***

* data not audited

The net financial indebtedness as at 31 December 2020 decreased by Euro 26,510 thousand compared to the end of 2019 pro-forma (-20.3%). The net financial indebtedness prior to the application of IFRS 16, as at 31 December 2020, is equal to Euro 82,297 thousand with a decrease of Euro 24,592 thousand compared to the end of 2019 proforma.

The table below shows the breakdown of the changes:

- decrease in current financial indebtedness of Euro 46,038 thousand due to the:
  - increase in cash and cash equivalents and current financial assets of Euro 52,108 thousand, mainly due to new sources of funding related to the Liquidity Decree to the share capital increase operation;
  - decrease in current financial liabilities of Euro 6,035 thousand mainly due to the reclassification in the short-term portion of the bond issue signed on 10 April 2014 on the Extra MOT PRO market and expiring on 10 April 2021;
- increase in medium/long-term financial indebtedness of Euro 19,528 thousand relating to the signing of new medium/long-term loans and new liabilities from rights of use.

The existing loan agreements and bond issues contractually provide for the calculation of the financial covenants based on net financial indebtedness calculated on the consolidated financial statements as at 31 December and prior to the application of IFRS 16.

E) Shareholders' Equity

	Financial period ended 31 December		
(Euro in thousands)	**2020**	**2019**	**2019 pro-forma (*)**
Share capital	15,702	10,708	10,708
Reserves	60,513	32,427	32,427
Profit (loss) for the period	(6,828)	2,967	997
Non-controlling interests	61	50	50
Shareholders' equity	**69,448**	**46,152**	**44,182**

* data not audited

The share capital amounts to Euro 15,702 thousand, fully paid up, and comprises 606,460,200 shares with no indication of their nominal value.

In the 2020 financial period, the main changes were due for Euro 33,300 thousand to the increase deriving from the share capital increase and for Euro 3,225 thousand to the decrease in the translation reserve.

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

	Financial period ended 31 December	
(Euro in thousands)	**Shareholders' Equity**	**Net result**
Amounts resulting from the financial statements of Tesmec S.p.A.	**88,703**	**(455)**
Consolidation adjustments		

a) Equity investments evaluated using the equity method	2,237	628
b) Difference between book value and assets of consolidated equity investments	(14,359)	-
c) Results from consolidated equity investments	(4,833)	(4,833)
d) Translation reserve	1,809	-
e) Elimination of dividends distributed by Companies of the Group	-	-
f) Elimination of intra-group items	(4,170)	(2,168)
Net effect of consolidation adjustments	*(19,316)*	*(6,373)*
Amounts attributable to the Group	**69,387**	**(6,828)**

F) Investments

Investments include capitalisations relevant to development projects (Euro 7,292 thousand) that refer to strategic activities as a result of which Tesmec manages to maintain its technological leadership position on traditional markets and increase the range of offered products and services (railway market, new generation trenchers, management of the electric system) plucking up the high level of internationalisation of its sales network.

7. Regulatory framework of reference

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

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

In this paragraph, we outline the risk factors and uncertainties that may significantly affect the activity of the Tesmec Group. In particular, some information tending to illustrate the aims and policies of the Group on the management of the main financial, operational and legal/regulatory risks are set out below. This description is valid for the Tesmec Group, even if the risk management policy is decided by the Parent Company.

Tesmec implemented a mechanism for constantly monitoring these risks in order to prevent their potential negative effects and take the actions necessary to contain them. Tesmec's risk management activity aims to promptly identify the risks in the company's core business, define suitable measures for their prevention and mitigation and safeguard operating effectiveness. The importance of risk control in achieving the Group's objectives makes it of primary importance to define a preliminary analysis system that is adequately structured in order to strive for a high level of operating performance. Responsibility for risk management and control activities lies with the Chief Executive Officer, who is responsible for coordinating risk identification activities and monitoring their correct management. The Board of Directors of Tesmec S.p.A. also appointed the Director in charge of the Internal Control and Risk Management System, who is responsible for identifying and managing business risks.

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. In the coming years, the Group will consider integrating its analyses - and consequently its disclosure - with respect to the impact generated and suffered by the Group in the Climate Change area, also on the basis of the development of the relevant regulations.

Financial risks

Risk related to business performance and financial situation

However, although 2020 started with stable and positive prospects, the COVID-19 pandemic had a negative impact on the Tesmec Group's corporate business: the profitability trend went from positive in 2019 to negative in 2020. This resulted in a worsening of profit margins, which had repercussions on the Group's financial structure during the year.

On 3 September 2020, the Board of Directors approved the guidelines of the 2020-2023 Business Plan. This Plan, subsequently updated at the time of approval of the budget for 2021, envisages an improvement in profit margins and a significant reduction in financial indebtedness over the period of the Plan.

The Business Plan is based on assumptions characterised by considerable uncertainties. On the one hand, the Plan was prepared taking into account some general assumptions concerning future events that depend substantially on variables that cannot be controlled by the Company and the Group, relating to the spread of the COVID-19 pandemic, the outlook for the markets and sectors in which the Group operates and the trend of the macroeconomic scenario, which will not necessarily occur or may occur only partially, or to a certain extent, in a manner and/or at a time different from that envisaged. On the other hand, the economic and financial projections assumed in the Plan were also defined on the basis of assumptions relating to compliance with the clauses of the financial agreements that entail limits on the use of financial resources (including covenants) and to the future development of the business, which are discretionary and relate to future events that are uncertain and partly beyond the control of the directors and management.

Therefore, because of the uncertainty involved in the realisation of any future event, both as regards the actual occurrence of the event and as regards the extent and timing of its occurrence, also in consideration of the uncertainties related to the assumptions concerning the COVID-19 pandemic, there could be deviations, also of a significant extent, between actual values and the values estimated in the Plan, as well as delays in the execution of the Plan, with possible negative effects on the Group's business, financial position, results of operations and prospects.

However, in this context, the Group believes that it has sufficient resources to meet the needs of the foreseeable future.

In fact, on 15 December 2020, the share capital increase was successfully completed with the full subscription of the shares offered for a value of Euro 33.3 million net of additional costs, of which Euro 23.9 million subscribed in cash and Euro 9.4 million subscribed by the controlling shareholder through the waiver of its receivable related to the consideration for the sale of 4 Service S.r.l. The purpose of the share capital increase is to strengthen the financial position of the Company and of the Group and to take advantage of further growth opportunities offered by the market in the Group's core segments.

Note that, as at 31 December 2020, a financial covenant relating to the Net Financial Position/EBITDA ratio towards four credit institutions, corresponding to a financial indebtedness of Euro 15.4 million representing approximately 7.8% of the Group's gross financial indebtedness, has not been met. This non-compliance resulted in the short-term recognition of the residual medium- and long-term portions for a total of Euro 10.0 million. Requests for waivers of the application of early repayment clauses were promptly submitted to the credit institutions and, to date, waivers amounting to Euro 5.4 million have already been obtained. Although the process of obtaining all waivers is not yet complete, there is a reasonable certainty that this process can be completed in the short term, taking into account the confirmed support provided by the banking system to the development plans of the Company and of the Group through the provision of new medium/long-term loans totalling Euro 70 million during the year. Moreover, it should be noted that the assumption of early repayment of the loans in question was prudently considered as part of the estimate of future cash flows prepared for the purpose of assessing the going concern assumption.

Exchange rate risk

The Tesmec Group carries out a significant part of its activities in countries other than the Eurozone and, therefore, revenues and costs of part of the activities of the Tesmec Group are denominated in currencies other than the Euro.

The main transaction currencies used for the Group's sales are the Euro and the US dollar, although other currencies such as the Australian dollar, South African rand, Chinese renminbi and Russian rouble are also used. The Group also prepares its consolidated financial statements in Euro, although some subsidiaries prepare their financial statements and accounting documents in currencies other than the Euro.

Due to these circumstances, the Tesmec Group is exposed to the following risks related to variations in exchange rates:

i) the economic exchange rate risk, i.e. the risk that revenues and costs denominated in currencies other than the Euro take on different values with respect to the time at which the price conditions were defined;
ii) the translational exchange rate risk, deriving from the fact that the Parent Company, even though it prepares its financial statements in Euro, holds controlling interests in companies that prepare their financial statements in different currencies and, consequently, carries out conversions of assets and liabilities expressed in currencies other than the Euro;

iii) the transactional exchange rate risk, deriving from the fact that the Group carries out investment, conversion, deposit and/or financing transactions in currencies other than the reporting currency.

The fluctuation in currency markets has had, historically, a significant impact on the Group's results. In relation to the policies adopted for the management of exchange rate risks, the forward sale of foreign currency is adopted as the only hedging instrument. However, this hedging is carried out only for part of the total exposure in that the timing of the inflow of the receipts is difficult to predict at the level of the individual sales invoice.
Forward sale instruments for fixing the exchange rate at the moment of the order are mainly used for covering the risk of the US dollar exposure deriving from the marketing in the US or Middle Eastern countries of machines produced in Italy. Moreover, for part of the sales in US 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.

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 may affect the results of the Group.

Liquidity/cash flow variation risks
Financial requirements and related risks (mainly interest rate risks, liquidity and exchange rate risks) are managed by the Group based on guidelines defined by the Group General Management and approved by the Chief Executive Officer of the Parent Company.
The main purpose of these guidelines is to guarantee the presence of a liability structure always in equilibrium with the structure of the balance sheet assets, in order to keep a very sound balance sheet structure.
Forms of financing most commonly used are represented by:

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

The Group uses various external sources of financing, obtaining both short and medium-long term loans and is therefore subject to the cost of money and to the volatility of interest rates, with a special reference to contracts that provide for variable interest rates, which, therefore, do not make it possible to predict the exact amount of the interest payable during the duration of the loan. 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. When taking out loans at variable rates, mainly in relation to medium-term loans, the Tesmec Group considers managing the risk of interest rate fluctuations through hedging transactions (in particular, through swaps, collars and caps), with a view to minimising any losses related to interest rate fluctuations. However, it is not possible to ensure that the hedging transactions entered into by the Group are suitable to fully neutralise the risk related to interest rate fluctuations, or that no losses will result from such transactions.

As mentioned above, existing loans envisage compliance with certain covenants, both income based and asset based, which are checked periodically throughout the entire duration of the related loans, thus exposing the Group to the risk of non-compliance with these parameters.

Credit risk
With reference to the credit risk, the same is closely related 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.

Operational risks

Risks related to the Group's international business
The Tesmec Group earns its revenues mainly abroad. The Group carries out its production in 6 industrial plants (4 of which are located in Italy, 1 in France and 1 in the United States) and carries out its commercial business in about 135 countries worldwide. In particular, the Tesmec Group operates in several countries in Europe, the Middle East, Africa, North and Central America as well as the BRIC area (Brazil Russia India China). Moreover, the Group not only has a strong international presence but intends to continue to expand its business geographically, exploring opportunities in markets that it believes can help

improve its risk profile. When deciding whether to undertake initiatives or maintain its strategic presence in foreign markets, the Group assesses political, economic, legal, operational, financial and security risks and development opportunities.

The Group is exposed to risks typical of countries with unstable economic and political systems, including (i) social, economic and political instability; (ii) boycotts, sanctions and embargoes that could be imposed by the international community against the countries in which the Group operates; (iii) significant recession, inflation and depreciation of the local currency; (iv) internal social conflicts that result in acts of sabotage, attacks, violence and similar events; (v) various kinds of restrictions on the establishment of foreign subsidiaries or on the acquisition of assets or on the repatriation of funds; (vi) significant increase in customs duties and tariffs or, in general, in applicable taxes. The occurrence of the events subject to the above-mentioned risks could have significant negative impacts on the Group's operating results, financial position and cash flows.

Moreover, demand for the Group's products is related to the cycle of investments in infrastructure (in particular power lines, data transmission systems, aqueducts, gas pipelines, oil pipelines and rail catenary) in the various countries in which it operates. The annual amount of investments in infrastructures is related to the general macroeconomic scenario. Therefore, strong changes in the macroeconomic scenario in the Countries where the Group is present or other events that are able to adversely affect the level of infrastructure investments, such as changes in laws and regulations or unfavourable changes in government policies, can have an adverse effect on the Group's operating results, financial position and cash flows.

Risks related to operations through the awarding of tenders

The Group, in relation to the activities carried out in the Rail Segment and in the Energy Sector, is exposed to risks deriving from the amount, frequency, requirements and technical-economic conditions of the call for tenders for contracts issued by the public administration, by public law bodies and other contractors, as well as the possible failure to award them and/or the failure or delay in awarding the related work orders. Moreover, these sectors are structurally characterised by a limited number of customers, given that the Rail Segment is usually related to the existence, in each country, of a single national player managing the network and that, in the Energy-Automation Segment of the Energy Segment, the customers commissioning the work are the main owners of the individual national power networks or the main utility companies.

The limited number of customers commissioning work from the Group in these segments, as well as the fact that most of them are public entities, exposes the Group to the risk that these customers' investment programmes may be changed due to regulatory updates or emergency situations, resulting in possible changes in framework agreements with Group companies.

Risks related to the possible impairment of work in progress

In some multi-year tender contracts entered into by the Group in the Rail Segment, the consideration is determined during the tender process following a detailed and accurate budgeting exercise, both with reference to the supply of machines and to the maintenance service, further supplemented by risk assessments to cover any areas of uncertainty, carried out with the aim of mitigating any higher costs and contingencies (costs estimated in relation to operational risks). The correct determination of the consideration offered in such contracts is fundamental to the Group's profitability as it is required to bear the full amount of all costs for completing work orders, unless there are additional requests from the customer.

However, the costs and, consequently, the profit margins that the Group makes on multi-year work orders can vary, even significantly, from the estimates made during the tender process. As a result of this increase in work order operating costs, the Group may incur a reduction in or loss of estimated profits with reference to the individual work order.

The Group periodically monitors the costs related to the completion of work orders and the resulting profitability in order to minimise the risk of contingencies and to identify, where necessary, the need to enter into negotiations with customers for the signing of specific agreements supplementary to the tender contracts aimed at recognising increases in the consideration originally agreed upon.

Supply risk and risk of fluctuation in purchase prices

The Group, while retaining the management and organisation of the most important phases of its business model in-house, turns to suppliers for the purchase of semi-finished goods and finished components required for the manufacture of its products. The manufacture of some of the main products of the Group requires skilled labor, semi-finished goods, finished goods, components and high-quality raw materials. Therefore, the Group is exposed to the risk of encountering difficulties in obtaining the supplies it needs to carry out its activities, as well as the risk related to fluctuations in their prices.

In particular, in carrying out its production, the Group mainly uses semi-finished goods in steel and aluminium and semi-finished goods in nylon. The price of raw materials for these semi-finished goods - and, in particular, of steel - can be volatile due to several factors beyond the Group's control and are difficult to predict. Moreover, for the supply of some components, the Group uses high-end suppliers for which it is not a strategic customer.

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. The Group's price risk is mitigated by having multiple suppliers and by the inherent heterogeneity of raw materials and components used in the production of Tesmec machines. Moreover, in consideration of the nature of semi-finished goods and the importance of the technological content of the purchased components, their commodity price only partially affects the costs of purchase. However, in consideration of the current health crisis characterised by the spread of the COVID-19 virus, the Group cannot rule out that future price changes in these markets could have a negative impact on results.

Risks related to the legal and regulatory framework

Risks related to disputes
Any unfavourable outcome of disputes in which the Group is involved or the occurrence of new disputes (also regardless of the outcome), could have a possibly significant reputational impact on the Group, with possible significant negative effects on the operating results, financial position and cash flows of the Company and of the Group.

The estimate of charges that might reasonably be expected to occur as well as the extent of provisions are based on information available at the date of approval of the financial statements, but involve significant elements of uncertainty, not least because of the many variables linked to legal proceedings. Where it is possible to reliably estimate the amount of the possible loss and this is considered probable, provisions are made in the financial statements to an extent deemed appropriate in the circumstances, also with the support of specific opinions provided by the Group's consultants and in accordance with the international accounting standards applicable from time to time.

At the end of the reporting period, different types of legal and arbitration proceedings involving the Company and the Group's subsidiaries were pending, and two tax audits were in progress. For a description of the main cases, please refer to Note 45 Legal and tax disputes in the explanatory notes to the consolidated financial statements.

9. Human Resources, Training and Industrial Relations

9.1 Strategy

The current crisis generated by the COVID-19 epidemic has shown how Tesmec has prepared itself for the new challenges in order to survive and grow in this historical phase. The unpredictable situation that we have experienced and are still experiencing has required all departments, in particular the HR offices, to review their strategies to promptly respond to the renewed needs of their company, both in terms of talent acquisition and in terms of workforce management.
During this critical period, the HR offices organised themselves to meet short-term needs by identifying the right strategy to deal with the unexpected, not only responding to the emergency, but taking advantage of the opportunity behind every crisis. This strategy is reflected in long-term planning that allows to train a well-balanced workforce, whose skills can optimally support all the changing production needs required in times of crisis. It is a paradigm shift that can have positive impacts on many aspects of the company: from financial statements to KPIs, including improvements in workforce management.

9.2 Year 2020: the COVID-19 pandemic

The employee as a person

The changes that the pandemic imposed on us, although undesirable, forced Tesmec to experiment with **new processes and strategies**, to reconsider the old organisational models and the role of the individual in the organisation. The emergency further highlighted the dichotomy between the worker as a resource from which to expect productivity and the worker as a person to be **understood and valued**. It is essential to encourage the development of **empathic management**, attentive in identifying and enhancing talent, able to create connections between the different skills and engagement, able to foster diversity & inclusion.

Organisational resilience

The emergency made us reflect on the concept of unpredictability. There is a way to be prepared to face the unexpected through the recognition of a resilient company that not only knows how to seize the unexpected and find appropriate solutions, but above all has an innate capacity that we could call *sustainable adaptability*, which allows it to evolve continuously by overcoming any kind of surprise or unforeseen event.

The entire management was faced with a true and unique change management that Tesmec has faced through a strategy divided into three phases:

- management plan (organisation);
- survival plan;
- restart plan (actions to support the organisation).

Remote work

The COVID-19 emergency required many employees to work from home, forcing even those who where the most technologically adverse to learning how to use videoconferencing apps. But this is not actually digital transformation. It is rather a digital optimisation, i.e. an attempt to replicate the usual work patterns using new digital tools, which has pointed out new vulnerabilities, anxieties and unproductiveness. The COVID-19 emergency has dramatically emphasised the company's task of protecting the safety and health of its workers. The pandemic emergency also contributed to creating a company social network to support individual employees in times of difficulty. What emerged even more was the company's role as a system capable of protecting and enhancing its human resources.

Smart working undoubtedly has many advantages. In the era of the COVID-19 pandemic, it was the best way to protect the health of employees, at the same time making the task of guaranteeing the anti-infection safety of personnel less burdensome for companies. In general, it allows the company to save on the costs of working space. In terms of personnel, it saves time on travel, improving work-life balance, and is appreciated by employees because it makes them feel more independent.

Smart working is a profound change in the way of working because it allows people to prove their worth by moving away from defined working hours and pre-established schedules towards simple, measurable, achievable, relevant and time-bound objectives. There really has to be a shift from measuring time to measuring goals.

Choosing smart working means preferring trust and transparency to command and control.

Talent acquisition

Tesmec has redefined its talent acquisition strategy to attract the best resources in order to have the right person at the right time within its workforce. The three fundamental steps of this strategy are:

- falling into line with the company's main objectives:
  only then it will be possible to predict which roles and which teams are really needed and, consequently, launch a talent acquisition strategy targeted on the real need for personnel in the coming years;

- using flexible talents:
  to make the company truly future-proof, it will also be necessary to make sourcing more agile. For this reason, “flexible workforce” is becoming increasingly popular;

- strengthening employer branding:
  a strong employer brand attracts more qualified candidates. For this reason, it is necessary to carefully plan the best way to communicate one's corporate culture. It is necessary to strengthen the digitalisation phase and keep up with the times. Being able to convey the advantages of joining our team to the outside world will be the best way of attracting the talents of tomorrow to the company.

Leadership

In the era of COVID-19, there has been a lot of talk about servant leadership, about how important it is that leaders put themselves at the service of their people, listen to them and ask them how they can help them feel better.

Tesmec has focused more on Empathic Leadership, with the aim of truly identifying with the people it leads, understanding their needs, desires and potential, helping them to continuously grow.

Empathy creates stronger connections between people, improves collaboration, increases trust and loyalty but above all it means continuous listening. In fact, it allows to obtain a deep understanding of motivators of people, which are central to allow everyone to give their best while achieving professional happiness.

In the crisis, the evidence that it is impossible for one person to have answers for everyone else appeared even stronger and the leader had the opportunity to gain another deeper dimension of impact: he/she really made a difference for people.

The ability to recognise the state of need of others and to give them priority: therefore, consciously deciding not to ignore the signs of psychological difficulty, but rather to seek them out, training a capacity for empathy.

This is the ability to allow others to give a name to their emotions: in fact, in this phase, managers were not only able to solve problems, but were able to give people the tools to solve them on their own, and the same applies to the management of negative emotions.

Finally, kindness is the sign of an even more critical ability than the other two: that of taking care of oneself. It means directing towards oneself the same attention and care that make the recovery of others possible.

However, the arrival of the pandemic was totally unexpected. Nothing like this had ever happened before and the lack of past references that could guide decisions led leaders to make choices in a context of total uncertainty. These choices made the lack of preparation and the absence of solutions that could be definitive or with a good probability of effectiveness explicit to all.

At the time of COVID, the concept of Team was strengthened and for this reason little big leaders were useful in every role, from the captain to the coach, from the midfielder to the striker, right up to the goalkeeper. Little big leaders who have created sharing and cohesion in the concrete situations of every day, accepting that the way out can be found through experimentation and with everyone's contribution. There were guides and leaders in every area who were able to support each other, taking on the responsibilities of their different roles and working together to build the way back up.

Superteam

During the pandemic, teams proved to be at the heart of business resilience. In a group, we learn, innovate, create, motivate and adapt to changes more quickly.
Therefore, the challenge that we can face in 2021 is to build a “superteam” that places people and technology side by side. Artificial intelligence can become a valuable ally in redesigning work in more human ways, leaving the most operational and repetitive tasks to machines and enhancing people's skills and creativity.
The three main factors that will support this transformation are a company culture based on resilience, constant upskilling and reskilling, and user-friendly technology.

Communication

Priority to internal communication.
In the era of COVID-19, Tesmec changed its way of communicating with personnel, increasing the decision-making weight of internal communication during lockdown. The priorities were to inform about what is happening, to enable new working methods to train new skills, and to reassure at a time of great disorientation.

The new relationships in the company.
Corporate communication established itself as a highly empathic and organisational function. The common thread has been and continues to be that of making the existence of a business community tangible, minimising the risk of leaving anyone behind. In the workers’ perception, this communication that essentially told the story of people's experiences and feelings came up tops. Thus, digital technologies are increasingly making a difference in corporate communication. The sphere of relations with the company has undoubtedly benefited from a highly appreciated digital toolbox. The adoption of webinars and social networks was also a turning point for the new normality that business communication is already experiencing.

However, the current crisis has proved that it is possible, with the right technology and the right tools, to adapt to change extremely quickly. For this to happen successfully, workers have a key role to play as they will still have to adapt to more distributed and technology-enabled work models.

9.3 Year 2021: Post COVID-19

It will be the year of challenges, experimentation, putting oneself to the test: for those who lead companies, for HR departments, for all people looking for the right productivity and personal life balance.
The goal is common to all: to create a new way of working that is truly smart, managing the productive and human combination. Designing work to enable people not only to be productive, but to feel good, aware of the fact that “feeling good” is different for each of us.

The year of challenges

The company, intended as a community of people, became more than relevant during the first hard lockdown of 2020, when people's health, including their mental health, became a priority for many companies.

In the years 2020-2021, caring and well-being become part of the attraction and retention capacity of Tesmec, which must meet this challenge by listening to its people. Requests must be analysed and behaviour observed, including what makes them feel bad and the things they do without problems and then design bespoke works, like a tailor-made suit. If Tesmec manages to accelerate the process, it will have a big advantage in bringing talent on board and improving business results through people.

Strategy of attracting talent

With a solid brand reputation, it is possible to plan the best talent acquisition strategy that, in order to be effective, must be built around these **key elements**:

- **Workforce Planning:** long-term resource planning, taking into account company objectives and spending budgets for the acquisition of new employees;
- **Brand Building:** building a solid brand reputation that constantly works to increase the popularity, visibility and attractiveness of the organisation;
- **Sourcing and Recruiting:** keeping the most standard recruitment process active;
- **New Technologies and Use of Data Analytics:** using innovative and emerging technologies in order to attract talent. AI and machine learning can maximise the attraction of talent, enhancing the search for candidates and optimising the entire recruitment and selection process. With the study of Big Data, predictive analyses can be carried out to find the best candidates within the company's database.

9.4 Organisation and cross-fertilisation

The Tesmec Group has among its objectives the creation of value and has supported the strategy by defining a new organisational model and strengthening of human capital through an action of knowledge dissemination and interaction of working groups through the following clusters of intervention:

- designing effective and digital organisational processes and structures that represent the spirit of business agility.

Business agility opens our eyes to the fact that it is companies that are focused on people, and not the other way around.

Interfunctional work groups

At the request of Management, the “State of Tesmec Technologies” project was implemented with the following objectives:

- identification of what has been developed to date;
- identification of synergies, in terms of skills, resources and technologies, between product lines;
- sharing and initialisation of the contamination process between the different Group BUs.

Discussion topics identified:

- Stringing equipment + electrical machines
- Energy Automation: solutions for power grids control and automation
- GPR
- Rail diagnostics
- Digital transformation of Trencher machines
- Rail Technologies
- Mechanical Design Best Practice

9.5 Human Resources

The growth model supported by Tesmec's managerial group is involved in the enhancement of human capital as a tool for competitiveness and change.

In 2020, the involvement of Management and Top Management was strengthened with periodic steering committees to monitor, analyse and propose all the new business models for the development of human resources that, together with the strengthening of certain staff functions such as the General Counsel and Information Technology, created strong support for TOP Management also in speeding up the implementation of the group's strategic choices.

In 2020, the Tesmec Group tried to guarantee a level of business continuity and sharing following the pandemic by trying to consolidate the current employment level and through a high-level human and professional replacement.

In 2020, the upward trend in the Automation and RAIL businesses continued, partly because they were less directly affected by the pandemic, managing to support production lines and new product developments.

During 2020, although the world was involved in the Pandemic, the Tesmec Group continued the process of Cross Innovation (technology, skills, cultures) through a transversal integration of skills and roles that allowed us to complete the process of management integration and organisation of the Tesmec Group at international level through the Global Integration Project that recorded the following activities:

- reorganisation and completion of the managerial structure of the French subsidiary Marais with the recruitment of the new General Manager;
- consolidation of the Group's organisational structure in Tesmec USA with the appointment of the new CFO;
- all foreign companies are functionally linked to the Parent Company's staff functions through a process of finalisation of skill matrices and Chart organisations.

During the 2020 financial period, the Group had 878 employees (925 in 2019), with the following changes occurred compared to 2019:

	Financial period ended 31 December			
(no. of employees)	**2020**	**2019**	**2020 vs 2019**	**%**
Tesmec S.p.A.	340	347	(7)	-2,02%
Tesmec Rail S.r.l.	105	99	6	6,06%
Tesmec USA, Inc.	86	92	(6)	-6,52%
Tesmec SA (Pty) Ltd.	23	22	1	4,55%
OOO Tesmec RUS	8	8	-	0,00%
Tesmec Automation S.r.l.	68	60	8	13,33%
East Trencher S.r.l.	1	0	1	100,00%
Tesmec New Technology Beijing LTD	3	3	-	0,00%
Groupe Marais	140	139	1	0,72%
Tesmec Australia Pty (Ltd)	12	38	(26)	-68,42%
Marais Laying Technologies (Pty) Ltd. Nouvelle Zelande	73	82	(9)	-10,98%
Marais Cote d'Ivoire	12	16	(4)	-25,00%
Marais Trenching (Pty) Ltd. AFS	1	1	-	0,00%
MIR SA	6	18	(12)	-66,67%
Total	**878**	**925**	**(47)**	**-5,08%**

The trend therefore records for 2020 a decrease in the precise figure of the Group's workforce (-5.08%) following some departures during the year and the completion of some important projects. The territorial distribution of the Group's employees sees 58% of the same employed in Italy, 16% in France, 10% in North America and the remaining 16% in the rest of the world. With reference to the turnover and hiring rates, please refer to the description in paragraph 17.5.2 Non-financial results and indicators of the Consolidated Non-financial Statement.

Despite the pandemic, in 2020 the Top Management strategically decided to enhance human capital, consolidating and maintaining the entire workforce. A similar will was made possible by the use of forms of flexibility and tools provided for by legislation and the national contract, without impacting the purchasing capacity of resources. The alternative measures adopted, which allowed the Group to survive in a very delicate phase, were the injection of energy necessary to restart the Group.

Level of education and seniority

The average age of the employees of the Group is 41. The figure breaks down into Italian companies with an average age of 42 (blue-collar workers 43, white-collar workers 41, of which 40 for women) and foreign companies with an average age of 40 (blue-collar workers 38, white-collar workers 43 of which 41 for women).

The strong drive in new technologies and young resources according to the definitive criteria in the previous paragraphs further increased the professional and educational value of Tesmec Group with the introduction of personnel with technical skills in the field of mechatronics, industry 4.0 and diagnostics.

Projections of employee age profiles for 2020 and following the growth and investment trends in the previous 5 years show an increased percentage of age groups above 35, following the need to consolidate and add to an important pool of young and enterprising people, seniority and skills in order to better guarantee the integration and drive to the new philosophy of "digital thinking and approach" more easily.

AGE	2020	2019
< 24	4%	7%
25-34	23%	29%
35-44	30%	29%
45-54	24%	22%
>55	19%	13%

9.6 Employer Branding

During 2020, Partnerships with technical schools, I.T.S. (post-diploma specialisation) and polytechnics in Bari, Cassino, Padua and Milan increased through an Academy Project for a Recruitment and Employer Branding Programme with the aim of promoting knowledge and dissemination of the Group's new technologies among students in order to feed a breeding ground for excellent candidates. In addition to various initiatives to link up with universities:

Career Day Tesmec 2020

Objective of the project: raise awareness of Tesmec in order to attract young candidates and talents and provide useful information to guide young people in their professional objectives choices.

Event date
Road to electronic jobs - Milan Polytechnic
Recruitment Digital Speed Date - Manpower
Virtual Career Day - Milan Polytechnic
Bergamo Job Festival - Confindustria BG
Career Day - University of Padua
Virtual Career Day - Politecnico di Milano
Recruitment Digital Speed Date - Manpower
Digital Career Week - University of Bergamo

9.7 Well-being project

The employee experience encompasses everything that a worker observes and perceives during their entire work experience with a specific company. The quality of this experience is influenced by elements such as work spaces and flexibility in managing time and objectives, interactions with colleagues and managers, work-life balance (i.e. the ideal balance between work and personal life, which is different for each worker), the provision of technological tools to make work more efficient and simpler and, obviously, remuneration and the presence of benefits.

Work flexibility tools:

- multi-weekly flexible hours;
- Time bank;
- flexibility of working hours;
- elasticity;
- part-time;
- advance on holidays;
- leave for medical examinations;
- special leaves;

- smart Working.

Business solidarity initiatives

- Tesmec Family solidarity fund: the fund receives voluntary financial contributions from employees in favour of colleagues in proven difficulties due to the COVID-19 emergency situation.
- Solidarity time bank: it is possible to donate holiday and PAR hours to colleagues who are facing personal and/or family emergency situations.
- 40-hour accumulation: 40 hours of paid leave can be taken in advance upon request.
- Company factotum: service offered on an experimental basis to employees, enabling them to find a balance between work and private life. The service is tailored to the real needs of the employees: the company factotum will be at the company's disposal to relieve, support and help Tesmec employees with their daily tasks, providing personalised services.
- Tesmec Survey: colleagues are involved by helping, through the compilation of a short survey, to inform the company of any solidarity initiatives or actions that could be taken inside or outside the company to deal with this difficult time.
- COVID-19 insurance: with a sense of urgency and responsibility, Tesmec decided to make a further effort to safeguard and protect the health of its people by activating a specific insurance cover for all employees of the Italian companies of the Group that provides for an indemnity in the event of infection. The policy covers hospitalisation and post-hospitalisation days.
- Free and remote training: Personnel can voluntarily participate in training courses, workshops and video clips, through e-learning platforms with a view to encouraging and supporting the skills and knowledge of all employees. There are several training areas: from language courses to management and business training, from information on how to work best in smart working to the development and enhancement of soft skills. A colleague is available to remotely share Eastern Makko-Ho group breathing exercises to restore inner balance and mental and physical well-being.

Resource training and professional development

Training: more and more ongoing and personalised. In this case, new technologies are not only enabling e-learning, but are going further: for instance, with artificial intelligence and big data it is possible to create virtual coaches, that give advice and support to people on how to evolve their work models.

LifeLongLearning
Two specific and dedicated methods were designed, one for the production personnel and the other for personnel meeting the following objectives:

- Updating key specific skills for new technologies;
- increasing the spread of knowledge;
- stimulating the propensity for new technologies;
- disseminating new knowledge.

E-learning

Webinars offered by the company HRC - online entertainment activities dedicated to children aged 6 to 14.
Webinars offered by the company HRC on psychological support for adults during the COVID phase
Webinars proposed by the company Psicoligi.me offering psychological support sessions during the COVID-19 phase.
Webinars offered by the company Talema S.r.l. offering psychological support sessions.
“Eyd Lab Noe” language app proposed by Neo Formazione to strengthen the learning of the English language.

9.8 Health, safety and environment

During 2020, like any other company in the world, the Tesmec Group had to deal with the COVID-19 pandemic.
From this point of view, it was certainly a challenging year that required extraordinary efforts to face a danger never managed before.

Tesmec did so by using all the professional skills of its Management and by carrying out a concerted effort between various corporate bodies including HSE, HR, Purchasing, and Production.

The various actions implemented include:

- issue of a COVID management procedure applied throughout Italy and exported, on some issues, also abroad. The procedure was revised several times, integrating the needs and regulations that arose as the pandemic progressed. Each review was distributed to all Italian employees;
- distancing within offices and production areas through barriers, imposed distances, smart working, differentiated access times to premises including canteens;
- centralised purchase of all necessary PPE including masks, overalls, visors;
- implementation of adequate temperature control stations for all people entering; this was accompanied by the design and implementation of an innovative portal for the automatic measurement of temperature and other parameters;
- establishment of specific Task Forces.

Several activities were also implemented that go beyond the explicit national requirements but which result in a real additional service that Tesmec wanted to offer its employees; these include:

- performing serological tests, immediately after the first lockdown;
- flu and pneumococcal vaccines also for relatives.

All the above actions made it possible to create a safe environment by providing all employees with appropriate PPE and tools to prevent infection; this has so far prevented any kind of COVID outbreak within Tesmec Group.

10. Related party transactions

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

As already illustrated above, during the year, the following transactions qualified as highly significant and were therefore approved by the Control and Risk Committee acting as the Company's related party transactions committee:

- signing of a shareholder loan (with the related parties TTC S.r.l. and MTS-Officine Meccaniche di Precisione S.p.A.) of up to Euro 7 million, payable in one or more tranches at the Company's request, with a duration of 36 months and bearing interest at an annual rate of 2%, disbursed on 31 December 2020 by the related party TTC S.r.l. through the subsidiaries RX S.r.l. and MTS-Officine Meccaniche di Precisione S.p.A for Euro 3.3 million;
- acquisition from the related party MTS-Officine Meccaniche di Precisione S.p.A. of 100% of the share capital of 4 Service S.r.l., a company operating in the business of trencher rentals, for a consideration of Euro 9.4 million. MTS converted its receivable relating to the payment of the consideration into a payment for future share capital increase of Tesmec. Following the Share Capital Increase, this amount was converted into share capital;
- on 29 June 2020, the Board of Directors of Tesmec Automation S.r.l., with the prior favourable opinion of the Control and Risk, Sustainability and Related Parties Transactions Committee, resolved the purchase of the factory located in Patrica (FR), to carry out subsequently the expansion and restructuring of its existing part. Note also that the Patrica factory belongs to the related party Dream Immobiliare S.r.l. and is currently leased by Tesmec Automation S.r.l. on the basis of a 12-year contract expiring in 2028. The transaction was completed on 7 July 2020 at the price of Euro 1 million.

For significant inter-company and related party information, please see the paragraph "Related party transactions" in the Explanatory Notes.

11. Parent Company management performance

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

Income statement

The income statement of the Parent Company in 2020 compared with that of the prior financial period is summarised below:

	Financial period ended 31 December			
(Euro in thousands)	**2020**	**% of revenues**	**2019**	**% of revenues**
Revenues from sales and services	**88,818**	**100.0%**	**100,297**	**100.0%**
Cost of raw materials and consumables	(49,558)	-55.8%	(53,573)	-53.4%
Costs for services	(13,317)	-15.0%	(15,942)	-15.9%
Payroll costs	(18,064)	-20.3%	(20,383)	-20.3%
Other operating (costs)/revenues, net	(346)	-0.4%	(78)	-0.1%
Amortisation and depreciation	(6,240)	-7.0%	(6,201)	-6.2%
Development costs capitalised	1,779	2.0%	1,946	1.9%
Total operating costs	**(85,746)**	**-96.5%**	**(94,231)**	**-94.0%**
Operating income	**3,072**	**3.5%**	**6,066**	**6.0%**
Financial expenses	(7,092)	-8.0%	(5,078)	-5.1%
Financial income	2,947	3.3%	4,522	4.5%
Pre-tax profit/(loss)	**(1,073)**	**-1.2%**	**5,510**	**5.5%**
Income tax	618	0.7%	(1,277)	-1.3%
Net profit/(loss) for the period	**(455)**	**-0.5%**	**4,233**	**4.2%**

Revenues from *goods sales* refer to income deriving from the transfer of stringing machines and equipment and trenchers, and increased by 11.4%.

Other operating costs/revenues, net include the positive effect of the tax credit for significant research and development expenses incurred by the Parent Company Tesmec S.p.A. for the expansion of the offer in the new sectors for automation, maintenance of existing power lines and service activities, which were combined with the renewal of the product range in all of Trencher's business areas. The total value of the income tax credit amounted to Euro 522 thousand for the 2020 financial period and to Euro 886 thousand for the 2019 financial period.

The table below illustrates the performance of EBITDA that decreased by 24.1% compared to the previous financial period:

	Financial period ended 31 December				
(Euro in thousands)	**2020**	**% of revenues**	**2019**	**% of revenues**	**2020 vs 2019**
Operating income	3,072	3.5%	6,066	6.0%	(2,994)
+ Amortisation and depreciation	6,240	7.0%	6,201	6.2%	39
EBITDA	**9,312**	**10.5%**	**12,267**	**12.2%**	**(2,955)**

Operating Income

The operating income of Euro 3,072 thousand in 2020 decreased by 49.4% compared to 2019 as a result of the COVID-19 pandemic situation.

Net result

The result for the period amounted to a negative Euro 455 thousand (Euro 4,233 thousand in 2019) after deducting income for taxes totalling Euro 618 thousand (charges of Euro 1,277 thousand in 2019).

Balance sheet and financial profile

The financial position of the Company as at 31 December 2020 compared to 31 December 2019 is summarised in the table below.

(Euro in thousands)	Financial period ended 31 December	
	2020	2019
USES		
Net working capital	25,709	30,420
Fixed assets	96,798	85,522
Other long-term assets and liabilities	5,160	3,703
Net invested capital	**127,667**	**119,645**
SOURCES		
Net financial indebtedness	38,964	63,800
Shareholders' equity	88,703	55,845
Total sources of funding	**127,667**	**119,645**

Details for a better understanding of changes in the two items are given below:

Working capital

(Euro in thousands)	Financial period ended 31 December	
	2020	2019
Trade receivables	31,215	36,832
Inventories	35,132	34,620
Trade payables	(36,217)	(33,721)
Other current assets/(liabilities)	(4,421)	(7,311)
Net working capital	**25,709**	**30,420**

The Working capital compared to revenues decreased from 30.3% reported in 2019 to 28.9% in 2020. This result was affected by the decrease in trade receivables of Euro 5,617 thousand, the increase in trade payables of Euro 2,496 thousand and the decrease in other current assets/(liabilities) of Euro 2,890 thousand.

Fixed assets

	Financial period ended 31 December	
	2020	2019
Intangible assets	7,739	5,732
Property, plant and equipment	7,071	7,403
Rights of use	13,238	14,228
Equity investments in subsidiaries	67,009	56,418
Equity investments in associates	1,738	1,738
Other equity investments	3	3
Fixed assets	**96,798**	**85,522**

Total fixed assets recorded a net increase of Euro 11,276 thousand mainly due to the increase in *Equity investments in subsidiaries* of Euro 10,591 thousand, of which Euro 9,722 thousand related to the purchase of the equity investment in 4 Service S.r.l.

Net financial indebtedness

(Euro in thousands)	31 December			
	2020	*of which with related parties and group*	2019	*of which with related parties and group*
Cash and cash equivalents	(49,887)		(4,649)	
Current financial assets	(52,949)	*(48,286)*	(45,377)	*(40,681)*
Current financial liabilities	63,702	*1,257*	61,149	*5,781*
Current financial liabilities from rights of use	2,690		2,295	
Current portion of derivative financial instruments	-		6	
Current financial indebtedness	**(36,444)**	***(47,029)***	**13,424**	***(34,900)***
Non-current financial liabilities	64,329		38,315	
Non-current financial liabilities from rights of use	10,909		12,055	
Non-current portion of derivative financial instruments	170		6	
Non-current financial indebtedness	**75,408**	-	**50,376**	-
Net financial indebtedness pursuant to CONSOB Communication no. DEM/6064293/2006	**38,964**	***(47,029)***	**63,800**	***(34,900)***

Net indebtedness stood at Euro 38,964 thousand as at 31 December 2020 from Euro 63,800 thousand as at 31 December 2019. The decrease of Euro 24,836 thousand is mainly due to the increase in cash and cash equivalents of Euro 45,237 thousand following the share capital increase.

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

12. Corporate governance and code of conduct on corporate governance

The Tesmec Group adheres and complies, with the additions and adjustments resulting from the characteristics of the Group, to the Corporate Governance Code for listed companies (approved in March 2006, and subsequently amended in July 2015 and December 2018).
On 12 March 2021 the Board of Directors of Tesmec S.p.A. was informed of the start of the functional activities for the adaptation of the Company's internal regulations to the provisions of the new Corporate Governance Code, which came into force on January 1, 2021. Tesmec will inform the market on the methods of application of the new Corporate Governance Code in the report on corporate governance and ownership structures that will be published in 2022.

The "Report on corporate governance and ownership structure" contains a general description of the corporate governance system adopted by the Group and shows the information on ownership structure and compliance with the codes of conduct on corporate governance, including the main governance practices applied and the characteristics of the risk management system and of the internal audit in relation to the process of financial reporting. This Report is enclosed with the financial statements and subject to the same disclosure deadlines as the financial statements themselves, and is available on the website www.tesmec.com, in the Investors-*Governance*-Report section.
For information on the corporate offices held by the Company's Directors, please refer to the *Report on Corporate Governance and Ownership Structures*. For the members of the Board of Statutory Auditors, the complete and updated list of the corporate offices is published by CONSOB on its website, pursuant to Article 144-*quinquiesdecies* of the Issuers' Regulations.

13. Places where the Company operates

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

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

14. Significant events occurred after the reporting period

No significant events occurred after the reporting period.

15. Business Outlook

The health emergency due to the COVID-19 pandemic had socio-economic repercussions worldwide and impacted the Group's 2020 results. The recovery phase, which started in the second half of 2020, allowed Tesmec to confirm the guidelines of the 2020-2023 Business Plan, achieving results in line with the 2020 guidance.

2021 is a year of recovery that is based, first of all, on the positive start of vaccination processes a global level which is believed to lead to a faster than expected reduction of containment measures and therefore to faster and stronger recovery. Then a higher demand driven by the stimulus packages issued by the governments of the Countries in which Tesmec operates is expected. These packages aim to accelerate, already this year, the growth of GDP beyond expectations (e.g. United States of America). The first signs of recovery can be seen from the extension of procurement times and to the increase in transport freight costs, confirming a ferment in logistics activities to support this recovery.

The new containment measures recorded in the first months of 2021, due to a worsening of the pandemic situation and the growth of infections, and the related uncertainty, could slow down the recovery phase of the first quarter of the Group, but it is not considered on medium-long term prospects. The reference sectors of Tesmec, in fact, will benefit from new investments and development policies aimed at strengthening the key infrastructures of the main Countries: the business of the Group is focused in strategic sectors that are extremely dynamic and that have significant growth prospects.

In detail, huge investments are planned in the trencher sector to strengthen telecommunications networks with the consequent increase in excavation and connection projects. A strong development in the mining sector is also expected. The railway sector is benefiting from a significant increase in investments to reduce congestion in the movement of road vehicles and increase sustainable mobility together with important investments in the maintenance of the lines in order to guarantee the safety of rail transport. In the Energy sector, the transition to renewable energy sources, as well as the growing importance of the efficiency of electricity grids, will drive to investments to support these trends.

The effects of these investments, both in terms of macroeconomic recovery and their impact on the Group's activities and volumes, will be the more evident the faster the process of definition and assignment, by the government authorities, of the initiatives related to the so-called Recovery Fund by the European Union institutions.

Then the Group expects a total turnover of approximately Euro 220 million in 2021, an EBITDA higher than 16% and a reduction of Net financial indebtedness compared to the end of 2020. In the Trencher Sector, recurring revenues are expected to grow, driven by the development of rental and after-sales assistance activities, which will allow to get higher EBITDA margins, and, on the other, by the rationalization of the product range and standardization of technological platforms in order to have greater efficiency in terms of production and logistics. In the Railway Sector, growth in revenues and margins is expected thanks to the development of diagnostics and recurring services - characterized by higher margins than vehicles thanks to the greater technological content - to geographical diversification and to the economies of experience. In the Energy Sector, the growth is linked to the execution of orders acquired in the Energy Automation segment and the development prospects expected for the Stringing segment on markets with higher added value, such as USA and Europe. The improvement in margins will be achieved through specific product and commercial strategies for the two business segments, such as: in the Stringing segment, a premium price policy on digital machines, the standardization of the offer in line with the customizations required by customers and the improvement of the procurement process, on the other hand, in the Energy Automation segment, the standardization of products, the exploitation of economies of experience and the change in the mix offered “from products to systems”. In addition, the Group expects that the rationalization and cost analysis actions undertaken in 2020 may have a positive impact also in the 2021 cross in the several business units.

After the analysis, design, fit & gap and data migration phases, started in the second half of 2019 and developed in 2020, there was the go-live of the new ERP system (Microsoft Dynamics 365) by the parent company Tesmec S.P.A. during the month of January 2021. It is expected that, after a first natural phase of slowdown in the production and sales processes, a stabilization will take place in April to allow the waves phase in the Group's subsidiaries starting from the second semester of 2021.

With reference to the Proceeds of the rights issue offer, the analysis phase of the business initiatives described in the Prospectus is in progress. In detail, in the Trencher Sector to further strengthen the rental business by expanding the fleet of trenchers; in the Railway Sector to strengthen diagnostic systems and to develop technological platforms for the maintenance of railway networks by partnering with leading players in the digital sector, and then in the Energy Sector, with regard to the

Stringing Segment to penetrate the distribution market of the energy supply chain in North America, in the Energy-Automation Segment to start up operations of the Group in foreign countries in which its key customers operate, with a view to greater internationalization.

16. Other information

Management and co-ordination activities

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

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

Tesmec S.p.A. carries out management and coordination activities, pursuant to Articles 2497 et seq. of the Italian Civil Code, towards East Trenchers S.r.l., Tesmec Automation S.r.l., Bertel S.r.l., Tesmec Rail S.r.l. and 4 Service S.r.l.; this management and coordination activity consists in the preparation of Group directives, procedures and guidelines.

Treasury shares and shares of parent companies

On 21 May 2020, the Shareholders' Meeting resolved to withdraw, for the part not yet carried out, the resolution authorising the purchase and disposal of treasury shares granted by the Ordinary Shareholders' Meeting dated 16 April 2019, effective as from the date of approval of this resolution and valid until October 2020.
At the reference date of this report, 31 December 2020, a total of 4,711,879 shares (0.777% of Share Capital) had been purchased at an average price of Euro 0.5543 (net of commissions) for a total value of Euro 2,612 thousand. In the period no purchases of treasury shares were made.

Equity investments held by Directors and Statutory Auditors

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

Shares held by Directors and Statutory Auditors

Directors and Statutory Auditors

Name	Shareholding	Office	Number of shares held at the beginning of the 2020 financial period	Number of shares purchased	Number of shares sold	Number of shares held at the end of the 2020 financial period
Ambrogio Caccia Dominioni	Direct	Chairman and Chief Executive Officer	155,800	-	-	155,800
Gianluca Bolelli	Direct	Vice Chairman	101,000	-	-	101,000
Caterina Caccia Dominioni	Direct	Director	9,500	-	-	9,500
Lucia Caccia Dominioni	Direct	Director	9,500	-	-	9,500
Stefano Chirico	Direct	Statutory Auditor	11,492	-	-	11,492

Italian Legislative Decree 231/01

The Company has adopted an Organisational Model aimed at ensuring fair and transparent conditions in running the company business, to protect all holders of interest of the Company, tailored on the specificity of Tesmec S.p.A.
The Subsidiaries Tesmec Automation S.r.l. and Tesmec Rail S.r.l. have adopted their own Organisational Model also aimed at ensuring fair and transparent conditions in running the company business to protect all stakeholders of the Company, modulated to reflect the specific characteristics, by resolution of their respective boards of directors on 18 November 2019 and 19 December 2019.

Information on Significant Companies outside the EU

Tesmec S.p.A., parent company, controls two companies (Tesmec USA, Inc. and Tesmec Australia (Pty) Ltd.) which are considered subsidiaries of significant importance established and regulated by the law of countries outside the EU in accordance with the provisions of the Market Regulations adopted by CONSOB with resolution no. 20249 of 28 December 2017, as amended and supplemented.

With reference to these companies, it should be noted that:

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

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

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

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

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

Tesmec has complied with the new European standards by adapting its compliance standards, namely through:
1) the update of the Information on the website www.tesmec.com which can be consulted in the Privacy section;
2) the establishment of the Treatment Activity Register;
3) the revision of the existing procedural set and the introduction of new procedures provided by the GDPR.

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

17. Consolidated Non-financial Statement for 2020 pursuant to Italian Legislative Decree no. 254/2016

Letter to Stakeholders

Dear Stakeholders,

I am pleased to present the Consolidated Non-financial Statement of the Tesmec Group for the year 2020, a reporting tool that wants to give you the opportunity to understand the procedures implemented by the Group for the respect and promotion of a more sustainable future by protecting the environment in which we operate, ensuring respect for human rights, supporting personnel, ensuring ethical behaviour in the running of business and in the relationships we undertake with our stakeholders.

The growing attention to environmental sustainability and safety topics worldwide is reflected in the Group's strategic choices and development plans.
Tesmec is recognised as a company with a strong propensity for innovation, in particular for environmental sustainability and internationalisation, fundamental characteristics that have marked the history of the company and will certainly be at the centre of our future developments.

Sustainability is one of the key factors in the Group's medium to long-term growth strategy, which focuses on quality, efficient resource management and continuous product and process innovation. The Tesmec Group adopts a business model characterised by the integration of sustainability principles in the company strategy and in the management of environmental, social and governance aspects.

With the desire to promote and disseminate the principles of responsibility and sustainability, we have decided to contribute to the achievement of the United Nations objectives published in the 2030 Agenda for Sustainable Development, through the preparation of a Sustainability Plan during 2021, with the identification of sustainability commitments, objectives and targets.

Tesmec is constantly committed to improving the environmental impact of its processes, including production cycles, by improving the energy efficiency of the technologies used and reducing the use of polluting materials; waste management and disposal, by separating waste and reducing its quantity; the design of new technological solutions, taking into account environmental impacts at an early stage of the project, both in the operation phase and in the final phase of the life cycle and disposal of products. In this regard, several Tesmec Automation S.r.l. products have obtained the certification on "Carbon Footprint" (ISO 14067), a parameter that identifies the amount of greenhouse gas emissions throughout the life cycle of a product, expressing it in terms of tons of "CO2 equivalent". The Carbon Footprint at Group level may have a concrete impact on Tesmec's search for ever greater sustainability and on the management of environmental policies, as it introduces a quantitative measure of company emissions and consequently allows to define interventions on production processes aimed at improving sustainability. At the same time, in addition to being a process for improving the ISO 14001 Environmental Management System, this metric represents a tool that will allow Tesmec to communicate its attention to environmental sustainability over time and will promote its image as a supplier of green technological solutions.

The same technological solutions offered by the Group to the market aim to help customers and user production chains achieve the Sustainable Development Goals. In particular, in this context, the Group intends to continue to innovate the products and solutions offered according to the trends in energy transition, digitalisation and sustainability, in all its areas of activity: in the Stringing equipment segment, where a new concept of integrated digital 4.0 systems was created for the transport and distribution of energy that made it possible to increase the efficiency of production processes; in the Rail Sector, engaged in the design of electric and hybrid rail vehicles equipped with diagnostic systems for increasingly advanced and safe infrastructures; in the Energy Automation Segment, whose solutions are intrinsically dedicated to environmental sustainability as they enable the integration and management of renewable energy sources, as well as the streamlining of power networks; in the Trencher segment, engaged in the study of systems that guarantee an increasingly lower environmental impact thanks to the use of engines that comply with the latest regulations on atmospheric emissions.

These results are even more significant in the light of an economic scenario characterised by high uncertainty as well as profound changes taking place at global level due to the COVID-19 pandemic.
In particular, the Group dealt with the emergency situation with strong determination, promptly adopting all the safety measures necessary to protect the health of its personnel and its stakeholders. We did this by using all the professional skills of

our Management, working in concert among the various business functions (HSE, HR, Purchasing, Production ..). In compliance with all the most stringent protocols aimed at preserving the health and safety of employees and collaborators, several initiatives were undertaken, also through activities that go beyond the explicit national requirements, but which result in a real additional service that Tesmec wanted to offer its employees (activation of specific insurance cover, establishment of a Solidarity Time Bank, campaigns for serological testing and flu and pneumococcal vaccines also for family members…).

Aware of the importance of our role, we work every day to find more responsible, innovative and efficient solutions in order to contribute to sustainable development while continuously improving ourselves.

The Chief Executive Officer

Ambrogio Caccia Dominioni

17.1 Methodology

17.1.1 Purpose of this section

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

This consolidated Non-financial Statement (also “NFS” or “Statement”), referring to the financial period ended on 31 December 2020, constitutes the commitment of the Tesmec Group to report on the initiatives and the main economic, social and environmental results achieved by the Group during 2020 (from January 1 to December 31). In particular, this document describes the management models, the governance practised by the company, the results achieved and the main risks, generated or suffered, with reference to the topics expressly indicated in Article 3 of the Decree (environmental, social, personnel-related, respect for human rights, fight against corruption) including the methods of their management. For more information, refer to the relevant chapters of this document.

In order to allow data comparability over time, a comparison with 2019 data is presented. Moreover, the use of estimates was limited as much as possible to ensure data reliability. The estimates, if any, are based on the best available and duly reported methods.

In accordance with the provisions of Article 5 of the Decree, Tesmec has chosen to integrate the Statement into its Report on Operations.

The Non-financial Statement is drawn up on an annual basis.

17.1.2 Scope of the Consolidated Non-financial Statement

The scope of economic and financial data and information is the same as in the 2020 Annual Financial Report of the Tesmec Group.

The scope of environmental and social data and information is composed by the following companies consolidated on a line-by-line basis in the 2020 Annual Financial Report of the Tesmec Group (see § Group structure of the Report on Operations):

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

The following companies consolidated on a line-by-line basis in the 2020 Annual Financial Report are excluded from the scope of environmental data and information:

- OOO Tesmec RUS
- Tesmec New Technology Beijing LTD
- Marais Trenching (Pty) Ltd. AFS
- East Trenchers S.r.l.
- MIR SA
- 4 Service S.r.l

The choice to exclude these companies is in line with the provisions of Article 4 of the Decree, according to which the Statement can exclude those companies that, albeit included in the scope of consolidation, are not necessary to understand the Group's activity, its performance, results and impact produced by the activity itself. In fact, the environmental impacts of these companies, as envisaged by the Group Non-Financial Report Policy, are not considered significant due to their low incidence in terms of Group turnover (less than 2% of the consolidated total), number of employees (less than 10) and type of activity (non-productive)[2].

The companies Marais Technologies SA, Bertel Srl, and Marais Guinee SARLU are also excluded from the reporting scope of this document, as envisaged by the Policy Group Non-Financial Report, they are not considered significant due to their low incidence in terms of Group turnover (less than 1% of the consolidated total), number of employees (0 units).

Any additional limits to the scope are properly indicated in the document.

This document also properly indicates the restatements of the figures published in the previous NFS.

With reference to extraordinary transactions during the year, note the acquisition of the company 4 Service S.r.l. and its subsidiary 4 Service USA Inc.

During 2020, there were no significant changes to the Group's supply chain and ownership structure.

17.1.3 Reference guidelines and reporting process

This NFS has been prepared in accordance with the *“Core” option of the "Global Reporting Initiative Sustainability Reporting Standards"* defined in 2016 by the Global Reporting Initiative (GRI) and its subsequent developments.

In the appendix to the document, it is possible to consult the GRI Content Index where the GRI indicators related to each material topic are indicated. These indicators were selected based on a materiality analysis that made it possible to identify the most relevant sustainability topics for the Group and its stakeholders, a description of which is provided in the chapter "Materiality analysis".

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

Based on the update of the Group Policy related to the non-financial reporting process, formalised in a document approved on 5 February 2021 by the Control and Risk, Sustainability and Related Party Transactions Committee and approved by the Board of Directors on 22 February 2021, the following steps were defined:

1. preliminary activities (definition of timing, context analysis, definition of boundary, risk analysis);
2. preparation, update and approval of the materiality analysis;
3. starting the process for collecting and approving non-financial data and information;
4. data analysis and preparation of the text of the Non-financial Statement;
5. approval of the Non-financial Statement.

This document was approved by the Board of Directors of Tesmec Spa on 12 March 2021.

The document was also subject to a limited review (limited assurance engagement in accordance with the criteria set out in the revised ISAE 3000 standard) by Deloitte & Touche S.p.A. The audit was carried out in accordance with the procedures indicated in the "Independent Auditors' Report" included in this document.

The extraordinary and unpredictable spread of the COVID-19 pandemic has determined new priorities for the Group and forced to postpone some activities planned during 2020. Therefore, the formalisation of a Sustainability Plan with the identification of sustainability commitments, objectives and targets has been scheduled for 2021.

During the year, a progressive structuring of the methods for listening to and engaging with stakeholders was started, also for the purposes of updating the materiality analysis, which is described in chapter "17.1.6 Materiality analysis".

2 As defined in the Group's Non-financial Report Policy, these figures refer to 30 September 2020.

17.1.4 Profile and activities of the Tesmec Group

The Tesmec Group, thanks to the thorough technological knowledge and the know-how gained from almost 70 years of experience, is mainly active in designing, manufacturing and selling systems and integrated solutions for the construction, maintenance and diagnostics of infrastructures (aerial, underground and rail networks), for the transport and supply of energy, data and materials (oil and derivatives, gas, water) as well as technologies for the running of quarries and surface mines. The Group is active in the following operating segments:

ENERGY SEGMENT

The Group designs, manufactures and markets integrated systems for the construction and maintenance of infrastructures for the transmission of electrical power and aerial and underground power lines. The Group's solutions are used for maintenance work on existing power lines, for the construction of infrastructures for data transmission and, in particular, for the stringing and maintenance of fibre optics.

In recent years, the Group consolidated its presence in the tension stringing market for the construction of aerial and underground lines for the transmission of electrical power, thanks to its coverage of the world's main markets and its continuous innovation in research and development, which enables it to offer specific solutions for all types and voltages of lines, including very high voltage lines and those using the new generation of high efficiency conductors.

Starting from 2011, the company strategy led it to combine the construction of power networks of the Stringing segment, in which Tesmec is a world leader, with their management and automation, having identified a strong synergistic component in terms of market and customer type.

Tesmec thus entered the Energy-Automation Segment, first through the acquisition of minority shares in a number of Italian companies in this field and then, as from 2017, through their 100% acquisition.

Today, the Group develops, manufactures and markets advanced equipment and systems for the automation, streamlining, management and monitoring of high, medium and low voltage power lines and substations (with the aim of creating "smart grids"), where, thanks to the mutual exchange of information, it is possible to manage and integrate all sources of production efficiently and safely.

Tesmec, thanks to the high technical know-how in the field of electronics, telecommunications and sensors, is now able to offer its customers complete solutions for the management of smart grids, proposing remotely controlled, automation, protection, monitoring, measurement, service, telecommunications, sensors and IoT systems solutions.

The portfolio of solutions in the Energy segment is completed by pre-sales technical analysis, systems engineering and integration, scheduled maintenance to maximise system efficiency, after-sales technical support and commissioning in the field, continuous training and retraining programmes for customers' technicians.

TRENCHER SEGMENT

The Tesmec Group is one of the main operators worldwide in terms of revenues in the design, production and sale as well as rental of high-powered crawler trenchers for in-line excavations (channels and trenches for laying cables or pipes) and surface miners for earthworks and mines. In particular, the Group provides solutions and technologies for in-line excavation of oil pipelines, gas pipelines, water systems, telecommunication networks and installation of fibre optics, underground power networks, drainage operations, earthworks, quarries and surface mines and specialised excavation services.

In the Trencher Segment, in addition to the sale of machines, the Tesmec Group also offers short/medium and long-term rental solutions, with or without an operator. Compared to sales, the possibility of renting trenchers allows the Group's customers to obtain the maximum operational advantage by having the machine best suited to the type of work to be carried out with important savings in execution time - and costs - possibly postponing the purchase by the user customer to a later date.

The services mainly offered by the Tesmec Group, both through internal personnel and external consultants, in the Trencher Segment are consultancy and inspections, feasibility studies and geological analyses, training, fleet management and supervision, diagnostic and maintenance services, on-site assistance and provision of mobile workshops.

RAIL SEGMENT

The Group, leveraging its many years of experience in the Stringing equipment segment of the Energy Segment, has consolidated its position in the rail business due to the growing demand for maintenance and monitoring of rail networks driven by the increasing interest in and awareness of issues relating to the reliability and safety of the infrastructure.

In parallel with the continuous development of technical solutions for the laying of rail catenary (rail power supply networks), Tesmec has also developed technologies and integrated solutions to automate various maintenance operations on rail power lines. This development has taken place through both internal growth and acquisitions, through strategic operations with small companies with high technological content, which have allowed the integration of the Group's "historical" skills in rail electrification with new skills relating both to vehicles with European certification for circulation and to the development of systems for rail infrastructure diagnostics.

Tesmec today designs, produces and sells integrated systems for rail catenary installation; working equipment for the maintenance of catenary wire systems (e.g. wear and tear) and of the track for special operations (e.g. removing snow from the track); and cutting-edge vehicles for catenary wire system and track diagnostics.

Tesmec also offers complementary service packages such as theoretical and practical courses for technical education, technological consultancy for the use of advanced technologies for project streamlining, vehicle start-up on construction sites and scheduled maintenance to improve the use of vehicles (maintenance service).

The main results achieved by the Tesmec Group in 2020 are represented by the numbers of the year:

Total number of employees	878
Net revenues	Euro 170,655,122
Development costs capitalised	Euro 5,787,247
Percentage of sale of products on total revenues	79%
Percentage of services provided as a percentage of total revenues	21%

For further details, refer to the consolidated financial statements of the Tesmec Group, shown on page 100 and following of the 2020 Annual Financial Report.

The COVID-19 pandemic had a significant impact on the performance of the first six months of 2020. The various containment measures caused delays in the supply chain, production and consequently sales of the period, especially in March. These critical issues continued in April as well, during which the interruption of the operating activity continued. This led to a natural slowdown in the commercial activity, which had however already resumed in the first days of May. The Group reached full operation during the month of June and the first results from the restarting of the activities were confirmed with the growth of turnover and improvement in margins in the second quarter compared to the first quarter. During the last quarter of the year, despite the worsening of the pandemic and the consequent restrictive measures adopted in Italy and in some countries where Tesmec operates, the Group was still able to confirm the results expected and announced to the market during the share capital increase due to the fact that it operates in strategic sectors.

17.1.5 Relations with Stakeholders

The presence of Tesmec on the national, European and international market makes the dialogue between Tesmec and its stakeholders very relevant, and it is based on the criteria of fairness, collaboration, loyalty and mutual respect. This dialogue is on rules of behaviour such as:

- **Safety and ethics:** Tesmec's goal is to guarantee the highest safety standards with a sense of responsibility for oneself and others;
- **Performance improvement guidance for oneself and for the company:** it is the ability to pursue personal and group goals and improve performance;
- **Empowerment for continuous improvement:** improving the products and services offered by setting ambitious goals;
- **Enthusiasm, passion, commitment and self-motivation:** working with enthusiasm and pleasure;
- **Adaptability:** resilience by adapting plans and behaviours to respond to the changing environment.

Tesmec pays constant attention to the needs and expectations of its stakeholders in that it is considered a fundamental approach to increasingly direct the business to non-financial issues.

Main stakeholders of Tesmec

The main stakeholders of the Tesmec Group include employees, customers, shareholders, citizens, legal representatives, suppliers of goods and services, financial and/or business partners and trade and environmental associations.

Tesmec constantly improves the active involvement of its stakeholders and does so through different ways of periodically involvement. The table below shows the main engagement activities, the engagement channels used over the years and any topics that may have emerged from each stakeholder group during the involvement phase. Note that during 2020, participation in events and conferences took place mainly online and virtually in accordance with COVID-19 guidelines. The Group adopted solutions and platforms to enable people to communicate remotely and deal with each other safely within work spaces, always in compliance with COVID-19 procedures.

Stakeholder	Type of involvement activity	Topics/expectations expressed by stakeholders
Employees	Internal communications	Involvement in company life
Community	Specific projects	Solidarity initiatives
Shareholders	Virtual Shareholders' Meeting	Approval of financial statements/Strategic plan
Analysts	Virtual events & Video conference	Presentation of company results/Strategic plan
Financial and/or business partners	Virtual events	Presentations of new projects
Trade associations	Virtual conferences/seminars	Coordination and development
Suppliers	Online events/Newsletters	Presentations of new products and initiatives
Customers	Online events/Newsletters	Presentations of new products and initiatives

17.1.6 Materiality analysis

The information set out in this Statement, in accordance with the provisions of the Decree, was selected on the basis of the principle of materiality that identifies those topics that reflect significant economic, environmental and social impacts for the Tesmec Group and substantially affect the assessments and decisions of relevant Stakeholders.

The GRI Reporting Standards indicate the need for organisations to focus their non-financial reporting process on those topics that are significant ("material") for their activities and stakeholders.

The stakeholders and the Tesmec Group have assessed the importance attached to each topic, in relation to the Group's activities and operating context: a topic does not necessarily have to be highly significant for both the organisation and its stakeholders to be considered material. In fact, significance from one point of view is more important than convergence between the two.

The update of the analysis in 2020 and the related process for defining material topics was developed in the following steps:

- Stakeholder mapping: the most relevant stakeholder categories were mapped in order to identify those who affect or are most affected by the Tesmec Group.
- Mapping of topics: material sustainability topics that may have a direct or indirect impact on the Tesmec Group or its stakeholders and are significant for the business and stakeholders or recognised as material for the entire reference sector were selected.

  In particular, the mapping of these topics was carried out on the basis of the following sources:
    - Analysis of the regulatory and reference context (e.g. health emergency caused by COVID-19);
    - Benchmarking analysis on sustainability topics reported by the main comparable companies in the sector;
    - Topics identified by the main sustainability frameworks and guidelines (GRI Standards, Sustainability Accounting Standards Board, The Sustainability Yearbook 2020).
    - Analysis of main information on sustainability relating to the Tesmec Group and/or in the Consolidated Non-Financial Statement for 2019.
- Assessment of material topics: material sustainability topics were assessed by the identified stakeholder category (employees) and by the Tesmec Group, through the implementation of specific engagement activities.
- Definition of the materiality matrix: the 2020 materiality matrix of the Tesmec Group was defined, following a quantitative analysis of the results of the above-mentioned assessments and through a subsequent qualitative analysis. The materiality matrix offers a summary representation of the material topics of the Tesmec Group, by cross-referencing them with the level of interest they have for its stakeholders.

In particular, the 2020 update process of the materiality analysis involved the category of employees to whom an online survey was administered to assess the material topics. These categories were asked to rate them on a scale of 1 (not material) to 5 (very material) with reference to each material sustainability topic.

For the purposes of the analysis process, the Tesmec Group also involved its Top Management by submitting the same survey with the same compilation methods.

Following the assessment of the topics, based on the results obtained, a relevant qualitative analysis was carried out, which led to the grouping of same topics and the exclusion of topics found to be below the identified "materiality threshold" and therefore not considered material.

Thus, starting from an initial panel of 24 material sustainability topics grouped into 6 macro-areas (Governance responsibility, responsibility towards people, product liability, social responsibility, supply chain responsibility, environmental responsibility), the following topics were removed from the materiality matrix: protection and promotion of biodiversity, involvement and support to local communities, management of water consumption and waste water. On the other hand, the following topics were aggregated: Innovation, research and development and Digital transformation, Waste management and Management of hazardous chemicals.

Voting was broadly in line with that of the 2019 financial period. In line with last year, topics relating to water consumption and pollutant emissions into the atmosphere not included in greenhouse gas emissions resulted not to be material following the materiality analysis process. Nevertheless, by virtue of the monitoring actions taken by the Group, no significant risks related to the above topics were reported. Although this topic was not considered to be material, note that the Group, in its development policies, pays much attention to reducing emissions and combating climate change.

The materiality matrix that leads to consider 19 topics is graphically represented below: those indicated in the blue box are of high materiality for Tesmec Group and its Stakeholders. This matrix was validated on 5 February 2021 by the Control and Risk, Sustainability and Related Party Transactions Committee and approved by the Board of Directors on 22 February 2021.

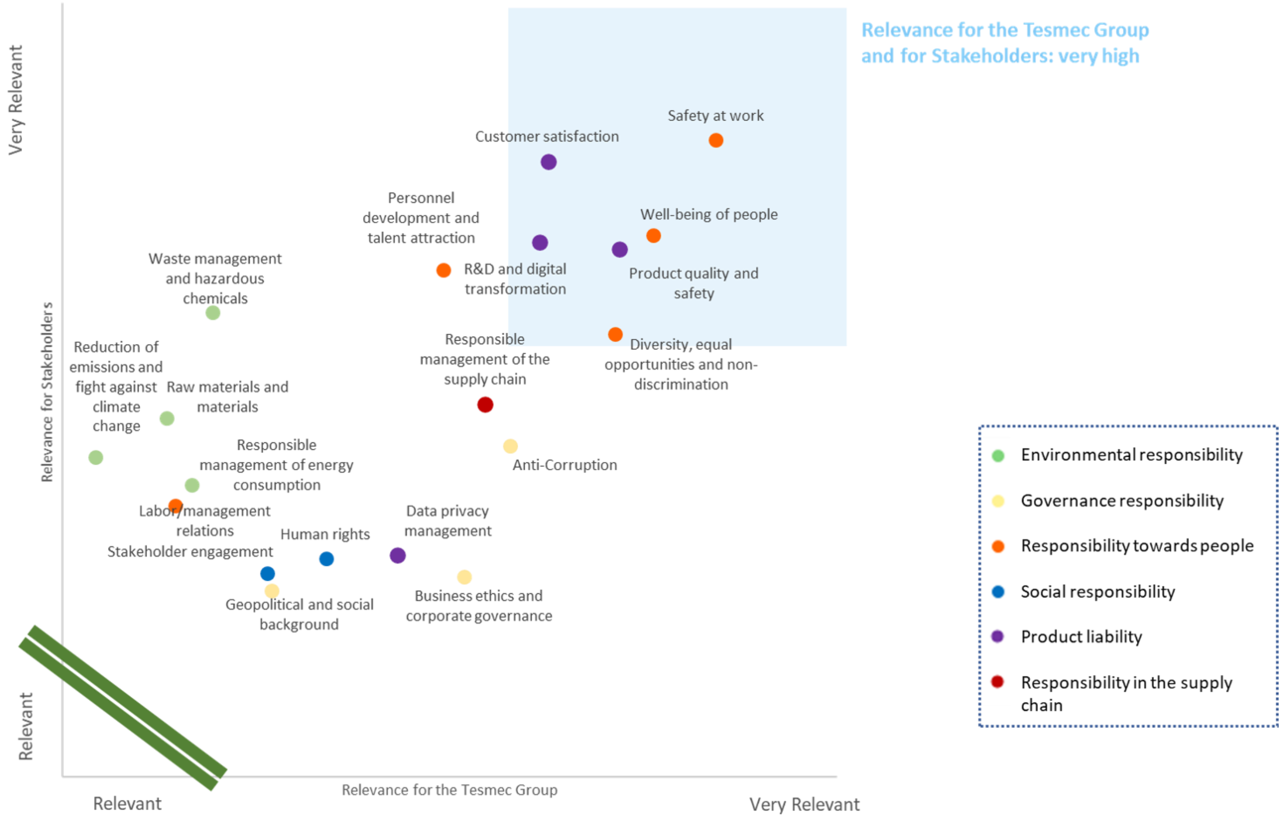


Table of reconciliation between Tesmec material topics and the GRI Standards

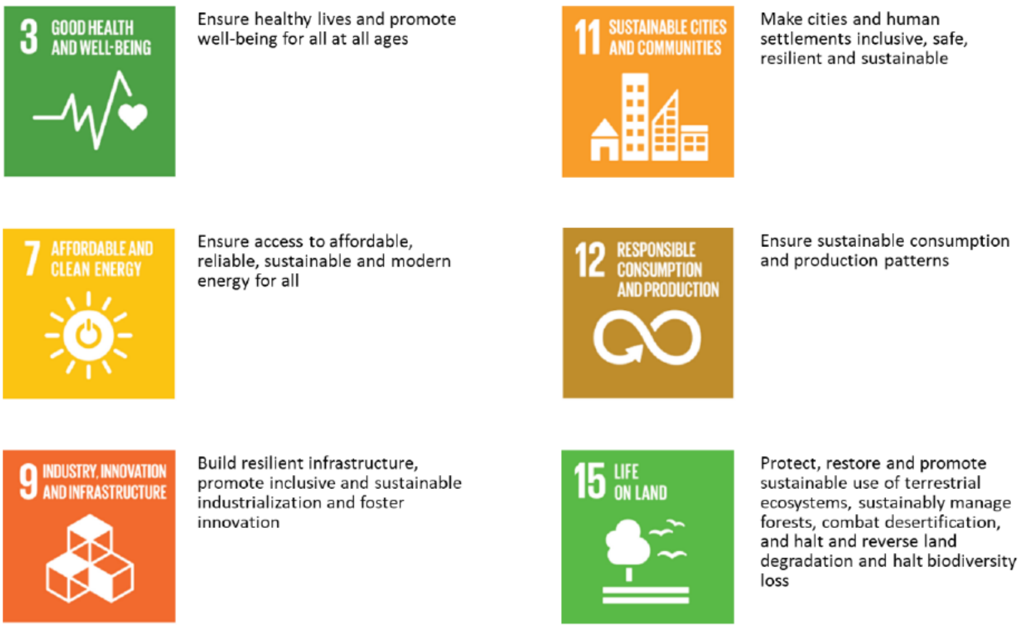
Area	Material topics	Topic-specific GRI Standards of reference	Impact boundary	Impact type
Anti-Corruption	Anti-Corruption	Anti-corruption (GRI 205)	All the Group Consultants, agents and partners	Caused by the Group and directly related through a business relationship.
Human Resources	Well-being of people	Employment (GRI 401)	All the Group	Caused by the Group
	Labor/management relations	Labor/management relations (GRI 402)	All the Group	Caused by the Group
	Safety at work	Occupational health and safety (GRI 403)	All the Group External workers	Caused by the Group and directly related through a business relationship.
	Personnel development and talent attraction	Training and education (GRI 404)	All the Group	Caused by the Group
	Diversity, equal opportunities and non-discrimination	Diversity and equal opportunity (GRI 405) Non-discrimination (GRI 406)	All the Group	Caused by the Group
Human rights	Human rights	Non-discrimination (GRI 406)	All the Group Suppliers	Caused by the Group and directly related through a business relationship.
Environment	Responsible management of energy consumption	Energy (GRI 302)	All the Group	Caused by the Group

	Reduction of emissions and fight against climate change	Emissions (GRI 305)	All the Group	Caused by the Group.
	Waste management and chemicals	Effluents and waste (GRI 306)	All the Group	Caused by the Group
	Raw materials and materials	Materials (GRI 301)	All the Group Suppliers	Caused by the Group and directly related through a business relationship.
Social	Business ethics and corporate governance	Environmental compliance (GRI 307) Socioeconomic Compliance (GRI 419) Tax (GRI 207)	All the Group	Caused by the Group
	Product quality and safety	Customer Health and Safety (GRI 416)	All the Group	Caused by the Group
	Responsible management of the supply chain	Supplier Environmental Assessment (GRI 308) Supplier Social Assessment (GRI 414)	All the Group Suppliers	Caused by the Group. Caused by the Group and directly related through a business relationship.
	Geopolitical and social background	n/a	All the Group	Caused by the Group
	Stakeholder engagement	n/a	All the Group	Caused by the Group
	Customer satisfaction	n/a	All the Group	Caused by the Group
	R&D and digital transformation	n/a	All the Group	Caused by the Group
	Data privacy management	Customer privacy (GRI 418)	All the Group	Caused by the Group

17.1.7 Tesmec's commitment to the Sustainable Development Goals

In 2015, the United Nations approved the 2030 Agenda for Sustainable Development, which consists of 17 Sustainable Development Goals (SDGs) within an action programme with environmental, economic, social and institutional targets to be achieved by 2030.

Tesmec identified six of the 17 Objectives on which it could contribute more, taking into account its activities and material topics, through the preparation of a Sustainability Plan during 2021, identifying sustainability commitments, objectives and targets:



- **3. Health and Well-being**: ensuring a healthy life to its employees and the communities in which Tesmec operates, through welfare initiatives, awareness raising activities for employees and support to NPO organisations;
- **7. Affordable and Clean Energy:** promoting initiatives to optimise the Group's energy consumption by reducing consumption and favouring the use of renewable sources;
- **9. Industry, Innovation and Infrastructure:** supporting infrastructure innovation to make it increasingly safe and sustainable through advanced technological solutions that allow to have a lower impact on the environment;
- **11. Sustainable Cities and Communities:** supporting the dissemination of green technological practices and solutions for cities and environments;
- **12. Responsible Consumption and Production:** maximising responsible consumption and production at all Group production sites through initiatives aimed at optimising the life cycle of products, encouraging the use of more sustainable materials and promoting the reuse and recycling of materials;
- **15. Life on the Land:** protecting, restoring and promoting a more sustainable ecosystem through initiatives focusing on respect, care and protection of the environment.

17.1.8 Adopted calculation methods

Only CO_2 emissions were taken into account for the calculation of greenhouse gas emissions. CO_2 emissions are calculated by multiplying the energy GJ by the emission factors provided by the technical literature in force. In particular, the source of the conversion and emission factors used for fossil fuels is the "UK Government - GHG Conversion Factors for Company Reporting" (DEFRA), updated in 2020 and the 2019 version for the year before the reporting year.

The emission factors used to convert electricity into tonnes of CO_2[3] are the following:

Category		
Electricity (Location based)	gCO_2/kWh	Country-specific FEs - (Source: Terna International comparisons (all countries) 2017 - 2018)
Electricity (Market based)	gCO_2/kWh	Country-specific EFs - (Source AIB - European Residual Mixes 2018-2019 (Ver. 1.1, 2020-09-08)). Where not available, the emission factors used for the location-based calculation were used

For the purposes of the specific GRI Standard 403 (Occupational Health and Safety), version 2018, estimates were used to calculate the hours worked, where the data was not available[4].

Injury rate calculation method	
Rate of fatalities as a result of work-related injuries	Number of fatalities as a result of work-related injuries/total number of hours worked x 1,000,000
Rate of high-consequence work-related injuries (excluding fatalities);	Number of high-consequence work-related injuries (excluding fatalities)/total number of hours worked x 1,000,000
Rate of recordable work-related injuries	Number of recordable work-related injuries/total number of hours worked x 1,000,000

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

17.2 Mission and values of the Tesmec Group

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

Tesmec has commercial activities in over 135 countries worldwide. Tesmec Group has production plants in: Grassobbio (Bergamo), Endine Gaiano (Bergamo), Sirone (Lecco) and Monopoli (Bari) in Italy, Alvarado in the USA and Durtal in France, as well as three R&D and production units in Fidenza (Parma), Padua and Patrica (Frosinone). Listed on the STAR segment of the MTA market of the Italian Stock Exchange, the Group also has a global commercial presence, with a direct presence on different continents, through foreign companies and sales offices in the USA, South Africa, West Africa, Australia, New Zealand, Russia, Qatar and China. The Tesmec Group is strategically placed between market and technology, interpreting the customer's needs in the best possible way, focusing on innovation and customisation of systems and solutions, all thanks to a flexible organisation, able to speed up decision-making processes and offer a fast and quality service. Tesmec trademark is a synonym for efficiency, quality, safety and reliability at global level.

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

3 Scope 2 emissions are expressed in tonnes of CO_2; however, the percentage of methane and nitrous oxide has a negligible effect on total greenhouse gas emissions (CO_2 equivalent) as can be inferred from the reference technical literature.

4 Tesmec Australia (Pty) Ltd, Australia

In particular, the values of Tesmec are:

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

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

The challenges of the future require modern industrial companies, as well as emerging ones, to invest in energy and telecommunications technology. New technologies are able to fill the gaps in infrastructures in different countries, improving efficiency and meeting the needs of new generations.

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

In its development strategy, Tesmec intends to consolidate its position as a solution provider in the three business areas, exploiting the trends of energy transition, digitalisation and sustainability.

17.3 Risk management

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

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

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

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

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

The risk assessment activity in health, safety and the environment undertaken since 2018 allowed to obtain the ISO 14001 and ISO 45001 certifications on all Italian plants. Moreover, the overall commitment of the Tesmec Group to strengthening its risk management activity also emerges from the safety and environmental risk assessment activities carried out by Groupe Marais SAS since 2018 which, despite not having implemented systems certified according to ISO standards, has made every effort to map as much as possible the activities subject to safety and environmental risks both with regard to sites and with regard to the activities carried out at repair shops, proposing remedial actions to be taken.

17.4 Compliance and Anti-Corruption

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

MATERIAL TOPICS RELATED TO ANTI-CORRUPTION	MAIN RELATED RISKS
Business ethics and corporate governance **Anti-Corruption**	Risks related to offences involving corruption Risks related to corporate crimes Risks related to non-compliance or violation of the reference legislation or applicable regulations Reputational risk deriving from recognised non-compliance events Possible unethical/illegal behaviour by the BoD, Top Management and employees Fraud and corruption risk Risk of corruption both with regard to the Public Administration and among private individuals Risk of possible violation of rules and regulations in relation to corruption Risk of violation of the Model pursuant to Italian Legislative Decree 231/01 and the Code of Ethics Risk of violation of internal company procedures Maintaining an adequate reputation profile

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

17.4.1 Policies, management systems and organisational models

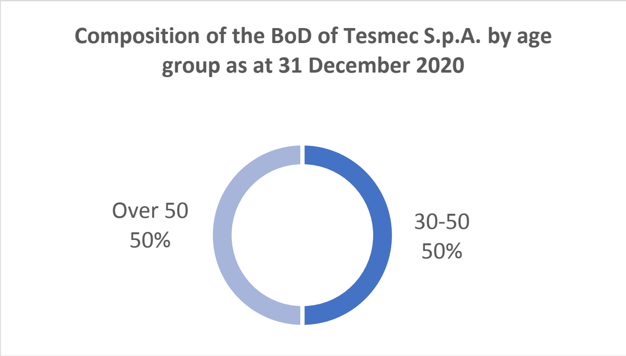
Corporate Governance Structure

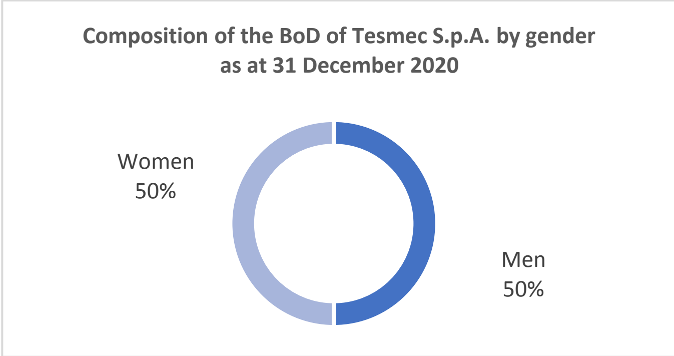
The Tesmec Group adopts and comply with the Self-regulatory Code of Conduct of listed companies (approved in March 2006 and subsequently amended, updated in July 2015 and December 2018), with additions and adjustments resulting from the characteristics of the Group. On 12 March 2021, the Board of Directors of Tesmec S.p.A. was informed of the start of activities to adapt the Company's internal regulations to the provisions of the new Corporate Governance Code, which came into force on 1 January 2021. Tesmec will notify the market of the methods of application of the new Code of Corporate Governance in the report on corporate governance and ownership structure which will be published in 2022.

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

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

- Independent Auditors, in charge of auditing and providing an opinion on the financial statements pursuant to the Law and Articles of Association;
- a Director in charge of the Internal Control and Risk Management System.





The Board of Directors of Tesmec S.p.A. was appointed by the Shareholders' Meeting of 16 April 2019 and will remain in office until approval of the financial statements for the period ended 31 December 2021: it consists of 8 members, of whom 4 meet the independence requirements ("Independent Directors").

The Board of Directors has set up a Control and Risk, Sustainability and Related Party Transactions Committee and a Remuneration and Appointments Committee.

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

Management systems and organisational models

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

- Quality, Health, Safety and Environment Management Systems according to ISO9001, ISO 45001:2018 and ISO 14001:2015 for the Italian companies Tesmec S.p.a, Tesmec Rail S.r.l. and Tesmec Automation S.r.l.;
- Corruption Prevention Management System according to ISO 37001:2016 for Tesmec Automation;
- Organisational, Management and Control Model pursuant to Italian Legislative Decree 231/2001 for Tesmec Rail S.r.l.;
- Organisational, Management and Control Model pursuant to Italian Legislative Decree 231/2001 for Tesmec Automation S.r.l.

The Information Security Management System according to ISO 27001:2017 is being implemented for Tesmec Automation.

The Board of Directors of Tesmec S.p.A., by resolution dated 23 February 2010, adopted the Organisational, management and control model pursuant to Italian Legislative Decree 231/2001 (known as Model 231) also aimed at ensuring conditions of fairness and transparency in the conduct of business activities, to protect the business and image of Tesmec S.p.A. and of the companies of the Group, the expectations of its shareholders and the work of its employees.

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

The topics related to the Environment, Occupational Health and Safety are also included in the Special Parts of Models 231 of Tesmec S.p.A., Tesmec Rail S.r.l. e Tesmec Automation S.r.l., i.e. Offences relating to Occupational Health and Safety and the so-called Environmental Offences; the relevant Special Parts identify specific sensitive areas with reference to the offences envisaged by Italian Legislative Decree no. 231/2001.

For further information on certifications and on Model 231, please refer to the Report on Corporate Governance and Ownership Structure and the Group website ("Commitment" and "IR/Governance" sections).

The topics mentioned by the Decree (environmental, social topics relating to personnel, respect for human rights, anti-corruption and bribery matters) are managed at a high level centrally by the respective functions (Corporate Legal Counsel, HR Manager, QHSE Manager, Purchasing Manager), supported operationally by reference figures in the various Countries in which the Group operates.

Anti-Corruption

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

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

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

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

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

In detail, the Policy prohibits:

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

when the intention is to:

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

The prohibition is not limited to cash payments only, but includes, for corruption purposes:

- gifts, expenses and hospitality to third parties;
- contributions such as donations, sponsorships, etc.;
- commercial activities, employment or investment opportunities;
- confidential information that could be used to trade in regulated securities and products;
- personal discounts or credits;
- care or support for family members;
- other advantages or benefits.

During 2020, there were no cases of both active and passive corruption.

Approach to tax

The current reference context places an increasing focus on the management of tax issues in order to better assess the potential risks also in terms of governance and company reputation. Also as a result of the current pandemic crisis, the interest in new standards of transparency in order to achieve greater tax fairness has become an extremely relevant issue for all stakeholders.

In this context, the Tesmec Group is subject to taxation in Italy and in the other countries in which it operates that have different tax systems, and although the Group pursues the objective of optimising its tax burden, it does not currently have tax planning tools that cover all the countries in which it operates. However, in relation to the Italian companies, the parent company Tesmec S.p.A. opted, as a parent company, for the domestic tax consolidation system provided by Article 117 et seq. of the Consolidated Act on Income Tax with the subsidiaries Tesmec Rail S.r.l., Tesmec Automation S.r.l., East Trenchers S.r.l. and Bertel S.r.l. for the 2020/2022 three-year period. Tax consolidation is part of management and coordination activities that the Parent Company exercises over its subsidiaries, and aims to produce positive effects of optimisation of "domestic" taxation both for individual companies and for the Group as a whole. Tax consolidation is regulated by specific contractual agreements between the participating companies and the Parent Company, approved by their Boards of Directors.

The Group, operating in high-tech sectors, is also attentive to the tax benefits that may derive from national and foreign regulations that encourage research and innovation, such as, for example, the tax credit on Research and Development in Italy.

In consideration of the international business carried out by Group companies, transfer pricing regulations represent one of the most critical areas. This aspect is periodically monitored by the Board of Directors, which approves the policy on intra-group transfer pricing and its additions and updates.

The Group is convinced that tax practices carried out in a responsible manner support the economic and social development of markets, which is why it believes in diligently applying tax regulations. However, tax legislation and its interpretation, as well as its interpretation, are particularly complex, also because of the continuous development of the regulations themselves and of their interpretation by the designated administrative and judicial bodies. This circumstance makes it impossible to exclude that the competent tax authorities or case law may in the future come to interpretations or positions other than those adopted by the Group.

During June 2019, a tax audit by the Italian Inland Revenue Agency began in relation to the parent company Tesmec S.p.A. for the 2016 tax year. The audit is still in progress and the Company is awaiting the conclusions of the Office. The report on findings reveals disputes with respect to which the Company, supported by the opinion of its tax advisors, considers its behaviour to be well-founded.

Model 262 adopted by the Group includes a specific section on Tax Management, which is subject to internal compliance audits.

17.5 Management of human resources and human rights

17.5.1 Introduction

The material topics related to the management of human resources are summarised in the following table, together with the main risks identified by Tesmec's management. The Human Resources Department of Tesmec S.p.A. acts as a coordinator for the corresponding local functions, but each Group company has its own management as a result of the needs arising from specific local legislation.

Note that in 2020 the impacts of the COVID-19 pandemic had a significant impact on the topics concerning the management of human resources at global level, leading to changes in terms of strategy and priorities and forcing all actors to respond quickly to changing needs.

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

MATERIAL TOPICS RELATED TO HUMAN RESOURCES and HUMAN RIGHTS	MAIN RELATED RISKS
Personnel development and talent attraction Well-being of people Safety at work Human rights Labor/management relations Diversity, equal opportunities and non-discrimination	Risk of increased turnover and loss of personnel with high professional seniority and difficulty in integrating skills Risk of not being able to find resources on the market with high digital skills Risk related to the health and safety of employees in relation to the COVID-19 pandemic and the potential increase in accidents, work-related stress and the increase in the number of injuries for personnel on secondment due to difficulties in monitoring compliance with health and safety standards at customer sites Risk related to the health and safety of persons in the vicinity of the workplace due to interference with personnel from other companies or external personnel in the same workplace Risk related to discriminatory behaviour by its employees Risk related to possible non-compliance with future laws and/or regulations on diversity

Policies, management systems and organisational models

The changes imposed by the pandemic forced Tesmec to experiment with new processes and strategies, to reconsider the old organisational models and the role of the individual in the organisation.

The emergency further highlighted the dichotomy between the worker as a resource from which to expect productivity and the worker as a person to be understood and valued. Therefore, it has become essential to encourage the development of empathic management, attentive to identifying and enhancing talent, able to create connections between different skills and engagement, able to foster diversity and inclusion.

To deal with the epidemiological emergency caused by COVID-19, the Group not only promptly took all the necessary safety measures to protect the health of its personnel in Italy and abroad, but also wanted to show its closeness and support to its people through several initiatives.

In particular, the activities undertaken in the Italian companies are summarised below:

- smart-working for all office personnel was introduced and regulated through a specific policy;
- flexible working hours on entry/exit were further extended and flexibility on a monthly basis of up to 15 hours was introduced;
- a Solidarity Fund was created to collect donations from employees for colleagues in need. The considerable amount of money collected thanks to donations from employees, RSUs (single trade union representations) and the personal contribution of the Chief Executive Officer was partly used to help some employees in obvious and proven situations of personal or family difficulty due to the COVID-19 emergency, and partly donated to the Paediatric Surgery Department of the Papa Giovanni XXIII Hospital in Bergamo for the purchase of equipment for the operating theatre of the Paediatric Surgery Department;
- a Solidarity Time Bank was set up to donate leave hours to colleagues in need;
- internal communication was strengthened to facilitate the dissemination of information and ensure greater proximity to all employees;
- specific insurance cover was activated to protect the health of employees against COVID-19;
- PCs were rented to employees for distance learning for their children;
- a special ADSL agreement was signed for employees.

At Group level, the human capital management model of Tesmec for growth and development is based on the Global Integration Project that is characterised by:

- an organisational plan to align business processes by strengthening Group synergies, also favoured in the long term by the implementation of the new ERP management system in all Group companies;
- new models of Responsibility Matrix;
- alignment of Group policies.
- job rotation within the entire Group, enhancing individual talent and promoting an integration of knowledge.

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

The elements that characterised Tesmec's personnel management system in 2020 are reported below:

- new organisational models and cross-fertilisation;
- consolidation and strengthening of the HR platform integration processes;
- projects in partnership with schools and universities throughout Italy;
- promotion of social integration activities;
- greater involvement of resources within the company to create a collective identity;
- incentive plans;
- strengthening of the company Welfare Plan;

- training plan and skill development;
- dialogue and relations with trade unions and workers' representatives;
- launch of innovative recruiting methods, using social logics;
- systems for managing health, safety and environmental topics.

Tesmec is aware that some operations carried out as part of its activity can present risks for the environment and for people. In addition to the commitments valid for the entire Group for the protection of the environment and safety in the workplace, Tesmec S.p.A., already as from 2018, has implemented an integrated Policy for the Health and Safety of workers and for the Environment. Lastly, the Italian companies of the Tesmec Group adopted a uniform set of Company Regulations that regulate company behaviour and the conduct of the personnel, by also inspiring such principles also in foreign companies.

Human rights

The protection of human rights is an important issue for Tesmec, but it is not considered necessary to manage it strategically, in that the topic is set out by the Group in the relationships with its customers, suppliers in compliance with the principles and values referred to in the Code of Ethics.

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

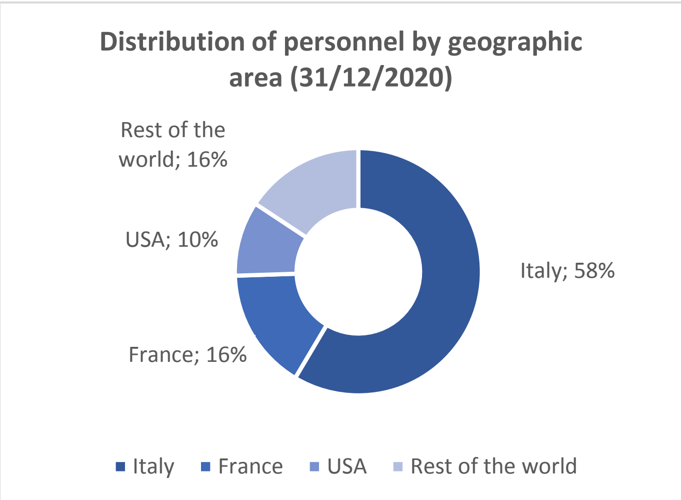
There were no cases of discrimination during 2020. With reference to the investigation of the case of alleged discrimination that occurred during 2018 regarding the company Tesmec USA, note that all civil proceedings in Texas were suspended due to COVID and, therefore, there are no updates at the date of this document.

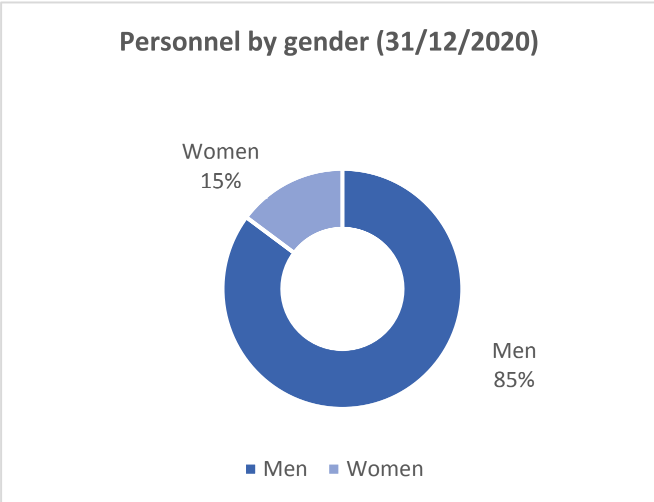
Despite the reporting, monitoring and control system envisaged by the Code of Ethics for the protection of human rights, the Group is aware that the topic could be important for the supply chain and that specific assessments to this effect could be carried out in the coming years, also after Tesmec S.p.A.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

17.5.2 Non-financial results and indicators

Composition and characteristics

The Tesmec Group had 878 employees as at 31 December 2020. In 2020, human resources decreased slightly (5%) compared to 31 December 2019.





The commitment to establish stable and lasting relations is confirmed by the high percentage of employees hired with an open-term labor contract (99% of the total).

	Number of employees as at 31 December by employment contract (permanent and temporary), by gender and by region						
	Type of Contract	2019			2020		
		Men	Women	Total	Men	Women	Total
ITALY	Permanent	407	84	491	420	89	509
	Temporary	13	2	15	5	-	5
	Total Italy	**420**	**86**	**506**	**425**	**89**	**514**
FRANCE	Permanent	124	14	138	123	14	137
	Temporary	1	-	1	1	2	3
	Total France	**125**	**14**	**139**	**124**	**16**	**140**
USA	Permanent	80	12	92	75	11	86
	Temporary	-	-	-	-	-	-
	Total USA	**80**	**12**	**92**	**75**	**11**	**86**
REST OF THE WORLD	Permanent	82	15	97	122	13	135
	Temporary	85	6	91	2	1	3
	Total Rest of the World	**167**	**21**	**188**	**124**	**14**	**138**
TOTAL TESMEC GROUP	**Permanent**	**693**	**125**	**818**	**740**	**127**	**867**
	Temporary	**99**	**8**	**107**	**8**	**3**	**11**
	Total TESMEC GROUP	**792**	**133**	**925**	**748**	**130**	**878**

The geographical distribution of Group employees records 58% employed in Italy, 16% in France, 10% in North America and the remaining 16% in other countries.

	Number of employees as at 31 December by employment contract (full-time and part-time) and by gender						
	Type of Contract	2019			2020		
		Men	Women	Total	Men	Women	Total
TOTAL TESMEC GROUP	Full-Time	787	121	908	744	118	862
	Part-time;	5	12	17	4	12	16
	Total Italy	**792**	**133**	**925**	**748**	**130**	**878**

The professional category most represented is that of blue collar workers (52% of the total), followed by white collar workers (37% of the total), middle managers (8% of the total), and managers (3% of the total).

85% of the personnel is male, due to the nature of the business that requires the presence of a high number of blue collar workers and therefore work duties historically characterised by a strong male presence. Women are mainly present in administrative offices, in particular 32% of white collar workers are women.
Furthermore, in carrying out its activities, the Group strives to combat all forms of discrimination in the workplace by recognising equal opportunities for all collaborators as indicated in its Code of Ethics and by protecting and hiring the number of people belonging to protected categories each year in accordance with the regulations in force.

63% of the Group's employees belong to the age group between 30 and 50 years, 16% of employees are over 50 years of age and 21% of employees are under 30 years of age[5].

5 Note that these percentages do not include Tesmec USA, Inc. in that, by company decision, the breakdown of employees by age group is not monitored or reported by the company, in order to avoid the disclosure of data subject to possible disputes.

Employee category	Number of employees as at 31 December by category and by gender					
	2019			2020		
	Men	Women	Total	Men	Women	Total
Managers	26	2	28	19	4	23
Middle managers	53	8	61	58	8	66
White collar	236	106	342	224	105	329
Blue collar workers	477	17	494	447	13	460
Total	**792**	**133**	**925**	**748**	**130**	**878**

Employee category	Number of employees as at 31 December 2020 by category and by age group[6]			
	2020			
	<30 years	30-50 years	>50 years	Total
Managers	-	15	6	21
Middle managers	5	39	17	61
White collar	40	222	43	305
Blue collar workers	84	218	103	405
Total	**129**	**494**	**169**	**792**

Employee category	Number of employees as at 31 December 2019 by category and by age group[7]			
	2019			
	<30 years	30-50 years	>50 years	Total
Managers	-	19	8	27
Middle managers	4	32	20	56
White collar	45	220	47	312
Blue collar workers	111	228	99	438
Total	**160**	**499**	**174**	**833**

The use of external workers is necessary to deal with the increased workload following the acquisition of new orders, especially in the Rail segment.

In 2020, the number of external workers of the Tesmec Group was 60, broadly in line with the figure for last year[8].

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

Lastly, the industrial relations that the Group maintains are based on constructive dialogue with trade unions in compliance with the regulations in force and, in any case of company reorganisation and restructuring, workers and their representatives are informed in advance, with deadlines that vary depending on the Country in which the Group operates in full compliance with local laws, of collective labor agreements in force and of trade union agreements.

6 Note that this data does not include Tesmec USA, Inc. in that, by company decision, the breakdown of employees by age group is not monitored or reported by the company, in order to avoid the disclosure of data subject to possible disputes.

7 Note that this data does not include Tesmec USA, Inc. in that, by company decision, the breakdown of employees by age group is not monitored or reported by the company, in order to avoid the disclosure of data subject to possible disputes.

8 Note that the total number of external workers also includes directors with coordinated and continued collaboration contracts (Co. Co. Co.).

Training and skills development

The Tesmec Group believes in training as a lever to develop human capital and constantly invests in training initiatives for its personnel.
In addition to specific training activities aimed at facilitating the recruitment and integration of new employees and compulsory health and safety training, the training offered by Tesmec has been further extended and consolidated with a view to ensuring the Lifelong Learning process, which meets the following objectives:

- enhancing and qualifying resources;
- updating and increasing specific technical skills;
- disseminating new knowledge;
- increasing awareness of actions, the ability to adapt and propose improvements.

To this end, each Manager identifies the training needs (hard skills and soft skills) for their area in relation to the work requirements and the specific features of each professional figure and, with the support of the Human Resources Department, defines the most appropriate training actions.
Personnel training for all the Group's Italian companies is recorded in the INAZ software by the Human Resources Department of Tesmec S.p.A. in order to keep track of all training events organised both internally and with the support of external professionals.

In 2020, because of the pandemic, training also underwent an important change: traditional classroom training gave way to distance learning, in a variety of ways and with a variety of tools. During the months of the emergency, continuity was given to the courses already started in 2019 and all compulsory health and safety courses were ensured. It was then necessary to adapt the training offered by the Tesmec Group to the new challenges and critical issues of the moment.

The following table shows the average training hours of the Tesmec Group, broken down by type of contract and gender:

Employee category	Average hours of training per employee, by category and by gender					
	2019			2020		
	Men	Women	Total	Men	Women	Total
Managers	2.5	-	2.3	10.7	-	8.8
Middle managers	8.4	5.1	7.9	7.1	6.0	7.0
White collar	2.9	2.4	2.8	4.0	5.2	4.4
Blue collar workers	12.4	7.0	12.2	7.8	2.5	7.6
Total	**8.9**	**3.0**	**8.0**	**6.7**	**4.9**	**6.4**

In 2020, a significant number of Tesmec resources were involved in the project to implement the new ERP management software (T-EN Project), in which training actions were organised, with the support of external consultants, aimed at guiding the company population towards the new processes and working methods.

In 2020, a new project called "Evolution Speeder: knowledge sharing - STATUS OF TESMEC TECHNOLOGIES" was also launched, strongly supported by Tesmec's Management with the aim of:

- identifying the technologies developed to date;
- identifying synergies, in terms of skills, resources and technologies, between the different product lines;
- encouraging sharing of knowledge and the process of contamination among the different Business Units of the Group.

The project involved resources from different Business Units of the Group on specific topics, for each of which a team leader was identified.

New employee hires and employee turnover[9]

The Tesmec Group is aware that human capital and relations with its employees represent a strategic resource to be maintained. As explained in the Code of Ethics, the Group safeguards and promotes the value of human resources in order to increase the wealth of expertise of each employee and encourages the respect for a person's physical, moral and cultural integrity.

For the Group, the processes of attracting qualified figures and relevant specialist profiles are integrated into the practice followed daily in personnel management.

During 2020, the Tesmec Group redefined its talent acquisition strategy to attract the best resources, which includes three fundamental steps:

1 - fall into line with the main company objectives, to launch a talent acquisition strategy targeted to the real needs of personnel for the coming years;
2 - use flexible talent to future-proof the company;
3 - strengthen employer branding to attract more qualified candidates.

With reference to the last point, in 2020, partnerships with technical institutes, I.T.S. (post-graduate specialisation) and polytechnics throughout Italy were increased through an Academy Project and a Recruitment and Employer Branding Programme, with the aim of promoting knowledge and dissemination of the Group's new technologies among students, in order to feed a breeding ground for excellent candidates. The Tesmec Group also participated in the various events promoted by universities throughout Italy, albeit remotely due to the pandemic. In 2019 and 2020, the following turnover indices were recorded, broken down by age group, gender and geographic area.

New employees hires and employee turnover	New employee hires		Employee Turnover	
	2019	**2020**	**2019**	**2020**
Age group				
<30	42%	26%	20%	29%
30-50	20%	13%	10%	16%
>50	9%	4%	15%	18%
Gender				
Man	23%	12%	14%	18%
Woman	18%	18%	13%	20%
Geographic area				
Italy	17%	9%	8%	7%
France	19%	16%	19%	16%
United States	28%	6%	16%	13%
Rest of the world	39%	28%	22%	64%
Total	**23%**	**13%**	**13%**	**18%**

Despite the context of reference that led to a decrease in the hiring rate compared to the previous year (from 23% in 2019 to 13% in 2020), the data collected at the Tesmec Group level, considering the specified exclusions, shows that in 2020 there was a greater incidence of hiring for employees under 30 years of age (26%), compared to the rates recorded for 2020 for the other age groups. Moreover, new employee hires were evenly distributed by male gender (12%) and by female gender (18%) compared to the respective headcount totals.

9 For the purpose of calculating the new employee hires and turnover rates by age group and gender, the data relating to the company Tesmec USA, Inc. was excluded in that, by company decision, the breakdown of employees by age group is not monitored or reported by the company, in order to avoid the disclosure of data subject to possible disputes. The number indicated in the table corresponds to the total number of employees hired and resigned without the specific age bracket of reference. Note that for 2020, the total number of hires for Tesmec USA, Inc. was 5 (of which 4 men and 1 woman); the total number of terminations was 11 (of which 9 men and 2 women). On the other hand, for 2019, the total number of hires for Tesmec USA, Inc. was 26 (of which 24 men and 2 women); the total number of terminations was 15 (of which 14 men and 1 woman). It should also be noted that the employees hired by MIR SA and the 39 employees who in 2019 were transferred from Tesmec Service to Tesmec Rail as a result of the merger were also excluded.

With reference to the employee turnover rate, overall slightly up compared to last year (from 13% in 2019 to 18% in 2020), a higher rate was recorded in the under-30 age group (29%), considering the trend by age group during the year subject to reporting.

Specifically, the figures for new employee hires and turnover are broken down below in absolute terms for the years 2019 and 2020.

New employee hires:

2020	Italy			France			USA			Rest of the World		
Age group	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total (without age group)**	**Men**	**Women**	**Total**
<30	5	3	8	6	4	10	N/A	N/A	N/A	15	1	16
30-50	26	9	35	9	3	12	N/A	N/A	N/A	17	2	19
>50	2	-	2	1	-	1	N/A	N/A	N/A	3	1	4
Total	**33**	**12**	**45**	**16**	**7**	**23**			**5**	**35**	**4**	**39**

2019	Italy			France			USA			Rest of the World		
Age group	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total (without age group)**	**Men**	**Women**	**Total**
<30	29	5	34	4	-	4	N/A	N/A	N/AN/A N/A	26	2	28
30-50	43	8	50	17	3	20	N/A	N/A		23	4	27
>50	2	-	2	2	-	2	N/A	N/A		11	-	11
Total	**73**	**13**	**87**	**23**	**3**	**26**	**24**	**2**	**26**	**60**	**6**	**66**

Employee Turnover:

2020	Italy			France			USA			Rest of the World		
Age group	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total (without age group)**	**Men**	**Women**	**Total**
<30	5	-	5	3	1	4	N/A	N/A	N/A	25	3	28
30-50	14	5	19	9	3	12	N/A	N/A	N/A	45	5	50
>50	10	3	13	5	1	6	N/A	N/A	N/A	8	3	11
Total	**29**	**8**	**37**	**17**	**5**	**22**			**11**	**78**	**11**	**89**

2019	Italy			France			USA			Rest of the World		
Age group	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total (without age group)**	**Men**	**Women**	**Total**
<30	5	2	7	4	1	5	N/A	N/A	N/AN/A N/A	17	3	20
30-50	20	3	23	10	3	13	N/A	N/A		12	1	13
>50	10	3	13	8	-	8	N/A	N/A		5	-	5
Total	**35**	**8**	**43**	**22**	**4**	**26**	**14**	**1**	**15**	**34**	**4**	**38**

Finally, note that the rates for 2019 were calculated using the total number of employees as at 31 December as denominator, excluding the 18 employees of MIR SA of the same year according to its subdivisions.

Welfare and work-life balance

Tesmec places employees at the centre of its strategies for growth and development, promoting their well-being and fostering the ideal of work-life balance.

In this perspective, the following initiatives were implemented in 2020 in favour of the employees of Italian companies, which were further encouraged by the health emergency that upset people's daily lives and their needs:

- introduction of flexible working tools, such as multi-week working hours, flexible working hours on entry/exit and special leave;
- introduction of the company factotum service to handle personal errands;
- possibility of having goods purchased online delivered to company premises;
- possibility of changing tyres at the company;
- tax support service;
- activation of agreements for leisure, sports, health and household goods and services;
- granting loans and severance indemnity advances to meet personal needs and/or economic difficulties;
- scholarships to children of employees.

Moreover, the company Welfare Plan, which makes a wide range of goods and services available to employees and their families through the Edenred platform, was further strengthened in 2020. In particular:

- a special bonus was introduced for marriage and the birth of a child in the form of welfare credit;
- a portion of company performance bonuses for eligible employees according to second-level bargaining was disbursed in the form of welfare credit;
- the platform was enriched with new services and tools, which also take into account people's changing habits as a result of COVID-19;
- a survey was launched among personnel to assess satisfaction with the services and to make suggestions.

In 2020, the Employee Benefits insurance plan was also strengthened with the introduction of additional coverage to protect all employees: in addition to a specific insurance for COVID-19, Tesmec activated coverage for all employees against pandemic syndromes with a specific quarantine indemnity and implemented a policy for death due to illness.

The benefits for full-time workers are also paid to part-time workers; the difference in the payment of benefits is defined by the different level of position in the company hierarchy.

Occupational Health and Safety

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

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

In particular, during 2020, the Tesmec Group had to deal with the COVID-19 pandemic like any other company in the world. It was certainly a challenging year that required extraordinary efforts to face a danger never encountered before. Tesmec did this by using all the professional skills of its Management team, working in concert with the various business functions including HSE, HR, Purchasing and Production. Some of the main actions implemented are as follows:

- issue of a COVID management procedure applied throughout Italy and exported, on some issues, also abroad. The procedure was revised several times, integrating the needs and regulations that arose as the pandemic progressed. Each review was distributed to all Italian employees;
- distancing within offices and production areas through barriers, imposed distances, smart working, differentiated access times to premises including canteens;
- centralised purchase of all necessary PPE (masks, overalls, visors...);

- implementation of adequate temperature control stations for all people entering; this was accompanied by the design and implementation of an innovative portal for the automatic measurement of temperature and other parameters
- establishment of specific Task Forces.

Several activities were also implemented beyond the explicit national requirements but which result in a real additional service that Tesmec wanted to offer its employees; these include:

- performing serological tests, immediately after the first lockdown
- a campaign for flu and pneumococcal vaccinations was promoted in the company also for family members

All the above actions made it possible to create a safe environment by providing all employees with appropriate PPE and tools to prevent infection; this has so far prevented any kind of COVID outbreak within the Tesmec Group.

All Group workers are regularly informed about health and safety issues and are encouraged to report dangerous conditions to their supervisors or QHSE Manager. Moreover, when an accident occurs, the circumstances under which the accident occurred are investigated to determine what action should be taken to prevent its recurrence.

Subsidiaries abroad operate medical services in accordance with local regulations; in South Africa, policies have also been adopted in relation to fatal and communicable diseases and on HIV and AIDS prevention. Moreover, all subsidiaries ensure the quality of occupational health services and contribute to the identification and elimination of hazards and the minimisation of risks through various actions such as subjecting new workers to medical examinations before the beginning of the employment relationship, mitigating the risk of hiring personnel unsuitable for the tasks to be performed, training and sensitising the workers awareness during work and carrying out regular audits. Finally, employee health information is stored on a server to which a limited number of people in the company can have access.

For Italian companies, the responsibility for ensuring a safe working environment in compliance with current regulations, and therefore, the carrying-out of activities concerning the application of laws that regulate Occupational Health and Safety, is assigned to the Employer in the first place and, to all other persons involved in the organisation of safety (Prevention and Protection Service Manager, QHSE Manager, Managers and Heads). The periodic updating of the procedures as a consequence of any new regulation or organisational change always falls on the Employer, be it the Parent Company or the subsidiary companies.

During 2019, ISO 45001: 2018 was implemented on all Italian plants, covering all employees who work there. Therefore, 2020 served to better establish the new system.

At certification level, the subsidiary Marais Laying New Zeland is now certified in accordance with ISO 45001.

The activities covered are mainly the industrial supply of mechanical and electrical design services, design, production and maintenance of rolling stock, rail units and measurement and diagnostic systems, design and construction of electronic sensors for measurement, monitoring and troubleshooting in the electrical sector, production and service of measurement, protection and control systems for the management of the MV/HV electrical distribution network and design, production and after-sales service of electronic devices and systems in the fields of automation and remote controls for telecommunications.

Moreover, in Italy, in accordance with the regulations in force, occupational hazards that constitute a risk of injury are assessed, monitored and reported in the Risk Assessment Document (RAD), which is periodically updated. All Italian plants have their own occupational health specialist and meetings are periodically organised between the occupational health specialist, the HSO, the Safety Delegates and the Workers' Representative for Safety.

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

This activity will be extended to all Group companies, including foreign companies, starting from 2021. In Italy, monthly meetings have been scheduled to circulate health and safety information and, in accordance with Italian regulations, some Workers' Representatives for Safety meet with management and trade unions. In companies abroad, these types of meetings are carried out on the basis of local regulations in force and the requirements laid down by the QHSE Manager.

Each worker is guaranteed adequate training and information as required by local regulations in force in the various countries in which the Group operates; in Italy in particular, monthly "Safety Talks" lasting half an hour are also organised to raise awareness of these topics among employees.

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

The main data collected on Occupational Health and Safety is summarised below. It is specified that the main types of work-related injuries are related to the handling of machinery on worksites and the handling of heavy items within production sites; as evidence of this, the most serious injury in 2020 concerns the handling of a mechanical part within an Italian plant. Occupational hazards are generally identified through risk assessments and consultations with workers.

In 2020, there were 21 employee injuries, of which 6 occurred in Italy, 11 in France, 1 in the U.S.A. and 3 in the other countries where the group operates.

In 2020, there were also 11 injuries involving external workers and 4 cases of occupational diseases at the Groupe Marais.

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

	2019		2020[10]	
	Employees	**External workers**	**Employees**	**External workers**
Hours worked	**1,434,160**	**97,465**	**1,460,428.36**	**108,505.10**
Number of fatalities	-	-	-	-
Number of high-consequence work-related injuries (excluding fatalities)	-	-	**1**	-
Number of recordable work-related injuries	**18**	**4**	**20**	**11**
Rate of fatalities as a result of work-related injuries	-	-	-	-
Rate of work-related injuries with severe consequences (excluding fatalities)	-	-	0.68	-
Rate of recordable work-related injuries	12.55	41.04	13.69	101.38

17.6 Responsible management of environmental impacts

The Group pays a special attention to topics relating to climate change and greenhouse gas emissions in that both energy and emissions are material topics for the Group. With a view to the future, company initiatives are also planned to reduce energy consumption and therefore emissions.
The topics related to environmental management are summarised in the following table, together with the main risks identified by Tesmec Management.
As from August 2018, the figure of the QHSE Manager (Quality, Health, Safety and Environment Manager) was included in the team of Tesmec S.p.A. with the task of coordinating at Group level the areas relating to Quality, Environment and Health and Safety, adopting the necessary measures to reduce the related risks. There is also the figure of the RSPP with reference to all the Italian companies of the Tesmec Group; in support of the above-mentioned business functions, Tesmec also avails itself of the services of an external consultant for certain topics relating to the "Environment" area concerning Italian companies. The QHSE Manager of Tesmec S.p.A., supported at the level of each branch by the local managers, collect and process the data required for the purposes of this Consolidated Non-financial Statement, by sending questionnaires in Excel format.

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

10 The data from the companies MIR SA and East Trenchers S.r.l. is excluded from the total of occupational health and safety data as it is not available.

MATERIAL TOPICS RELATED TO THE ENVIRONMENT	MAIN RELATED RISKS
Responsible management of energy consumption **Reduction of emissions and fight against climate change** **Raw materials and materials** **Waste management and chemicals**	Risk related to the non-compliance with environmental laws and regulations, including those relating to the disposal of waste and other hazardous substances and environmental protection Risk related to the absence of targets to reduce energy consumption and greenhouse gas emissions Risk related to the occurrence of external natural / accidental events Risk related to the lack of suppliers able to guarantee the environmental requirements Risk related to the increase in costs of natural resources

The Group will consider for the next few years to integrate its analyses - and consequently its disclosure - with respect to the impact generated and suffered by the Group in the Climate Change area, also on the basis of the development of the relevant regulations. In this context, based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), a gap analysis is planned during 2021 with respect to the practices implemented by the Group.

At the same time, as an important basis for this project, the certification of as many as 28 electronic products of Tesmec Automation S.r.l. according to the ISO14067:2018 standard (Greenhouse gases: Carbon footprint) was started in 2020. This activity was completed in January 2021 with the relevant certification.
In any case, the project is not completed but is constantly evolving and being analysed; as a proof of this, further articles are being analysed in order to achieve the same certification within this year.

17.6.1 Policies, management systems and organisational models

The Tesmec Group is active in designing, manufacturing and selling systems and integrated solutions for construction, maintenance and diagnostics of infrastructures (aerial, underground and rail networks), for the transport of electric energy, data and materials (oil and derivatives, gas, water) as well as technologies for managing quarries and surface mines. Therefore, considering the activity, environmental impacts are related to the use of materials, energy, emissions and waste management (mainly "non-hazardous" waste) whereas the management of water resources and other air polluting emissions not included in greenhouse gas emissions are not material.

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

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

The year 2020 began with all Italian companies already certified according to ISO 14001, an important goal achieved with the aim of protecting the environment in which Tesmec operates. The certification and the related system aim at an in-depth knowledge of the environmental aspects (emissions, use of resources, etc.) that the companies must effectively manage, in accordance with the legislative framework and the applicable requirements, assessing the importance of their impacts. The related HSE policies were also standardised at Italian level, thus achieving the objective of global integration in the management of environmental topics set by Tesmec Group last year. In addition to the Parent Company, the American company Tesmec USA, Inc. and the French company Groupe Marais SAS already have a formalised HSE Policy.

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

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

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

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

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

17.6.2 Non-financial results and indicators

Energy

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

As can be seen from the table below, total energy consumption decreased in 2020 compared to the previous year. This change is mainly due to the reduction in the use of diesel oil and LPG, caused by the suspension of activities in some plants owned by the Group following the Covid-19 pandemic.

The following table shows the Group's energy consumption for 2020 and 2019:

Energy consumption (GJ)	**2019[11]**	**2020[12]**
Natural gas	21,896	21,748
Diesel	52,716	24,472
Petrol[13]	4,923	4,449
LPG	743	558
Electricity purchased	17,529	17,958
Self-produced electricity	4,836	4,770
of which from renewable sources	*4,836*	*4,770*
Electricity sold	771	1,121
Total consumption	**101,873**	**72,834**
of which electricity consumed	**21,594**	**21,607**

Note that for 2020, the Tesmec Group produced energy from photovoltaic renewable sources for 1,324,982 kWh, of which 311,478 kWh were sold to the electricity network, up compared to the previous year following the closure of some plants due to the COVID-19 pandemic.

11 Following a process of improvement of the reporting system, the figure included in the 2019 NFS was restated.For previously published data, please refer to the 2019 NFS

12 The data of 4 Service USA LLC is excluded from the total energy consumption data in that not available.

13 Following a process of improvement of the reporting system in 2019, it was possible to collect the data, although subject to estimate, related to petrol consumption in Tesmec U.S.A. Note also that the data for electricity purchased for Tesmec S.A. (Pty) was estimated.

Emissions into the atmosphere

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

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

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

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

As can be seen from the table below, the total emissions of Scope 1 and Scope 2 decreased in 2020 compared to the previous year. This change is mainly due to the reduction in the use of diesel oil and LPG, caused by the suspension of activities in some plants owned by the Group.

Emissions	**2019**	**2020**
Direct emissions - scope 1 (tCO_2eq)		
emissions from natural gas consumption	1,240	1,109
emissions from consumption of diesel	3,760	1,637
emissions from petrol consumption	334	282
emissions from LPG consumption	47	33
emissions from refrigerant gases (R134a)	-	65
Total scope 1	5,382	3,126
Indirect emissions - scope 2 (tCO_2)		
Emissions from electricity consumption - location based	1,697	1,722
Emissions from electricity consumption - market based	2,044	2,032
Total scope 1 and scope 2 (market based)	**7,426**	**5,158**

Waste

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

As can be seen from the table below, for the year 2020, 305 tonnes of hazardous waste were produced.
With regard to the production of non-hazardous waste, about 87% of the total produced in 2020 was recycled, while about 12% was sent to landfill[14].

14 It is specified that the indicator "306-2 - Waste by type and disposal method" includes data of the production companies (Tesmec S.p.A.; Tesmec Automation S.r.l.; Tesmec Rail S.r.l.; Tesmec USA, Inc.; Groupe Marais SAS) and of the company Marais Laying NZ Ltd. As mentioned in paragraph "17.1.7 Adopted calculation methods", the production of municipal waste was excluded from the calculation.

Type of waste and disposal method	Total waste by type and disposal method		
	Unit of measurement	From 1 January 2019 to 31 December 2019	From 1 January 2020 to 31 December 2020[15]
		Total	Total
Total hazardous waste	**t**	**180**	**305**
- Of which reused	t	-	-
- Of which recycled	t	43	113
- Of which composted	t	-	-
- Of which recovered, including energy recovery	t	22	84
- Of which in landfill	t	22	19
- Of which incinerated	t	96	89
- Other	t	-	-
Temporary storage and/or last year's storage	t	-	-
Total non-hazardous waste	**t**	**1,421**	**1,173**
- Of which reused	t	-	-
- Of which recycled	t	1,203	1,018
- Of which composted	t	2	2
- Of which recovered, including energy recovery	t	13	13
- Of which in landfill	t	200	140
- Of which incinerated	t	-	-
Other	t	-	-
Temporary storage and/or last year's storage	t	-	-
Total Waste	**t**	**1,601**	**1,478**

Raw materials and materials

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

The raw materials most used (in terms of quantity) by the production companies (Tesmec S.p.A., Tesmec USA, Inc., Groupe Marais SAS) are semi-finished products in steel and aluminium (sheets, tubes, rounds) and semi-finished products in nylon (rings and plates) as well as hydraulic oil and lubricants. On the other hand, Tesmec Rail S.r.l. and Tesmec Automation S.r.l. do not purchase semi-finished steel, aluminium and nylon products, intended as relevant raw materials, while only for aluminium and nylon also Tesmec USA and Tesmec Marais Group France do not make purchases.

In total, 1,406 tonnes of steel and ferrous materials were purchased in 2019, whereas for 2020 the purchase of 928 tonnes is broken down in: semi-finished steel and aluminium products (sheets, tubes, rounds), semi-finished nylon products (rings and plates), hydraulic oil and lubricants. These purchases refer to Tesmec S.p.A., Tesmec USA, Inc. and Groupe Marais SAS, whereas Tesmec Rail S.r.l. is included for the purchase of hydraulic oil and lubricants.

Purchases of materials - non-renewable (tonnes)[16]	2019	2020
Semi-finished steel products (sheets, tubes, rounds)	1,156	712
Semi-finished aluminium products (sheets, tubes, rounds)	40	29
Semi-finished nylon products (rings, plates)	59	72
Hydraulic oil and lubricants	151	115
Total	**1,406**	**928**

15 The increase in hazardous waste in 2020 was due to a improve of the data collection system for Groupe Marais SA

16 Note that these figures refer exclusively to the Group's production companies: Tesmec S.p.A., Tesmec Automation S.r.l., Tesmec Rail S.r.l., Groupe Marais SAS and Tesmec USA, Inc.

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

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

17.7 Responsible management of the supply chain and social topics

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

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

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

MATERIAL TOPICS RELATED TO SOCIAL ISSUES	MAIN RELATED RISKS
Geopolitical and social background **Stakeholder engagement** **Customer satisfaction** **Quality and Product safety** **Responsible management of the supply chain** **R&D and digital transformation** **Data privacy management**	Risks due to negative externalities arising from its supply chain Risks due to insecurity of products sold and marketed Risks due to non-compliance of product information Risks related to the operation of industrial plants due to, by way of example, equipment breakdown and malfunctions, revocation of or dispute over authorisations and licences by the competent public authorities, strikes or shortage of labour force. Risks due to accidents involving contractors, suppliers and strategic partners Risks related to intellectual property rights Risks related to the operation of IT systems (including infrastructure and software) and IT security, i.e. risks of exposure to cyber attacks, viruses, unauthorised access aimed at extracting

	or corrupting Group information, which may damage the business of the Group's customers. Risks related to product development, product obsolescence and research and development Risks related to the breach of contracts with regard to delivery time and product quality

17.7.1 Policies, management systems and organisational models

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

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

More specifically, in addition to the traditional advantage over traditional techniques, tension stringing has a lower environmental impact as it avoids deforestation or alteration of the underlying soil. The products and solutions of the Energy Automation Segment are intrinsically committed to environmental sustainability in that they enable the integration and management of renewable energy sources. In this segment, the Group's commitment to the environment is further demonstrated by the certification obtained on several Energy Automation product ranges according to ISO 14067 for checking the climate footprint with quantification of greenhouse gas emissions over the entire life cycle of a product and, consequently, related to compliance with Directive 2012/19/EU on waste electrical and electronic equipment (WEEE) and the principles of the circular economy. The current development of the range towards machines with fully digital control and products with fully electrical solutions makes Tesmec's offer environmentally friendly; moreover, compared to excavators, the trencher, for the same number of linear metres excavated, allows greater efficiency in excavation, a reduced furrow, the handling of a smaller quantity of material, the possibility of reusing the excavated material to fill in the trench (with a consequent reduction in the material to be disposed of) and, under certain conditions, the use of fewer machines. The focus on efficiency and the use of low-emission engines make this technology less impactful when compared to traditional technologies (excavators and crushers). Moreover, integration with soil geolocation and mapping systems (identifying the presence of pipes and cables with a margin for error to the nearest centimetre) makes it possible to use the machine while minimising the possible side effects of the operation, with advantages in terms of speed of execution and reduced environmental impact. Rail vehicles whose engines comply with the most recent regulations in terms of environmental impact are equipped with automatic devices for reading signals on the infrastructure, aligning their use with the most recent European standards on railway traffic safety.

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

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

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

Tesmec holds the registration of several patents and certifications.

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

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

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

17.7.2 Non-financial results and indicators

Supply chain

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

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

The main services/goods purchased are:

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

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

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

Moreover, for the qualification of new suppliers of Tesmec S.p.A., if considered strategic for the product they supply, Tesmec carries out a qualification process before establishing a collaboration that includes, for example, inspections at the premises of the supplier, collection of any certifications held by the supplier, samples and tests on products that will be purchased by the same. At present, there are no specific environmental or social requirements used in the qualification of a new supplier, except for those aspects related to safety and protection at work both during the collection of documents and during the visit to the supplier's premises, assessing elements such as the technical and professional suitability of the examined company, the regularity of contributions and remuneration for employees, the existence of a structure dedicated to safety at work, etc. However, with regard to the evaluation of existing suppliers, starting in 2019, in accordance with the requirements of the integrated certification on health, safety and the environment obtained by Tesmec S.p.A., HSE audits process were also started on suppliers considered strategic, i.e. key suppliers for all Tesmec S.p.A. plants. On the other hand, in 2020, due to COVID-19, it was not possible to carry out supplier audits, which will be resumed after the end of the pandemic.

Product quality and safety

In order to ensure the highest level of service to its customers, Tesmec S.p.A. adopted a quality management system focused on processes: this allowed the company to offer its customers maximum transparency in the carrying-out of the various phases of projects, which lead to the supply of solutions, even complex ones, within the established time frame, while maintaining a simple and flexible organisational structure. For this reason, Tesmec S.p.A. has long obtained the ISO 9001 certification for its Quality Management System, which covers the entire product life cycle, from research and development to the selling phase, from delivery and installation to after-sales service. Special attention is paid to design control, a fundamental moment for defining the quality of the final product. Tesmec S.p.A. also has a formalised quality management procedure in place.

Conformity with the Machinery Directive (CE mark) is required for all products (where applicable), including those outside the EU, in order to ensure maximum coverage of the safety assessment. Therefore, the product is above the safety requirement in markets with lower safety requirements. Each machine and equipment are accompanied by a manual explaining the main risks that can be incurred due to incorrect use of the product. In some specific countries, special actions and customisations are required to comply with local legislation and each product may be subject to security inspections.

In the event that technical problems and/or non-conformities are reported, despite the tests carried out, the Company, through its Technical Offices and after-sales service, promptly intervenes to avoid any identified non-conformities, especially those related to product safety, and takes action to resolve the problems. The process of reporting non-conformities primarily involves the After-Sales Office, which appoints a Technical Office Representative or a an After-Sales Service Representative to verify what the issue highlighted and consider the subsequent steps to be taken to resolve the non-conformities.

The Tesmec Group is constantly focused on:

- the improvement of product performance;
- development of innovative products;
- development of innovative technologies to improve applications and product functions;
- development of products in accordance with customer specifications.

In 2020, no non-conformities were found with regard to product safety.

Innovation and Research & Development

The research and development activity is a strategic priority for the Tesmec Group, which over the years has secured a position in the market segments with the highest added value and international recognition as a technological leader able to offer solutions in line with the highest safety standards and with an increasing level of environmental compatibility in accordance with the most recent regulations on emissions into the atmosphere.

Tesmec is characterised by its ability to provide innovative products through intensive research and development to support the marketing of both standard products and products customised to the specific needs of its customers. Furthermore, the Group's success depends on its ability to promptly adapt and innovate its range of products and services to foreseeable technological developments, in order to respond to the continuous technological progress that characterises the sectors in which the Group operates, also through a continuous investment in research and development.

The research and development activity is carried out internally through dedicated structures in that it is considered strategic for the Group and constitutes one of its main success factors.

Geopolitical and social context - COVID-19

Since January 2020, the national and international scenario has been characterised by the spread of the COVID-19 virus (known as Coronavirus) and the consequent restrictive measures for its containment. In Italy, through specific Italian Decree of the President of the Council of Ministers (DPCM), a state of emergency was declared, currently in force until 30 April 2021. The Group has taken prompt actions to monitor and manage the situation with great attention, applying all health and safety protocols in full compliance with the provisions of the Ministry of Health. These circumstances, extraordinary in nature and extent, had direct and indirect impact on operating activities. Since the early days of the health emergency, the Group has been committed to fight it trying to ensure the continuity of its offices and plants but at the same time ensuring the safety of its personnel, customers and suppliers. The main actions adopted concerned the incentive to smart working, the business travels restriction, the increase of spaces in the workplace and measures to avoid occasions of large gatherings. Frequent cleaning and sanitisation of the premises have been guaranteed and Group employees and collaborators have been periodically updated, through internal communications, on the protocols to be adopted which, with the evolution of the epidemic, have become increasingly stringent. These measures have always been adopted in full compliance with government provisions and, in compliance with the Authority's requirements, the Group stopped its operations in the factories of Grassobbio, Endine, Sirone, Fidenza and Padua from March 23 to May 4, and in plants in Patrica and Monopoli from 23 March to 12 April. Operations in Durtal (France) were suspended from March 17 to April 20, in compliance with the provisions of the French government, while the Alvarado (USA) plant had no interruptions. In Australia and New Zealand, where the Group does not have production plants but where it operates in several jobsites, the activities were stopped from March 19 to May 15 and from March 25 to April 27, respectively.

The progressive slowdown in the spread of infections subsequently made it possible to restart, also after the adoption of a prevention and safety protocol agreed with occupational health specialists and union representatives. In compliance with this protocol, the Group carried out an extended sanitisation of its premises, bought the necessary individual protection devices, such as masks, gloves, screens and protective barriers and changed some of its internal procedures, such as the methods of access to facilities, where the measurement of body temperature before entry is required, and the organization of areas and work shifts to better guarantee social distancing measures. Moreover, the implementation of smart working continues to be encouraged and investments have been integrated to allow remote activities to be carried out.

In this difficult context, the Group has also adopted some initiatives to protect the welfare of employees and support its local community. The Group's production activities are carried out in some of the provinces of Italy which have suffered the most dramatic consequences of the pandemic. To this end, a number of solidarity actions have been taken such as: a specific insurance cover in case of hospitalisation for COVID-19, the creation of "Banca ore solidali" (Solidarity Bank) and "Fondo Solidale Tesmec Family" (Tesmec Family Solidarity Fund) to collect contributions and leave hours voluntarily donated by employees to their colleagues in difficult situations due to COVID-19, the introduction of the figure of the "company factotum", a service to provide some personal assistance to employees in this difficult period, and a fund raising: "Abitare la cura - Coronavirus: una mano per alleggerire gli ospedali" (Living the cure - Coronavirus: a hand to relieve hospitals) aimed to finance the hospitals in the province of Bergamo.

Digital transformation

Digitalisation is becoming increasingly important in the current economic scenario. The main digital trends include pervasive connectivity, the key role of IoT, extended supply chains and an abundance of information resulting in Big Data management issues.

Innovation and digitalisation are at the centre of the strategy of the Tesmec Group. The development of a digital strategy includes the digitalisation of products and services as well as of the information surrounding them.

Tesmec's culture of innovation extends beyond the company's boundaries to global supply chains in a dynamic environment. Tesmec's investments in research and development focus on digitalisation for predictive maintenance, data management for the highest safety standards and infrastructure diagnostics. As a result, there is a "digital transformation" in all of the Group's business areas.

The implementation of certified solutions in the field of smart grids and IT security, the development of digital platforms and innovative systems for the mapping of underground services are just some of the innovations in the pipeline.

Privacy protection

With a global presence, directly and through its agents, and a complex company structure in different sectors, as well as its approximately 900 employees, Tesmec is aware of the importance of protecting the sensitive information of its customers and workers, and has always been committed to ensuring maximum transparency in the collection, use, communication, transfer and storage of information concerning them.

With the introduction of the "General Data Protection Regulation" (GDPR) effective as from 25 May 2018 throughout Europe, Tesmec immediately activated a process of review of internal processes to comply with the new regulations. A specialised firm was commissioned to carry out a complete mapping of personal data processing, analysing the compliance of the systems used and identifying third parties with critical privacy profiles. With regard to the categories of third parties identified, with the support of the legal department, a contractual review was started, by adjusting in particular the clauses in use, so that the third parties are made aware of the obligations in this regard and take steps to strictly comply with them. Moreover, the need to process data that may be even assumed to be relevant for the purposes of the GDPR was reduced to the minimum.

The monitoring activity continues internally, ensuring constant adaptation to new Group activities and initiatives, also by providing information on the basic concepts of the regulations to all Group employees.

Customer satisfaction

One of the main missions of Tesmec is to be a partner for its customers. Being a partner goes one step further than qualifying as a mere supplier: a partner is present, attentive and proactive in listening and supporting the customer at every stage of the relationship. The solutions proposed by the Group are designed to be intrinsically functional and self-diagnostic so as to minimise downtime and maximise energy and cost efficiency for the customer.

Flexibility and adaptability are the keystone of customer satisfaction service and monitoring: the driver of service digitalisation and automation, already at the centre of the business development for some time, has a highly valuable role given the recent developments in the COVID-19 pandemic that have significantly restricted the mobility of people globally.

A special service project is created for the customer with channels always open to communication in order to make the relationship constructive and effective in a one-to-one way.

17.8 GRI Content Index

GRI Standard Title	GRI disclosure number	GRI Disclosure Title	Page of the Statement	Omissions
GRI 101: Foundation – 2016				
GRI 102: General Disclosures 2016 - Organisational Profile	102-1	Name of the organisation	Tesmec S.p.A.	
	102-2	Activities, brands, products, and services	pp. 57 - 58	
	102-3	Location of headquarters	Via Zanica, 17/O - 24050 Grassobbio, Bergamo	
	102-4	Location of operations	p. 64	
	102-5	Ownership and legal form	p. 49 Reference to the Report on corporate governance and ownership structure	
	102-6	Markets served	pp. 64 - 65	
	102-7	Scale of the organisation	p. 58	
	102-8	Information on employees and other workers	pp. 71 - 73	
	102-9	Supply chain	pp. 84 - 86	
	102-10	Significant changes to the organisation and its supply chain	There were no significant changes to the supply chain	
	102-11	Precautionary Principle or approach	pp. 66; 69; 80; 84-85	
	102-12	External initiatives	p. 63	
	102-13	Membership of associations	Confindustria	
GRI 102: General Disclosures - Strategy	102-14	Statement from senior decision-maker	pp. 53 - 54	
GI 102: General Disclosures 2016 - Ethics and integrity	102-16	Values, principles, standards, and norms of behavior	pp. 64 - 65	
GRI 102: General Disclosures 2016 - Governance	102-18	Governance structure	pp. 66 - 67	
GRI 102: General Disclosures 2016 - Stakeholder engagement	102-40	List of stakeholder groups	p. 59	
	102-41	Collective bargaining agreements	77%	
	102-42	Identifying and selecting stakeholders	pp. 58 - 60	
	102-43	Approach to stakeholder engagement	pp. 58 - 60	
	102-44	Key topics and concerns raised	pp. 58 - 60	
GRI 102: General Disclosures - Reporting practice	102-45	Entities included in the consolidated financial statements	pp. 55 - 56	
	102-46	Defining report contents and topic boundary	pp. 61 - 62	
	102-47	List of material topics	pp. 61 - 62	
	102-48	Restatements of information	Any changes with respect to the previous report are indicated in the text	
	102-49	Changes in reporting	pp. 59 - 60	
	102-50	Reporting period	p. 55	
	102-51	Date of most recent report	The previous NFS refers to the reporting year 2019 and published on 31 March 2020	
	102-52	Reporting cycle	p. 55	
	102-53	Contact point for questions regarding the report	p. 3	

	102-54	Claims of reporting in accordance with the GRI Standards	p. 56	
	102-55	GRI content index	pp. 89 - 93	
	102-56	External assurance	p. 96-98	
Topic: Anti-Corruption				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 66 - 68	
	103-3	Evaluation of the management approach	pp. 66 - 68	
GRI 205: Anti-Corruption – 2016	205-3	Confirmed incidents of corruption and actions taken	p. 68	
Topic: Tax				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 68 - 69	
	103-3	Evaluation of the management approach	pp. 68 - 69	
GRI 207: Tax – 2019	207-1	Approach to tax	pp. 68 - 69	
	207-2	Tax governance, control and risk management	pp. 68 - 69	
	207-3	Stakeholder engagement and management of concerns	pp. 68 - 69	
	207-4	Country-by-country reporting	*For the next years, the Group will evaluate how to structure the disclosure relating to the specific information GRI 207-4 "Country-by-Country Reporting".*	
Topic: Materials				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 81 - 84	
	103-3	Evaluation of the management approach	pp. 81 - 84	
GRI 301: Materials - 2016	301-1	Materials used by weight or volume	p. 83	
Topic: Energy				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 80 – 81; 83 - 84	
	103-3	Evaluation of the management approach	pp. 80 – 81; 83 - 84	
GRI 302: Energy - 2016	302-1	Energy consumption within the organisation	p. 81 - 82	
Topic: Emissions				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 80 - 82	
	103-3	Evaluation of the management approach	pp. 80 - 82	
GRI 305: Emissions - 2016	305-1	Direct (Scope 1) GHG emissions	p. 82	
	305-2	Energy indirect (Scope 2) GHG emissions	p. 82	
Topic: Waste and Effluents				
	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	

GRI 103: Management Approach – 2016	103-2	The management approach and its components	pp. 80 – 81; 82 - 83	
	103-3	Evaluation of the management approach	pp. 80 - 83	
GRI 306: Waste and Effluents – 2016	306-2	Waste by type and disposal method	pp. 82 - 83	
Topic: Environmental compliance				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 80 - 81	
	103-3	Evaluation of the management approach	pp. 80 - 81	
GRI 307: Environmental compliance -2016	307-1	Non-compliance with environmental laws and regulations	In 2019 and 2020, there were no cases of non-compliance with environmental regulations and laws that led to fines or penalties	
Topic: Supplier Environmental Assessment				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 84 - 86	
	103-3	Evaluation of the management approach	pp. 84 - 86	
GRI 308: Supplier Environmental Assessment - 2016	308-1	New suppliers that were screened using environmental criteria	p. 86	
Topic: Employment				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 70 - 71; 75 - 76	
	103-3	Evaluation of the management approach	pp. 70 - 71; 75 - 76	
GRI 401: Employment - 2016	401-1	New employee hires and employee turnover	pp. 75 - 76	
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	p. 77	
Topic: Labor/management relations				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 70 - 71	
	103-3	Evaluation of the management approach	pp. 70 - 71	
GRI 402: Labor/Management relations - 2016	402-1	Minimum notice periods regarding operational changes	The minimum period, where present, is defined by local regulations and, where envisaged, by the CCNL (Contratto Collettivo Nazionale di Lavoro, Collective National Labor Agreement).	
Topic: Occupational Health and Safety				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 70 - 71; 77 - 79	
	103-3	Evaluation of the management approach	pp. 70 - 71; 77 - 79	
GRI 403: Occupational	403-1	Occupational health and safety management system	pp. 77 - 79	

Health and Safety - 2018	403-2	Hazard identification, risk assessment, and incident investigation	pp. 77 - 79	
	403-3	Occupational health services	pp. 77 - 79	
	403-4	Worker participation, consultation, and communication on occupational health and safety	pp. 77 - 79	
	403-5	Worker training on occupational health and safety	pp. 77 - 79	
	403-6	Promotion of worker health	pp. 77 - 79	
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	pp. 77 - 79	
	403-9	Work-related Injuries	p. 79	
	403-10	Work-related ill health	p. 79	
Topic: Training and education				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 70 - 71; 74	
	103-3	Evaluation of the management approach	pp. 70 - 71; 74	
GRI 404: Training and education – 2016	404-1	Average hours of training per year per employee	p. 74	
Topic: Diversity and equal opportunities				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 70 - 71	
	103-3	Evaluation of the management approach	pp. 70 - 71	
GRI 405: Diversity and equal opportunities - 2016	405-1	Diversity of governance bodies and employees	pp. 71 - 73	
Topic: Non-discrimination				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 70 - 72	
	103-3	Evaluation of the management approach	pp. 70 - 72	
GRI 406: Non-discrimination – 2016	406-1	Incidents of discrimination and corrective actions taken	p. 71	
Topic: Supplier Social Assessment				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 84 - 86	
	103-3	Evaluation of the management approach	pp. 84 - 86	
GRI 414: Supplier Social Assessment – 2016	414-1	New suppliers screened using social criteria	p. 86	
Topic: Customer Health and Safety				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 84 - 86	
	103-3	Evaluation of the management approach	pp. 84 - 86	

GRI 416: Customer Health and Safety – 2016	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	pp. 86	
Topic: Customer privacy				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	p. 88	
	103-3	Evaluation of the management approach	p. 88	
GRI 418: Customer privacy - 2016	418-1	Substantiated complaints received concerning breaches of customer privacy and losses of customer data	In 2020, there were no cases of complaints concerning breaches of customer privacy	
Topic: Socioeconomic Compliance				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 66 - 67	
	103-3	Evaluation of the management approach	pp. 66 - 67	
GRI 419: Socioeconomic Compliance - 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	In 2019 and 2020, there were no cases of non-compliance with social and economic regulations and laws that led to fines or penalties	
Topic: Geopolitical and social context				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	p. 87	
	103-3	Evaluation of the management approach	p. 87	
Topic: Stakeholder engagement				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 58 - 60	
	103-3	Evaluation of the management approach	pp. 58 - 60	
Topic: Customer satisfaction				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	p. 88	
	103-3	Evaluation of the management approach	p. 88	
Topic: R&D and digital transformation				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its boundary	pp. 59 - 62	
	103-2	The management approach and its components	pp. 87 - 88	
	103-3	Evaluation of the management approach	pp. 87 - 88	

INDEPENDENT AUDITOR'S REPORT

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: + 39 02 83322111
Fax: + 39 02 83322112
www.deloitte.it

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10 OF LEGISLATIVE DECREE No. 254 OF DECEMBER 30, 2016 AND ART. 5 OF CONSOB REGULATION N. 20267/2018

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

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter "Decree") and to article 5 of the CONSOB Regulation n. 20267/2018, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of Tesmec S.p.A. and its subsidiaries ("Tesmec Group" or Group") as of December 31, 2020 prepared on the basis of art. 4 of the Decree, presented in the specific section of the report on operations and approved by the Board of Directors on March 12nd, 2021 ("NFS").

Responsibility of the Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and the "*Global Reporting Initiative Sustainability Reporting Standards*" established by GRI – Global Reporting Initiative ("*GRI Standards*"), which they have identified as reporting framework.

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Group and for identifying and managing the risks generated or undertaken by the Group.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the compliance with the provisions set out in the Decree.

Deloitte.

Auditor's Independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our auditing firm applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the *GRI Standards*. We conducted our work in accordance with the criteria established in the "*International Standard on Assurance Engagements ISAE 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (hereinafter "ISAE 3000 Revised"), issued by the *International Auditing and Assurance Standards Board* (IAASB) for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of information included in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of art. 3 of the Decree and taking into account the adopted reporting standard;

2. analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree;

3. understanding of the following matters:

    - business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree;
    - policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
    - main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

    Moreover, with reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point 4, letter a) of this report;

4. understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

   In particular, we carried out interviews and discussions with the management of Tesmec S.p.A. and with the employees of Groupe Marais SA and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

   In addition, for material information, taking into consideration the Group's activities and characteristics:

   - at the parent company's and subsidiaries' level:

     a) with regard to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;
     b) with regard to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.

   - for the companies Tesmec S.p.A. and Groupe Marais SA, which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out remote meetings, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the Tesmec Group as of December 31, 2020 is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and the GRI Standards.

DELOITTE & TOUCHE S.p.A.

Signed by
Lorenzo Rossi
Partner

Milan, Italy
March 31, 2021

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

DRAFT RESOLUTION OF ALLOCATION OF PROFIT OR LOSS FOR THE PERIOD

Report of the Board of Directors of Tesmec S.p.A., drawn up pursuant to Articles 125-*ter* of Italian Legislative Decree no. 58 of 24 February 1998, as subsequently supplemented and amended ("T.U.F.") and 84-*ter* of the Regulation adopted with CONSOB Resolution no. 11971 of 14 May 1999, as subsequently amended and supplemented ("Issuers' Regulation").

Dear Shareholders,

This report shows the draft resolutions that the Board of Directors of Tesmec S.p.A. (hereinafter referred to as "**Tesmec**" or the "**Company**") intends to submit for your approval in relation to the items on the agenda of the ordinary Shareholders' Meeting that will be held on 22 April 2021, at 10:30 at Notary Practice SNPZ Notai a Milano, in Milan, Piazza della Repubblica, 28 on single call.

1. Approval of the financial statements as at 31 December 2020 and presentation of the Tesmec Group's consolidated financial statements and relevant reports, including the consolidated non-financial statement; allocation of result for the period; related and consequent resolutions.

3.1 Approval of the financial statements as at 31 December 2020 and the Board of Directors' report on operations;

3.2 Allocation of profit or loss for the period.

Dear Shareholders,

The Company, within the term established by Article 154-*ter* of the Consolidated Law on Finance (T.U.F.), must publish the annual financial statements comprising the draft financial statements, the consolidated financial statements, the directors' report (which includes the consolidated non-financial statement containing information, referred to Tesmec and its subsidiaries, relating to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters) and the certification set forth in Article 154-*bi*s, paragraph 5, of the Consolidated Law on Finance (T.U.F.). The audit reports prepared by the independent auditors as well as the reports indicated in Article 153 of the Consolidated Law on Finance (T.U.F.) are made fully available to the public together with the annual financial statements.

The draft financial statements were approved by the Board of Directors of the Company on 12 March 2021.

The directors' report was made available to the public, together with the draft financial statements of Tesmec as at 31 December 2020, the consolidated financial statements of the Tesmec Group as at 31 December 2020, the certification of the Executive responsible for preparing the Company's accounting documents, the report of the Board of Statutory Auditors and the Independent Auditors' Report, at the registered office and Borsa Italiana S.p.A. ("**Borsa Italiana**"), as well as on the website of the Company www.tesmec.com and in accordance with the other methods prescribed by CONSOB within the methods and terms provided by the regulations in force.

For complete information on the subject in hand, reference is made to the directors' report and to the additional documents made available to the public, according to the methods the terms prescribed by the law, at the registered office and Borsa Italiana, as well as on the Company website at the address www.tesmec.com (Investors section) and in accordance with the other methods prescribed by the CONSOB regulation.

You are invited to approve the financial statements as at 31 December 2020 of Tesmec that closed with a net loss of 454.998,57 Euro.

With reference to the results achieved, the Board of Directors proposes that you resolve the coverage of the loss through the use of the Extraordinary Reserve.

Grassobbio, 12 March 2021

TESMEC S.p.A.

The Chairman of the Board of Directors

Ambrogio Caccia Dominioni

CONSOLIDATED FINANCIAL STATEMENTS OF THE TESMEC GROUP

Consolidated statement of financial position

(Euro in thousands)	Notes	31 December 2020	2019
NON-CURRENT ASSETS			
Intangible assets	7	22,487	20,419
Property, plant and equipment	8	49,831	42,397
Rights of use	9	22,825	20,144
Equity investments in associates evaluated using the equity method	10	4,384	3,984
Other equity investments		3	3
Financial receivables and other non-current financial assets	11	5,196	2,745
Derivative financial instruments	23	1	4
Deferred tax assets	32	16,446	11,889
Non-current trade receivables		1,302	516
TOTAL NON-CURRENT ASSETS		**122,475**	**102,101**
CURRENT ASSETS			
Work in progress contracts	13	11,216	16,320
Inventories	13	74,386	69,924
Trade receivables	14	60,415	67,929
of which with related parties:		*1,590*	*5,518*
Tax receivables	15	1,444	1,045
Other available-for-sale securities		1	2
Financial receivables and other current financial assets	16	13,776	12,081
of which with related parties:		*3,691*	*4,072*
Other current assets	17	8,810	9,214
Cash and cash equivalents	18	70,426	17,935
TOTAL CURRENT ASSETS		**240,474**	**194,450**
TOTAL ASSETS		**362,949**	**296,551**
SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS			
Share capital	19	15,702	10,708
Reserves	19	60,513	32,427
Group net profit / (loss)	19	(6,828)	2,967
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS		**69,387**	**46,102**
Non-controlling interest in capital and reserves		44	36
Net profit/(loss) for the period attributable to non-controlling interests		17	14
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		**61**	**50**
TOTAL SHAREHOLDERS' EQUITY		**69,448**	**46,152**
NON-CURRENT LIABILITIES			
Medium/long-term loans	20	74,336	23,972
of which with related parties:		*3,263*	-
Bond issue non current	21	6,194	24,765
Non-current financial liabilities from rights of use	22	16,855	15,407
Derivative financial instruments	23	170	6
Employee benefit liability	24	4,660	4,451
Deferred tax liabilities	32	7,628	5,771

Provisions for non-current risks and charges	25	-	88
Other long-term liabilities		625	625
TOTAL NON-CURRENT LIABILITIES		**110,468**	**75,085**
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	26	68,362	79,764
of which with related parties:		*2,788*	*2,158*
Bond issue current	27	17,437	-
Current financial liabilities from rights of use	22	5,218	4,135
Derivative financial instruments	23	1	6
Trade payables	28	61,385	57,514
of which with related parties:		*1,465*	*3,134*
Advances from customers		3,185	3,641
of which with related parties:		-	13
Income taxes payable	29	626	1,807
Provisions for risks and charges	30	2,968	3,104
Other current liabilities	31	23,851	25,343
TOTAL CURRENT LIABILITIES		**183,033**	**175,314**
TOTAL LIABILITIES		**293,501**	**250,399**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**362,949**	**296,551**

Consolidated income statement

(Euro in thousands)	Notes	Financial period ended 31 December 2020	2019
Revenues from sales and services	33	**170,655**	**200,666**
of which with related parties:		*7,754*	*18,333*
Cost of raw materials and consumables	34	(77,418)	(88,037)
of which with related parties:		*(12)*	*(9)*
Costs for services	35	(30,156)	(35,375)
of which with related parties:		*(50)*	*(132)*
Payroll costs	36	(48,519)	(52,611)
Other operating (costs)/revenues, net	37	131	(4,668)
of which with related parties:		*(621)*	*(2,927)*
Amortisation and depreciation	38	(21,842)	(19,075)
Development costs capitalised	39	5,787	7,233
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method		499	241
Total operating costs		**(171,518)**	**(192,292)**
Operating income		**(863)**	**8,374**
Financial expenses	40	(10,207)	(6,628)
of which with related parties:		*(671)*	*(343)*
Financial income	41	1,903	2,424
of which with related parties:		*90*	*89*
Portion of losses/(gains) from associated companies and non-operational Joint Ventures evaluated using the equity method		129	24
Pre-tax profit/(loss)		**(9,038)**	**4,194**
Income tax	32	2,227	(1,213)
Net profit/(loss) for the period		**(6,811)**	**2,981**
Profit/(loss) attributable to non-controlling interests		**17**	**14**
Group profit/(loss)		**(6,828)**	**2,967**
Basic and diluted earnings/(losses) per share		**(0.011)**	**0.028**

Consolidated statement of comprehensive income

		Financial period ended 31 December	
(Euro in thousands)	**Notes**	**2020**	**2019**
NET INCOME FOR THE PERIOD		**(6,811)**	**2,981**
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	19	(3,225)	694
Adjustment of deferred taxes		-	(213)
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	24	42	(279)
Income tax		(10)	67
		32	(212)
Total other income/(losses) after tax		**(3,193)**	**269**
Total comprehensive income (loss) after tax		**(10,004)**	**3,250**
Attributable to:			
Shareholders of Parent Company		(10,015)	3,235
Non-controlling interests		11	15

Statement of consolidated cash flows

(Euro in thousands)	Notes	Financial period ended 31 December 2020	2019
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		(6,811)	2,981
Adjustments to reconcile net income for the period with the cash flows generated by operating activities:			
Amortisation and depreciation	38	21,842	19,075
Provisions for employee benefit liability	24	449	595
Provisions for risks and charges / inventory obsolescence / doubtful accounts	13-14 25-30	1,556	2,165
Employee benefit payments	30	(198)	(250)
Payments/use of provisions for risks and charges	24	(460)	(171)
Net change in deferred tax assets and liabilities	25-30	(2,825)	(343)
Change in fair value of financial instruments	32	162	(27)
Change in current assets and liabilities:			
Trade receivables	14	7,384	(17,291)
of which with related parties:		*3,915*	*(2,848)*
Inventories	13	(2,100)	(12,903)
Trade payables	28	4,222	3,014
of which with related parties:		*(1,678)*	*766*
Other current assets and liabilities		(2,643)	2,093
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		**20,578**	**(1,062)**
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	8	(6,759)	(9,227)
Investments in intangible assets	7	(10,704)	(11,637)
Investments in rights of use	9	(4,750)	(2,932)
(Investments)/disposals of financial assets		(4,909)	(2,427)
of which with related parties:		*151*	*301*
Change in the consolidation area		(14,190)	-
Proceeds from sale of property, plant and equipment and intangible assets	7-8-9	8,888	3,921
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		**(32,424)**	**(22,302)**
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	20	69,832	16,556
of which with related parties:		*3,263*	-
Recognition of financial liabilities from rights of use	22	10,741	2,850
Repayment of medium/long-term loans	20-21	(11,916)	(8,049)
Repayment of financial liabilities from rights of use	22	(8,209)	(4,461)
Net change in short-term financial debt	22-26-27	(19,617)	(8,238)
of which with related parties:		*630*	*(167)*
Change in the consolidation area	19	-	(436)
Share Capital Increase	19	23,900	-
NET CASH FLOW GENERATED BY/(USED IN) FINANCING ACTIVITIES (C)		**64,731**	**(1,778)**
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		**52,885**	**(25,142)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		(394)	284
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	18	17,935	42,793
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		**70,426**	**17,935**
Additional information:			
Interest paid		4,744	5,122
Income tax paid		1,228	787

Statement of changes in consolidated shareholders' equity

(Euro in thousands)	Share capital	Legal reserve	Share premium reserve	Reserve of Treasury Shares	Translation reserve	Other reserves	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**
Profit/(loss) for the period	-	-	-	-	-		2,967	2,967	14	2,981
Other profits/(losses)	-	-	-	-	693	(425)	-	268	*1*	269
Total comprehensive income/(loss)								**3,235**	**15**	**3,250**
Allocation of profit for the period	-	-	-	-	-	28	(28)	-	-	-
Change in the consolidation area	-	-	-	-	-	(436)	-	(436)	-	(436)
Balance as at 31 December 2019	**10,708**	**2,141**	**10,915**	**(2,341)**	**5,028**	**16,684**	**2,967**	**46,102**	**50**	**46,152**
Profit/(loss) for the period	-	-	-	-	-		(6,828)	(6,828)	17	(6,811)
Other profits/(losses)	-	-	-	-	(3,219)	32	-	(3,187)	(6)	(3,193)
Total comprehensive income/(loss)								**(10,015)**	**11**	**(10,004)**
Allocation of profit for the period	-	-	-	-	-	2,967	(2,967)	-	-	-
Capital increase	4,994	-	28,300	-	-	6	-	33,300	-	33,300
Balance as at 31 December 2020	**15,702**	**2,141**	**39,215**	**(2,341)**	**1,809**	**19,689**	**(6,828)**	**69,387**	**61**	**69,448**

Explanatory notes

Accounting and reporting standards adopted in preparing the consolidated financial statements as at 31 December 2020

1. Company information

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

The publication of Tesmec's consolidated financial statements for the period ended as at 31 December 2020 was authorised by means of the resolution of the Directors on 12 March 2021.

2. Reporting standards

The consolidated financial statements of the Tesmec Group as at 31 December 2020 comprise the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in shareholders' equity and the related explanatory notes. These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and approved by the European Union according to the text published on the Official Journal of the European Communities (OJEC) and in force as at 31 December 2020 and on the basis of the provisions issued in implementation of Article 9 of Italian Legislative Decree no. 38/2005. These IFRS principles also include all revised international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously called Standing Interpretations Committee ("SIC").

The reference accounting standards adopted in the current yearly consolidated financial statements are consistent with those used for preparing the yearly consolidated financial statements of the Group for the period ended 31 December 2019, also prepared according to the international accounting standards, with the exception of the standards and interpretations of new application, explained in note 3.4.
The financial statements and relevant explanatory notes are presented in Euro and all values are express in Euro thousand, unless otherwise indicated.

Business continuity

These Financial Statements were prepared on a going concern basis in that the Directors checked the ability of the Company and of the Group to meet their obligations in the foreseeable future of at least 12 months, also with special attention to CONSOB Warning notice no. 1/21 of 16 February 2021 and developing for this purpose alternative forecasting scenarios that reflect, in addition to the effects of possible early repayment of certain loans whose covenants have not been met at the reporting date, the effects of further possible slowdowns in business compared to expectations due to the general uncertainty related to the global pandemic emergency. At the end of this analysis, the Directors concluded that the going concern assumption adopted in the preparation of the financial statements is adequate in that there are no significant uncertainties as to the Company's ability to continue as a going concern.

The main risks and uncertainties to which the Tesmec Group is exposed are described in the specific dedicated paragraph of the Management Report. The description of how the Company and the Group manage financial risks is contained in the Financial Risk Management paragraph of these Explanatory Notes.

2.1 Adopted financial statement reporting formats

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

- in the consolidated income statement, it was decided to present a cost analysis by using a classification based on their nature;

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

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

2.2 Consolidation methods and area

The consolidated financial statements are prepared on the basis of the draft financial statements (or reporting packages) for which the respective Boards of Directors are responsible. The financial statements of subsidiaries are adjusted, where necessary, to the same accounting policies of the Parent Company. Subsidiaries are fully consolidated from the date of acquisition, i.e. from the date on which the Group acquires the control, and they are no longer consolidated on the date on which the control is transferred outside the Group.
All balances and intra-group transactions, including any unrealised gains and losses arising from relations between companies of the Tesmec Group are completely written off.
Acquisitions of subsidiaries are recorded in accordance with the purchase method that involves the allocation of costs of the business combination at fair values of assets, liabilities and contingent liabilities acquired at the date of acquisition and the entry of the results of the acquired Company from the date of acquisition until the close of the financial period.
Non-controlling interests represent the portion of the profit or loss and equity related to net assets not held by the Group and are shown in a separate item of the consolidated income statement, of the consolidated statement of comprehensive income and of the consolidated statement of financial position, separately from profit and equity attributable to the Group.
Associated companies are those in which the Group holds at least 20% of the voting rights or exercises a significant influence, but not control or joint control, on financial and operating policies. Equity investments in associates are evaluated using the equity method. Profit or loss attributable to the Group is recognised in the consolidated financial statements from the date on which the significant influence began and until the date on which it ceases.
Joint ventures are defined on the basis of IFRS 11 that defines the financial reporting standards for entities that are parties to agreements relating to jointly controlled activities (i.e., joint arrangements). The equity investments acquired or sold during the financial period are consolidated using the equity method for the period in which the joint control was exercised.

As at 31 December 2020, the consolidation area changed with respect to that as at 31 December 2019, as follows:

- on 23 April 2020, Tesmec S.p.A., subject to the favorable opinion of the Control and Risks, Sustainability and Related Party Transactions Committee of the Company, purchased from the related party MTS - Officine Meccaniche di Precisione S.p.A. 100% of the share capital of 4 Service S.r.l., a company operating in the trencher rental business also through its subsidiary 4Service USA LLC.

SUBSIDIARIES
(consolidated on a line-by-line basis, by making clear the portion of equity and of non-controlling interests)

Name	Registered office	Currency	Share capital Currency unit	Percentage held Directly	Indirectly
TESMEC USA, Inc.	Alvarado (Texas)	US Dollar	31,200,000	100.00%	-
TESMEC SA (Pty) Ltd.	Johannesburg (South Africa)	South African Rand	93,901,000	100.00%	-
Tesmec Automation S.r.l.	Grassobbio - BG – (Italy)	Euro	10,000	100.00%	-
Bertel S.r.l.	Milan (Italy)	Euro	500,000	100.00%	-

East Trenchers S.r.l.	Milan (Italy)	Euro	100,000	100.00%	-
OOO Tesmec RUS	Moscow (Russia)	Russian Rouble	450,000	100.00%	-
Tesmec New Technology Beijing Ltd.	Beijing (China)	Euro	200,000	100.00%	-
Tesmec Rail S.r.l.	Monopoli - BA - (Italy)	Euro	10,000	100.00%	-
4 Service S.r.l.	Milan (Italy)	Euro	1,000,000	100.00%	-
4 Service USA, Inc.	Alvarado (Texas)	US Dollar	500	100.00%	-
Marais Technologies SA	Durtal (France)	Euro	3,785,760	100.00%	-
Groupe Marais SA	Durtal (France)	Euro	3,700,000	-	100.00%
Marais Trenching (Pty) Ltd. AFS	Pretoria (South Africa)	South African Rand	500,000	-	80.00%
Tesmec Australia (Pty) Ltd	Sydney (Australia)	Australian Dollar	6,000,100	100.00%	-
Marais Laying Technologies (Pty) Ltd. Nouvelle Zelande	Auckland (New Zealand)	New Zealand Dollar	100	-	100.00%
Marais Cote d'Ivoire	Abidjan (Ivory Coast)	CFA Franc	6,500,000	-	100.00%
Marais Guinee SARLU	Conakry (Guinea)	GNF Franc	100,000,000	-	100.00%
MIR SA	Tunis (Tunisia)	Tunisian Dinar	300,000		100.00%

ASSOCIATED COMPANIES

(consolidated with the equity method)

Name	Registered office	Currency	Share capital Currency unit	Percentage held Directly	Indirectly
Locavert SA	Bouillargues (France)	Euro	403,735	38.63%	-
Marais Lucas Tech. (Pty) Ltd.	New South Wales (Australia)	Australian Dollar	332,400	50.00%	-
R and E contracting Ltd	Pretoria (South Africa)	South African Rand	1,000	20.00%	-

JOINT VENTURES

(consolidated with the equity method)

Name	Registered office	Currency	Share capital Currency unit	Percentage held Directly	Indirectly
Condux Tesmec Inc	Mankato (Minnesota)	US Dollar	2,500,000	50.00%	-
Tesmec Peninsula WLL	Doha (Qatar)	Qatar Riyal	7,300,000	49.00%	-

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

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

Translation of foreign currency financial statements and of foreign currency items

The consolidated financial statements are presented in Euro, which is the functional and presentation currency adopted by the Parent Company. Each company of the Group defines its functional currency, which is used to evaluate the items included in each financial statement. Foreign currency transactions are initially recognised using the exchange rate (referring to the functional currency) which is applicable on the transaction date. Monetary assets and liabilities in foreign currency are reconverted in the functional currency at the exchange rate in force at the end of the reporting period.
All exchange-rate differences are recognised in the income statement.

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

	Average exchange rate for the period ended 31 December		**End-of-period exchange rate as at 31 December**	
	2020	**2019**	**2020**	**2019**
US Dollar	1.1422	1.120	1.2271	1.123
Russian Rouble	82.7248	72.455	91.4671	69.956
South African Rand	18.7655	16.176	18.0219	15.777
Renminbi	7.8747	7.736	8.0225	7.821
Qatari Riyal	4.1576	4.075	4.4666	4.089
Algerian Dinar	144.8473	133.676	162.1071	133.892
Tunisian Dinar	3.1997	3.280	3.2943	3.139
Australian Dollar	1.6549	1.611	1.5896	1.600
New Zealand Dollar	1.7561	1.700	1.6984	1.665
CFA Franc	655.957	655.957	655.957	655.957
GNF Franc	10,935.463	10,276.301	12,249.154	10,556.054

3. Accounting standards

3.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of EC Regulation No. 1606/2002 of the European Parliament and Council of 19 July 2002 and in accordance with Article 9 of Legislative Decree No. 38/2005.
The consolidated financial statements have been prepared on a historical cost basis, taking into account of the appropriate, value adjustments, except for items that have been measured at fair value in accordance with IFRS (derivative financial instruments, financial assets represented by shares or bonds in portfolio, investment properties and contingent consideration).
The carrying amounts of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in fair value attributable to the risks that are being hedged in effective hedge relationships.
The consolidated financial statements are presented in Euro; all values are rounded to the nearest thousand, unless otherwise indicated.
The consolidated financial statements as at 31 December 2020 provide comparative information in respect of the previous period. In addition, the accounting policies adopted in these consolidated financial statements were applied in the same way also to all the periods of comparison.

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Tesmec S.p.A. and its subsidiaries as at 31 December 2020.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it current ability to direct the relevant activities of the investee);

- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns;

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

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

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

Profit or loss and each component of OCI are attributed to the shareholders of the parent company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3.3 Significant accounting policies

Business combinations and goodwill

Business combinations are recorded by using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred at fair value at the date of acquisition and the amount of any minority interest in the acquired company. For each business combination, the purchaser must consider any minority interest in the acquired company at fair value or in proportion to the share of the minority interest in the identifiable net assets of the acquired company. Acquisition costs are paid and classified among administrative expenses.

When the Group acquires a business, it must classify or designate the acquired financial assets or the liabilities assumed in accordance with the contract terms, the economic conditions and other relevant conditions existing at the date of acquisition. This includes the verification to establish whether an embedded derivative must be separated from the host contract.

Each contingent consideration must be recognised by the purchaser at fair value at the date of acquisition. The contingent consideration classified as equity is not remeasured and its subsequent payment is recorded with the shareholders' equity as a balancing entry. The fair value change in the contingent consideration classified as asset or liability, i.e. a financial instrument that is in the scope of IFRS 9 Financial instruments, must be recognised in the income statement in compliance with IFRS 9. The contingent consideration that is not within the scope of IFRS 9 is measured at fair value at the end of the reporting period and changes in fair value are recognised in the income statement.

The goodwill is initially measured at cost that arises as surplus between the sum of the paid consideration and the amount recognised for the minority shares compared to identifiable net assets acquired and liabilities undertaken by the Group. If the consideration is less than the fair value of the net assets of the acquired subsidiary, the Group checks again if it has identified correctly all the assets acquired and all the liabilities assumed and reviews the procedures used to determine the amounts to be recognised at the acquisition date. If the consideration is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognised in the income statement.

After initial recognition, goodwill is measured at cost, net of any accumulated impairment loss. For impairment loss verification, the goodwill acquired in a business combination must be allocated, from the date of acquisition, to each cash-generating unit of the Group that is expected to benefit from the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to such units.

If the goodwill has been allocated to the cash-generating unit and the entity disposes of part of the assets of such unit, the goodwill associated to the asset disposed of must be included in the book value of the asset when the profit or loss deriving from the divestment is determined. The goodwill associated with the asset disposed of must be determined on the basis of the values related to the asset disposed of and of the retained part of the cash-generating unit.

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.
Deferred tax assets and liabilities are classified under non-current assets and liabilities.

Intangible assets

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

The estimate of the useful life of intangible assets with definite lives is set below:

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

Research and Development costs

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

Rights and trademarks

The purchase costs of the rights and trademarks are amortised over a period of time during the useful life of the acquired asset, which was determined in five years.

Intangible assets with indefinite lives are not amortised but tested annually for impairment losses on an individual basis or in terms of cash-generating unit. The assessment of the indefinite life is reviewed annually to determine whether such an allocation continues to be sustainable otherwise the change from indefinite to definite life applies on a prospective basis.

An intangible asset is derecognised on disposal (i.e. when the acquirer obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net consideration of the disposal and the book value of the asset) is included in the income statement.

Property, plant and equipment

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

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

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

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

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

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

At the time of sale or when there are no future economic benefits expected from the use of an asset, it is written off from the financial statements and any loss or profit is posted to the income statement in the year of the aforesaid writing off.

Leases

The Group assesses at the time of signing an agreement whether it is, or contains, a lease. In other words, whether the contract gives the right to control the use of an identified asset for a period of time in exchange for a consideration.

Contracts with the Group as lessee

The Group adopts a single recognition and measurement model for all leases, except for short-term leases and leases of low-value assets. The Group recognises the lease liability representing its obligation to make lease payments and the right-of-use asset representing its right to use the underlying leased asset.

Rights of use

The Group recognises the right-of-use asset on the inception date of the lease (i.e. the date on which the underlying asset is available for use). The right-of-use assets are measured at cost, net of accumulated depreciation and any impairment, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of the lease liabilities recognised, the initial direct costs incurred and the lease payments made at or before the commencement date, net of any incentives received. Right-of-use assets are depreciated on a straight-line basis from the commencement date to the end of the useful life of the asset consisting of the right of use or at the end of the lease term, whichever comes first.
If the lease transfers ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the right-of-use asset reflects the fact that the lessee will exercise the purchase option, the lessee must depreciate the right-of-use asset from the commencement date until the end of the useful life of the underlying asset.
Right-of-use assets are subject to Impairment. Refer to the section Impairment of assets.

Lease liabilities

At the commencement date of the lease, the Group recognises the lease liabilities by measuring them at the present value of the lease payments not yet paid at that date. Payments due include fixed payments net of any lease incentives to be received, variable lease payments that depend on an index or rate, and amounts expected to be paid as residual value guarantees. Lease payments also include the exercise price of a purchase option if it is reasonably certain that this option will be exercised by the Group and the penalty payments for termination of the lease, if the lease term takes account of the exercise by the Group of the option to terminate the lease.
Variable lease payments that do not depend on an index or rate are recognised as costs in the period in which the event or condition that generated the payment occurs.
In calculating the present value of the payments due, the Group uses the incremental borrowing rate at the inception date if the implicit interest rate cannot be easily determined. After the commencement date, the amount of the lease liability increases to reflect interest on the lease liability and decreases reflect the lease payments made. Moreover, the book value of lease liabilities is restated in the event of any changes to the lease or for reviewing the contractual terms for the change in payments; it is also restated if there are changes in the valuation of the option to purchase the underlying asset or changes in future payments resulting from a change in the index or rate used to determine such payments.

Short-term leases and leases of low-value assets

The Group applies the exemption for the recognition of short-term leases (leases that have a duration of 12 months or less from the inception date and do not contain a purchase option). The Group has also applied the exemption for leases relating to low-value assets with reference to lease contracts for office equipment whose value is considered low. Short-term leases and leases of low-value assets are recognised as costs on a straight-line basis over the lease term.

Contracts with the Group as lessor

If the Group signs lease contracts that substantially transfer to the customers all the risks and rewards deriving from the ownership of the leased asset, the revenues concerning the transfer of the asset are recognised in the financial statements and are recorded on the inception date of the lease at the fair value of the leased asset or at the present value of the lease payments, if lower. Moreover, a borrowing that corresponds to the present value of the lease payments still due is recorded in the balance sheet. Financial income is posted directly to the income statement.
Lease contracts in which the Group substantially retains all risks and rewards related to the ownership of the asset are classified as operating leases. Lease income from operating leases must be recognised on a straight-line basis over the lease term and are included in revenues in the income statement due to their operating nature. Initial trading costs are added to the book value of the leased asset and recognised over the term of the contract on the same basis as lease income. Unplanned rents are recognised as revenue in the period in which they accrue.

Impairment of assets

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

Intangible assets with an indefinite useful life are tested for impairment at least once a year at the cash-generating unit level and whenever circumstances indicate that there may be an impairment.

Equity investments in associates and joint ventures

A joint venture is a contractual agreement whereby two or more parties undertake an economic activity subject to joint control; it exists only when the operating decisions require the unanimous consent of the parties sharing control. A jointly-controlled company is a joint venture that involves the establishment of a separate company in which each venturer has an interest and over which it shares control with the other venturers.
An associate is a company over which the Group exercises a significant influence and is not classifiable as subsidiary or joint venture.
The Group consolidates its equity investments in associates and in joint ventures with the equity method.
The application of the equity method involves the initial recognition of the equity investment at cost. Goodwill pertaining to the associated company or joint venture is included at the book value of the equity investment and is not subject to a separate impairment test. Subsequently, the book value of the equity investment is increased or decreased in order to recognise the parent company's relative portion of profits and losses of the investee realised after the acquisition date. The income statement reflects the Group's share of the investee's operating result. The result of the income statement of the joint ventures that offer an operational contribution was included in the Group's Operating Income. If an investee recognises adjustments directly posted to the shareholders' equity, the Group recognises its share and shows it in the statement of changes in shareholders' equity, if applicable. Any unrealised profit and loss deriving from transactions between the Group and the subsidiary is written off in proportion to the equity investment.
After applying the equity method, the Group determines whether it is necessary to record any additional impairment loss with reference to the net equity investment by carrying out an impairment test. In this case, the Group calculates the amount of the loss as difference between the recoverable amount of the associate or joint venture and its book value in its proper financial statements, recognising this difference in the income statement.

The financial statements of the associated company and joint venture are prepared at the same reporting date of the Group. Any lack of homogeneity in the applied accounting policies are corrected by adjustments. In case the reporting date of some associates is not in line with that of the Group, for the purposes of the Group's consolidated financial statements, the companies will prepare interim closing accounts on dates next to the end of the reporting period of the Group.

The Group holds investments in jointly controlled companies classified as joint ventures. Based on the actual operations of two distributive joint ventures (Condux Tesmec Inc. and Tesmec Peninsula WLL) starting from 2012, the result of these JVs is classified among the components of the Operating Income. Considering the type of activity carried out and the actual operating phase, the result of the other JVs held by the Group is classified among the non-operative components of income, together with the results of the associates.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. They are initially recognised at fair value and, after initial recognition, measured in relation to the classification, as required by IFRS 9.

Upon initial recognition, financial assets are classified, as the case may be:

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

The classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows of the financial assets and on the business model that the Group uses to manage them. With the exception of trade receivables that do not contain a significant loan component or for which the Group has applied a practical expedient, the Group initially values a financial asset at its fair value plus transaction costs. Trade receivables that do not contain a significant loan component or for which the Group has applied a practical expedient are valued at the transaction price as explained in the specific paragraph.
Financial assets at fair value with changes recognised in the income statement are recognised in the statement of financial position at fair value and net changes in fair value in profit or loss. This category includes derivative instruments.
Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or revalued. Financial assets at amortised cost of the Group include trade receivables.

Financial assets are derecognised from the Company's statement of financial position when:

- rights to receive cash flows from the asset are paid off; or
- the Group has transferred to a third party the right to receive cash flows from the asset or it has assumed the contractual obligation to transfer them totally and without any delays and (a) it has transferred substantially all risks and rewards related to the ownership of the financial asset, or (b) it has not substantially transferred all risks and rewards of the activity, but it has transferred the control of the same.

If the Group has not transferred or retained substantially all the risks and rewards or has not lost control over it, the asset continues to be recognised in the consolidated financial statements of the Group to the extent of its residual involvement in the asset itself. In this case, the Group also recognises an associated liability.
The Group records a write-down for expected credit loss ('ECL') for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

All financial liabilities are initially recognised at fair value, in addition to directly attributable transaction costs in case of mortgages, loans and payables. The Group's financial liabilities include trade payables and other payables, mortgages and loans, including current account overdrafts and derivative financial instruments.
For the purposes of subsequent valuation, financial liabilities are classified into two categories:

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

Financial liabilities at fair value with changes recognised in the income statement include derivative financial instruments subscribed by the Group that are not designated as hedging instruments in a hedging relationship pursuant to IFRS 9. Gains or losses on those liabilities are recognised in profit or loss.
With regard to financial liabilities at amortised cost, they are measured using the effective interest rate method. Gains or losses are recorded in the income statement when the liability is discharged, in addition to using the amortisation process. Amortisation at the effective interest rate is included in financial expenses in the income statement for the period.

A financial liability is derecognised when the obligation underlying the liability is discharged, cancelled or fulfilled. If an existing financial liability is replaced by another from the same lender, at substantially different conditions, or if the conditions of an existing liability are substantially changed, this replacement or change is treated as a derecognition of the original liability accompanied by the recognition of a new liability, with any differences between the book values recognised in the income statement.

For the management of payments with its suppliers, the Group uses some solutions of the "*supply chain finance*" and in particular it uses the instrument of reverse factoring with some financial institutions. In such cases, the financial institution extinguishes the trade payable by anticipating its payment to the supplier, and grants the Group, of which it has become a creditor, an extension of payment. The Group assesses, for each supplier, the deferral conditions obtained from financial counterparties on these liabilities and, depending on the substance of the liabilities, records them as trade payables or reclassifies them as financial payables.

Derivative financial instruments

Derivative financial instruments are used by the Group solely with the intent to hedge financial risks relating to exchange-rate changes on commercial transactions in foreign currency and interest rate risks on interest-bearing loans and borrowings. These derivative financial instruments are initially recognised at fair value at the date when the derivative contract is signed, after which these are once again valued at fair value. Derivatives are recognised as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.
If the conditions for the application of hedge accounting do not apply, the effects deriving from the fair value measurement of the derivative financial instrument are booked directly to the income statement.

In accordance with IFRS 9, hedging derivative financial instruments can be recorded according to the methods established for hedge accounting only when all of the following hedging effectiveness requirements are met:

- there is an economic relationship between the hedged item and hedging instrument;
- the effect of the credit risk does not prevail over the changes in value resulting from the economic relation;
- the hedging ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

At the end of the reporting period, the Group does not hold derivative instruments that qualify for hedge accounting.

Financial assets and other non-current assets

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

Inventories

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

Construction contracts

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

Trade receivables and other current assets

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.
Other current assets are initially recorded at fair value, which generally corresponds to the nominal value and subsequently measured at amortised cost and reduced in case of impairment losses. The Group availed itself of the possibility not to use the amortised cost criterion if this would have irrelevant effects in order to give a true and fair view.
These financial assets are subsequently measured recognising a specific allowance for expected credit losses ('ECL'). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

For trade receivables, the Group applies a simplified approach in calculating ECLs using a provision matrix that is based on its historical experience, adjusted for forward-looking factors specific to the debtors and the economic environment.
Receivables in foreign currency other than the reporting currency are recorded at the exchange rate of the date of operation and subsequently converted to the exchange rate at the end of the financial period. The profit or loss resulting from the conversion are attributed to the income statement.
If the maturity of the trade receivables and of the other current assets does not fall within the normal commercial terms and do not bear interests, a detailed discounting process is applied based on assumptions and estimates.
The Tesmec Group assigns part of its trade receivables through factoring without recourse. Receivables assigned following factoring operations can be written off from the assets of the balance sheet only if the risks and rewards related to their legal ownership were substantially transferred to the assignee.

Other receivables and other financial assets

They are recorded initially at fair value and subsequently measured according to the amortised cost.

Cash and cash equivalents

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

Loans

Loans are initially recognised at fair value of the amount received, net of any related loan acquisition costs.
After initial recognition, loans are valued using the amortised cost approach, applying the effective interest rate method. Any profit or loss is recorded in the income statement when the liability is discharged, in addition to using the amortisation process. The Group availed itself of the possibility not to use the amortised cost criterion if this would have irrelevant effects in order to give a true and fair view.

Treasury shares

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

Trade payables and other payables

Payables are measured at nominal value.
Given the granted terms of payment, when a financial operation is configured, payables measured with the amortised cost approach are submitted to the discounting back of the nominal value to be paid, recording the discount as a financial charge. The Group availed itself of the possibility not to use the amortised cost criterion if this would have irrelevant effects in order to give a true and fair view.
Payables in foreign currency are aligned with the exchange rate at the end of the financial period and profits or losses deriving from the adjustment are posted to the income statement in unrealised exchange profits/losses.

Provisions for risks and charges

Provisions for risks and charges are made when the Group must face up a current liability (legal or implicit) that is the result of a past event; an outflow of resources is likely to meet this obligation and it is possible to make a reliable estimate of its amount.

When the Group believes that a provision for risks and charges will be partially or totally reimbursed, for example in the case of risks covered by insurance policies, the compensation is recognised separately in the assets only if it is practically certain. In this case, the cost of any provision is stated in the income statement net of the amount recognised for the compensation.
If the discounting back effect of the value of money is significant, provisions are discounted back using a pre-tax discount rate that reflects, if appropriate, the specific risks of the liabilities. When discounting back is carried out, the increase in the provision due to the passage of time is recognised as a financial expense.

The Group makes provisions for product warranties in relation to the warranty contractually granted to its customers on the sold machines. These provisions are calculated on the basis of the historical incidence of costs for product warranty borne in past financial periods, of the period of validity of the granted warranties and revised annually.

Employee benefit liability

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

Government grants

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

Revenues from contracts with customers

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

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

More specifically, with reference to sales with CIF condition, control of the asset is transferred to the end customer, and therefore the revenues are recognised, when the asset is handed over at the broadside of the ship. With regard to any machine completed and not yet shipped to the customer (bill and hold) for reasons that do not depend on the Group, revenues are recognised if the following conditions established by paragraph B81 of IFRS 15 and are designed to understand the substance of the transaction at the end of the reporting period:

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

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

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

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

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

Furthermore, the Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g.: warranties). In determining the price of the sale transaction, the Group considers the effects arising from the presence of variable considerations, significant financing components, non-monetary considerations and considerations to be paid to the customer (if any).

Tesmec Group provides after-sales services concerning the machines sold and these standard warranties on quality are accounted for under IAS 37 “Provisions, contingent liabilities and contingent assets”. If these services are requested after the expiry of the warranty period, the service is contractually regulated by agreements with the counterparty. Revenues are recognised based on the time and components used by the technicians during repair operations.
Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

The recognition in the accounts of certain contractual agreements with customers envisages the recognition of revenue based on the progress of the activity, the determination of which is based on estimates of the costs incurred and at completion.

Costs

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

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

Financial income and expenses

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

Fair Value Measurement

Fair value is defined as the price receivable for the sale of an asset or payable to transfer a liability in a normal transaction between market participants at the valuation date. All assets and liabilities measured or recognised at fair value are classified based on a fair value hierarchy and described hereunder:

- Level 1 - quoted prices (not adjusted) in active markets for identical assets or liabilities the entity of which is identifiable at the measurement date;
- Level 2 - input data other than quoted prices included in Level 1 which can be observed, either directly or indirectly for the asset or liability to be measured;
- Level 3 - the valuation techniques for which input data cannot be observed for the asset or liability to be measured.

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

Dividends

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

Income tax

Current taxation

Taxes reflect an estimate of the tax burden, determined by applying the laws and regulations in force in the Countries where the Tesmec Group carries on its activity and are valued at the amount expected to be recovered or paid to the tax authorities. Current tax liabilities are calculated by using the rates in force or substantially approved at the end of the reporting period. Current tax liabilities are recorded in the current liabilities net of any paid tax advances.

Taxable income for tax purposes differs from the pre-tax profit or loss indicated in the income statement, because it excludes positive and negative components that will be taxable or deductible in other financial periods and excludes items that will never be taxable or deductible.

Deferred taxes

Deferred taxes are calculated by applying the "liability method", on the temporary differences resulting at the end of the reporting period among the tax values used as a reference for assets and liabilities and their values indicated in the financial statements.
Deferred tax liabilities are recognised on all taxable temporary differences.
Deferred tax assets are recognised for all the temporary deductible differences and for retained tax assets and liabilities, insofar as the existence of appropriate future tax profits that can apply the use of the temporary deductible differences and of the retained tax assets and liabilities is likely.
The value to be stated in the financial statements for deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient income for tax purposes will be available in the future for this tax credit to be used totally or partially. Deferred tax assets not recognised are reviewed every year at the end of the reporting period and are recognised to the extent that the pre-tax profit is probably sufficient to allow the recovery of these deferred tax assets.

Deferred tax assets and liabilities are measured based on tax rates that are expected to be applied to the financial period in which such assets are sold or such liabilities are discharged, considering the rates in force and those already issued or substantially issued at the end of the reporting period.
Deferred tax assets and liabilities are recognised directly in the income statement, with the exception of those relating to items recognised directly in equity, in which case the related deferred taxes are also accounted for consistently without booking to the income statement.
Deferred tax assets and liabilities are offset, if there is a legal right to offset current tax assets against current tax liabilities, and the deferred taxes refer to the same tax entity and to the same tax authority.
Assets for deferred tax assets and liabilities for deferred tax liabilities are classified as non-current assets and liabilities.

Indirect taxes

Revenues, costs, assets and liabilities are recognised net of indirect taxes (such as value added tax) with the exception of the case in which:

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

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

Earnings per share

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

3.4 Changes and new principles and interpretations

The following accounting standards, amendments and IFRS interpretations were applied by the Group for the first time on 1 January 2020:

- 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 adoption of this amendment did not have any effect on the Group's consolidated financial statements.

- On 29 March 2018, the IASB published an amendment to the ***"References to the Conceptual Framework in IFRS Standards"***. The amendment takes effect for financial periods starting 1 January 2020 or later; early application is permitted. The Conceptual Framework defines the fundamental concepts for financial reporting and guides the Board in the development of IFRS standards. The document helps to ensure that the Standards are conceptually consistent and that similar transactions are treated in the same way to provide useful information to investors, lenders and other creditors. The Conceptual Framework supports companies in developing accounting standards when no IFRS standard is applicable to a particular transaction and, more generally, helps stakeholders to understand and interpret the Standards.
  The adoption of this amendment did not have any effect on the Group's consolidated financial statements.

- On 26 September 2019, the IASB published the amendment called ***"Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform"***. It amends IFRS 9 - Financial Instruments and IAS 39 - Financial Instruments: Recognition and Measurement as well as IFRS 7 - Financial Instruments: Disclosures. In particular, the amendment changes some of the requirements for the application of hedge accounting by envisaging temporary derogations from them in order to mitigate the impact of the uncertainty of the IBOR reform on future cash flows in the period prior to its completion. The amendment also requires companies to provide additional information in their financial statements on their hedging relationships that are directly affected by the uncertainties generated by the reform and to which the above derogations apply. The adoption of this amendment did not have any effect on the Group's consolidated financial statements.

- On 22 October 2018, the IASB published 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 an output. 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 makes it possible to exclude the presence of a business if the price paid is substantially attributable to a single asset or group of assets. The amendments are effective for business combinations and acquisitions of assets beginning on or after 1 January 2020, but earlier application is permitted. The adoption of this amendment did not have any effect on the Group's consolidated financial statements.

- On 28 May 2020, the IASB published an amendment called "***COVID-19 Related Rent Concessions (Amendment to IFRS 16)***". The document provides lessees the right to recognise COVID-19 related rent reductions without having to assess, through contract analysis, whether the definition of lease modification in IFRS 16 is complied with. Therefore, lessees applying this option may recognise the effects of rent reductions directly in profit or loss at the effective date of the reduction. This amendment applies to financial statements starting on 1 June 2020. The adoption of this amendment did not have any effect on the Group's consolidated financial statements.

Accounting standards, amendments and IFRS and IFRIC interpretations approved by the European Union, not yet mandatorily applicable and not early adopted by the group as at 31 December 2020

- On 28 May 2020, the IASB published an amendment called "***Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)***". The amendments allow the temporary exemption from the application of IFRS 9 to be extended until 1 January 2023 for insurance companies. These amendments are effective beginning on 1 January 2021. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of this amendment.

- On 27 August 2020, the IASB published, in the light of the interbank interest rate reform such as IBOR, the document "Interest Rate Benchmark Reform — Phase 2" which contains amendments to the following standards:
  - IFRS 9 Financial Instruments;
  - IAS 39 Financial Instruments: Recognition and Measurement;
  - IFRS 7 Financial Instruments: Disclosures;
  - IFRS 4 Insurance Contracts; and
  - IFRS 16 Leases.

  All amendments are effective beginning on 1 January 2021. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of this amendment.

Accounting standards, amendments and IFRS interpretations not yet approved by the European Union
At the date of this document, 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 standard-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 2023 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 consolidated financial statements through the adoption of this standard.

- On 23 January 2020, the IASB published an amendment called "Amendments to IAS 1 Presentation of **Financial Statements: Classification of Liabilities as Current or Non-current"**. The purpose of the document is to clarify how to classify payables and other short or long-term liabilities. The amendments are effective beginning on 1 January 2023; in any case, early application is permitted. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of this amendment.

- On 14 May 2020, the IASB published the following amendments called:
  - ***Amendments to IFRS 3 Business Combinations***: the purpose of the amendments is to update the reference in IFRS 3 to the revised Conceptual Framework without this entailing changes to the provisions of IFRS 3.
  - ***Amendments to IAS 16 Property, Plant and Equipment***: the purpose of the amendments is not to allow the amount received from the sale of goods produced during the testing phase of the asset to be deducted from the cost of property, plant and equipment. Therefore, these sales revenues and the related costs will be recognised in the income statement.
  - ***Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets***: the amendment clarifies that all costs directly attributable to the contract must be considered in the estimate of the possible cost of a contract. Accordingly, the assessment of the possible cost of a contract includes not only incremental costs (such as, for example, the cost of direct material used in processing), but also all costs that the company cannot avoid in that it has entered into the contract (such as, for example, the portion of personnel costs and depreciation of machinery used for the performance of the contract).
  - ***Annual Improvements 2018-2020***: the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and to Illustrative Examples of IFRS 16 Leases.

- All amendments are effective beginning on 1 January 2022. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of these amendments.

- On 30 January 2014, the IASB published **IFRS 14 - Regulatory Deferral Accounts**, which allows only those who adopt IFRS for the first time to continue to recognise amounts relating to Rate Regulation Activities in accordance with the previously adopted accounting standards. Since the Group is not a first-time adopter, this standard is not applicable.

3.5 Discretionary evaluations and significant accounting estimates

The preparation of financial statements and interim reports in accordance with generally accepted accounting standards requires management to make accounting estimates based on complex or subjective judgements, past experience and assumptions deemed reasonable and realistic based on the information available at the time. The use of these accounting estimates affects the book value of contingent assets and liabilities at the end of the reporting period as well as the amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based.
Summarised below are those accounting estimates used in the preparation of financial statements and interim reports that are considered critical because they require management to make a large number of subjective judgements, assumptions and estimates regarding matters that are inherently uncertain. The Group based its estimates and assumptions on parameters available at the time of preparation of the consolidated financial statements. Changes in the conditions underlying such judgements, assumptions and estimates may have a significant effect on future results.

Deferred tax assets

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

Employee benefits

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

Development costs

Development costs are capitalised on the basis of IAS 38. The initial capitalisation of costs is based on the fact that the directors' opinion on the technical feasibility and economic viability of the project is confirmed, so as to allow the recoverability of the capitalised costs. The directors must make assumptions on future cash flows expected from projects, discount rates to be applied and the periods during which the expected benefits reveal themselves in order to determine the values to be capitalised.

Impairment of non-current assets

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

Reverse factoring

With regard to reverse factoring, the Group assesses, for each supplier, the deferral conditions obtained from financial counterparties on these liabilities and, depending on the substance of the liabilities, records them as trade payables or reclassifies them as financial payables. This assessment is required to understand the substance of the deferral agreements and necessarily involves a subjective assessment of the elements to be considered for the purposes of whether or not the corresponding payable is included in the Group's financial liabilities.

Revenues

The recognition in the accounts of certain contractual agreements with customers envisages the recognition of revenue based on the progress of the activity, the determination of which is based on estimates of the costs incurred and at completion. These estimates involve a technical recognition process of the order that involves subjective assessments of its completion.
Likewise, with reference to the typical cases for the Tesmec Group in which there are machines completed and not yet shipped to the customer (bill and hold) for reasons that do not depend on the Group, revenues are recognised if the following provisions of IFRS 15 are met, including those mentioned above, designed to understand the substance of the transaction at the end of the reporting period. The determination of these aspects necessarily involves a subjective assessment of the elements to be considered and their scope in relation to the transaction in question.

Lease – Estimate of the incremental borrowing rate

The Group may not easily determine the interest rate implicit in the lease and therefore uses the incremental borrowing rate to measure the lease liability. The incremental borrowing rate is the interest rate that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Therefore, the incremental borrowing rate reflects what the group should have paid, and this requires an estimate to be made when no observable data exist or when rates need to be adjusted to reflect the terms and conditions of the lease.

Moreover, estimates are used for recognising the ECLs for trade receivables, provisions for product warranties, for risks and charges, for inventory obsolescence, amortisation, depreciation and write-downs of assets, as well as the fair value of financial instruments.

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

Lastly, in applying the Group's accounting standards, the directors made decisions based on certain discretionary evaluations (excluding those involving estimates).

Lease term of contracts containing an extension option (Group as lessee)

The Group determines the lease term as the non-cancellable period of the lease plus the periods covered by the option to extend the lease if there is reasonable certainty of exercising this option and the periods covered by the termination option, if there is reasonable certainty of not exercising this option. The Group has the option, for some of its leases, to extend the lease or terminate it early. The Group applies its own judgement in assessing whether there is reasonable certainty of exercising the renewal options and considers all the factors recognised that may give rise to an economic incentive to exercise the renewal options or to conclude the agreement. After the commencement date, the Group reviews its estimates of the lease term if a significant event or significant change occurs in circumstances under its control that may affect the ability to exercise (or not exercise) the renewal or early termination option.

4. Financial risk management policy

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

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

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

Management of the exchange-rate risk

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

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

As at 31 December 2020, there were seven positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 16.63 million, with a negative equivalent value of Euro 170 thousand.

As at 31 December 2019, there were seven positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 7.65 million, with a negative equivalent value of Euro 8 thousand.

The short-term portion of interest bearing financial payables (current portion), which is mainly used to finance working capital requirements, is not subject to interest-rate risk hedging.

The cost of bank borrowings is benchmarked to the Euribor/Libor rate plus a spread that depends on the type of credit line used and is the same by type of line. The applied margins can be compared to the best market standards. The interest rate risk to which the Group is exposed is mainly originated from existing financial payables.

The main sources of exposure of the Group to the interest-rate risk refer to existing interest bearing medium/long-term financial payables (current portion) and interest bearing short-term financial payables and to the existing derivative instruments. In particular, the potential impacts on the Income Statement of the 2020 financial period (compared to 2019) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 2019 financial period.
- potential change in fair value of existing derivative instruments.

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

The Group estimated the potential impacts on the Income Statement and on Shareholders' Equity of the 2020 financial period (compared to 2019) produced by a simulation of the change in the term structure of the interest rates, by using internal measurement models, based on the general acceptance approach. In particular:

- for loans, these impacts were estimated by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates, applied only to the cash flows to be settled during the 2020 financial period (compared to 2019).
- for derivative instruments, by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates.

With reference to the situation as at 31 December 2020, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2021 financial period of Euro 93 thousand, offset by an increase of Euro 2 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 28 thousand, offset by a decrease of Euro thousand in the collected spread for the existing derivatives.

With reference to the situation as at 31 December 2019, a parallel shift of the term structure of interest rates equal to +100 basis points (+ 1%) would result in an increase in financial expenses accrued in the 2020 financial period of Euro 70 thousand, offset by an increase of Euro 1 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 21 thousand, offset by a decrease of Euro 1 thousand in the collected spread for the existing derivatives.

	Interests					
	31 December 2020			31 December 2019		
(Euro in thousands)	**Residual debt (*)**	**Impact on IS +100 bps**	**Impact on IS -30 bps**	**Residual debt (*)**	**Impact on IS +100 bps**	**Impact on IS -30 bps**
Borrowings/Bond issue	189,141	(93)	28	148,698	(70)	21
Total Loans	**189,141 ***	**(93)**	**28**	**148,698 ***	**(70)**	**21**
(Euro in thousands)	**Notional**	**Impact on IS +100 bps**	**Impact on IS -30 bps**	**Notional**	**Impact on IS +100 bps**	**Impact on IS -30 bps**
Derivative instruments hedging cash flows	16,630	2	(1)	7,649	1	(1)
Total Derivative instruments	**16,630**	**2**	**(1)**	**7,649**	**1**	**(1)**
Total		**(91)**	**27**		**(69)**	**20**

* The residual debt is considered before amortised costs

(Euro in thousands)	Fair value sensitivity of derivatives									
	Financial period ended 31 December 2020									
(Euro in thousands)	**Notional value**	**Net FV**	**Net FV + 30 bps**	**Net FV + 100 bps**	**Impact on IS +100 bps**	**Impact on SE +100 bps**	**Net FV -30 bps**	**Net FV -100 bps**	**Impact on IS -30 bps**	**Impact on SE -30 bps**
Derivative instruments hedging cash flows	16,630	(170)	221	340	340	-	(221)	(340)	(221)	-
Total	**16,630**	**(170)**	**221**	**340**	**340**	**-**	**(221)**	**(340)**	**(221)**	**-**
	Financial period ended 31 December 2019									
(Euro in thousands)	**Notional value**	**Net FV**	**Net FV + 100 bps**	**Net FV + 100 bps**	**Impact on IS +100 bps**	**Impact on SE +100 bps**	**Net FV - 30 bps**	**Net FV -30 bps**	**Impact on IS - 30 bps**	**Impact on SE - 30 bps**
Derivative instruments hedging cash flows	7,694	(8)	9	14	14	-	(9)	(14)	(9)	-
Total	**7,694**	**(8)**	**9**	**14**	**14**	**-**	**(9)**	**(14)**	**(9)**	**-**

With reference to the situation as at 31 December 2020, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 340 thousand, with an impact on the Income Statement of the 2021 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 221 thousand, with an impact only on the Income Statement of the 2021 financial period.

With reference to the situation as at 31 December 2019, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 14 thousand, with an impact on the Income Statement of the 2020 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 9 thousand, with an impact only on the Income Statement of the 2020 financial period.

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

Management of liquidity risk

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

The stratification of existing liabilities with reference to 2020 and to 2019 financial periods, with regard to financial instruments, by residual maturity, is set out below.

Maturity	31 December 2020						
	Financial payables		Bonds		Trade payables	Financial instruments	Total
	Capital*	Interests	Capital*	Interests			
(Euro in thousands)	a	b	c	d	e	f	g=a+b+c+d+e+f
Within 12 months	73,845	2,506	17,500	1,376	61,385	1	**156,613**
Between one and two years	19,098	1,906	2,500	1,286	-	-	**24,791**
Between two and three years	23,783	1,341	2,500	267	-	-	**27,891**
Between three and five years	35,719	1,588	1,250	178	-	-	**38,735**
Between five and seven years	12,919	276	-	-	-	169	**13,364**
After more than 7 years	26	1	-	-	-	-	**28**
Total	**165,391 ***	**7,619**	**23,750 ***	**3,107**	**61,385**	**170**	**261,422**

* The residual debt is considered before amortised costs

Maturity	31 December 2019						
	Financial payables		Bonds		Trade payables	Financial instruments	Total
	Capital*	Interests	Capital*	Interests			
(Euro in thousands)	a	b	c	d	e	f	g=a+b+c+d+e+f
Within 12 months	84,037	1,443	1,250	1,376	57,514	6	**145,626**
Between one and two years	10,588	1,063	17,500	1,286	-	6	**30,443**
Between two and three years	8,192	797	2,500	267	-	-	**11,756**
Between three and five years	11,403	895	3,750	178	-	(4)	**16,226**
Between five and seven years	7,296	296	-	-	-	-	**7,592**
After more than 7 years	2,182	9	-	-	-	-	**2,191**
Total	**123,698 ***	**4,503**	**25,000 ***	**3,107**	**57,514**	**8**	**213,830**

* The residual debt is considered before amortised costs

The estimate of expected future expenses implicit in loans and of expected future differentials implicit in derivative instruments was determined on the basis of the term structure of interest rates in Euro existing at the reporting dates (31 December 2020 and 31 December 2019).

Management of the exchange-rate risk

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

The potential impacts on the Income Statement of the 2020 financial period (compared to 2019) referable to the exchange-rate risk are determined by the revaluation/write-down of asset and liability items in foreign currency.

The Group estimated the potential impacts on the Income Statement of the 2020 financial period (compared to 2019 calculated) produced by a shock of the exchange-rate market, by using internal measurement models, based on the general acceptance approach.

	2020 Exposure in foreign currency (USD)			2020 Sensitivity	
Exposure with regard to equity items	**Assets (USD/000)**	**Liabilities (USD/000)**	**Net (USD/000)**	**Income statement EUR/USD exchange rate +5% (EUR/000)**	**Income statement EUR/USD exchange rate -5% (EUR/000)**
Trade receivables	7,795		7,795	(318)	318
Financial receivables	17,763		17,763	(724)	724
Trade payables		(461)	(461)	19	(19)
Total gross exposure with regard to equity items	**25,558**	**(461)**	**25,097**	**(1,023)**	**1,023**
Derivative instruments	-	-	-	-	-

	2019 Exposure in foreign currency (USD)			2019 Sensitivity	
Exposure with regard to equity items	**Assets (USD/000)**	**Liabilities (USD/000)**	**Net (USD/000)**	**Income statement EUR/USD exchange rate +5% (EUR/000)**	**Income statement EUR/USD exchange rate -5% (EUR/000)**
Trade receivables	13,660	-	13,660	(608)	608
Financial receivables	10,962	-	10,962	(488)	488
Trade payables	-	(293)	(293)	13	(13)
Total gross exposure with regard to equity items	**24,622**	**(293)**	**13,998**	**(1,083)**	**1,083**
Derivative instruments	-	-	-	-	-

	2020 Exposure in foreign currency (ZAR)			2020 Sensitivity	
Exposure with regard to equity items	**Assets (ZAR/000)**	**Liabilities (ZAR/000)**	**Net (ZAR/000)**	**Income statement EUR/ZAR exchange rate +5% (EUR/000)**	**Income statement EUR/ZAR exchange rate -5% (EUR/000)**
Trade receivables	13,759	-	13,759	(38)	38
Financial receivables	6,994	-	6,994	(19)	19
Trade payables	-	(104)	(104)	-	-
Total gross exposure with regard to equity items	**20,753**	**(104)**	**20,649**	**(57)**	**57**
Derivative instruments	-	-	-	-	-

	2019 Exposure in foreign currency (ZAR)			2019 Sensitivity	
Exposure with regard to equity items	**Assets (ZAR/000)**	**Liabilities (ZAR/000)**	**Net (ZAR/000)**	**Income statement EUR/ZAR exchange rate +5% (EUR/000)**	**Income statement EUR/ZAR exchange rate -5% (EUR/000)**
Trade receivables	8,954	-	8,954	(28)	28
Financial receivables	7,172	-	7,172	(23)	23
Trade payables					
Total gross exposure with regard to equity items	**16,126**	**-**	**16,126**	**(51)**	**51**
Derivative instruments	-	-	-	-	-

	2020 Exposure in foreign currency (AUD)			2020 Sensitivity	
Exposure with regard to equity items	**Assets (AUD/000)**	**Liabilities (AUD/000)**	**Net (AUD/000)**	**Income statement EUR/AUD exchange rate +5% (EUR/000)**	**Income statement EUR/AUD exchange rate -5% (EUR/000)**
Trade receivables	49	-	49	(2)	2
Financial receivables	19,589	-	19,589	(616)	616
Trade payables	-	-	-	-	-

Total gross exposure with regard to equity items	**19,638**	**-**	**19,638**	**(618)**	**618**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2019 Exposure in foreign currency (AUD)			2019 Sensitivity	
	Assets (AUD/000)	Liabilities (AUD/000)	Net (AUD/000)	Income statement EUR/AUD exchange rate +5% (EUR/000)	Income statement EUR/AUD exchange rate -5% (EUR/000)
Trade receivables	4,545	-	4,545	(142)	142
Financial receivables	14,022	-	14,022	(438)	438
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	**18,567**	**-**	**18,567**	**(580)**	**580**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2020 Exposure in foreign currency (CNY)			2020 Sensitivity	
	Assets (CNY/000)	Liabilities (CNY/000)	Net (CNY/000)	Income statement EUR/CNY exchange rate +5% (EUR/000)	Income statement EUR/CNY exchange rate -5% (EUR/000)
Trade receivables	8,843	-	8,843	(55)	55
Financial receivables	7,307	-	7,307	(46)	46
Trade payables	-	(882)	(882)	5	(5)
Total gross exposure with regard to equity items	**16,150**	**(882)**	**15,268**	**(96)**	**96**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2019 Exposure in foreign currency (CNY)			2019 Sensitivity	
	Assets (CNY/000)	Liabilities (CNY/000)	Net (CNY/000)	Income statement EUR/CNY exchange rate +5% (EUR/000)	Income statement EUR/CNY exchange rate -5% (EUR/000)
Trade receivables	7,497	-	7,497	(48)	48
Financial receivables	7,258	-	7,258	(46)	46
Trade payables	-	(517)	(517)	3	(3)
Total gross exposure with regard to equity items	**14,755**	**(517)**	**14,238**	**(91)**	**91**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2020 Exposure in foreign currency (RUB)			2020 Sensitivity	
	Assets (RUB/000)	Liabilities (RUB/000)	Net (CNY/000)	Income statement EUR/RUB exchange rate +5% (EUR/000)	Income statement EUR/RUB exchange rate -5% (EUR/000)
Trade receivables	164	-	164	-	-
Financial receivables	50,000	-	50,000	(27)	27
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	**50,164**	**-**	**50,164**	**(27)**	**27**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2019 Exposure in foreign currency (RUB)			2019 Sensitivity	
	Assets (RUB/000)	Liabilities (RUB/000)	Net (CNY/000)	Income statement EUR/RUB exchange rate +5% (EUR/000)	Income statement EUR/RUB exchange rate -5% (EUR/000)
Trade receivables	945	-	945	(1)	1
Financial receivables	50,000	-	50,000	(36)	36
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	**50,945**	**-**	**50,945**	**(37)**	**37**
Derivative instruments	-	-	-	-	-

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

Disclosures: categories of financial assets and liabilities according to IFRS 7

The following tables show the book values for each class of financial assets and liabilities identified by IFRS 9.

The value expressed in the financial statements of derivative financial instruments, whether assets or liabilities, corresponds to their fair value, as explained in these Notes.

The value expressed in the financial statements of cash and cash equivalents, financial receivables and trade receivables, suitably adjusted for impairment in accordance with IFRS 9, approximates the estimated realisable value and therefore the fair value.

All financial liabilities, including fixed-rate financial payables, are recorded in the financial statements at a value that approximates their fair value.

	31 December	
(Euro in thousands)	2020	2019
NON-CURRENT ASSETS:		
Receivables and other financial assets	5,196	2,745
Derivative financial instruments	1	4
Non-current trade receivables	1,302	516
CURRENT ASSETS:		
Trade receivables	60,415	67,929
Other available-for-sale securities	1	2
Financial receivables	13,776	12,081
Cash and cash equivalents	70,426	17,935

	31 December	
(Euro in thousands)	2020	2019
NON-CURRENT LIABILITIES:		
Financial payables	74,336	23,972
Bond issue non-current	6,194	24,765
Non-current financial liabilities and rights of use	16,855	15,407
Derivative financial instruments	170	6
CURRENT LIABILITIES:		
Interest-bearing financial payables (current portion)	68,362	79,764
Bond issue current	17,437	-
Current financial liabilities and rights of use	5,218	4,135
Derivative financial instruments	1	6

Trade payables	61,385	57,514
Advances from customers	3,185	3,641

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

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

(Euro in thousands)	**Loans and receivables/payables at amortised cost**	**Cash and cash equivalents**	**Fair value recognised in the income statement**
Financial assets:			
Financial receivables	5,196	-	-
Derivative financial instruments	-	-	1
Non-current trade receivables	1,302	-	-
Total non-current	**6,498**	**-**	**1**
Trade receivables	58,825	-	-
Trade receivables from related parties	1,590	-	-
Other available-for-sale securities	1	-	-
Financial receivables from third parties	10,085	-	-
Financial receivables from related parties	3,691	-	-
Cash and cash equivalents	-	70,426	-
Total current	**74,192**	**70,426**	**-**
Total	**80,690**	**70,426**	**1**
Financial liabilities:			
Medium/long-term loans	74,336	-	-
Bond issue non-current	6,194	-	-
Non-current financial liabilities from rights of use	16,855	-	-
Derivative financial instruments	-	-	170
Total non-current	**97,385**	**-**	**170**
Interest-bearing financial payables (current portion)	65,574	-	-
Financial payables to related parties	2,788	-	-
Bond issue current	17,437	-	-
Current financial liabilities from rights of use	5,218	-	-
Derivative financial instruments	-	-	1
Trade payables	59,920	-	-
Trade payables due to related parties	1,465	-	-
Advances from customers	3,185	-	-
Total current	**155,587**	**-**	**1**
Total	**252,972**	**-**	**171**

Disclosures: hierarchy levels of fair value measurement

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

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

The following table shows the assets and liabilities that are measured at fair value as at 31 December 2020, divided into the three levels defined above:

(Euro in thousands)	**Book value as at 31 December 2020**	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Derivative financial instruments	1	-	1	-
Total non-current	**1**	**-**	**1**	**-**
Other available-for-sale securities	1	-	-	1
Total current	**1**	**-**	**-**	**1**
Total	**2**	**-**	**1**	**1**
Financial liabilities:				
Derivative financial instruments	170	-	170	-
Total non-current	**170**	**-**	**170**	**-**
Derivative financial instruments	1	-	1	-
Total current	**1**	**-**	**1**	**-**
Total	**171**	**-**	**171**	**-**

5. Impairment Test

As already highlighted during the year when preparing the Interim condensed consolidated financial statements as at 30 June 2020, in this context of uncertainty caused by the COVID-19 pandemic, this circumstance is deemed to represent a "trigger event" that requires impairment testing to be conducted on non-current assets, also taking into account the preparation of a 2021-2023 Business Plan examined by the Board of Directors on 20 December 2020, as well as the recognition of Goodwill in the financial statements, albeit on a provisional basis and of an insignificant amount. Therefore, in consideration of these aspects, a process estimating possible impairment losses of non-current assets was carried out, as illustrated below.

In accordance with the requirements of IAS 36, the book value of non-current assets was tested for impairment, a process that was specifically approved by the Board of Directors on 12 March 2021.
According to IAS 36, the recoverable amount is the higher between the market value (fair value) and the value in use.

Fair value is the income obtainable from the sale in an arm's length transaction between knowledgeable, willing parties, net of directly attributable expenses. Depending on the circumstances, this value is determined on the basis of the agreed price if there is a binding sale agreement established in an uncontrolled transaction (net of disposal costs) or the market price, less selling costs, if the asset is traded in an active market. Conversely, value in use is the discounting back of expected cash flows by applying an appropriate rate (equal to the weighted average cost of capital). The impairment loss resulting from the impairment test is measured by the excess of the carrying amount of the asset over its recoverable amount.

The operating cash flows used for the purpose of impairment testing derive from the plans of the single Cash Generating Units drawn up by the Management based on the 2021 Budget approved by the Board of Directors on 20 December 2020 and the 2021-2023 Business Plan examined during the same meeting of the Board of Directors and prepared in accordance with the guidelines approved by the Board of Directors on 3 September 2020. The estimate of those cash flows includes assumptions of the Directors consistent with the strategy of the Tesmec Group in the individual businesses and markets in which it operates and also depends on external variables not subject to the management's control, such as exchange rate and interest rate trends, infrastructure investments in the countries where the group operates, macro political or social factors of local or global impact. These external factors, in line with IAS 36, were estimated on the basis of the elements known at the date of preparation and examination of the business plans and, in the current context of uncertainty related to the pandemic, incorporate the expectations of a gradual economic recovery that, although subject to the risk of further slowdowns due to further possible restrictive measures on travel and certain economic activities, is not affected with reference to the medium/long-term prospects. In fact, Tesmec's operating sectors will benefit from new investments and development policies aimed at strengthening the key infrastructures of the main countries and the Group's business is concentrated in strategic sectors that are extremely lively and have significant growth prospects. For a more complete analysis of the main risks and uncertainties to which Tesmec Group is exposed, please refer to paragraph 8. of the report on operations.

Based on these operating cash flows, the value in use of the Cash Generating Unit was estimated using the Discounted Cash Flow (DCF) method, i.e. the discounting back of future operating cash flows until the end of its useful life. The net operating cash flows estimated for this purpose were derived from the above mentioned plans according to the generally used "unlevered" approach, according to which flows are calculated regardless of the financial structure of the company.

The Weighted Average Cost of Capital (WACC) used for discounting operating cash flows for the explicit period and for calculating the terminal value was determined differently depending on the Country of reference, as detailed in the table below:

	WACC 31 December 2020
Marais Technologies SA	7.50%
Tesmec USA, Inc.	8.90%
Tesmec Automation S.r.l.	8.90%
Tesmec SA (Pty) Ltd.	15.50%
Tesmec Rail S.r.l.	6.20%
OOO Tesmec RUS	14.40%
Tesmec New Technology (Beijing) LTD	10.20%
Tesmec Australia Ltd.	9.00%
4 Service Srl	8.9%

For the estimate of cash flows beyond the explicit forecast period, the terminal value was determined on the basis of a g growth rate of 1%.

The impairment test did not reveal any impairment losses.

6. Other information

Information pursuant to Italian Law 124/2017

Italian Law no. 124 of 4 August 2017 introduced, starting with the 2018 financial statements, certain transparency requirements of persons who receive "subsidies, contributions, paid assignments and, in any case, economic advantages of any kind" from public administrations and from a series of similar subjects with whom they have economic relations.

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

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

During the financial period, the Group did not receive grants falling within the category of donations and ad hoc public aid, i.e. not granted under a general scheme.

For amounts recognised during the previous financial period, refer to the National State Aid Register.

Non-current assets

7. Intangible assets

The breakdown of *Intangible assets* as at 31 December 2020 and as at 31 December 2019 is reported in the table below:

	31 December					
	2020			2019		
(Euro in thousands)	Historical cost	Accum. amort.	Net value	Historical cost	Accum. amort.	Net value
Development costs	66,183	(49,404)	16,779	62,437	(45,867)	16,570
Rights and trademarks	9,680	(8,065)	1,615	9,985	(7,538)	2,447
Other intangible assets	55	(36)	19	55	(31)	24
Goodwill	129	-	129	-	-	-
Assets in progress and advance payments to suppliers	3,945	-	3,945	1,378	-	1,378
Total intangible assets	**79,992**	**(57,505)**	**22,487**	**73,855**	**(53,436)**	**20,419**

The following table shows the changes in intangible assets for the period ended as at 31 December 2020:

(Euro in thousands)	1 January 2020	Increases due to purchases	Reclassifica tions	Change in the consolidation area	Decreases	Amortisation	Exchange rate difference s	31 December 2020
Development costs	16,570	7,292	748	-	-	(7,696)	(135)	16,779
Rights and trademarks	2,447	97	-	-	(5)	(924)	-	1,615
Other intangible assets	24	-	-	-	-	(5)	-	19
Goodwill	-	-	-	129	-	-	-	129
Assets in progress and advance payments to suppliers	1,378	3,315	(748)	-	-	-	-	3,945
Total intangible assets	**20,419**	**10,704**	**-**	**129**	**(5)**	**(8,625)**	**(135)**	**22,487**

As at 31 December 2020, intangible assets net of amortisation totalled Euro 22,487 thousand, up Euro 2,068 thousand due to the following effects:

- development costs, which increased by Euro 7,292 thousand, and amortisation for the period of Euro 7,696 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 based on the requirements described in more detail in the section relating to the accounting principles applied;
- goodwill for Euro 129 thousand, related to the acquisition of the company 4 Service S.r.l. Based on the reference accounting standards, acquisitions fall under the larger context of business combinations and the area of application of IFRS 3 "Business Combinations". It must also be noted that the transaction in question is a specific type of business combination that involves businesses under common control, both before and after the combination, i.e. *a business combination in which all of the combining entities or business are ultimately controlled by the same party or parties both before and after the business combination and that control is not transitory*. Those types of combinations are excluded from the scope of application of IFRS 3. As a result, lacking specific references to IFRS standards or interpretations, the generally accepted principles should be applied. In particular, it is reasonable to consider that the selection of the most appropriate accounting standard to apply should be carried out based on the provisions of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Pursuant to that accounting standard, the fair value criterion was identified for recognition of the net assets transferred at the time of the transaction, deeming that such criterion reflects the economic substance of the transaction. In that sense, the economic substance consists of generating value added for the interested parties, which takes the form of significant increases in cash flows following the transaction as compared to the scenario before the transaction, which are made possible by the achievement of synergies between the Tesmec Group and 4 Service. Therefore, the choice of the recognition criterion privileged recognising the net assets transferred at the

time of the transaction at fair value, in accordance with the acquisition method set out in IFRS 3. The recognition of the transaction is provisional as the process of determining the fair value of the net assets acquired has not been completed. This should be finalised within 12 months from the acquisition date, as permitted by IFRS 3. Therefore, for the purposes of preparing the 2020 financial report, the higher value of the net assets transferred was allocated to property, plant and equipment for the part already recorded under this item in the financial statements of 4 Service (Euro 2.8 million) and, for the remaining portion, it determined the provisional recognition of Goodwill for Euro 129 thousand; any adjustments deriving from the completion of the purchase price allocation will be included in the consolidated financial statements of the Tesmec Group as soon as that process is completed and, in any event, no later than the deadline set out in IFRS 3. That approach descrbed above is confirmed by the considerations set out in Assirevi preliminary guideline ("OPI") no. 1, which comments on the "Accounting treatment of business combinations under common control in separate and consolidated financial statements". The breakdown of acquired assets and liabilities of 4 Service S.r.l., including the consolidation of the US subsidiary 4 Service USA, Inc. (as a whole considered as the "4 Service Group") at their book value and their restated value, is shown in paragraph *4.1 Effects of the acquisition of the company 4 Service S.r.l.* of the report on operations;

- assets in progress and advance payments to suppliers of Euro 3,315 thousand, mainly related to costs incurred for the implementation of the new Group ERP.

With reference to the verification carried out on the value of intangible assets, in the present context of uncertainty caused by the COVID-19 pandemic identified as a "trigger event" which makes it necessary to carry out the impairment tests of non-current assets, please refer to what was previously illustrated in the comment of note 5. Impairment Test.

The following table shows the changes in intangible assets for the period ended 31 December 2019:

(Euro in thousands)	1 January 2019	Increases due to purchases	Decreases	Amortisation	Exchange rate differences	31 December 2019
Development costs	14,941	9,483	-	(7,879)	25	16,570
Rights and trademarks	2,286	1,517	(44)	(1,314)	2	2,447
Other intangible assets	28	-	-	(4)	-	24
Assets in progress and advance payments to suppliers	743	637		-	(2)	1,378
Total intangible assets	**17,998**	**11,637**	**(44)**	**(9,197)**	**25**	**20,419**

8. Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2020 and as at 31 December 2019 is reported in the table below:

	31 December					
	2020			2019		
(Euro in thousands)	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Land	3,308	(148)	3,160	3,136	(147)	2,989
Buildings	22,500	(7,375)	15,125	22,191	(7,033)	15,158
Plant and machinery	18,088	(13,831)	4,257	16,841	(13,319)	3,522
Equipment	5,730	(4,960)	770	5,513	(4,468)	1,045
Other assets	59,010	(32,877)	26,133	45,195	(26,191)	19,004
Assets in progress and advance payments to suppliers	386	-	386	679	-	679
Total property, plant and equipment	**109,022**	**(59,191)**	**49,831**	**93,555**	**(51,158)**	**42,397**

The following table shows the changes in property, plant and equipment for the period ended 31 December 2020:

(Euro in thousands)	1 January 2020	Increases due to purchases	Reclassifications	Change in the consolidation area	Decreases	Depreciation	Exchange rate differences	31 December 2020
Land	2,989	189	-	-	-	-	(18)	3,160
Buildings	15,158	584	451	-	-	(628)	(440)	15,125
Plant and machinery	3,522	1,159	518	-	(8)	(849)	(85)	4,257
Equipment	1,045	239	(50)	-	(14)	(450)	-	770
Other assets	19,004	4,359	(34)	18,285	(7,748)	(5,656)	(2,077)	26,133
Assets in progress and advance payments to suppliers	679	229	(522)	-	-	-	-	386
Total property, plant and equipment	**42,397**	**6,759**	**363**	**18,285**	**(7,770)**	**(7,583)**	**(2,620)**	**49,831**

As at 31 December 2020, property, plant and equipment totalled Euro 49,831 thousand, up compared to the previous year by Euro 7,434 thousand.

The change is mainly due to the increase in trencher machines registered in the fleet of Euro 2,570 thousand included in the item Other assets, following the drawing-up of new lease contracts and change in the consolidation area of Euro 18,285 thousand following the entry of 4 Service S.r.l. and its subsidiary 4 Service USA as illustrated in greated detail for the Intangible Assets and in the paragraph 4*.1 Effects of the acquisition of the company 4 Service S.r.l.* in the report on operations.

In particular, it is noted that the registration criterion of the trenchers present in the 4 Service S.r.l. and its subsidiary MTS4 Service USA was identified in the corresponding fair value deemed suitable to reflect the economic substance of the "between entities under common control" merger transaction, proven by the generation of added value for the parties involved in the transaction, measurable in significant positive changes in post-transaction cash flows compared to the pre-transaction scenario, made possible by the creation of synergies between the Tesmec Group and 4 Service.

With reference to the verification carried out on the value of intangible assets, in the present context of uncertainty caused by the COVID-19 pandemic identified as a "trigger event" which makes it necessary to carry out the impairment tests of non-current assets, please refer to what was previously illustrated in the comment of note 5. Impairment Test.

The following table shows the changes in property, plant and equipment for the period ended 31 December 2019:

(Euro in thousands)	1 January 2019	Increases due to purchases	Reclassifications	Change in the consolidation area	Decreases	Depreciation	Exchange rate differences	31 December 2019
Land	2,985	-	-	-	-	-	4	2,989
Buildings	15,271	407	-	-	-	(623)	103	15,158
Plant and machinery	4,637	136	(280)	-	(40)	(952)	21	3,522
Equipment	1,759	512	(28)	15	(47)	(433)	(733)	1,045
Other assets	19,839	8,166	(2,435)	17	(3,498)	(4,003)	918	19,004
Assets in progress and advance payments to suppliers	846	6	-	-	(173)	-	-	679
Total property, plant and equipment	**45,337**	**9,227**	**(2,743)**	**32**	**(3,758)**	**(6,011)**	**313**	**42,397**

9. Rights of use

The breakdown in Rights of use as at 31 December 2020:

(Euro in thousands)	31 December					
	2020			2019		
	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Industrial Buildings - Right of use	17,629	(4,993)	12,636	17,870	(2,584)	15,286
Plant and machinery - Rights of use	473	(146)	327	475	(84)	391
Equipment - Rights of use	28	(11)	17	28	(3)	25
Other assets - Rights of use	15,541	(5,696)	9,845	6,270	(1,828)	4,442
Total rights of use	**33,671**	**(10,846)**	**22,825**	**24,643**	**(4,499)**	**20,144**

The following table shows the changes in rights of use for the period ended 31 December 2020:

(Euro in thousands)	1 January 2020	Increases due to purchases	Reclassifications	Change in the consolidation area	Decreases	Depreciation	Exchange rate differences	31 December 2020
Buildings - rights of use	15,286	558	(451)	-	(84)	(2,647)	(26)	12,636
Plant and machinery - rights of use	391	8	-	-	-	(67)	(5)	327
Equipment - rights of use	25	-	-	-	-	(7)	(1)	17
Other assets - rights of use	4,442	4,184	-	5,176	(1,029)	(2,913)	(15)	9,845
Total rights of use	**20,144**	**4,750**	**(451)**	**5,176**	**(1,113)**	**(5,634)**	**(47)**	**22,825**

The item rights of use as at 31 December 2020 amounted to Euro 22,825 thousand, increasing by Euro 2,681 thousand compared to the previous financial period due to the change in the consolidation area of Euro 5,176 thousand following the entry of 4 Service S.r.l. and its subsidiary MTS4 Service USA.

The reclassification of Euro 451 thousand is related to the purchase of the plant located in Patrica (FR) on 7 July 2020 and previously leased.

With reference to the verification carried out on the value of intangible assets, in the present context of uncertainty caused by the COVID-19 pandemic identified as a "trigger event" which makes it necessary to carry out the impairment tests of non-current assets, please refer to what was previously illustrated in the comment of note 5. Impairment Test

The following table shows the changes in rights of use for the period ended 31 December 2019:

(Euro in thousands)	IFRS 16 FTA	Other changes	Reclassifications	Increases	Decreases	Depreciation	Exchange rate differences	31 December 2019
Buildings - rights of use	19,094	(2,140)	-	964	(92)	(2,584)	44	15,286
Plant and machinery - rights of use	129	(11)	280	40	-	(47)	-	391
Equipment - rights of use	-	-	28	-	-	(3)	-	25
Other assets - rights of use	1,310	22	2,435	1,928	(31)	(1,233)	11	4,442
Total rights of use	**20,533**	**(2,129)**	**2,743**	**2,932**	**(123)**	**(3,867)**	**55**	**20,144**

10. Equity investments in associates evaluated using the equity method

The breakdown of equity investments in associates evaluated using the equity method as at 31 December 2020 and 2019 is reported in the table below:

(Euro in thousands)	31 December 2020	2019
Associates:		
Locavert SA	720	527
Subtotal	**720**	**527**
Joint Ventures:		
Condux Tesmec Inc	3,520	3,221
Tesmec Peninsula WLL	144	236
Subtotal	**3,664**	**3,457**
Total Equity investments in associates evaluated using the equity method	**4,384**	**3,984**

Following the application of the equity method to investments - accounting standard adopted by the Group on Joint Ventures - the margin achieved by Tesmec S.p.A. on the machines sold to them and not yet transferred to third-party customers as at 31 December 2020 was reversed against the value of the investment (if not sufficient, by creating a relevant covering provision).

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

	31 December 2020							
(Euro in thousands)	**% held**	**Revenues**	**Net result**	**Assets**	**Liabilities**	**Shareholders' Equity**	**Equity investment value in the Consolidated Financial Statements**	**Value of provision for risks due to losses**
Associates:								
Locavert SA	38.63%	306	128	1,018	297	720	720	-
R&E Contracting	20.00%	-	-	10	44	(34)	-	34
Joint Ventures:								
Condux Tesmec Inc.	50.00%	7,097	580	5,349	1,714	3,635	3,520	-
Tesmec Peninsula	49.00%	294	(81)	2,297	2,100	197	144	
Marais Lucas Technologies Pty Ltd.	50.00%	-	(18)	84	1,884	(1,800)	-	1,800

In accordance with the requirements of IAS 36, the book value of equity investments in joint ventures was tested for impairment, which was specifically approved by the Board of Directors on 12 March 2021.

In particular, at the end of each reporting period, the Group verifies whether there is any indication that the value of investments in joint ventures may have suffered an impairment loss, thus estimating the recoverable amount of such assets in such circumstances. In assessing the existence of an indication that one or more investments may have suffered an impairment loss, indications deriving from information sources both inside and outside the Group were considered. In particular, potential impairment indicators were identified in the changing market scenarios of the different and diversified geographical areas in which the Tesmec Group operates.

According to IAS 36, the recoverable amount is the higher between the market value (fair value) and the value in use.
Fair value is the income obtainable from the sale in an arm's length transaction between knowledgeable, willing parties, net of directly attributable expenses. Depending on the circumstances, this value is determined on the basis of the agreed price if there is a binding sale agreement established in an uncontrolled transaction (net of disposal costs) or the market price, less selling costs, if the asset is traded in an active market.
Conversely, value in use is the discounting back of expected cash flows by applying an appropriate rate (equal to the weighted average cost of capital). The impairment loss resulting from the impairment test is measured by the excess of the carrying amount of the asset over its recoverable amount.

For the purposes of the impairment test, the carrying amount was considered to be the book value of the investments in joint ventures recorded in the consolidated financial statements.

The operating cash flows used for the purpose of impairment testing derive from the investment plans drawn up by the Management based on the 2021 Budget approved by the Board of Directors on 20 December 2020 and the 2021-2023 Business Plan examined during the same meeting of the Board of Directors and prepared in accordance with the guidelines approved by the Board of Directors on 3 September 2020. The estimate of those cash flows includes assumptions of the Directors consistent with the strategy of the Tesmec Group in the individual businesses and markets in which it operates and also depends on external variables not subject to the management's control, such as exchange rate and interest rate trends, infrastructure investments in the countries where the group operates, macro political or social factors of local or global impact. These external factors, in line with IAS 36, were estimated on the basis of the elements known at the date of preparation and examination of the business plans and, in the current context of uncertainty related to the pandemic, incorporate the expectations of a gradual economic recovery that, although subject to the risk of further slowdowns due to further possible restrictive measures on travel and certain economic activities, is not affected with reference to the medium/long-term prospects. In fact, Tesmec's operating sectors will benefit from new investments and development policies aimed at strengthening the key infrastructures and the Group's business is concentrated in strategic sectors that are extremely lively and have significant growth prospects. For a more complete analysis of the main risks and uncertainties to which Tesmec Group is exposed, please refer to paragraph 8. of the report on operations.

Based on these plans, the value in use of the investments as considered above was estimated using the Discounted Cash Flow (DCF) method, i.e. the discounting back of future operating cash flows until the end of its useful life. The net operating cash flows estimated for this purpose were derived from the above mentioned plans according to the generally used "unlevered" approach, according to which flows are calculated regardless of the financial structure of the company.

The weighted average cost of capital (WACC) used for discounting operating cash flows for the explicit period and for calculating the terminal value was determined differently depending on the country of reference, as detailed in the table below compared woth the WACC used at ended 31 December 2019:

	31 December	
Partecipata	**2020**	**2019**
Condux (JV)	9.00%	8.36%
Tesmec Peninsula (JV)	10.70%	10.93%

For the estimate of cash flows beyond the explicit forecast period, the terminal value was determined on the basis of a g growth rate of 1%.

The application of the method described above led to an estimate of the value in use (or enterprise value) of the equity investments tested that, added to the corresponding net financial position, determines the value of the economic capital (equity value) to be compared with the book value.

The impairment test did not reveal any impairment losses.

In the context of the global uncertainties associated with the ongoing pandemic, a sensitivity analysis was carried out to check the change in the equity value of each single cash-generating unit as the discount rate (the weighted average cost of capital, WACC) and the growth rate (g) changed.

The sensitivity analyses did not reveal any significant impairment risks.

11. Financial receivables and other non-current assets

The following table sets forth the breakdown of financial receivables and other non-current assets as at 31 December 2020 and 2019:

	31 December	
(Euro in thousands)	**2020**	**2019**
Guarantee deposits	107	105
Financial receivables from third parties	5,089	2,640
Total financial receivables and other non-current financial assets	**5,196**	**2,745**

The item *Financial receivables from third parties* increased by Euro 2,451 thousand compared to the previous financial period and is mainly related to the recognition of financial receivables generated by sales of trencher machines with extended terms of payment and that envisage the payment of interest.

Current assets

12. Work in progress contracts

The following table sets forth the breakdown of Work in progress contracts as at 31 December 2020 and as at 31 December 2019:

	31 December	
(Euro in thousands)	**2020**	**2019**
Work in progress (Gross)	18,379	22,251
Advances from contractors	(7,163)	(5,931)
Work in progress contracts	**11,216**	**16,320**

"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.
In the second half of the year, the Group focused its activities on existing work orders, completing them and invoicing them during the year, thus generating a reduction in the item "work in progress contracts".

13. Inventories

The following table provides a breakdown of *Inventories* as at 31 December 2020 compared to 31 December 2019:

	31 December	
(Euro in thousands)	**2020**	**2019**
Raw materials and consumables	41,210	40,065
Work in progress	10,471	13,885
Finished products and goods for resale	21,592	15,033
Advances to suppliers for assets	1,113	941
Total inventories	**74,386**	**69,924**

The measurement criteria of inventories with regard to raw materials and consumables, work in progress, finished products and goods for resale remained unchanged compared to the prior financial period.
In total, inventories increased by 6.4% or Euro 4,462 thousand due to the reduction in sales in the period attributable to the slowdown in production activities due to the COVID-19 emergency containment measures starting from the beginning of March.
The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2020 and 2019 are reported below:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Value as at 1 January	6,158	5,437
Provisions	242	700
Reclassifications	(222)	-
Uses	(158)	(10)

Exchange rate differences	(137)	31
Total provisions for inventory obsolescence	**5,883**	**6,158**

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

14. Trade receivables

The table below shows the breakdown of trade receivables as at 31 December 2020 and 2019:

	31 December	
(Euro in thousands)	**2020**	**2019**
Trade receivables from third-party customers	58,825	62,411
Trade receivables from related parties	1,590	5,518
Total trade receivables	**60,415**	**67,929**

For terms and conditions relating to receivables from related parties, refer to paragraph 41.

The item Trade receivables as at 31 December 2020 amounted to Euro 60,415 thousand with a decrease of Euro 7,514 thousand compared to the 2019 financial period reflecting the decrease in sales for the period.

The balance of trade receivables is shown net of provisions for doubtful accounts. This provision was calculated in an analytical manner by dividing the receivables in classes depending on the level of customer and country risk and by applying to each class an expected percentage of loss derived from historical experience, deemed representative for the purposes of the prospective assessment of credit losses, in line with the treatment of Expected Credit Losses under IFRS 9.

The changes in the provisions for doubtful accounts for the financial periods ended 31 December 2020 and 2019 are reported in the table below:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Value as at 1 January	2,926	2,406
Change in the consolidation area	-	6
Provisions	946	947
Uses	(816)	(792)
Reclassifications	187	349
Exchange rate differences	(96)	10
Total provisions for doubtful accounts	**3,147**	**2,926**

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

15. Tax receivables

The following table sets forth the breakdown of tax receivables as at 31 December 2020 and 2019:

	31 December	
(Euro in thousands)	**2020**	**2019**
IRAP receivables	98	241
IRES receivables	301	-

Other direct income taxes	1,045	804
Total tax receivables	**1,444**	**1,045**

The item *tax receivables* increased compared to the previous financial period of Euro 399 thousand mainly due to the increase in direct taxes of foreign subsidiaries.

16. Financial receivables and other current financial assets

The following table sets forth the breakdown of financial receivables and other current financial assets as at 31 December 2020 and 31 December 2019:

	31 December	
(Euro in thousands)	**2020**	**2019**
Financial receivables from related parties	3,691	4,072
Financial receivables from third parties	9,983	7,959
Other current financial assets	102	50
Total financial receivables and other current financial assets	**13,776**	**12,081**

The increase in *current financial assets* from Euro 12,081 thousand to Euro 13,776 thousand is mainly due to the increase in tax receivables from third parties.

These receivables include Euro 1,726 thousand related to the favourable arbitration award in the current dispute with a Chinese trading company and currently deposited in trust with the treasury of the Court of Beijing for which reference should be made to Note 45 Legal and Tax Disputes.

Financial receivables from related parties mainly include receivables from Joint Ventures Tesmec Peninsula WLL of Euro 1,887 thousand and Condux Tesmec Inc. of Euro 933 thousand.

17. Other current assets

The following table sets forth the breakdown of other current assets as at 31 December 2020 and as at 31 December 2019:

	31 December	
(Euro in thousands)	**2020**	**2019**
Prepaid expenses	2,284	1,294
Accrued income	-	7
VAT credit	4,289	3,920
Other receivables	345	306
Advance to suppliers for services	397	391
Withholding tax on interest and dividends	9	-
Other tax receivables	1,486	3,296
Total other current assets	**8,810**	**9,214**

Other current assets were considered receivable and therefore were not subject to value adjustment.
The increase in prepaid expenses equal to Euro 990 thousand mainly refers to the suspension of costs related to the implementation of the new ERP.
Other tax receivables include the tax credit recognised for significant research and development expenses incurred by the Group in both Italy and France. In particular, with reference to the tax credit on Research and Development activities in Italy, this is recorded on the basis of the provisions of the 2017 Budget Law (Italian Law 232/16) which changed the regulations of the tax benefit, introduced by the "Destination Italy" Decree (Italian Law Decree no. 145/2013) as amended by Italian 2015 Stability Law (Italian Law 190/2014).

18. Cash and cash equivalents

The following table sets forth the breakdown of the item as at 31 December 2020 and 2019:

	31 December	
(Euro in thousands)	**2020**	**2019**
Bank and post office deposits	70,411	17,889
Cash on hand	8	34
Other cash	7	12
Total cash and cash equivalents	**70,426**	**17,935**

Cash and cash equivalents are deposited in current deposits and they are remunerated at a floating rate related to the Euribor trend. The balance as at 31 December 2020 amounted to Euro 70,426 thousand and increased by Euro 52,491 thousand.
This increase derives from the significant activity of obtaining new medium/long-term loans (around Euro 70 million) during the year, also in the context of the pandemic emergency, making also use of business support measures made available by government authorities in Italy and in some of the countries where the Group is present. These financial resources enabled the Group to meet its cash requirements during the interruption and slowdown of operations. Residual cash and cash equivalents at the end of the period, which also benefit from the liquidity resulting from the increase in share capital completed in December 2020 of Euro 23.9 million, represent an important factor of financial solidity in the face of further possible phases of slowdown in the economic recovery in the short term due to the global pandemic.
The stated values are subject to a non-significant risk of change in value. The book value of cash and cash equivalents is deemed to be aligned to their fair value at the end of the reporting period.
The Group believes that the credit risk related to cash and cash equivalents is limited since it mainly represents deposits divided across domestic and international banking institutions.

19. Shareholders’ Equity

Share capital and reserves

On 15 December 2020, the Share Capital Increase was successfully completed through the issue of 499,376,200 new ordinary shares for a total value of Euro 34,956,334, of which Euro 4,993,762 was allocated to capital.

During the period of offer under option, started on 23 November and ended on 10 December 2020, 99,446,115 option rights were exercised to subscribe for 485,103,000 Shares, representing 97.14 % of the total Shares offered, for a total value of Euro 33,957,210. During the first session of the Stock Exchange offer, held on 14 December 2020, all remaining 2,926,006 option rights not exercised during the option period, which gave the right to subscribe to 14,273,200 newly issued ordinary shares, were sold and therefore subscribed. Taking into account also the 485,103,000 Shares already subscribed during the period of offer under option, a total of 499,376,200 Shares have been subscribed, representing 100% of the Shares offered in the context of the share capital increase, for a total value of Euro 34,956,334.

Following this operation, the Share capital amounts to Euro 15,702 thousand, fully paid up, and comprises 606,460,200 shares with no nominal value.

The *Share premium reserve* amounted to Euro 39,215 thousand and changed not only for the portion of value of the share capital increase to be allocated to the share premium, but also for additional costs and income of the share capital increase that, in accordance with IAS 32, are to be charged directly to shareholders' equity.

The additional costs of the transaction mainly concerned amounts paid to legal and accounting advisors and to other professionals and other charges due to the market operator. The additional income of the transaction concerned the consideration for the sale, at the Stock Exchange session of 14 December 2020, of the option rights not exercised during the period of offer under option.

Net of additional costs and income of the share capital increase, the Group's shareholders' equity increased by Euro 33.3 million.

The following table sets forth the breakdown of *Other reserves* as at 31 December 2020 and 2019:

(Euro in thousands)	31 December 2020	2019
Revaluation reserve	86	86
Extraordinary reserve	37,499	33,266
Change in the consolidation area	-	(436)
Reserve for first-time adoption of IFRS 9	(491)	(491)
Severance indemnity valuation reserve	(679)	(710)
Network reserve	824	824
Future capital increase reserve	6	
Retained earnings/(losses brought forward)	(13,508)	(11,807)
Bills charged directly to shareholders' equity		
on operations with entities *under common control*	(4,048)	(4,048)
Total other reserves	**19,689**	**16,684**

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 translation difference has a negative impact on Shareholders' Equity of Euro 3,225 thousand as at 31 December 2020.

As a result of the resolution of 21 May 2020, with the approval of the 2019 financial statements, the Shareholders' Meeting of Tesmec S.p.A. decided to allocate the profit of the Parent company of Euro 4,232 thousand to the extraordinary reserve.

Non-current liabilities

20. Medium/long-term loans

Medium/long-term loans include medium/long-term loans from banks and payables towards other providers of finance. The following table shows the breakdown thereof as at 31 December 2020 and as at 31 December 2019, with separate disclosure of total loans and current portion:

	31 December			
(Euro in thousands)	2020	of which current portion	2019	of which current portion
Fixed rate national bank loans	19,774	4,822	5,557	1,495
Variable rate national bank loans	58,351	16,794	22,924	10,663
Fixed rate foreign bank loans	1,059	578	2,163	1,328
Floating rate foreign bank loans	9,618	253	2,372	276
Shareholder loan	3,263	-	-	-
Total medium/long-term loans	**92,065**	**22,447**	**33,016**	**13,762**
less current portion	(22,447)		(13,762)	
Non-current portion of medium/long-term loans	**69,618**		**19,254**	
Medium/long-term loan due to Simest	8,718	4,000	8,718	4,000
less current portion	(4,000)		(4,000)	
Medium/long-term loan due to Simest	**4,718**		**4,718**	
Total medium/long-term loans	**74,336**	**26,447**	**23,972**	**17,762**

Some loan contracts contain financial covenant provisions. In particular, they require that parameters, calculated on the basis of the financial statements of the Group, have to be met; they are verified on an annual basis.

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

- Net Financial Position / EBITDA;

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

Based on the results of the financial statements of the Company and of the Tesmec Group, a financial covenant relating to the Net Financial Position/EBITDA ratio towards four credit institutions, corresponding to a financial indebtedness of Euro 15.4 million, representing approximately 7.8% of the gross financial indebtedness, has not been met. This non-compliance resulted in the short-term recognition of the residual medium- and long-term portions for a total of Euro 10.0 million. Requests for waivers of the application of early repayment clauses were promptly submitted to the credit institutions. At present, a number of waivers have already been obtained (for an amount of Euro 5.4 million).

Although the process of obtaining all waivers is not yet complete, there is a reasonable certainty that this process can be completed in the short term, in consideration of the technical time strictly required to complete the procedures envisaged in such circumstances, taking into account the confirmed support provided by the banking system to the development plans of the Company and the of Group through the provision of new medium/long-term loans of Euro 70 million during the year. Moreover, it should be noted that the assumption of early repayment of the loans in question was prudently considered as part of the estimate of future cash flows prepared for the purpose of assessing the going concern assumption.

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

The table below shows the figures relevant to the Company's outstanding loans as at 31 December 2019, by indicating the portion due within one year, within 5 years and after more than 5 years:

Description	Residual value as at 31 December 2020	Portion within 12 months	Portion within 5 years	Portion after more than 5 years
Fixed rate national bank loans	19,774	4,822	13,077	1,875
Variable rate national bank loans	58,351	16,794	38,361	3,196
Fixed rate foreign bank loans	1,059	578	481	-
Floating rate foreign bank loans	9,618	253	8,519	846
Shareholder loan	3,263	-	3,263	-
Total	**92,065**	**22,447**	**62,347**	**7,271**

The shareholder loan was a transaction of greater importance and therefore approved by the Company's Control and Risk, Sustainability and Related Party Transaction Committee. This is a shareholder loan of up to Euro 7 million, payable in one or more tranches at the Company's request, with a duration of 36 months and bearing interest at an annual rate of 2%. As at 31 December 2020, Euro 3,263 thousand had been disbursed by the parent company TTC S.r.l. through the subsidiaries RX S.r.l. and MTS Officine Meccaniche di Precisione S.p.A..

Net financial indebtedness

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

	31 December			
(Euro in thousands)	2020	*of which with related parties and group*	2019	*of which with related parties and group*
Cash and cash equivalents	(70,426)		(17,935)	
Current financial assets	(13,777)	*(3,691)*	(12,083)	*(4,072)*
Current financial liabilities	85,799	*2,788*	79,764	*2,158*
Current financial liabilities from rights of use	5,218	-	4,135	-
Current portion of derivative financial instruments	1		6	
Current financial indebtedness	**6,815**	***(903)***	**53,887**	***(1,914)***

Non-current financial liabilities	80,530	*3,263*	48,737	-
Non-current financial liabilities from rights of use	16,855		15,407	
Non-current portion of derivative financial instruments	170		6	
Non-current financial indebtedness	**97,555**	***3,263***	**64,150**	**-**
Net financial indebtedness pursuant to CONSOB Communication no. DEM/6064293/2006	**104,370**	***2,360***	**118,037**	***(1,914)***

The net financial indebtedness as at 31 December 2020 decreased by Euro 13,677 thousand compared to the end of 2019 (-11.6%). The net financial indebtedness prior to the application of IFRS 16, as at 31 December 2020, is equal to Euro 82,297 thousand with a decrease of Euro 16,198 thousand compared to the end of 2019.

The table below shows the breakdown of the changes:

- decrease in current financial indebtedness of Euro 47,072 thousand mainly due to the increase in cash and cash equivalents and current financial assets of Euro 54.185 thousand, mainly due to new sources of funding related to the Liquidity Decree and the cash and cash equivalents for the share capital increase;
- increase in medium/long-term financial indebtedness of Euro 33,405 thousand relating to the signing of new medium/long-term loans for a total of Euro 80,573 thousand.

The existing loan agreements and bond issues contractually provide for the calculation of the financial covenants based on net financial indebtedness calculated on the consolidated financial statements as at 31 December and prior to the application of IFRS 16.

21. Bond issue non current

The item related to the *bond issue non current* equal to Euro 6,194 thousand and decreased by Euro 18,571 thousand compared to the previous year following the repayments during the year and to the reclassification in the current term of the bond "Tesmec S.p.A. 6% 2014-2021" bond issue of Euro 15 million placed on 8 April 2014 on the Extra MOT PRO market. The 7% gross fixed rate bond issue, placed by Banca Popolare di Vicenza S.c.p.a. and by KNG Securities LLP, will expire on 10 April 2021 with an annual delayed coupon.

The item includes the "Tesmec S.p.A. 4.75% 2018-2024" bond issue of Euro 10 million placed on 27 July 2018 with professional investors. The 4.75% fixed rate Bond Issue, placed by Banca Finint, will expire on 30 June 2024 with half-yearly coupon and amortising repayment, and with a two-year pre-amortisation period.

The failure to comply with certain financial covenants, as previously described in note 19, has no effect on outstanding bonds as the interest rate step-up had already taken place in past years.

22. Financial liabilities from rights of use

The item *Financial liabilities from rights of use* refers to the accounting required by IFRS 16 of the loan due to counterparties of the lease contracts as from 1 January 2019. The following table sets forth the breakdown of the items as at 31 December 2020 and 2019:

	31 December	
(Euro in thousands)	**2020**	**2019**
Non-current financial liabilities from rights of use	16,855	15,407
Current financial liabilities from rights of use	5,218	4,135
Total financial liabilities from rights of use	**22,073**	**19,542**

The balance of financial liabilities from rights of use as at 31 December 2020 amounted to Euro 22,073 thousand and increased by Euro 2,531 thousand compared to the previous year following the signing of new lease contracts of Euro 10,741 thousand.

23. Derivative financial instruments

The Group signed some contracts related to derivative financial instruments whose contractual characteristics and related fair value as at 31 December 2020 and 2019 are shown in the table below:

Counterparties	Type	Debt interest rate (fixed)	Credit interest rate (variable)	Start date	Maturity date	Notional principal	Fair Value (Euro/000) as at 31 December 2020	Fair Value (Euro/000) as at 31 December 2019
Credit Agricole Cariparma	IRS	Fixed interest rate 0.34%	6-month Euribor	07/05/2015	26/03/2020	-	-	(2)
ICCREA BANCA/BCC	CAP	Interest rate for the period 0.75%	6-month Euribor	27/09/2015	27/09/2020	-	-	-
Banca Monte dei Paschi di Siena	CAP	Interest rate for the period 0.61%	6-month Euribor	31/12/2016	30/09/2020	-	-	(2)
Banco Popolare	IRS	Fixed interest rate 0.06%	6-month Euribor	03/10/2016	15/12/2020	-	-	(2)
Banco BPM	IRS	Fixed interest rate 0.12%	3-month Euribor	31/01/2017	30/04/2021	345,949	(1)	(3)
Deutsche Bank	CAP	Fixed interest rate 0.00%	3-month Euribor	20/01/2017	30/11/2020	-	-	-
BPER Banca	CAP	Interest rate for the period 0.15%	3-month Euribor	18/12/2017	18/03/2021	261,110	-	(3)
BANCO BPM	CAP	Quarterly floating rate 1.5%	3-month Euribor	01/02/2019	30/06/2025	1,285,714	1	4
Deutsche Bank	IRS	Fixed interest rate 1.80%	3-month Euribor	01/07/2020	30/06/2025	4,736,842	(60)	-
Intesa	IRS	Fixed interest rate 2.00%	3-month Euribor	18/05/2020	31/03/2025	10,000,000	(110)	-
Assets for derivative instruments within the financial period							**-**	**-**
Assets for derivative instruments beyond the financial period							**1**	**4**
Liabilities for derivative instruments within the financial period							**(1)**	**(6)**
Liabilities for derivative instruments beyond the financial period							**(170)**	**(6)**

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

24. Employee benefit liability

The Group has no defined benefit pension plans in the strict sense. However, the severance indemnity fund allocated by the Parent Company and Italian subsidiaries required by Article 2120 of the Italian Civil Code, in terms of recognition in the financial statements, falls under this type and as such was accounted for, as shown in the applied accounting policies.
The following table shows the changes for the period ended 31 December 2020 and 31 December 2019 of employee benefits:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Present value of the liability at the beginning of the period	4,451	3,770
Financial expense	28	57
Benefits accrued	421	595
Benefits paid	(198)	(250)
Loss (profit)	(42)	279
Present value of the liability at the end of the period	**4,660**	**4,451**

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

Economic and financial technical bases

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Annual discount rate	0.35%	0.70%
Inflation rate	1.00%	1.50%
Total annual salary increase rate	2.12%	2.62%
Annual rate of increase in severance indemnity	3.00%	3.00%

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

	Discount rate	
(Euro in thousands)	**0.50%**	**-0.50%**
Effect on the aggregate current cost of the service and of the financial expenses	49	8
Reported value for liabilities with respect to defined benefit plans	4,012	4,566

Technical and demographic bases

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Mortality	2004 ISTAT tables	2004 ISTAT tables
Disability	INPS tables	INPS tables
Retirement age	67 N/F	67 N/F

Frequency of turnover and advances on severance indemnity

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Advance frequency %	24.04%	87.20%
Turnover frequency %	82.26%	166.67%

25. Provisions for non-current risks and charges

The item *Provisions for non-current risks and charges* refers to provisions set aside for future charges.
Changes in *provisions for non-current risks and charges* as at 31 December 2020 and as at 31 December 2019 are reported below:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Value as at 1 January	88	67
Provisions	-	21
Reclassification	(88)	-
Value as at 31 December	**-**	**88**

Current liabilities

26. Interest-bearing financial payables (current portion)

The following table sets forth the breakdown of *Interest-bearing financial payables (current portion)* for the 2020 and 2019 financial periods:

	31 December	
(Euro in thousands)	**2020**	**2019**
Advances from banks against invoices and bills receivables	31,552	45,960
Payables due to factoring companies	7,173	12,270
Current account overdrafts	1	1,189
Financial payables due to SIMEST	4,000	4,000
Short-term loans to third parties	401	425
Current portion of medium/long-term loans	22,447	13,762
Financial payables to related parties	2,788	2,158
Total interest-bearing financial payables (current portion)	**68,362**	**79,764**

Interest-bearing financial payables (current portion) decreased by Euro 11,402 thousand, mainly due to lower use of export advance lines of Euro 14,408 thousand and lower payables to factoring companies of Euro 5,097 thousand.
Payables due to factoring companies include both advances received for transfers *with recourse* of the Group's trade receivables and payables arising from supplies received and transferred using reverse factoring, the deferral conditions of which determine the representation of a financial liability.

The current portion of medium / long-term loans increases mainly due to the short-term reclassification of the portion originally envisaged beyond the year (Euro 10.0 million) following the failure to comply with financial convenants as illustrated in the previous note 15.

27.Current bond loan

The item relating to the current bond loan amounts to Euro 17,437 and relates to the short-term reclassification of the "Tesmec S.p.A. 6% 2014-2021 "equal to Euro 15 million placed on 8 April 2014 on the Extra MOT PRO market. The bond, placed by Banca Popolare di Vicenza S.c.p.a. and KNG Securities LLP, it expires on 10 April 2021 and has a gross fixed rate of 7% with an annual deferred coupon. The repayment of this loan will take place through the use of liquidity available on the due date.

28. Trade payables

The breakdown of *Trade payables* as at 31 December 2020 and as at 31 December 2019, respectively, is reported in the table below:

	31 December	
(Euro in thousands)	**2020**	**2019**
Trade payables due to third-parties	59,920	54,371
Trade payables due to related parties	1,465	3,143
Total trade payables	**61,385**	**57,514**

Trade payables as at 31 December 2020 increased by Euro 3,871 thousand or 6.7% compared to the previous financial period. This figure includes payables related to the Group's normal course of business, in particular the purchase of raw materials and outsourced works.
This item also includes payables originating from supplies received and sold in accordance with the reverse factor that maintain commercial deferment conditions.
Note also that there are no payables with maturity exceeding five years at the above dates.

29. Income taxes payable

The breakdown of *Income taxes payable* as at 31 December 2020 and as at 31 December 2019, respectively, is reported in the table below:

	31 December	
(Euro in thousands)	**2020**	**2019**
Current IRES tax liabilities	8	1,129
Current IRAP tax liabilities	71	539
Current USA tax liabilities	81	-
Other current taxes	466	139
Total income taxes payable	**626**	**1,807**

IRES and IRAP tax liabilities as at 31 December 2020 include the net payable due by the Group to the Italian Tax authority for the payment of direct income taxes. *Other current taxes* include payables for direct taxes due to foreign tax authorities.

28. Provisions for risks and charges

Provisions for risks and charges refer in part to provision for the product guarantee fund, in part to the adjustment of the value of consolidated investments by using the equity method and in part to cover certain ongoing disputes. With reference to the guarantee fund, the calculation is based on a historical, statistical and technical analysis of the interventions under guarantee carried out on sales in prior financial periods and includes both the cost of labor and that for spare parts used.
Changes in the item as at 31 December 2020 and as at 31 December 2019 are reported below:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Value as at 1 January	3,104	3,152
Change in the consolidation area	-	21
Provisions	368	497
Reclassifications	(12)	(401)
Uses	(460)	(171)
Exchange rate differences	(32)	6
Value as at 31 December	**2,968**	**3,104**

During the year, the provision was mainly used to cover the work under warranty carried out by Group technicians, while the provision for the period is related to the allocations to cover some outstanding disputes.
The main disputes in progress are described in the following note 45 Legal and Tax Disputes.

31. Other current liabilities

The following table sets forth the breakdown of *other current liabilities* as at 31 December 2020 and 2019:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Due to social security	2,231	1,845
Due to INAIL (National Insurance Institute for Industrial Accidents)	306	280
Due to trade funds	398	436
Due to employees and collaborators	3,139	4,213
Guarantee deposits payable	155	155
Due to others	3,047	3,163
Accrued expenses and liabilities	12,125	12,526

Other current taxes	2,450	2,725
Total other current liabilities	**23,851**	**25,343**

Other current liabilities decreased compared to the prior financial period of Euro 1,492 thousand and refer to the increase in Due to employees and collaborators of Euro 1,074 thousand.
The item includes certain overdue tax liabilities which are in the process of being settled.

32. Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2020 and 2019:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Deferred tax assets	16,446	11,889
Deferred tax liabilities	7,628	5,771

The breakdown of net deferred taxes as at 31 December 2020 and 2019 is shown in the following table by type by listing the items that present underlying temporary differences:

	31 December		**31 December**		**Financial period ended 31 December**	
	Statement of financial position		**Shareholders' equity**		**Income statement**	
(Euro in thousands)	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Deferred tax assets						
Reversals of intangible assets	3	6	-	-	(3)	(30)
Obsolescence fund	1,430	1,458	(105)	6	77	176
Provisions for future risks and charges	96	136	(9)	-	(31)	42
Unrealised exchange-rate losses	1,172	973	(1)	1	200	(49)
Tax effect on UCC gain reversals	55	90	1	-	(36)	(61)
Tax effect on inter-company margin adjustments	1,580	1,161	134	(6)	285	90
Tax losses carried forward	8,629	6,457	310	(494)	1.862	181
Other temporary differences	3,481	1608	831	420	1.042	(203)
Total deferred tax assets	**16,446**	**11,889**	**1,161**	**(73)**	**3,396**	**146**
Deferred tax liabilities						
Unrealised exchange rate gains	(1.520)	(1,486)	-	(1)	(34)	(84)
Difference of value USA building	(134)	(153)	13	(3)	6	5
Capitalisation of Development costs Tesmec USA	(309)	(347)	94	(6)	(56)	(55)
Deferred tax liabilities Tesmec USA	(1.427)	(794)	(633)	85	-	-
Profits allocated to network reserve	(218)	(218)	-	-	-	-
Tax effect on inter-company margin adjustments	(97)	(70)	4	(8)	(31)	(57)
Deferred tax liabilities of Groupe Marais	(1.953)	(2,367)	(1)	362	415	225
Other temporary differences	(1.970)	(336)	(816)	(304)	(818)	(3)
Total deferred tax liabilities	**(7.628)**	**(5,771)**	**(1.339)**	**125**	**(518)**	**31**
Net effect on Shareholders' Equity						
Net balance deferred wealth taxes	**8,818**					
Represented in the income statement as follows:						
Deferred tax assets	**3,396**					

Deferred tax liabilities	**(518)**
Deferred tax liabilities, net	**2,878**

The possibility of recovering taxes is subject to the availability of future taxable income over the time horizon used by the Directors to formulate the 2021-2023 Business Plan on the basis of the best information available at the date of approval of the financial statements, as well as in accordance with the tax rules applicable in the countries where temporary differences and tax losses are identified.

Current taxation

Profit before taxes and the allocation for income taxes for the financial periods as at 31 December 2020 and 2019 are summarised below:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Consolidated pre-tax profits	**(9,038)**	**4,194**
Current taxation:		
Italy	(26)	(1,104)
USA	(142)	(39)
Rest of the world	(483)	(247)
Deferred tax (liabilities)/assets		
Italy	1,563	(86)
USA	522	(590)
Rest of the world	793	853
Total Income taxes	**2,227**	**(1,213)**

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

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Result before tax	**(9,038)**	**4,194**
IRES tax rate in force during the period	24.00%	24.00%
Theoretical tax charge	**2,169**	**(1,007)**
IRAP	**(71)**	**(428)**
Permanent tax differences	(196)	43
Effect of different tax rate for foreign companies	325	179
Total difference	**129**	**222**
Total tax charge as per income statement	**2,227**	**(1,213)**

Comments to the main items in the income statement

33. Revenues from sales and services

In the 2020 and 2019 financial periods, revenues from sales and services amounted to Euro 170,655 thousand and Euro 200,666 thousand, respectively. The breakdown is set below:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Sales of products	134,957	149,696
Services rendered	38,986	42,599

Changes in work in progress	(3,288)	8,371
Total revenues from sales and services	**170,655**	**200,666**

The Group realised in 2020 revenues of Euro 170,655 thousand against a figure of Euro 200,666 thousand in 2019, down by 15.0%. The trend of the three segments is shown below:

- **Energy**
  With regard to the Energy segment, revenues amounted to Euro 43,812 thousand, down by 1.0% compared to the figure of Euro 44,244 thousand as at 31 December 2019. In particular, the Stringing segment recorded revenues of Euro 30,291 thousand, compared to Euro 31,936 thousand as at 31 December 2019, with a reduction in turnover due to the slowdown and stoppage of production activities from March to the first days of May. The Energy-Automation segment achieved revenues of Euro 13,521 thousand compared to Euro 12,308 thousand as at 31 December 2019, recovering in the third quarter the gap due to the slowdown in the production and transport blocks of the first half of the year and confirming the expectations of the fourth quarter.

- **Trencher**
  Pro-forma revenues of the Trencher segment amounted to Euro 100,444 thousand, down by 19.8% compared to Euro 125,306 thousand as at 31 December 2019. This performance was affected by the slowdown in logistics and lease activities as well as by the stoppage of production and transport in the first half of the year. During the third quarter, the impact was stabilised thanks to the return to full operations, which enabled the Group to achieve the targets announced for the fourth quarter, despite the uncertainty generated in the US due to the political instability related to the election of the new President of the United States of America.

- **Rail**
  The Rail segment recorded revenues of Euro 26,399 thousand, down by 15.2% compared to Euro 31,116 thousand as at 31 December 2019. This trend is essentially due to the slowdown in activities and the temporary closure of the Monopoli plant in March and April. During the third quarter, production levels remained fully operational, ensuring a better performance than in the previous year, while the fourth quarter recorded a performance in line with the outlook for the period, but characterised by the fulfilment of orders with lower margins that impacted the results for the period.

34. Cost of raw materials and consumables

For the financial periods as at 31 December 2020 and 31 December 2019, cost of raw materials and consumables amounted to Euro 77,418 thousand and Euro 88,037 thousand, respectively.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Cost for the purchase of raw materials and consumables	84,049	96,865
Change in inventories	(6,631)	(8,828)
Total cost of raw materials and consumables	**77,418**	**88,037**

Cost of raw materials and consumables decreased by Euro 10,619 thousand (-12.1%) less than the decrease in sales volumes (-15.0%).

35. Costs for services

The table below shows the breakdown of *costs for services* that amounted in 2020 and in 2019 to Euro 30,153 thousand and Euro 35,375 thousand, respectively.

(Euro in thousands)	Financial period ended 31 December 2020	2019
Transport, customs and incidental expenses	6,764	7,730
Outsourced work service	5,330	5,990
External production services	136	568
Services for legal, tax, technical and other consultancy	6,041	5,992
Banking services	1,243	742
Insurance	1,580	1,197
Energy, water, gas, telephone expenses and postage	1,280	1,544
Board and lodging expenses and travelling allowance	2,772	4,321
Directors' and Auditors' fees	772	911
Advertising and other selling expenses	409	1,020
Maintenance services	1,110	1,284
Commissions and additional expenses	1,100	2,516
Other general expenses	1,619	1,560
Total costs for services	**30,156**	**35,375**

The decrease in costs for services (-14.8%) was mainly due to the decrease in *Board and lodging expenses and travelling allowance* of Euro 1,549 thousand and in *commissions and additional expenses* of Euro 1,416 thousand linked to the decrease in revenues.

36. Payroll costs

During the financial periods ended 31 December 2020 and 31 December 2019, payroll costs amounted to Euro 48,530 thousand and Euro 52,611 thousand, respectively, down by 7.8%.

(Euro in thousands)	Financial period ended 31 December 2020	2019
Wages and salaries	37,135	40,687
Social security charges	8,496	8,922
Employee severance indemnity	1,552	1,637
Other personnel costs	1,336	1,365
Total payroll costs	**48,519**	**52,611**

The 7.8% decrease in this item is related to the actions implemented by the Group to contain costs and improve the efficiency of the corporate structure.

37. Other operating (costs)/revenues, net

During the financial periods ended 31 December 2020 and 31 December 2019, other operating (costs)/revenues, net amounted to Euro 206 thousand and Euro 4,668 thousand, respectively. The breakdown of the item is as follows:

(Euro in thousands)	Financial period ended 31 December 2020	2019
Provisions for risks and other net provisions	1,314	1,374
Rents	1,734	2,530
Hiring	1,784	2,991
Other lease and rental expenses	(161)	1,122
Sundry taxes	799	813

Other revenues	(6,526)	(3,679)
Other	925	(483)
Total other operating revenues, net	**(131)**	**4,668**

Other operating (costs)/revenues, net decreased by Euro 4,799 thousand compared to the previous financial period. The item includes the value of the benefit of the tax credit for 2020 of Euro 1,860 thousand, compared to Euro 2,338 thousand for 2019 and the benefit of the social shock absorbers during the lockdown period of Euro 2,087 thousand.

The item Provisions for risks and other net provisions of Euro 1,314 thousand includes the provision to the allowance for doubtful receivables of Euro 946 thousand and the provision for risks amounting to Euro 368 million.

38. Amortisation and depreciation

During the financial periods ended 31 December 2020 and 31 December 2019, amortisation and depreciation amounted to Euro 21,842 thousand and Euro 19,075 thousand, respectively, with a 14.5% increase, as a result of the entry of 4 Service S.r.l. and its subsidiary 4 Service USA, as more fully described in paragraph 4.1 Effects of the acquisition of the company 4 Service S.r.l. of the Report on Operations.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Amortisation of intangible assets	8,625	9,197
Depreciation of property, plant and equipment	7,583	6,011
Depreciation of right of use	5,634	3,867
Total amortisation and depreciation	**21,842**	**19,075**

39. Development costs capitalised

Development costs capitalised for the financial periods ended 31 December 2020 and 31 December 2019 amounted to Euro 5,787 thousand and Euro 7,233 thousand, respectively.
The Group continued to develop the projects for the launch of new models and new functionalities for its own products, which are requested by the markets, in order to maintain its leader sector position.

40. Financial expenses

During the financial periods ended 31 December 2020 and 31 December 2019, financial expenses amounted to Euro 10,207 thousand and Euro 6,628 thousand. The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Bank interests expense	371	522
Interests payable for factoring and billing discounts	997	783
Interests payable on interest-bearing medium/long-term loans and borrowings	3,020	2,720
Interests payable on advance loans on exports	274	328
Other sundry financial expenses	71	553
Financial expenses on rights of use	950	817
Realised foreign exchange losses	2,718	433
Unrealised foreign exchange losses	1,632	473
Fair value adjustment of derivative instruments	174	(1)
Total financial expenses	**10,207**	**6,628**

Financial expenses increased by Euro 3,579 thousand compared to the previous financial period, mainly due to realised and unrealised exchange losses that amounted to Euro 4,530 thousand compared to Euro 906 thousand in the previous financial period.

41. Financial income

During the financial periods ended 31 December 2020 and 2019, financial income amounted to Euro 1,903 thousand and Euro 2,424 thousand, respectively. The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Interests from banks	2	100
Realised foreign exchange gains	116	359
Unrealised foreign exchange gains	618	1,355
Fair value adjustment of derivative instruments	12	26
Interest income from customers	1,155	584
Total financial income	**1,903**	**2,424**

Financial income decreased by Euro 521 thousand compared to the previous financial period mainly due to lower realised and unrealised foreign exchange gains totalling Euro 980 thousand.

42. 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 machines for working in the mines, surface works and earth moving works (RockHawg);
- rental of trencher machines;
- specialised consultancy and excavation services on customer request;
- multi-purpose site machinery (Gallmac).

Rail segment

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

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

	31 December									
	2020					2019				
(Euro in thousands)	**Energy**	**Trencher**	**Rail**	**Not allocated**	**Consolidated**	**Energy**	**Trencher**	**Rail**	**Not allocated**	**Consolidated**
Intangible assets	9,748	5,287	7,452	-	22,487	9,000	4,371	7,048	-	20,419
Property, plant and equipment	2,756	39,474	7,601	-	49,831	1,421	32,960	8,016	-	42,397
Rights of use	760	21,351	714	-	22,825	1,166	18,011	967	-	20,144

Financial Assets	3,523	965	1,925	3,171	9,584	3,224	2,029	1	1,482	6,736
Other non-current assets	1,736	7,197	841	7,974	17,748	1,280	4,916	164	6,045	12,405
Total non-current assets	**18,523**	**74,274**	**18,533**	**11,145**	**122,475**	**16,091**	**62,287**	**16,196**	**7,527**	**102,101**
Work in progress contracts	-	-	11,216	-	11,216	-	-	16,320	-	16,320
Inventories	18,316	50,030	6,040	-	74,386	18,424	48,545	2,955	-	69,924
Trade receivables	9,330	38,400	12,685	-	60,415	12,067	46,204	9,658	-	67,929
Other current assets	1,825	5,052	6,164	10,990	24,031	1,508	2,689	7,411	10,734	22,342
Cash and cash equivalents	3,565	7,145	7,721	51,995	70,426	1,434	1,579	7,758	7,164	17,935
Total current assets	**33,036**	**100,627**	**43,826**	**62,985**	**240,474**	**33,433**	**99,017**	**44,102**	**17,898**	**194,450**
Total assets	**51,559**	**174,901**	**62,359**	**74,130**	**362,949**	**49,524**	**161,304**	**60,298**	**25,425**	**296,551**
Shareholders' equity attributable to parent company shareholders	-	-	-	**69,387**	**69,387**	-	-	-	**46,102**	**46,102**
Shareholders' equity attributable to non-controlling interests	-	-	-	**61**	**61**	-	-	-	**50**	**50**
Non-current liabilities	**1,760**	**17,725**	**8,468**	**82,515**	**110,468**	**1,153**	**5,834**	**3,047**	**65,051**	**75,085**
Current financial liabilities	3,788	6,255	9,616	66,141	85,800	1,609	6,395	11,287	60,479	79,770
Current financial liabilities from rights of use	242	2,129	83	2,764	5,218	256	1,447	53	2,379	4,135
Trade payables	19,124	29,666	12,595	-	61,385	14,507	34,201	8,806	-	57,514
Other current liabilities	1,590	7,812	13,358	7,870	30,630	1,376	7,118	14,968	10,433	33,895
Total current liabilities	**24,744**	**45,862**	**35,652**	**76,775**	**183,033**	**17,748**	**49,161**	**35,114**	**70,912**	**175,314**
Total liabilities	**26,504**	**63,587**	**44,120**	**159,290**	**293,501**	**18,901**	**54,995**	**38,161**	**138,342**	**250,399**
Total shareholders' equity and liabilities	**26,504**	**63,587**	**44,120**	**228,738**	**362,949**	**18,901**	**54,995**	**38,161**	**184,494**	**296,551**

	Financial period ended 31 December							
	2020				**2019**			
(Euro in thousands)	**Energy**	**Trencher**	**Rail**	**Consolidated**	**Energy**	**Trencher**	**Rail**	**Consolidated**
Revenues from sales and services	43,812	100,444	26,399	170,655	44,244	125,306	31,116	200,666
Operating costs net of depreciation and amortisation	(38,566)	(87,931)	(23,179)	(149,676)	(38,654)	(108,660)	(25,903)	(173,217)
EBITDA	**5,246**	**12,513**	**3,220**	**20,979**	**5,590**	**16,646**	**5,213**	**27,449**
Amortisation and depreciation	(5,899)	(12,485)	(3,458)	(21,842)	(6,135)	(9,193)	(3,747)	(19,075)
Total operating costs	**(44,465)**	**(100,416)**	**(26,637)**	**(171,518)**	**(44,789)**	**(117,853)**	**(29,650)**	**(192,292)**
Operating income	**(653)**	**28**	**(238)**	**(863)**	**(545)**	**7,453**	**1,466**	**8,374**
Net financial income/(expenses)				(8,175)				(4,180)
Pre-tax profit/(loss)				**(9,038)**				**4,194**
Income tax				2,227				(1,213)
Net profit/(loss) for the period				**(6,811)**				**2,981**
Profit/(loss) attributable to non-controlling interests				17				14
Group profit/(loss)				**(6,828)**				**2,967**

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

Management monitors the operating income of its business units separately for the purpose of making decisions on resource, allocation and performance assessment. Segment performance is assessed based on operating income. Group financial management (including financial income and charges) and income tax are managed at Group level and are not allocated to the individual operating segments.

43. Related party transactions

The following table gives details of economic and equity transactions with related parties. The companies listed below have been identified as related parties as they are linked directly or indirectly to the current shareholders:
In particular, for the financial period ended 31 December 2020, the breakdown of each related party is reported below:

	31 December					31 December				
	2020					2019				
(Euro in thousands)	Trade receivables	Current financial receivables	Non-current financial payables	Current financial payables	Trade payables	Trade receivables	Current financial receivables	Current financial payables	Trade payables	Advances from customers
Associates:										
Locavert S.A.	27	-	-	-	-	422	-	-	-	-
R&E Contracting (Pty) Ltd.	-	-	-	-	-	-	230	-	-	-
Subtotal	**27**	**-**	**-**	**-**	**-**	**422**	**230**	**-**	**-**	**-**
Joint Ventures:										
Condux Tesmec Inc.	1,345	933	-	-	25	2,187	425	-	2	-
Tesmec Peninsula	12	1,887	-	1,214	-	147	2,060	1,658	-	-
Marais Tunisie	-	-	-	-	-	-	1	-	-	-
Marais Lucas	-	794	-	-	-	-	794	-	-	-
Subtotal	**1,357**	**3,614**	**-**	**1,214**	**25**	**2,334**	**3,280**	**1,658**	**2**	**-**
Related parties:										
Ambrosio S.r.l.	-	-	-	-	22	-	-	-	9	-
Ceresio Tours S.r.l.	-	-	-	-	-	-	-	-	1	-
Dream Immobiliare S.r.l.	-	77	-	-	1,240	-	562	-	51	-
Fi.ind.	25	-	-	-	11	-	-	-	-	-
TTC S.r.l.	-	-	-	-	16	-	-	-	61	-
M.T.S. Officine meccaniche S.p.A.	181	-	3,050	43	59	1,532	-	500	3,019	-
MTS4SERVICE USA L.L.C	-	-	-	-	-	1,230	-	-	-	13
RX S.r.l.	-	-	213	1,531	92	-	-	-	-	-
Comatel	-	-	-	-	-	-	-	-	-	-
Subtotal	**206**	**77**	**3,263**	**1,574**	**1,440**	**2,762**	**562**	**500**	**3,132**	**13**
Total	**1,590**	**3,691**	**3,263**	**2,788**	**1,465**	**5,518**	**4,072**	**2,158**	**3,134**	**13**

	Financial period ended 31 December					Financial period ended 31 December				
	2020					2019				
(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.	(210)	-	-	-	-	588	(9)	-	178	6
Subtotal	**(210)**	**-**	**-**	**-**	-	**588**	**(9)**	**-**	**178**	**6**
Joint Ventures:										
Condux Tesmec Inc.	6,708	-	(4)	10	11	3,762	-	(33)	-	11
Tesmec Peninsula	92	-	-	-	50	304	-	-	-	46
Subtotal	**6,800**	**-**	**(4)**	**10**	**61**	**4,066**	**-**	**(33)**	**-**	**57**
Related parties:										
Ambrosio S.r.l.	-	-	-	(3)	(4)	-	-	-	(9)	(2)

Ceresio Tours S.r.l.	-	-	-	-	-	-	-	(9)	-	-
Dream Immobiliare S.r.l.	-	-	-	(10)	(461)	-	-	-	(14)	(307)
Fi.ind.	-	-	-	77	(11)	-	-	-	27	-
TTC S.r.l.	-	-	(51)	-	(16)	-	-	(94)	-	-
M.T.S. Officine meccaniche S.p.A.	1,164	(12)	5	(695)	(58)	9,564	-	5	(2,557)	(8)
MTS4SERVICE USA L.L.C	-	-	-	-		4,006	-	-	(552)	-
RX S.r.l.	-	-	-	-	(92)	-	-	-	-	-
Comatel	-	-	-	-	-	109	-	(1)	-	-
Subtotal	**1,164**	**(12)**	**(46)**	**(631)**	(642)	**13,679**	-	**(99)**	**(3,105)**	**(317)**
Total	**7,754**	**(12)**	**(50)**	**(621)**	**(581)**	**18,333**	**(9)**	**(132)**	**(2,927)**	**(254)**

Note that as a result of the acquisition of 4 Service S.r.l. completed during the 2020 financial period, sales to related parties decreased significantly. As more fully described in section *4.1 Effects of the acquisition of the company 4 Service S.r.l.* of the Report on Operations, this transaction is part of the Group's broader strategy of concentrating in a single organisation all the management of the business rental that was carried out by 4 Service S.r.l. as well as by Tesmec USA Inc. In fact, the possibility of renting trenchers represents a synergic critical success factor for the Group's customers since it allows to offer to customers the maximum operational advantage by having at their disposal, when and where necessary, the machine best suited to the type of work to be carried out, with important savings in time - and costs - of execution of the planned works and leaving the possibility to postpone the purchase to a later date. This operation allows to generate added value for the Group, which takes the form of significant increases in cash flows following the transaction compared to the scenario before the transaction, thanks to the synergies between the Tesmec Group and 4 Service.

- Locavert S.A.: the French associate normally purchases trenchers/spare parts for rental business and carrying-out of excavation works at market prices and terms of payment;
- Condux Tesmec, Inc.: the JV purchases stringing machines and equipment for sale on the American market at market prices and terms of payment;
- Tesmec Peninsula WLL: the JV operates on the Saudi Arabian market supplying trencher machinery produced by the Group as well as on-site and after-sale support services. The income and cost items relate to the normal marketing activities of trenching machines;
- Dream Immobiliare S.r.l.: Financial income and expenses include financial expenses of the rentals for the Building of Grassobbio and Endine of Euro 461 thousand. Note that, following the application of the accounting standard IFRS 16, rents are not shown in the above table as they are represented as depreciation on rights of use.

44. Fees paid to Directors, Auditors, Operating Manager and executives with strategic responsibilities

Year 2020:

Board of Directors				
Name and Surname	**Office**	**Fees (in Euro)**	**Bonus and other fees (in Euro)**	**Total fees (in Euro)**
Ambrogio Caccia Dominioni	Chairman and Chief Executive Officer	345,000	-	345,000
Gianluca Bolelli	Vice Chairman	83,200	-	83,200
Caterina Caccia Dominioni	Director	52,000	-	52,000
Lucia Caccia Dominioni	Director	20,000	-	20,000
Paola Durante	Director	40,000	-	40,000
Simone Andrea Crolla	Director	30,000	-	30,000
Emanuela Teresa Basso Petrino	Director	41,600	-	41,600
Guido Luigi Traversa	Director	30,000	-	30,000

Among the actions aimed at reducing costs that the Group has taken in response to the negative effects of the COVID-19 pandemic, Chairman and Chief Executive Officer Ambrogio Caccia Dominioni partially waived his remuneration in the amount of Euro 115 thousand.

Board of Statutory Auditors				
Name and Surname	**Office**	**Fees (in Euro)**	**Bonus and other fees (in Euro)**	**Total fees (in Euro)**
Simone Cavalli	Chairman	39,917	-	39,917
Stefano Chirico	Statutory Auditor	31,720	-	31,720
Alessandra De Beni	Statutory Auditor	26,468	-	26,468

Fees paid to executives with strategic responsibilities in the 2020 financial period amounted to Euro 364 thousand (Euro 412 thousand in the 2019 financial period).

45. Legal and tax disputes

At the end of the reporting period, the Tesmec Group is party to a number of civil and tax disputes. With regard to civil disputes, the Group, based on the advice of its lawyers, considers that the possibility of losing these cases is possible or remote and therefore it has not set aside any provision in the financial statements for any liabilities arising from such disputes, in accordance with the accounting standards of reference that require the allocation of liabilities for probable and quantifiable risks.

The scope of assessment of the tax audits in progress described below totals approximately Euro 3 million, in respect of which a total provision of Euro 0.1 million has been set aside to cover the costs (marginal compared to the relief sought) that are expected to be incurred until the end of the proceedings in question.

In March 2018, Tesmec carried out the arbitration award obtained at the China International Economic and Trade Arbitration Commission of Beijing (CIETAC) and obtained the payment of more than Euro 1.3 million (principal, interest, legal costs) on the current account of the execution Judge treasury at the Beijing Court for a receivable claimed from a trading company. Due to the restrictions imposed by the current currency rules, the Judge was identified as the "trustee" to receive the payment made by the Chinese counterparty and then pay into the Tesmec accounts. Before the Judge could order the transfer, the counterparty filed an application for seizure of the sums, granted by the Judge against the filing of a counterclaim for compensation for alleged damages for which the Chinese counterparty was seeking refund, jointly and severally, from Tesmec and a Chinese company that at the time was responsible for certain import procedures. On 7 January 2020, the lawsuit for damages was dismissed. In 2020, the other party appealed against this measure before the Beijing Court of Appeal, which rejected the appeal last December. The procedure for the release of the fiduciary deposit is in progress, and therefore collection is expected in the short term.
In the meantime, as the Beijing Ordinary Court recognised the CIETAC international arbitration court (which has already issued a favourable arbitration award to the Group as for the previous contracts) as the competent jurisdiction, Tesmec started new arbitration proceedings against the trading company to obtain the payment of an additional Euro 491 thousand.

In April 2018, a debtor company notified the subsidiary Tesmec Rail, following the enforcement by the subsidiary of an court order not opposed by the debtor, for an amount of Euro 41 thousand, for a writ of summons before the Court of Bari, by virtue of which the debtor asked the judge to ascertain the termination of an alleged contract pending between the parties, requesting that Tesmec Rail be ordered to pay the sum of Euro 587 thousand for an invoice issued and not paid and as compensation for the alleged damage suffered, as well as legal costs; amounts and objections not contested and/or enforced in the proceedings opposing the injunction, which, moreover, was never formulated by the debtor company. The Group had not made any provision on the basis of the opinion expressed by the appointed lawyers, based on the lack of allegations in the introductory phase of the proceedings by the debtor company.

During June 2019, a tax audit by the Italian Inland Revenue Agency began in relation to the parent company Tesmec S.p.A. for the 2016 tax year, with reference to alleged capital losses not deductible for IRES and IRAP purposes. The audit is still in progress and the Company is awaiting the conclusions of the Office. The report on findings received reveal disputes with respect to which the Company, supported by the opinion of its tax advisors, considers its behaviour to be well-founded and the related risk of incurring liabilities is consequently assessed as merely possible. For this reason, the Directors did not deem it necessary to recognise any provisions in the financial statements. At the time of this report, no new elements have occurred in relation to the dispute in progress, confirming the assessments made by the Directors for the consolidated financial statements at 31 December 2019.

In December 2020, the Parent Company received a notice of assessment relating to the 2015 tax year, with a total finding for IRES, IRAP and VAT purposes of Euro 20 thousand. Due to the disputed amount, Tesmec contacted the Office in order to reach a solution reducing the dispute.

Following a tax audit on the 2015, 2016 and 2017 tax years, subsequently extended to the 2018 tax year, in December 2019 the subsidiary Groupe Marais received an assessment from the French tax authority mainly concerning the calculation of the R&D tax credit. In particular, the French tax authority contested the inherent nature mainly of the applicability of the tax relief regulations of the projects for a total amount of around Euro 500 thousand, which were used to justify the recognition of the tax credit. The subsidiary believes that it has correctly applied the tax regulations also in relation to the validations obtained at the time of the accrual of the tax credit and has appealed against this assessment, with the help of its tax advisors, according to which the appeal is likely to be upheld. For this reason, the Directors did not consider it necessary to recognise any significant provision in the financial statements, except for the estimated marginal costs in relation to the relief sought that are expected to be incurred until the end of the proceedings.

During the year, the Group entered into a settlement agreement with a French company, with the payment of an amount of Euro 250 thousand, which has already been settled in accordance with the instalment plan. This settlement agreement settles a dispute that began in April 2019. On 20 July 2020, the French company requested from the subsidiary Marais the payment of an amount equal to Euro 360 thousand for alleged moral damages. In this regard, no provision for risks was recognised, having obtained opinions from its lawyers according to which the Company's position is well-founded in relation to this dispute.

Moreover, with regard to civil proceedings, note that the dispute with a former French distributor was settled during the financial period. On 16 November 2020, the Court of Cassation upheld Tesmec's appeal and definitively rejected the opposing claims. The favourable ruling allowed Tesmec to recover the amount of Euro 1.9 million that had been paid into a special escrow account following the judgement of the Lyon Court of Appeal.

46. Positions or transactions resulting from atypical and/or unusual operations

Note that, pursuant to CONSOB Communication no. DEM/6064293 of 28 July 2006, in 2020 the Company did not carry out any atypical and/or unusual operation, as defined by the Communication itself.

47. Commitments and risks

They include sureties, guarantees and third-party assets with the Group. For the financial periods as at 31 December 2020 and 2019, they are summarised as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Sureties	110,604	103,454
Total commitments and risks	**110,604**	**103,454**

The recorded value concerns sureties provided by Tesmec S.p.A. through primary banking institutions in favour of customers. The increase is mainly due to the work orders of the newly set up Rail sector.

Risks and future expenses are reasonably hedged by funds specifically accounted for in the financial statements in accordance with IAS 37.

48. Reporting pursuant to Article 149-duodecies of CONSOB Issuer Regulation

Pursuant to Article 149-*duodecies* of the CONSOB Issuer Regulation (Resolution no. 11971/1999 and subsequent amendments), the following table shows the fees charged in the financial statements ended 31 December 2020 and 2019 for auditing services and for services other than audit rendered by the Company Deloitte & Touche S.p.A.

(Euro in thousands)	**Receiver**	**Independent Auditors that supplied the service**	**2020**	**2019**
Audit of the financial statements and consolidated financial statements	Tesmec S.p.A. Parent Company	Deloitte & Touche S.p.A.	140	102
	Italian subsidiaries	Deloitte & Touche S.p.A.	56	31
	Subsidiaries and Joint Ventures	Deloitte network	122	98
Limited half-year auditing	Tesmec S.p.A. Parent Company	Deloitte & Touche S.p.A.	28	28
Limited auditing of the consolidated non-financial statement	Tesmec S.p.A. Parent Company	Deloitte & Touche S.p.A.	25	15
Attestation services	Tesmec S.p.A. Parent Company and subsidiaries	Deloitte & Touche S.p.A.	95	-
Examination of the pro-forma financial information included in the registration document relating to the capital increase transaction	Tesmec S.p.A. Parent Company	Deloitte & Touche S.p.A.	124	-
Total			**525**	**274**

49. Significant events occurred after the reporting period

No significant events occurred after the reporting period.

Certificate of the Consolidated financial statements pursuant to Article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 as amended

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

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

   of the administrative and accounting procedures for preparing the consolidated financial statements during the 2020 financial period.

2. We also certify that:

2.1 the consolidated financial statements as at 31 December 2020:

   - 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 directors' report includes a reliable analysis of the business trend and operating result as well as of the situation of the issuer and of its consolidated companies, together with a description of the main risks and uncertainties they are exposed to.

Milan, 12 March 2021

Ambrogio Caccia Dominioni
Chief Executive Officer

Marco Paredi
Manager responsible for preparing
the Company's financial statements

INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: + 39 02 83322111
Fax: + 39 02 83322112
www.deloitte.it

INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
TESMEC S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Tesmec S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated income statement, consolidated statement of comprehensive income, statement of consolidated cash flows and statement of changes in consolidated shareholders' equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Tesmec S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte.

Revenue Recognition: terms and conditions of contracts for product sales	
Description of the key audit matter	Group's contracts for product sales are based upon shipping terms that can vary by region and that include, in some cases, the transfer of ownership to the buyer prior to the actual delivery of the product. Revenue recognition criteria for such transactions require the assessment of sales contractual terms and the fulfilment of relevant performance obligations in order to have a complete and true representation of these operations in the financial statements. The assessment of sales terms and conditions and their application to revenue recognition has been deemed a key audit matter, considering the variance and complexity of some contractual terms applied to sales transactions. The notes 3.3 *"Significant accounting policies – Revenues from contracts with customers"* and 3.5 *"Discretionary evaluations and significant accounting estimates"* of the consolidated financial statements provide disclosure on revenue recognition criteria applied to for product sales.
Audit procedures performed	As part of our audit, we have, among other procedures, carried out the following: - gained an understanding of the Group's process and procedures related to revenue recognition in accordance with applicable financial reporting standards; - identified the key controls implemented by the Group for revenue recognition; - gained an understanding of the substance of the sale transactions by analyzing the terms and conditions included in the main contracts and performed sample-based substantive procedures to test the fulfilment of revenue-relevant obligations recognized close to the year-end date in case ownership is transferred to the buyer prior to the actual delivery of the product; - verified the disclosures provided in the consolidated financial statements in accordance with applicable accounting standards.

Deloitte.

Compliance with financial covenants provided in financial loan contracts	
Description of the key audit matter	The Group's net financial indebtedness amounts to Euro 104.4 million (Euro 118.0 million as at December 31, 2019). Certain medium/long-term loan contracts provide the respect of some financial covenants that, in some cases, have not been met as at the financial statements date; therefore, with reference to such contracts, representing Euro 14.8 million of financial indebtedness and approximately 7.8% of the Group's gross financial indebtedness, the Group has classified as current liabilities also the medium/long term portion of such debts, amounting to Euro 10.0 million. The Group requested the waivers from the application of the covenants; some of such waivers have been already obtained, representing Euro 5.4 million of financial indebtedness. The Directors indicate that the process of obtaining all the waivers has not been completed, reporting in this regard that they are reasonably certain that this process can be completed in the short term, given the technical timeline strictly necessary to complete the procedures required in such circumstances. Moreover, the Directors themselves report that they prudently used the early repayment assumption of the loans whose covenants have not been complied with in estimating the projected cash flows prepared for the purpose of assessing going concern. The compliance with the financial covenants and related disclosure have been deemed a key audit matter considering the current and potential impacts of their non-compliance on the net financial indebtedness, as well as on the ability of the Group to fulfill its obligations in the foreseeable future. The note 20 "*Medium/long-term loans*" of the consolidated financial statements provides disclosure on the Group's financial covenant provisions and on the potential impacts of their breach.
Audit procedures performed	As part of our audit, we have, among other procedures, carried out the following: - assessed loan contracts and, with reference to the non-compliant covenant, analyzed of waivers, where already formalized by lenders, as well as the relevant communications between the Management of the Group and the lenders about the waiver request, whose process is still ongoing; - reviewed the accuracy of the covenants' calculations prepared by the Management of the Group based on the criteria provided in the loan contracts; - assessed the classification of financial liabilities in the financial statements in accordance with the applicable accounting standards and the consistency of the same classification with the forecast cash flows estimated by the Directors for the purposes of assessing going concern; - verified the disclosure provided in the consolidated financial statements and its compliance with the applicable accounting standards.

Deloitte.

Acquisition of 4 Service S.r.l. from the related party MTS	
Description of the key audit matter	The acquisition from the related party MTS - Officine Meccaniche di Precisione S.p.A. ("MTS") of quotes representing the entire capital of 4 Service S.r.l. was finalized on April 23, 2020. The entity was incorporated on March 4, 2020 following the contribution by MTS of the business unit dedicated to trencher rental, also through its subsidiary MTS4Service LLC USA. In previous years, the Group had entered significant transactions with MTS for the sale of trenchers, the provision of logistics and maintenance services, as well as the temporary lease back of certain machines. The acquisition, resulting a transaction with related parties, was previously submitted to Tesmec S.p.A.'s Control and Risk, Sustainability and Related Party Transactions Committee, which expressed a favorable opinion on its completion, having considered, inter alia, the interest for the Group in its execution, as well as its economic substance, also through the support of an expert's opinion issued on April 14, 2020. The consideration for the acquisition, agreed by the parties within a range of values estimated by a further expert appointed by the Board of Directors, amounts to Euro 9.4 million. Upon completion of the acquisition, such amount has been provided as Group's equity reserve, as a result of the waiver by MTS of its receivable arose from the transfer of the quotes as provided for in the agreements in place, in the context of the Euro 35 million Tesmec S.p.A.'s capital increase transaction, completed during December 2020 with the full subscription of the shares offered. The acquisition of 4 Service S.r.l. represents a "business combination under common control" and consequently is excluded from the application of IFRS 3. In this regard, the Directors, in accordance with IAS 8, have identified the fair value as the applicable criterion for the recognition of net assets transferred, having deemed such criterion reflecting the economic substance of the transaction. Such assessment has been supported by Directors' estimate of significant additional positive cash flows post-transaction compared to the pre-transaction scenario, thanks to the realization of synergies between Tesmec Group and 4 Service S.r.l.. Therefore, the choice of accounting criteria has privileged the recognition at fair value of the net assets transferred at the time of the transaction, in accordance with the acquisition method provided for by IFRS 3. The Directors report that the higher value of the net assets transferred with respect to the corresponding book value has been allocated to Property, Plant and Equipment for Euro 2.8 million and temporarily to Goodwill for the remaining Euro 0.1 million, pending completion of the process of determining the fair value of the net assets acquired within 12 months from the date of acquisition, as allowed by IFRS 3. Considering the significance of the operation and the fact that it is a related party transaction, we deemed the acquisition of 4 Service S.r.l. as a key audit matter.

Deloitte.

	The note 7. "*Intangible assets*" to the consolidated financial statements provides information on the acquisition of 4 Service S.r.l. and its accounting effects. The transaction is also described in paragraph 4.1 "*Effects of the acquisition of the company 4 Service S.r.l.*" of the Report on Operations.
Audit procedures performed	As part of our audit, we have, among other procedures, carried out the following: - analyzed the documentation related to the operation, including the minutes of the meetings of the corporate bodies; - gained an understanding of the relevant controls on related party transactions related to the operation; - analyzed the expert's opinion issued on April 14, 2020 regarding the transaction; - analyzed the assessment report issued by the additional expert appointed by the Board of Directors estimating the range of values within which the parties agreed the consideration for the acquisition; - considered the expertise and the objectivity of the experts involved by the Group in the evaluation of the operation; - analyzed of the accounting treatment adopted by the Group for the recognition of the transaction in question; - analyzed the disclosure presented in the notes to the consolidated financial statements and its compliance with the applicable accounting standards.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Deloitte.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of the Group has appointed us on April 22, 2021 as auditors of the Company for the years from December 31, 2019 to December 31, 2027.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Tesmec S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of the Group as at December 31, 2020, including its consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of the Group as at December 31, 2020 and on its compliance with the law, as well as to make a statement about any material misstatement.

Deloitte.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure is consistent with the consolidated financial statements of the Group as at December 31, 2020 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Tesmec S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Lorenzo Rossi
Partner

Milan, Italy
March 31, 2021

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

FINANCIAL STATEMENTS OF TESMEC S.P.A.

Statement of financial position

(in Euro)	Notes	31 December 2020	31 December 2019
NON-CURRENT ASSETS			
Intangible assets	4	7,739,314	5,731,729
Property, plant and equipment	5	7,070,771	7,403,187
Rights of use	6	13,238,298	14,228,522
Equity investments in subsidiaries	7	67,009,426	56,418,174
Equity investments in associates	7	1,737,511	1,737,511
Other equity investments		2,808	2,808
Financial receivables and other non-current financial assets	8	5,667,641	4,975,196
of which with related parties:		*2,500,000*	*3,500,000*
Derivative financial instruments	18	855	4,034
Deferred tax assets	26	2,970,082	2,329,128
TOTAL NON-CURRENT ASSETS		**105,436,706**	**92,830,289**
CURRENT ASSETS			
Inventories	9	35,132,423	34,620,400
Trade receivables	10	31,215,118	36,831,935
of which with related parties:		*9,632,658*	*13,544,352*
Tax receivables		300,720	-
Other available-for-sale securities		1,455	1,633
Financial receivables and other current financial assets	11	52,948,714	45,375,077
of which with related parties:		*48,286,863*	*40,680,645*
Other current assets	12	3,095,285	2,869,462
of which with related parties:		*60,013*	*185,692*
Cash and cash equivalents	13	49,886,778	4,649,066
TOTAL CURRENT ASSETS		**172,580,493**	**124,347,573**
TOTAL ASSETS		**278,017,199**	**217,177,862**
SHAREHOLDERS' EQUITY			
Share capital	14	15,702,162	10,708,400
Reserves	14	73,456,242	40,904,307
Net profit for the period	14	(454,999)	4,232,377
TOTAL SHAREHOLDERS' EQUITY		**88,703,405**	**55,845,084**
NON-CURRENT LIABILITIES			
Medium/long-term loans	15	58,134,517	13,550,172
of which with related parties:		*3,263,000*	-
Bond issue non current	16	6,194,511	24,764,715
Non-current financial liabilities from rights of use	17	10,908,724	12,054,573
Derivative financial instruments	18	170,331	6,007
Employee benefit liability	19	1,813,868	1,950,723
Deferred tax liabilities	26	1,664,116	1,654,628
TOTAL NON-CURRENT LIABILITIES		**78,886,067**	**53,980,818**
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	20	46,265,373	61,149,216
of which with related parties:		*1,257,449*	*5,780,891*
Current financial liabilities from rights of use	17	2,690,427	2,294,926
Bond issue current	21	17,436,980	-
Derivative financial instruments	18	459	6,228
Trade payables	22	36,217,159	33,721,382
of which with related parties:		*2,100,027*	*2,652,019*
Advances from customers		1,285,389	838,966
Income taxes payable	23	53,662	1,486,820
Provisions for risks and charges	24	400,000	520,000
Other current liabilities	25	6,078,278	7,334,422
of which with related parties:		-	*358,820*
TOTAL CURRENT LIABILITIES		**110,427,727**	**107,351,960**
TOTAL LIABILITIES		**189,313,794**	**161,332,778**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**278,017,199**	**217,177,862**

Income statement

(in Euro)	Notes	Financial period ended 31 December 2020	2019
Revenues from sales and services	27	**88,817,626**	**100,296,781**
of which with related parties:		*28,089,889*	*39,400,087*
Cost of raw materials and consumables	28	(49,557,978)	(53,573,589)
of which with related parties:		*(1,920,881)*	*(2,969,166)*
Costs for services	29	(13,317,432)	(15,942,075)
of which with related parties:		*314,799*	*(300,805)*
Payroll costs	30	(18,063,934)	(20,383,520)
Other operating (costs)/revenues, net	31	(345,505)	(77,585)
of which with related parties:		*(333,789)*	*265,894*
Amortisation and depreciation	32	(6,239,932)	(6,201,020)
Development costs capitalised	33	1,779,208	1,946,311
Total operating costs		**(85,745,573)**	**(94,231,478)**
Operating income		**3,072,053**	**6,065,303**
Financial expenses	34	(7,092,531)	(5,078,584)
of which with related parties:		*(563,385)*	*(465,745)*
Financial income	35	2,947,383	4,522,546
of which with related parties:		*1,078,831*	*2,742,229*
Pre-tax profit/(loss)		**(1,073,095)**	**5,509,265**
Income tax	26	618,096	(1,276,888)
Net profit/(loss) for the period		**(454,999)**	**4,232,377**

Comprehensive income statement

(in Euro)	Notes	Financial period ended 31 December 2020	2019
NET INCOME FOR THE PERIOD		**(454,999)**	**4,232,377**
Other components of comprehensive income:			
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	19	(17,118)	140,155
Income tax		4,108	(33,638)
		(13,010)	106,517
Total other income/(losses) after tax		**(13,010)**	**106,517**
Total comprehensive income (loss) after tax		**(468,009)**	**4,338,894**

Cash flow statement

(in Euro)	Notes	Financial period ended 31 December 2020	2019
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit/(loss) for the period		(454,999)	4,232,377
Adjustments to reconcile net income for the period with the cash flows			
Amortisation and depreciation	32	6,239,932	6,201,020
Provisions for employee benefit liability	19	13,190	28,870
Provisions for risks and charges / inventory obsolescence / doubtful	9-10-24	375,000	610,000
Employee benefit payments	19	(132,927)	(161,887)
Payments/use of provisions for risks and charges	24	(250,000)	-
Net change in deferred tax assets and liabilities	26	(635,574)	118,543
Change in fair value of financial instruments	18	161,734	(26,625)
Change in current assets and liabilities:			
Trade receivables	10	5,888,240	(8,624,363)
of which with related parties:		*3,911,694*	*(3,910,588)*
Inventories	9	(582,023)	(292,036)
Trade payables	22	2,956,422	7,676,270
of which with related parties:		*(551,992)*	*1,269,198*
Other current assets and liabilities		(3,215,845)	2,347,162
of which with related parties:		*(233,141)*	*40,366*
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		**10,363,150**	**12,109,331**
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	5	(1,272,209)	(1,280,535)
Investments in intangible assets	4	(4,608,356)	(2,730,506)
Investments in rights of use	6	(1,680,348)	(956,904)
(Investments)/disposals of financial assets		(9,457,156)	(10,548,617)
of which with related parties:		*(8,606,218)*	*(7,068,954)*
Proceeds from sale of property, plant and equipment and intangible	4-5-6	636,036	298,184
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		**(16,382,033)**	**(15,218,378)**
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	15	55,298,466	8,010,440
Recognition of financial liabilities from rights of use	17	2,149,121	956,904
Repayment of medium/long-term loans	15-16	(7,985,986)	(10,884,793)
of which with related parties:		*3,263,000*	-
Repayment of financial liabilities from rights of use	17	(2,899,469)	(2,620,532)
Net change in short-term financial debt	17-20-21	(19,205,847)	1,736,845
of which with related parties:		*(4,523,442)*	*3,441,767*
Capital increase	14	23,900,310	-
NET CASH FLOW GENERATED BY/(USED IN) FINANCING ACTIVITIES (C)		**51,256,595**	**(2,801,136)**
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		**45,237,712**	**(5,910,183)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH		-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	13	4,649,066	10,559,249
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		**49,886,778**	**4,649,066**
Additional information:			
Interest paid		3,525,631	3,901,746
Income tax paid		587,989	-

Statement of changes in shareholders' equity

(in Euro)	Share capital	Legal reserve	Share premium reserve	Reserve of Treasury Shares	Other reserves	Net profit/(loss) for the period	Total shareholders' equity
Balance as at 1 January 2019	**10,708,400**	**2,141,680**	**10,915,101**	**(2,340,969)**	**25,964,058**	**4,330,955**	**51,719,224**
Net profit for the period	-	-	-	-	-	4,232,377	4,232,377
Allocation of profit for the period	-	-	-	-	4,330,954	(4,330,954)	-
Other changes	-	-	-	-	(106,517)	-	(106,517)
Balance as at 31 December 2019	**10,708,400**	**2,141,680**	**10,915,101**	**(2,340,969)**	**30,188,495**	**4,232,378**	**55,845,084**
							-
Net profit/(loss) for the period	-	-	-	-	-	(454,999)	(454,999)
Allocation of profit for the period	-	-	-	-	4,232,378	(4,232,378)	-
Other changes	-	-	-	-	13,010	-	13,010
Capital increase	4,993,762	-	28,300,120	-	6,428	-	33,300,310
Balance as at 31 December 2020	**15,702,162**	**2,141,680**	**39,215,221**	**(2,340,969)**	**34,440,311**	**(454,999)**	**88,703,405**

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Explanatory notes

Accounting policies adopted in preparing the financial statements as at 31 December 2020

1. Company information

The Tesmec S.p.A. Parent Company (hereinafter "Parent Company", "Tesmec" or "Company") is a legal entity organised in accordance with the legal system of the Italian Republic. The ordinary shares of Tesmec are listed on the MTA STAR Segment of the Milan Stock Exchange as from 1 July 2010. The registered office of the Company is in Milan in Piazza S. Ambrogio no. 16.

The publication of Tesmec's financial statements for the period ended 31 December 2020 was authorised by means of the resolution of the Board of Directors on 12 March 2021.

2. Reporting standards

The financial statements of Tesmec S.p.A. as at 31 December 2020 comprise the statement of financial position, income statement, comprehensive income statement, cash flow statement, statement of changes in shareholders' equity and the related explanatory notes. These financial statements are prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and approved by the European Union according to the text published in the Official Journal of the European Communities (OJEC) and in force as at 31 December 2020. These IFRS principles also include all revised international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously called Standing Interpretations Committee ("SIC").

The reference accounting standards adopted in the current yearly financial statements are consistent with those used for preparing the yearly financial statements of the Company for the period ended 31 December 2019, also prepared according to the international accounting standards, with the exception of the principles and interpretations of new application, explained in note 2.3.

The values shown in the financial statements are expressed in Euro. The values shown in the explanatory notes are rounded to the nearest thousand, unless otherwise indicated.

Business continuity

These Financial Statements were prepared on a going concern basis in that the Directors checked the ability of the Company and of the Group to meet their obligations in the foreseeable future of at least 12 months, also with special attention to CONSOB Warning notice no. 1/21 of 16 February 2021 and developing for this purpose alternative forecasting scenarios that reflect, in addition to the effects of possible early repayment of certain loans whose covenants have not been met at the reporting date, the effects of further possible slowdowns in business compared to expectations due to the general uncertainty related to the global pandemic emergency. At the end of this analysis, the Directors concluded that the going concern assumption adopted in the preparation of the financial statements is adequate in that there are no significant uncertainties as to the Company's ability to continue as a going concern.

The main risks and uncertainties to which the Tesmec Group is exposed are described in the specific dedicated paragraph of the Management Report. The description of how the Company and the Group manage financial risks is contained in the Financial Risk Management paragraph of these Explanatory Notes.

2.1 Adopted financial statement reporting formats

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

- In the income statement, it was decided to present a cost analysis by using a classification based on their nature.
- The comprehensive income statement includes the result for the period and, by homogeneous categories, the income and expenses that, under IFRS, are recognised directly in shareholders' equity.
- In the statement of financial position, it was decided to represent current and non-current assets and current and non-current liabilities classified separately, in accordance with IAS 1.
- The statement of changes in shareholders' equity occurred during the period are represented through a table that reconciles the opening and closing balances of each item of the shareholders' equity of the Company.

- The cash flow statement represents the financial flows by dividing them into operating, investing and financing activities. In particular, financial flows from operating activities are represented, in accordance with IAS 7, using the indirect method, whereby net profit or loss for the year is adjusted by the effects of non-monetary transactions, by any deferral or provision of prior or future operating receipts or payments, and by revenue or cost elements connected with financial flows from investing or financing activities.

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

2.2 Significant accounting policies

Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of EC Regulation No. 1606/2002 of the European Parliament and Council of 19 July 2002 and in accordance with Article 9 of Legislative Decree No. 38/2005.

The financial statements have been prepared on a historical cost basis, taking into account of the appropriate value adjustments, except for items that have been measured at fair value in accordance with IFRS (derivative financial instruments, financial assets represented by shares or bonds in portfolio, investment properties and contingent consideration). The carrying amounts of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in fair value attributable to the risks that are being hedged in effective hedge relationships.

The financial statements as at 31 December 2019 provide comparative information in respect of the previous period. In addition, the accounting policies adopted in these financial statements were applied in the same way also to all the periods of comparison.

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified under non-current assets and liabilities.

Business combinations and goodwill

Business combinations are recorded by using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred at fair value at the date of acquisition and the amount of any minority interest in the acquired company. For each business combination, the purchaser must consider any minority interest in the acquired company at fair value or in proportion to the share of the minority interest in the identifiable net assets of the acquired company. Acquisition costs are paid and classified among administrative expenses.

When the Company acquires a business, it must classify or designate the acquired financial assets or the liabilities assumed in accordance with the contract terms, the economic conditions and other relevant conditions existing at the date of acquisition. This includes the verification to establish whether an embedded derivative must be separated from the host contract.

Each contingent consideration must be recognised by the purchaser at fair value at the date of acquisition. The contingent consideration classified as equity is not remeasured and its subsequent payment is recorded with the shareholders' equity as a balancing entry. The fair value change in the contingent consideration classified as asset or liability, i.e. a financial instrument that is in the scope of IFRS 9 Financial instruments, must be recognised in the income statement in compliance with IFRS 9. The

contingent consideration that is not within the scope of IFRS 9 is measured at fair value at the end of the reporting period and changes in fair value are recognised in the income statement.
The goodwill is initially measured at cost that arises as surplus between the sum of the paid consideration and the amount recognised for the minority shares compared to identifiable net assets acquired and liabilities undertaken by the Company. If the fair value of net assets acquired is in excess of the sum of the consideration paid, the Company checks again if it has identified correctly all the assets acquired and all the liabilities assumed and reviews the procedures used to determine the amounts to be recognised at the acquisition date. If the consideration is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognised in the income statement.
After initial recognition, goodwill is measured at cost, net of any accumulated impairment loss. For impairment loss verification, the goodwill acquired in a business combination must be allocated, from the date of acquisition, to each cash-generating unit of the Company that is expected to benefit from the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to such units.
If the goodwill has been allocated to the cash-generating unit and the entity disposes of part of the assets of such unit, the goodwill associated to the asset disposed of must be included in the book value of the asset when the profit or loss deriving from the divestment is determined. The goodwill associated with the asset disposed of must be determined on the basis of the values related to the asset disposed of and of the retained part of the cash-generating unit.

Intangible assets with definite lives

Intangible assets are recorded in the assets at purchase cost when it is likely that the use of the asset will generate future economic benefits and when the cost of the asset can be measured reliably. Intangible assets acquired by means of business combinations are recorded at fair value on the date of acquisition. The useful life of intangible assets is measured as definite or indefinite.
Intangible assets with definite lives are amortised on a straight-line basis over their estimated useful life and submitted to impairment test whenever there is a possible impairment loss. The residual useful life is reviewed at the end of each financial period or more frequently, if necessary. Changes in the expected estimated useful life or in the ways in which future economic benefits related to the intangible asset are achieved by the Company are recognised by changing the period and/or the method of amortisation and treated as changes in accounting estimates. Amortisation charges of intangible assets with definite lives are recognised in the income statement in the category of cost consistent with the function of the intangible asset.

The estimate of the useful life of intangible assets with definite lives is set below:

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

Research and Development costs

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

Rights and trademarks
The purchase costs of the rights and trademarks are amortised over a period of time during the useful life of the acquired asset, which was determined in five years.

Intangible assets with indefinite lives are not amortised but tested annually for impairment losses on an individual basis or in terms of cash-generating unit. The assessment of the indefinite life is reviewed annually to determine whether such an allocation continues to be sustainable otherwise the change from indefinite to definite life applies on a prospective basis.

An intangible asset is derecognised on disposal (i.e. when the acquirer obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net consideration of the disposal and the book value of the asset) is included in the income statement.

Property, plant and equipment

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

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

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

If significant parts of property, plant and equipment have different useful lives, these components are recorded separately. Lands, both without construction and belonging to buildings, are recorded separately and are not depreciated since they have an unlimited useful life.
The Company, based on the considerations made, established that temporarily leased trencher machines can be depreciated on a pro-rata basis according to actual use. In particular, they are depreciated at an annual 20% rate during the lease period. In the event that these trenchers are not leased temporarily during the reporting period, the depreciation process is suspended.
The book value of property, plant and equipment is subject to an impairment test when events or changed circumstances indicate that the book value cannot be recovered. If there is an indication of this type and, in the event that the book value exceeds the estimated realisable value, assets are written down so as to reflect their realisable value. The realisable value of property, plant and equipment is represented by the net sales price and the value in use, whichever is higher.
When defining the value in use, the expected future financial flows are discounted back using a pre-tax discount rate that reflects the current market estimate of the cost of money placed in relation to the timescale and specific risks of the asset. In relation to assets that do not generate fully independent financial flows, the realisable value is determined in relation to the cash-generating unit to which the asset belongs. Impairment losses are recorded in the income statement among costs for amortisation, depreciation and write-downs. These impairment losses are reversed if the reasons that generated them no longer exist.
At the time of sale or when there are no future economic benefits expected from the use of an asset, it is written off from the financial statements and any loss or profit is posted to the income statement in the year of the aforesaid writing off.

Leases

The Company assesses at the time of signing an agreement whether the agreement is, or contains, a lease. In other words, whether the contract gives the right to control the use of an identified asset for a period of time in exchange for a consideration.

Contracts with the Company as lessee
The Company adopts a single recognition and measurement model for all leases, except for short-term leases and leases of low-value assets. The Company recognises the lease liability representing its obligation to make lease payments and the right-of-use asset representing its right to use the underlying leased asset.

Rights of use
The Company recognises the right-of-use asset on the inception date of the lease (i.e. the date on which the underlying asset is available for use). The right-of-use assets are measured at cost, net of accumulated depreciation and any impairment, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of the lease liabilities recognised, the initial direct costs incurred and the lease payments made at or before the commencement date, net of any incentives received. Right-of-use assets are depreciated on a straight-line basis from the commencement date to the end of the useful life of the asset consisting of the right of use or at the end of the lease term, whichever comes first.
If the lease transfers ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the right-of-use asset reflects the fact that the lessee will exercise the purchase option, the lessee must depreciate the right-of-use asset from the commencement date until the end of the useful life of the underlying asset.
Right-of-use assets are subject to Impairment. Refer to the section Impairment of assets.

Lease liabilities
At the commencement date of the lease, the Company recognises the lease liabilities by measuring them at the present value of the lease payments not yet paid at that date. Payments due include fixed payments net of any lease incentives to be received, variable lease payments that depend on an index or rate, and amounts expected to be paid as residual value guarantees. Lease payments also include the exercise price of a purchase option if it is reasonably certain that this option will be exercised by the Company and the penalty payments for termination of the lease, if the lease term takes account of the exercise by the Company of the option to terminate the lease.
Variable lease payments that do not depend on an index or rate are recognised as costs in the period in which the event or condition that generated the payment occurs.
In calculating the present value of the payments due, the Company uses the incremental borrowing rate at the inception date if the implicit interest rate cannot be easily determined. After the commencement date, the amount of the lease liability increases to reflect interest on the lease liability and decreases reflect the lease payments made. Moreover, the book value of lease liabilities is restated in the event of any changes to the lease or for reviewing the contractual terms for the change in payments; it is also restated if there are changes in the valuation of the option to purchase the underlying asset or changes in future payments resulting from a change in the index or rate used to determine such payments.

Short-term leases and leases of low-value assets
The Company applies the exemption for the recognition of short-term leases (leases that have a duration of 12 months or less from the inception date and do not contain a purchase option). The Company has also applied the exemption for leases relating to low-value assets with reference to lease contracts for office equipment whose value is considered low. Short-term leases and leases of low-value assets are recognised as costs on a straight-line basis over the lease term.

Contracts with the Company as lessor
If the Company signs lease contracts that substantially transfer to the customers all the risks and rewards deriving from the ownership of the leased asset, the revenues concerning the transfer of the asset are recognised in the financial statements and are recorded on the inception date of the lease at the fair value of the leased asset or at the present value of the lease payments, if lower. Moreover, a borrowing that corresponds to the present value of the lease payments still due is recorded in the balance sheet. Financial income is posted directly to the income statement.
Lease contracts in which the Company substantially retains all risks and rewards related to the ownership of the asset are classified as operating leases. Lease income from operating leases must be recognised on a straight-line basis over the lease term and are included in revenues in the income statement due to their operating nature. Initial trading costs are added to the book value of the leased asset and recognised over the term of the contract on the same basis as lease income. Unplanned rents are recognised as revenue in the period in which they accrue.

Impairment of assets

At the end of each reporting period, the Company considers the possible existence of impairment loss indicators of intangible assets with definite lives, of property, plant and equipment, of right-of-use assets and of investments in associates and joint ventures. If these indicators exist, an impairment test is carried out.
The recoverable amount is determined as the higher of the fair value of an asset or cash-generating unit less selling costs and its value in use and is determined by single asset, with the exception of the case in which this asset generates financial flows

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

Intangible assets with an indefinite useful life are tested for impairment at least once a year at the cash-generating unit level and whenever circumstances indicate that there may be an impairment loss.

Equity investments in subsidiaries, associates and in joint ventures

Equity investments in subsidiaries, associates and companies subject to joint control (not classified as held for sale) are recorded in accordance with the method of cost, converted in Euro at historical exchange rates if referring to equity investments in foreign companies whose financial statements are drawn up in a currency other than Euro, in accordance with IAS 27.
The initial cost is equal to the costs incurred for the purchase or constitution or it is defined by experts in case of acquisitions through contributions.
When there is an indication that the equity investment may have suffered an impairment loss, its recoverable amount is estimated, in accordance with the method specified in IAS 36 "Impairment of Assets", in order to determine the eventual loss to be posted to the income statement. In this case, the Company calculates the amount of the loss as difference between the recoverable amount of the investee and its book value in its own financial statements, recognising this difference in the income statement.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity. They are initially recognised at fair value and, after initial recognition, measured in relation to the classification, as required by IFRS 9.
Upon initial recognition, financial assets are classified, as the case may be:

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

The classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows of the financial assets and on the business model that the Company uses to manage them. With the exception of trade receivables that do not contain a significant loan component or for which the Company has applied a practical expedient, the Company initially values a financial asset at its fair value plus transaction costs. Trade receivables that do not contain a significant loan component or for which the Company has applied a practical expedient are valued at the transaction price as explained in the specific paragraph.
Financial assets at fair value with changes recognised in the income statement are recognised in the statement of financial position at fair value and net changes in fair value in profit or loss. This category includes derivative instruments.
Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or revalued. Financial assets at amortised cost of the Company include trade receivables.

Financial assets are derecognised from the Company's statement of financial position when:

- rights to receive cash flows from the asset are paid off; or
- the Company has transferred to a third party the right to receive cash flows from the asset or it has assumed the contractual obligation to pay them totally and without any delays and (a) has transferred substantially all risks and rewards related to the ownership of the financial asset, or (b) has not substantially transferred or retained all risks and rewards of the asset, but has transferred its control.

If the Company has not transferred or retained substantially all the risks and rewards or has not lost control over it, the asset continues to be recognised in the consolidated financial statements of the Group to the extent of its residual involvement in the asset itself. In this case, the company also recognises an associated liability.
The Company records a write-down for expected credit loss ('ECL') for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

All financial liabilities are initially recognised at fair value, in addition to directly attributable transaction costs in case of mortgages, loans and payables. The Company's financial liabilities include trade payables and other payables, mortgages and loans, including current account overdrafts and derivative financial instruments.
For the purposes of subsequent valuation, financial liabilities are classified into two categories:

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

Financial liabilities at fair value with changes recognised in the income statement include derivative financial instruments subscribed by the Company that are not designated as hedging instruments in a hedging relationship pursuant to IFRS 9. Gains or losses on those liabilities are recognised in profit or loss.
With regard to financial liabilities at amortised cost, they are measured using the effective interest rate method. Gains or losses are recorded in the income statement when the liability is discharged, in addition to using the amortisation process. Amortisation at the effective interest rate is included in financial expenses in the income statement for the period.

A financial liability is derecognised when the obligation underlying the liability is discharged, cancelled or fulfilled. If an existing financial liability is replaced by another from the same lender, at substantially different conditions, or if the conditions of an existing liability are substantially changed, this replacement or change is treated as a derecognition of the original liability accompanied by the recognition of a new liability, with any differences between the book values recognised in the income statement.
For the management of payments with its suppliers, the Company uses some solutions of the "*supply chain finance*" and in particular it uses the instrument of reverse factoring with some financial institutions. In such cases, the financial institution extinguishes the trade payable by anticipating its payment to the supplier, and grants the Company, of which it has become a creditor, an extension of payment. The Company assesses, for each supplier, the deferral conditions obtained from financial counterparties on these liabilities and, depending on the substance of the liabilities, records them as trade payables or reclassifies them as financial payables.

Derivative financial instruments

Derivative financial instruments are used by the Company solely with the intent to hedge financial risks relating to exchange-rate changes on commercial transactions in foreign currency and interest rate risks on interest-bearing loans and borrowings. These derivative financial instruments are initially recognised at fair value at the date when the derivative contract is signed, after which these are once again valued at fair value. Derivatives are recognised as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.
If the conditions for the application of hedge accounting do not apply, the effects deriving from the fair value measurement of the derivative financial instrument are booked directly to the income statement.

In accordance with IFRS 9, hedging derivative financial instruments can be recorded according to the methods established for hedge accounting only when all of the following hedging effectiveness requirements are met:

- there is an economic relationship between the hedged item and hedging instrument;
- the effect of the credit risk does not prevail over the changes in value resulting from the economic relation;
- the hedging ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

At the end of the reporting period, the Company does not hold derivative instruments that qualify for hedge accounting.

Financial assets and other non-current assets

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

Inventories

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

Construction contracts

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

Trade receivables and other current assets

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.
Other current assets are initially recorded at fair value, which generally corresponds to the nominal value and subsequently measured at amortised cost and reduced in case of impairment losses. The Company availed itself of the possibility not to use the amortised cost criterion if this would have irrelevant effects in order to give a true and fair view.
These financial assets are subsequently measured recognising a specific allowance for expected credit losses ('ECL'). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

For trade receivables, the Company applies a simplified approach in calculating ECLs using a provision matrix that is based on its historical experience, adjusted for forward-looking factors specific to the debtors and the economic environment.
Receivables in foreign currency other than the reporting currency are recorded at the exchange rate of the date of operation and subsequently converted to the exchange rate at the end of the financial period. The profit or loss resulting from the conversion are attributed to the income statement.
If the maturity of the trade receivables and of the other current assets does not fall within the normal commercial terms and do not bear interests, a detailed discounting process is applied based on assumptions and estimates.
The Company sells a portion of its trade receivables through factoring without recourse. Receivables assigned following factoring operations can be written off from the assets of the balance sheet only if the risks and rewards related to their legal ownership were substantially transferred to the assignee.

Other receivables and other financial assets

They are recorded initially at fair value and subsequently measured according to the amortised cost.

Cash and cash equivalents

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

Loans

Loans are initially recognised at fair value of the amount received, net of any related loan acquisition costs.
After initial recognition, loans are valued using the amortised cost approach, applying the effective interest rate method. Any profit or loss is recorded in the income statement when the liability is discharged, in addition to using the amortisation process.
The Company availed itself of the possibility not to apply this criterion if the effects for the purposes of a true and fair representation were irrelevant.

Treasury shares

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

Trade payables and other payables

Payables are measured at nominal value.
Given the granted terms of payment, when a financial operation is configured, payables measured with the amortised cost approach are submitted to the discounting back of the nominal value to be paid, recording the discount as a financial charge.
The Company availed itself of the possibility not to apply this criterion if the effects for the purposes of a true and fair representation were irrelevant.
Payables in foreign currency are aligned with the exchange rate at the end of the financial period and profits or losses deriving from the adjustment are posted to the income statement in unrealised exchange profits/losses.

Provisions for risks and charges

Provisions for risks and charges are made when the Company must face up a current liability (legal or implicit) that is the result of a past event; an outflow of resources is likely to meet this obligation and it is possible to make a reliable estimate of its amount.
When the Company believes that a provision for risks and charges will be partially or totally reimbursed, for example in the case of risks covered by insurance policies, the compensation is recognised separately in the assets only if it is practically certain. In this case, the cost of any provision is stated in the income statement net of the amount recognised for the compensation.
If the discounting back effect of the value of money is significant, provisions are discounted back using a pre-tax discount rate that reflects, if appropriate, the specific risks of the liabilities. When discounting back is carried out, the increase in the provision due to the passage of time is recognised as a financial expense.

The Company makes provisions for product guarantees in relation to the guarantee contractually granted to its customers on the sold machines. These provisions are calculated on the basis of the historical incidence of costs for product warranty borne in past financial periods, of the period of validity of the granted warranties and revised annually.

Employee benefit liability

Post employment benefits are defined on the basis of plans, even though not yet formalised, which are classified as "defined contribution" and "defined benefit" in relation to their characteristics.
The Italian legislation (Article 2120 of the Italian Civil Code) establishes that, at the date on which each employee rescinds the employment contract with the company, he/she receives an allowance called TFR (severance indemnity). The calculation of this allowance is based on some items forming the yearly pay of the employee for each year of work (properly revalued) and on the length of the employer-employee relationship. According to the Italian civil law, this allowance is reflected in the financial statements according to a calculation method based on the allowance accrued by each employee at the reporting date, if all employees rescind the employment contract on that date.
The IFRIC of the IASB dealt with the TFR matter, as defined by the Italian legislation, and concluded that, in accordance with IAS 19, it must be calculated according to a method called Projected Unit Credit Method (known as PUCM) in which the amount of the liability for the acquired benefits must reflect the expected resignation date and must be discounted back.

The Company's net liability deriving from defined benefit plans is calculated separately for each plan by estimating the amount of the future benefit that the employees acquired in exchange for the work carried out in the current financial period and in prior financial periods; this benefit is discounted back to calculate the present value. As provided by the revised version of IAS 19, actuarial gains and losses are recorded in full in the comprehensive income statement in the period in which they arise. The evaluation of liabilities is made by an independent actuary.
The Company has no other defined benefit pension plan.
The Company's liability deriving from defined-contribution plans is limited to the payment of contributions to the State or to an asset or legally separate entity (known as fund), and is determined on the basis of the contributions due.

Government grants

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

Revenues from contracts with customers

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

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

More specifically, with reference to sales with CIF condition, control of the asset is transferred to the end customer, and therefore the revenues are recognised, when the asset is handed over at the broadside of the ship. With regard to any machine completed and not yet shipped to the customer (bill and hold) for reasons that do not depend on the Company, revenues are recognised if the following conditions established by paragraph B81 of IFRS 15 and are designed to understand the substance of the transaction at the end of the reporting period:

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

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

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

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

Furthermore, the Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g.: warranties). In determining the price of the sale transaction, the Company considers the effects arising from the presence of variable considerations, significant financing components, non-monetary considerations and considerations to be paid to the customer (if any).

Tesmec provides after-sales services concerning the machines sold and these standard warranties on quality are accounted for under IAS 37 "Provisions, contingent liabilities and contingent assets". If these services are requested after the expiry of the warranty period, the service is contractually regulated by agreements with the counterparty. Revenues are recognised based on the time and components used by the technicians during repair operations.
Generally, the Company receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

The recognition in the accounts of certain contractual agreements with customers envisages the recognition of revenue based on the progress of the activity, the determination of which is based on estimates of the costs incurred and at completion. **Costs**

Costs

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

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

Financial income and expenses

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

Fair Value Measurement

Fair value is defined as the price receivable for the sale of an asset or payable to transfer a liability in a normal transaction between market participants at the valuation date. All assets and liabilities measured or recognised at fair value are classified based on a fair value hierarchy and described hereunder:

- Level 1 - quoted prices (not adjusted) in active markets for identical assets or liabilities the entity of which is identifiable at the measurement date;
- Level 2 - input data other than quoted prices included in Level 1 which can be observed, either directly or indirectly for the asset or liability to be measured;
- Level 3 - the valuation techniques for which input data cannot be observed for the asset or liability to be measured.

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

Dividends

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

Income tax

Current taxation

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

Deferred taxes

Deferred taxes are calculated by applying the "liability method", on the temporary differences resulting at the end of the reporting period among the tax values used as a reference for assets and liabilities and their values indicated in the financial statements.
Deferred tax liabilities are recognised on all taxable temporary differences.
Deferred tax assets are recognised for all the temporary deductible differences and for retained tax assets and liabilities, insofar as the existence of appropriate future tax profits that can apply the use of the temporary deductible differences and of the retained tax assets and liabilities is likely.
The value to be stated in the financial statements for deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient income for tax purposes will be available in the future for this tax credit to be used totally or partially. Deferred tax assets not recognised are reviewed every year at the end of the reporting period and are recognised to the extent that the pre-tax profit is probably sufficient to allow the recovery of these deferred tax assets.

Deferred tax assets and liabilities are measured based on tax rates that are expected to be applied to the financial period in which such assets are sold or such liabilities are discharged, considering the rates in force and those already issued or substantially issued at the end of the reporting period.
Deferred tax assets and liabilities are recognised directly in the income statement, with the exception of those relating to items recognised directly in equity, in which case the related deferred taxes are also accounted for consistently without booking to the income statement.
Deferred tax assets and liabilities are offset, if there is a legal right to offset current tax assets against current tax liabilities, and the deferred taxes refer to the same tax entity and to the same tax authority.
Assets for deferred tax assets and liabilities for deferred tax liabilities are classified as non-current assets and liabilities.

Indirect taxes

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

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

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

Earnings per share

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

2.3 Changes and new principles and interpretations

The following accounting standards, amendments and IFRS interpretations were applied by the Group for the first time on 1 January 2020:

- 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 adoption of this amendment did not have any effect on the Company's financial statements.

- On 29 March 2018, the IASB published an amendment to the ***"References to the Conceptual Framework in IFRS Standards"***. The amendment takes effect for financial periods starting 1 January 2020 or later; early application is permitted. The Conceptual Framework defines the fundamental concepts for financial reporting and guides the Board in the development of IFRS standards. The document helps to ensure that the Standards are conceptually consistent and that similar transactions are treated in the same way to provide useful information to investors, lenders and other creditors. The Conceptual Framework supports companies in developing accounting standards when no IFRS standard is applicable to a particular transaction and, more generally, helps stakeholders to understand and interpret the Standards.
  The adoption of this amendment did not have any effect on the Company's financial statements.

- On 26 September 2019, the IASB published the amendment called ***"Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform"***. It amends IFRS 9 - Financial Instruments and IAS 39 - Financial Instruments: Recognition and Measurement as well as IFRS 7 - Financial Instruments: Disclosures. In particular, the amendment changes some of the requirements for the application of hedge accounting by envisaging temporary derogations from them in order to mitigate the impact of the uncertainty of the IBOR reform on future cash flows in the period prior to its completion. The amendment also requires companies to provide additional information in their financial statements on their hedging relationships that are directly affected by the uncertainties generated by the reform and to which the above derogations apply. The adoption of this amendment did not have any effect on the Company's financial statements.

- On 22 October 2018, the IASB published 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 an output. 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 makes it possible to exclude the presence of a business if the price paid is substantially attributable to a single asset or group of assets. The amendments are effective for business combinations and acquisitions of assets beginning on or after 1 January 2020, but earlier application is permitted. The adoption of this amendment did not have any effect on the Company's financial statements.

- On 28 May 2020, the IASB published an amendment called "***COVID-19 Related Rent Concessions (Amendment to IFRS 16)"***. The document provides lessees the right to recognise COVID-19 related rent reductions without having to assess, through contract analysis, whether the definition of lease modification in IFRS 16 is complied with. Therefore, lessees applying this option may recognise the effects of rent reductions directly in profit or loss at the effective date of the reduction. This amendment applies to financial statements starting on 1 June 2020. The adoption of this amendment did not have any effect on the Company's financial statements.

Accounting standards, amendments and IFRS and IFRIC interpretations approved by the European Union, not yet mandatorily applicable and not early adopted by the group as at 31 December 2020

- On 28 May 2020, the IASB published an amendment called "***Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)***". The amendments allow the temporary exemption from the application of IFRS 9 to be extended until 1 January 2023 for insurance companies. These amendments are effective beginning on 1 January 2021. The directors do not expect a significant effect on the Company's financial statements through the adoption of this amendment.

- On 27 August 2020, the IASB published, in the light of the interbank interest rate reform such as IBOR, the document "Interest Rate Benchmark Reform — Phase 2" which contains amendments to the following standards:
  - IFRS 9 Financial Instruments;
  - IAS 39 Financial Instruments: Recognition and Measurement;
  - IFRS 7 Financial Instruments: Disclosures;
  - IFRS 4 Insurance Contracts; and
  - IFRS 16 Leases.

All amendments are effective beginning on 1 January 2021. The directors do not expect a significant effect on the Company's financial statements through the adoption of this amendment.

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

At the date of this document, 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 standard-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 2023 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 Company's financial statements through the adoption of this standard.

- On 23 January 2020, the IASB published an amendment called "Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current". The purpose of the document is to clarify how to classify payables and other short or long-term liabilities. The amendments are effective beginning on 1 January 2023; in any case, early application is permitted. The directors do not expect a significant effect on the Company's financial statements through the adoption of this amendment.

- On 14 May 2020, the IASB published the following amendments called:
  - ***Amendments to IFRS 3 Business Combinations***: the purpose of the amendments is to update the reference in IFRS 3 to the revised Conceptual Framework without this entailing changes to the provisions of IFRS 3.
  - ***Amendments to IAS 16 Property, Plant and Equipment***: the purpose of the amendments is not to allow the amount received from the sale of goods produced during the testing phase of the asset to be deducted from the cost of property, plant and equipment. Therefore, these sales revenues and the related costs will be recognised in the income statement.
  - ***Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets***: the amendment clarifies that all costs directly attributable to the contract must be considered in the estimate of the possible cost of a contract. Accordingly, the assessment of the possible cost of a contract includes not only incremental costs (such as, for example, the cost of direct material used in processing), but also all costs that the company cannot avoid in that it has entered into the contract (such as, for example, the portion of personnel costs and depreciation of machinery used for the performance of the contract).

- ***Annual Improvements 2018-2020***: the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and to Illustrative Examples of IFRS 16 Leases.

- All amendments are effective beginning on 1 January 2022. The directors do not expect a significant effect on the Company’s financial statements through the adoption of these amendments.
- On 30 January 2014, the IASB published IFRS 14 - Regulatory Deferral Accounts, which allows only those who adopt IFRS for the first time to continue to recognise amounts relating to Rate Regulation Activities in accordance with the previously adopted accounting standards. Since the Company is not a first-time adopter, this standard is not applicable.

2.4 Discretionary evaluations and significant accounting estimates

The preparation of financial statements and interim reports in accordance with generally accepted accounting standards requires management to make accounting estimates based on complex or subjective judgements, past experience and assumptions deemed reasonable and realistic based on the information available at the time. The use of these accounting estimates affects the book value of contingent assets and liabilities at the end of the reporting period as well as the amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based.
Summarised below are those accounting estimates used in the preparation of financial statements and interim reports that are considered critical because they require management to make a large number of subjective judgements, assumptions and estimates regarding matters that are inherently uncertain. The Company based its estimates and assumptions on parameters available at the time of preparation of the consolidated financial statements. Changes in the conditions underlying such judgements, assumptions and estimates may have a significant effect on future results.

Deferred tax assets

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

Employee benefits

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

Development costs

Development costs are capitalised on the basis of IAS 38. The initial capitalisation of costs is based on the fact that the directors' opinion on the technical feasibility and economic viability of the project is confirmed, so as to allow the recoverability of the capitalised costs. The directors must make assumptions on future cash flows expected from projects, discount rates to be applied and the periods during which the expected benefits reveal themselves in order to determine the values to be capitalised.

Impairment of non-current assets

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

Reverse factoring

With regard to reverse factoring, the Group assesses, for each supplier, the deferral conditions obtained from financial counterparties on these liabilities and, depending on the substance of the liabilities, records them as trade payables or reclassifies them as financial payables. This assessment is required to understand the substance of the deferral agreements and necessarily involves a subjective assessment of the elements to be considered for the purposes of whether or not the corresponding payable is included in the Group's financial liabilities.

Revenues

The recognition in the accounts of certain contractual agreements with customers envisages the recognition of revenue based on the progress of the activity, the determination of which is based on estimates of the costs incurred and at completion. These estimates involve a technical recognition process of the order that involves subjective assessments of its completion.
Likewise, with reference to the typical cases for Tesmec in which there are machines completed and not yet shipped to the customer (bill and hold) for reasons that do not depend on the Group, revenues are recognised if the following provisions of IFRS 15 are met, including those mentioned above, designed to understand the substance of the transaction at the end of the reporting period. The determination of these aspects necessarily involves a subjective assessment of the elements to be considered and their scope in relation to the transaction in question.

Lease – Estimate of the incremental borrowing rate

The Group may not easily determine the interest rate implicit in the lease and therefore uses the incremental borrowing rate to measure the lease liability. The incremental borrowing rate is the interest rate that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Therefore, the incremental borrowing rate reflects what the group should have paid, and this requires an estimate to be made when no observable data exist or when rates need to be adjusted to reflect the terms and conditions of the lease.

Moreover, estimates are used for recognising the ECLs for trade receivables, provisions for product warranties, for risks and charges, for inventory obsolescence, amortisation, depreciation and write-downs of assets, as well as the fair value of financial instruments.

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

Lastly, in applying the Group's accounting standards, the directors made decisions based on certain discretionary evaluations (excluding those involving estimates).

Lease term of contracts containing an extension option (Group as lessee)

The Group determines the lease term as the non-cancellable period of the lease plus the periods covered by the option to extend the lease if there is reasonable certainty of exercising this option and the periods covered by the termination option, if there is reasonable certainty of not exercising this option. The Group has the option, for some of its leases, to extend the lease or terminate it early. The Group applies its own judgement in assessing whether there is reasonable certainty of exercising the renewal options and considers all the factors recognised that may give rise to an economic incentive to exercise the renewal options or to conclude the agreement. After the commencement date, the Group reviews its estimates of the lease term if a significant event or significant change occurs in circumstances under its control that may affect the ability to exercise (or not exercise) the renewal or early termination option.

3. Management of financial risks

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

- interest bearing medium/long-term financial payables with multiyear redemption plan, to cover the investments in fixed assets.

- short-term financial payables and bank overdrafts to finance the working capital.

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

Management of the exchange-rate risk
Exchange-rate risk sensitivity of Tesmec S.p.A. is managed appropriately taking into consideration the overall exposure: within the general optimisation policy of financial resources, the Company pursues an equilibrium resorting to less expensive forms of financing.

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

As at 31 December 2020, there were seven positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 16.63 million, with a negative equivalent value of Euro 170 thousand.

As at 31 December 2019, there were seven positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 7.65 million, with a negative equivalent value of Euro 8 thousand.

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

The main sources of exposure of the Company to the interest-rate risk refer to existing interest bearing medium/long-term financial payables (current portion) and interest bearing short-term financial payables and to the existing derivative instruments. In particular, the potential impacts on the Income Statement of the 2020 financial period (compared to 2019) referable to the interest-rate risk are set below:
- potential change in financial expenses and differentials related to existing derivative instruments in the 2020 financial period.
- potential change in fair value of existing derivative instruments.

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

The Company estimated the potential impacts on the Income Statement and on Shareholders' Equity of the 2020 financial period (compared to 2019) produced by a simulation of the change in the term structure of the interest rates, by using internal measurement models, based on the general acceptance approach. In particular:
- for loans, these impacts were estimated by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates, applied only to the cash flows to be settled during the 2020 financial period (compared to 2019).
- for derivative instruments, by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) of the term structure of interest rates.

With reference to the situation as at 31 December 2020, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2021 financial period of Euro 75 thousand, offset by an increase of Euro 2 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 23 thousand, more than offset by a decrease of Euro 1 thousand in the collected spread for the existing derivatives.

With reference to the situation as at 31 December 2019, a parallel shift of the term structure of interest rates equal to +100 basis points (+ 1%) would result in an increase in financial expenses accrued in the 2020 financial period of Euro 63 thousand, offset by an increase of Euro 1 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 19 thousand, more than offset by a decrease of Euro 1 thousand in the collected spread for the existing derivatives.

	Interests					
	31 December 2020			31 December 2019		
(Euro in thousands)	Residual debt(*)	Impact on IS +100 bps	Impact on IS -30 bps	Residual debt(*)	Impact on IS +100 bps	Impact on IS -30 bps
Borrowings/Bond issue	142,146	(75)	23	114,352	(63)	19
Total Loans	**142,146 ***	**(75)**	**23**	**114,352 ***	**(63)**	**19**
(Euro in thousands)	Notional	Impact on IS +100 bps	Impact on IS -30 bps	Notional	Impact on IS +100 bps	Impact on IS -30 bps
Derivative instruments hedging cash flows	16,630	2	(1)	7,649	1	(1)
Total Derivative instruments	**16,630**	**2**	**(1)**	**7,649**	**1**	**(1)**
Total		**(73)**	**22**		**(62)**	**18**

* The residual debt is considered before amortised costs.

	Fair value sensitivity of derivatives									
	Financial period ended 31 December 2020									
(Euro in thousands)	Notional value	Net FV	Net FV +30 bps	Net FV + 100 bps	Impact on IS +100 bps	Impact on SE +100 bps	Net FV -30 bps	Net FV -100 bps	Impact on IS -30 bps	Impact on SE -30 bps
Derivative instruments hedging cash flows	16,630	(170)	221	340	340	-	(221)	(340)	(221)	-
Total	**16,630**	**(170)**	**221**	**340**	**340**	**-**	**(221)**	**(340)**	**(221)**	**-**
	Financial period ended 31 December 2019									
(Euro in thousands)	Notional value	Net FV	Net FV + 100 bps	Net FV + 100 bps	Impact on IS +100 bps	Impact on SE +100 bps	Net FV -30 bps	Net FV -30 bps	Impact on IS -30 bps	Impact on SE -30 bps
Derivative instruments hedging cash flows	7,694	(8)	9	14	14	-	(9)	(14)	(9)	-
Total	**7,694**	**(8)**	**9**	**14**	**14**	**-**	**(9)**	**(14)**	**(9)**	**-**

With reference to the situation as at 31 December 2020, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 340 thousand, with an impact on the Income Statement of the 2020 financial period. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 221 thousand, with an impact only on the Income Statement of the 2020 financial period.

With reference to the situation as at 31 December 2019, a parallel shift of the term structure of interest rates of +100 basis points (+1%) would result in an increase in the asset value of the existing hedging derivative instruments of Euro 14 thousand, with an impact on the Income Statement of the 2020 financial period. A parallel shift of the term structure of interest rates of

-30 basis points (-0.3%) would result in a decrease in the asset value of the existing hedging derivative instruments of around Euro 9 thousand, with an impact only on the Income Statement of the 2020 financial period.

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

Credit risk management

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

Management of liquidity risk

The Company manages the liquidity risk by controlling strictly the elements forming the working capital and in particular trade receivables and payables.
The Company tends to obtain upstream a good cash generation in relation to sales and then use it for paying the suppliers without compromising the short-term balance of the treasury and avoid problems and tensions in current liquidity.

The stratification of existing liabilities with reference to 2020 and to 2019 financial periods, with regard to financial instruments, by residual maturity, is set out below.

Maturity	31 December 2020						
	Financial payables		Financial payables		Trade payables	Financial instruments	Total
	Capital	Interest	Capital	Interests			
(Euro in thousands)	a	b	c	d	e	f	G=a+b+c+d+e+f
Within 12 months	49,165	1,879	17,500	1,286	36,217	1	**106,048**
Between one and two years	12,066	1,434	2,500	267	-	-	**16,267**
Between two and three years	18,587	1,038	2,500	148	-	-	**22,273**
Between three and five years	27,142	1,210	1,250	30	-	-	**29,632**
Between five and seven years	11.410	214	-	-	-	169	**11,793**
After more than 7 years	26	1	-	-	-	-	**28**
Total	**118,396 ***	**5,776**	**23,750 ***	**1,730**	**36,217**	**170**	**186,040**

* The residual debt is considered before amortised costs.

Maturity	31 December 2019						
	Financial payables		Bonds		Trade payables	Financial instruments	Total
	Capital	Interests	Capital	Interests			
(Euro in thousands)	a	B	c	D	e	f	g=a+b+c+d+e+f
Within 12 months	63,547	946	1,250	1,376	33,721	6	**100,846**
Between one and two years	5,585	716	17,500	1,286	-	6	**25,093**
Between two and three years	4,178	558	2,500	267	-	-	**7,503**
Between three and five years	7,157	749	3,750	178	-	-	**11,834**
Between five and seven years	6,841	271	-	-	-	(4)	**7,108**
After more than 7 years	2,044	4	-	-	-	-	**2,048**
Total	**89,352 ***	**3,244**	**25,000**	**3,107**	**33,721**	**8**	**154,432**

* The residual debt is considered before amortised costs.

The estimate of expected future expenses implicit in loans and of expected future differentials implicit in derivative instruments was determined on the basis of the term structure of interest rates in Euro existing at the reporting dates (31 December 2020 and 31 December 2019).

Management of the exchange-rate risk

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

The potential impacts on the Income Statement of the 2020 financial period (compared to 2019 when available) referable to the exchange-rate risk are determined by the revaluation/write-down of asset and liability items in foreign currency.

The Company estimated the potential impacts on the Income Statement of the 2020 financial period (compared to 2019) produced by a shock of the exchange-rate market, by using internal measurement models, based on the general acceptance approach.

	2020 Exposure in foreign currency (USD)			2020 Sensitivity	
Exposure with regard to equity items	**Assets (USD/000)**	**Liabilities (USD/000)**	**Net (USD/000)**	**Income statement EUR/USD exchange rate +5% (EUR/000)**	**Income statement EUR/USD exchange rate -5% (EUR/000)**
Trade receivables	7,703		7,703	(314)	314
Financial receivables	17,763		17,763	(724)	724
Trade payables		(395)	(395)	16	(16)
Total gross exposure with regard to equity items	**25,466**	**(395)**	**25,071**	**(1,022)**	**1,022**
Derivative instruments	-	-	-	-	-

	2019 Exposure in foreign currency (USD)			2019 Sensitivity	
Exposure with regard to equity items	**Assets (USD/000)**	**Liabilities (USD/000)**	**Net (USD/000)**	**Income statement EUR/USD exchange rate +5% (EUR/000)**	**Income statement EUR/USD exchange rate -5% (EUR/000)**
Trade receivables	3,323	-	3,323	(148)	148
Financial receivables	10,962	-	10,962	(488)	488
Trade payables	-	(287)	(287)	13	(13)
Total gross exposure with regard to equity items	**14,285**	**(287)**	**13,998**	**(623)**	**623**
Derivative instruments	-	-	-	-	-

	2020 Exposure in foreign currency (ZAR)			2020 Sensitivity	
Exposure with regard to equity items	**Assets (ZAR/000)**	**Liabilities (ZAR/000)**	**Net (ZAR/000)**	**Income statement EUR/ZAR exchange rate +5% (EUR/000)**	**Income statement EUR/ZAR exchange rate -5% (EUR/000)**
Trade receivables	13,759	-	13,759	(38)	38
Financial receivables	6,994	-	6,994	(19)	19
Trade payables	-	(104)	(104)	-	-
Total gross exposure with regard to equity items	**20,753**	**(104)**	**20,649**	**(57)**	**57**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2019 Exposure in foreign currency (ZAR)			2019 Sensitivity	
	Assets (ZAR/000)	Liabilities (ZAR/000)	Net (ZAR/000)	Income statement EUR/ZAR exchange rate +5% (EUR/000)	Income statement EUR/ZAR exchange rate -5% (EUR/000)
Trade receivables	8,954	-	8,954	(28)	28
Financial receivables	7,172	-	7,172	(23)	23
Trade payables					
Total gross exposure with regard to equity items	**16,126**	**-**	**16,126**	**(51)**	**51**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2020 Exposure in foreign currency (AUD)			2020 Sensitivity	
	Assets (AUD/000)	Liabilities (AUD/000)	Net (AUD/000)	Income statement EUR/AUD exchange rate +5% (EUR/000)	Income statement EUR/AUD exchange rate -5% (EUR/000)
Trade receivables	49	-	49	(2)	2
Financial receivables	19,589	-	19,589	(616)	616
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	**19,638**	**-**	**19,638**	**(618)**	**618**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2019 Exposure in foreign currency (AUD)			2019 Sensitivity	
	Assets (AUD/000)	Liabilities (AUD/000)	Net (AUD/000)	Income statement EUR/AUD exchange rate +5% (EUR/000)	Income statement EUR/AUD exchange rate -5% (EUR/000)
Trade receivables	4,545	-	4,545	(142)	142
Financial receivables	14,022	-	14,022	(438)	438
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	**18,567**	**-**	**18,567**	**(580)**	**580**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2020 Exposure in foreign currency (CNY)			2020 Sensitivity	
	Assets (CNY/000)	Liabilities (CNY/000)	Net (CNY/000)	Income statement EUR/CNY exchange rate +5% (EUR/000)	Income statement EUR/CNY exchange rate -5% (EUR/000)
Trade receivables	8,843	-	8,843	(55)	55
Financial receivables	7,307	-	7,307	(46)	46
Trade payables	-	(517)	(517)	3	(3)
Total gross exposure with regard to equity items	**16,150**	**(882)**	**15,633**	**(98)**	**98**
Derivative instruments	-	-	-	-	-

Exposure with regard to equity items	2019 Exposure in foreign currency (CNY)			2019 Sensitivity	
	Assets (CNY/000)	Liabilities (CNY/000)	Net (CNY/000)	Income statement EUR/CNY exchange rate +5% (EUR/000)	Income statement EUR/CNY exchange rate -5% (EUR/000)
Trade receivables	7,497	-	7,497	(48)	48
Financial receivables	7,258	-	7,258	(46)	46
Trade payables	-	(517)	(517)	3	(3)

Total gross exposure with regard to equity items	**14,755**	**(517)**	**14,238**	**(91)**	**91**
Derivative instruments	-	-	-	-	-

	2020 Exposure in foreign currency (RUB)			2020 Sensitivity	
Exposure with regard to equity items	**Assets (RUB/000)**	**Liabilities (RUB/000)**	**Net (CNY/000)**	**Income statement EUR/RUB exchange rate +5% (EUR/000)**	**Income statement EUR/RUB exchange rate -5% (EUR/000)**
Trade receivables	154	-	164	-	-
Financial receivables	50,000	-	50,000	(27)	27
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	**50,154**	**-**	**50,154**	**(27)**	**27**
Derivative instruments	-	-	-	-	-

	2019 Exposure in foreign currency (RUB)			2019 Sensitivity	
Exposure with regard to equity items	**Assets (RUB/000)**	**Liabilities (RUB/000)**	**Net (CNY/000)**	**Income statement EUR/RUB exchange rate +5% (EUR/000)**	**Income statement EUR/RUB exchange rate -5% (EUR/000)**
Trade receivables	945	-	945	(1)	1
Financial receivables	50,000	-	50,000	(36)	36
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	**50,945**	**-**	**50,945**	**(37)**	**37**
Derivative instruments	-	-	-	-	-

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

Disclosures: categories of financial assets and liabilities according to IFRS 7

The following tables show the book values for each class of financial assets and liabilities identified by IFRS 9.

The value expressed in the financial statements of derivative financial instruments, whether assets or liabilities, corresponds to their fair value, as explained in these Notes.

The value expressed in the financial statements of cash and cash equivalents, financial receivables and trade receivables, suitably adjusted for impairment in accordance with IFRS 9, approximates the estimated realisable value and therefore the fair value.

All financial liabilities, including fixed-rate financial payables, are recorded in the financial statements at a value that approximates their fair value.

	31 December	
(Euro in thousands)	**2020**	**2019**
NON-CURRENT ASSETS:		
Receivables and other financial assets	5,668	4,975
Derivative financial instruments	1	4
CURRENT ASSETS:		
Trade receivables	31,215	36,832
Other available-for-sale securities	1	2
Financial receivables	52,949	45,375
Cash and cash equivalents	49,887	4,649

(Euro in thousands)	31 December 2020	31 December 2019
NON-CURRENT LIABILITIES:		
Medium/long-term loans	58,135	13,550
Bond issue non current	6,195	24,765
Non-current financial liabilities and rights of use	10,909	12,055
Derivative financial instruments	170	6
CURRENT LIABILITIES:		
Interest-bearing financial payables (current portion)	46,265	61,149
Current financial liabilities and rights of use	2,690	2,295
Bond issue current	17,437	-
Derivative financial instruments	1	6
Trade payables	36,217	33,721
Advances from customers	1,285	839

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

(Euro in thousands)	Loans and receivables/payables 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 from third parties	3,166	-	-	-	-
Financial receivables from related parties	2,500	2	-	-	-
Derivative financial instruments	-	-	-	-	1
Total non-current	**5,666**	**2**	**-**	**-**	**1**
Trade receivables	21,582	-	-	-	-
Trade receivables from related parties	9,633				
Other available-for-sale securities	-	-	-	1	-
Financial receivables from third parties	4,662	-	-	-	-
Financial receivables from related parties	48,286	-	-	-	-
Cash and cash equivalents	-	-	49,887	-	-
Total current	**84,164**	**-**	**49,887**	**1**	**-**
Total	**89,829**	**2**	**49,887**	**1**	**1**
Financial liabilities:					
Medium/long-term loans	54,872	-	-	-	-
Medium/long-term loans due to related parties	3,263	-	-	-	-
Bond issue non current	6,195	-	-	-	-
Non-current financial liabilities from rights of use	10,909	-	-	-	-
Derivative financial instruments	-	-	-	-	170
Total non-current	**75,239**	**-**	**-**	**-**	**170**
Interest-bearing financial payables (current portion)	45,008	-	-	-	-

Interest-bearing financial payables (current portion) due to related parties	1,257	-	-	-	-
Current financial liabilities from rights of use	2,690	-	-	-	-
Bond issue current	17,437	-	-	-	-
Derivative financial instruments	-	-	-	-	1
Trade payables	34,117	-	-	-	-
Trade payables due to related parties	2,100	-	-	-	-
Advances from customers	1,285	-	-	-	-
Total current	**103,895**	**-**	**-**	**-**	**1**
Total	**179,134**	**-**	**-**	**-**	**171**

Disclosures: hierarchy levels of fair value measurement

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

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

The following table shows the assets and liabilities that are measured at fair value as at 31 December 2019, divided into the three levels defined above:

(Euro in thousands)	**Book value as at 31 December 2020**	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Derivative financial instruments	1	-	1	-
Total non-current	**1**	**-**	**1**	**-**
Other available-for-sale securities	1	-	-	1
Total current	**1**	**-**	**-**	**1**
Total	**2**	**-**	**1**	**1**
Financial liabilities:				
Derivative financial instruments	170	-	170	-
Total non-current	**170**	**-**	**170**	**-**
Derivative financial instruments	1	-	1	-
Total current	**1**	**-**	**1**	**-**
Total	**171**	**-**	**171**	**-**

COMMENTS ON THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

Non-current assets

4. Intangible assets

The breakdown of *Intangible assets* as at 31 December 2020 and as at 31 December 2019 is reported in the table below:

	31 December					
	2020			2019		
(Euro in thousands)	Historical cost	Accum. amort.	Net value	Historical cost	Accum. amort.	Net value
Development costs	26,485	(21,952)	4,533	24,581	(19,419)	5,162
Rights and trademarks	3,116	(2,929)	187	3,046	(2,861)	185
Assets in progress and advance payments to suppliers	3,019	-	3,019	385	-	385
Total intangible assets	**32,620**	**(24,881)**	**7,739**	**28,012**	**(22,280)**	**5,732**

The following table shows the changes in intangible assets for the period ended as at 31 December 2020:

(Euro in thousands)	1 January 2020	Increases	Decreases	Reclassifications	Amortisation	31 December 2020
Development costs	5,162	1,904	-	-	(2,533)	4,533
Rights and trademarks	185	70	-	-	(68)	187
Assets in progress and advance payments to suppliers	385	2,634	-	-	-	3,019
Total intangible assets	**5,732**	**4,608**	**-**	**-**	**(2,601)**	**7,739**

As at 31 December 2020, intangible assets net of amortisation totalled Euro 7,739 thousand, up Euro 2,007 thousand on the previous year.
Increases for the period totalled Euro 4,608 thousand and consist in:

- development costs capitalised of Euro 1,904 thousand related to the development of new products and equipment that are expected to generate positive cash flows in future financial periods, based on the requirements described in more detail in the section on the main accounting standards applied;
- assets in progress and advance payments to suppliers of Euro 2,634 thousand, mainly related to costs incurred for the implementation of the new Group ERP.

At the end of the reporting period, the Company analysed the value of its intangible assets and, as no specific indicators of impairment were found, it did not deem it necessary to test them for impairment.

The following table shows the changes in intangible assets for the period ended 31 December 2019:

(Euro in thousands)	1 January 2019	Increases	Decreases	Reclassifications	Amortisation	31 December 2019
Development costs	5,836	2,149	-	-	(2,823)	5,162
Rights and trademarks	205	197	(44)	-	(173)	185
Assets in progress and advance payments to suppliers	-	385	-	-	-	385
Total intangible assets	**6,041**	**2,731**	**(44)**	**-**	**(2,996)**	**5,732**

5. Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2020 and as at 31 December 2019 is reported in the table below:

	31 December					
	2020			2019		
(Euro in thousands)	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Land	1,250	-	1,250	1,250	-	1,250
Buildings	3,373	(699)	2,674	3,361	(599)	2,762
Plant and machinery	11,822	(9,950)	1,872	10,685	(9,524)	1,161
Equipment	3,984	(3,777)	207	3,926	(3,617)	309
Other assets	3,148	(2,080)	1,068	3,299	(1,900)	1,399
Assets in progress and advance payments to suppliers	-	-	-	522	-	522
Total property, plant and equipment	**23,577**	**(16,506)**	**7,071**	**23,043**	**(15,640)**	**7,403**

The following table shows the changes in property, plant and equipment for the period ended 31 December 2020:

(Euro in thousands)	1 January 2020	Increases	Decreases	Reclassifications	Depreciation	31 December 2020
Land	1,250	-	-	-	-	1,250
Buildings	2,762	13	-	-	(101)	2,674
Plant and machinery	1,161	662	(8)	522	(465)	1,872
Equipment	309	58	-	-	(160)	207
Other assets	1,399	539	(627)	-	(243)	1,068
Assets in progress and advance payments to suppliers	522	-		(522)	-	-
Total property, plant and equipment	**7,403**	**1,272**	**(635)**	**-**	**(969)**	**7,071**

As at 31 December 2020, property, plant and equipment totalled Euro 7,071 thousand, a decrease of Euro 332 thousand compared to the previous year, mainly due to the depreciation for the period of Euro 969 thousand.
Increases for the period totalled Euro 1,272 thousand and refer for Euro 662 thousand to the purchase of new plant and machinery and for Euro 539 thousand to Trencher machines used for rental purposes.

At the end of the reporting period, the Company analysed the value of its property, plant and equipment and, as no specific indicators of impairment losses were found, it did not deem it necessary to test them for impairment.

The following table shows the changes in property, plant and equipment for the period ended 31 December 2019:

(Euro in thousands)	1 January 2019	Increases	Decreases	Reclassifications	Depreciation	31 December 2019
Land	1,250	-	-	-	-	1,250
Buildings	2,861	2	-	-	(101)	2,762
Plant and machinery	1,905	87	(2)	(280)	(549)	1,161
Equipment	418	141	(46)	(28)	(176)	309
Other assets	1,335	1,050	(205)	(600)	(181)	1,399
Assets in progress and advance payments to suppliers	522	-	-	-	-	522
Total property, plant and equipment	**8,291**	**1,280**	**(253)**	**(908)**	**(1,007)**	**7,403**

6. Rights of use

The breakdown in *Rights of use* as at 31 December 2020:

(Euro in thousands)	31 December					
	2020			2019		
	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Industrial Buildings - Right of use	14,283	(3,887)	10,396	14,240	(1,941)	12,299
Plant and machinery - Rights of use	316	(84)	232	317	(53)	264
Equipment - Rights of use	28	(11)	17	28	(4)	24
Other assets - Rights of use	3,665	(1,072)	2,593	2,052	(410)	1,642
Total rights of use	**18,292**	**(5,054)**	**13,238**	**16,637**	**(2,408)**	**14,229**

The following table shows the changes in rights of use for the period ended 31 December 2020:

(Euro in thousands)	1 January 2020	Increases	Decreases	Reclassifications	Depreciations	31 December 2020
Industrial Buildings - Right of use	12,299	43	-	-	(1,946)	10,396
Plant and machinery - Rights of use	264	-	-	-	(32)	232
Equipment - Rights of use	24	-	-	-	(7)	17
Other assets - Rights of use	1,642	1,636	-	-	(685)	2,593
Total rights of use	**14,229**	**1,679**	**-**	**-**	**(2,670)**	**13,238**

As at 31 December 2020, rights of use totalled Euro 13,238 thousand, a decrease of Euro 991 thousand compared to the previous year, mainly due to the depreciation for the period of Euro 2,670 thousand.
Increases for the period totalled Euro 1,679 thousand and mainly relate to the signing of new rental contracts for the purchase of trencher machines used for rental purposes.

At the end of the reporting period, the Company analysed the value of its right-of-use assets and, as no specific indicators of impairment losses were found, it did not deem it necessary to test them for impairment.

The following table shows the changes in rights of use for the period ended 31 December 2019:

(Euro in thousands)	IFRS 16 FTA	Increases	Decreases	Reclassifications	Depreciations	31 December 2019
Industrial Buildings - Right of use	14,240	-	-	-	(1,941)	12,299
Plant and machinery - Rights of use	-	-	-	280	(16)	264
Equipment - Rights of use	-	-	-	28	(4)	24
Other assets - Rights of use	322	957	-	600	(237)	1,642
Total rights of use	**14,562**	**957**	**-**	**908**	**(2,198)**	**14,229**

7. Equity investments in subsidiaries, associates and joint ventures

The breakdown of *Equity investments in subsidiaries, associates and joint ventures* as at 31 December 2020 and 2019 is reported in the table below:

(Euro in thousands)	31 December 2020	2019
Subsidiaries:		
Tesmec USA, Inc.	21,261	21,261
Tesmec SA	6,296	6,296
East Trenchers S.r.l.	265	145
Tesmec Automation S.r.l.	4,776	4,026
OOO Tesmec RUS	11	11
Tesmec New Technology (Beijing) LTD	200	200
Marais Technologies SA	10,814	10,814
Tesmec Australia Ltd.	3,766	3,766
Bertel S.r.l.	4,293	4,293
Tesmec Rail S.r.l.	5,606	5,606
4Service S.r.l.	9,721	-
Total equity investments in subsidiaries	**67,009**	**56,418**

Equity investments in subsidiaries increased overall of Euro 10,591 thousand as a result of the following operations:

- East Trenchers S.r.l.: the increase of Euro 120 thousand is related to the conversion on December 31, 2020 of the financial receivable in capital reserve;
- Tesmec Automation S.r.l.: the increase of Euro 750 thousand is related to the conversion on September 30, 2020 of the financial receivable in capital reserve;
- 4Service S.r.l.: on 23 April 2020, Tesmec S.p.A. acquired from the related party MTS - Officine Meccaniche di Precisione S.p.A. ("MTS") shares representing the entire share capital of the 4Service S.r.l., a newly established company dedicated, following the transfer of the related business unit by MTS on 4 March 2020, to the trencher rental business, also through its subsidiary MTS4Service LLC USA, for a total amount of Euro 9,400 thousand and incurring additional expenses of Euro 321 thousand. In prior financial periods, the Company entered into significant commercial relationships with MTS for the sale of trenchers, the provision of logistics and maintenance services, as well as the temporary leaseback of certain sold machines. The acquisition, which took the form of a transaction with related parties, was previously submitted to the Company's Control and Risk, Sustainability and Related Party Transaction Committee, which expressed a favourable opinion on its completion, having considered, inter alia, the interest for the Company in its implementation, as well as its economic substance, also through the support of an opinion issued by an independent expert on 14 April 2020. The consideration for the acquisition of Euro 9.4 million was defined by the parties within a range of values estimated by an additional expert appointed by the Board of Directors. Upon completion of the acquisition, this amount was recognised in the Company's future share capital increase as a result of the waiver of the receivable arising from the sale by MTS as provided for in the agreements in place as part of the share capital increase of Euro 35 million, which was completed in December 2020 with the full subscription of the shares offered.

The following table shows the main financial statement items of subsidiaries:

	31 December						
	2020						
(Euro in thousands)	% held	Revenues	Net result	Assets	Liabilities	Shareholders' Equity	Book value
Subsidiaries:							
Tesmec USA, Inc.	100.00%	33,953	1,466	49,102	26,593	22,509	21,261
Tesmec SA	51.00%	2,497	(44)	6,844	1,913	4,931	6,296
East Trenchers S.r.l.	100.00%	148	(46)	240	118	122	265
Tesmec Automation S.r.l.	100.00%	13,374	(937)	19,767	19,293	474	4,776
OOO Tesmec RUS	100.00%	1,855	(613)	1,943	2,875	(932)	11
Tesmec New Technology (Beijing) LTD	100.00%	438	(200)	469	1,526	(1,057)	200

Marais Technologies SA	66.04%	-	(22)	20,568	5,365	15,203	10,814
Tesmec Australia Ltd.	51.00%	6,888	(1,271)	10,533	14,862	(4,329)	3,766
Bertel S.r.l.	100.00%	-	265	1,315	757	558	4,293
Tesmec Rail S.r.l.	100.00%	23,483	(1,358)	56,965	50,736	6,229	5,606
4Service S.r.l.	100.00%	4,496	(232)	17,561	10,683	6,878	9,721

In accordance with the requirements of IAS 36, the book value of equity investments was tested for impairment, which was specifically approved by the Board of Directors on 12 March 2021.
In particular, at the end of each reporting period, the Company verifies whether there is any indication that the value of investments may have suffered an impairment loss, thus estimating the recoverable amount of such assets in such circumstances. In assessing the existence of an indication that one or more investments may have suffered an impairment loss, indications deriving from information sources both inside and outside the Group were considered. In particular, potential impairment indicators were identified in the changing market scenarios of the different and diversified geographical areas in which the Tesmec Group operates, together with the negative results in some cases of some subsidiaries, or the differentials between the book value of the equity investment and the corresponding fraction of shareholders' equity, as shown in the table above.

According to IAS 36, the recoverable amount is the higher between the market value (fair value) and the value in use.
Fair value is the income obtainable from the sale in an arm's length transaction between knowledgeable, willing parties, net of directly attributable expenses. Depending on the circumstances, this value is determined on the basis of the agreed price if there is a binding sale agreement established in an uncontrolled transaction (net of disposal costs) or the market price, less selling costs, if the asset is traded in an active market. Conversely, the value in use is the discounting back of expected cash flows by applying an appropriate rate (equal to the weighted average cost of capital).
The impairment loss resulting from the impairment test is measured by the excess of the carrying amount of the asset over its recoverable amount.

For the purposes of the impairment test, certain equity investments were considered jointly, where necessary, according to the sub-group to which they belonged (Marais Technologies) or the contiguity of the market of reference (Tesmec Automation, considered for the purposes of the impairment test together with the subsidiary Bertel). In other cases, each equity investment was tested for impairment individually, depending on the different geographical area of reference or sector to which it belongs, which involves different specificities in terms of market and competitive factors.

The operating cash flows used for the purpose of impairment testing derive from the plans of the single Cash Generating Units drawn up by the Management based on the 2021 Budget approved by the Board of Directors on 20 December 2020 and the 2021-2023 Business Plan examined during the same meeting of the Board of Directors and prepared in accordance with the guidelines approved by the Board of Directors on 3 September 2020. The estimate of those cash flows includes assumptions of the Directors consistent with the strategy of the Tesmec Group in the individual businesses and markets in which it operates and also depends on external variables not subject to the management's control, such as exchange rate and interest rate trends, infrastructure investments in the countries where the group operates, macro political or social factors of local or global impact. These external factors, in line with IAS 36, were estimated on the basis of the elements known at the date of preparation and examination of the business plans and, in the current context of uncertainty related to the pandemic, incorporate the expectations of a gradual economic recovery that, although subject to the risk of further slowdowns due to further possible restrictive measures on travel and certain economic activities, is not affected with reference to the medium/long-term prospects. In fact, Tesmec's operating sectors will benefit from new investments and development policies aimed at strengthening the key infrastructures of the main countries and the Group's business is concentrated in strategic sectors that are extremely lively and have significant growth prospects. For a more complete analysis of the main risks and uncertainties to which Tesmec Group is exposed, please refer to paragraph 8. of the report on operations.

Based on these plans, the value in use of the cash generating units was estimated using the Discounted Cash Flow (DCF) method, i.e. the discounting of future operating cash flows until the end of its useful life. The net operating cash flows estimated for this purpose were derived from the above mentioned plans according to the generally used "unlevered" approach, according to which flows are calculated regardless of the financial structure of the company.

The weighted average cost of capital (WACC) used for discounting operating cash flows for the explicit period and for calculating the terminal value was determined differently depending on the country of reference of the cash-generating units, as detailed in the table below:

Subsidiaries	31 December	
	2020	2019
Tesmec USA, Inc.	8.90%	8.90%
Tesmec SA	15.50%	15.50%
Tesmec Automation S.r.l. (*)	8.90%	8.90%
OOO Tesmec RUS	14.40%	14.40%
Tesmec New Technology (Beijing) LTD	10.20%	10.20%
Marais Technologies SA	7.50%	7.50%
Tesmec Australia Ltd.	9.00%	9.00%
Tesmec Rail S.r.l.	6.20%	6.20%

* For the purposes of the impairment test, a single CGU was considered for the subsidiaries Tesmec Automation and Bertel

The estimate of the WACC has led in some cases to a reference value lower than the estimated value at 31 December 2019, due to the combined effect of different factors, among which it is necessary to highlight the fact that the forecast flows already reflect the uncertainties associated with the general context determined from the pandemic and therefore it was not considered appropriate to reflect this uncertainty factor in a further worsening of the WACC.

For the estimate of cash flows beyond the explicit forecast period, the terminal value was determined on the basis of a g growth rate of 1%.

The application of the method described above led to an estimate of the value in use (or enterprise value) of the equity investments tested that, added to the corresponding net financial position, determines the value of the economic capital (equity value) to be compared with the book value.
The impairment test did not reveal any impairment losses.

Moreover, note that in some limited cases, the equity value is substantially in line with or slightly higher than the corresponding book value, i.e. it mainly consists of the discounting back of the cash flows that make up the Terminal Value, i.e. flows associated with periods distant in time whose achievement is marked by a higher risk profile and more exposed to changes in uncontrollable external variables that are different from those expected.

In this context, taking also account of the global uncertainties that emerged after the end of reporting period due to the spread of COVID-19, a sensitivity analysis was carried out to check the change in the equity value of the individual cash generating units as the discount rate (the weighted average cost of capital, WACC) and the growth rate (g) changed.
As a result of the sensitivity analysis, note that a 1% increase in WACC would result in an overall impairment of Euro 140 thousand, while the adoption of a growth rate g equal to zero would not cause any impairment.. Therefore, note that trends in the scenario variables not under the Company's and the Group's control, which differ from those assumed in the plans, could lead to the recognition of write-downs of certain equity investments as a result of the updated impairment test carried out as at 31 December 2020. When preparing the interim reports for the current year, as required by IAS 36, the existence of impairment indicators that may require an update of the impairment test will be checked.

The breakdown of equity investments in associates and joint ventures as at 31 December 2020 and 2019 is reported in the table below:

(Euro in thousands)	31 December	
	2020	2019
Associates:		
Locavert SA	52	52
Subtotal	**52**	**52**
Joint Ventures:		
Condux Tesmec Inc	956	956
Tesmec Peninsula	730	730
Subtotal	**1,686**	**1,686**
Total equity investments in associates	**1,738**	**1,738**

The following table shows the main financial statement items of associated companies and joint ventures:

	31 December						
	2020						
(Euro in thousands)	% held	Revenues	Net result	Assets	Liabilities	Shareholders' Equity	Book value
Associates:							
Locavert SA	38.63%	306	128	1,018	297	720	52
Joint Ventures:							
Condux Tesmec Inc.	50.00%	7,097	580	5,349	1,714	3,635	956
Tesmec Peninsula	49.00%	294	(81)	2,297	2,100	197	730

As at 31 December 2020, values of equity investments in associates were tested for impairment as described in the previous paragraph.
As mentioned, the results of the impairment test showed that, as at 31 December 2020, the recoverable amount of these equity investments exceeds the book value.

8. Financial receivables and other non-current financial assets

The following table sets forth the breakdown of the item *Financial receivables and other non-current assets* as at 31 December 2020 and 2019:

	31 December	
(Euro in thousands)	2020	2019
Guarantee deposits	2	2
Financial receivables from third-party customers	3,166	1,473
Financial receivables from related parties	2,500	3,500
Total financial receivables and other non-current financial assets	**5,668**	**4,975**

As at 31 December 2020, financial receivables and other non-current financial assets totalled Euro 5,668 thousand, up Euro 693 thousand on the previous financial period.
The increase in financial receivables from third-party customers is related to the sales of trencher machines with extended terms of payment and that envisage the payment of interest.

Current assets

9. Inventories

The following table provides a breakdown of the item *Inventories* as at 31 December 2020 and 2019:

	31 December	
(Euro in thousands)	2020	2019
Advances to Suppliers	24	16
Raw materials and consumables	17,989	19,432
Work in progress	5,333	6,056
Finished products and goods for resale	11,786	9,116
Total inventories	**35,132**	**34,620**

The measurement bases of inventories remained unchanged compared to the prior financial period. The item as a whole increased by 1.5% compared to the prior financial period.

The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2020 and 2019 are reported below:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Value as at 1 January	3,390	3,190
Provisions	70	200
Uses	-	-
Total provisions for inventory obsolescence	**3,460**	**3,390**

The value of the provisions for inventory obsolescence increased by Euro 70 thousand compared to the prior financial period. The adequacy of the provision is assessed on a regular basis to constantly monitor the actual level of inventories recovered through sales.

10. Trade receivables

The table below shows the breakdown of trade receivables as at 31 December 2020 and 2019:

	31 December	
(Euro in thousands)	**2020**	**2019**
Trade receivables from third-party customers	21,582	23,288
Trade receivables from related parties	9,633	13,544
Total trade receivables	**31,215**	**36,832**

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

Trade receivables from customers as at 31 December 2020 amounted to Euro 31,215 thousand, down by Euro 5,617 thousand compared to the 2019 financial period as a result of reduced sales in the period (-11.4%).
The balance of trade receivables is shown net of provisions for doubtful accounts. This provision was calculated in an analytical manner by dividing the receivables in classes depending on the level of risk, by country and customer, and by applying to each class an expected percentage of loss derived from historical experience. This process was supplemented with additional considerations in line with the treatment of Expected Credit Losses under IFRS 9.

The changes in the provisions for doubtful accounts for the financial periods ended 31 December 2020 and 2019 are reported in the table below:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Value as at 1 January	963	961
Provisions	175	200
Uses	(57)	(198)
Total provisions for doubtful accounts	**1,081**	**963**

The value of provisions for doubtful accounts increased by Euro 118 thousand compared to the prior financial period. Uses and provisions related to the provisions for doubtful accounts are included in "other operating (costs)/revenues, net" of the income statement.

11. Financial receivables and other current financial assets

The following table sets forth the breakdown of *financial receivables and other current financial assets* as at 31 December 2020 and 31 December 2019:

(Euro in thousands)	31 December 2020	31 December 2019
Financial receivables from related parties	48,286	40,681
Other current financial assets	4,662	4,694
Total financial receivables and other current financial assets	**52,948**	**45,375**

The increase in *financial receivables and current financial assets* (Euro 7,573 thousand) is due for Euro 7,605 thousand to the increase in credit positions relating to specific contracts signed with the related parties on which an interest rate is applied and repayable within 12 months. The main financial receivables and related interest rate applied are set below:

- Tesmec USA, Inc of Euro 13,542 thousand with interest rate equivalent to 6-month Euribor rate + spread of 2;
- Tesmec Automation S.r.l. of Euro 5,515 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3.5%;
- Tesmec Australia Ltd. of Euro 10,493 thousand with annual interest rate of RBA 1.5% + spread of 3.02% or Interbank 3 months + spread of 3.5% depending on the nature of the transaction;
- Tesmec Rail S.r.l. of Euro 4,821 thousand, of which Euro 1,250 thousand related to a loan and the remaining Euro 3,571 thousand to a current account, both with interest rate equivalent to 3-month Euribor rate + spread of 3.5%;
- 4Service S.r.l. of Euro 3,203 thousand with interest rate equivalent to 3-month Euribor rate + spread of 2.5%;

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

Other current financial assets mainly refer to financial receivables from third party customers deriving from sales of trencher machines with extended payment terms and that envisage the payment of interest and to the amount obtained following the favourable arbitration award in the current dispute with a Chinese trading company, currently deposited in trust with the treasury of the Court of Beijing.

12. Other current assets

The following table sets forth the breakdown of *other current assets* as at 31 December 2020 and as at 31 December 2019:

(Euro in thousands)	31 December 2020	31 December 2019
Prepaid expenses	1,047	539
VAT credit	1,188	557
Other tax receivables	457	1,143
Other receivables	213	195
Receivables from subsidiaries	60	185
Advance to suppliers for services	130	250
Total other current assets	**3,095**	**2,869**

The item *Other current assets* is considered receivable and therefore was not subject to value adjustment; the item increased by Euro 226 thousand compared to the previous financial period. This increase is mainly due to the item "Vat credit" of Euro 631 thousand offset by the decrease in the item "other tax receivables" of Euro 686 thousand due to the lower tax credit on research and development costs recorded for the 2020 financial period. As at 31 December 2020, this tax credit amounted to Euro 408 thousand, while in 2019 it amounted to Euro 881 thousand.

13. Cash and cash equivalents

The following table sets forth the breakdown of the item as at 31 December 2020 and 2019:

(Euro in thousands)	31 December 2020	31 December 2019
Bank and post office deposits	49,883	4,643

Cash on hand	3	4
Other cash	1	2
Total cash and cash equivalents	**49,887**	**4,649**

Cash and cash equivalents are invested in short-term bank deposits and they are remunerated at a floating rate related to the Euribor trend. The balance as at 31 December 2020 amounted to Euro 49,887 thousand, an increase of Euro 45,238 thousand. This increase derives from the significant activity of obtaining new medium/long-term loans (around Euro 56 million) during the year, also in the context of the pandemic emergency, making also use of business support measures made available by government authorities in Italy and in some of the countries where the Group is present. These financial resources enabled the Group to meet its cash requirements during the interruption and slowdown of operations. Residual cash and cash equivalents at the end of the period, which also benefit from the liquidity resulting from the increase in share capital completed in December 2020 of Euro 23.9 million, represent an important factor of financial solidity in the face of further possible phases of slowdown in the economic recovery in the short term due to the global pandemic.
The stated values can be readily converted into cash and are subject to a non-significant risk of change in value. The book value of cash and cash equivalents is deemed to be aligned to their fair value at the end of the reporting period.
The Company believes that the credit risk related to cash and cash equivalents is limited since it mainly represents deposits divided across domestic and international banking institutions.

14. Shareholders' Equity

Share capital and reserves

On 15 December 2020, the Share Capital Increase was successfully completed through the issue of 499,376,200 new ordinary shares for a total value of Euro 34,956,334, of which Euro 4,993,762 was allocated to capital.

During the period of offer under option, started on 23 November and ended on 10 December 2020, 99,446,115 option rights were exercised to subscribe for 485,103,000 Shares, representing 97.14 % of the total Shares offered, for a total value of Euro 33,957,210. During the first session of the Stock Exchange offer, held on 14 December 2020, all remaining 2,926,006 option rights not exercised during the option period, which gave the right to subscribe to 14,273,200 newly issued ordinary shares, were sold and therefore subscribed. Taking into account also the 485,103,000 Shares already subscribed during the period of offer under option, a total of 499,376,200 Shares have been subscribed, representing 100% of the Shares offered in the context of the share capital increase, for a total value of Euro 34,956,334.

Following this operation, the Share capital amounts to Euro 15,702 thousand, fully paid up, and comprises 606,460,200 shares with no nominal value.

The *Share premium reserve* amounted to Euro 39,215 thousand and changed not only for the portion of value of the share capital increase to be allocated to the share premium, but also for additional costs and income of the share capital increase that, in accordance with IAS 32, are to be charged directly to shareholders' equity.

The additional costs of the transaction mainly concerned amounts paid to legal and accounting advisors and to other professionals and other charges due to the market operator. The additional income of the transaction concerned the consideration for the sale, at the Stock Exchange session of 14 December 2020, of the option rights not exercised during the period of offer under option.

Net of additional costs and income of the share capital increase, the Group's shareholders' equity increased by Euro 33.3 million.

	31 December	
(Euro in thousands)	**2020**	**2019**
Revaluation reserve	86	86
Extraordinary reserve	37,499	33,266
Reserve for first-time adoption of IFRS 9	(391)	(391)
Severance indemnity valuation reserve	(385)	(398)
Network reserve	754	754
Future capital increase reserve	6	-
Retained earnings/(losses brought forward)	2,490	2,490

Bills charged directly to shareholders' equity on operations with entities *under common control*	(5,619)	(5,619)
Total other reserves	**34,440**	**30,188**

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

Following the resolution of 21 May 2020, the Shareholders' Meeting approved the allocation of the 2019 profits of Euro 4,232 thousand entirely to the *extraordinary reserve*.

The Reserve for First-Time Adoption is mainly related to the application of the principle of continuity of values within extraordinary operations concluded among companies "under common control" with a subsequent write-off of the higher values recognised in the transaction with the Shareholders' Equity as a balancing entry.

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

The Shareholders' Equity is therefore divided according to the origin, the possibility of usage, the related distributability and the actual usage in the 3 previous financial periods

Nature/description	Amount (Euro/000)	Possibility of usage	Amount available	Summary of uses in the last 3 periods	
				to cover losses	for other reasons
Share capital	15,702	B			
Equity reserves:					
Share premium reserve	39,215	A, B, C (*)	39,215	-	-
Reserve of Treasury Shares	(2,341)				
Earnings reserves:					
Legal reserve	2,142	B.			
Revaluation reserve	86	A, B, C	86	-	-
Extraordinary reserve	37,499	A, B, C	37,499	-	-
Reserve for First-Time Adoption	(5,619)				
Reserve for first-time adoption of IFRS 9	(391)				
Severance indemnity valuation reserve	(385)				
Network reserve	754				
Future capital increase reserve	6				
Retained earnings	2,490	B			
Net profit/(loss) for the period	(455)				
Total	**88,703**		**76,800**	**-**	**-**

(*) Pursuant to Article 2431 of the Italian Civil Code, the whole amount of this reserve is distributable only if the legal reserve has reached the limit established in Article 2430 of the Italian Civil Code. That level was reached as at 31 December 2020.

Legend:
A: To increase shareholders' equity
B: To cover losses
C: To distribute to shareholders

Non-current liabilities

15. Medium/long-term loans

Medium/long-term loans include medium/long-term loans from banks and payables towards other providers of finance. The following table shows the breakdown thereof as at 31 December 2020 and as at 31 December 2019, with separate disclosure of total loans and current portion:

	31 December			
(Euro in thousands)	**2020**	**of which current portion**	**2019**	**of which current portion**
Fixed rate national bank loans	15,045	45	334	334
Variable rate national bank loans	48,169	13,015	17,696	8,864
Shareholder loan	3,263	-	-	-
Total medium/long-term loans	**66,477**	**13,060**	**18,030**	**9,198**
less current portion	(13,060)		(9,198)	
Non-current portion of medium/long-term loans	**53,417**		**8,832**	
Medium/long-term loan due to Simest	8,718	4,000	8,718	4,000
less current portion	(4,000)		(4,000)	
Medium/long-term loan due to Simest	**4,718**		**4,718**	
Total medium/long-term loans	**58,135**	**17,060**	**13,550**	**13,198**

Some loan contracts contain financial covenant provisions. In particular, they require that parameters, calculated on the basis of the financial statements of the Group, have to be met; they are verified on an annual basis.

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

- Net Financial Position/EBITDA
- Net Financial Position/Shareholders' equity

Based on the results of the financial statements of the Company and of the Tesmec Group, a financial covenant relating to the Net Financial Position/EBITDA ratio towards four credit institutions, corresponding to a financial indebtedness of Euro 7.9 million, representing approximately 8.6% of the gross financial indebtedness, has not been met. This non-compliance resulted in the short-term recognition of the residual medium- and long-term portions for a total of Euro 5.2 million. Requests for waivers of the application of early repayment clauses were promptly submitted to the credit institutions. At present, a number of waivers have already been obtained (for an amount of Euro 2.5 million).

Although the process of obtaining all waivers is not yet complete, there is a reasonable certainty that this process can be completed in the short term, in consideration of the technical time strictly required to complete the procedures envisaged in such circumstances, taking into account the confirmed support provided by the banking system to the development plans of the Company and the of Group through the provision of new medium/long-term loans of Euro 56 million during the year (Euro 70 million for the consolidation). Moreover, it should be noted that the assumption of early repayment of the loans in question was prudently considered as part of the estimate of future cash flows prepared for the purpose of assessing the going concern assumption.

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

The table below shows the figures relevant to the Company's outstanding loans as at 31 December 2020, by indicating the portion due within one year, within 5 years and after more than 5 years:

Description	Residual value as at 31 December 2020	Portion within 12 months	Portion within 5 years	Portion after more than 5 years
Fixed rate national bank loans	15,045	45	13,125	1,875
Variable rate national bank loans	48,169	13,015	32,595	2,559

Shareholder loan	3,263	-	3,263	-
Total	**66,477**	**13,060**	**48,983**	**4,434**

The shareholder loan was a transaction of greater importance and therefore approved by the Company's Control and Risk, Sustainability and Related Party Transaction Committee. This is a shareholder loan of up to Euro 7 million, payable in one or more tranches at the Company's request, with a duration of 36 months and bearing interest at an annual rate of 2%. As at 31 December 2020, Euro 3,263 thousand had been disbursed by the parent company TTC S.r.l. through the subsidiaries RX S.r.l. and MTS Officine Meccaniche di Precisione S.p.A..

Net financial indebtedness

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

	31 December			
(Euro in thousands)	**2020**	***of which with related parties and group***	**2019**	***of which with related parties and group***
Cash and cash equivalents	(49,887)		(4,649)	
Current financial assets	(52,949)	*(48,286)*	(45,377)	*(40,681)*
Current financial liabilities	63,702	*1,257*	61,149	*5,781*
Current financial liabilities from rights of use	2,690		2,295	
Current portion of derivative financial instruments	-		6	
Current financial indebtedness	**(36,444)**	*(47,029)*	**13,424**	*(34,900)*
Non-current financial liabilities	64.329		38,315	
Non-current financial liabilities from rights of use	10,909		12,055	
Non-current portion of derivative financial instruments	170		6	
Non-current financial indebtedness	**75,408**	-	**50,376**	-
Net financial indebtedness pursuant to CONSOB Communication no. DEM/6064293/2006	**38,964**	***(47,029)***	**63,800**	***(34,900)***

Net indebtedness stood at Euro 38,964 thousand as at 31 December 2020 from Euro 63,800 thousand in decrease as at 31 December 2019. The decrease of Euro 24,836 thousand is mainly due to the increase in cash and cash equivalents following the share capital increase.

We also report the following changes:

- for the short-term portion, there was a total decrease of Euro 49,868 thousand mainly to the liquid assets deriving from the capital increase operation, as well as the liquidity obtained through the opening of new medium / long-term loans linked to the instrument of the "Liquidity" Decree;
- increase in the long-term portion of Euro 25,032 thousand deriving from the activation of new loans of Euro 57,448 thousand offset by the reclassification in the current financial indebtedness described in the paragraph.

16. Bond issue non current

The item related to the *bond issue non current* totalled Euro 6,194 thousand and decreased by Euro 18,571 thousand compared to the previous year following the repayments during the year and to the reclassification in the current term of the bond "Tesmec S.p.A. 6% 2014-2021" bond issue of Euro 15 million placed on 8 April 2014 on the Extra MOT PRO market. The 7% gross fixed rate bond issue, placed by Banca Popolare di Vicenza S.c.p.a. and by KNG Securities LLP, will expire on 10 April 2021 with an annual delayed coupon.

The item includes the “Tesmec S.p.A. 4.75% 2018-2024" bond issue of Euro 10 million placed on 27 July 2018 with professional investors. The 4.75% fixed rate Bond Issue, placed by Banca Finint, will expire on 30 June 2024 with half-yearly coupon and amortising repayment, and with a two-year pre-amortisation period.

The failure to comply with certain financial covenants has no effect on outstanding bonds as the interest rate step-up had already taken place in past years.

17. Financial liabilities from rights of use

The item *Financial liabilities from rights of use* refers to the accounting required by IFRS 16 of the loan due to counterparties of the lease contracts as from 1 January 2019. The following table sets forth the breakdown of the items as at 31 December 2020 and 2019:

	31 December	
(Euro in thousands)	**2020**	**2019**
Non-current financial liabilities from rights of use	10,909	12,055
Current financial liabilities from rights of use	2,690	2,295
Total financial liabilities from rights of use	**13,599**	**14,350**

Overall, financial liabilities from rights of use decreased by Euro 751 thousand in that repayments for the period were greater than the signing of new lease/rental contracts.

18. Derivative financial instruments

The Company signed some contracts related to derivative financial instruments whose contractual characteristics and related fair value as at 31 December 2020 and 2019 are shown in the table below:

Counterparties	**Type**	**Debt interest rate (fixed)**	**Credit interest rate (variable)**	**Start date**	**Maturity date**	**Notional principal**	**Fair Value (Euro/000) as at 31 December**	
							2020	**2019**
Credit Agricole Cariparma	IRS	Fixed interest rate 0.34%	6-month Euribor	07/05/2015	26/03/2020	-	-	(2)
ICCREA BANCA/BCC	CAP	Interest rate for the period 0.75%	6-month Euribor	27/09/2015	27/09/2020	-	-	-
Banca Monte dei Paschi di Siena	CAP	Interest rate for the period 0.61%	6-month Euribor	31/12/2016	30/09/2020	-	-	(2)
Banco Popolare	IRS	Fixed interest rate 0.06%	6-month Euribor	03/10/2016	15/12/2020	-	-	(2)
Banco BPM	IRS	Fixed interest rate 0.12%	3-month Euribor	31/01/2017	30/04/2021	345,949	(1)	(3)
Deutsche Bank	CAP	Fixed interest rate 0.00%	3-month Euribor	20/01/2017	30/11/2020	-	-	-
BPER Banca	CAP	Interest rate for the period 0.15%	3-month Euribor	18/12/2017	18/03/2021	261,110	-	(3)
BANCO BPM	CAP	Quarterly floating rate 1.5%	3-month Euribor	01/02/2019	30/06/2025	1,285,714	1	4
Deutsche Bank	IRS	Fixed interest rate 1.80%	3-month Euribor	01/07/2020	30/06/2025	4,736,842	(60)	-
Intesa	IRS	Fixed interest rate 2.00%	3-month Euribor	18/05/2020	31/03/2025	10,000,000	(110)	-
Assets for derivative instruments within the financial period							**-**	**-**
Assets for derivative instruments beyond the financial period							**1**	**4**
Liabilities for derivative instruments within the financial period							**(1)**	**(6)**
Liabilities for derivative instruments beyond the financial period							**(170)**	**(6)**

Tesmec S.p.A. uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The transactions for interest-rate risk hedging are mainly related to medium-term loans. The exchange-rate hedging transactions are related to commercial transactions.

The Company does not account for these financial instruments according to the methods established for hedge accounting since they do not meet all the requirements provided on this matter by the international accounting standards. Therefore, the changes in fair value of the financial instruments are attributed to the income statement during the financial period under review.

The financial management of the Company does not envisage the trading of derivative instruments with speculative purposes.

19. Employee benefit liability

The Company has no defined benefit pension plans in the strict sense. However, the severance indemnity fund required by Article 2120 of the Italian Civil Code, in terms of recognition in the financial statements, falls under this type and as such was accounted for, as shown in the applied accounting policies.
The following table shows the changes for the period ended 31 December 2020 and 31 December 2019 of employee benefits:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Present value of the liability at the beginning of the period	1,951	1,944
Financial expense	13	29
Benefits paid	(133)	(162)
Financial loss (profit)	(17)	140
Present value of the liability at the end of the period	**1,814**	**1,951**

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

Economic and financial technical bases

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Annual discount rate	0.35%	0.70%
Inflation rate	1.00%	1.50%
Total annual salary increase rate	2.12%	2.62%
Annual rate of increase in severance indemnity	3.00%	3.00%

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

	Discount rate	
(Euro in thousands)	**0.50%**	**-0.50%**
Effect on the aggregate current cost of the service and of the financial expenses	23	4
Reported value for liabilities with respect to defined benefit plans	1,727	1,907

Technical and demographic bases

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Mortality	2004 ISTAT tables	2004 ISTAT tables
Disability	INPS tables	INPS tables
Retirement age	67 N/F	67 N/F

Frequency of turnover and advances on severance indemnity

	Financial period ended 31 December	
(Euro in thousands)	2020	2019
Advance frequency %	0.88%	0.86%
Turnover frequency %	16.09%	23.57%

Current liabilities

20. Interest-bearing financial payables (current portion)

The following table sets forth the breakdown of *Interest-bearing financial payables (current portion)* for the 2020 and 2019 financial periods:

	31 December	
(Euro in thousands)	2020	2019
Advances from banks against invoices and bills receivables	23,430	36,569
Financial payables due from affiliated companies	1,257	5,781
Payables due to factoring companies	4,518	5,601
Financial payables due to SIMEST	4,000	4,000
Current portion of medium/long-term loans	13,060	9,198
Total interest-bearing financial payables (current portion)	**46,265**	**61,149**

The current portion of medium/long-term loans decreases mainly due to the short-term reclassification of the original portion foreseen beyond the financial year (Euro 5.2 million) following the failure to comply with financial convenants as illustrated in the previous note 15.
Payables due to factoring companies include both advances received for transfers *with recourse* of the Company's trade receivables and payables arising from supplies received and transferred using reverse factoring, the deferral conditions of which determine the representation of a financial liability.

21.Current bond loan

The item relating to the current bond loan amounts to Euro 17,437 and relates to the short-term reclassification of the “Tesmec S.p.A. 6% 2014-2021 "equal to Euro 15 million placed on 8 April 2014 on the Extra MOT PRO market. The bond, placed by Banca Popolare di Vicenza S.c.p.a. and KNG Securities LLP, it expires on 10 April 2021 and has a gross fixed rate of 7% with an annual deferred coupon. The repayment of this loan will take place through the use of liquidity available on the due date.

22. Trade payables

The breakdown of *Trade payables* as at 31 December 2020 and as at 31 December 2019, respectively, is reported in the table below:

	31 December	
(Euro in thousands)	2020	2019
Trade payables due to third-parties	34,117	31,069
Trade payables due to related parties	2,100	2,652
Total trade payables	**36,217**	**33,721**

Trade payables as at 31 December 2020 increased compared to the previous financial period by Euro 2,496 thousand.
This figure includes payables related to the normal course of business of the Company, in particular the purchase of raw materials and outsourced works.

This item also includes payables originating from supplies received and sold in accordance with the reverse factor that maintain commercial deferment conditions.
Note also that there are no payables with maturity exceeding five years at the above dates.

23. Income taxes payable

The breakdown of *Income taxes payable* as at 31 December 2020 and as at 31 December 2019, respectively, is reported in the table below:

	31 December	
(Euro in thousands)	**2020**	**2019**
Current IRES tax liabilities	-	1,089
Current IRAP tax liabilities	54	398
Total income taxes payable	**54**	**1,487**

The item *IRES and IRAP taxes payable* as at 31 December 2020 includes the net payable due by the Company to the tax authorities for the payment of direct income taxes. Some overdue positions are being settled.

Domestic tax consolidation

The Company, as parent company, opted for the domestic tax consolidation system provided by Article 117 et seq. of the Consolidated Act on Income Tax with the subsidiaries Tesmec Rail S.r.l., Tesmec Automation S.r.l., East Trenchers S.r.l. and Bertel S.r.l. for the 2020/2022 three-year period.
Consequently, in addition to the Parent Company Tesmec S.p.A., the investees Tesmec Rail S.r.l., Tesmec Automation S.r.l., East Trenchers S.r.l. and Bertel S.r.l. are included in the tax consolidation perimeter for the 2020 financial period.
Specific consolidation agreements were signed with each subsidiary opting for the domestic tax consolidation system, which regulate the timing and the methods for exchanging the information required to carry out the tax consolidation, the timing and methods for transferring resources among companies resulting from group taxation, as well as the methods for recognising the tax benefit to the companies that transfer, as part of the group taxation, tax losses, surpluses of non-deductible interest expenses and excess deduction to aid economic growth (A.C.E.).
No items affected by this system were recognised in the balance sheet or income statement in that no offsetting between the subjective positions of the participating companies took place during the year, and therefore no consolidation income was recognised for the use, by the "fiscal unit", of tax losses, surpluses of non-deductible interest expenses and excess deduction to aid economic growth.

The tax result for the 2020 financial period referring to the tax consolidation consists, in summary, of the following:

	Financial period ended 31 December
(Euro in thousands)	**2020**
Tax income (loss) of the consolidating company Tesmec S.p.A.	(1,902)
Tax income (loss) of the consolidated company Tesmec Rail S.r.l.	(2,708)
Tax income (loss) of the consolidated company Tesmec Automation s.r.l.	(1,744)
Tax income (loss) of the consolidated company Bertel S.r.l.	-
Tax income (loss) of the consolidated company East Trenchers S.r.l.	(61)
Total consolidated tax income (loss)	**(6,415)**

24. Provisions for risks and charges

Provisions for risks and charges mainly refers to the product guarantee fund. The calculation is based on a historical, statistical and technical analysis of the interventions under guarantee carried out on sales in prior financial periods and includes both the cost of labor and that for spare parts used.
Changes in *Provisions for risks and charges* as at 31 December 2020 and 2019 are indicated below:

(Euro in thousands)	Financial period ended 31 December 2020	2019
Value as at 1 January	520	310
Provisions	130	210
Uses	(250)	-
Value as at 31 December	**400**	**520**

The provision for the period is related for Euro 30 thousand to cover future work under warranty and for Euro 100 thousand to provisions to cover some outstanding disputes closed during the year.

The main disputes in progress are described in note 39 Legal and Tax Disputes below.

25. Other current liabilities

The following table sets forth the breakdown of *Other current liabilities* as at 31 December 2020 and 2019:

(Euro in thousands)	Financial period ended 31 December 2020	2019
Due to social security	3,135	3,289
Due to INAIL (National Insurance Institute for Industrial Accidents)	282	242
Due to trade funds	354	408
Due to employees and collaborators	1,877	2,628
Due to others	7	9
Payables due to related parties	-	358
Accrued expenses and liabilities	423	400
Total other current liabilities	**6,078**	**7,334**

Other current liabilities of Euro 1,256 thousand decreased compared to the prior financial period and mainly refer to the decrease in due to employees and collaborators of Euro 751 thousand. This item includes certain past due pension liabilities that are being settled.

26. Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2020 and 2019:

(Euro in thousands)	Financial period ended 31 December 2020	2019
Deferred tax assets	2,970	2,329
Deferred tax liabilities	1,664	1,655

The breakdown of net deferred taxes as at 31 December 2020 and 2019 is shown in the following table by type, listing the items that present underlying temporary differences:

	31 December		31 December		Financial period ended 31 December	
	Statement of financial position		Shareholders' equity		Income statement	
(Euro in thousands)	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Deferred tax assets						
Reversals of intangible assets	3	6	-	-	(3)	(30)
Obsolescence fund	965	946	-	-	19	56
Provisions for future risks and charges	-	41	-	-	(41)	41
Unrealised exchange-rate losses	1,172	972	-	-	200	(49)
Tax effect on UCC gain reversals	55	91	-	-	(36)	(60)
Provision for bad debts	193	184	-	-	9	(6)
Other temporary differences	126	89	-	-	37	14
Tax losses carried forward	456	-	-	-	456	-
Total deferred tax assets	**2,970**	**2,329**	**-**	**-**	**641**	**(34)**
Deferred tax liabilities						
Unrealised exchange rate gains	(1,520)	(1,486)	-	-	(34)	(85)
Profits allocated to network reserve	(199)	(199)	-	-	-	-
Other temporary differences	55	30	(4)	33	29	-
Total deferred tax liabilities	**(1,664)**	**(1,655)**	**(4)**	**33**	**(5)**	**(85)**
Net effect on Shareholders' Equity						
Net balance deferred wealth taxes	**1,306**	**674**				
Represented in the income statement as follows:						
Deferred tax assets	**641**	**(34)**				
Deferred tax liabilities	**(5)**	**(85)**				
Deferred tax liabilities, net	**636**	**(119)**				

The possibility of recovering taxes is subject to the availability of future taxable income over the time horizon used by the Directors to formulate forecasts on the basis of the best information available at the date of approval of the financial statements, as well as in accordance with the applicable tax rules.

Current taxation

Profit before taxes and the allocation for income taxes for the financial periods as at 31 December 2020 and 2019 are summarised below:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Pre-tax profit/(loss)	**(1,073)**	**5,509**
Current taxation	18	1,158
Deferred tax liabilities/(assets)	(636)	119
Total taxes	**(618)**	**1,277**

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

(Euro in thousands)		Financial period ended 31 December 2020 IRES	IRAP	TOTAL
Result before tax	**A**	**(998)**	**(998)**	
Difference in taxable income between IRES and IRAP	B		4,883	
	C=A+B	(998)	3,885	
Nominal rate (%)	D	24.0%	3.9%	
Theoretical taxes	**E=C*D**	**(240)**	**152**	**(88)**
Tax effect on permanent differences	F	(453)	(58)	(511)
Tax effect on temporary differences	G	285	-	285
Tax effect on the re-absorption of temporary differences	H	(48)	(4)	(52)
Tax effect of the “Irap bonus” (art. Italian Decree Law 34/2020)	I	-	(36)	(36)
Current taxation posted to the income statement	**L=E+F+G+H+I**	**-**	**54**	**54**
Deferred tax liabilities	M	7	(1)	6
Deferred tax assets	N	(631)	8	(623)
Taxes related to prior financial periods	O	(5)	(31)	(36)
Foreign income taxes	P	-	-	-
Income from tax consolidation	Q	-	-	-
Aggregate tax posted to the income statement	**R=L+M+N+O+P+Q**	**(629)**	**30**	**(599)**

Comments to the main items in the income statement

27. Revenues from sales and services

In the 2020 and 2019 financial periods, revenues from sales and services amounted to Euro 88,818 thousand and Euro 100,297 thousand respectively, a decrease of 11.4%. The breakdown is set below:

(Euro in thousands)	Financial period ended 31 December 2020	2019
Sales of products	84,075	96,345
Services rendered	4,743	3,952
Total revenues from sales and services	**88,818**	**100,297**

Revenues from *sales of goods* refer to transfer of machines and equipment for Energy, Trenchers and Rail.

28. Cost of raw materials and consumables

For the financial periods as at 31 December 2020 and 2019, cost of raw materials and consumables amounted to Euro 49,558 thousand and Euro 53,574 thousand, respectively. The breakdown of the item is as follows:

(Euro in thousands)	Financial period ended 31 December 2020	2019
Cost for the purchase of raw materials and consumables	50,061	53,658
Change in inventories	(503)	(84)
Total cost of raw materials and consumables	**49,558**	**53,574**

Cost of raw materials and consumables increased more than proportionally compared to the increase in sales volumes, due to the different margins given by the different sales mix of the segments.

29. Costs for services

The table below shows the breakdown of *Costs for services* that amounted in 2020 and in 2019 to Euro 13,317 thousand and Euro 15,942 thousand, respectively.

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Transport, customs and incidental expenses	2,658	2,841
Outsourced work service	2,216	2,504
Services for legal, tax, technical and other consultancy	3,077	3,695
External production services	-	144
Banking services	928	472
Insurance	543	436
Energy, water, gas, telephone expenses and postage	612	745
Board and lodging expenses and travelling allowance	284	898
Directors' and Auditors' fees	736	840
Advertising and other selling expenses	192	647
Maintenance services	293	406
Commissions and additional expenses	736	1,383
Other general expenses	1,042	931
Total costs for services	**13,317**	**15,942**

The item decreased by Euro 2,625 thousand compared to the previous financial period due to lower sales in the period.

30. Payroll costs

During the financial periods ended 31 December 2020 and 2019, payroll costs amounted to Euro 18,064 thousand and Euro 20,384 thousand, respectively, down by 11.4%, mainly for the adjustment plans of the technical departments in line with the increased complexity of the Company's offer.

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Wages and salaries	13,682	15,819
Social security charges	3,207	3,384
Employee severance indemnity	969	965
Other personnel costs	206	216
Total payroll costs	**18,064**	**20,384**

The item decreased by Euro 2,320 thousand as a result of the actions implemented by the Company to contain costs and improve the efficiency of the corporate structure.

31. Other operating (costs)/revenues, net

During the financial periods ended 31 December 2020 and 2019, *Other operating (costs)/revenues, net* amounted to Euro 271 thousand and Euro 78 thousand, respectively.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Provisions for risks and other net provisions	305	410

Rents	63	34
Hiring	1,040	892
Other lease and rental expenses	13	35
Sundry taxes	83	104
Other revenues	(1,303)	(1,099)
Income for Research and Development tax credits	(522)	(886)
Contingent assets/liabilities/losses	(29)	(60)
Other expenses	696	648
Total other operating revenues, net	**346**	**78**

Other operating (costs)/revenues, net decreased by Euro 268 thousand compared to the previous financial period, mainly due to lower Income for Research and Development tax credits of Euro 364 thousand.

The item Provisions for risks and other net provisions of Euro 305 thousand includes the provision to the allowance for doubtful receivables of Euro 175 thousand and the provision for risks amounting to Euro 130 thousand.

32. Amortisation and depreciation

During the financial periods ended 31 December 2020 and 2019, amortisation and depreciation amounted to Euro 6,240 thousand and Euro 6,201 thousand respectively, in line with the previous financial period. The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Amortisation of intangible assets	2,601	2,996
Depreciation of property, plant and equipment	969	1,007
Depreciation of right of use	2,670	2,198
Total amortisation and depreciation	**6,240**	**6,201**

33. Development costs capitalised

Development costs capitalised for the financial periods ended 31 December 2020 and 31 December 2019 amounted to Euro 1,779 thousand and Euro 1,946 thousand, respectively.
During the financial period, the increase in the item is related to the development of projects for the launch of new models and new functions requested by the markets in which the Company operates.
The percentage incidence on revenues of development costs capitalised increased from 1.9% for the 2019 financial period to 2.0% for the 2020 financial period.

34. Financial expenses

During the financial periods ended 31 December 2020 and 2019, financial expenses amounted to Euro 7,093 thousand and Euro 5,079 thousand, respectively, with an increase of Euro 2,014 thousand. The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Interests payable for factoring and billing discounts	671	499
Interests payable on interest-bearing medium/long-term loans and borrowings	2,601	2,506
Interests payable on advance loans on exports	197	267
Other sundry financial expenses	-	487
Financial expenses on rights of use	598	602

Realised foreign exchange losses	1,663	338
Unrealised foreign exchange losses	1,189	380
Fair value adjustment of derivative instruments	174	-
Total financial expenses	**7,093**	**5,079**

Financial expenses worsened by Euro 2,014 thousand mainly due to exchange losses (realised and unrealised) of Euro 2,134 thousand.

35. Financial income

During the financial periods ended 31 December 2020 and 2019, financial income amounted to Euro 2,947 thousand and Euro 4,523 thousand, respectively. The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2020**	**2019**
Interests from banks	1	1
Realised foreign exchange gains	71	340
Unrealised foreign exchange gains	503	935
Fair value adjustment of derivative instruments	12	27
Dividends	-	1,500
Sundry income	2,360	1,720
Total financial income	**2,947**	**4,523**

Financial income decreased by Euro 1,576 thousand mainly due to:

- decrease in foreign exchange gain (realised and unrealised) of Euro 701 thousand due to a more favourable USD/EUR exchange rate trend;
- decrease in the item dividends in that, in the previous financial period, the subsidiary Tesmec Rail S.r.l. distributed dividends of Euro 1,500 thousand.

36. 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:

	31 December							**31 December**						
	2020							**2019**						
(Euro in thousands)	**Financial receivables and other non-current financial assets**	**Trade receivables**	**Current financial receivables**	**Other current assets**	**Current financial payables**	**Non-current financial payables**	**Trade payables**	**Financial receivables and other non-current financial assets**	**Trade receivables**	**Current financial receivables**	**Other current assets**	**Current financial payables**	**Trade payables**	**Other current liabilities**
Subsidiaries:														
Tesmec USA Inc.	-	3,302	13,542	3	-	-	44	-	3,938	12,943	-	3,610	36	-
East Trencher S.r.l.	-	26	83	-	-	-	-	-	40	19	-	-	-	-
Tesmec SA	-	365	388	51	-	-	6	-	113	454	50	-	-	-
OOO Tesmec RUS	-	889	547	-	-	-	-	-	1,096	715	-	-	-	-
Tesmec Automation S.r.l.	-	123	7,515	-	-	-	132	-	63	8,171	-	-	1,676	271
Tesmec New Technology (Beijing)	-	29	911	-	-	-	-	-	31	928	-	-	206	-
Marais Technologies SAS	-	-	1,941	-	-	-	-	-	7	1,910	-	-	-	-
Groupe Marais SAS	-	1,471	431	-	-	-	476	-	1,716	696	-	-	196	-

Tesmec Australia Ltd.	-	31	10,493	6	-	-	-	-	2,841	6,936	4	-	-	-
Marais Laying Tech. Ltd. NZ	-	1	776	-	-	-	-	-	48	1,079	-	-	-	-
Marais Cote d'Ivoire	-	241	-	-	-	-	3	-	63	-	-	-	-	-
Bertel S.r.l.	-	9	739	-	-	-	-	-	-	1,282	-	-	-	88
Tesmec Rail S.r.l.	2,500	1,435	4,821	-	-	-	6	3,500	117	2,500	132	13	27	-
4SERVICE S.r.l.	-	98	3,203	-	-	-	146	-	-	-	-	-	-	-
4SERVICE USA LLC	-	23	-	-	-	-	-	-	704	-	-	-	-	-
MIR SA	-	1	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	**2,500**	**8,044**	**45,390**	**60**	**-**	**-**	**813**	**3,500**	**10,777**	**37,633**	**186**	**3,623**	**2,141**	**359**
Associates:														
Locavert S.A.	-	27	-	-	-	-	-	-	421	-	-	-	-	-
Subtotal	**-**	**27**	**-**	**-**	**-**	**-**	**-**	**-**	**421**	**-**	**-**	**-**	**-**	**-**
Joint Ventures:														
Condux Tesmec Inc.	-	1,345	933	-	-	-	25	-	2,187	425	-	-	2	-
Tesmec Peninsula	-	12	1,886	-	1,214	-	-	-	147	2,061	-	1,658	-	-
Subtotal	**-**	**1,357**	**2,819**	**-**	**1,214**	**-**	**25**	**-**	**2,334**	**2,486**	**-**	**1,658**	**2**	**-**
Related parties:														
Ambrosio S.r.l.	-	-	-	-	-	-	22	-	-	-	-	-	9	-
Dream Immobiliare S.r.l.	-	-	77	-	-	-	1,166	-	-	562	-	-	51	-
TTC S.r.l.	-	-	-	-	-	-	16	-	-	-	-	-	61	-
RX S.r.l.	-	-	-	-	-	213	-	-	-	-	-	-	-	-
Fi.ind.	-	24	-	-	-	-	-	-	-	-	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	-	181	-	-	43	3,050	58	-	12	-	-	500	388	-
Subtotal	**-**	**205**	**77**	**-**	**43**	**3,263**	**1,262**		**12**	**562**	**-**	**500**	**509**	**-**
Total	**2,500**	**9,633**	**48,286**	**60**	**1,257**	**3,263**	**2,100**	**3,500**	**13,544**	**40,681**	**186**	**5,781**	**2,652**	**359**

	Financial period ended 31 December					**Financial period ended 31 December**				
	2020					**2019**				
(Euro in thousands)	**Revenues**	**Cost of raw materials**	**Costs for services**	**Other operating (costs)/revenues, net**	**Financial income and expenses**	**Revenues**	**Cost of raw materials**	**Costs for services**	**Other operating (costs)/revenues, net**	**Financial income and expenses**
Subsidiaries:										
Tesmec USA, Inc.	9,391	(82)	48	26	178	11,562	(153)	(3)	189	150
East Trencher S.r.l.	146	-	10	3	3	58	-	-	3	-
Tesmec SA	482	-	3	1	18	475	-	(7)	4	56
OOO Tesmec RUS	296	-	3	-	34	239	-	-	2	53
Tesmec Automation S.r.l.	178	(108)	34	65	254	67	(1,362)	11	87	202
Tesmec New Technology (Beijing)	120	(92)	1	-	51	30	(182)	(163)	-	65
Tesmec Rail S.r.l.	6,766	(128)	243	220	111	5,481	(66)	24	246	1,568
Marais Technologies SAS	-	-	-	-	23	-	-	-	-	29
Groupe Marais SAS	2,253	(695)	18	3	5	4,539	(1,197)	(32)	71	81
Tesmec Australia Ltd.	408	-	1	13	224	2,920	-	-	18	236
Marais Laying Tech. Ltd. NZ	18	-	2	2	35	525	-	-	4	15
Marais Cote d'Ivoire	175	-	1	-	-	62	-	-	2	-
Marais Guinee SARLU	-	-	-	-	-	-	-	-	-	-
Bertel S.r.l.	-	-	-	3	43	-	-	-	3	76

Tesmec Rail S.r.l.	-	-	-	-	-	-	-	-	-	-
4Service S.r.l.	80	(804)	-	(600)	-	-	-	-	-	-
4SERVICE USA LLC	23	-	-	-	-	704	-	-	-	-
MIR SA	-	-	2	-	-					
Subtotal	**20,336**	**(1,909)**	**366**	**(264)**	**979**	**26,662**	**(2,960)**	**(170)**	**629**	**2,531**
Associates:										
Locavert S.A.	(211)	-	-	-	-	588	(9)	-	-	6
Subtotal	**(211)**	**-**	**-**	**-**	**-**	**588**	**(9)**	**-**	**-**	**6**
Joint Ventures:										
Condux Tesmec Inc.	6,708	-	(5)	10	11	3,762	-	(33)	178	10
Tesmec Peninsula	93	-	-	-	50	303	-	-	-	46
Subtotal	**6,801**	**-**	**(5)**	**10**	**61**	**4,065**	**-**	**(33)**	**178**	**56**
Related parties:										
Ambrosio S.r.l.	-	-	-	(3)	(4)	-	-	-	(9)	(2)
Ceresio Tours S.r.l.	-	-	-	-	-	-	-	(9)	-	-
Dream Immobiliare S.r.l.	-	-	-	-	(446)	-	-	-	(14)	(307)
TTC S.r.l.	-	-	(51)	-	(16)	-	-	(94)	-	-
Fi.ind.	-	-	-	78	-	-	-	-	27	-
M.T.S. Officine meccaniche S.p.A.	1,164	(12)	5	(155)	(58)	8,085	-	5	(545)	(8)
Subtotal	**1,164**	**(12)**	**(46)**	**(80)**	**(524)**	**8,085**	**-**	**(98)**	**(541)**	**(317)**
Total	**28,090**	**(1,921)**	**315**	**(334)**	**516**	**39,400**	**(2,969)**	**(301)**	**266**	**2,276**

It is noted that as a result of the acquisition of 4 Service S.r.l. completed during the 2020 financial year, sales to related parties have significantly decreased. As more fully illustrated in 4.1 Effects of the acquisition of 4 Service S.r.l. of the Management Report, this operation is part of the Group's broader strategy of concentrating all the management of the so-called business rental which was carried out, as well as by 4 Service S.r.l. also by Tesmec USA Inc.

- Tesmec USA Inc: Revenues and Costs of materials refer to mutual sales transactions concerning machines and spare parts. Financial income refers to the remuneration of a current account balance that reported during the year an indebtedness situation of Tesmec USA towards Tesmec S.p.A.;
- Tesmec SA (Pty) LTD: Revenues refer to the sales of trencher spare parts. Financial income refers to the remuneration of a current account balance that reported during the year an indebtedness situation of Tesmec SA towards Tesmec S.p.A.;
- Tesmec RUS: Revenues refer to the sale of stringing equipment machines and spare parts;
- Tesmec Rail S.r.l.: Revenues refer to the sale of machines/equipment of the rail segment. Financial income refers to the remuneration of a current account and loan balance that reported during the year an indebtedness situation of Tesmec Rail S.r.l. towards Tesmec S.p.A.;
- Locavert S.A.: the French associate normally purchases trenchers/spare parts for rental business and carrying-out of excavation works at market prices and terms of payment;
- Condux Tesmec, Inc.: the JV purchases stringing machines and equipment for sale on the American market at market prices and terms of payment;
- Tesmec Peninsula WLL: the JV operates on the Saudi Arabian market supplying trencher machinery produced by the Group as well as on-site and after-sale support services. The income and cost items relate to the normal marketing activities of trenching machines;
- Dream Immobiliare S.r.l.: Financial income and expenses includes expenses related to the rentals for the Building of Grassobbio and Endine. Note that, following the application of the accounting standard IFRS 16, rents are not shown in the above table as they are represented as depreciation on rights of use.
- M.T.S. Officine meccaniche S.p.A.: revenues are mainly related to the operation started in 2017 and the sale of semi-finished products.

37. Fees paid to Directors, Auditors, Operating Manager and executives with strategic responsibilities

Year 2020:

Board of Directors				
Name and Surname	**Office**	**Fees (in Euro)**	**Bonus and other fees (in Euro)**	**Total fees (in Euro)**
Ambrogio Caccia Dominioni	Chairman and Chief Executive Officer	345,000	-	345,000
Gianluca Bolelli	Vice Chairman	83,200	-	83,200
Caterina Caccia Dominioni	Director	52,000	-	52,000
Lucia Caccia Dominioni	Director	20,000	-	20,000
Paola Durante	Director	40,000	-	40,000
Simone Andrea Crolla	Director	30,000	-	30,000
Emanuela Teresa Basso Petrino	Director	41,600	-	41,600
Guido Luigi Traversa	Director	30,000	-	30,000

Among the actions aimed at reducing costs that the Group has taken in response to the negative effects of the COVID-19 pandemic, Chairman and Chief Executive Officer Ambrogio Caccia Dominioni partially waived his remuneration in the amount of Euro 115 thousand.

Board of Statutory Auditors				
Name and Surname	**Office**	**Fees (in Euro)**	**Bonus and other fees (in Euro)**	**Total fees (in Euro)**
Simone Cavalli	Chairman	39,917	-	39,917
Stefano Chirico	Statutory Auditor	31,720	-	31,720
Alessandra De Beni	Statutory Auditor	26,468	-	26,468

Fees paid to executives with strategic responsibilities in the 2020 financial period amounted to Euro 364 thousand (Euro 412 thousand in the 2019 financial period).

37. Summary statement of considerations to the Independent Auditors and to the entities belonging to their network

Pursuant to Article 149-*duodecies* of the CONSOB Issuer Regulation (Resolution no. 11971/1999 and subsequent amendments), the following table shows the fees charged in the financial statements ended 31 December 2020 and 2019 for auditing services and for services other than audit rendered by the Company Deloitte & Touche S.p.A.

	Independent Auditors that supplied the service	**Receiver**	**Accrued amount**	
(Euro in thousands)			**2020**	**2019**
Audit of the financial statements and consolidated financial statements	Deloitte & Touche S.p.A.	Tesmec S.p.A.	140	102
Limited half-year auditing	Deloitte & Touche S.p.A.	Tesmec S.p.A.	28	28
Limited auditing of the consolidated non-financial statement	Deloitte & Touche S.p.A.	Tesmec S.p.A.	25	15
Attestation services	Deloitte & Touche S.p.A.	Tesmec S.p.A.	48	15
Examination of the pro-forma financial information included in the registration document relating to the capital increase transaction	Deloitte & Touche S.p.A.	Tesmec S.p.A.	124	-
Total			**365**	**145**

39. Legal and tax disputes

At the end of the reporting period, the Tesmec Group is party to a number of civil and tax disputes. With regard to civil disputes, the Group, based on the advice of its lawyers, considers that the possibility of losing these cases is possible or remote and therefore it has not set aside any provision in the financial statements for any liabilities arising from such disputes, in accordance with the accounting standards of reference that require the allocation of liabilities for probable and quantifiable risks.

In March 2018, Tesmec carried out the arbitration award obtained at the China International Economic and Trade Arbitration Commission of Beijing (CIETAC) and obtained the payment of more than Euro 1.3 million (principal, interest, legal costs) on the current account of the execution Judge treasury at the Beijing Court for a receivable claimed from a trading company. Due to the restrictions imposed by the current currency rules, the Judge was identified as the "trustee" to receive the payment made by the Chinese counterparty and then pay into the Tesmec accounts. Before the Judge could order the transfer, the counterparty filed an application for seizure of the sums, granted by the Judge against the filing of a counterclaim for compensation for alleged damages for which the Chinese counterparty was seeking refund, jointly and severally, from Tesmec and a Chinese company that at the time was responsible for certain import procedures. On 7 January 2020, the lawsuit for damages was dismissed. In 2020, the other party appealed against this measure before the Beijing Court of Appeal, which rejected the appeal last December. The procedure for the release of the fiduciary deposit is in progress, and therefore collection is expected in the short term.
In the meantime, as the Beijing Ordinary Court recognised the CIETAC international arbitration court (which has already issued a favourable arbitration award to the Group as for the previous contracts) as the competent jurisdiction, Tesmec started new arbitration proceedings against the trading company to obtain the payment of an additional Euro 491 thousand.

During June 2019, a tax audit by the Italian Inland Revenue Agency began in relation to the parent company Tesmec S.p.A. for the 2016 tax year, with reference to alleged capital losses not deductible for IRES and IRAP purposes. The audit is still in progress and the Company is awaiting the conclusions of the Office. The report on findings received reveal disputes with respect to which the Company, supported by the opinion of its tax advisors, considers its behaviour to be well-founded and the related risk of incurring liabilities is consequently assessed as merely possible. For this reason, the Directors did not deem it necessary to recognise any provisions in the financial statements. At the time of this report, no new elements have occurred in relation to the dispute in progress, confirming the assessments made by the Directors for the consolidated financial statements at 31 December 2019.

In December 2020, the Parent Company received a notice of assessment relating to the 2015 tax year, with a total finding for IRES, IRAP and VAT purposes of Euro 20 thousand. Due to the disputed amount, Tesmec contacted the Office in order to reach a solution reducing the dispute.

During the year, the Group entered into a settlement agreement with a French company, with the payment of an amount of Euro 250 thousand, which has already been settled in accordance with the instalment plan. This settlement agreement settles a dispute that began in April 2019.

Moreover, with regard to civil proceedings, note that the dispute with a former French distributor was settled during the financial period. On 16 November 2020, the Court of Cassation upheld Tesmec's appeal and definitively rejected the opposing claims. The favourable ruling allowed Tesmec to recover the amount of Euro 1.9 million that had been paid into a special escrow account following the judgement of the Lyon Court of Appeal.

40. Positions or transactions resulting from atypical and/or unusual operations

Note that, pursuant to CONSOB Communication no. DEM/6064293 of 28 July 2006, in 2020 the Company did not carry out any atypical and/or unusual operation, as defined by the Communication itself.

41. Commitments and risks

They include sureties, guarantees and third-party assets with the Company. For the financial periods as at 31 December 2020 and 2019, they are summarised as follows:

	31 December	
(Euro in thousands)	**2020**	**2019**
Sureties	109,123	93,189
Total commitments and risks	**109,123**	**93,189**

The recorded value concerns sureties provided by Tesmec S.p.A. through primary banking institutions in favour of customers and its subsidiaries. The increase is mainly due to the work orders of the newly set up Rail sector.
On the basis of the specific characteristics of the segments in which the Company works, Tesmec did not make any provision for contingent liabilities in the memorandum accounts. Risks and future expenses are reasonably hedged by funds specifically accounted for in the financial statements.

42. Significant events occurred after the reporting period

No significant events occurred after the reporting period.

Certificate of the Separate financial statements pursuant to Article 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 as amended

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

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

   of the administrative and accounting procedures for preparing the financial statements during the 2020 financial period.

2. We also certify that:

2.1 the financial statements as at 31 December 2020:

   - 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;
   - provide a true and fair view of the financial position, the results of the operations and of the cash flows of the issuer.

2.2 the report on operations includes a reliable analysis of the business trend and operating result as well as of the situation of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Milan, 12 March 2021

Ambrogio Caccia Dominioni
Chief Executive Officer

Marco Paredi
Manager responsible for preparing
the Company's financial statements

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

TESMEC S.p.A.
Registered office in Milan, Piazza S. Ambrogio no. 16
Subscribed and paid-up share capital Euro 10,708,400
Tax code and registration number at the
Milan Register of Companies no. 10227100152
Economic and Administrative Register (REA) no. 1360673

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF TESMEC S.P.A. PURSUANT TO ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE 58/1998 AND OF ARTICLE 2429 OF THE ITALIAN CIVIL CODE

Dear Shareholders,

During the financial period ended 31 December 2020, the Board of Statutory Auditors of Tesmec S.p.A. carried out the supervision activities required by law in accordance with the principles of conduct of the Board of Statutory Auditors recommended by the Italian Accounting Profession Council, by attending the meetings of the company's Bodies, carrying out periodic audits and meeting the managers of the Independent Auditors Deloitte & Touche S.p.A. (the "Independent Auditors"), the members of the Control and Risk Committee, the members of the Supervisory Body set up pursuant to Italian Legislative Decree 231/2001, the key representatives of the different business functions and the Manager responsible for preparing the Company's financial statements for an exchange of information on activities and programs.

During 2020, the meetings of the Board of Directors and the Board of Statutory Auditors, except for those of the first months of the year, were held remotely, essentially applying art. 106 of the D.L. 18/2020, as well as adhering to the indications reaffirmed, at the end of the same year, by art. 1, paragraph 10, letter o) of the Prime Ministerial Decree of 3 December 2020, as part of the measures to combat the spread of Covid-19.

Pursuant to Article 153 of Italian Legislative Decree 58/1998 (the "Consolidated Law on Finance (T.U.F.)") and of Article 2429, paragraph 3 of the Italian Civil Code, taking also into account the instructions given by CONSOB with communication no. DEM/1025564 of 6 April 2001, and subsequent amendments and supplements, we report the following:

- we supervised the observance of the law and of the articles of association;
- we obtained from the Directors, on a regular periodicity, information on management performance and business outlook as well as on the business carried on and on the major economic and financial operations performed during the financial period, also through subsidiaries, verifying that they comply with the law and with the articles of association and that they are not clearly imprudent or reckless, in potential conflict of interest, in contrast with the resolutions passed by the Shareholders' Meeting or such as to compromise the integrity of the company assets;
- we received from the Board of Directors, within the timeframe set by the law, the half-yearly financial report and the quarterly interim reports on operations;
- we verified the correct application of the criteria and procedures adopted by the Board of Directors to ascertain the independence of its members on the basis of the methods provided by law and by the Self-Regulatory Code of Conduct;
- we carried out a self-assessment process, following the guidelines of Rule Q.1.1. "Self-assessment of the Board of Statutory Auditors" included in the document "Code of Conduct of the Board of Statutory Auditors of Listed Entities" published on 26 April 2018 by the Italian National Council of Certified Public Accountants (*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*). Such process has been performed with the aim of reaching a definition of both the optimal qualitative and quantitative composition of the Board and its functionality, by identifying any critical issues and facilitating

their solution. We then informed the Board of Directors of the Company that, based on such process, no deficiencies related to any effective member nor related to the composition of the Board have been identified, and we did not identify any critical issues nor improvement areas;

- we obtained information and supervised, to the extent of our authority, compliance with the principles of correct administration and the adequacy of the organizational structure and of the instructions given by the Company to the subsidiaries pursuant to Article 114, paragraph 2, of the Consolidated Law on Finance, by means of direct observations, collecting information from department heads and meetings with the Independent Auditors, with the manager responsible for preparing the Company’s financial statements and with the Head of Internal Control in order to exchange relevant data and information.
- we obtained information and supervised, to the extent of our authority, also pursuant to Article 19 of Italian Legislative Decree 39/2010, the adequacy and effectiveness of the internal control system and risk management, as well as the activity carried out by the relevant manager responsible for preparing the Company's financial statements and the company's administrative-accounting system, the reliability of the latter in correctly representing operating performance, by obtaining information from the persons in charge of their respective functions, examining company documents and the work carried out by the Independent Auditors, the attendance at the meetings of the Control and Risk Committee and meetings with the Manager responsible for preparing the Company’s financial statements, and Executive Director in charge of supervising the functionality of the internal control system;
- we have noticed no atypical and/or unusual operations with third parties, companies of the Group or related parties to report, nor have we received information from the Board of Directors, Independent Auditors or Control and Risk Committee on this matter;
- during the meeting of 13° March 2020, the Board of Directors of Tesmec S.p.A. stated that the subsidiaries companies Tesmec USA Inc and Tesmec Australia (Pty) already Marais Laying Technology (Pty) Ltd are "strategically important subsidiaries";
- we have ascertained that the information flows provided by the subsidiaries outside the European Union are adequate to conduct the auditing of annual and interim accounts as provided by Article 15 of the Market Regulation adopted with CONSOB Resolution no. 20249 of 28 December 2017;
- the Directors illustrated, in the accompanying Report on operations both on the financial statements of Tesmec S.p.A. and on the consolidated financial statements of the Tesmec Group as well as in the relevant explanatory notes, ordinary operations carried out during the financial period with related parties or companies of the group. We refer to those documents, to the extent of our authority, and in particular for that which concerns the description of the characteristics of the operations and relevant economic and financial effects. In particular:

  - on 13 March 2020, it was signed a shareholder loan with the related parties TTC S.r.l., RX S.r.l. and MTS-Officine Meccaniche di Precisione S.p.A. for a maximum amount of Euro 7 million;
  - on 14 April 2020 the Board of Directors of Tesmec S.p.A. approved the acquisition, completed on 23 April 2020, of 100% of the share capital of 4 Service S.r.l. company owned by MTS-Officine Meccaniche di Precisione S.p.A. and operating in the trencher rental business for a consideration of Euro 9.4 million with conversion by MTS-Officine Meccaniche di Precisione S.p.A. in payment for future capital increase;
  - on 7 July 2020 the subsidiary Tesmec Automation S.r.l. proceeded with the acquisition of the plant located in Patrica (FR) which was owned by the related party Dream Immobiliare S.r.l. for a consideration of Euro 1 million.

We refer to these documents as far as we are concerned, and in particular as regards the description of the characteristics of the transactions and the related economic and equity effects. In this regard, we also monitored compliance with the principles indicated in the Consob Regulation containing provisions on transactions with related parties adopted with resolution no. 17221 of 12 March 2010, as subsequently amended (the "RPT Regulation"), of the consequent Procedure for transactions with Related Parties, adopted by the Board of Directors on 11 November 2010, updated in its latest version on 1 March 2018 in order to to acknowledge the entry into force of the regulations introduced by the so-called *Market Abuse Regulation*;

- on 15 December 2020, the Capital Increase, approved by the Board of Directors on 3 September 2020, was successfully concluded through the issue of 499,376,200 new ordinary shares for a total value of Euro 34,956,334, of which Euro 4,993,762 was allocated to capital. Following this operation, the new Share Capital amounts to Euro 15,702,162. The capital increase operation is aimed at strengthening the capital structure of the Company and the Group and at seizing the additional growth opportunities that the market presents in the reference segments of the Group;
- the Directors have adequately described in the explanatory notes to the financial statements the main assumptions used in the performance of the impairment test for some assets of the financial statements together with the sensitivity analysis performed;
- during the financial period, the Company carried out transactions on Treasury shares;
- on 20 May 2020 with a formal request sent by certified e-mail to the address tesmecspa@pec.it, the shareholder Dr. Carlo Maria Braghero, owner of no. 10,000 shares of the Company, corresponding to 0.0093385% of the share capital, filed a complaint with the Board of Statutory Auditors pursuant to Article 2408 of the Italian Civil Code. In the aforementioned complaint, it was asked to investigate the delay in the publication of the answers to the questions posed by him before the ordinary and extraordinary shareholders' meeting of Tesmec S.p.A. which was held on 21 May 2020. On 12 May 2020, the shareholder Dr. Carlo Maria Braghero in fact sent a list of questions relating to the agenda of the meeting called for 21 May 2020 by certified e-mail; the Company's response was published a few hours later than the hourly deadline of 12:00 on Tuesday 19 May 2020, by which the Company had decided to proceed with the publication, in order to comply with best market practices. The Board of Statutory Auditors, having carried out the appropriate investigations and verified the existing documentation made available by the Directors and administrative staff of the Company, acknowledges that the answers to the questions to the shareholder Dr. Carlo Maria Braghero have been published in compliance with the terms of the law (two days before the Shareholders' Meeting), even if with a few hours delay with respect to the time by which the Company had decided to publish this publication in accordance with best practices. The above results from the best reconstruction carried out by the Board of Statutory Auditors on the basis of the existing documentation and made available by the Directors and at present it is not considered necessary to take further initiatives;
- we supervised the observance of the regulations established by Legislative Decree 254/2016, examining the Consolidated Disclosure of Non-financial information, also ascertaining compliance with the provisions that govern its preparation pursuant to the aforementioned Decree;
- based on the information received from the Indipendent Auditors of the Group, Deloitte & Touche S.p.A., during the year ended December 31, 2020, the Company conferred to Deloitte & Touche S.p.A. additional assignments with respect to that envisaged for the auditing of the Company and the Group and in particular the assignment for the examination of the pro-forma financial information included in the registration document relating to the share capital increase transaction against additional fees equal to Euro 124 thousand while the Company and its subsidiaries have conferred the assignment for tax credit attestation services on Research and Development activities against additional payments of Euro 95 thousand. In any case, the Board verified that the services requested were not among those prohibited by art. 5 of Regulation 537/2014 and

that the activity did not damage the independence of the auditing firm;

- we received confirmation of the independence of the Independent Auditors, in charge of the external audit pursuant the EU Reg. 537/2014 and no situations compromising this independence, or the occurrence of incompatibility were reported;
- we received from the Independent Auditors the additional report pursuant to art. 11 of EU Reg. 537/2014 dated 31 March 2021 from the examination of which no aspects that should be highlighted in this report have emerged, and which will be transmitted to the Board of Directors as required by current legislation;
- we supervised the effectiveness of the external audit process by examining with the Independent Auditors the audit plan and by discussing the activities carried out;
- the Independent Auditors issued, on 31 March 2021, pursuant to art. 14 of Legislative Decree 39/2010 and of art. 10 of EU Regulation 537/2014, the Reports on the separate and consolidated financial statements as of 31 December 2020.
  With regards to opinions and attestations in the audit reports, the Independent Auditors have:
  - issued an opinion which shows that the financial and consolidated financial statements of Tesmec S.p.A. give a true and fair view of the financial position of the Company and of the Group as of 31 December 2020, and of their financial performance and cash flows for the year ended on that date in accordance with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued in implementation of art. 9 of Legislative Decree 38/2005;
  - issued a consistency opinion which shows that the Report on operations accompanying the financial statements and the consolidated financial statements as of 31 December 2020 and some specific information contained in the "Report on corporate governance and ownership structure" as indicated in the art. 123 - bis, paragraph 4 of the T.U.F. whose responsibility is the responsibility of the Company's Directors, are prepared in compliance with the law;
  - the opinions on the separate and consolidated financial statements issued included the aforementioned Independent Auditors' Reports are consistent with the content of the Additional Report prepared pursuant to art. 11 of the EU Reg. 537/2014;
  - with reference to assessment whether the Report on operations contains material misstatements, declared that, based on the knowledge and understanding of the entity and its environment obtained through the audit, they have no matters to report;
- on 31 March 2021 the Independent Auditors also issued the Report on the Consolidated Disclosure of Non-Financial information pursuant to Italian Legislative Decree no. 254/2016, in accordance with art. 3, paragraph 10 of Legislative Decree 254/2016 and with art. 5 of Consob Regulation No. 20267 of 18 January 2018. The Independent Auditors' Report concludes that nothing has come to their attention that causes them to believe that the Tesmec Group's Disclosure of Non-financial information, referring to the financial period ended 31 December 2019, has not been prepared in all significant aspects in accordance with the requirements of articles 3 and 4 of the aforementioned Decree and of the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by GRI - Global Reporting Initiative ("GRI Standards");
- during the meetings held with the Independent Auditors pursuant to Article 150, paragraph 3, of TUF, no relevant issues emerged that would require any particular comments;
- during the financial period, we issued the opinions required by the Board of Statutory Auditors pursuant to the law;
- we took note of the preparation of the Report on Remuneration ex Articles 123-ter of TUF and 84-quarter of the Issuers' Regulation, as well as in accordance with the recommendations of art. 6 of the Self-Regulatory Code of Conduct and we have no special observations to remark; we verified that the independence requirements of the Statutory Auditors remain valid, as already ascertained before the appointment, on the basis of the methods provided by law and by the Self-Regulatory Code of Conduct; we have also complied with the limit on the number of tasks required by the Article of

Associations and Art. 144-terdicies of the Consob Issuers Regulation 11971, fulfilling, if required, during the year the relevant Consob disclosure obligations;

- during the financial period, we attended the Shareholders' meeting for the approval of the balance sheet on 21 May 2020 in ordinary and extraordinary sessions, in which the Shareholders were able to intervene exclusively through the designated representative, pursuant to art. 106 of the D.L. 18/2020, subsequently converted into Law 27/2020 and 24 meetings of the current Board of Directors. During the same period, the Board of Statutory Auditors met 18 times including 11 in joint session with the Control and Risk Committee;
- we have tested and evaluated the information and periodic press releases issued by the Company to the public, as well as the obligations to notify Consob;
- we supervised the concrete methods of implementing corporate governance regulations of the Self-Regulatory Code of Conduct for the Corporate Governance of listed companies, whose adoption was approved by the Board of Directors during the meeting of 23 February 2010. As described in the section of the Report of the Board of Directors, the Group adheres to the Code of Conduct for listed companies approved in March 2006 (as amended in March 2010, December 2011, July 2014, July 2015 and July 2018) by the Committee for the Corporate Governance Committee and promoted by Borsa Italiana S.p.A.. Compliance with the regulations provided for by the aforementioned Code was verified by us and was the subject of the Report on Corporate Governance and Ownership Structures attached to the financial statements and subject to the same terms of publicity provided for the financial statements; on 12 March 2021 the Board of Directors and the Board of Statutory Auditors were informed of the start of the functional activities for the adaptation of the Company's internal regulations to the provisions of the new Corporate Governance Code, which came into force on 1 January 2021. Tesmec S.p.A. will inform the market on the methods of application of the new Corporate Governance Code within the report on corporate governance and ownership structure that will be published in 2022;
- we verified, through direct audits and information received from the Independent Auditors and the Manager responsible for preparing the Company's financial statements, compliance with the rules of laws concerning the preparation and layout of the consolidated financial statements of the Tesmec Group, of the financial statements of Tesmec S.p.A. and of the report on operations. Moreover, nothing reported to the supervisory authorities or worth mentioning in this report was revealed by our supervisory activity;
- we verified the compliance of the financial statements with the facts and information of which we are aware, following the fulfilment of our duties and we have no observations in this regard;
- the Company adopted an Organizational Model in compliance with the Italian Legislative Decree n. 231/2001 (the "Organizational Model 231"), of which the Code of Ethics is an integral part; the aim is to prevent the offenses listed in the Decree and consequently the extension of the administrative liability to the Company. The Board of statutory auditors met the Supervisory Board during the year for the reciprocal exchange of information on the activity carried out, as well as having read the annual report of the same dated 28 February 2020 in which no reprehensible facts or violations of the Model adopted by the Company, or acts or conduct that violate the provisions contained in Legislative Decree 231/2001;
- starting from May 2018 the EU Regulation 679/2016 (c.d. General Data Protection Regulation) became effective. Tesmec has complied with the new European standards by adapting its compliance rules by updating the privacy information available on its website, by establishing the Treatment Activities Register and by adjusting the existing procedural set; from the analyzes carried out by the Board and from the information acquired, no elements emerged in order not to consider such a system as a whole adequate, effective and with effective operations;
- the Directors, in the paragraph called "Main risks and uncertainties to which the Tesmec Group is exposed" on the Report on operations, point out the risk factors or uncertainties that may significantly affect the activity of the Tesmec Group. In

particular, some information tending to illustrate the aims and policies of the Group on the management of the exchange-rate, price and financial risk, as well as tending to indicate the degree of exposure to credit risk, liquidity risk and cash-flow variation risks is provided.

- since January 2020, the national and international scenario was characterised by the spread of the Covid-19 virus (known as Coronavirus) and the consequent restrictive measures for its containment, implemented by the public authorities of the countries concerned. The Tesmec Group has monitored and carefully managed the impact of the Covid-19 pandemic. During the year, the Board of Statutory Auditors ensured its best attention to the measures taken by the Company to deal with the pandemic. The effects and actions taken are described in a specific paragraph of the Management Report. ESMA (European Authority for Financial Instruments and Markets) and the International Organization of Securities Commission have issued with official notes the guidelines for communications to the markets in the current situation linked to the health emergency for Coronavirus. For the analysis of the impact of the effects of ESMA, please refer to the specific paragraph in the Management Report prepared by the Directors. The Board of Statutory Auditors ensures its best attention to the evolution of the situation which has arisen and is still evolving and to the impact on the Group's economic and financial results.

With regards to the Shareholders' meeting, called on 22 April 2021, the Board of Statutory Auditors notes that Law Decree 18/2020 "Cura Italia" (as most recently extended pursuant to Law Decree no. 183 of 31 December 2020, "Milleproroghe") authorizes the to take place "behind closed doors", allowing the entities to provide, in the notice of call, even in derogation from any different by-laws provision, the use of measures – such as voting rights exercised by written consultation or by electronic means, the electronic participation, the Common Proxy – granting the attendance at the meeting and the execution of voting rights without the physical presence of the shareholders gathered in a single place. At this regard, the Board of Statutory Auditors will supervise, in close coordination with the Board of Directors, that the attendance of the shareholders at the meeting and the exercise of their rights are duly ensured, in accordance with the provisions of the aforementioned Law Decree.

Considering all the above, we find no reasons not to approve - to the extent of our authority - the financial statements as of 31 December 2020, or to make observations on the proposal for appropriation of the profit for the year, including the proposal for dividend distribution, contained in the report on management performance prepared by the Board of Directors.

Grassobbio, 31 March 2021

The Board of Statutory Auditors

Simone Cavalli - Chairman

Alessandra De Beni - Statutory Auditor

Stefano Chirico - Statutory Auditor

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

INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: + 39 02 83322111
Fax: + 39 02 83322112
www.deloitte.it

INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
TESMEC S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Tesmec S.p.A. (the "Company"), which comprise the statement of financial position as at December 31, 2020, and the income statement, statement of comprehensive income, statement of cash flows and statement of changes in shareholders' equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition: terms and conditions of contracts for product sales	
Description of the key audit matter	Contracts for product sales are based upon shipping terms that can vary by region and that include, in some cases, the transfer of ownership to the buyer prior to the actual delivery of the product. Revenue recognition criteria for such transactions require the assessment of sales contractual terms and the fulfilment of relevant performance obligations in order to have a complete and true representation of these operations in the financial statements. The assessment of sales terms and conditions and their application to revenue recognition has been deemed a key audit matter, considering the variance and complexity of some contractual terms applied to sales transactions. The notes 2.2. "*Significant accounting policies – Revenues from contracts with customers*" and 2.4 "*Discretionary evaluations and significant accounting estimates*" of the financial statements provide disclosure on revenue recognition criteria applied to for product sales.
Audit procedures performed	As part of our audit, we have, among other procedures, carried out the following: - gained an understanding of the Company's process and procedures related to revenue recognition in accordance with applicable financial reporting standards; - identified the key controls implemented by the Company for revenue recognition; - gained an understanding of the substance of the sale transactions by analyzing the terms and conditions included in the main contracts and performed sample-based substantive procedures to test the fulfilment of revenue-relevant obligations recognized close to the year-end date in case ownership is transferred to the buyer prior to the actual delivery of the product; - verified the disclosures provided by the Company in the financial statements in accordance with applicable accounting standards.

Compliance with financial covenants provided in financial loan contracts	
Description of the key audit matter	The Company's net financial indebtedness amounts to Euro 39.0 million (Euro 63.8 million as at December 31, 2019). Certain medium/long-term loan contracts provide the respect of some financial covenants that, in some cases, have not been met as at the financial statements date; therefore, with reference to such contracts, representing Euro 7.9 million of financial indebtedness and approximately 8.6% of the Company's gross financial indebtedness, the Company has classified as current liabilities also the medium/long-term portion of the related debts, amounting to Euro 5.2 million. The Company requested the waivers from the application of the covenants; some of such waivers have been already obtained, representing Euro 2.5 million of financial indebtedness. The Directors indicate that the process of obtaining all the waivers has not been completed, reporting in this regard that they are reasonably certain that this process can be completed in the short term, given the technical timeline strictly necessary to complete the procedures required in such circumstances. Moreover, the Directors themselves report that they prudently used the early repayment assumption of the loans whose covenants have not been complied with in estimating the projected cash flows prepared for the purpose of assessing going concern. The compliance with the financial covenants and related disclosure have been deemed a key audit matter considering the current and potential impacts of their non-compliance on the balance sheet exposure of non-current financial liabilities, as well as on the ability of the Group to fulfill its obligations in the foreseeable future. The note 15 "*Medium/long-term loans*" of the financial statements provides disclosure on the Group's financial covenant provisions and on the potential impacts of their breach.
Audit procedures performed	As part of our audit, we have, among other procedures, carried out the following: - assessed loan contracts and, with reference to the non-compliant covenant, analyzed of waivers, where already formalized by lenders, as well as the relevant communications between the Management of the Group and the lenders about the waiver requests, whose process is still ongoing; - reviewed the accuracy of the covenants' calculations prepared by the Management of the Group based on the criteria provided in the loan contracts; - assessed the classification of financial liabilities in the financial statements in accordance with the applicable accounting standards and the consistency of the same classification with the forecast cash flows estimated by the Directors for the purposes of assessing going concern; - verified the disclosure provided in the financial statements and its compliance with the applicable accounting standards.

Acquisition of 4 Service S.r.l. from the related party MTS	
Description of the key audit matter	The acquisition from the related party MTS - Officine Meccaniche di Precisione S.p.A. ("MTS") of quotes representing the entire capital of 4 Service S.r.l. was finalized on April 23, 2020. The entity was incorporated on March 4, 2020 following the contribution by MTS of the business unit dedicated to trencher rental, also through its subsidiary MTS4Service LLC USA. In previous years, the Company had entered into significant transactions with MTS for the sale of trenchers, the provision of logistics and maintenance services, as well as the temporary lease back of certain machines. The acquisition, resulting a transaction with related parties, was previously submitted to the Company's Control and Risk, Sustainability and Related Party Transactions Committee, which expressed a favorable opinion on its completion, having considered, inter alia, the interest for the Company in its execution, as well as its economic substance, also through the support of an expert's opinion issued on April 14, 2020. The consideration for the acquisition, agreed by the parties within a range of values estimated by a further expert appointed by the Board of Directors, amounts to Euro 9.4 million. Upon completion of the acquisition, such amount has been provided as Company's equity reserve, as a result of the waiver by MTS of its receivable arose from the transfer of the quotes as provided for in the agreements in place, in the context of the Euro 35 million Company's capital increase transaction, completed during December 2020 with the full subscription of the shares offered. Considering the significance of the operation and the fact that it is a related party transaction, we deemed the acquisition of 4 Service S.r.l. as a key audit matter. The note 7 "*Equity investments in subsidiaries, associates and joint ventures*" of the financial statements provides information on the acquisition of 4 Service S.r.l. and its accounting effects. The transaction is also described in paragraph 4.1 "*Effects of the acquisition of the company 4 Service S.r.l.*" of the Report on Operations.
Audit procedures performed	As part of our audit, we have, among other procedures, carried out the following: - analyzed the documentation related to the operation, including the minutes of meetings of the corporate bodies; - gained an understanding of the relevant controls on related party transactions related to the operation; - analyzed the expert's opinion issued on April 14, 2020 regarding the transaction;

- analyzed the assessment report issued by the additional expert appointed by the Board of Directors estimating the range of values within which the parties agreed the consideration for the acquisition;
- considered the expertise and the objectivity of the experts involved by the Company in the evaluation of the operation;
- analyzed of the accounting treatment adopted by the Company for the recognition of the transaction in question;
- analyzed the disclosure presented in the notes to the financial statements and its compliance with the applicable accounting standards.

Impairment Test of investments

Description of the key audit matter

The Company recognizes Investments in subsidiaries for Euro 67.8 million and Investments in affiliated companies for Euro 1.7 million as at December 31, 2020.

As required by IAS 36, due to the presence of impairment indicators, the Directors tested the value of investments for impairment in order to ensure that such investments are carried in the financial statements as at December 31, 2020 at no more than their recoverable amount.

The recoverable value of the investments was determined through discounting expected cash flows, using an appropriate discount rate equal to the weighted average cost of capital (WACC).

As a result of the Impairment Test, approved by the Board of Directors on March 12, 2021, the Directors assessed that the recoverable value of the tested investments is not lower than the corresponding carrying amount and, therefore, no impairment loss has been recorded.

The valuation process made by the Management is complex and based on assumptions concerning, among others, future cash flows of subsidiaries and affiliated companies and the determination of an appropriate discount rate (WACC).

The key variables in estimating future cash flow are:

- market trends where the Company’s subsidiaries and affiliated companies operate, influenced especially by the realization of infrastructural investments;

- trends of exogenous variables out of the Management control, such as interest and exchange rates, the macroeconomic and social environment at global level as well as at local one;

- discount and growth rates estimated by Management.

	These assumptions are influenced by future expectations regarding market scenarios. Moreover, also considering the circumstances related to the current pandemic, the Management prepared sensitivity analyses as described in the explanatory notes. Considering the importance of the amount of the investments carried in the financial statements, the subjectivity of future cash flows and of the key variables' estimates for the impairment test model, we deemed the impairment test a key audit matter. The note 7 "*Equity investments in subsidiaries, associates and joint ventures*" of the financial statements includes the disclosures on the impairment test, and the results of the sensitivity analysis carried out by the Management showing the possible effects from changes in certain key assumptions used for the impairment test.
Audit procedures performed	As part of our audit, we have, among other procedures, carried out the following, also with the support of experts: - reviewed the methods and methodology adopted by Management for the determination of the recoverable value of the investments in the subsidiaries and affiliated companies and analyzed the methodology and assumptions used for the impairment test, as well as its compliance with the relevant accounting standards; - developed an understanding of the Company's relevant controls on the impairment test process; - performed a reasonableness analysis of the key assumptions used for the future cash flow estimate, and through information obtained from Management; - analyzed actual data with respect to the original plans in order to assess the nature of the deviations and the reliability of the planning process; - analyzed the reasonableness of the discount rate (WACC) and assumptions used for the terminal value calculation; - reviewed the mathematical accuracy of the model used for the estimate of the value in use of the investments; - reviewed Management's sensitivity analysis; - analyzed the compliance of the disclosures on the impairment test according to IAS 36 requirements.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Tesmec S.p.A. has appointed us on April 16, 2019, as auditors of the Company for the years from December 31, 2019 to December 31, 2027.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Tesmec S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Tesmec S.p.A. as at December 31, 2020, including its consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Tesmec S.p.A. as at December 31, 2020 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of Tesmec S.p.A. as at December 31, 2020 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Lorenzo Rossi
Partner

Milan, Italy
March 31, 2021

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

ENCLOSURES

Enclosure A

List of investments held as at 31 December 2020 by Tesmec S.p.A. and statement of changes during the financial period. The following is the list of investments held as at 31 December 2020, which includes, under Article 126 of CONSOB Regulation no. 11971/99, the investments held in companies with unlisted shares or in limited liability companies, amounting to more than 10% of their capital.

CHANGES IN INVESTMENTS MADE DURING THE FINANCIAL PERIOD ENDED 31 DECEMBER 2020

	31 December 2019			**Increases**		**Decreases**		**Other changes**	**31 December 2020**		
Company	Quantity	%	Value	Quantity	Cost	Quantity	Cost	Write-down Revaluation	Quantity	%	Value
Investments in consolidated subsidiaries											
Tesmec USA Inc.	15,600,000	100.00%	21,261,434	-	-	-	-	-	15,600,000	100.00%	21,261,434
OOO Tesmec Rus	10,590	100.00%	10,590	-	-	-	-	-	10,590	100.00%	10,590
Tesmec SA (Pty) Ltd.	93,901,000	51.00% (1)	6,295,785	-	-	-	-	-	93,901,000	51.00% (1)	6,295,785
East Trenchers S.r.l.	100,000	100.00%	145,000	-	120,000	-	-	-	100,000	100.00%	265,000
Tesmec Automation S.r.l.	10,000	100.00%	4,025,600	-	750,000	-	-	-	10,000	100.00%	4,775,600
4 Service S.r.l.	-	100.00%	-	1,000,000	9,721,252	-	-	-	1,000,000	100.00%	9,721,252
Tesmec New Technology (Beijing)	200,000	100.00%	200,000	-	-	-	-	-	200,000	100.00%	200,000
Marais Technologies	378,576	66.04% (2)	10,813,664	-	-	-	-	-	378,576	66.04% (2)	10,813,664
Tesmec Australia (Pty) Ltd.	3,060,000	51.00% (3)	3,766,984	-	-	-	-	-	3,060,000	51.00% (3)	3,766,984
Bertel S.r.l.	200,000	100.00%	4,293,235	-	-	-	-	-	200,000	100.00%	4,293,235
Tesmec Rail S.r.l.	10,000	100.00%	5,605,882	-	-	-	-	-	10,000	100.00%	5,605,882
Total			**56,418,174**		**10,591,252**		**-**	**-**			**67,009,426**
Investments in associates consolidated under the equity method											
Tesmec Peninsula WLL	346,125	49.00%	729,748	-	-	-	-	-	346,125	49.00%	729,748
Locavert S.A.	20,525	38.63%	52,000	-	-	-	-	-	20,525	38.63%	52,000
Condux Tesmec Inc.	250	50.00%	955,763	-	-	-	-	-	250	50.00%	955,763
Total			**1,737,511**				**-**				**1,737,511**

(1) 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 investment in the subsidiary Tesmec SA is consolidated on an 100% basis.

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

ATTRACTIVE TECHNOLOGIES

Tesmec S.p.A.

Registered Office
Piazza S. Ambrogio, 16
20123 Milano - Italy

Share Capital Euro 15.702.162 fully paid
VAT identification code IT10227100152
Milan Register of companies no. 314026

www.tesmec.com